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LI & FUNG LIMITED

Incorporated in Bermuda with limited liability | Stock Code: 494

Announcement of Results for the Year Ended 31 December 2018

- Core Operating Profit decreased 20% to US\$285 million due to challenges in Supply Chain Solutions business
- New management team in place to accelerate turnaround and digital transformation
- Leadership in end-to-end 3D virtual design is disrupting traditional supply chains
- Logistics business continues strong organic growth with COP up 15%
- Strategic divestment of Product Verticals for US\$1.1 billion in April 2018

HIGHLIGHTS (US\$ million)	Group Results ¹		
	2018	2017	Change %
Turnover	12,701	13,534	(6.2%)
Total Margin	1,342	1,386	(3.2%)
As % of Turnover	10.6%	10.2%	
Operating Costs	1,057	1,030	2.6%
As % of Turnover	8.3%	7.6%	
Core Operating Profit	285	356	(20.0%)
As % of Turnover	2.2%	2.6%	
Gain on Remeasurement of Contingent Consideration Payable	9	31	
Profit for the Year			
- Continuing Operations	171	234	
- Discontinued Operations	(140)	(543)	
- Total	31	(309)	
Profit Attributable to Shareholders²			
- Continuing Operations	126	170	
- Discontinued Operations ¹	(137)	(545)	
- Total	(11)	(375)	
Adjusted Profit Attributable to Shareholders³	117	139	(15.9%)
Earnings per Share from Continuing Operations			
– Basic (HK cents)	11.7	15.8	
(equivalent to) (US cents)	1.50	2.04	
Final Dividend per Share (HK cents) ⁴	4	2	

1. Group results with Discontinued Operations separately presented given the strategic divestment of the three Product Verticals in April 2018. The loss attributable to Shareholders of US\$137 million includes operating loss of the Discontinued Operations during the stub period in 2018 and final disposal losses, which were triggered primarily by the realization of prior period foreign exchange non-cash translation losses at the time of closing.

2. Excluding profit attributable to holders of perpetual capital securities and non-controlling interests.

3. Profit attributable to shareholders for Continuing Operations excluding gain on remeasurement of contingent consideration payable.

4. Dividend per Share of 2018: Final – 4 HK cents and Interim – 3 HK cents (2017: Final – 2 HK cents; Interim – 11 HK cents and Special – 47.6 HK cents)



MANAGEMENT DISCUSSION AND ANALYSIS

Key Highlights

- Core Operating Profit decreased 20% to US\$285 million due to challenges in Supply Chain Solutions business
- New management team in place to accelerate turnaround and digital transformation
- Leadership in end-to-end 3D virtual design is disrupting traditional supply chains
- Logistics business continues strong organic growth with COP up 15%
- Strategic divestment of Product Verticals for US\$1.1 billion in April 2018

Results Overview

Minimal Impact from Trade War

The escalation of the US-China trade war in 2018 brought further disruptions to the global supply chain. However, Li & Fung has always pursued a diversified sourcing strategy, which has paid off in times of trade and macroeconomic uncertainties. Our production network spans over 50 countries, providing the best defense possible against fluctuations in trade policy and helping mitigate any negative impacts from tariff increases. In many of these countries, our deep relationships with vendors, business communities, and regulators go back decades, giving us an edge in securing production capacities and accelerating production migration from China. While the current trade war has had minimal on our business, we are working closely with our current and prospective customers to formulate and implement contingency plans to migrate their China-centric procurement networks.

Retail Landscape Rapidly Changing

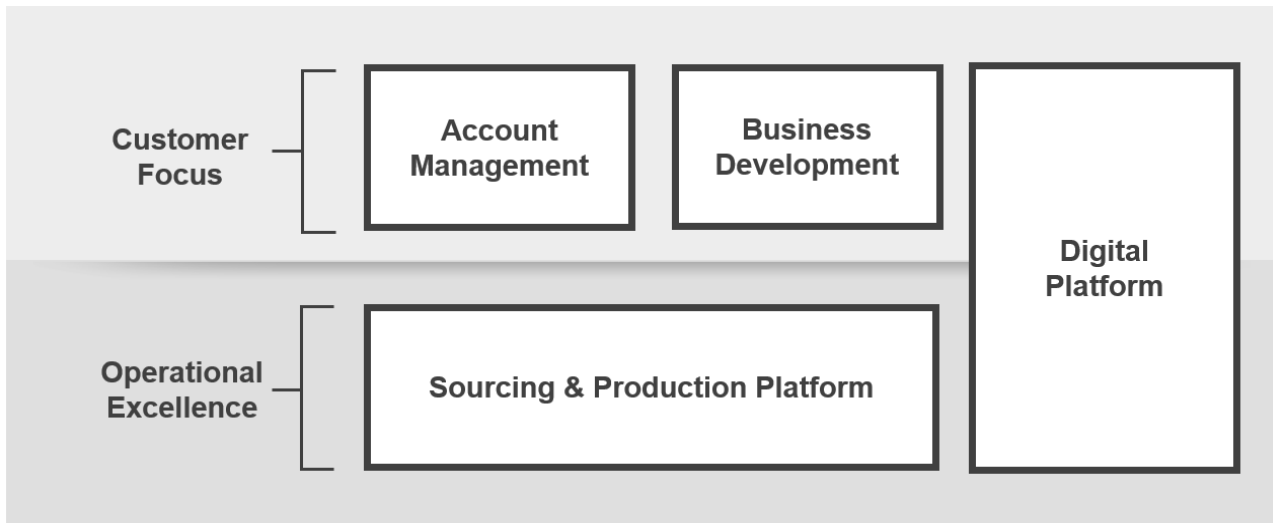
The retail industry around the world continues to evolve at an unprecedented pace. While overall US retail sales have recorded some of their strongest growth in recent years on the back of strong consumer confidence, the number of retail bankruptcies has accelerated, reaching a level similar to that of the 2008 global financial crisis. It has become clear that the old retail operating model is no longer successful in today's retail landscape.

Consumer tastes are changing rapidly and brand loyalty is proving more elusive, causing market share to shift frequently and requiring retailers to be even more sensitive to changes in consumer preferences. The adoption of retail technology such as social media analytics and digital design tools, including the services offered by Li & Fung, is allowing retailers to deliver the right products with greater speed to market by combining front-end consumer interface with back-end production more seamlessly. Such an integrated strategy is necessary for winning consumers' minds and wallets. Overall, 2018 was a challenging year for many customers. Most brands and retailers were pushed to accelerate the speed of their supply chain and reduce inventory levels, which negatively impacted our business, and some faced financial challenges including bankruptcies.

Focused Reorganization

In response to the rapidly changing environment, we initiated significant Company-wide reorganization in 2018 followed by key leadership appointments, marking one of the most profound changes in our recent operating history. Previously, each Li & Fung line manager operated each business in a vertical manner, managing both the customer relationship and production process overseeing all production countries on a global basis. Over time, this created multiple silos, inhibiting communication and operating leverage across the businesses. The vertical structure also burdened our managers with large global teams to manage, which led to slower execution of key initiatives. The reorganization was designed to (1) strengthen customer relationships with laser-focused account management teams, (2) achieve operational excellence in our sourcing and production

platform, and (3) accelerate digitalization. Under the new structure, our teams are focused on more specialized areas to improve agility and operational efficiency.



Both account management and business development are customer-facing functions. Account management teams are organized into individual operating groups according to customer segments and product categories. They are solely focused on serving and growing market share with existing brands and retail customers. The business development team, led by a new executive with extensive sourcing experience, will be responsible for building and converting our new customer pipeline. Both Account Management and Business Development report to our new Group President, who was internally promoted in January 2019. The new Group President brings a solid track record in organically growing the logistics business by double digits over the past several years. He will drive change and execution as well as foster more cross-selling between the supply chain solutions and logistics businesses.

Our sourcing and production platform has been reorganized from an operating group centric model into a regional and country centric model. It is led by our new Chief Operating Officer (COO), who joined in October 2018. The COO is focused on breaking down internal silos and building a sourcing and production platform with operational excellence in each country that leverages our global scale to improve the consistency of our service delivery. Supporting the COO are empowered regional leaders based in individual countries and production hubs. Under the new structure, these regional leaders will manage all the execution of sourcing and production activities with vendors to enable faster, more accurate decisions on the ground. Stronger production-level leadership will also allow our account management teams to truly leverage all our resources within each production country and obtain better sourcing options with faster response times for our customers.

Our goal for the current three-year plan is to build a fully-integrated digital platform that connects suppliers, customers, and other partners with end-to-end visibility. This digital platform will be the nucleus of our future services offering. We have earmarked US\$150 million in the current Three-Year Plan to invest in digitalization and continued to make good progress. We have established a leading position against competitors, particularly in 3D design and sampling. In 2018 we accelerated our investments in our digital capabilities and organized our various digital applications into a unified platform under a newly appointed Chief Digital Officer (CDO). The CDO joined from a supply chain start-up in January 2019 with a mandate to accelerate our digital build-out. In addition, our digital team will continue to work with our Corporate Development team to build an ecosystem of strategic partners as we create the supply chain of the future. The team has already entered into multiple cooperation arrangements with various technology start-ups and supply chain partners to develop and offer new supply chain services as part of LF digital platform.



Speed and Digitalization

Accelerating speed in the supply chain is central to meeting growing consumer expectations driven by e-commerce. With shorter lead times under a speed model, retailers can sell products that more accurately track consumer trends, resulting in better sell-through rates, fewer mark-downs and improved inventory levels. Throughout 2018, more customers began experimenting with our speed model and as success stories of early adopters spread, interest in our solutions grew. In the short-term, speed in the supply chain exacerbates the destocking trend we have seen in last couple of years and, creates pressure on our business. However, we believe that in the long-run, customers that are more agile will succeed and gain market share, which will positively impact our business.

Another offering that has gained significant traction with customers is 3D design. Product design and development is still a very analog process of paper and ink, and creating samples and shipping them back and forth for approvals and alterations. Digitalization of product design reduces time spent on physical sampling and shortens response time along the supply chain. Our 3D design team, formed in early 2017, has grown significantly as customer interest and demand has increased. Our clear leadership in 3D design has gained broad recognition in the industry and become a key differentiator, creating new customer leads and opportunities.

Apart from the speed model and 3D design, we have developed a rich set of digital applications such as trend engine, materials platform, dynamic costing, and total sourcing portal. Each application has gained traction individually; together, they present a unique value-proposition to our customers and open doors to opportunities that were previously unavailable to us. With the appointment of the Chief Digital Officer, the digital build-out will accelerate and further enhance our service offerings.

Strategic Divestment of Product Verticals

In December 2017, we announced the strategic divestment of the three Product Verticals, furniture, beauty and sweaters for US\$1.1 billion to further simplify our business. The transaction was completed in April 2018. Our financial results and management discussion and analysis will mainly focus on our Continuing Operations, which consist of the Supply Chain Solutions, Logistics and Onshore Wholesale businesses. The three Product Verticals are classified as Discontinued Operations and presented separately in the consolidated profit and loss account as a single line item. The 2017 non-cash remeasurement loss is a result of the disposal and 2018 loss includes operating loss of the Discontinued Operations during the stub period in 2018 and final disposal losses, which were triggered primarily by the realization of prior period foreign exchange non-cash translation losses at the time of closing.

Special Dividend and Redemption of US\$500 Million Perpetual Capital Securities

The completion of the strategic divestment brought in US\$1.1 billion in cash. In May 2018, we returned US\$520 million to our shareholders in the form of special dividend. In the same month, we redeemed US\$500 million in perpetual capital securities, which further strengthened our capital structure and will also reduce our distribution to perpetual capital securities holders by US\$30 million on an annual basis. The remaining perpetual capital securities carry a distribution rate that is fixed for life at 5.25%.

IPO of Logistics Business

The strong growth momentum of the Logistics business ("LF Logistics") continued in 2018. It continues to benefit from the tailwind of the rising middleclass consumption in Asia, growth in e-commerce logistics, and geographic and vertical expansion. To further accelerate the pace of its business growth and development, we have decided to seek a separate listing for our Logistics business on the Hong Kong Stock Exchange. We have engaged professional third parties to advise on the potential spin-off and separate listing of LF Logistics. Post spin-off, we expect to remain the controlling shareholder of LF Logistics and continue to consolidate the results of LF Logistics in our financial statements. Meanwhile, we continue with preparation work and target the listing in 2019 depending on market conditions and other factors. We believe the proposed spin-off will allow us to



unlock the value of LF Logistics and further enhance the capital structure and financial flexibility of the Group.

Results

The following financial results summary focuses on our Continuing Operations, which include the Supply Chain Solutions, Logistics and Onshore Wholesale businesses. The three Product Verticals are classified as Discontinued Operations and are presented separately as a single line item.

(US\$ million)	Group Results ¹		
	2018	2017	Change %
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Total Margin	1,342	1,386	(3.2%)
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- Total	(11)	(375)	
Adjusted Profit Attributable to Shareholders³			
- Continuing Operations	126	170	
- Gain on Remeasurement of Contingent Consideration Payable	(9)	(31)	
- Adjusted Profit Attributable to Shareholders³	117	139	(15.9%)

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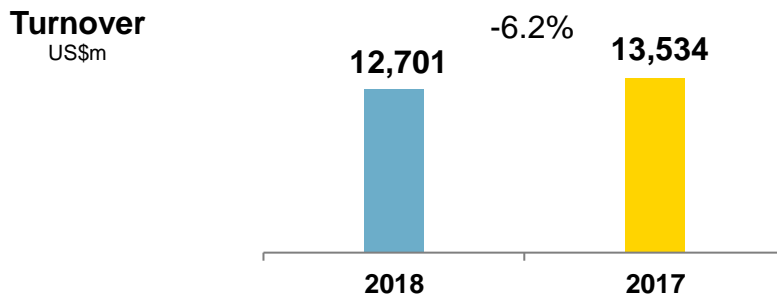
3. Profit attributable to shareholders for Continuing Operations excluding gain on remeasurement of contingent consideration payable.



TURNOVER

Group turnover, on a like-for-like basis and excluding the impact of the divestment of the three Product Verticals, decreased by 6.2% to US\$12.7 billion. This was mainly due to customers' ongoing destocking, customer turnover, and a change in the business operating model for one of our key customers, which shifted from a services contract to a joint venture arrangement to facilitate the upselling of digital supply chain services.

These developments have presented both opportunities and challenges. While in the short run, our customers' desire to achieve shorter lead times and maintain lower inventory levels with smaller orders has negatively impacted our turnover, it has also provided growth opportunities for our digitalization applications. Customers who have adopted these digitalization applications to increase speed have achieved better sell-through and reduced mark-down rates. This in turn has improved the efficiency of our customers' inventory turns and resulted in lower inventory levels. Despite the short-term pressure on our turnover, our ability to provide a faster, more agile supply chain to shorten the supply chain production cycle is helping us cultivate stickier, longer-lasting customer relationships in the long-run.



Our Supply Chain Solutions, Logistics and Onshore Wholesale business, accounted for 78%, 9% and 13% of Group turnover, respectively.

Turnover for the Supply Chain Solutions business decreased by 9.6%, which was primarily due to retail destocking, customer turnover, and the change in business operating model for one of our key customers, which moved from a services contract to a joint venture arrangement to facilitate the upselling of digital supply chain services.

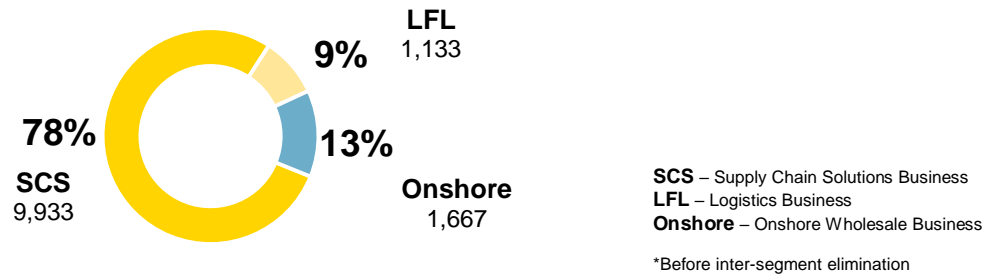
Turnover for the logistics business increased by 10.2%, which was driven by strong demand for in-country logistics services. The growth of the Logistics business continued to be largely driven by its strong growth momentum in China, e-logistics growth, accelerated growth in ASEAN across all services, and rapid expansion in its newer geographies including Japan, Korea and India. Global freight management was negatively impacted by the global trade slowdown resulting in lower freight rates and lower volume from existing customers.

Turnover for the Onshore Wholesale business in the Americas, Europe and Asia increased by 7.4% due to the expansion of our Asia onshore wholesale business, as well as our global promotional theme business. We continued to experience pressure on our top line from anemic consumer sentiment and an unstable economic environment particularly in the UK.



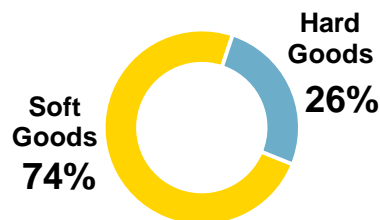
2018 Turnover Breakdown by Segments*

US\$m



Excluding the Logistics business, the Group derived 74% and 26% of 2018 turnover from soft goods and hard goods respectively. This remains unchanged from 2017 on a like-for-like basis.

2018 Group Product Mix (Excluding Logistics Business)

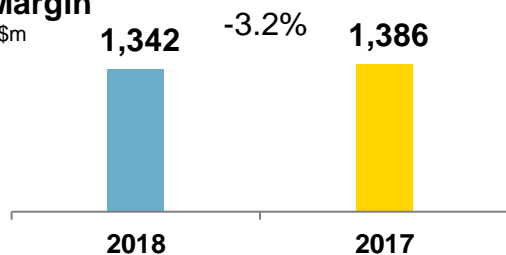


TOTAL MARGIN

On a like-for-like basis and excluding the impact of the divestment of the three Product Verticals on 2017 and 2018 results, total margin decreased by 3.2% to US\$1,342 million. This was mainly due to lower turnover in the Supply Chain Solutions business and margin pressure in the principal trading businesses, offset by business growth in Logistics. Total margin percentage improved by 0.4 percentage point to 10.6% on a like-for-like basis, which was mainly due to an increased contribution from the higher-margin Logistics business.

Total Margin

US\$m



Total Margin Percentage

+0.4 percentage point

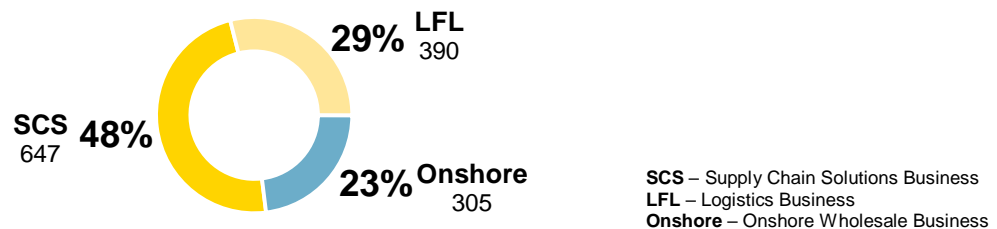
10.6%	10.2%
2018	2017



Our Supply Chain Solutions, Logistics and Onshore Wholesale businesses accounted for 48%, 29% and 23% of the Group's total margin, respectively. Year on year total margin increased by 10.6% in the Logistics business and by 1.5% in the Onshore Wholesale business. This was offset by a reduction in total margin in the Supply Chain Solutions business of 11.8%, which was primarily due to lower turnover.

2018 Total Margin Breakdown by Segments

US\$m



OPERATING COSTS

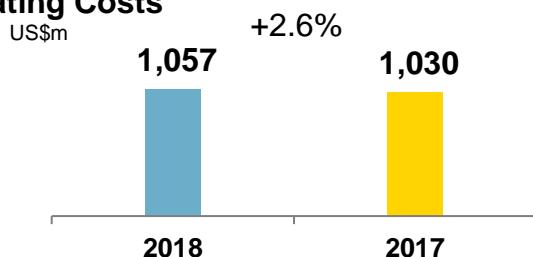
The Supply Chain Solutions, Logistics and Onshore Wholesale businesses accounted for 47%, 29% and 24% of operating costs, respectively.

On a like-for-like basis and excluding the impact of the divestment of the three Product Verticals on 2017 and 2018 results, operating costs increased by 2.6% to US\$1,057 million, which was primarily due to investments in the Logistics business and digitalization initiatives and offset by the cost reduction from productivity initiatives.

Operating costs for the Logistics business increased by 9.5% because of its continued business expansion. Excluding the Logistics business, reported combined operating costs of the Supply Chain Solutions and Onshore Wholesale businesses remained flat at US\$753 million. Nevertheless, we have reduced operating costs through our productivity initiatives by approximately US\$50 million, which represents a 7% year on year reduction for the combined Supply Chain Solutions and Onshore Wholesale businesses. This cost saving was offset primarily by the investment in our digitalization efforts with increased operating expenses in the digital space, an increase in accounts receivable provisions and restructuring costs.

Operating Costs

US\$m



As a Percentage of Turnover

+0.7 percentage point

8.3%	7.6%
2018	2017

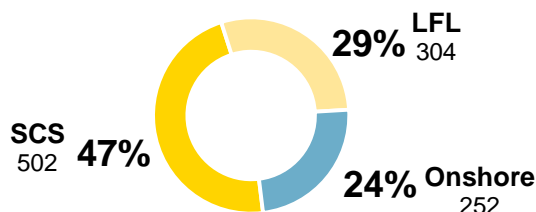
Due to the topline and margin pressure, we continued our productivity initiatives with on-going process improvements and automation in our sourcing and production operations. We also performed an in-depth review of our country-level operations and searched for opportunities for organizational and process improvements to drive down costs and improve efficiency. In addition, given the reduced scale of our core business after a series of strategic divestments over the past few years, we have identified excess capacity in certain centralized office support functions. As a result, we have decided to transfer part of these centralized support functions to the Fung Group, which can better leverage this infrastructure to serve Li & Fung and other related group companies.



on a cost recovery basis. We will continue to rationalize our costs and infrastructure to adjust for the scale and growth opportunities of our businesses.

2018 Operating Costs Breakdown by Segments

US\$m

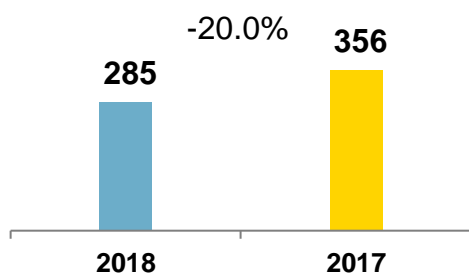


SCS – Supply Chain Solutions Business
LFL – Logistics Business
Onshore – Onshore Wholesale Business

CORE OPERATING PROFIT

On a like-for-like basis and excluding the impact of the divestment of the three Product Verticals on 2017 and 2018 results, Core Operating Profit (COP) decreased by 20.0% to US\$285 million. This was largely due to decreases in turnover and total margin in the Supply Chain Solutions business, as well as our continued investment in digitalization, an initiative that is in line with our long-term strategic plan. This investment resulted in an increase in operating cost percentage-to-turnover ratio and a decrease in COP margin by 0.4 percentage point to 2.2%.

COP
US\$m



COP Margin

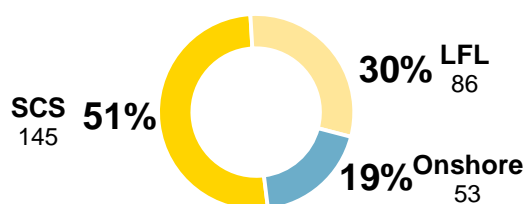
-0.4 percentage point

2.2%	2.6%
2018	2017

In 2018, the Supply Chain Solutions, Logistics and Onshore Wholesale businesses accounted for 51%, 30% and 19%, respectively of the COP of the Continuing Operations. While the Supply Chain Solutions and Onshore Wholesale businesses' COP decreased by 36.1% and 0.3% respectively, the Logistics business' COP increased by 14.6%.

2018 COP Breakdown by Segments

US\$m



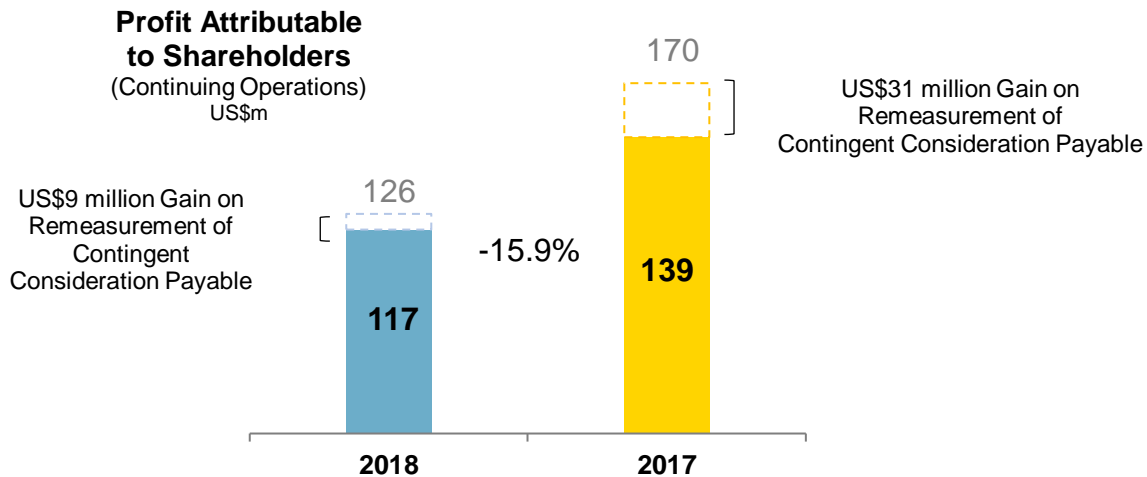
SCS – Supply Chain Solutions Business
LFL – Logistics Business
Onshore – Onshore Wholesale Business



PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Adjusted profit attributable to shareholders for Continuing Operations in 2018 decreased by 15.9% to US\$117 million, considering that 2017 was impacted by the US\$31 million gain on remeasurement of contingent consideration payable (2018: US\$9 million). On a reported basis, profit attributable to shareholders for Continuing Operations decreased by 26.2%.

The Group recorded a loss of US\$11 million attributable to shareholders for the year ended 2018 as compared to the loss of US\$375 million for the year ended 2017. This was the result of an operating loss for the discontinued business of the Product Verticals of US\$23 million, primarily during the first three months of 2018 and final disposal losses resulting from the discontinued business of US\$114 million. The losses were triggered primarily by the realization of prior period foreign exchange non-cash translation losses for the discontinued business in the Group equity account at the time of closing in 2018.



Services Segment

The Services segment is composed of the Supply Chain Solutions business and Logistics business. We provide end-to-end supply chain solutions, from product design, raw materials procurement, production and quality control, to warehouse management and last-mile delivery to retail stores or end-consumers.



Cross-selling between the Supply Chain Solutions and Logistics businesses has enhanced business opportunities and further solidified our relationships with customers. In 2018, the Logistics business continued to perform in line with its growth strategy, while the Supply Chain Solutions business experienced a challenging environment due to destocking, customer turnover, and a change in the business operating model for one of our key customers, which shifted from a services contract to a joint venture arrangement to facilitate the upselling of digital supply chain services. In total, the core operating profit of our Services segment decreased by 23.5%.

Services Segment

Turnover

US\$m

-7.9%

11,062
12,013

2018 2017

SCS Logistics SCS Logistics

Services Segment

COP

US\$m

-23.5%

231
302

2018 2017

SCS Logistics SCS Logistics



Services - Supply Chain Solutions

Our Supply Chain Solutions business, which accounted for 78% of turnover, is the largest revenue generator for the Group. It offers strategic supply chain services, from product design and development to raw material and factory sourcing as well as quality control for our brands and retail customers. The business has a diversified customer base that includes brands, specialty stores, department stores, big box retailers, e-commerce companies, hypermarkets, off-price retailers and clubs. Our vendor base is an additional customer base for our services, which can improve factories' operational efficiencies and compliance levels.

Since 2017, we have been investing in a new digital strategy to transform our business, and in 2018, we took significant strides on this journey. We have built four platforms covering raw materials, 3D design, production tracking and vendor platforms. The raw materials online platform connects factories with a proprietary global catalogue of available fabrics from textile mills to our customers. The dedicated digital team for the 3D design platform simplifies the product development process by creating 3D digital designs using multiple digital tools and aggregating the digital assets in the content library for direct use for e-commerce, virtual showrooms and runway displays. The production platform optimizes production with an integrated digital tracking application, which provides a streamlined view from pre-production to production at every stage and alerts merchandisers to defects and issues. The vendor platform is the central point of entry for our vendors in processing orders and transactions, and also gives our vendors access to digital materials, design and production platforms. Our overall digital platform connects suppliers, customers and other partners with end-to-end visibility and data analytics. The LF Digital Platform will serve as the nucleus of our future service offerings enabling us to provide better, faster supply chain services beyond our traditional sourcing services. With the appointment of the newly created Chief Digital Officer position, we expect to accelerate our digital journey and offer an integrated digital offering to help our customers.

Supply Chain Solutions Business Results

	2018	2017	Change
	US\$m	US\$m	%
Turnover	9,933	10,989	-9.6%
Total Margin	647	733	-11.8%
As % of Turnover	6.5%	6.7%	
Operating Costs	502	506	-0.9%
As % of Turnover	5.0%	4.6%	
Core Operating Profit	145	227	-36.1%
As % of Turnover	1.5%	2.1%	

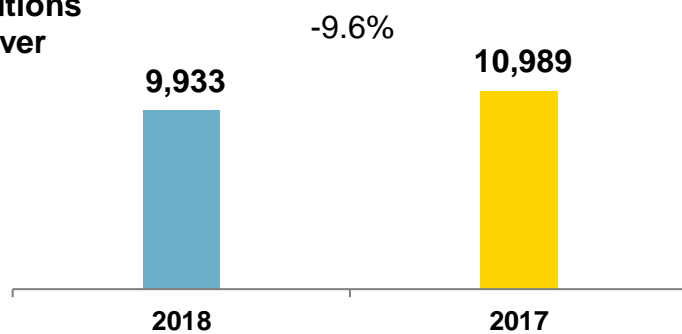
In 2018, the destocking trend that we saw at the end of 2017 continued, impacting the turnover for the Supply Chain Solutions business. Retailers continue to face headwind in the form of pressure on sales and margins. Soft goods remained the largest contributor, accounting for 76% of turnover. We continued our efforts to expand our customer base, particularly in off-price segments and hard goods product categories. This helped offset pressure from retail store closures and ongoing destocking in the US. Many of our customers have started to embrace our new value proposition, a speed and digital supply chain model, realizing tangible improvements with increased sell-through, reduced mark-downs and improved inventory levels. These successes will continue to drive growth with existing customers and attract new ones. We also continued to implement effective cost control and focus on enhanced productivity.



TURNOVER

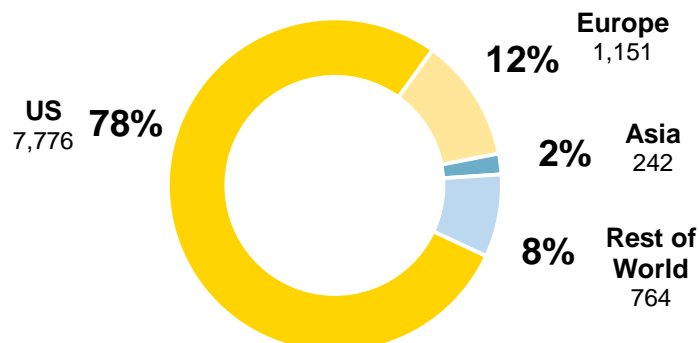
Turnover for our Supply Chain Solutions business decreased by 9.6% to US\$9.9 billion because of retail destocking, customer turnover, and a change in the business operating model for one of our key customers, which shifted from a services contract to a joint venture arrangement to facilitate the upselling of digital supply chain services. Due to the strong sales performance of retailers in the off-price channel and selected hard goods categories, as well as our increased business development efforts, we have grown our business in these areas. However, while US retail sales increased on the back of strong consumer confidence, retailers continued to destock in an effort to adapt to fast-changing consumer trends and reduce inventory. This had a negative impact on our turnover. The destocking trend was further exacerbated by the shift from in-store sales to e-commerce sales, which require less display inventory, leading to even more cautious buying patterns.

**Supply Chain Solutions
Business Turnover**
US\$m



The US, Europe, Asia and Rest of World accounted for 78%, 12%, 2% and 8% of the Supply Chain Solutions business' turnover in 2018, respectively. Turnover for the business in the US, Europe, Asia and Rest of World decreased by 7%, 15%, 45% and 7%, respectively. Sales in Europe and Asia were impacted by the change in the business operating model for one of our key customers from a service contract to the joint venture arrangement.

**2018 Geographical
Market Turnover**
US\$m

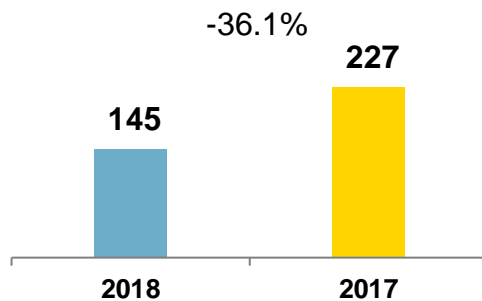




CORE OPERATING PROFIT

Core Operating Profit (COP) decreased by 36.1% to US\$145 million while core operating profit margin decreased by 0.6 percentage point to 1.5%. This was driven by a 11.8% decrease in total margin on reduced turnover and a decrease in total margin percentage, offset by a 0.9% decrease in operating costs to US\$502 million. The reduction in total margin was due to the disproportionate decrease in turnover from our higher margin accounts and margin pressure in the trading business when we act as principal. Productivity enhancement initiatives such as greater use of technology, process reengineering, and digitalization continued to result in operating costs reduction. Although these were offset by investment in our digitalization initiatives - including 3D design and product development, data analytics, and raw materials platform - as well as restructuring costs and additional account receivable provisions. We will further accelerate our operational excellence with the newly appointed COO and our more focused country-level sourcing and production platform.

COP
US\$m



COP Margin	
-0.6 percentage point	
1.5%	2.1%
2018	2017



Services – Logistics Business

The Logistics business continued its profitable growth momentum. Despite challenging and highly competitive market conditions, in-country logistics services achieved another stellar performance, with strong top-line and bottom-line growth. As with years past, China continued to lead the way as it benefitted from an upsurge of domestic consumption, especially via e-commerce. Our early investment in e-logistics has paid handsome dividends and allowed us to enjoy first-mover advantage. ASEAN advanced aggressively, notching high growth rates across all the economies where we operate. Our new markets of Japan, Korea and India also recorded impressive results well ahead of plan.

We currently operate nearly 25 million square feet of warehouse space serving customers across the four core verticals of footwear and apparel, fast-moving consumer goods, food and beverage and healthcare. Apart from providing storage and pick/pack service for the domestic market, we have progressively moved up the value chain by offering regional and global hub management, reverse logistics and other value-added services. Following the full implementation of the new Oracle transport management system and our digital control tower, transport grew by leaps and bounds. In 2018, we increased our transport market share by cross-selling to our existing warehousing customers and winning new standalone transport customers.

Global freight management was negatively impacted by the slowdown in global trade. Nevertheless, we continued to build our bench strength, expand our network and invest in state-of-the-art information technology platforms to aggressively grow the base, improve service level and enhance productivity.

By cultivating strong partnerships with an extraordinary list of strategic customers, we have retained and grown with our existing customers. By continuing to invest in our overall value proposition, we have also pursued and won new customers across the four verticals.

Logistics Business Results

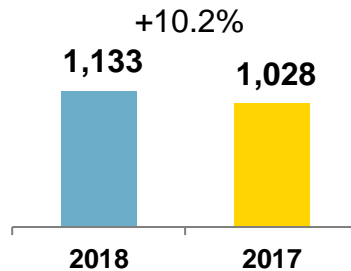
	2018 US\$m	2017 US\$m	Change %
Turnover	1,133	1,028	+10.2%
Total Margin	390	353	+10.6%
<i>As % of Turnover</i>	34.4%	34.3%	
Operating Costs	304	278	+9.5%
<i>As % of Turnover</i>	26.8%	27.0%	
Core Operating Profit	86	75	+14.6%
<i>As % of Turnover</i>	7.6%	7.3%	



TURNOVER

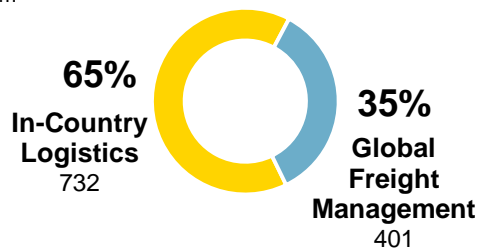
Turnover for our Logistics business increased by 10.2% to US\$1,133 million, which was driven entirely by organic growth. Our new business wins together with the robust growth of consumption in Asia across all channels, in particular e-commerce, provided strong impetus for the in-country logistics business. Furthermore, we have made significant inroads into new markets like Japan, Korea, and India and have newly expanded into the electronics vertical. Weakening global trade and depressed freight rates have impacted our global freight management business particularly in China.

Logistics Business Turnover US\$m

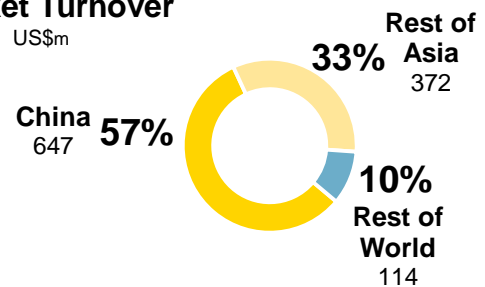


In-country logistics and global freight management accounted for 65% and 35%, respectively, of turnover for the Logistics business.

2018 Turnover Breakdown US\$m



2018 Geographical Market Turnover US\$m



China is our key market for the Logistics business accounting for 57% of turnover. Rest of Asia, including Singapore, the Philippines, Malaysia, Thailand, Indonesia, India, Japan and Korea accounted for 33% of turnover, while Rest of World accounted for 10%.

China turnover increased by 9.5% due to strong growth momentum in the in-country logistics business, although this was partially offset by the drop in freight rates which affected the global freight management business. Rest of Asia showed strong growth, registering 13.7% growth in 2018 as we ramped up in new markets like Japan, Korea and India. Rest of World turnover increased by 3.7% as it is purely a freight management business and was impacted by market weakness.

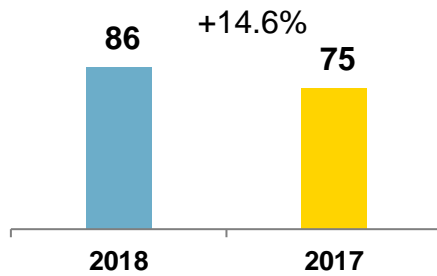


CORE OPERATING PROFIT

Core Operating Profit (COP) increased by 14.6% to US\$86 million, tracking our double-digit growth trend of the past seven years. This was mainly driven by new customer wins, geographic expansion and our continued focus on productivity improvement.

Core operating profit margin expanded by 0.3 percentage point to 7.6%. This was largely due to customer mix optimization, productivity gains and increased penetration of higher-margin value-added services.

COP
US\$m



COP Margin	
+0.3 percentage point	
7.6%	7.3%
2018	2017



Products Segment

The Products segment now consists of our Onshore Wholesale business in three markets – the Americas, Europe, and Asia. The Group strategically divested the three Product Verticals that were formerly part of this segment in the first half of 2018. We announced the strategic divestment of the three Product Verticals in December 2017, obtained our Shareholders' approval in January 2018 with 99.94% of Independent Shareholder votes in favor of the transaction and completed the transaction in April 2018. The strategic divestment has allowed us to set the foundation for a more simplified organization with greater agility and focus on our core competencies as well as enable our senior management team to focus resources on executing the Three-Year Plan.



Onshore Wholesale Business

Going forward, the Products segment will consist of the Onshore Wholesale business operating as an onshore supplier in the Americas, Europe and Asia, primarily supplying apparel to largely the same customer base as our Supply Chain Solutions business. The Onshore Wholesale business acts as an onshore importer for customers, and while the terms of each order are agreed on a per-program basis, its relationships with customers are typically long-term and strategic in nature. The business accounted for 13% of total turnover in 2018. In 2018, we made progress on the strategic development and repositioning of our Onshore Wholesale business toward a leaner, more agile structure. Turnover increased by 7.4%, however, the business continued to face challenges including a lower total margin percentage due to customers' promotional activities and the clouds cast by Brexit and the US-China trade environment.

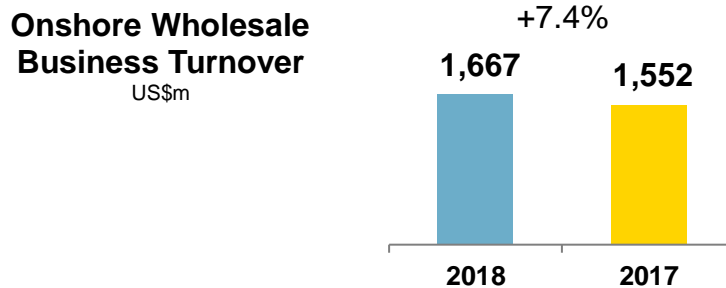
Onshore Wholesale Business Results

	2018 US\$m	2017 US\$m	Change %
Turnover	1,667	1,552	+7.4%
Total Margin	305	300	+1.5%
As % of Turnover	18.3%	19.4%	
Operating Costs	252	247	+1.9%
As % of Turnover	15.1%	15.9%	
Core Operating Profit	53	53	-0.3%
As % of Turnover	3.2%	3.4%	



TURNOVER

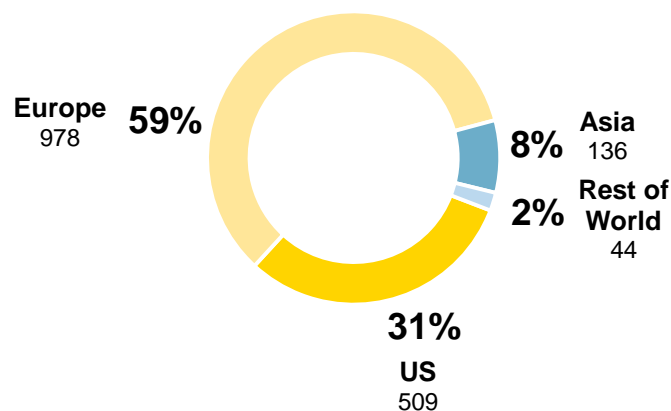
Turnover for the Onshore Wholesale business increased by 7.4% year on year to US\$1,667 million. We have seen a recovery through turnover increase with some of our major customers and our Asia business. Our sales to Asian markets and our business with e-commerce platforms have shown signs of growth. However, short-term customer challenges and margin pressure remain.



The US, Europe and Asia accounted for 31%, 59%, and 8% of segment turnover, respectively. Turnover in the US increased by 9.1%, mainly driven by the recovery of a few major customers. Turnover in Europe decreased by 1.7% as the UK retail market slowed due to Brexit concerns. While starting off a low base, turnover in Asia more than doubled from last year as we continued to build up our wholesale business for our Asia customers.

2018 Geographical Market Turnover

US\$m



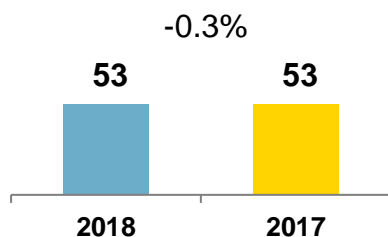


CORE OPERATING PROFIT

Core Operating Profit (COP) for the Onshore Wholesale business was stable at US\$53 million as turnover growth was offset by a reduction in total margin percentage from 19.4% to 18.3%.

Core operating profit margin decreased by 0.2 percentage point to 3.2%. This was largely driven by a 1.1 percentage point reduction in total margin percentage due to the highly promotional retail environment globally and anemic consumer sentiment in the UK. Our operating costs as a percentage of turnover improved by 0.8 percentage point. Following our divestment of the Product Verticals, we have continued to invest in restructuring the business to adopt a leaner, more agile structure. This has resulted in a productivity increase, as shown by a reduction in operating costs as a percentage of turnover of 0.8 percentage point to 15.1%.

COP
US\$m



COP Margin	
-0.2 percentage point	
3.2%	3.4%
2018	2017

Product Verticals – Discontinued Operations

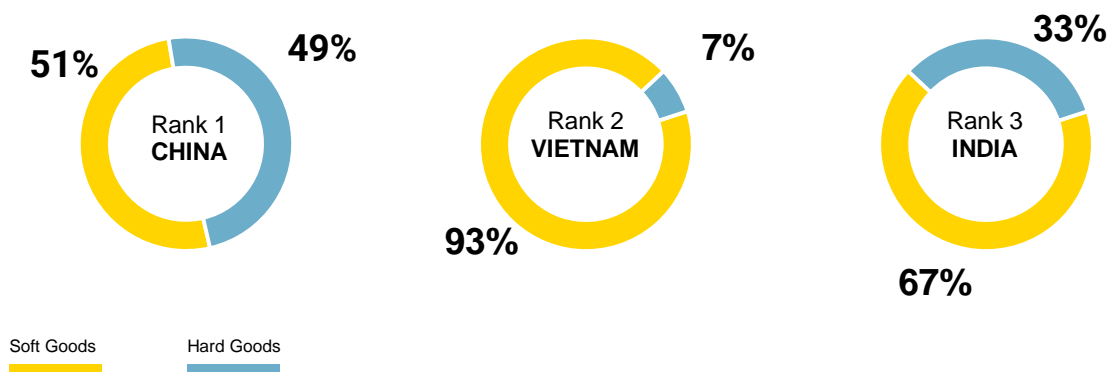
With the completion of the strategic divestment following Shareholders' approval in January 2018 and in line with our Annual Report 2017, the three Product Verticals have been classified as Discontinued Operations, similar to the spin-off of the Global Brands Group in 2014. For the Product Verticals divestment, we received a consideration of US\$1.1 billion. The proceeds were used to pay a special dividend of US\$520 million (47.6 HK cents per share) and to redeem perpetual capital securities of US\$500 million. We have recognized an operating loss attributable to Shareholders for the discontinued business of the three Product Verticals of US\$23 million and a disposal loss of US\$114 million from discontinued business. The losses were mainly triggered by the realization of prior period foreign exchange non-cash translation losses in the Group equity account at the time of closing in 2018.



Top Sourcing Countries

Our global network of factories, covering over 50 economies, allows for flexibility when moving orders from one production country to another to better manage manufacturing constraints and optimize our customers' margins. In 2018, our top three sourcing countries are China, Vietnam, and India. We also have sizeable sourcing operations in other countries such as Bangladesh, Cambodia, and Indonesia. We are among the largest exporters in our product categories in our major sourcing countries. This comprehensive global network, combined with strong local presence, long operating history and critical mass, is one of Li & Fung's unique competitive strengths. As the sourcing landscape continues to evolve with changes in trade policies and sourcing requirements, we are very well positioned to scale our existing operations to source in the most efficient way possible for our customers.

Top Sourcing Countries



People

As an asset-light organization, our people are our most valuable resource. As at 31 December 2018, we had a total workforce of 16,840. This included 8,361 warehouse-related employees who were engaged primarily in our Logistics business. The total employment costs of our Continuing Operations for 2018 was US\$711 million compared with US\$755 million in 2017. We continue to enhance our productivity and equip our people for the new digital world and are grateful for our colleagues' commitment to build the supply chain of the future.



Balance Sheet and Capital Structure

Solid Recurring Cash Flow

After considering the strategic divestment of the three Product Verticals, Li & Fung continues to have solid recurring cash flow and cash position from Continuing Operations, which comprises the Supply Chain Solutions, Logistics and Onshore Wholesale businesses. Our operating cashflow, together with US\$349 million cash on hand carried forward from 31 December 2017, more than adequately funded our working capital, interest expenses, capital expenditure, distribution, and normal dividends. To summarize key cashflow statement items, other than the use of proceeds relating to the divestment of the three Product Verticals:

- Operating profit adjusted for non-cash items: US\$341 million
- Working capital outflow of US\$87 million
- Capital expenditures of US\$106 million
- Payments for consideration payable for previous acquisitions of US\$43 million
- Net interest expenses of US\$45 million
- Distribution to perpetual capital securities holders of US\$49 million, which will be reduced to US\$34 million in 2019 after the redemption of US\$500 million in perpetual capital securities in May 2018
- 2017 final and 2018 interim normal dividend payments of US\$55 million

In terms of future commitments, the remaining balance of total purchase consideration payable for acquisitions was reduced to US\$9 million by the end of December 2018, of which US\$7 million were earn-out payments. We continue to be asset-light, and our on-going total capital expenditures mainly include digitalization investments, continued maintenance and the expansion of our logistics business. With the proposed spin-off and listing of the logistics business, LF Logistics will have direct and independent access to both equity and debt capital markets to raise funds to achieve its business strategies. Furthermore, it will allow Li & Fung to focus and reallocate its operating cash flow towards digitalization investments and the development of new business.



Strong Balance Sheet

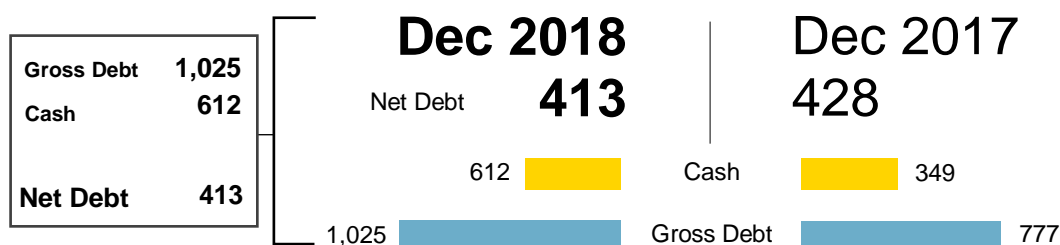
As at 31 December 2018, our cash position was US\$612 million after the redemption of US\$500 million in perpetual capital securities as well as payments of the 2017 final and special dividends using the proceeds from the strategic divestment of the three Product Verticals. We have also reduced our acquisition tail payments in the form of remaining consideration payable further improving our balance sheet. As at 31 December 2018, our total borrowings were US\$1,025 million, and our net debt (total borrowings minus cash) was stable at US\$413 million. Our weighted average tenure of total borrowings is around two years. The majority of our debt is at a fixed rate and denominated in US dollars.

Given the uncertainties in the global macroeconomic and geopolitical environments, we remain prudent and conservative in managing our balance sheet in order to maintain maximum financial flexibility. During the first half of 2018, we renewed and extended our long-term committed bank loan facilities, which total US\$827 million with average maturity in 2021. During the second half of 2018, we drew down US\$250 million of short-term debt to have excess cash and liquidity. This excess liquidity will allow us to maximize flexibility in managing our near-term operations and debt maturity profile regardless of the US-China trade negotiations or other macroeconomic turbulence.

As at 31 December, our due from related companies was US\$709 million, which is primarily from Global Brands Group. This also includes US\$154 million of account receivables, which Global Brands Group is processing purchase orders on a transitional basis on behalf of its divested business sold to an independent third party.

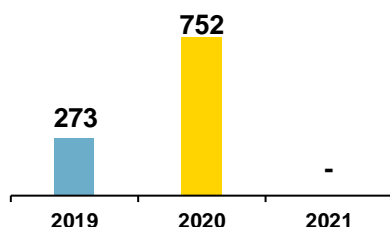
Cash & Gross Debt

US\$m



Debt Maturity Schedule

US\$m



Bank Loans	273	1	-
Bonds	-	751	-

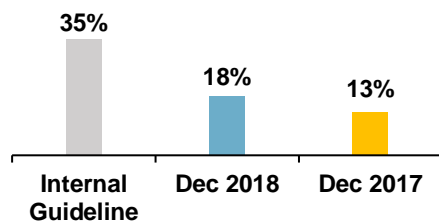


Gearing Ratio and Current Ratio

Our gearing ratio and current ratio of Continuing Operations were 18% and 1.0 respectively as at 31 December 2018 (13% and 1.4 respectively for the Group as at 31 December 2017). The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short-term bank loans, long-term bank loans and long-term notes) less cash and cash equivalents. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt.

We continued to take a conservative approach in managing our balance sheet and capital structure. As at 31 December 2018, our credit rating was Baa2 according to Moody's and BBB+ according to Standard & Poor's. We are committed to maintaining a strong balance sheet, healthy cash flow and strong credit ratios, with the long-term target of retaining an investment-grade rating.

Gearing Ratio



Credit Rating





Banking Facilities

Bank Loans and Overdrafts

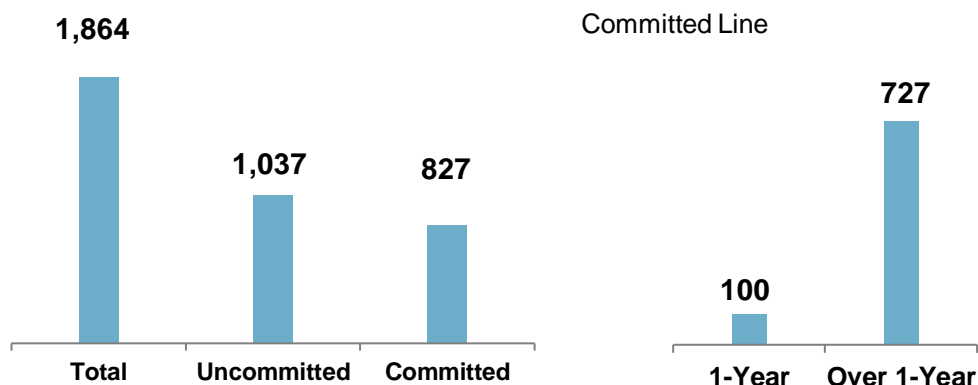
As at 31 December 2018, we had available bank loans and overdraft facilities totaling US\$1,864 million, US\$827 million of which were committed facilities. The majority of the committed facilities totaling US\$727 million have a tenor of three years with maturities in 2021 or after. Only US\$274 million of the Group's bank loans and overdraft facilities were utilized. Unused limits for bank loans and overdraft facilities amounted to US\$1,590 million, with US\$826 million being unused committed facilities.

Trade Finance

The Group's normal trading operations are well supported by US\$2 billion in bank trading facilities that mainly include letters of credit issued to suppliers and bills discounting. A letter of credit is a common means of payment to suppliers to support cross-border trades. The Group's payment obligations on letters of credit issued to suppliers will only be crystallized when our suppliers have shipped the merchandise to our customers or to the Group in accordance with all the terms and conditions specified in the related contractual documents. As at 31 December 2018, only approximately 11% of the trade finance facilities were used.

Bank Loans and Overdraft Facilities

US\$m



Used	274	273	1
Unused	1,590	764	826



Contingent Liabilities and Goodwill

Adjustments to Purchase Consideration Payables

Given the unique natures of our acquired businesses, which are private enterprises that rely on their respective entrepreneurs' commercial skills to drive their success, we generally structure our acquisitions with incentive schemes and contingent payments on purchase consideration payables linked to the future performance of the acquired businesses. We follow a stringent internal financial and accounting policy in evaluating potential adjustment to the estimated fair value of purchase consideration payable in accordance with the accounting standard HKFRS 3 (Revised), Business Combinations.

Our contingent consideration payables are performance-based payments in the form of "earn-out" and "earn-up" payments, which depend on a set of predetermined performance targets mutually agreed upon with entrepreneurs in accordance with sale and purchase agreements.

Earn-out payments are generally payable within three to four years upon completion of a transaction.

Earn-up payments have a high-performance target threshold and, if earned, are typically payable over a period of up to five to six years upon completion of a transaction.

While many of our acquired businesses remain profitable and are growing, we may still be required to make downward fair value adjustments to certain purchase consideration payables should the acquired businesses be unable to achieve predetermined performance thresholds within the timeframes stipulated in their sale and purchase agreements. Given that a contingent consideration entitlement is usually contractual in nature and based on a specific formula linked to a threshold, the underlying performance of an acquired business could continue to grow, yet we may still be required to adjust the purchase consideration payable, especially if the high-performance thresholds of an earn-up payment is not reached.

Goodwill Impairment Tests

We perform goodwill impairment tests based on the cash-generating units (CGU) that manage acquired businesses in accordance with HKAS 36, Impairment of Assets. Based on our assessment of all of the CGUs under the current operating structure of the Group, we have determined that there was no goodwill impairment as at 31 December 2018, as the recoverable amount of each CGU was in excess of its respective goodwill carrying value. We will continue to perform goodwill impairment tests on an on-going basis.



Risk Management

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

Credit Risk Management

Credit risk mainly arises from trade and other receivables. Our principal trading business carries a higher credit risk profile given that we are acting as a supplier and therefore take full counterparty risk for our customers in terms of accounts receivable and inventory.

In addition, as we issue letter of credit and provide working capital solutions to our suppliers via LF Credit by selectively settling accounts payable earlier at a discount, we also assume direct counterparty risk for our customers for such receivables. With increased insolvency risk among brands and retail customers, we have deployed a global credit risk management framework with a tightened risk profile, and applied prudent policies to manage our credit risk with such receivables that include, but are not limited to, the measures set out below:

- We select customers in a cautious manner. Our credit control team uses a risk assessment system to evaluate the financial strength of individual customers prior to agreeing on trade terms. It is not uncommon for us to require securities (such as standby or commercial letters of credit, or bank guarantees) from customers who fall short of the required minimum score under our risk assessment system
- A significant portion of trade receivable balances is covered by trade credit insurance or factored to external financial institutions on a non-recourse basis
- We have established a credit risk system with a dedicated team, and tightened policies to ensure on-time recoveries from trade debtors
- We have put in place rigid internal policies that govern provisions made for both inventories and receivables to motivate business managers to step up their efforts in these two areas, and to avoid any significant impact on their financial performance



Foreign Exchange Risk Management

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

Our revenues and payments are predominantly transacted in US dollars. Therefore, we do not believe there is significant risk exposure in relation to foreign exchange rate fluctuations. There are small portions of sales and purchases transacted in different currencies, for which we arrange hedging through foreign exchange forward contracts.

For transactions that are subject to foreign exchange risk, we hedge our foreign currency exposure once we receive confirmed orders or enter into customer transactions. To mitigate the impact from changes in foreign exchange rates, we regularly review our operations in these countries and make necessary hedging arrangements in certain currencies against the US dollar.

However, we do not enter into foreign currency hedges with respect to the local financial results and long-term equity investments of our non-US dollar foreign operations for either our income statements or balance sheet reporting purposes. Since our functional currency is the US dollar, we are 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. Our 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, we manage our operations in the most cost-effective way possible within our global network. We strictly prohibit any financial derivative arrangement merely for speculation.



Outlook

Uncertainties in the global trade landscape will continue to affect the supply chain in 2019. Migration of production from China is not only driven by tariff increases but also China's push to transform from a manufacturing exporter into a high-technology service provider. Additionally, the US latest position on the Generalized System of Preferences program for India and Turkey will further complicate trade. However, regardless of macroeconomic and geopolitical challenges, we will continue to help our customers optimize their sourcing and production through our strong network of over 50 economies.

We expect the multi-year destocking trend in retail to continue in 2019. This will reduce customers' merchandizing budgets despite improved retail sales and translate into headwinds for our Supply Chain Solutions business. With continued disruption in the retail landscape, we expect more store closures and brands and retailer bankruptcies, which will negatively impact turnover. Therefore, we have undertaken the following initiatives to alleviate this short-term pressure and position us for expansion in the longer-term.

Firstly, the business development team has been converting customers from a promising pipeline and their efforts will be further helped by our increasingly rich digital capabilities. Ramping up to full potential for new customers takes time, which means contributions from new customers may not fully counter the headwinds facing our existing customer base; however, continued customer wins and the conversion of strategically significant accounts reinforce our confidence in our solution-based business development approach and set a solid foundation for future growth.

Secondly, our account management function, under the new organizational structure and leadership, is now singularly focused on growing our market share with existing customers and stepping up services to new accounts. We will continue to pursue both market share gain and pipeline conversion as drivers of growth and as a countermeasure to industry destocking and store closures.

Thirdly, the appointment of the COO and regional production hub leaders are expected to enhance operation excellence and improve service delivery to our customers, including vendors. The current redesign of our sourcing and production platform resources will achieve better operating leverage and faster response time for our customers. We are confident that higher levels of customer satisfaction will lead to more business opportunities.

2018 was a turnaround year for the Onshore Wholesale business. We expect the business to continue its recovery journey and productivity drive. Nevertheless, Brexit may negatively impact consumer sentiment in the UK and across Europe, potentially impacting top line.

In 2019, we will focus on completing our mission of building a comprehensive digitalized end-to-end supply chain. We will accelerate our investments in digitalization based on the prudent US\$150 million figure set for this three-year plan. This spending will put pressure on our operating margin, nonetheless, we believe that digitalization is necessary for the long-term business strategy of Li & Fung. The digitalization initiatives have already started to deliver results and we expect more tangible return once our full-service offering is in place.

The strong organic growth momentum of Logistics is poised to continue, extending the business double-digit growth trend of the past several years. With the proposed spin-off and listing of LF Logistics, the company will have direct and independent access to the equity and debt capital markets, providing financial flexibility for it to execute its multi-faceted growth strategy. Furthermore, we believe the proposed spin-off will allow us to unlock the value of LF Logistics and further enhance the capital structure and financial flexibility of the Group.



We announce the audited consolidated profit and loss account, audited consolidated statement of comprehensive income and audited consolidated cash flow statement of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2018 and the audited consolidated balance sheet of the Group as at 31 December 2018 together with the comparative figures in 2017. The annual results have been reviewed by the Company's audit committee and agreed by the Company's auditor.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	2018 US\$'000	2017 US\$'000
Continuing Operations			
Turnover	2	12,700,744	13,534,209
Cost of sales		(11,395,406)	(12,185,061)
Gross profit		1,305,338	1,349,148
Other income		36,556	37,124
Total margin		1,341,894	1,386,272
Selling and distribution expenses		(424,984)	(395,279)
Merchandising and administrative expenses		(632,188)	(635,141)
Core operating profit	2	284,722	355,852
Gain on remeasurement of contingent consideration payable	3	8,948	31,492
Amortization of other intangible assets	3	(29,136)	(23,327)
One-off reorganization costs	3	(17,647)	(33,945)
Operating profit	3	246,887	330,072
Interest income		10,608	12,261
Interest expenses			
Non-cash interest expenses		(757)	(3,284)
Cash interest expenses		(55,433)	(66,477)
		(56,190)	(69,761)
Share of profits less losses of associated companies and joint venture		205	1,898
Profit before taxation		201,510	274,470
Taxation	4	(30,748)	(40,830)
Profit for the year from Continuing Operations		170,762	233,640
Discontinued Operations			
Loss for the year from Discontinued Operations	12(a)	(139,797)	(543,045)
Net profit/(loss) for the year		30,965	(309,405)

**CONSOLIDATED PROFIT AND LOSS ACCOUNT (CONTINUED)**

	<i>Note</i>	2018 US\$'000	2017 US\$'000
Attributable to:			
Shareholders of the Company		(10,981)	(374,573)
Holders of perpetual capital securities		46,125	64,125
Non-controlling interests		(4,179)	1,043
		30,965	(309,405)
Attributable to Shareholders of the Company arising from:			
Continuing Operations		125,818	170,418
Discontinued Operations	12(a)	(136,799)	(544,991)
		(10,981)	(374,573)
Earnings/(losses) per share for profit/(loss) attributable to the Shareholders of the Company during the year	5		
- Basic from Continuing Operations (equivalent to)		11.7 HK cents 1.50 US cents	15.8 HK cents 2.04 US cents
- Basic from Discontinued Operations (equivalent to)		(12.7) HK cents (1.63) US cents	(50.6) HK cents (6.52) US cents
- Diluted from Continuing Operations (equivalent to)		11.5 HK cents 1.48 US cents	15.7 HK cents 2.02 US cents
- Diluted from Discontinued Operations (equivalent to)		(12.5) HK cents (1.61) US cents	(50.1) HK cents (6.46) US cents
Dividends	6	76,734	661,443

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Note	2018 US\$'000	2017 US\$'000
Net profit/(loss) for the year		30,965	(309,405)
Other comprehensive income/(expense):			
<i>Item that will not be reclassified to profit or loss</i>			
Net fair value gains on financial assets at fair value through other comprehensive income		134	-
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax		(2,613)	6
		(2,479)	6
<i>Items that may be reclassified subsequently to profit or loss</i>			
Currency translation differences*		(17,956)	82,191
Realization of currency translation differences upon disposal of business		62,685	-
Reduction of capital reserves upon disposal of business		(1,452)	-
Net fair value gains/(losses) on cash flow hedges, net of tax		4,405	(6,959)
Net fair value gains on available-for-sale financial assets, net of tax		-	174
Total items that may be reclassified subsequently to profit or loss		47,682	75,406
Total other comprehensive income for the year, net of tax		45,203	75,412
Total comprehensive income/(expense) for the year		76,168	(233,993)
Attributable to:			
Shareholders of the Company		34,229	(299,185)
Holders of perpetual capital securities		46,125	64,125
Non-controlling interests		(4,186)	1,067
Total comprehensive income/(expense) for the year		76,168	(233,993)
Attributable to the Shareholders of the Company arising from:			
Continuing Operations		155,619	217,611
Discontinued Operations	12(a)	(121,390)	(516,796)
		34,229	(299,185)

* 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.

**CONSOLIDATED BALANCE SHEET**

		As at 31 December	
		2018	2017
	<i>Note</i>	US\$'000	US\$'000
Non-current assets			
Intangible assets		2,321,294	2,347,011
Property, plant and equipment		220,264	208,221
Prepaid premium for land leases		16	67
Associated companies		5,268	12,393
Joint venture		374	996
Available-for-sale financial assets		-	4,338
Financial assets at fair value through other comprehensive income		4,601	-
Other receivables, prepayments and deposits		26,663	27,738
Deferred tax assets		11,711	17,456
		2,590,191	2,618,220
Current assets			
Inventories		205,877	147,803
Due from related companies	7	708,862	463,163
Trade and bills receivable	8	1,040,236	1,148,560
Other receivables, prepayments and deposits		179,549	150,252
Derivative financial instruments		3,985	-
Cash and bank balances		612,391	348,940
		2,750,900	2,258,718
Assets classified as held for sale		-	1,641,065
Current liabilities			
Due to related companies		37,809	124
Trade and bills payable	9	1,736,817	1,733,661
Accrued charges and sundry payables		592,868	468,089
Purchase consideration payable for acquisitions	10	819	42,166
Taxation		30,267	43,908
Derivative financial instruments		-	5,355
Bank advances for discounted bills	8	-	1,724
Short-term bank loans		272,951	22,970
		2,671,531	2,317,997
Liabilities associated with assets classified as held for sale		-	466,570
Net current assets		79,369	1,115,216
Total assets less current liabilities		2,669,560	3,733,436

**CONSOLIDATED BALANCE SHEET (CONTINUED)**

		As at 31 December	
	Note	2018 US\$'000	2017 US\$'000
Financed by:			
Share capital		13,633	13,574
Reserves		1,203,259	1,734,172
Shareholders' funds attributable to the Company's			
Shareholders		1,216,892	1,747,746
Holders of perpetual capital securities		655,687	1,158,687
Written put option on non-controlling interests		-	(67,000)
Non-controlling interests		(3,150)	74,262
Total equity		1,869,429	2,913,695
Non-current liabilities			
Long-term notes	10	751,405	752,432
Purchase consideration payable for acquisitions	10	8,141	19,417
Other long-term liabilities	10	26,895	29,034
Post-employment benefit obligations		11,592	14,165
Deferred tax liabilities		2,098	4,693
		800,131	819,741
		2,669,560	3,733,436

**CONSOLIDATED CASH FLOW STATEMENT**

	Note	2018 US\$'000	2017 US\$'000
<u>Continuing Operations</u>			
Operating activities			
Net cash inflow generated from operations	11	253,736	359,619
Hong Kong profits tax paid, net of refund		(3,600)	(6,647)
Overseas taxation paid		(39,715)	(40,102)
Net cash inflow from operating activities		210,421	312,870
Investing activities			
Purchases of property, plant and equipment		(71,793)	(71,689)
Payments for system development, software, license and other intangible assets		(34,134)	(18,900)
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		(42,889)	(67,811)
Proceeds from disposal of property, plant and equipment and prepaid premium for land leases		2,377	6,289
Proceeds from disposal of associated companies		6,992	-
Interest income		10,608	12,261
Dividends received from associated companies		1,416	821
Investing in a joint venture		-	(529)
Addition of financial assets at fair value through other comprehensive income		(129)	-
Net cash inflow/(outflow) from investing activities		877,375	(139,558)
Net cash inflow before financing activities		1,087,796	173,312
Financing activities			
Interest paid		(55,433)	(66,477)
Distributions to holders of perpetual capital securities		(49,125)	(64,125)
Repayment of long-term notes		-	(500,000)
Dividends paid		(574,265)	(250,200)
Purchase of shares for Share Award Scheme		(7,577)	(1,706)
Redemption of perpetual capital securities		(500,000)	-
Net drawdown/(repayment) of bank loans		249,981	(938)
Net cash outflow from financing activities		(936,419)	(883,446)
Increase/(decrease) in cash and cash equivalents from Continuing Operations		151,377	(710,134)
<u>Discontinued Operations</u>			
(Decrease)/increase in cash and cash equivalents from Discontinued Operations	12(f)	(73,804)	251,474
Increase/(decrease) in cash and cash equivalents		77,573	(458,660)

**CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)**

	<i>Note</i>	2018 US\$'000	2017 US\$'000
Cash and cash equivalents at 1 January			
Continuing Operations		348,940	830,558
Discontinued Operations		192,578	154,481
		541,518	985,039
Increase/(decrease) in cash and cash equivalents		77,573	(458,660)
Effect of foreign exchange rate changes		(6,700)	15,139
Cash and cash equivalents classified as assets held for sale		-	(192,578)
Cash and cash equivalents of Continuing Operations as of 31 December		612,391	348,940
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		612,391	348,940

* 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.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to Shareholders of the Company					Written put			Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total	Holders of perpetual capital securities	option on non-controlling interests	Non-controlling interests	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2018	13,574	728,527	509,577	496,068	1,747,746	1,158,687	(67,000)	74,262	2,913,695
Comprehensive (expense)/income									
Profit or loss	-	-	-	(10,981)	(10,981)	46,125	-	(4,179)	30,965
Other comprehensive (expense)/income									
Currency translation differences	-	-	(17,949)	-	(17,949)	-	-	(7)	(17,956)
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	-	-	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	-	-	45,210	-	45,210	-	-	(7)	45,203
Total comprehensive income/(expense)	-	-	45,210	(10,981)	34,229	46,125	-	(4,186)	76,168
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	53,544	405,390	1,216,892	655,687	-	(3,150)	1,869,429



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to Shareholders of the Company					Holders of perpetual capital securities	Written put option on non- controlling interests	Non- controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total				
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2017	13,487	714,536	428,377	1,144,980	2,301,380	1,158,687	-	(1,083)	3,458,984
Comprehensive (expense)/income									
Profit or loss	-	-	-	(374,573)	(374,573)	64,125	-	1,043	(309,405)
Other comprehensive income/(expense)									
Currency translation differences	-	-	82,167	-	82,167	-	-	24	82,191
Net fair value gains on available-for-sale financial assets, net of tax	-	-	174	-	174	-	-	-	174
Net fair value losses on cash flow hedges, net of tax	-	-	(6,959)	-	(6,959)	-	-	-	(6,959)
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax	-	-	6	-	6	-	-	-	6
Total other comprehensive income, net of tax	-	-	75,388	-	75,388	-	-	24	75,412
Total comprehensive income/(expense)	-	-	75,388	(374,573)	(299,185)	64,125	-	1,067	(233,993)
Transactions with owners in their capacity as owners									
Purchase of shares for Share Award Scheme	-	-	(1,706)	-	(1,706)	-	-	-	(1,706)
Issuance of shares for Share Award Scheme	87	-	(87)	-	-	-	-	-	-
Employee Share Option and Share Award Scheme:									
- value of employee services	-	-	16,735	-	16,735	-	-	-	16,735
- vesting of shares for Share Award Scheme	-	13,991	(13,991)	-	-	-	-	-	-
Distribution to holders of perpetual capital securities	-	-	-	-	-	(64,125)	-	-	(64,125)
Transfer to capital reserve	-	-	4,861	(4,861)	-	-	-	-	-
2016 final dividend paid	-	-	-	(130,136)	(130,136)	-	-	-	(130,136)
2017 interim dividend paid	-	-	-	(120,064)	(120,064)	-	-	-	(120,064)
Written put option on non-controlling interests	-	-	-	-	-	-	(67,000)	-	(67,000)
Non-controlling interests arising from business combination	-	-	-	-	-	-	-	55,000	55,000
Transactions with non-controlling interests	-	-	-	(19,278)	(19,278)	-	-	19,278	-
Total transactions with owners in their capacity as owners	87	13,991	5,812	(274,339)	(254,449)	(64,125)	(67,000)	74,278	(311,296)
Balance at 31 December 2017	13,574	728,527	509,577	496,068	1,747,746	1,158,687	(67,000)	74,262	2,913,695

**Notes:****1 Basis of preparation and principal accounting policies**

The consolidated financial statements of Li & Fung Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”). They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, 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.

Changes in accounting policy and disclosures

- (a) New standard, new interpretation and amendments to existing standards adopted by the Group

The following new standard, new interpretation and amendments to existing standards are mandatory for accounting periods beginning on or after 1 January 2018:

HKAS 40 Amendment	Transfer of Investment Property
HKFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 Amendment	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvement Project	Annual Improvements 2014-2016 Cycle

The application of the above new standard, new interpretation and amendments 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 9 “Financial Instruments” which the Group had to change its accounting policies as set out below.

HKFRS 9 Financial Instruments

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

**Notes:****1 Basis of preparation and principal accounting policies (Continued)****Changes in accounting policy and disclosures (Continued)**

- (a) New standard, new interpretation and amendments to existing standards adopted by the Group (Continued)

- (i) Changes in accounting policies

Available-for-sale financial assets

Available-for-sale financial assets (other than investments in subsidiary companies, associated companies or joint venture) are non-derivative equity financial investments which are measured at fair value. Management is eligible to make an irrevocable election, on an instrument-by-instrument basis, on equity investments other than those held for trading, to present changes in fair value through profit or loss or fair value through other comprehensive income ("FVOCI"). The Group has elected to measure as FVOCI, to which any fair value gains or losses accumulated in the revaluation reserve account will no longer be reclassified to profit or loss following the derecognition of such available-for-sale financial assets.

Loans and receivables

Loans and receivables are debt instruments that are within the Group's business model to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. At the end of the reporting period subsequent to initial recognition, loans and receivables are subsequently measured at amortized cost less impairment. Interest income using the effective interest method is recognized in the consolidated profit and loss accounts.

Impairment of financial assets

HKFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses ("ECL") model, which constitutes a change from the incurred loss model in HKAS 39 "Financial Instruments: Recognition and Measurement" to with a forward-looking ECL model. HKFRS 9 contains a "three stage" approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires lifetime expected losses for amounts due from customers to be recognized from the initial recognition of the trade receivables.

Impairment on other debt instruments at amortized cost are measured as either a 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. As other debt instruments at amortized cost are considered to have low credit risk, the impairment provision applied is to recognize a 12-month ECL.

**Notes:****1 Basis of preparation and principal accounting policies (Continued)****Changes in accounting policy and disclosures (Continued)**

- (a) New standard, new interpretation and amendments to existing standards adopted by the Group (Continued)

- (i) Changes in accounting policies (Continued)

Hedge accounting

HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more “rule-based” approach of HKAS 39.

- (ii) Effects of changes in accounting policies

In accordance with the transitional provisions in HKFRS 9 paragraph 7.2.15 and 7.2.26, comparative figures have not been restated, where the comparative information for prior periods with respect to classification and measurement (including impairment) changes is not restated and differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 will be recognized as an adjustment to the opening balance of equity at the date of adoption, i.e. as at 1 January 2018.

Classification of available-for-sale financial assets

The Group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale financial assets as they are long-term strategic investments that are not expected to be sold in the short to medium term. Available-for-sale financial assets as at 31 December 2017 will continue to be measured at FVOCI after adoption of HKFRS 9.

Classification of loans and receivables

The Group’s existing loans and receivables are debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest and therefore will continue to be measured at amortized cost.

Impairment of financial assets

For trade receivables and other receivables, the Group applies the HKFRS 9 simplified approach to measuring expected credit loss which uses a lifetime expected loss for all trade receivables. The adoption of the simplified expected loss approach under HKFRS 9 has not resulted in any material impact to the carrying value of trade receivables as at 1 January 2018.

**Notes:****1 Basis of preparation and principal accounting policies (Continued)****Changes in accounting policy and disclosures (Continued)**

- (a) New standard, new interpretation and amendments to existing standards adopted by the Group (Continued)

- (ii) Effects of changes in accounting policies (Continued)

Hedge accounting

The Group applies hedge accounting prospectively. All hedge accounting relationships designated under the previous HKAS 39 have continued to be valid hedge accounting relationships in accordance with HKFRS 9. Upon transition to HKFRS 9, the Group continues to recognize derivative financial instruments which are not under effective hedge relationships to be classified under fair value through profit or loss.

The Group's risk management strategies and hedge documentation are aligned with the requirements of HKFRS 9 and these relationships are therefore treated as continuing hedges. The foreign currency forwards in place as at 31 December 2017 qualified as cash flow hedges under HKFRS 9. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of HKFRS 9 had no significant impact on the Group's financial statements.

- (b) New standards, new interpretation and amendments to existing standards that have been issued but are not yet effective and have not been early adopted by the Group

The following new standards, new interpretation and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2019 or later periods, but the Group has not early adopted them:

HKAS 1 and HKAS 8 Amendment	Definition of Material ²
HKAS 19 Amendment	Plan amendment, curtailment or settlement ¹
HKAS 28 Amendment	Long-term Interests in Associates and Joint Ventures ¹
HKFRS 3 Amendment	Definition of Business ²
HKFRS 9 Amendment	Prepayment Features with Negative Compensation ¹
HKFRS 10 and HKAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments ¹
Annual Improvement Project	Annual Improvements 2015-2017 Cycle ¹

Notes:

- 1 Effective for financial periods beginning on or after 1 January 2019
 2 Effective for financial periods beginning on or after 1 January 2020
 3 Effective for financial periods beginning on or after 1 January 2021
 4 Effective date to be determined

**Notes:****1 Basis of preparation and principal accounting policies (Continued)****Changes in accounting policy and disclosures (Continued)**

- (b) New standards, new interpretation and amendments to existing standards that have been issued but are not yet effective and have not been early adopted by the Group (Continued)

None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for HKFRS 16 “Leases” as set out below:

HKFRS 16 Leases

HKFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of the consolidated balance sheet. Instead, when the Group is the lessee, almost all leases should be recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus, each lease will be reflected in the Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are optionally exempted from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheet. This may affect related ratios, such as increase in debt to capital ratio. In the consolidated statement of comprehensive income, leases will be recognized in the future as depreciation and will no longer be recorded as property rental and related expenses. Interest expenses on the lease liability will be presented separately from depreciation under finance costs. As a result, the property rental and related expenses under otherwise identical circumstances will decrease, while depreciation and the interest expense will increase. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in higher total charge to the consolidated statement of comprehensive income in the initial year of the lease, and decreasing expenses during the latter part of the lease term.

The Group had non-cancellable operating lease commitments of US\$477,340,000. The new standard is not expected to be applied until the financial year beginning on or after 1 January 2019, including any adjustment of prior years. It is expected that certain portion of these lease commitments will be required to be recognized in the consolidated balance sheet as right-of-use assets and lease liabilities.

The Group does not expect that the adoption of HKFRS 16 Leases will have a material impact on the Group's net profit. Cash flows from operating activities will increase and cash flows from financing activities will decrease by the same amount due to rental payments being treated as repayments of the principal portion as well as interest expenses of the lease liabilities.

**Notes:****2 Segment information**

The Company is domiciled in Bermuda. The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its Hong Kong office is at 11/F, Li Fung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong.

The Group is principally engaged in managing the supply chain for retailers and brands worldwide with over 230 offices across key production countries 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 our principal-to-principal business.

In 2018, the Group divested the three Product Verticals to further simplify our 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 12* to the annual results announcement.

The Group's management (Chief Operating Decision-Maker) 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, interest expenses, 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. Other information provided to the Group's management is measured in a manner consistent with that in these consolidated financial statements.

**Notes:****2 Segment information (Continued)**

<u>Year ended 31 December 2018</u>	Services US\$'000	Products US\$'000	Elimination US\$'000	Total US\$'000
<u>Continuing Operations</u>				
Turnover	11,062,332	1,666,702	(28,290)	12,700,744
Total margin	1,036,992	304,902		1,341,894
Operating costs	(805,580)	(251,592)		(1,057,172)
Core operating profit	231,412	53,310		284,722
Gain on remeasurement of contingent consideration payable				8,948
Amortization of other intangible assets				(29,136)
One-off reorganization costs				(17,647)
Operating profit				246,887
Interest income				10,608
Interest expenses				
Non-cash interest expenses				(757)
Cash interest expenses				(55,433)
				(56,190)
Share of profits less losses of associated companies and joint venture				205
Profit before taxation				201,510
Taxation				(30,748)
Profit for the year from Continuing Operations				170,762
<u>Discontinued Operations</u>				
Loss for the year from Discontinued Operations				(139,797)
Net profit for the year				30,965
Depreciation and amortization (Continuing Operations)	69,692	15,482		85,174
<u>31 December 2018</u>				
Non-current assets (other than financial assets at fair value through other comprehensive income and deferred tax assets)	1,906,798	667,081		2,573,879


Notes:
2 Segment information (Continued)

<u>Year ended 31 December 2017</u>	Services US\$'000	Products US\$'000	Elimination US\$'000	Total US\$'000
<u>Continuing Operations</u>				
Turnover	12,013,024	1,551,680	(30,495)	13,534,209
Total margin	1,085,908	300,364		1,386,272
Operating costs	(783,551)	(246,869)		(1,030,420)
Core operating profit	302,357	53,495		355,852
Gain on remeasurement of contingent consideration payable				31,492
Amortization of other intangible assets				(23,327)
One-off reorganization costs				(33,945)
Operating profit				330,072
Interest income				12,261
Interest expenses				
Non-cash interest expenses				(3,284)
Cash interest expenses				(66,477)
				(69,761)
Share of profits less losses of associated companies and joint venture				1,898
Profit before taxation				274,470
Taxation				(40,830)
Profit for the year from Continuing Operations				233,640
<u>Discontinued Operations</u>				
Loss for the year from Discontinued Operations				(543,045)
Net loss for the year				(309,405)
Depreciation and amortization (Continuing Operations)	52,590	18,108		70,698
<u>31 December 2017</u>				
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	1,821,217	775,209		2,596,426


Notes:
2 Segment information (Continued)

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

	2018 US\$'000	2017 US\$'000
<u>Turnover</u>		
Supply Chain Solutions	9,933,108	10,989,275
Logistics Services	1,133,374	1,028,069
Elimination	(4,150)	(4,320)
	<u>11,062,332</u>	<u>12,013,024</u>
	2018 US\$'000	2017 US\$'000
<u>Core operating profit</u>		
Supply Chain Solutions	145,319	227,254
Logistics Services	86,093	75,103
	<u>231,412</u>	<u>302,357</u>

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/available-for-sale financial assets and deferred tax assets) is as follows:

	Turnover		Non-current assets (other than financial assets at fair value through other comprehensive income/ available-for-sale financial assets and deferred tax assets)	
	2018 US\$'000	2017 US\$'000	As at 31 December 2018 US\$'000	2017 US\$'000
United States of America	8,373,141	8,929,344	1,449,953	1,448,557
Europe	2,127,475	2,357,413	742,927	783,277
Asia	1,391,990	1,399,381	241,064	227,014
Rest of the world	808,138	848,071	139,935	137,578
	<u>12,700,744</u>	<u>13,534,209</u>	<u>2,573,879</u>	<u>2,596,426</u>

**Notes:****2 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:

	2018 US\$'000	2017 US\$'000
Sales of goods of Supply Chain Solutions business	9,916,489	10,977,574
Logistics Services income	1,118,663	1,014,958
Sales of goods of Products segment	1,665,592	1,541,677
	<u>12,700,744</u>	<u>13,534,209</u>

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

	2018 US\$'000	2017 US\$'000
Sales of soft goods	8,608,996	9,298,376
Sales of hard goods	2,973,085	3,220,875
Logistics Services income	1,118,663	1,014,958
	<u>12,700,744</u>	<u>13,534,209</u>

For the year ended 31 December 2018, approximately 16% (2017: 15%) and 11% (2017: 10%) of the total turnover of the Group's Continuing Operations is derived from two external customers, of which 16% (2017: 15%) and 11% (2017: 10%) and less than 1% (2017: less than 1%) and less than 1% (2017: less than 1%) are attributable to Services and Products segments respectively.

Segment information for the Discontinued Operations is set out in *Note 12(b)*.

**Notes:****3 Operating profit from Continuing Operations**

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

	2018 US\$'000	2017 US\$'000
<u>Crediting</u>		
Gain on remeasurement of contingent consideration payable (Note)*	8,948	31,492
Gain on disposal of property, plant and equipment and prepaid premium for land leases	<u>-</u>	<u>953</u>
<u>Charging</u>		
Intangible assets written off on reorganization*	-	10,502
Property, plant and equipment written off on reorganization*	-	14,988
Other one-off reorganization costs*	17,647	8,455
Amortization of other intangible assets*	29,136	23,327
Amortization of system development, software and other license costs	8,247	8,347
Amortization of prepaid premium for land leases	1	7
Depreciation of property, plant and equipment	47,790	39,017
Loss on disposal of property, plant and equipment and prepaid premium for land leases	3,663	-
Loss on disposal of software	300	-
Staff costs including directors' emoluments**	<u>710,939</u>	<u>754,511</u>

* Excluded from the core operating profit

** Including staff costs of US\$161,519,000 (2017: US\$133,376,000), which are direct labour cost in particular in relation to our Logistics business, recorded as part of the cost of sales within the total margin.

Note: During the year, the Group remeasured contingent consideration payable for all acquisitions with outstanding contingent consideration arrangements based on the market outlook and their prevailing business plans and projections. Accordingly, a gain of approximately US\$9 million was recognized. Among the total remeasurement gain, approximately US\$9 million was adjustment to earn-up consideration. The revised provision for performance-based contingent considerations is calculated based on discounted cash flows of future consideration payment with the revision of estimated future profit of these acquired businesses. These gains were recognized as a non-core operating gain on remeasurement of contingent consideration payable.

**Notes:****4 Taxation from Continuing Operations**

Hong Kong profits tax has been provided for at the rate of 16.5% (2017: 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:

	2018 US\$'000	2017 US\$'000
Current taxation		
- Hong Kong profits tax	3,850	4,046
- Overseas taxation	32,670	35,411
(Over)/under provision in prior years	(6,153)	3,049
Deferred taxation	381	(1,676)
	30,748	40,830

5 Earnings/(losses) per share

The calculation of basic earnings/(losses) per share is based on the Group's profit attributable to Shareholders arising from the Continuing Operations of US\$125,818,000 (2017: US\$170,418,000) and the Group's loss attributable to Shareholders arising from the Discontinued Operations of US\$136,799,000 (2017: US\$544,991,000) and on the weighted average number of 8,369,665,000 (2017: 8,364,801,000) shares in issue during the year.

The diluted earnings/(losses) per share was calculated by adjusting the weighted average number of 8,369,665,000 (2017: 8,364,801,000) ordinary shares in issue by 113,438,000 (2017: 76,342,000) 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.

**Notes:****6 Dividends**

	2018 US\$'000	2017 US\$'000
Interim, paid, of HK\$0.03 (equivalent to US\$0.004) (2017: HK\$0.11 (equivalent to US\$0.014)) per ordinary share	32,886	120,064
Final, proposed, of HK\$ 0.04 (equivalent to US\$0.005) (2017: HK\$0.02 (equivalent to US\$0.003)) per ordinary share (<i>Note a</i>)	43,848	21,830
Special, declared, of HK\$Nil (equivalent to US\$Nil) (2017: HK\$0.476 (equivalent to US\$0.0614)) (<i>Note b</i>)	<u>-</u>	<u>519,549</u>
	<u>76,734</u>	<u>661,443</u>

Notes:

- (a) *At a meeting held on 21 March 2019, the Directors proposed a final dividend of HK\$0.04 (equivalent to US\$0.005) per share. The proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as appropriation of retained earnings for the year ended 31 December 2018.*
- (b) *On 14 December 2017, the Board of Directors proposed a special dividend of 47.6 HK cents per share absorbing approximately US\$520 million, payable out of part of the proceeds from the strategic divestment of Product Verticals business (the "Strategic Divestment").*

7 Due from related companies

Due from related companies 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.

**Notes:****8 Trade and bills receivable**

The ageing of trade and bills receivable based on invoice date is as follows:

	Current to 90 days US\$'000	91 to 180 days US\$'000	181 to 360 days US\$'000	Over 360 days US\$'000	Total US\$'000
Balance at 31 December 2018	<u>905,138</u>	<u>97,862</u>	<u>18,625</u>	<u>18,611</u>	<u>1,040,236</u>
Balance at 31 December 2017	<u>1,058,741</u>	<u>72,515</u>	<u>11,115</u>	<u>6,189</u>	<u>1,148,560</u>

The fair values of the Group's trade and bills receivable were approximately the same as their carrying values as at 31 December 2018.

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

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 measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

As at 31 December 2018, no bills receivable balances (2017: US\$1,724,000) were transferred to banks in exchange for cash. The transactions have been accounted for as collateralized bank advances.

**Notes:****9 Trade and bills payable**

The ageing of trade and bills payable based on invoice date is as follows:

	Current to 90 days US\$'000	91 to 180 days US\$'000	181 to 360 days US\$'000	Over 360 days US\$'000	Total US\$'000
Balance at 31 December 2018	<u>1,592,934</u>	<u>109,264</u>	<u>18,072</u>	<u>16,547</u>	<u>1,736,817</u>
Balance at 31 December 2017	<u>1,645,884</u>	<u>66,176</u>	<u>9,552</u>	<u>12,049</u>	<u>1,733,661</u>

The fair values of the Group's trade and bills payable were approximately the same as their carrying values as at 31 December 2018.

10 Long-term liabilities

	2018 US\$'000	2017 US\$'000
Long-term bank loan – unsecured	1,034	1,558
Long-term notes – unsecured	751,405	752,432
Purchase consideration payable for acquisitions (Note)	8,960	61,583
Other non-current liabilities	<u>25,861</u>	<u>27,476</u>
	787,260	843,049
Current portion of purchase consideration payable for acquisitions	<u>(819)</u>	<u>(42,166)</u>
	<u>786,441</u>	<u>800,883</u>

Note:

Balance of purchase consideration payable for acquisitions as at 31 December 2018 amounted to US\$8,960,000 (2017: US\$61,583,000), of which US\$6,758,000 (2017: US\$44,162,000) was primarily earn-out and US\$2,202,000 (2017: US\$17,421,000) 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.

**Notes:****11 Notes to the consolidated cash flow statement**

Reconciliation of profit before taxation to net cash inflow generated from operations

	2018 US\$'000	2017 US\$'000
Profit before taxation	201,510	274,470
Interest income	(10,608)	(12,261)
Interest expenses	56,190	69,761
Depreciation	47,790	39,017
Amortization of system development, software and other license costs	8,247	8,347
Amortization of other intangible assets	29,136	23,327
Amortization of prepaid premium for land leases	1	7
Property, plant and equipment written off on reorganization	-	14,988
Intangible assets written off on reorganization	-	10,502
Share of profits less losses of associated companies and joint venture	(205)	(1,898)
Employee share option and share award expenses	13,744	13,020
Net loss/(gain) on disposal of property, plant and equipment and prepaid premium for land leases	3,663	(953)
Loss on disposal of software	300	-
Gain on remeasurement of contingent consideration payable	(8,948)	(31,492)
Operating profit before working capital changes	340,820	406,835
(Increase)/decrease in inventories	(58,074)	20,411
(Increase)/decrease in trade and bills receivable, other receivables, prepayments and deposits and due from related companies	(183,375)	93,728
Increase/(decrease) in trade and bills payable, accrued charges and sundry payables and due to related companies	154,365	(161,355)
Net cash inflow generated from operations	253,736	359,619

**Notes:****12 Discontinued Operations**

The results of the Discontinued Operations are presented 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 account as follows:

	2018 US\$'000	2017 US\$'000
Turnover	382,235	1,926,795
Cost of sales	(298,146)	(1,470,150)
Gross profit	84,089	456,645
Selling and distribution expenses	(27,294)	(120,575)
Merchandising and administrative expenses	(78,391)	(257,843)
Core operating (loss)/profit	(21,596)	78,227
Amortization of other intangible assets	(3,682)	(13,659)
Operating (loss)/profit	(25,278)	64,568
Interest income	157	563
Interest expenses	(1,068)	(2,782)
(Loss)/profit before taxation	(26,189)	62,349
Taxation	825	(13,031)
(Loss)/profit after taxation	(25,364)	49,318
Remeasurement loss on assets classified as held for sale	-	(592,363)
Loss on disposal of business and others	(114,433)	-
Loss for the year	(139,797)	(543,045)
Attributable to:		
Shareholders of the three Product Verticals	(136,799)	(544,991)
Non-controlling interest	(2,998)	1,946
	(139,797)	(543,045)

**Notes:****12 Discontinued Operations (Continued)**

- (a) Results of the Discontinued Operations have been included in the consolidated profit and loss account as follows: (Continued)

Statement of comprehensive income of the Discontinued Operations

	2018 US\$'000	2017 US\$'000
Loss for the year	(139,797)	(543,045)
Other comprehensive income:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Currency translation differences	15,409	28,157
Net fair value gains on cash flow hedges, net of tax	-	38
Total items that may be reclassified subsequently to profit or loss	15,409	28,195
Total other comprehensive income for the year, net of tax	15,409	28,195
Total comprehensive expense for the year	(124,388)	(514,850)
Attributable to:		
Shareholders of the three Product Verticals	(121,390)	(516,796)
Non-controlling interest	(2,998)	1,946
	(124,388)	(514,850)

- (b) Geographical analysis of turnover of the Discontinued Operations

The turnover consists of sales to United States of America of US\$186,326,000 (2017: US\$1,010,500,000), Europe of US\$105,993,000 (2017: US\$558,522,000), Asia of US\$65,608,000 (2017: US\$239,961,000) and Rest of the world US\$24,308,000 (2017: US\$117,812,000).

**Notes:****12 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	2017 US\$'000
<u>Charging</u>		
Amortization of system development, software and other license costs	515	2,633
Amortization of other intangible assets (excluded from the core operating profit)	3,682	13,659
Depreciation of property, plant and equipment	3,251	9,263
Loss on disposal of property, plant and equipment	-	241
Staff costs	36,906	161,276
Remeasurement loss on assets classified as held for sale (excluded from the core operating profit) (Note)	<u>-</u>	<u>592,363</u>

Note: The three Product Verticals were recognized as assets held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, and were required to be marked down to the lower of their carrying value and fair value less costs to sell. In such respect, an unrealized non-cash remeasurement loss of US\$592 million was recognized as of 31 December 2017, estimated based on the carrying value of the relevant goodwill and other asset/liabilities of the three Product Verticals as of 31 December 2017, on cash free/debt free basis and adjusted for relevant closing adjustments.

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

	US\$'000
Intangible assets	1,632,176
Property, plant and equipment	40,394
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)
Other current liabilities	(16,112)
Other non-current liabilities	(92,410)
	<u>1,766,369</u>
Remeasurement loss recognized in previous year	(592,363)
	<u>1,174,006</u>
Less: Non-controlling interest	(6,226)
Net assets disposed	<u><u>1,167,780</u></u>

**Notes:****12 Discontinued Operations (Continued)**

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

	US\$'000
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 of business	(95,073)
Less: Net assets disposed	(1,167,780)
Exchange reserve and others	(80,406)
	<hr/>
Loss on disposal of business	(114,433)
	<hr/>

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

	2018	2017
	US\$'000	US\$'000
Net cash (outflow)/inflow from operating activities	(69,698)	258,647
Net cash outflow from investing activities	(3,981)	(6,038)
Net cash outflow from financing activities*	(125)	(1,135)
	<hr/>	<hr/>
Total cash flow	(73,804)	251,474
	<hr/>	<hr/>

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



CORPORATE GOVERNANCE

The Board and management are committed to principles of good corporate governance consistent with prudent management and enhancement of shareholder value. These principles emphasize transparency, accountability and independence.

The role of the Group Chairman remains separate from that of the Group Chief Executive Officer to enhance their respective independence, accountability and responsibility. Their responsibilities are clearly established and defined in writing by the Board.

The Board is responsible for setting the overall values, standards and strategy of the Group and reviewing its operation and financial performance. The Board has established the following committees (all chaired by an Independent Non-executive Director or a Non-executive Director) with defined terms of reference (available on our website), which are in line with the Corporate Governance Code of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”):

- Nomination Committee
- Audit Committee
- Risk Management and Sustainability Committee
- Remuneration Committee

Full details on the Company’s corporate governance practices are set out in the Company’s 2018 Annual Report.

AUDIT COMMITTEE

The Audit Committee met four times in 2018 (with an attendance rate of 100%) to review, with management and the Company’s internal and external auditors, the internal controls and financial matters as set out in the Committee’s written terms of reference, and to make relevant recommendations to the Board.

The Audit Committee has reviewed the annual results for the year ended 31 December 2018.



RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining solid, effective system of risk management and internal control and for reviewing its effectiveness, and the adequacy of necessary policies and procedures through the Audit Committee.

Based on the respective assessments made by management and the Corporate Governance team, and also taking into account the results of the work conducted by the external auditor for the purpose of its audit, the Audit Committee considered that for 2018:

- The risk management and internal controls and accounting systems of the Group were in place and functioning effectively, and were designed to provide reasonable but not absolute assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with the Group's policies and Key Operating Guidelines ("KOGs") under management's authorization and the financial statements were reliable for publication.
- There was an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.
- The resources, qualifications, experience, training programs and budget of the employees of the Group's accounting and financial reporting and internal audit functions were adequate.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTING RULES

The Board has reviewed the Company's corporate governance practices and is satisfied that it has been in full compliance with all of the code provisions set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules throughout the year ended 31 December 2018.

DIRECTORS' AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

The Company has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). We appreciate that some of our employees may have access to unpublished, price-sensitive information ("Inside Information") in their daily work, as such we have extended such procedures to cover relevant employees who are likely to be in possession of Inside Information of the Group. Relevant employees are also subject to compliance with written guidelines in line with the Model Code. For 2018, specific confirmation of compliance has been obtained from each Director. No incident of non-compliance by Directors and relevant employees was noted in 2018.

We have also established a Policy on Inside Information to comply with our obligations under the Securities and Futures Ordinance ("SFO") and the Listing Rules.

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 2018.



FINAL DIVIDEND

The Board of Directors recommended to pay to the shareholders final dividend of 4 HK cents (2017: 2 HK cents) per share, for the year ended 31 December 2018 absorbing US\$44 million (2017: US\$22 million). An interim dividend of 3 HK cents (2017: 11 HK cents) per share was paid by the Company on 18 September 2018.

In the current Three-Year Plan (2017 - 2019), the Company's dividend distribution is benchmarked against the Group's profit attributable to shareholders. We expect to distribute 50% to 70% of our Group's annual profit to shareholders as dividend. The actual distribution percentage will be determined by our Board based on our operating results, cash flow, financial position, business prospects, statutory and regulatory restrictions relating to dividend distribution and other factors the Board considers relevant.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at Ground Floor, Hong Kong Spinners Industrial Building, Phases I & II, 800 Cheung Sha Wan Road, Kowloon, Hong Kong on 23 May 2019 at 11:30 a.m. The Notice of Annual General Meeting will be published on the Company's website at www.lifung.com and HKExnews website at www.hkexnews.hk and despatched to the shareholders on or about 18 April 2019.



RECORD DATE AND CLOSURE OF REGISTER OF MEMBERS

Hong Kong Time
2019

For determining shareholder's right to attend and vote at the Annual General Meeting

Record Date ^(Note i) :	17 May
Latest time to lodge transfer documents with share registrar ^(Note i) :	4:30 p.m., 17 May

For determining shareholder's entitlement to the proposed final dividend

Latest time to lodge transfer documents with share registrar ^(Note ii) :	4:30 p.m., 28 May
Book Closure Date ^(Note ii) :	29 to 30 May
Expected despatch date of dividend warrants:	5 Jun

Notes:

- (i) *The record date for determining shareholders' right to attend and vote at the Annual General Meeting is Friday, 17 May 2019. Shareholders who are entitled to attend and vote at Annual General Meeting are those whose names appear on the register of members of the Company as at the close of business on Friday, 17 May 2019. In order to qualify for attending and voting at Annual General Meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Friday, 17 May 2019.*
- (ii) *The register of members of the Company will be closed from Wednesday, 29 May 2019 to Thursday, 30 May 2019 (both days inclusive), during which no transfer of shares in the Company will be effected. In order to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 28 May 2019.*



PUBLICATION OF ANNUAL REPORT

The 2018 annual report will be despatched to the shareholders and available on the Company's website at www.lifung.com and HKExnews website at www.hkexnews.hk on or about 18 April 2019.

By Order of the Board
William FUNG Kwok Lun
Group Chairman, Li & Fung Limited

Hong Kong, 21 March 2019

As at the date of this announcement, Executive Directors of the Company are William Fung Kwok Lun (Group Chairman), Spencer Theodore Fung (Group Chief Executive Officer) and Joseph C. Phi; Non-executive Directors are Victor Fung Kwok King (Honorary Chairman) and Marc Robert Compagnon; Independent Non-executive Directors are Allan Wong Chi Yun, Martin Tang Yue Nien, Margaret Leung Ko May Yee, Chih Tin Cheung and John G. Rice.