Li & Fung Limited

(incorporated in Bermuda with limited liability)

US$500,000,000
Subordinated Perpetual Capital Securities

Issue Price: 100 per cent.

The US$500,000,000 subordinated perpetual capital securities (the "**Securities**") will be issued by Li & Fung Limited (the "**Company**" or the "**Issuer**"). The Securities confer a right to receive distributions (each a "**Distribution**") for the period from and including 8 November 2012 (the "**Issue Date**") at the applicable rate described below (the "**Distribution Rate**"). Subject to the provisions of the Securities relating to deferral of Distribution (see "*Terms and Conditions of the Securities — Distribution — Distribution Deferral*"), Distribution shall be payable semi-annually in arrear on 25 May and 25 November of each year (each, a "**Distribution Payment Date**") with the first Distribution Payment Date falling in May 2013 (also, a "**Distribution Payment Date**").

Unless previously redeemed in accordance with the terms of the Securities, Distributions (i) from and including the Issue Date to, but excluding, 25 May 2018 shall accrue on the outstanding principal amount of the Securities at a rate of 6.0 per cent. per annum; (ii) from and including 25 May 2018 to, but excluding, 25 May 2023 shall accrue on the outstanding principal amount of the Securities at a rate per annum equal to the applicable Treasury Rate (as defined in "*Terms and Conditions of the Securities*") plus 5.276 per cent. per annum; (iii) from and including each Reset Date following on or after 25 May 2023 to, but excluding, the immediately following Reset Date following prior to 25 May 2043 shall accrue on the outstanding principal amount of the Securities at a rate per annum equal to the applicable Treasury Rate (as defined in "*Terms and Conditions of the Securities*") plus 5.276 per cent. plus 0.25 per cent. per annum; and (iv) from, and including, each Reset Date falling on and after 25 May 2043, to, but excluding, the immediately following Reset Date, shall accrue on the outstanding principal amount of the Securities at a rate per annum equal to the applicable Treasury Rate (as defined in "*Terms and Conditions of the Securities*") plus 5.276 per cent. plus 0.25 per cent. plus 0.75 per cent. per annum.

The Issuer may, at its sole discretion, elect to defer, in whole or in part, a Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by providing holders of the Securities ("**Holders**") with not more than 10 nor less than five Business Days' (as defined in "*Terms and Conditions of the Securities*") notice prior to the relevant scheduled Distribution Payment Date unless, during the three months ending on the day before that scheduled Distribution Payment Date, a Compulsory Distribution Payment Event (as defined in "*Terms and Conditions of the Securities*") has occurred. Any Distribution so deferred shall remain outstanding in full and constitute Arrears of Distribution (as defined in "*Terms and Conditions of the Securities*"). Each amount of Arrears of Distribution shall bear interest at the Distribution Rate as if it constituted the principal of the Securities and the amount of such interest ("**Additional Distribution Amount**") with respect to Arrears of Distribution shall be calculated by applying the Distribution Rate to the amount of the Arrears of Distribution as described in "*Terms and Conditions of the Securities — Distribution — Cumulative Deferral*". The Issuer may further defer any Arrears of Distribution and Additional Distribution Amounts by complying with the foregoing notice requirements. The Issuer is not subject to any limits as to the number of times Distributions and Arrears of Distribution may be deferred. See "*Terms and Conditions of the Securities — Distribution — Distribution Deferral*".

If on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full, the Issuer shall not (a) declare, pay or make any dividends, distributions or other payments on, and will procure that no dividend, distribution or other payment is declared, paid or made on any of its Junior Obligations (as defined in "*Terms and Conditions of the Securities*") or its Parity Obligations (as defined in "*Terms and Conditions of the Securities*") (except in relation to the Parity Obligations of the Issuer, on a *pro-rata* basis); or (b) redeem, reduce, cancel, buy-back or acquire for any consideration any of its Junior Obligations or its Parity Obligations (except in relation to the Parity Obligations of the Issuer, on a *pro-rata* basis), in each case, (A) save that such restrictions shall not apply to actions taken in respect to an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants and (B) unless and until the Issuer (i) has satisfied in full all outstanding Arrears of Distributions and any Additional Distribution Amounts or (ii) is permitted to do so by an Extraordinary Resolution of the Holders.

The Securities constitute direct, unsecured and subordinated obligations of the Issuer which rank *pari passu* and without any preference among themselves and with any Parity Obligations. In the event of a Winding-Up of the Issuer, the rights and claims of the Holders in respect of the Securities are subordinated as provided in "*Terms and Conditions of the Securities — Status and Subordination of the Securities*".

The Securities are perpetual securities and have no fixed redemption date. The Issuer may redeem all, but not some only, of the Securities on the First Reset Date, the Second Reset Date (each as defined in "*Terms and Conditions of the Securities — Definitions*") or any Distribution Payment Date after the Second Reset Date at their Redemption Amount (as defined in "*Terms and Conditions of the Securities*") on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Securities on the relevant date for redemption). The Securities may be redeemed at the option of the Issuer in whole, but not in part, (a) at their Redemption Amount if the Issuer has or will become obliged to pay material additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Bermuda or Hong Kong or any political subdivision or any authority thereof which change or amendment becomes effective on or after 1 November 2012 and such obligation cannot be avoided by taking reasonable measures available to the Issuer and (b) at their Early Redemption Price (as defined in "*Terms and Conditions of the Securities*") upon the occurrence of: (i) any change or amendment to the Relevant Accounting Standard (as defined in "*Terms and Conditions of the Securities*") such that the Securities must not or must no longer be recorded as "equity" of the Issuer pursuant to the Relevant Accounting Standard; or (ii) a change in the equity classification ascribed to the Securities by Moody's (as defined below) or S&P or their respective successors which results in a lower equity credit for the Securities than the equity credit assigned on the Issue Date. See "*Terms and Conditions of the Securities — Redemption*".

If a Special Event (as defined in "*Terms and Conditions of the Securities*") has occurred and is continuing, the Issuer may, (without any requirement for the consent or approval of the Holders) and subject to the Issuer having satisfied the Trustee that the relevant provisions in "*Terms and Conditions of the Securities*" have been complied with, and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and the Holders (which notice shall be irrevocable), at any time either: (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities (as defined in "*Terms and Conditions of the Securities*"), and the Trustee shall (subject to the relevant provisions in "*Terms and Conditions of the Securities*") agree to such substitution or variation.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for the listing and quotation of the Securities on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission of the Securities to the Official List of the SGX-ST and quotation of the Securities on the SGX-ST and the above approval-in-principle of the SGX-ST is not to be taken as an indication of the merits of the Company, its subsidiaries, its associated companies or the Securities. The Securities will be traded on the SGX-ST in a minimum board lot size of US$200,000 as long as any of the Securities remain listed on the SGX-ST.

Investing in the Securities involves risks. See "Risk Factors" beginning on page 15

The Securities have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**"). The Securities are being offered outside the United States in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of these and certain further restrictions on offers and sales of the Securities and the distribution of this Offering Circular, see "*Subscription and Sale*".

The Securities have been assigned a rating of "Baa2" by Moody's Investors Service, Inc. ("**Moody's**") and "BBB" by Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. ("**S&P**"). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation. Prospective investors should evaluate each rating independently of any other rating of the Securities or other securities of the Company.

The Securities will be in registered form in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof. The Securities may be held in the principal amount of US$200,000 and integral multiples of US$1,000 in excess thereof. The Securities will be represented by beneficial interests in a global certificate (the "**Global Certificate**") in registered form, which will be registered in the name of a nominee of, and deposited on or about the Issue Date with, a common depositary for Euroclear Bank, S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Individual certificates (the "**Individual Certificates**") evidencing holdings of Securities will only be available in certain limited circumstances. See "*Summary of Provisions relating to the Securities in Global Form*".

Joint Bookrunners and Joint Lead Managers

Citigroup **HSBC**

1 November 2012

The Company, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Company and its subsidiaries taken as a whole (the "**Group**", "**we**" or "**us**") and the Securities which is material in the context of the issue and offering of the Securities, (ii) the statements contained in it relating to the Company and the Group are in every material particular true and accurate and not misleading, (iii) the opinions and intentions expressed in this Offering Circular with regard to the Company and the Group are honestly held, have been reached after considering all relevant circumstances, are based on reasonable assumptions and are not misleading in any material respect, (iv) there are no other facts in relation to the Company, the Group or the Securities, the omission of which would, in the context of the issue and offering of the Securities, make any statement in this Offering Circular misleading in any material respect and (v) all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements. The Company accepts full responsibility for the information contained in this Offering Circular.

No person is authorised to give any information or make any representation other than those contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by the Company or by any of the joint lead managers set forth in "*Subscription and Sale*" elsewhere in this Offering Circular (the "**Joint Lead Managers**"). This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any Securities by any person except in compliance with all applicable laws and regulations. This Offering Circular has been prepared by the Issuer solely for use in connection with the proposed offering of the Securities described in this Offering Circular. No representation or warranty, express or implied, is made by the Joint Lead Managers or the Trustee or the Agents (each as defined in this Offering Circular) or any of their respective affiliates or advisers as to the accuracy or completeness of the information contained herein, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Joint Lead Managers, the Trustee, the Agents, or their respective affiliates or advisers. None of the Joint Lead Managers, the Trustee or the Agents have separately verified the information contained herein. Neither the delivery of this Offering Circular nor any sale made hereunder shall under any circumstances imply that the information herein is correct as at any date subsequent to the date hereof or constitute a representation that there has been no change or development reasonably likely to involve an adverse change in the affairs of the Company or the Group since the date hereof.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Securities. This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Company, or the Joint Lead Managers, the Trustee or the Agents that any recipient of this Offering Circular should purchase any of the Securities. Each investor contemplating purchasing Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Company.

The distribution of this Offering Circular and the offering of the Securities in certain jurisdictions may be restricted by law. It may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction in which it is unlawful to make such an offer or solicitation. Persons into whose possession this Offering Circular may come are required by the Company and the Joint Lead Managers to inform themselves about and to observe such restrictions. No action is being taken in any jurisdiction to permit an offering to the general public of the Securities or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. For a description of certain restrictions on offers, sales and deliveries of Securities and on distribution of the Offering Circular, see "*Subscription and Sale*".

IN CONNECTION WITH THIS ISSUE, CITIGROUP GLOBAL MARKETS LIMITED (OR ANY PERSON ACTING ON ITS BEHALF) MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT CITIGROUP GLOBAL MARKETS LIMITED (OR ANY PERSON ACTING ON ITS BEHALF) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE SECURITIES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE CLOSING DATE AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE SECURITIES.

The Group publishes its financial statements in United States dollars. References to "**US$**" and "**US dollars**" are to the currency of the United States of America. References to "**HK$**" or "**Hong Kong dollars**" are to the currency of Hong Kong. References to information in billions of units are to the equivalent of a thousand million units. Any discrepancies in the tables in this Offering Circular between the amounts listed and the totals thereof are due to rounding. Unless otherwise specified, the financial information in this Offering Circular is presented on a consolidated basis for the Company and its consolidated subsidiaries.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements regarding the intent, belief or current expectations of the Company with respect to its financial condition and future results of operations. In many cases, but not all, words such as "anticipate", "believe", "estimate", "expect", "intend", "may", "plan", "probability", "project", "risk", "seek", "should", "target" and similar expressions are used in relation to the Company or Group to identify forward-looking statements. Forward-looking statements may also be identified in discussions of strategy, plans or intentions. These statements reflect the current views of the Company or the Group with respect to future events and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, the Company's or the Group's actual results may vary materially from those it currently anticipates. Given these risks and uncertainties, prospective investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Offering Circular. Any obligation to update, or to announce publicly any revision to, any of the forward-looking statements contained in this Offering Circular to reflect future actual events or developments is disclaimed. The information contained in this Offering Circular, including without limitation the information under "Risk Factors", and "Business", identifies important factors that might cause the forward-looking statements not to be realised.

PRESENTATION OF FINANCIAL INFORMATION

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). In prior years, the Issuer regarded Hong Kong dollars as its functional currency. However, as a result of the Group's continuous acquisitions in recent years, the Company and most of its major operating subsidiaries' business transactions in terms of operating, investing and financing activities have increasingly placed greater reliance on US dollars. As such, effective from 1 January 2011, the Company and certain of its subsidiaries have changed their functional currencies from Hong Kong dollars to US dollars. US dollars have also been adopted as the presentation currency of the Group's consolidated accounts. The change in functional currency of the Company was applied prospectively from date of change in accordance with HKAS 21 "The Effect of Changes in Foreign Exchange Rate". On the date of the change of functional currency, all assets, liabilities, issued capital and other components of equity and profit and loss account items were translated into US dollars at the exchange rate on that date. The change in presentation currency of the Group has been applied retrospectively in accordance with HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", and the comparative figures as at 31 December 2010 and for the year ended 31 December 2010 contained in this Offering Circular have also been restated to US dollars accordingly. The changes in functional and presentation currencies have no significant impact on the financial positions of the Group as at 31 December 2010 and 2011, or the results and cash flows of the Group for the years ended 31 December 2010 and 2011.

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SUMMARY

The following summary is qualified in its entirety by, and is subject to, the detailed information contained or referred to elsewhere in this Offering Circular. You should read carefully the entire Offering Circular to understand the Company's business, the terms of the Securities, and the tax and other considerations that are important to your decision to invest in the Securities. For a discussion of certain matters that should be considered in evaluating an investment in the Securities, see "Risk Factors" section.

OVERVIEW

We are a Hong Kong headquartered multinational group and are recognised as the world's leader in consumer goods design, development, sourcing and distribution. We have a history that can be traced back to 1906 and have played a key role in the development of the global supply chain over the past century.

We specialise in supply chain management of high-volume, time-sensitive goods for leading retailers and brands worldwide via an extensive global network. We provide sophisticated, "one-stop-shop" supply chain solutions to meet customers' specific needs. We play an instrumental role in orchestrating, coordinating and monitoring the entire manufacturing process by providing crucial support, ranging from product design, raw material sourcing and production management to quality control, logistics, shipping and other important functions. Our spectrum of services cover the entire supply chain, from one end to the other.

We have over 300 offices and distribution centres and over 28,000 employees in more than 40 economies spanning the Americas, Europe, Africa and Asia. Our global sourcing network of over 15,000 suppliers conforms to strict quality assurance testing through factory evaluations, laboratory testing, on site production monitoring and multiple inspections. With our local market knowledge, we have the capacity and unique flexibility to respond rapidly to evolving consumer trends.

2011 marked the first year of our new three-year plan (2011-2013) and we established three distinct yet interconnected global Business Networks: Trading Network, Logistics Network and Distribution Network, serving approximately 7,700 customers globally.

Our Trading Network covers a wide range of consumer products, from softgoods (garments and apparel) to hardgoods (non-apparel products such as toys, home furnishings, sporting goods, footwear, and health and beauty products). With our comprehensive product design and development capabilities, we are able to assist our customers from taking an initial design idea to a finished product. We strive to find quality-conscious, cost-effective manufacturers who can match the specific production needs of every customer.

Our Logistics Network offers a comprehensive list of logistics solutions, including warehousing, transportation, repackaging, customs brokerage, freight forwarding, hubbing and consolidation, and other value-added services including supply chain analytics and value engineering work.

Our Distribution Network operation consists of three pillars. For private labels, we help retailers produce finished products under a private label or in-house brand. For proprietary brands, we take nationally recognised brands and build exclusive lines of merchandise for retailers. For licensing, we work closely with customers to strengthen well-known brands through product design, branding, sourcing, product delivery, quality control, pricing and warehousing.

Over the years we have won numerous industry accolades for our performance, governance and sustainability. We are committed to the highest operational standards, conducting business with integrity and good corporate governance practices with an emphasis on transparency and accountability. Sustainability considerations are embedded into our corporate policies and risk management systems.

For the six months ended 30 June 2012, the Group's turnover increased by 4 per cent. to US$9,128 million, reflecting continued market share gains by our businesses through organic growth and acquisitions as well as the synergistic dynamics made possible through the new structure of our three Business Networks. Our Trading Network represented 70 per cent. of turnover, while our Logistics Network accounted for 2 per cent.

and our Distribution Network contributed 28 per cent. of turnover. We achieved solid increases in profit attributable to shareholders and total margin of 33 per cent. and 5 per cent., respectively. Based on the closing price of our shares on the Hong Kong Stock Exchange on 29 October 2012, our market capitalisation was approximately HK$105,974 million (US$13,673 million).

The Group continues to pursue growth with a dual focus: organic growth and acquisitions. Since our listing on the Hong Kong Stock Exchange in 1992, we have achieved a solid turnover compound annual growth rate of 21 per cent. per year.

We are incorporated in Bermuda with limited liability and have been listed on the Hong Kong Stock Exchange since 1992. We are also a constituent member of the Hang Seng Index, MSCI Index Series, FTSE4Good Index, Dow Jones Sustainability Asia Pacific Index and Hang Seng Corporate Sustainability Index Series.

HISTORY

The Group was founded in Guangzhou, China in 1906 and was a forerunner in exporting Chinese products including those made of porcelain, silk, jade and ivory, as well as firecrackers and fireworks. The business was moved to Hong Kong in 1937 with the formal establishment of Li & Fung (1937) Limited (now known as Fung Holdings (1937) Limited) as a limited company in Hong Kong on 28 December 1937.

Fung Holdings (1937) Limited eventually expanded its range of goods for export to include garments, toys, electronics and plastic flowers. The company became one of Hong Kong's largest exporters. In April 1973, Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun, descendants of one of the founders, took Fung Holdings (1937) Limited public on the Hong Kong Stock Exchange. When China took steps to open its economy to foreign investment in 1979, Fung Holdings (1937) Limited started sourcing supplies from factories which had been relocated to Southern China and other parts of Asia and soon established a regional network of offices beyond Hong Kong to focus on servicing its various customers.

In 1989, Fung Holdings (1937) Limited was taken private to facilitate restructuring the business into two core areas: export trading and retail. Following the restructuring, the Company was incorporated in 1991 as the export trading arm and listed on the Hong Kong Stock Exchange in 1992.

RECENT DEVELOPMENTS

Creation of three Business Networks

In 2011, we formed three distinct yet interconnected global Business Networks: Trading Network, Logistics Network and Distribution Network. Going from one global business network to three has enabled us to sell across these areas and provides us with yet another way to better serve our customers, expand our scope and capabilities throughout the entire supply chain, whilst creating huge growth potential.

Acquisitions

Over the years, we have executed a considerable number of acquisitions, following a two-pronged strategy of large deals and smaller roll-up deals that have enhanced the Group's scale and scope across the globe. Since 1995, we completed more than 80 acquisitions.

Key recent large acquisitions include Visage, Jimlar, Integrated Distribution Services Group Limited ("**IDS**"), Loyaltex Apparel, TV Mania, Fishman & Tobin, Crimzon Rose and True Innovation.

Outsourcing Arrangements and Licensing Deals

We continue to grow our business organically by establishing outsourcing arrangements with various customers, whereby they can consolidate and align their global sourcing needs through partnership with us in order to leverage our scale and expertise. These outsourcing deals further solidify our market share in respective business areas and demonstrate how we succeed in gaining market share in a challenging environment. Key outsourcing arrangements conducted in recent years include Walmart and Target Australia.

COMPETITIVE STRENGTHS

We have a leading position as a time sensitive supply chain manager of a wide range of consumer goods. Our key competitive strengths are:

Complete supply chain solutions

With the acquisition of IDS, we have completed the supply chain, which allows us to offer a full spectrum of services under our three interconnected global Business Networks of Trading, Logistics and Distribution. This competitive advantage has not only expanded our business by presenting significant cross-selling opportunities across our Business Networks, but also allowed us to offer our customers end-to-end supply chain solutions. Our supply chain expertise and extensive global networks provide "one-stop-shop" service to customers through competitive pricing and quality. We also have the ability to customise supply chain solutions for each individual customer's needs.

Global scale and scope

During our 100-plus year history, we have cultivated a global sourcing network of over 15,000 suppliers, fostering long term relationships with many of them. Our global operations now comprise over 300 offices and distribution centres in more than 40 economies spanning the Americas, Europe, Africa and Asia. Our experience and presence in the locations from which we source products allows the Group to provide local expertise and advice to our customers on a broad range of issues relating to the supply chain, including factory sourcing, logistics, forwarding, customs clearance and distribution.

Long standing customer relationships

Our customers are primarily leading retailers and brands in their respective markets. We have, through our more than 100 year history, developed long standing and close working relationships with many of our customers. We employ dedicated teams focused on each customer, to manage the full spectrum of its supply chain requirements. We tailor our services to our customers' specifications and needs, which results in effective partnerships of aligned interests. Our close relationships with our customers also give us better insights into industry trends and allow us to respond more rapidly to market changes.

Market leading product design and development capabilities

In terms of both scope and scale, we are a market leader in product design and development capability. We have over 1,300 people working in the area of product design and development, covering both softgoods and hardgoods, with the majority being based in Hong Kong, New York, London and the PRC. Depending on particular customer needs, we assist our customers by taking an initial design idea all the way through to a product, or we support our customers' in house designers with product development capabilities. We also conduct market research so as to be able to provide our customers with information on current consumer trends that may affect new product designs. By working closely with our customers, we become a true partner in co-developing new products.

Experienced management team with proven track record

Our management team has a successful track record in growing our business. Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun, our Honorary Chairman and Group Chairman, respectively, have successfully led the Group for more than 30 years, throughout which period they have been heavily involved with developing the concept of global supply chain management. Mr. Bruce Philip Rockowitz, our Group President and CEO, who co founded Colby International Limited in 1981 and was the President and Chief Executive Officer until 2000 when we acquired Colby, has also contributed significantly to the development and execution of our business strategy. Mr. Spencer Fung, our Group Chief Operating Officer, who joined the Group in 2001, was previously the President of LF Europe managing the Group's European distribution business. We believe the experience of our management team is important to maintaining our long term relationships with our customers and to strengthening our strong financial performance.

Solid financial performance

For the year ended 31 December 2011, the Group's turnover increased by 26% to approximately US$20,030 million, reflecting continued market share gains by our business through organic and earlier acquisitions as well as synergistic dynamics of the new structure of the three Business Networks, notwithstanding global economic uncertainties. Profit attributable to shareholders was US$681 million, an increase of 24% compared to 2010 (US$548 million). In the first six months of 2012, the Group's turnover increased by 4% to US$9,128 million and profit attributable to shareholders was US$312 million, an increase of 33% compared with the same period last year (US$236 million), reflecting a write-back of estimated contingent considerations for two previous acquisitions made in 2010. Core operating profit decreased by 22% to US$221 million, mainly due to slower than expected turnaround of LF USA's business and the investment into LF Asia's Fashion & Home platform. Core operating profit margin decreased from 3.2% to 2.4%. While core operating profit was relatively weak in the first six months of 2012, the Group is very focused on taking necessary steps to improve the results of the second half of 2012.

Advanced technology infrastructure and applications

The Group's technology platform comprises two major elements: infrastructure and applications.

To support the operation of all office locations and for future growth we have three global data centres located in Hong Kong, New York and London. These form our communication hub triangle which connects all the countries and cities which we operate. From the three data centres we extend our network coverage to all geographical locations with a combination of dedicated international leased lines and MPLS networks, providing a secure and wide area network to support all our voice, video and application platforms.

Successful integration of acquired businesses

Since 1995, we have made a series of acquisitions to enhance our business. We have successfully managed the integration of all the acquired businesses into our Group.

As part of the integration process, we locate our office and the office of the acquired businesses within 100 days, and we also integrate information technology platforms. The fact that the majority of our current senior management team has come from the companies whose businesses have been acquired by us is a good demonstration of the success of these integrations.

BUSINESS STRATEGY

We have developed and evolved our capabilities across the supply chain into a comprehensive strategy for offering and providing sophisticated global supply chain management solutions to our customers. We intend to strengthen our position and seek growth opportunities through the implementation of the following business strategies:

Dual focus growth strategy: both organic growth and strategic acquisitions: We have become one of the world's top supply chain management companies by adhering to a strategy of both organic growth and acquisitions, which the Group weighs more heavily to one side or the other depending on what is appropriate for the prevailing business environment and market conditions. This approach drives long-term results and enables the Group to remain focused on our Three-Year Plan targets.

Complete supply chain: We have completed the supply chain and reorganisation of our business into three Business Networks — Trading, Logistics and Distribution — which has opened the door to significant growth opportunities.

Continuous expansion of our global sourcing network: Dispersed or "borderless" manufacturing is a key component of our supply chain management model. It means that we source the goods (including raw materials and components) required by our customers from the best possible locations. We aim continually to enhance our sourcing network of suppliers and manufacturers to ensure that we have the flexibility and capability to move production to the best possible locations to meet our customers' needs.

Continuing to be asset light: We pursue an asset light strategy whereby we hold as few real estate and physical infrastructure assets as possible.

Expanding distribution and logistics businesses into Asia: Recent developments in Asia's consumer markets present high potential for long-term growth, and the Group has actively been seeking opportunities to realise it. This strategy was kick-started by the acquisition of IDS, which brought to the Group a distribution platform in Asia, LF Asia, as well as a mainly Asia-based logistics network, LF Logistics.

Investing in infrastructure: Throughout the years, we have invested in our infrastructure and we will continue to do so, in order to provide sufficient support for our longer term growth.

THE OFFERING

The following is a brief summary of certain terms of this offering. For a more detailed description of the terms of the Securities, see "Terms and Conditions of the Securities". Capitalised terms used herein and not defined have the meanings given to them in the "Terms and Conditions of the Securities" set out in this Offering Circular.

Issuer:	Li & Fung Limited, a company incorporated in Bermuda with limited liability.
Issue:	US$500,000,000 Subordinated Perpetual Capital Securities.
Joint Lead Managers:	Citigroup Global Markets Limited and The Hongkong and Shanghai Banking Corporation Limited.
Trustee:	Citicorp International Limited.
Principal Agent and Transfer Agent:	Citibank, N.A., London Branch.
Registrar:	Citigroup Global Markets Deutschland AG.
Agent Bank:	Citibank, N.A., London Branch.
Issue Price:	100 per cent. of the principal amount of the Securities.
Issue Date:	8 November 2012.
Status and Subordination of the Securities:	The Securities constitute direct, unsecured and subordinated obligations of the Issuer which rank *pari passu* and without any preference among themselves and with any Parity Obligations. In the event of the Winding-Up of the Issuer, there shall be payable by the Issuer in respect of each Security (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the Holder of such Security if, on the day prior to the commencement of the Winding-Up of the Issuer, and thereafter, such Holder were the holder of one of a class of preference shares in the capital of the Issuer (and if more than one class of preference shares is outstanding, the most junior ranking class of such preference shares) ("**Issuer Notional Preference Shares**") having an equal right to return of assets in the Winding-Up of the Issuer and so ranking *pari passu* with the holders of that class or classes of preference shares (if any) which have a preferential right to return of assets in the Winding-Up over, and so rank in priority to the holders of Junior Obligations of the Issuer, but subordinated to the claims of all other present and future creditors of the Issuer (other than Parity Obligations of the Issuer), on the assumption that the amount that such Holder of a Security was entitled to receive in respect of each Issuer Notional Preference Share on a return of assets in such Winding-Up were an amount equal to the principal amount of the relevant Security (or the Make Whole Amount if applicable) together with accrued and unpaid Distributions (including any Arrears of Distributions or any Additional Distribution Amount).

Set-off:	Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the Securities, and each Holder shall, by virtue of his holding of any Securities, be deemed to have waived all such rights of set-off, deduction, withholding or retention against the Issuer. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with, the Securities is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its Winding-Up, the liquidator of the Issuer) and, until such time as payment is made, shall hold such amount in trust for the Issuer (or the liquidator) and accordingly any such discharge shall be deemed not to have taken place.
Form and Denomination:	The Securities will be issued in registered form in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof. The Securities may be held in principal amounts of US$200,000 and integral multiples of US$1,000 in excess thereof.
Clearing Systems:	The Securities will initially be represented by beneficial interests in the Global Certificate, in registered form, deposited on or before the Issue Date with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg. Beneficial interests in the Global Certificate will be shown on, and transfer thereof will be effected only through, the records maintained by Euroclear and Clearstream, Luxembourg and their respective accountholders. So long as the Securities are represented by the Global Certificate and Euroclear and Clearstream, Luxembourg so permit, the Securities will be tradeable only in principal amounts of at least US$200,000 and integral multiples of US$1,000 in excess thereof. Except as described herein, individual certificates of Securities will not be issued in exchange for beneficial interests in the Global Certificate. See "*Summary of Provisions Relating to the Securities in Global Form*".
Distributions:	Subject to Condition 4(d) (*Distribution — Distribution Deferral*), the Securities confer a right to receive distributions (each a "**Distribution**") from, and including the Issue Date at the applicable Distribution Rate. Distribution shall be payable on the Securities semi-annually in arrear on 25 May and 25 November of each year (each, a "**Distribution Payment Date**"), with the first Distribution Payment Date falling in May 2013.
Distribution Rate:	The rate of distribution (the "**Distribution Rate**") applicable to the Securities shall be: (i) in respect of the period from, and including, the Issue Date to, but excluding, 25 May 2018 (the "**First Reset Date**"), 6.0 per cent. per annum;

	(ii) in respect of the period from, and including, the First Reset Date to, but excluding, 25 May 2023 (the "**Second Reset Date**"), the applicable Treasury Rate plus 5.276 per cent. per annum; (iii) from and including, each Reset Date falling on and after the Second Reset Date, to, but excluding, the immediately following Reset Date, up to the Reset Date falling on 25 May 2043 (the "**Additional Step-up Margin Reset Date**"), the applicable Treasury Rate plus 5.276 per cent. plus 0.25 per cent. per annum; (iv) from, and including, each Reset Date falling on and after the Additional Step-up Margin Reset Date, to, but excluding, the immediately following Reset Date, the applicable Treasury Rate plus 5.276 per cent. plus 0.25 per cent. plus 0.75 per cent. per annum.
Optional Deferral of Distributions:	The Issuer may, at its sole discretion, elect to defer, in whole or in part, Distribution which is otherwise scheduled to be paid on a Distribution Payment Date (such date, an "**Optional Distribution Payment Date**") to the next Distribution Payment Date by giving notice (an "**Optional Deferral Notice**") to the Holders (in accordance with Condition 16 (*Notices*)) not more than 10 nor less than five Business Days prior to a scheduled Distribution Payment Date (an "**Optional Deferral Event**") unless, during the three months ending on the day before that scheduled Distribution Payment Date, a Compulsory Distribution Payment Event has occurred.
Compulsory Distribution Payment Event:	A "**Compulsory Distribution Payment Event**" occurs if either or both of the following criteria are met: (i) a dividend, distribution or other payment is declared, paid or made on any Junior Obligations (other than a payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants); or (ii) the Issuer redeems, reduces, cancels, buys-back or acquires for any consideration any of its Junior Obligations (except for a repurchase or other acquisition of any securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants).
Restrictions in the case of an Optional Deferral:	If on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full, the Issuer shall not: (i) declare, pay or make any dividends, distributions or other payments on, and will procure that no dividend, distribution or other payment is declared, paid or made on any of its Junior Obligations or its Parity Obligations (except in relation to the Parity Obligations of the Issuer, on a *pro-rata* basis), save that such restriction shall not apply to payments in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants; or

	b. redeem, reduce, cancel, buy-back or acquire for any consideration any of its Junior Obligations or its Parity Obligations (except in relation to the Parity Obligations of the Issuer, on a *pro-rata* basis), save that such restriction shall not apply to an exchange of any of its Parity Obligations in whole for Junior Obligations or a repurchase or other acquisition of any securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants, in each case, unless and until the Issuer (i) has satisfied in full all outstanding Arrears of Distributions and any Additional Distribution Amounts or (ii) is permitted to do so by an Extraordinary Resolution of the Holders.
Arrears of Distributions:	Any Distribution deferred pursuant to Condition 4(d) (*Distribution — Distribution Deferral*) shall constitute "Arrears of Distribution". Each amount of Arrears of Distribution shall bear interest as if it constituted the principal of the Securities at the Distribution Rate. The Issuer may further defer any Arrears of Distribution by complying with the notice requirements applicable to any deferral of an accrued Distribution. The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distribution can be deferred pursuant to Condition 4(d) (*Distribution — Distribution Deferral*) except that Condition 4(d)(iv) (*Distribution — Distribution Deferral — Cumulative Deferral*) shall be complied with until all outstanding Arrears of Distribution have been paid in full. The Issuer may satisfy any Arrears of Distribution (in whole or in part) at any time by giving notice of such election to the Holders (in accordance with Condition 16 (*Notices*)), the Trustee and the Principal Paying Agent not more than 20 nor less than 10 Business Days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution on the payment date specified in such notice). Any partial payment of outstanding Arrears of Distribution by the Issuer shall be paid to the Holder of all outstanding Securities on a *pro-rata* basis. The Issuer shall in any event satisfy any outstanding Arrears of Distribution relating to Optional Deferral (in whole but not in part and including any Additional Distribution Amount) on the earliest to occur of: (1) the next Distribution Payment Date falling immediately after a breach of Condition 4(d)(v) (*Distribution — Distribution Deferral — Restrictions in the case of an Optional Deferral*); (2) the date on which the Securities are redeemed at the option of the Issuer upon an Optional Redemption; (3) a Special Event Redemption Date; and (4) the Winding-Up of the Issuer.
Expected Closing Date:	8 November 2012.

Maturity Date:	There is no maturity date.
Redemption at the Option of the Issuer:	The Securities may be redeemed at the Issuer's option in whole, but not in part, on the First Reset Date, the Second Reset Date or any Distribution Payment Date after the Second Reset Date (each, a "**Call Settlement Date**") on the Issuer giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Securities on the relevant Call Settlement Date) at their principal amount plus Distribution accrued to such date (including any Arrears of Distribution and any Additional Distribution Amount).
Redemption upon a Taxation Event:	The Securities may be redeemed at the Issuer's option in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable) at their principal amount, together with Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount), if, immediately before giving such notice, the Issuer satisfies the Trustee that: (i) the Issuer has or will become obliged to pay material additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Bermuda or Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 1 November 2012; and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such material additional amounts if a payment in respect of the Securities were then due.
Redemption upon a Capital Event:	The Securities may be redeemed at the Issuer's option in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable) at their Early Redemption Price, if, immediately before giving such notice, the Issuer satisfies the Trustee that an amendment, clarification or change has occurred in the rules of S&P or Moody's or any of their respective successors to the rating business thereof, which amendment, clarification or change results in a lower equity credit for the Securities than the equity credit assigned on the Issue Date.
Redemption upon an Accounting Event:	The Securities may be redeemed at the Issuer's option in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable) at their Early Redemption Price, if, immediately before giving such notice, the Issuer satisfies the Trustee that as a result of any changes or amendments to HKFRS or any other accounting standards that may replace HKFRS for the purposes of the Issuer's consolidated financial statements (the "**Relevant Accounting Standard**"), the Securities must not or must no longer be recorded as "equity" pursuant to the Relevant Accounting Standard.

Redemption in the case of minimal outstanding amount:	The Securities may be redeemed at the Issuer's option in whole, but not in part, at any time, on the Issuer giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable) at their Redemption Amount, if, immediately before giving such notice, the aggregate principal amount of the Securities outstanding is less than 20 per cent. of the aggregate principal amount originally issued (including any further securities issued in accordance with Condition 15 (*Further Issues*)).
Limited Rights to Institute Proceedings:	The right to institute Winding-Up proceedings is limited to circumstances where payment has become due. In the case of any Distribution, such Distribution will not be due if the Issuer has elected to defer that Distribution in accordance with Condition 4(d) (*Distribution — Distribution Deferral*).
Proceedings for Winding-Up:	Upon (i) an order being made or an effective resolution being passed for the Issuer's Winding-Up or (ii) the Issuer failing to make payment in respect of the Securities for a period of ten days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the Securities and the Trustee may, subject to the provisions of Condition (8)(d) (*Non-payment — Entitlement of Trustee*), institute proceedings for the Issuer's Winding-Up and/or prove and/or claim in the Issuer's Winding-Up for the principal amount of the Securities (or the Make Whole Amount, if applicable) together with any Distributions (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities accrued to the day prior to the commencement of the Winding-Up.
Substitution or Variation:	If a Special Event has occurred and is continuing, then the Issuer may, subject to Condition 4 (*Distribution*) (without any requirement for the consent or approval of the Holders) and subject to the Issuer having satisfied the Trustee immediately prior to the giving of any notice referred to herein that the provisions of Condition 14 (*Substitution or Variation*) have been complied with, and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16 (*Notices*), the Holders (which notice shall be irrevocable), at any time either (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities, and the Trustee shall (subject to the provisions of Condition 14 (*Substitution or Variation*) and subject to the receipt by it of a certificate of the Issuer's directors) agree to such substitution or variation.

Replacement Intention:	The following paragraph in italics does not form part of the Terms and Conditions of the Securities: *Restrictions regarding redemption of the Securities (the "**Restrictions**"):* *The Issuer intends (without thereby assuming a legal obligation), during the period from the Issue Date to and including the Additional Step-up Margin Reset Date, in the event of:* *(a) a redemption of the Securities at the option of the Issuer pursuant to Condition 5(b) (Redemption and Purchase — Redemption at the option of the Issuer) or upon a Withholding Tax Event pursuant to Condition 5 (Redemption and Purchase);* *(b) a repurchase of the Securities under Condition 5(h) (Redemption and Purchase — Purchase) of more than: (i) 10% of the aggregate principal amount of the Securities issued on the Issue Date in any consecutive 12 month period, or (ii) 25% of the aggregate principal amount of the Securities issued on the Issue Date in any consecutive 10 year period,* *if the Securities are assigned an "equity credit" (or such similar classification then used by S&P) at the time of such redemption or repurchase, that it will redeem or repurchase the Securities only to the extent the Aggregate Equity Credit of the Securities at the time of issue to be redeemed or repurchased does not exceed the Aggregate Equity Credit received by the Issuer or any other Subsidiaries of the Issuer during the 365 day period prior to the date of such redemption or repurchase from certain securities offerings. Such offerings must involve the sale or issuance by the Issuer or any other Subsidiaries of the Issuer to third party purchasers other than the Issuer or any other Subsidiaries of the Issuer, of securities which are assigned by S&P, at the time of sale or issuance, an "equity credit" that is equal to or greater than the equity credit assigned to the Securities to be redeemed or repurchased at the Issue Date (taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities).* *The Restrictions described above shall not apply if on the date of such redemption or repurchase:* *(a) the Issuer has a corporate credit rating from S&P that is equal to or greater than the rating assigned to the Issuer by S&P as at the Issue Date, and to the best knowledge of the Issuer, after giving effect to such redemption or repurchase, such rating will not be revised downward, withdrawn or placed on review or "creditwatch" with negative implications (or other similar review or change of outlook) by S&P to levels below the rating assigned to the Issuer as at the Issue Date as a result of such redemption or repurchase; or* *(b) the Issuer no longer has a corporate credit rating by S&P; or* *(c) a Special Event (other than a Withholding Tax Event) has occurred; or*

(d) *the Issuer or any Subsidiary of the Issuer has individually or in the aggregate, redeemed, cancelled or purchased the Securities equal to or in excess of 80% of the aggregate principal amount of the Securities issued on the Issue Date; or*

(e) *the statements made in the Restrictions set forth hereunder are no longer required for the Securities to be assigned an "equity credit" that is equal to or greater than the equity credit assigned by S&P on the Issue Date; or*

(f) *there shall have occurred a general moratorium on, or disruption in, commercial banking activities in Bermuda, Hong Kong, the United Kingdom, the European Economic Area or the United States by any Bermuda, Hong Kong, United Kingdom, European Economic Area, New York State or United States Federal authorities, which would be likely to materially prejudice dealings in the Securities in the secondary market.*

For the purpose of the Restrictions, "Aggregate Equity Credit" means the equity credit (as a percentage) assigned by S&P of the relevant securities multiplied by the aggregate principal amount of such securities with respect to which the calculation is being made.

Rating: The Securities have been assigned a rating of "Baa2" by Moody's and "BBB" by S&P. See "*Risk Factors — Risks relating to the Securities — Credit ratings*".

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Listing: Approval in-principle has been received from the SGX-ST for the listing and quotation of the Securities on the Official List of the SGX-ST. The Securities will be traded on the SGX-ST in a minimum board lot of US$200,000 for so long as the Securities are listed on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission of the Securities to the Official List of the SGX-ST and quotation of the Securities on the SGX-ST and the above approval-in-principle of the SGX-ST is not to be taken as an indication of the merits of the Company, its subsidiaries, its associated companies or the Securities.

Use of Proceeds: See "*Use of Proceeds*".

Selling Restrictions: The Securities have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Securities may be sold in other jurisdictions (including the United Kingdom, Hong Kong, Singapore, Japan and Bermuda) only in compliance with applicable laws and regulations. See "*Subscription and Sale*".

Governing Law:	The Securities, the Trust Deed and the Agency Agreement, and any non-contractual obligations arising out of or in connection with them, will be governed by, and shall be construed in accordance with, English law English law, except that the subordination provisions set out in Condition 2 (*Status and Subordination of the Securities*) and certain clauses of the Trust Deed relating to subordination shall be governed by, and construed in accordance with, Bermuda law.
Risk Factors:	An investment in the Securities involves risk. See "*Risk Factors*".
Clearance and Settlement:	The Securities have been accepted for clearance by Euroclear and Clearstream, Luxembourg under the following codes: ISIN: XS0851808435 Common Code: 085180843

Prospective investors should carefully take into account the considerations described below, in addition to the other information contained herein, before investing in the Securities. The occurrence of one or more events described below could have an adverse effect on the Group's business, financial condition, or results of operations, and could affect the Company's ability to make payments of principal and interest under the Securities. Additional considerations and uncertainties not presently known to the Company, or which the Company currently deems immaterial, may also have an adverse effect on an investment in the Securities.

RISKS RELATING TO THE GROUP

Key customer and market concentration

For the six months ended 30 June 2012, our five largest customers which in aggregate constituted approximately 31 per cent. of our total turnover, are based in the United States (the "**U.S.**"). If our key customers terminate or fail to renew their commercial arrangements with us (for example, because they are acquired or taken over by new owners who prefer to have their own buying offices) or become insolvent and we fail to find other comparably-sized customers, our business results may be adversely affected. Further, as the U.S. market as a whole represented 62 per cent. of our turnover in the six months ended 30 June 2012, a further deterioration of the economic condition in the U.S. affecting consumer confidence and spending and leading to a general reduction in disposable income may in turn adversely affect our business, operational results and financial position.

Failure to successfully implement our acquisition strategy

We have a two-pronged acquisition strategy of acquiring smaller companies or businesses to strengthen key areas of our existing business and to acquire larger companies or businesses when strategic opportunities arise. There are risks and difficulties associated with the execution of our larger acquisitions strategy. Such acquisitions are opportunistic and therefore not readily identifiable, and the lead time for discussions and negotiations to conclude a transaction may extend over several years. The size and complexity of larger acquisitions may also place additional demands on management attention and time. Difficulties may be encountered in integrating the acquired businesses, including difficulties in retaining experienced personnel and making adjustments to distribution, operation and management procedures. There can be no assurance that our expansion plan can be implemented successfully.

Failure to successfully implement a growth strategy in the United States

In recent years we have successfully followed a growth strategy in the U.S. based on growth through acquisitions, particularly in the last two to three years when, due to the prevailing business environment and market conditions, acquisition opportunities at attractive prices were more plentiful. Whilst we continue to explore and assess further acquisitions in the U.S., we are currently focused on ensuring that the businesses we have acquired are integrated into our business effectively and that we have appropriate structures in place to deliver future business growth. Without continued acquisition activity, given the slower recovery in the U.S. market against our expectations, the continued economic uncertainty and negative consumer sentiment, our business in the U.S. may grow at a slower rate than in recent years. We may also incur costs in relation to any restructurings within LF USA.

Failure to successfully implement our Asian distribution strategy

Since 2011, we have been implementing our distribution strategy to develop our distribution business in Asia, mainly for retailers and brands in the region. This strategy requires us to implement a business model successfully that in some aspects, extends beyond our traditional core export trade activities (for example, in some cases, we will be required to manage our own design, inventory and marketing costs). There can be no assurance that we will be successful in implementing our Asian distribution strategy.

Dispute with the Hong Kong Inland Revenue Department

As at the date of this Offering Circular, we have a dispute with the Hong Kong Inland Revenue Department (the "**IRD**") involving additional tax assessments amounting to approximately US$247 million on both the non-taxable claim of certain non-Hong Kong sourced income (the "**Offshore Claim**") and the deduction claim of marketing expenses (the "**Deduction Claim**") for the years of assessment from 1992/93 to 2010/11.

A hearing with respect to the appeal by one of our subsidiaries, Li & Fung (Trading) Limited ("**LFT**"), against the IRD's determination of the additional tax assessments of US$43 million for the years of assessment from 1992/93 to 2001/02 was held before the Board of Review in January 2006. The Board of Review issued its decision in June 2009 (the "**Board of Review Decision**") and held partially in our favour. It agreed that LFT's Offshore Claim for the years of assessment from 1992/93 to 2001/02 is valid, and held that the relevant assessments by the IRD should be annulled. On the other hand, the Board of Review disagreed with LFT's Deduction Claim and held that the relevant assessments by the IRD for the years of assessment from 1992/93 to 2001/02 should be confirmed. Both parties lodged an appeal against the Board of Review Decision. In March 2010, upon the application by both parties, the Board of Review stated a case on questions of law in respect of both LFT's appeal on the Deduction Claim, and the IRD's appeal in respect of the Board of Review Decision on the Offshore Claim. On 1 April 2010, both parties transmitted the stated case to the High Court for determination.

The appeal by the IRD in respect of the Board of Review Decision on the Offshore Claim was dismissed by the Court of First Instance on 18 April 2011, which upheld the Board of Review Decision. LFT was also awarded costs of the appeal.

On 16 May 2011, the IRD lodged an appeal against the judgment of the Court of First Instance on the Offshore Claim to the Court of Appeal, which appeal was heard by the Court of Appeal on 14 and 15 February 2012. On 19 March 2012, the Court of Appeal delivered its judgment. It upheld the judgment of the Court of First Instance, and dismissed the IRD's appeal. Any appeal against the judgment of the Court of Appeal to the Court of Final Appeal requires permission of the Court of Appeal or the Court of Final Appeal. As no application for such permission was submitted by the IRD before the deadline, the Court of Appeal judgment on the Offshore Claim is considered as final.

As regards LFT's appeal on the Deduction Claim, upon the consent of the parties, the Court of First Instance remitted the case stated to the Board of Review and directed it to make further findings of fact and to determine certain issues. As of the date of this Offering Circular, further directions/decisions from the Board of Review are awaited.

We have also filed objections with the IRD against the remaining additional tax assessments of US$204 million. The case before the Board of Review and eventually the Court of Appeal only applies to the additional tax assessments on LFT for the years of assessment from 1992/93 to 2001/02. Our dispute with the IRD regarding the remaining additional tax assessments in respect of certain other subsidiaries for the years of assessment from 1992/93 to 2001/02, and in respect of the Group for the period after the 2001/02 assessment years, is ongoing and has not yet been determined. Such dispute is not yet before the Board of Review, and no hearing is currently scheduled.

Based on the assessment of our professional advisers on the merits of LFT's further appeal in respect of the Deduction Claim and the IRD's further appeal in respect of the Offshore Claim (which has now been dismissed by the Court of Appeal), and having taken into account the impact and ramification that the Board of Review Decision has on the tax affairs of LFT, our directors consider that no material tax liabilities will finally crystallise and sufficient tax provision has been made in the accounts in this regard.

On 11 June 2010, we also applied for a judicial review of the decision of the Commissioner of the IRD rejecting LFT's application for an unconditional holdover of tax for the year of assessment 2008/09 pending the determination of the objection lodged with the IRD. We purchased tax reserve certificates for the year of assessment 2008/09 as directed by the Commissioner of the IRD pending the decision of the judicial review application. As of the date of this Offering Circular, the hearing date for the judicial review application is yet to be fixed.

We are not currently involved in any other material litigation or similar proceedings.

An adverse decision in respect of the dispute may be made against us and such an adverse decision could have an adverse effect on our financial position.

Over-reliance on key personnel

Our effective operation is, to a certain extent, dependent upon the expertise and experience of our key management personnel, including Dr. Victor Fung Kwok King (Honorary Chairman), Dr. William Fung Kwok Lun (Group Chairman), Mr. Bruce Philip Rockowitz (Group President and Chief Executive Officer), the members of our Board of Directors ("**Board**") and the members of senior management. If any such key management personnel cease to participate in our management, our business operations and financial position may be adversely affected.

Failures in the Group's information technology system

The Group relies extensively on its technology infrastructure and applications for both communications and all supply chain activities, and as such has invested in ancillary network lines providing spare capabilities in the event of any network point failure. In addition, the Group has onsite and offsite application backups/disaster recovery platforms and procedures. However, any breakdown of or damage to these systems may adversely affect the Group's business operations and performance.

Interests of major shareholders

The direct and indirect interests of Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun in the Company presently account for over 30 per cent. of the issued share capital of the Company. They are also Honorary Chairman and Group Chairman, respectively. As a result, they have the ability to influence certain matters submitted to the Company's shareholders for approval and to exert a controlling influence over the Company's management and affairs, including in relation to overall strategic and investment decisions. Material transactions involving any conflict of interest of the major shareholders are subject to approval by a Board Committee of independent directors. There is no assurance that the interests of Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun will always coincide with the interests of our other shareholders or directors of the Company or of the holders of the Securities.

Although we are not aware of any current plans for Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun to dispose of or reduce their shareholding in the Company, there is no assurance that such sale may not occur in the future, and such disposal may adversely impact us.

RISKS RELATING TO THE GROUP'S BUSINESS

Adverse developments and conditions in key markets

The U.S., Europe and Asia are our principal export markets. The U.S., European and Asian markets represented 62 per cent., 18 per cent. and 13 per cent., respectively, of our turnover in the six months ended 30 June 2012. Deterioration in the economic environment in the U.S., Europe or Asia, insolvency of U.S., European or Asian retailers, as well as any changes in the demand from, or shopping habits of, consumers in these markets due to reductions in their disposable income or their confidence in the economy, may materially and adversely affect our business, operational results and financial position.

Our business may be affected by the effect of global credit markets on the economy

Economic developments in the global credit markets could adversely affect our overall business. Since the second half of 2007, the global credit markets have experienced, and may continue to experience, significant dislocations and liquidity disruptions which have originated from the liquidity disruptions in the U.S. and the European Union credit and sub-prime residential mortgage markets. Sub-prime mortgage loans and other consumer credit products in the U.S. have also experienced increased rates of delinquency, foreclosure and loss. These and other related events, such as the collapse of a number of financial institutions and other entities, rising government deficits and debt levels together with the downgrading of the sovereign credit of certain member states of the European Union, have had and will continue to have a significant adverse impact on the global capital markets associated not only with asset-backed securities but also on the global credit and financial markets as a whole including, among other things, the demand for real estate, the availability and cost of credit and consumer sentiment. The deterioration in the financial markets has contributed to a recession in the U.S. and the global economy, which has led, and may continue to lead, to significant declines in employment, household wealth, consumer demand and lending and as a result may adversely affect economic growth in Hong Kong, the PRC and elsewhere.

In addition, changes in the global credit and financial markets, including regulatory changes on banks and the wider financial sector have in recent years affected and may continue to affect the availability of credit and led to an increase in the cost of financing. Whilst we currently have committed facilities available that enable us to meet our current funding needs and future business expansion, we may have difficulty in the future in accessing the financial markets, which could make it more difficult or expensive to obtain funding. There can be no assurance that we will be able to continue to raise finance at a reasonable cost, or at all. We may also be subject to solvency risks of its banks and counterparts in its financial investments and arrangements. These may have an adverse effect on our business, financial condition and results of operations.

In response to the global economic crisis, the PRC government took active steps to support economic growth. From the last quarter of 2008 to the end of 2009, The People's Bank of China (the "**PBOC**") loosened certain monetary policies, increased liquidity and lowered the required deposit reserve ratio of commercial banks, thereby increasing lending. The PRC government also implemented a four trillion Renminbi fiscal stimulus package centred on infrastructure projects and bolstering domestic consumption. However, in response to growing concerns over risks associated with inflation and the market price of residential properties, the PRC government has introduced a number of measures, including increasing interest rates and the deposit reserve requirement of commercial banks, restrictions on the acquisition of residential properties and reinforcement of tax rules on property transactions. If the PRC's economic growth continues to slow down in the future, or its government discontinues the stimulus package or continues to tighten its monetary policies, our business in the PRC and its ability to implement its growth strategies in the PRC could be materially and adversely affected.

Since 2010 to date, the global markets and economic conditions have also been negatively impacted by uncertainty relating to the ability of certain European Union ("**EU**") Member States (including Greece, Ireland, Italy, Spain and Portugal) to service their sovereign debt obligations. The continued uncertainty over the outcome of the EU governments' financial support programmes and the possibility that other EU member states may experience similar financial troubles could further disrupt global markets. In particular, it has and could in the future disrupt equity markets and result in volatile bond yields on the sovereign debt of EU members. These factors, or market perceptions concerning such matters, could have an adverse effect on our liquidity, which could in turn adversely impact on our business, financial position and, operating results, as well as its future prospects.

Adverse developments in global trade issues

We are generally exposed to global trade issues affecting industries (and, in particular, the textiles industry) in countries where we source or exports goods. We are therefore impacted by actual and threatened trade protectionism borne out of the current economy environment globally and issues between individual counties. Any potential cessation, fluctuation or disturbance of world trade may adversely affect our business operation and financial position. Our reliance on the U.S. as an export market exposes us to changes in U.S. trade policy and, in particular, U.S. trade policies towards the People's Republic of China ("**PRC**" or

"**China**"). As U.S. international trade policies continue to change and develop, including through the trend towards bilateral trading agreements and imposition of anti-dumping measures, there can be no assurance that we will in all cases be favourably impacted by, or be able to capitalise on opportunities created by, such developments.

In recent years, the U.S. government has accused the Chinese government of managing the Chinese currency, the Renminbi ("**RMB**"), to keep the RMB undervalued against the U.S. dollar. On 10 October 2012, the U.S. Commerce Department issued a final ruling to impose tariffs on most solar panels imported from China. The ruling is subject to the decision of the International Trade Commission on whether the imported panels are injuring the US solar industry, which is due in November. Although, as at the date of this Offering Circular, no formal legislative steps are on foot to introduce a tariff on Chinese goods entering the U.S. However, were such a tariff to be imposed or if there is a further appreciation of the RMB, the volume of Chinese goods entering the U.S. may be reduced, and as a result of the tariff or the appreciation, our financial condition and results of operations may be adversely affected.

Our increasing reliance on Europe as an export market also means that we are exposed to developments in EU-China trade relations. In recent years, trade relations between the EU and China have gained momentum, although numerous issues remain to be resolved, including in relation to EU access to the Chinese market, investment conditions in the telecommunications and construction design sectors imposed by the Chinese government, and payments by Chinese companies for the use of foreign patents. The EU-China trade relationship has also in recent years been affected by issues in relation to EU anti-dumping measures against Chinese manufactured leather shoes and other products. In September 2012, the EU began a broad investigation into whether Chinese companies had been exporting solar panels for less than its production costs. This represented one of the largest trade actions in European history and could lead to steep tariffs on much of China's annual exports of solar products to Europe. In addition, EU extended a 48.5 per cent. duty on bicycles imported from China until 2014. Whilst both China and the EU are working to resolve their trade issues, in the most part at the diplomatic level, there can be no assurance that there will not, in the future, be developments that create or increase barriers for Chinese goods to be imported into the EU. Such developments may have an adverse impact on our business, operational results and financial position.

Adverse developments and conditions in sourcing markets

We source much of the production for our customers in low cost emerging markets. Governments in emerging markets frequently impose measures in order to control factors affecting their economies such as inflation, and to effect domestic and international policies and interests. Such measures include wage and price controls, limits on imports, tariffs, exchange controls and tax policies. Further, many emerging markets have legal systems that are still developing and are untested. The outcome of proceedings with government agencies and regulators and claims brought before courts in these jurisdictions is therefore often uncertain and may limit the legal protection available to foreign entities, including our business. Such emerging markets may also see rising labour activism which may lead to labour or workforce unrest. The impact on us of such risks may be increased if we are not able to locate, or we encounter difficulties in moving to, new sourcing markets.

Fluctuations in the prices of raw materials and commodities

The price for raw materials and commodities continue to fluctuate. As raw material sourcing plays a key part in our supply chain, the Group's business operations and financial position may be affected by fluctuations in the price of raw materials and commodities.

Changes in economic and political environment in the PRC and policies adopted by the PRC government

Although we are expanding our sourcing network on a global basis, approximately 56 per cent. of the goods from our business was sourced from the PRC in the six months ended 30 June 2012. The PRC economy differs from the economies of most countries in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. Prior to 1978, the PRC operated on a planned economy. Annual and five-year state plans are adopted by the PRC government in connection with the development of its economy. Since 1978, increasing emphasis has been placed on the utilisation of market forces in economic development. Although state-owned enterprises still account for a substantial portion of the PRC industrial output, in general, the PRC government is reducing the level of direct control which it exercises through state plans and other measures. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production and management and a gradual shift in emphasis to a "market economy" and enterprise reform. There can be no assurance that the PRC government will continue to pursue a policy of economic reform. We may not in all cases be able to capitalise on the economic reform measures adopted by the PRC government.

Our operations and financial results could be adversely affected by changes in the political, economic and social conditions in the PRC or the relevant policies of the PRC government, such as changes in laws and regulations (or their interpretation), in particular changes in labour laws which may result in wage increases in factories, inflationary measures, changes in the rate or method of taxation, further foreign exchange restrictions and the imposition of additional import restrictions.

Uncertainties in the PRC legal system

Since 1979, many new laws and regulations covering general economic matters have been promulgated in the PRC. Despite this, the PRC's system of laws is not yet fully developed. Even where an adequate set of regulations exists, enforcement of such PRC regulations may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a foreign judgment. The PRC judiciary, with limited experience, in many cases creates further uncertainty as to the outcome of any litigation. In addition, interpretation of PRC statutes and regulations may be subject to government policies reflecting domestic political changes.

Our operations, and the operations of the factories from which we source goods, in the PRC are subject to application of such laws and regulations including administrative review and approval by various national and local agencies of the PRC Government. The uncertainties of and changes occurring in the PRC's legal and regulatory systems may adversely affect the conduct and performance of our business.

Recurrence of SARS, Swine Flu or other highly contagious diseases in Asia and elsewhere

The outbreak of Severe Acute Respiratory Syndrome ("**SARS**") that began in the PRC and Hong Kong in early 2003 had an adverse effect on all levels of business in Hong Kong and the PRC. The outbreak of SARS led to a significant decline in travel volumes and business activities throughout most of the Asian region. The occurrence of another outbreak of SARS or of another highly contagious disease may result in another economic downturn and may have an adverse effect on the overall level of business and travel in the affected areas. It may also disrupt the Group's business operations and consequently have an adverse effect on its financial condition and operating results.

There have been sporadic outbreaks of the H5N1 virus or ''Avian Influenza A'' among birds and in particular poultry, as well as some isolated cases of transmission of the virus to humans. There have also been outbreaks among humans of the influenza A/H1N1 virus globally. On 11 June 2009, the World Health Organisation raised its global pandemic alert to Phase 6 after considering data confirming the outbreak. To date, there has been a large number of confirmed cases of influenza A/H1N1 globally. There can be no assurance that there will not be a serious outbreak of influenza A/ H1N1 or another contagious disease in Hong Kong or the PRC in the future. There can be no assurance that our business and financial condition would not be adversely affected if another outbreak occurs.

RISKS RELATING TO THE SECURITIES

The Securities are perpetual securities and investors have no right to require redemption

The Securities are perpetual and have no maturity date. We are under no obligation to redeem the Securities at any time and the Securities can only be disposed of by sale. Holders who wish to sell their Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Securities.

Our obligations under the Securities are subordinated

Our obligations under the Securities constitute our direct, unsecured and subordinated obligations. In the event of our Winding-Up, there shall be payable by us in respect of each Security (in lieu of any other payment by us), such amount, if any, as would have been payable to the Holder if, on the day prior to the commencement of the Winding-Up, and thereafter, such Holder were the holder of one of a class of preference shares in our capital (and if more than one class of preference shares is outstanding, the most junior ranking class of such preference shares) ("**Issuer Notional Preference Shares**") having an equal right to return of assets in the Winding-Up and so ranking *pari passu* with the holders of that class or classes of preference shares (if any) which have a preferential right to return of assets in the Winding-Up over, and so rank in priority to the holders of Junior Obligations of the Issuer, but subordinated to the claims of all other present and future creditors (other than Parity Obligations), on the assumption that the amount that such Holder was entitled to receive in respect of each Issuer Notional Preference Share on a return of assets in such Winding-Up were an amount equal to the principal amount of the relevant Security (or the Make Whole Amount if applicable) together with accrued and unpaid Distributions (including any Arrears of Distributions or any Additional Distribution Amount.

In the event of a shortfall of funds on a Winding-Up, there is a real risk that an investor in the Securities will lose all or some of its investment and will not receive a full return of the principal amount of the Securities or any unpaid Distributions, Arrears of Distribution or Additional Distribution Amounts.

We may raise other capital which affects the price of the Securities

We may raise additional capital through the issue of other securities or other means. There is no restriction, contractual or otherwise, on the amount of securities or other liabilities which we may issue or incur and which rank senior to, or *pari passu* with, the Securities and in respect of which we may grant security over our assets. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders on our Winding-Up and/or may increase the likelihood of a deferral of Distribution under the Securities. The issue of any such securities or the incurrence of any such other liabilities might also have an adverse impact on the trading price of the Securities and/or the ability of Holders to sell their Securities.

Holders may not receive Distribution payments if we elect to defer Distribution payments

We may, at our sole discretion and unless, during the three months ending on the day before the scheduled Distribution Payment Date, a Compulsory Distribution Payment Event has occurred, subject to certain conditions, elect to defer any scheduled Distribution on the Securities for any period of time. In addition, under some circumstances (as more fully described in the Conditions), we are required to defer scheduled Distributions. We are not subject to any limits as to the number of times Distributions can or must be deferred pursuant to the Conditions subject to compliance with Condition 4 (*Distribution*) of the Conditions. Although, following a deferral, Arrears of Distributions are cumulative, subject to the Conditions we may defer their payment for an indefinite period of time by delivering the relevant deferral notices to the Holders.

Any such deferral of Distribution shall not constitute a default for any purpose unless, in the case of a deferral, such payment is required in accordance with Condition 4(c)(vii)(b) (*Distribution — Distribution Deferral — Satisfaction of Arrears of Distribution by payment*).

Any deferral of Distribution will likely have an adverse effect on the market price of the Securities. In addition, as a result of the Distribution deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which there was an original issue discount or in respect of which interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in our business and/or financial condition.

All redemption rights are at our discretion and the timing of redemption of the Securities may not correspond with the Holders' expectations or preferences

The Conditions provide that the Securities are redeemable at our option, in whole but not in part, on the First Reset Date, the Second Reset Date or any Distribution Payment Date after the Second Reset Date at their Redemption Amount.

In addition, we also have the right to redeem the Securities, in whole but not in part, if (a) there are any amendments or changes to the Relevant Accounting Standard such that the Securities must not or must no longer be recorded as our "equity" pursuant to the Relevant Accounting Standard (an "**Accounting Event**"), (b) there is an amendment, clarification or change in the rules of Standard & Poor's or Moody's and in each case, any of their respective successors to the rating business thereof, which amendment, clarification or change results in a lower equity credit for the Securities than the equitycredit assigned on the Issue Date (a "**Capital Event**"), or (c) there are any changes in, or amendments to, to the laws or regulations of Bermuda or Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction) such that we have or will become obliged to pay material additional amounts in respect of tax on the Securities and such obligation cannot be avoided by taking reasonable measures available to us (a "**Withholding Tax Event**"), as referred to in the Conditions. The date on which we elect to redeem the Securities may not accord with the preference of individual Holders. This may be disadvantageous to Holders in light of market conditions or the individual circumstances of the Holder of Securities. A Holder's ability to realize value at a certain time may be limited to selling the Securities into the secondary market. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Securities.

There are limited remedies for non-payment under the Securities

Any scheduled Distribution will not be due if we elect to defer that Distribution. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute Winding-Up (as defined in the Conditions) proceedings is limited to circumstances where payment has become due and we fail to make the payment when due. The only remedy against us available to the Trustee or (where the Trustee has failed to proceed against us as provided in the Conditions) any Holder of Securities for recovery of amounts in respect of the Securities following the occurrence of a payment default after any sum becomes due in respect of the Securities will be instituting Winding-Up proceedings and/or proving and/or claiming in Winding-Up in respect of any of our payment obligations arising from the Securities and the Trust Deed.

The Securities contain provisions regarding modification and waivers which may affect the rights of Holders

The Conditions contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders, including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority. In addition, an Extraordinary Resolution in writing signed by or on behalf of the Holders of not less than 90% of the aggregate principal amount of Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders duly convened and held.

The Conditions also provide that the Trustee may, without the consent of Holders, (a) agree to any modification of the Conditions or the Trust Deed (other than in respect of a Reserved Matter (as defined therein)) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Holders and to any modification of the Securities or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error; and (b) authorize or waive any proposed breach or breach of the Securities or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Holders will not be materially prejudiced thereby.

The Conditions also provide that if a Special Event has occurred and is continuing, then we may, without the consent of Holders, subject to having satisfied the Trustee that Condition 14 has been satisfied as to certain matters and giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the Holders (which notice shall be irrevocable), (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities (as defined in the Conditions).

Our credit rating and the credit rating of the Securities may decline

The Securities are rated by Moody's and S&P. The ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, and other factors that may affect the value of the Securities. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Any adverse change in an applicable credit rating could adversely affect the trading price for the Securities.

In addition, there is a risk that our credit rating may change as a result of changes in our operating performance or capital structure, or for some other reason. No assurance can be given that a credit rating will remain for any given period of time or that a credit rating will not be lowered or withdrawn by the relevant rating agency if, in its judgement, circumstances in the future so warrant or if a different methodology is applied to derive such credit ratings. Any lowering or withdrawal of our credit rating could, notwithstanding that it is not a rating of the Securities, adversely impact the market price and the liquidity of the Securities.

Denomination

The Securities will be issued in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof. The terms and conditions of the Securities (the "**Conditions**") provide that, for so long as the Securities are represented by the Global Certificate and Euroclear and Clearstream, Luxembourg (or any other relevant clearing system) so permit, the Securities will be tradable in nominal amounts equal to the minimum denomination and integral multiples of US$1,000 in excess thereof.

Individual Certificates will only be issued if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention to permanently cease business. If Individual Certificates are issued, such Securities will be issued only in respect of amounts equal to denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. Any remaining nominal amount of Securities will be cancelled and Holders will have no rights against the Company (including rights to receive principal or interest or to vote) in respect of such Securities. Individual Certificates will in no circumstances be issued to any person holding Securities in an amount lower than the minimum denomination and such Securities will be cancelled and Holders will have no rights against the Company (including rights to receive principal or interest or to vote) in respect of such Securities.

Secondary market

The Securities are new securities which may not be widely distributed and for which there is currently no active trading market. If the Securities are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the Company's financial condition. There is no assurance that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Securities. The Joint Lead Managers are not obliged to make a market in the Securities and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers. Although approval in-principle has been received from the SGX-ST for the listing and quotation of the Securities on the Official List of the SGX-ST, the Issuer cannot guarantee that such listing will be maintained, or that, if listed, a liquid trading market will develop or continue. If an active trading market for the Securities does not develop or continue, the market price and liquidity of the Securities may be adversely affected. The Issuer may elect to apply for a de-listing of the Securities from any stock exchange or markets of such stock exchange on which they are traded because the maintenance of such listing is or would be unduly burdensome.

Interest rate risk

Holders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in bond prices, resulting in a capital loss for Holders. However, Holders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, bond prices may rise. Holders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates. In addition, the Securities may suffer a decline in Distribution Rate. A holder of securities with a fixed distribution rate which will be reset during the term of the securities (as will be the case for the

Securities on and after 25 May 2018 if not previously redeemed by reference to the then yield of the applicable Treasury Rate (as defined in "*Terms and Conditions of the Securities*") is exposed to the risk of fluctuating distribution rate levels and uncertain distribution income. Fluctuating Distribution Rate levels make it impossible to determine the yield of such securities in advance.

Inflation risk

Holders may suffer erosion in the return on their investments due to inflation. Holders would have an anticipated rate of return based on expected inflation rates on the purchase of the Securities. An unexpected rise in inflation could reduce the actual returns to Holders.

The Trustee may request Holders of the Securities to provide an indemnity and/or security and/or prefunding to its satisfaction

In certain circumstances (including without limitation the taking of action as contemplated in Condition 8 (*Non-payment*)), the Trustee may (as its sole discretion) request Holders of the Securities to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Holders of the Securities. The Trustee shall not be obliged to take any such actions if not first indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security of prefunding to it, in breach of the terms of the Trust Deed or the Conditions and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Holders of the Securities to take such actions directly.

USE OF PROCEEDS

The net proceeds from the issue of the Securities will be approximately US$495.5 million, after deducting expenses (including, but not limited to, the underwriting commissions) relating to the issue. The net proceeds will be used primarily for business development and acquisitions. From time to time we engage in discussions with different parties on acquisition opportunities.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Group's consolidated capitalisation and short-term debt as of 30 June 2012 and as adjusted for the issue of the Securities. Except as disclosed below, there has been no material change in the consolidated capitalisation of the Group since 30 June 2012.

	As at 30 June 2012 (Unaudited)	
	Actual	**As adjusted**
	US$'000	**US$'000**
Short-term debt[(1)]	157,015	157,015
Long-term debt[(2)]	1,355,734	1,355,734
Shareholders' funds		
Shareholders' funds[(3)]	4,448,354	4,448,354
The Securities to be issued	—	500,000
Total shareholders' funds	4,448,354	4,948,354
Total capitalisation[(4)]	5,804,088	6,304,088

Notes:

(1) Short term debt comprises short-term bank loans and bank overdrafts.

(2) Long term debt comprises long-term bank loans and long-term notes.

(3) Shareholders' funds comprise ordinary shares, reserves and retained earnings, excluding non-controlling interests, as at 30 June 2012. The retained earnings are before deducting the interim dividend of US$161 million that was paid on 5 September 2012.

(4) Total capitalisation comprises long-term debt, the Securities and shareholders' funds.

SELECTED FINANCIAL AND OTHER INFORMATION

The following table sets forth the summary consolidated financial and other information relating to the Group as of and for the years ended 31 December 2010 and 2011 and for the six month periods ended 30 June 2011 and 2012. The summary consolidated historical financial data as of and for the years ended 31 December 2010 and 2011 set forth below are derived from the Group's consolidated financial statements for the years ended 31 December 2010 and 2011, which have been audited by PricewaterhouseCoopers. The summary consolidated historical financial data as of and for the six month periods ended 30 June 2011 and 2012 set forth below are derived from the Group's consolidated financial information for the six month periods ended 30 June 2011 and 2012, which have been reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). In prior years, the Issuer regarded Hong Kong dollars ("**HK dollars**") as its functional currency. However, as a result of the Group's continuous acquisitions in recent years, the Company and most of its major operating subsidiaries' business transactions in terms of operating, investing and financing activities have increasingly placed greater reliance on US dollars. As such, effective from 1 January 2011, the Company and certain of its subsidiaries have changed their functional currencies from HK dollars to US dollars. US dollars have also been adopted as the presentation currency of the Group's consolidated accounts. The change in functional currency of the Company was applied prospectively from date of change in accordance with HKAS 21 "The Effect of Changes in Foreign Exchange Rate". On the date of the change of functional currency, all assets, liabilities, issued capital and other components of equity and profit and loss account items were translated into US dollars at the exchange rate on that date. The change in presentation currency of the Group has been applied retrospectively in accordance with HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", and the comparative figures as at 31 December 2010 and for the year ended 31 December 2010 contained in this Offering Circular have also been restated to US dollars accordingly. The changes in functional and presentation currencies have no significant impact on the financial positions of the Group as at 31 December 2010 and 2011, or the results and cash flows of the Group for the years ended 31 December 2010 and 2011.

Consolidated Profit and Loss Account

	For the year ended 31 December (audited)		For the six month period ended 30 June (unaudited)	
	2010	**2011**	**2011**	**2012**
	US$'000	**US$'000**	**US$'000**	**US$'000**
	(restated)			
Turnover	15,912,201	20,030,271	8,798,218	9,127,651
Cost of sales	(13,746,389)	(17,043,929)	(7,581,215)	(7,846,338)
Gross profit	2,165,812	2,986,342	1,217,003	1,281,313
Other income	72,477	87,862	37,991	40,763
Total margin	2,238,289	3,074,204	1,254,994	1,322,076
Selling and distribution expenses	(418,214)	(834,099)	(350,939)	(410,999)
Merchandising expenses	(1,001,527)	(1,247,993)	(564,050)	(629,774)
Administrative expenses	(93,410)	(110,056)	(57,564)	(59,848)
Core operating profit	725,138	882,056	282,441	221,455
(Loss)/gain on disposal of businesses/subsidiary	—	50,994	46,544	(303)
Gain on remeasurement of contingent consideration payable	—	—	—	198,295

	For the year ended 31 December (audited)		For the six month period ended 30 June (unaudited)	
	2010	**2011**	**2011**	**2012**
	US$'000	**US$'000**	**US$'000**	**US$'000**
	(restated)			
Gain on disposal of properties/property holding subsidiary	—	13,666	13,670	—
Other non-core operating expenses	(45,820)	(66,779)	(24,549)	(34,315)
Operating profit	679,318	879,937	318,106	385,132
Interest income	13,567	19,490	6,567	10,578
Interest expenses				
Non-cash interest expenses	(19,272)	(21,538)	(11,008)	(12,018)
Cash interest expenses	(79,171)	(107,056)	(50,561)	(54,255)
Share of profits less losses of associated companies	1,850	1,231	1,499	1,262
Profit before taxation	596,292	772,064	264,603	330,699
Taxation	(47,525)	(90,660)	(28,154)	(18,056)
Profit for the year	548,767	681,404	236,449	312,643
Attributable to:				
Shareholders of the Company	548,491	681,229	235,523	312,280
Non-controlling interests	276	175	926	363
	548,767	681,404	236,449	312,643
Earnings per share for profit attributable to the shareholders of the Company during the year				
- basic	7.17 US cents	8.43 US cents	2.92 US cents	3.80 US cents
- diluted	7.09 US cents	8.39 US cents	2.90 US cents	3.79 US cents

Consolidated Balance Sheet

	As of 31 December (audited)		As of 30 June (unaudited)	
	2010	2011	2011	2012
	US$'000	US$'000	US$'000	US$'000
	(restated)			
Non-current assets				
Intangible assets	4,882,166	6,525,999	5,737,862	6,738,713
Property, plant and equipment	309,186	325,432	302,291	369,629
Prepaid premium for land leases	3,814	3,144	3,544	3,041
Associated companies	6,140	7,015	7,394	8,230
Available-for-sale financial assets	84,330	70,574	79,459	65,591
Deposits	10,200	12,537	—	18,271
Deferred tax assets	20,195	24,148	19,981	29,281
	5,316,031	6,968,849	6,150,531	7,232,756
Current assets				
Inventories	768,687	1,035,788	986,924	1,074,685
Due from related companies	13,163	16,948	22,597	28,901
Trade and bills receivable	2,079,012	2,004,542	2,205,593	2,094,319
Other receivables, prepayments and deposits	348,396	454,310	429,684	446,309
Derivative financial instruments	—	13,743	—	7,097
Cash and bank balances	968,530	426,240	574,934	307,054
	4,177,788	3,951,571	4,039,732	3,958,365
Current liabilities				
Due to related companies	6,531	12,675	10,946	12,456
Trade and bills payable	2,208,404	2,336,991	2,331,380	2,400,943
Accrued charges and sundry payables	581,980	734,213	569,760	575,269
Balance of purchase consideration payable for acquisitions to be settled by cash	248,314	323,712	305,215	492,602
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	16,646	1,764	16,646	—
Taxation	94,238	103,006	93,611	86,202
Derivative financial instruments	1,892	—	9,115	—
Bank advances for discounted bills	41,905	40,298	67,670	33,717
Short-term bank loans	89,154	111,936	204,559	156,457
Bank overdrafts	28,298	225	1,533	558
	3,317,362	3,664,820	3,610,435	3,758,204
Net current assets	860,426	286,751	429,297	200,161
Total assets less current liabilities	6,176,457	7,255,600	6,579,828	7,432,917

	As of 31 December (audited)		As of 30 June (unaudited)	
	2010	2011	2011	2012
	US$'000	US$'000	US$'000	US$'000
	(restated)			
Financed by:				
Share capital	12,899	12,987	12,982	13,392
Reserves	3,343,896	3,566,195	3,479,814	4,274,245
Proposed dividend	269,234	354,611	197,360	160,717
	3,613,130	3,920,806	3,677,177	4,434,962
Shareholders' funds attributable to the Company's shareholders	3,626,029	3,933,793	3,690,159	4,448,354
Non-controlling interest	6,049	4,813	7,229	10,033
Total equity	3,632,078	3,938,606	3,697,388	4,458,387
Non-current liabilities				
Long-term notes	1,256,552	1,256,007	1,256,279	1,255,734
Balance of purchase consideration payable for acquisitions to be settled by cash	920,428	1,646,664	1,266,311	1,304,593
Other long-term liabilities	329,713	348,351	327,151	345,680
Post-employment benefit obligations	8,311	13,096	7,219	13,099
Deferred tax liabilities	29,375	52,876	25,480	55,424
	2,544,379	3,316,994	2,882,440	2,974,530
	6,176,457	7,255,600	6,579,828	7,432,917

Selected statistical information relating to the Group

The selected statistical and other information set forth below relates only to the Group and has, except where otherwise indicated, been compiled for each of the years ended 31 December 2010 and 31 December 2011, and have not been audited by PricewaterhouseCoopers. This section should be read in conjunction with the information contained elsewhere in this Offering Circular, including "*Business*".

	For the year ended 31 December	
	2010	2011
	(unaudited)	
	US$'000	US$'000
EBITDA(1)	838,272	1,041,819
EBITDA margin(2)	5.27%	5.20%

Notes:

(1) EBITDA for any period consists of operating profit before depreciation, amortisation, interest, tax, gain on disposal of businesses/ subsidiary/ properties/ property-holding subsidiary and net investment loss. EBITDA is not a standard measure under Hong Kong Financial Reporting Standards ("**HKFRS**"). EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of our operating performance, liquidity, profitability of cash flow generated by operating, investing or financing alternatives. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as turnover and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition.

(2) EBITDA margin is calculated by dividing EBITDA by turnover.

OVERVIEW

We are a Hong Kong headquartered multinational group and are recognised as the world's leader in consumer goods design, development, sourcing and distribution. We have a history that can be traced back to 1906 and have played a key role in the development of the global supply chain over the past century.

We specialise in supply chain management of high-volume, time-sensitive goods for leading retailers and brands worldwide via an extensive global network. We provide sophisticated, "one-stop-shop" supply chain solutions to meet customers' specific needs. We play an instrumental role in orchestrating, coordinating and monitoring the entire manufacturing process by providing crucial support, ranging from product design, raw material sourcing and production management to quality control, logistics, shipping and other important functions. Our spectrum of services cover the entire supply chain, from one end to the other.

We have over 300 offices and distribution centres and over 28,000 employees in more than 40 economies spanning the Americas, Europe, Africa and Asia. Our global sourcing network of over 15,000 suppliers conforms to strict quality assurance testing through factory evaluations, laboratory testing, on site production monitoring and multiple inspections. With our local market knowledge, we have the capacity and unique flexibility to respond rapidly to evolving consumer trends.

2011 marked the first year of our new three-year plan (2011-2013) and we established three distinct yet interconnected global Business Networks: Trading Network, Logistics Network and Distribution Network, serving approximately 7,700 customers globally.

Our Trading Network covers a wide range of consumer products, from softgoods (garments and apparel) to hardgoods (non-apparel products such as toys, home furnishings, sporting goods, footwear, and health and beauty products). With our comprehensive product design and development capabilities, we are able to assist our customers from taking an initial design idea to a finished product. We strive to find quality-conscious, cost-effective manufacturers who can match the specific production needs of every customer.

Our Logistics Network offers a comprehensive list of logistics solutions, including warehousing, transportation, repackaging, customs brokerage, freight forwarding, hubbing and consolidation, and other value-added services including supply chain analytics and value engineering work.

Our Distribution Network operation consists of three pillars. For private labels, we help retailers produce finished products under a private label or in-house brand. For proprietary brands, we take nationally recognised brands and build exclusive lines of merchandise for retailers. For licensing, we work closely with customers to strengthen well-known brands through product design, branding, sourcing, product delivery, quality control, pricing and warehousing.

Over the years we have won numerous industry accolades for our performance, governance and sustainability. We are committed to the highest operational standards, conducting business with integrity and good corporate governance practices with an emphasis on transparency and accountability. Sustainability considerations are embedded into our corporate policies and risk management systems.

For the six months ended 30 June 2012, the Group's turnover increased by 4 per cent. to US$9,128 million, reflecting continued market share gains by our businesses through organic growth and acquisitions as well as the synergistic dynamics made possible through the new structure of our three Business Networks. Our Trading Network represented 70 per cent. of turnover, while our Logistics Network accounted for 2 per cent. and our Distribution Network contributed 28 per cent. of turnover. We achieved solid increases in profit attributable to shareholders and total margin of 33 per cent. and 5 per cent., respectively. Based on the closing price of our shares on the Hong Kong Stock Exchange on 29 October 2012, our market capitalisation was approximately HK$105,974 million (US$13,673 million).

The Group continues to pursue growth with a dual focus: organic growth and acquisitions. Since our listing on the Hong Kong Stock Exchange in 1992, we have achieved a solid turnover compound annual growth rate of 21 per cent. per year.

We are incorporated in Bermuda with limited liability and have been listed on the Hong Kong Stock Exchange since 1992. We are also a constituent member of the Hang Seng Index, MSCI Index Series, FTSE4Good Index, Dow Jones Sustainability Asia Pacific Index and Hang Seng Corporate Sustainability Index Series.

HISTORY

The Group was founded in Guangzhou, China in 1906 and was a forerunner in exporting Chinese products including those made of porcelain, silk, jade and ivory, as well as firecrackers and fireworks. The business was moved to Hong Kong in 1937 with the formal establishment of Li & Fung (1937) Limited (now known as Fung Holdings (1937) Limited) as a limited company in Hong Kong on 28 December 1937.

Fung Holdings (1937) Limited eventually expanded its range of goods for export to include garments, toys, electronics and plastic flowers. The company became one of Hong Kong's largest exporters. In April 1973, Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun, descendants of one of the founders, took Fung Holdings (1937) Limited public on the Hong Kong Stock Exchange. When China took steps to open its economy to foreign investment in 1979, Fung Holdings (1937) Limited started sourcing supplies from factories which had been relocated to Southern China and other parts of Asia and soon established a regional network of offices beyond Hong Kong to focus on servicing its various customers.

In 1989, Fung Holdings (1937) Limited was taken private to facilitate restructuring the business into two core areas: export trading and retail. Following the restructuring, the Company was incorporated in 1991 as the export trading arm and listed on the Hong Kong Stock Exchange in 1992.

RECENT DEVELOPMENTS

Creation of three Business Networks

In 2011, we formed three distinct yet interconnected global Business Networks: Trading Network, Logistics Network and Distribution Network. Going from one global business network to three has enabled us to sell across these areas and provides us with yet another way to better serve our customers, expand our scope and capabilities throughout the entire supply chain, whilst creating huge growth potential.

Acquisitions

Over the years, we have executed a considerable number of acquisitions, following a two-pronged strategy of large deals and smaller roll-up deals that have enhanced the Group's scale and scope across the globe. Since 1995, we completed more than 80 acquisitions.

Key recent large acquisitions include Visage, Jimlar, Integrated Distribution Services Group Limited ("**IDS**"), Loyaltex Apparel, TV Mania, Fishman & Tobin, Crimzon Rose and True Innovation.

In February 2010, we acquired Visage Group Limited, a leading private-label apparel supplier of high street and mass retailers in the UK. The acquisition adds substantial scale to our existing operation and furthers its objective of developing a significant European distribution presence. In addition, it has now developed relationships with most of the leading UK retailers, thus increasing our overall market share and providing an excellent platform for future growth.

In August 2010, we acquired US-based Jimlar Corporation. Jimlar Corporation is a leading designer, distributor and supplier of footwear both in the US and internationally. The company has the licences for Coach and Calvin Klein footwear, and it owns brands such as Frye, Mountrek and RJ Colt. This is a significant step in expanding our distribution presence in the US as well as its capabilities in the footwear business.

The acquisition of IDS in October 2010 strengthened our end-to-end supply chain solution offering and expanded our global network for future growth. It also greatly enhanced our distribution and logistics capabilities, particularly in the high-growth region of Asia. In addition, we are now able not only to sell to developed nations, but also distribute to emerging markets.

In May 2011, we acquired Loyaltex Apparel Ltd, a sourcing and development company specialising in knits, woven/ denim and sweater. This acquisition added a new portfolio of customers including Aeropostale, Sanmar and Alfred Dunner. The deal further strengthened our capabilities in global sourcing and created significant synergies with its existing business.

That same month, we also acquired TVMania, the leading Pan-European supplier of character licensed and branded merchandise with the most comprehensive set of licences across Europe. Major licensors include Sanrio, Disney, Marvel, MTV/Nickelodeon, Hit, Cartoon Network, Lucas Films and Mattel. The company's main product categories are casual, nightwear and underwear. The acquisition of TVMania underlines the Group's strategy of creating synergies between its U.S. and European distribution businesses. Together with Kids Headquarters, a U.S. deal which was acquired in 2009, this acquisition allows the Group to become the largest global player in licensed apparel trading.

In August 2011, we acquired Fishman & Tobin, a children's apparel company specialising in boy's dresswear, boys' and girls' school uniforms, boys' sportswear and men's dresswear. This acquisition marked a significant step in the Group's efforts to expand its licensed brands portfolio to dressier boys' and girls' apparel. That same month, we also acquired Crimzon Rose International, one of the leading companies that designs, sources, markets and distributes costume jewelry and accessories under its own brands and licences. Major brands include Crimzon, Erica Lyons, Daisy Fuentes, Elements, Lolita and Pure Expressions. This acquisition added a jewelry platform to our Distribution business in the U.S. while strengthening its sourcing capability in this valuable product category.

In September 2011, we acquired True Innovations, LLC, one of the leading office and entertainment furniture trading companies servicing mass retailers. It designs, markets and distributes office chairs, desks and entertainment units under its proprietary brands, licensed brands as well as retailers' private labels. This acquisition further expands our customer base in this product category as well as its licensing portfolio with well known U.S. furniture brands.

Outsourcing Arrangements and Licensing Deals

We continue to grow our business organically by establishing outsourcing arrangements with various customers, whereby they can consolidate and align their global sourcing needs through partnership with us in order to leverage our scale and expertise. These outsourcing deals further solidify our market share in respective business areas and demonstrate how we succeed in gaining market share in a challenging environment. Key outsourcing arrangements conducted in recent years include Walmart and Target Australia.

In January 2010, we entered into a series of agreements with Wal-Mart with a view to establishing a mutually beneficial sourcing arrangement with the Wal-Mart Group. Under the arrangement, our wholly owned subsidiary, Direct Sourcing Group Pte Ltd. ("**DSG**"), acted as a sourcing agent for the Wal-Mart Group on a non-exclusive basis. In September 2012, we entered into a new agency agreement with Wal-Mart Stores, Inc. that superseded the previous buying agency agreements. At the same time, the option agreement that gave Wal-Mart Stores, Inc. the option to purchase all shares of DSG, exercisable on or after 1 January 2016, was terminated. Under the new agency agreement and related agreements, DSG will continue as the primary direct resource for Sam's Club in the United States and will continue to provide buying agency services to Walmart U.S. and certain Walmart International markets on a category-specific basis, on terms similar to those under the previous buying agency agreements. The new agency agreement will continue for a period of five years with an option to extend for an additional two years upon written mutual consent. In addition to the new agency agreement, the Group, through another of its trading subsidiaries, will trade with Walmart International markets on a principal-to-principal basis. The move to a supplier relationship will allow the Group to provide Walmart International markets with design, replenishment and other services that could not be provided as a buying agent.

In August 2012, we entered into an outsourcing deal with Target Australia. Over the years, as customers increasingly seek complete supply chain management partners to improve efficiency, our comprehensive menu of services, coupled with flexible global networks, has provided us with many opportunities. The partnership with Target Australia is an example of how we can apply its global sourcing and supply chain capabilities to reduce product cost and increase efficiencies.

In addition, the Group has signed a number of licensing deals. Key deals we have conducted in recent years include Rachel Zoe, TapouT, Sean John, French Connection, Jennifer Lopez & Marc Anthony, Silver Star & Iron Star, Sofia Vergara, Keds, U.S. Polo Association, Design Nation, Lulu Guinness, Jonathan Adler, Geoffrey Beene, Nautica, Marilyn Monroe, Reebok and Angry Bird.

COMPETITIVE STRENGTHS

We have a leading position as a time sensitive supply chain manager of a wide range of consumer goods. Our key competitive strengths are:

Complete supply chain solutions

With the acquisition of IDS, we have completed the supply chain, which allows us to offer a full spectrum of services under our three interconnected global Business Networks of Trading, Logistics and Distribution. This competitive advantage has not only expanded our business by presenting significant cross-selling opportunities across our Business Networks, but also allowed us to offer our customers end-to-end supply chain solutions. Our supply chain expertise and extensive global networks provide "one-stop-shop" service to customers through competitive pricing and quality. We also have the ability to customise supply chain solutions for each individual customer's needs.

Global scale and scope

During our 100-plus year history, we have cultivated a global sourcing network of over 15,000 suppliers, fostering long term relationships with many of them. Our global operations now comprise over 300 offices and distribution centres in more than 40 economies spanning the Americas, Europe, Africa and Asia. Our experience and presence in the locations from which we source products allows the Group to provide local expertise and advice to our customers on a broad range of issues relating to the supply chain, including factory sourcing, logistics, forwarding, customs clearance and distribution.

We source from quality conscious, cost effective manufacturers in order to provide our customers with the highest quality goods and reliable, on time delivery. Our model for managing production can be employed for the benefit of our customers regardless of how large we grow or where they are located. Our global scale and scope allows the Group to have the capacity and flexibility necessary to help our customers respond rapidly to evolving consumer trends. We believe that we will become more attractive to current and potential customers by increasing the markets from which we source and the services we provide.

Long standing customer relationships

Our customers are primarily leading retailers and brands in their respective markets. We have, through our more than 100 year history, developed long standing and close working relationships with many of our customers. We employ dedicated teams focused on each customer, to manage the full spectrum of its supply chain requirements. We tailor our services to our customers' specifications and needs, which results in effective partnerships of aligned interests. Our close relationships with our customers also give us better insights into industry trends and allow us to respond more rapidly to market changes.

Market leading product design and development capabilities

In terms of both scope and scale, we are a market leader in product design and development capability. We have over 1,300 people working in the area of product design and development, covering both softgoods and hardgoods, with the majority being based in Hong Kong, New York, London and the PRC. Depending on particular customer needs, we assist our customers by taking an initial design idea all the way through to a product, or we support our customers' in house designers with product development capabilities. We also conduct market research so as to be able to provide our customers with information on current consumer trends that may affect new product designs. By working closely with our customers, we become a true partner in co-developing new products.

Experienced management team with proven track record

Our management team has a successful track record in growing our business. Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun, our Honorary Chairman and Group Chairman, respectively, have successfully led the Group for more than 30 years, throughout which period they have been heavily involved with developing the concept of global supply chain management. Mr. Bruce Philip Rockowitz, our Group President and CEO, who co founded Colby International Limited in 1981 and was the President and Chief Executive Officer until 2000 when we acquired Colby, has also contributed significantly to the development and execution of our business strategy. Mr. Spencer Fung, our Group Chief Operating Officer, who joined the Group in 2001, was previously the President of LF Europe managing the Group's European distribution business. We believe the experience of our management team is important to maintaining our long term relationships with our customers and to strengthening our strong financial performance. When we make acquisitions, we seek to structure the acquisition consideration such that we are able to retain the management of the acquired businesses by tying future payments to profitability targets. We have a demonstrated track record, through providing longer term incentives, for retaining the key personnel of businesses we acquire. The majority of our current senior management team has joined us from companies which we have acquired. The Company's management team represents some of the most experienced professionals in the global supply chain management industry with deep knowledge of international consumer markets and trends. We believe that retaining such management is important to successfully integrating our acquired companies and for developing our business.

We also encourage our managers to take an entrepreneurial approach where each business portfolio is managed like the manager's own company. We have established schemes for profit sharing based on individual performance as well as on overall performance of the team or group.

Solid financial performance

For the year ended 31 December 2011, the Group's turnover increased by 26% to approximately US$20,030 million, reflecting continued market share gains by our business through organic and earlier acquisitions as well as synergistic dynamics of the new structure of the three Business Networks, notwithstanding global economic uncertainties. Profit attributable to shareholders was US$681 million, an increase of 24% compared to 2010 (US$548 million). In the first six months of 2012, the Group's turnover increased by 4% to US$9,128 million and profit attributable to shareholders was US$312 million, an increase of 33% compared with the same period last year (US$236 million), reflecting a write-back of estimated contingent considerations for two previous acquisitions made in 2010. Core operating profit decreased by 22% to US$221 million, mainly due to slower than expected turnaround of LF USA's business and the investment into LF Asia's Fashion & Home platform. Core operating profit margin decreased from 3.2% to 2.4%. While core operating profit was relatively weak in the first six months of 2012, the Group is very focused on taking necessary steps to improve the results of the second half of 2012.

In addition, we continue to take a conservative approach to managing our capital structure, including maintaining low levels of debt, and have maintained strong credit ratings from Moody's and Standard & Poor's, of A3 (stable) and A- (stable), respectively. As of 30 June 2012, the Group's gearing ratio was 21%, calculated as net debt divided by total capital. Net debt of US$1,206 million was calculated as total borrowings (i.e. aggregate of long-term bonds and bank loans of US$1,512 million) less cash and cash equivalent of US$306 million. Total capital was calculated as total equity of US$4,458 million plus net debt. Moreover, the Group had available bank loans and overdraft facilities of US$1,297 million, out of which US$584 million were committed facilities. As of 30 June 2012, only US$257 million of the Group's bank loan and overdraft facilities was drawn down.

Advanced technology infrastructure and applications

The Group's technology platform comprises two major elements: infrastructure and applications.

To support the operation of all office locations and for future growth we have three global data centres located in Hong Kong, New York and London. These form our communication hub triangle which connects all the countries and cities which we operate. From the three data centres we extend our network coverage to all geographical locations with a combination of dedicated international leased lines and MPLS networks, providing a secure and wide area network to support all our voice, video and application platforms.

Our applications facilitate the efficient and reliable sharing and dissemination of business information among our many employees, suppliers and customers globally, allowing for effective management of end to end supply chain activities and shortened delivery cycles for our customers.

Our customers are tightly integrated electronically with us via all current technology protocols, and we utilise an industry leading integration platform to map customer integration data into our order management and financial systems ("**XTS**", "**SAP**", "**Oracle Enterprise One**").

Our proprietary order management system running on an Oracle Database, can be accessed by all our offices globally via our intranet or the internet. It incorporates a comprehensive database covering our sourcing and export activities and enables our customers to track information about their orders online.

All of our suppliers transact electronically via our web based vendor portal, supporting the execution of activities including order acceptance, invoicing, quality control, compliance, inspections, shipping and document management.

All of our technology infrastructure is highly adaptable, enabling efficient and seamless integration of acquisition companies and new customer platforms.

Successful integration of acquired businesses

Since 1995, we have made a series of acquisitions to enhance our business. We have successfully managed the integration of all the acquired businesses into our Group.

As part of the integration process, we locate our office and the office of the acquired businesses within 100 days, and we also integrate information technology platforms. The fact that the majority of our current senior management team has come from the companies whose businesses have been acquired by us is a good demonstration of the success of these integrations.

BUSINESS STRATEGY

We have developed and evolved our capabilities across the supply chain into a comprehensive strategy for offering and providing sophisticated global supply chain management solutions to our customers. We intend to strengthen our position and seek growth opportunities through the implementation of the following business strategies:

Dual focus growth strategy: both organic growth and strategic acquisitions

We have become one of the world's top supply chain management companies by adhering to a strategy of both organic growth and acquisitions, which the Group weighs more heavily to one side or the other depending on what is appropriate for the prevailing business environment and market conditions. This approach drives long-term results and enables the Group to remain focused on our Three-Year Plan targets.

To complement our organic growth, we have executed a considerable number of acquisitions over the years following a two-pronged strategy of large deals and smaller roll-up deals that have enhanced the Group's scale and scope across the globe.

We have a rigorous internal process for assessing the feasibility of acquisition opportunities (including due diligence and credit assessments). Any acquisition with a value exceeding a specified threshold requires approval by our investment committee, which comprises members of our Board of Directors.

We consistently adopt a conservative acquisition approach. Our typical pattern is to spread an acquisition over an average period of three years, with an upfront payment of up to 40 per cent. of the acquisition consideration and payment of the remaining balance to correlate to the performance of the acquired company. We believe this approach motivates the existing management of the acquired company to continue operations on a best-efforts basis and facilitate growth.

Complete supply chain

We have completed the supply chain and reorganisation of our business into three Business Networks — Trading, Logistics and Distribution — which has opened the door to significant growth opportunities.

Under the Trading Network, the Company strives to find quality-conscious, cost-effective manufacturers to match the production needs of our customers around the world through a growing global network of suppliers. Our global framework enables us to create tailored sourcing options to meet customers' specific requirements. Dedicated global teams of product specialists focus on each customer segment and leverage their close ties with suppliers to offer insider knowledge that helps customers make informed buying decisions.

The Logistics Network business began with the acquisition of IDS in October 2010. It provides tailored solutions covering the time the product leaves the factory to when it reaches the end consumer We work closely with brands and retailers to help them optimise the flow of inventory and information, reducing cost and improving service levels. Our menu of logistics solutions is comprehensive, from warehousing, transport, repacking, customs brokerage, freight forwarding, hubbing and consolidation, to other value-added services including supply chain analytics and value engineering work.

We first began our Distribution business in the U.S. in 2005 and then expanded to Europe in 2008. By working closely with brands and retailers, we address their specific needs in the areas of design, sales and marketing, and distribution as well as managing the supply chain. The Distribution Network consists of three pillars: private labels, proprietary brands and licensing of recognised brands. Following the success achieved in the U.S. and Europe, the Group introduced the business to Asia in 2011. The Distribution business has also provided us with yet another way to serve our customers through expanded scope and capabilities, enabling us to sell across all three Networks.

The Group believes that the potential for growth via cross-selling across all three Networks is substantial considering that just a small percentage of the 7,700 customers currently cross over more than one business area.

Continuous expansion of our global sourcing network

Dispersed or "borderless" manufacturing is a key component of our supply chain management model. It means that we source the goods (including raw materials and components) required by our customers from the best possible locations. We aim continually to enhance our sourcing network of suppliers and manufacturers to ensure that we have the flexibility and capability to move production to the best possible locations to meet our customers' needs. As we concentrate on products involving labour intensive manufacturing, our strategy is to seek markets in which barriers to entry are low, we have direct access to factories without any intermediaries in the production chain and cost effective value for money labour skills are readily available. These are the key factors that enable us to provide even lower cost but higher quality products, thereby generating better value and higher margins. We are continually exploring new sourcing markets in order to diversify and balance our exposure to different markets.

In addition, we have a strong vendor compliance team that regularly monitors compliance and work with our suppliers to meet the Group's code of conduct, as well as industry and customer audit standards, protocols and methodologies.

In 2011, China remains an important sourcing market for us with approximately 53 per cent. of our products being sourced in the PRC. Sourcing markets such as Bangladesh, Vietnam, Indonesia, India and Turkey offer opportunities to diversify our supply base.

In January 2010, we opened our 7,100 square metre European sourcing hub in Istanbul, Turkey which enables us to serve our customers better in Europe, the Middle East, Africa and Russia. Turkey has become an important sourcing country, and this new facility will help expedite our growth throughout Europe.

Continuing to be asset light

We pursue an asset light strategy whereby we hold as few real estate and physical infrastructure assets as possible. Therefore, we focus on playing an instrumental role in orchestrating, coordinating and monitoring the entire manufacturing process, rather than owning the factories. This asset light approach is integral to our dispersed or "borderless" manufacturing model, ensures that our sourcing capabilities are flexible and mobile and enables us to pursue lower cost sourcing options for our customers.

In past years, constant expansion of office space and change of office layout to accommodate our growth has rendered it necessary for us to acquire and control our offices in some of our major sourcing hubs. We have also acquired property along with some of our business acquisitions. Consistent with our asset light strategy, however, our intention is to dispose of our property if suitable "sale and lease back" arrangements can be negotiated with a suitable landlord at favourable rental rates and tenure of occupancy at arm's length, and supported by proper independent valuations.

Expanding distribution and logistics businesses into Asia

Recent developments in Asia's consumer markets present high potential for long-term growth, and the Group has actively been seeking opportunities to realise it. This strategy was kick-started by the acquisition of IDS, which brought to the Group a distribution platform in Asia, LF Asia, as well as a mainly Asia-based logistics network, LF Logistics. Our successful integration of this key business led to the completion of our global Distribution Network and also the supply chain covering the Trading, Logistics and Distribution businesses. With that, we are now able to not only source from Asia, but also sell to Asia.

In 2011, LF Asia accounted for 26 per cent. of the Distribution Network's total turnover. At the same time, sourcing volume from Asia reached US$14,713 million. Asia represented 92 per cent. of the Group's total sourcing activities, spanning 20 economies in the region, including China, Vietnam, Indonesia, India, Cambodia, Thailand and the Philippines, as the Group continued to expand its sourcing network. In December 2011 the Group signed master license agreement with the U.S. Polo Association, or USPA. According to the agreement, LF Asia will take over management of the USPA brand in China, Hong Kong and Macau, including all hardgoods and softgoods for the trademark of USPA.

Investing in infrastructure

Throughout the years, we have invested in our infrastructure and we will continue to do so, in order to provide sufficient support for our longer term growth. This includes investment in information technology, human resources and financial systems. We centralised shipping, vendor compliance operations and factory evaluations into our Operations Support Group, to create economies of scale. We have also created a hub corporate office structure, whereby offices from around the world report to their respective regional hub offices instead of directly reporting to our Hong Kong headquarters. We expect the hub structure will help to further facilitate coordination amongst our offices within various regions, and to manage and operate our large global network better.

GROUP STRUCTURE

The Company is the holding company of the Group. As at 30 September 2012, the Company has 410 subsidiaries which are engaged in export trading, property investment, investment holding, wholesale of goods including fireworks, importing, apparel exporting, inspection services, design and marketing, commission agency, testing and technology consulting, trading of apparel, buying agency, manufacturing and trading, merchandising agency, packaging, freight forwarding and logistics services, and distribution and wholesale.

BUSINESS

Three interconnected global Business Networks

We are dedicated to delivering a global supply chain management service focused on our customers' ability to satisfy the demands of their consumers. We have evolved from orchestrating one single global sourcing network for customers to three distinct yet interconnected Networks — Trading, Logistics and Distribution, and operate over 300 offices and distribution centres with more than 28,000 employees worldwide covering over 40 economies. This structure of interconnected Networks also creates synergistic effect and tremendous growth opportunities amongst three business areas.

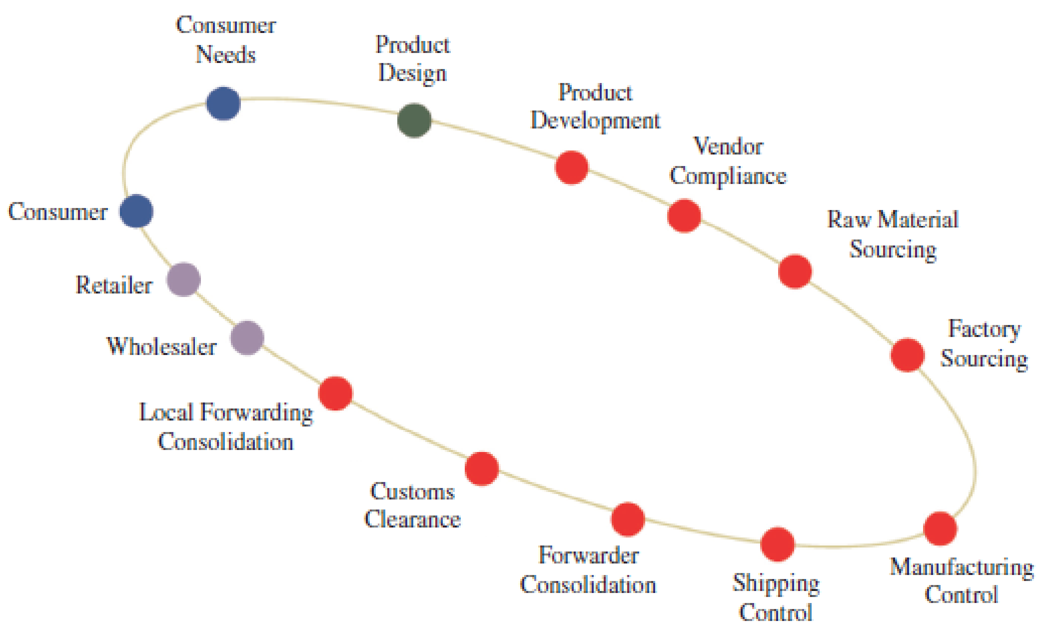
For the six months ended 30 June 2012, the Group's turnover increased by 4 per cent. to US$9,128 million. The Trading Network represented 70 per cent. of turnover, while the Logistics Network accounted for 2 per cent. and the Distribution Network contributed 28 per cent.

Supply chain management of consumer products

The Group specialises in supply chain management of high-volume, time-sensitive goods for leading retailers and brands worldwide via an extensive global network. We offer access to a global sourcing network of over 15,000 suppliers and able to design the best supply chain to bring about a cost competitive product.

We have evolved from our traditional role as a sourcing agent of finished goods for overseas buyers into a supply chain manager offering complete outsourcing solutions tailored to the specific needs of our individual customers. From product design, raw material sourcing and production management to quality control, logistics, shipping and other important functions, its spectrum of services covers the entire supply chain end to end.

Our supply chain consists of:



- we conduct and provide to our customers market studies and research in relation to issues affecting our customers at both the macro level (for example, consumer taste and market trends in product areas) and at the micro level (for example, developments in raw materials and fabrics);

- we design and develop products based on current market trends;

- we research and develop raw materials and components (such as fabrics, laces, and other garment accessories), with a view to providing customers with information on the latest innovations;

- we match the needs of customers regarding raw materials and production with the supplying and manufacturing capabilities of different regions. We select the best countries and regions for sourcing and we orchestrate the manufacturing of products in factories around the world;

- we oversee the sourcing, shipment, and allocation of raw materials and parts and components to various factories;

- we offer technical support during the production process, for example in relation to the fit, wash and construction of apparel, to ensure that the product quality and each aspect of production complies with customers' requirements;

- we orchestrate quick-response production by not only monitoring the supply of raw materials, but also managing our customers' inventory strategically and replenishing inventory for customers at the right time and quantity;

- we arrange shipping and delivery services in the most cost-effective manner by planning for consolidated transportation; and

- we apply information technology across the supply chain, from product development to identifying, managing and monitoring customer orders.

Business operating groups

We are organised into nine business operating groups under three distinct yet interconnected Business Networks: Trading, Logistics and Distribution:

Trading Network — LF Sourcing, Direct Sourcing Group (DSG), LF Products, LF Fashion, LF Beauty

Logistics Network — LF Logistics

Distribution Network — LF Asia, LF Europe, LF USA

Each business operating group president reports to the Group President and CEO. The business operating groups are supported by the central Operations Support Group, which incorporates Finance & Accounting, Human Resources, Information Technology, Legal and Corporate Services. Each business operating group is further broken down into customer and product divisions.

Each division has its own customer teams dedicated to providing full service to each customer. Each division is run on its own profit and loss account, and the divisional head therefore manages the division like his or her own business.

Global customer base

Our customers are primarily leading retailers and brands in markets spread across the U.S., Europe, Canada, Central and Latin America, Australasia and Japan, and include, but are not limited to, the following:

ALDI
AMERICAN EAGLE OUTFITTERS
AMSTORE
ANN TAYLOR
ANTEPRIMA
ANTHROPOLOGIE URBAN OUTFITTERS
ANTIOCH
ASDA STORES
ATELIER GOLDNER SCHNITT
AVON
BCBGMAXAZRIA
BEALL'S
BEAUTY AVENUES
BEBE STUDIO
BED, BATH AND BEYOND
BELK
BERLIN PACKAGING
BERSHKA
BHS
BON-TON STORES
BOOTS
BOUCLAIR
BOUTIQUE JACOB
BRITISH HOME STORES
BURLINGTON COAT FACTORY
CBOCS DISTRIBUTION
CHANTELLE
CHICO'S FAS
CLARKS
COACH
COSTCO
COTY US
COUNTRY ROAD
CRABTREE & EVELYN
CRATE & BARREL
DAIRY FARM
DASH
DEBENHAMS
DESTINATION MATERNITY
DIAGEO
DILLARD'S
DISNEY
DOLGENCORP
DOLLAR GENERAL
DUNNES STORES
DUTCH LLC DBA JOIE JEANS
EDGARS CONSOLIDATED STORES
EILEEN FISHER
EK-CHAI DISTRIBUTION
ELIZABETH ARDEN
ESPRIT
ETAM
EVANS ARCADIA
EXPRESS
F&N DAIRY
FIFTH & PACIFIC
FONTERRA
FRED MEYER
GEORGE AT ASDA
GLAXOSMITHKLINE
GYMBOREE
HANESBRANDS
HEB GROCERY
HEINEKEN
HELLY HANSEN
HEMA
HOME DEPOT
HOSPITAL AUTHORITY
HUDSON'S BAY
INDIPUNT
INEX PARTNERS OY
INTERNATIONAL PROMOTIONS LEADERSHIP LP
J. CREW
J. P. BODEN
J.C. PENNEY
JO-ANN STORES
JOHN LEWIS
JOHNSON & JOHNSON
JOS. A. BANK
JUST JEANS
KENAS COD CUSTOMERS
KIDS "R" US
KMART
KOHL'S
KOOKAI
KROGER
LANDS' END
LAURA ASHLEY
LERNER
LOBLAWS
LOJAS RENNER
L'OREAL
LORD & TAYLOR
MACKAYS STORES
MACY'S
MADELEINE
MARK'S WORK
MARKS & SPENCER
MARY KAY
MEIJER
MENS WAREHOUSE
MEXX
MICHAELS STORES
MONOPRIX
MONSOON
MS MODE
NATIONAL DISTRIBUTORS
NEW LOOK
NEXT
NIKE
NORDSTROM
OFFICE DEPOT
ORCHESTRA
ORIFLAME COSMETICS
PARK 'N' SHOP
PAYLESS SHOESOURCE
PENNYS STORES
PETER HAHN
PETSMART
PROCTER & GAMBLE
PROMOD
PUBLISHERS CLEARING HOUSE
QVC
RECKITT BENCKISER
RIVER ISLAND
ROSS STORES
SAINSBURY'S
SANMAR
SEARS
SERVICE TRADING
SHANGHAI PHARMACEUTICAL
SHELL
SHERIDAN
SHERMAN COOPER
SHOPKO
STAGE
STOCK J BOUTIQUE JENNYFER
TAKKO
TALBOTS
TARGET
TARGET AUSTRALIA
TASK INTERNATIONAL
TCHIBO FRISCH-ROEST-KAFFEE
TELEKOM
TESCO
THE LIMITED STORES
TIMEC 1169
TJX
TOMMY HILFIGER
TRACTOR
TU CLOTHING
TWEENBRANDS
ULLA POPKEN
ULTRA MEGA
UNDIZ
UNILEVER
V&D
VINCENZO ZUCCHI
WAL-MART STORES
WATSON'S
WEYCO
WILLIAM CARTER
WOLVERINE
WOOLWORTHS
ZAPPOS
ZARA

The U.S. continues to be the Group's key export market, representing 62 per cent. of total turnover in the first six months of 2012, an increase from 58 per cent. in the same period in 2011. Turnover increased by 11% reflecting growth in both the Trading and Distribution Businesses.

Europe accounted for 18 per cent. of turnover in the first six months of 2012, reflecting a drop from 22 per cent. compared to the same period in 2011. The drop in percentage of total turnover was attributed to the increase from other markets, in particular the U.S. and China. Turnover dropped by 13% comparing with the same period last year, which was mainly attributed to weaker overall consumer sentiment in Europe.

For the six months ended 30 June 2012, Asia (including Japan) accounted for 13% of the Group's turnover, of which, China accounted for 6% with turnover growing by 6%, when compared to the same period in 2011.

Turnover in Canada, Australasia, and Central & Latin America accounted for 3%, 2% and 1% of the Group's turnover, respectively, for the first six months of 30 June 2012.

Relationships with customers

We have developed long standing and close working relationships with our customers. We manage and maintain our relationships with our customers by employing dedicated teams of product specialists focused on each customer so as to be able to cater to its entire supply chain needs.

Most of our customers enter into open ended engagements for our services with some customers preferring to contract on a multi year basis (in most cases, ranging from 2 years to 10 years but renewable upon expiry). Apart from certain umbrella supply management contracts that provide for exclusivity, most of our contracts with our customers do not give us exclusivity. However, in practice, our customers often effectively work with us on an exclusive basis given our leading market position and capabilities.

To secure new customers, we primarily rely on the reputation that we have established and on referrals by our existing customers. Our senior managers also travel extensively to secure new customers, and these efforts also help us diversify our customer base and to identify new labels which are becoming popular and companies which are expected to grow rapidly in their own markets.

Our number of customers has increased substantially in the past few years. In 2007 we had approximately 2,000 customers, which then increased to 5,400 after the IDS acquisition in 2010. As of the end of 2011, our number of customers rose to 7,700, and only a fraction currently overlaps the three Networks, presenting substantial cross-selling opportunities. In addition, our LF Asia Distribution platform and Logistics Network have also provided us with outlets to secure new customers.

We believe that our complete end-to-end supply chain solutions, our long established experience in sourcing, our coordinated global network of offices and distribution centers, and our strong management and customer service teams are major factors in attracting new customers as well as strengthening relationships with our existing customers.

Relationships with suppliers

We have a network of over 15,000 suppliers. We have added suppliers to our network over the years through various avenues, including through market research to seek new suppliers (for example, by attending trade fairs and our country managers seeking out new factories in their respective locations), through business referrals, or by suppliers themselves approaching us directly. Some customers also bring with them particular suppliers with whom they have previously worked. Each supplier must be approved by our vendor compliance division before being admitted to our network.

Our experience, market knowledge and ability to negotiate on the basis of bulk purchases ensure we are able to deliver lower cost supply options for our customers. We negotiate with suppliers on behalf of our customers and generally we contract on behalf of our customers with the factories for the production of goods.

Our more than 100 year history has enabled us to develop and maintain long term and trusted relationships with many of our suppliers who have consistently been able to meet our quality control teams' requirements on production capacity, speed and quality. We also assist them in enhancing their core manufacturing strengths, including by working closely with them on production technology, process innovation and production management. We provide production and quality control to facilitate on time delivery and compliance with customers' specifications. We are also committed to strict quality verification testing of our suppliers through factory evaluations, laboratory testing, on site production monitoring and multiple inspections by our quality assurance/quality control and vendor compliance teams.

We enforce a rigorous Supplier Code of Conduct (the "**Code**"), and all key sourcing teams undergo extensive training to gain the awareness, knowledge and necessary skills to meet compliance requirements. The Code is a set of standards based on local and national laws and regulations, and International Labor Organisation core conventions. These standards relate to underage labour, forced/prison labour, wages and compensation, working hours, discrimination, disciplinary practices, freedom of association, health and safety, environment, and the ethical conducts.

We currently employ more than 160 in-house dedicated compliance staff worldwide to conduct supplier evaluations and monitor compliance with the Code and improve working conditions including management system among the suppliers that produce our customers' merchandise. Our vendor compliance division (the "**VC Division**") aims to conduct evaluations of approved suppliers at least once every 12 months. The VC Division is organised independently of our sourcing/merchandising divisions and focuses on improving suppliers' labour, health and safety, environmental and cargo security standards. In addition to a compliance assessment, the VC Division also partners with our customers and selected factories to implement Sustainability programmes such as energy and water efficiency, lean, human resources management. The VC Division reports to a Corporate Executive Director responsible for the Company's social and environmental compliance who reports directly to our Group Chief Operating Officer.

Use of information technology

The Group's technology platform comprises two major elements: infrastructure and applications.

To support the operation of all office locations and for future growth we have three global data centres located in Hong Kong, New York and London. These form our communication hub triangle which connects all the countries and cities that we operate in. From the three data centres we extend our network coverage to all geographical locations with a combination of dedicated international leased lines and MPLS networks, providing a secure and contingent wide area network to support all our voice, video and application platforms.

Our applications facilitate the efficient and reliable sharing and dissemination of business information among our many employees, suppliers and customers globally, allowing for effective management of end to end supply chain activities and shortened delivery cycles for our customers.

Our customers are tightly integrated electronically with us via all current technology protocols, and the company utilises an industry leading integration platform to map customer integration data into our XTS.

Our proprietary order management system running on an Oracle database, can be accessed by all our offices globally via our intranet or the internet. It incorporates a comprehensive database covering our sourcing and export activities and enables our customers to track information about their orders online.

All of our suppliers transact electronically via our web based vendor portal, supporting the execution of activities including order acceptance, invoicing, quality control, compliance, inspections, shipping and document management.

All of our technology infrastructure is highly adaptable, enabling efficient and seamless integration of acquisition companies and new customer platforms.

Financial risk management

Our overall risk management policy focuses on minimising all potential financial risks of our business. We operate globally with almost all of our sales and purchases traded in foreign currencies including US dollars, Euro and Sterling Pound. To minimise foreign exchange risk, sales and purchases are generally transacted in the same currency. We manage the foreign exchange risk arising from sales and purchases transacted in different currencies through the use of foreign exchange forward contracts. Our existing policy is to use derivatives solely for hedging purposes. We have not entered into any financial derivatives for speculation.

We have implemented stringent policies to manage credit risk. Credit risk mainly arises from trade and other receivables as well as cash and bank balances of the Group. Most of our cash and bank balances are held in major global financial institutions. We have stringent policies in place to manage credit risk with trade and other receivables, which include but are not limited to the measures set out below:

- A significant portion of business is structured with back to back payment arrangements or covered by letters of credit, customers' standby letters of credit, bank guarantees or credit insurance;

- Certain trade receivable balances on open account term are factored to external financial institutions without recourse except for trade receivables which we have to repurchase due to commercial disputes, such as disputes in relation to defective products; and

- Our credit control team makes an assessment of each individual customer and vendor and determines the credit limits based on, among other factors, their trading and settlement histories as well as their respective financial backgrounds.

Corporate governance

It is our policy to maintain high standards of corporate governance emphasising transparency, accountability and independence. We have tailored our internal control systems to provide reasonable assurance that material assets are protected, business risks attributable to us are identified and monitored, material transactions are executed in accordance with management's authorisation and our accounts are reliable for publication. Our qualified personnel throughout the Group maintain and monitor these systems of controls on an ongoing basis. Our Corporate Compliance Group, supervised by management independent Group Chief Compliance Officer, also conducts regular and independent reviews to reinforce good corporate governance practices and helps embed our compliance culture into our operations. Our efforts in promoting high standards of corporate governance practices have gained continuing market support. In 2010 and 2011, we were awarded with the "Corporate Governance Asia Recognition Awards 2010 & 2011" by Corporate Governance Asia Journal, "Hong Kong Best Corporate Governance — No. 4" by FinanceAsia magazine, "Best corporate governance — No. 5" in Hong Kong by Euromoney's poll, and "The Asset Corporate Platinum Award 2010 & 2011" by The Asset magazine for all round excellence in financial performance, management acumen, corporate governance, social responsibility and investor relations.

COMPETITION

Description of the industry and competition

We are headquartered in Hong Kong, and there are no real barriers to entering the sourcing, distribution and logistics industry globally. This accounts for the large number and disparate nature of industry participants spread around the world. However, we believe that we are able to distinguish ourselves from all other participants in the industry by the scale, global reach and comprehensive nature of the supply chain management solutions we provide. Our model of three interconnected Business Networks that covers the entire supply chain from Trading, to Logistics and Distribution enables us to provide complete one-stop-shop supply chain solutions, and gives us a unique competitive advantage over the other companies, as they usually operate only one out of the three networks that we have.

In the sourcing industry, the traditional role of a buying agent is to introduce overseas buyers of goods to local manufacturers and to act as a liaison between the two in return for a commission based on the value of merchandise sold. The industry is characterised by a large number of participants, only some of whom engage in sourcing as their core activity. We believe that our closest competitors are generally categorised into three segments: (i) other smaller scale trading companies, (ii) outsourcing agents and (iii) relatively small onshore importers. Most participants are manufacturers, importers or exporters whose sourcing activities are collateral to their core business. In house buying functions of retailers also fall within this category. By number, the vast majority of participants are small owner operated or small to medium sized enterprises.

Industry trends

We believe that our industry will be marked by the following trends:

- Asia continues to grow as a consumer market for our businesses. Many brands and retailers increasingly focus on this region and engage us to provide product expertise and to leverage our networks. This has created tremendous opportunities for us particularly in distribution and logistics businesses.

- We expect the outsourcing trend to continue. Many retailers have continued to consolidate in order to return to their core competencies. They see strategic value in finding a partner to outsource their buying and sourcing operations so that they can refocus on their competencies to compete effectively. This has created opportunities for us to meet increasing demand to supply external outsourcing expertise.

- We expect that customers will no longer focus only on cost and quality but also factory compliance. In addition, customers' increasing focus on fashion and speed has increased demand for quick turnaround and flexibility in order to respond to evolving consumer trends.

- Dispersed manufacturing and increasingly complex trade will become more prevalent. The rising use of bilateral agreements with the U.S. and Europe has provided to us a worldwide sourcing opportunity, as customers increasingly engage us to provide them with advice in how best to source products in this complex environment.

REGULATORY ENVIRONMENT

The sourcing and export trade industry is not subject to specific industry regulatory oversight. As a global business however, we keep abreast of developments in trade regimes affecting the markets in which we operate, as well as requirements for entering into and operating in different markets (for example, requirements in relation to approvals, licences and permits).

We monitor developments in trade arrangements around the world, from strategic issues surrounding trade negotiations at the World Trade Organization, which impact the multilateral trading system, to specific difficulties with the export of individual products which may arise should certain proposed bilateral agreements be entered into between countries. The U.S., China and Europe are the key markets in which we operate, and we closely monitor developments in their trade policies, such as issues relating to tariffs, anti dumping measures and production quotas.

We are aware that our supply chain partners may be subject to regulations in their respective home jurisdictions. As such, our supply and manufacturing partners are responsible for their own compliance with relevant local labour and occupational health and safety requirements. However, as part of our role as supply chain manager, we also monitor our partners' compliance with such regulations on behalf of our customers through our Supplier Code of Conduct.

PROPERTY

We adopt a policy of holding as few real estate and physical infrastructure assets as possible. To accommodate our growth, it became necessary for us to acquire and control our offices in some of our major sourcing hubs. We have also acquired property along with some of our business acquisitions. Our intention is to dispose of our property if suitable "sale and lease back" arrangements can be negotiated with a suitable landlord at favourable rental rates and tenure of occupancy at arm's length, and supported by proper independent valuations.

ENVIRONMENTAL PROTECTION

We remain active in our supplier environmental programmes and initiatives which aim at resource conservation, environmental protection and product stewardship. We continue to enforce our customers' environmental purchasing policies with respect to eco friendly materials, package waste minimisation and product stewardship. Our group also took an active role in supporting our customers in innovating and developing new tools and systems to support their sustainability programmes. Further, we encourage and engage with suppliers to establish and maintain environmental protection and sustainable supply chain systems. We are keen on energy and water conservation, waste reduction and reduction in carbon emission. By adopting and promoting environmental considerations as an integral part of our business activities, the Group equates the environment to our other critical business considerations such as compliance, quality and value.

INSURANCE

We maintain comprehensive insurance coverage for our business operations, including fire and water damage to office property, export credit, public liability, directors and officers liability, employment practice liability, product liability, marine cargo, employee compensation, group life, medical, travel, crime and fidelity insurance. The insurance coverage is provided by reputable insurance companies and with commercially reasonable limits and deductibles on coverage.

SOCIAL RESPONSIBILITY

We are an active member of Business for Social Responsibility, an international U.S. based non-profit organisation whose mission is to promote socially responsible business practices, innovation and collaboration that demonstrate respect for ethical values, people, community and the environment. We participate in the United Nations' Global Compact initiative to promote human rights, labour welfare and awareness of the environment. We also enforce our customers' environmental purchasing policies with respect to recycling, package waste minimisation and sustainable development initiatives. In terms of product sustainability, we engaged with the Sustainable Apparel Coalition to jointly developed roadmap and piloted tools with other members to measure impact of selected apparel product throughout its product life cycle, which include its environmental impacts.

INTELLECTUAL PROPERTY

We have a proprietary self developed order management system, XTS. We have registered trade marks in relation to our trading business in fireworks, and in relation to our name and logo in Hong Kong as well as in most countries where we have offices.

HUMAN RESOURCES

People

As of 30 June 2012, the Group had a total workforce of 28,198, of whom 4,360 were based in Hong Kong and 23,838 were located overseas and in the PRC.

We recognise that our asset base resides in the talent, enterprise and creativity of our people. We believe that investing in our people is about investing in the future and our goal is to inspire people and build a culture and environment in which they can grow and succeed.

Learning and Development

Our learning and development programmes aim to strengthen core functional and management capabilities of our people through a variety of structured training programs, peer-to-peer learning, mentoring, on-the-job training, e-learning modules, and other initiatives. As of 30 June 2012 we had a record of 33,435 visits to access our online learning tools and 11,602 participants attended formal learning classes or took part in e-learning.

Total manpower costs for the six months ended 30 June 2012 was US$628 million, compared with US$556 million for the same period in 2011.

LEGAL PROCEEDINGS

As at the date of this Offering Circular, we have a dispute with the Hong Kong Inland Revenue Department (the "**IRD**") involving additional tax assessments amounting to approximately US$247 million on both the non-taxable claim of certain non-Hong Kong sourced income (the "**Offshore Claim**") and the deduction claim of marketing expenses (the "**Deduction Claim**") for the years of assessment from 1992/93 to 2010/11.

A hearing with respect to the appeal by one of our subsidiaries, Li & Fung (Trading) Limited ("**LFT**"), against the IRD's determination of the additional tax assessments of US$43 million for the years of assessment from 1992/93 to 2001/02 was held before the Board of Review in January 2006. The Board of Review issued its decision in June 2009 (the "**Board of Review Decision**") and held partially in our favour. It agreed that LFT's Offshore Claim for the years of assessment from 1992/93 to 2001/02 is valid, and held that the relevant assessments by the IRD should be annulled. On the other hand, the Board of Review disagreed with LFT's Deduction Claim and held that the relevant assessments by the IRD for the years of assessment from 1992/93 to 2001/02 should be confirmed. Both parties lodged an appeal against the Board of Review Decision. In March 2010, upon the application by both parties, the Board of Review stated a case on questions of law in respect of both LFT's appeal on the Deduction Claim, and the IRD's appeal in respect of the Board of Review Decision on the Offshore Claim. On 1 April 2010, both parties transmitted the stated case to the High Court for determination.

The appeal by the IRD in respect of the Board of Review Decision on the Offshore Claim was dismissed by the Court of First Instance on 18 April 2011, which upheld the Board of Review Decision. LFT was also awarded costs of the appeal.

On 16 May 2011, the IRD lodged an appeal against the judgment of the Court of First Instance on the Offshore Claim to the Court of Appeal, which appeal was heard by the Court of Appeal on 14 and 15 February 2012. On 19 March 2012, the Court of Appeal delivered its judgment. It upheld the judgment of the Court of First Instance, and dismissed the IRD's appeal. Any appeal against the judgment of the Court of Appeal to the Court of Final Appeal requires permission of the Court of Appeal or the Court of Final Appeal. As no application for such permission was submitted by the IRD before the deadline, the Court of Appeal judgment on the Offshore Claim is considered as final.

As regards LFT's appeal on the Deduction Claim, upon the consent of the parties, the Court of First Instance remitted the case stated to the Board of Review and directed it to make further findings of fact and to determine certain issues. As of the date of this Offering Circular, further directions/decisions from the Board of Review are awaited.

We have also filed objections with the IRD against the remaining additional tax assessments of US$204 million. The case before the Board of Review and eventually the Court of Appeal only applies to the additional tax assessments on LFT for the years of assessment from 1992/93 to 2001/02. Our dispute with the IRD regarding the remaining additional tax assessments in respect of certain other subsidiaries for the years of assessment from 1992/93 to 2001/02, and in respect of the Group for the period after the 2001/02 assessment years, is ongoing and has not yet been determined. Such dispute is not yet before the Board of Review, and no hearing is currently scheduled.

Based on the assessment of our professional advisers on the merits of LFT's further appeal in respect of the Deduction Claim and the IRD's further appeal in respect of the Offshore Claim (which has now been dismissed by the Court of Appeal), and having taken into account the impact and ramification that the Board of Review Decision has on the tax affairs of LFT, our directors consider that no material tax liabilities will finally crystallise and sufficient tax provision has been made in the accounts in this regard.

On 11 June 2010, we also applied for a judicial review of the decision of the Commissioner of the IRD rejecting LFT's application for an unconditional holdover of tax for the year of assessment 2008/09 pending the determination of the objection lodged with the IRD. We purchased tax reserve certificates for the year of assessment 2008/09 as directed by the Commissioner of the IRD pending the decision of the judicial review application. As of the date of this Offering Circular, the hearing date for the judicial review application is yet to be fixed.

We are not currently involved in any other material litigation or similar proceedings.

THE BOARD OF DIRECTORS

Directors

The current Board of Directors of the Company is comprised of the following individuals:

Name	Age	Title
Victor FUNG Kwok King	67	Honorary Chairman, Chairman of Risk Management and Sustainability Committee
William FUNG Kwok Lun	63	Group Chairman
Bruce Philip ROCKOWITZ	53	Group President and Chief Executive Officer
Spencer Theodore FUNG	39	Group Chief Operating Officer
Paul Edward SELWAY-SWIFT	68	Independent Non-Executive Director, Chairman of Audit Committee and Nomination Committee
Allan WONG Chi Yun	61	Independent Non-Executive Director, Chairman of Remuneration Committee
Franklin Warren McFARLAN	75	Independent Non-Executive Director
Martin TANG Yue Nien	63	Independent Non-Executive Director
Benedict CHANG Yew Teck	58	Non-Executive Director
FU Yuning	55	Independent Non-Executive Director

The biographies of the Executive and Non-Executive Directors of the Company as at the date of this Offering Circular are as follows:

DIRECTORS

Victor FUNG Kwok King

Honorary Chairman
Chairman of Risk Management and Sustainability Committee

Aged 67. Brother of Dr. William Fung Kwok Lun and father of Mr. Spencer Theodore Fung. Honorary Chairman since May 2012 and before that, Group Chairman from 1989 to May 2012. Group Chairman of Fung Retailing Group which includes publicly listed Convenience Retail Asia Limited and Trinity Limited. A director of King Lun Holdings Limited and its wholly owned subsidiary, Fung Holdings (1937) Limited, substantial shareholders of the Company. Joined the Group in 1973 as Manager and became Managing Director of the Group's export trading business in 1977. Became Group Managing Director in 1981 and Group Chairman in 1989. Holds Bachelor and Master Degrees in Electrical Engineering from the Massachusetts Institute of Technology, and a Doctorate in Business Economics from Harvard University. Founding Chairman of the Fung Global Institute, an independent and non-profit think-tank. An independent non-executive director of BOC Hong Kong (Holdings) Limited and Chow Tai Fook Jewellery Group Limited in Hong Kong, Baosteel Group Corporation and China Petrochemical Corporation in the People's Republic of China and Koc Holding A.S. in Turkey. Honorary Chairman of International Chamber of Commerce. A member of the WTO Panel on Defining the Future of Trade and Chinese People's Political Consultative Conference. A vice chairman of China Centre for International Economic Exchanges. A member of the Commission on Strategic Development of the Hong Kong Government. Chairman of the Greater Pearl River Delta Business Council. Chairman of the Hong Kong Trade Development Council (1991 - 2000). Hong Kong representative on the APEC Business Advisory Council (1996 - 2003). Chairman of the Airport Authority Hong Kong (1999 - 2008). Chairman of The Council of The University of Hong Kong (2001 - 2009). Chairman of the International Chamber of Commerce (2008 - 2010). Chairman of the Hong Kong — Japan Business Co-operation Committee (2004 - 2010). Awarded the Gold Bauhinia Star in 2003 and Grand Bauhinia Medal in 2010 for distinguished service to the community.

William FUNG Kwok Lun

Group Chairman

Aged 63. Brother of Dr. Victor Fung Kwok King and uncle of Mr. Spencer Theodore Fung. Group Chairman since May 2012. Executive Deputy Chairman from 2011 to May 2012 and before that, Group Managing Director from 1986 to 2011. Joined the Group in 1972 and became a Director of the Group's export trading business in 1976. Graduated from Princeton University with a Bachelor of Science degree in Engineering. Holds an MBA degree from the Harvard Graduate School of Business. Degrees of Doctor of Business Administration, *honoris causa*, were conferred by the Hong Kong University of Science & Technology and by the Hong Kong Polytechnic University. An independent non-executive director of VTech Holdings Limited, Shui On Land Limited, Sun Hung Kai Properties Limited and The Hongkong and Shanghai Hotels, Limited. An independent director of Singapore Airlines Limited. A non-executive director of various companies within the Fung Retailing Group including Convenience Retail Asia Limited and Trinity Limited. A director of King Lun Holdings Limited and its wholly owned subsidiary, Fung Holdings (1937) Limited, substantial shareholders of the Company. A director of the Fung Global Institute, an independent and non-profit think-tank. Past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Pacific Economic Cooperation Committee. Awarded the Silver Bauhinia Star by the Hong Kong Special Administrative Region Government in 2008.

Bruce Philip ROCKOWITZ

Group President and Chief Executive Officer

Aged 53. Group President and Chief Executive Officer since 2011. An Executive Director since 2001 and in 2004, took over day to day oversight of the Group's operations as President. In 1981, co-founded Colby International Limited, a large Hong Kong buying agent, and was the Chief Executive Officer until 2000 when Colby was acquired by Li & Fung. Member of the Advisory Board for the Wharton School's Jay H Baker Retailing Center, an industry research center for retail at the University of Pennsylvania. Board member of the Educational Foundation for the Fashion Industries, the private fund-raising arm of the Fashion Institute of Technology. A member of the Global Advisory Council of the Women's Tennis Association (WTA). Non-Executive Chairman of the Pure Group, a lifestyle, fitness and yoga group operating in Hong Kong, Singapore and Taiwan. An independent non-executive director of Wynn Macau, Limited. In December 2008, ranked first by Institutional Investor for the Asia's Best CEOs in the consumer category. In the years 2010 and 2011, ranked as one of the world's 30 best CEOs by Barron's. In 2011, received the 2011 Alumni Achievement Award from the University of Vermont. In 2012, named Asia's Best CEO at Corporate Governance Asia's Excellence Recognition Awards, and also presented with an Asian Corporate Director Recognition Award by the same organization.

Spencer Theodore FUNG

Group Chief Operating Officer

Aged 39. Group Chief Operating Officer since April 2012 and Executive Director since 2008, in charge of the global infrastructure of the Company. Before this, President of LF Europe, managing the Group's European distribution business. Joined the Group in 2001. Holds a Bachelor of Arts degree from Harvard College and Master of Science in Accounting and Master in Business Administration degrees from Northeastern University. A U.S. Certified Public Accountant. The son of Dr. Victor Fung Kwok King, Honorary Chairman, and nephew of Dr. William Fung Kwok Lun, Group Chairman.

Paul Edward SELWAY-SWIFT

Independent Non-executive Director
Chairman of Audit Committee and Nomination Committee

Aged 68. An Independent Non-executive Director since 1992. Chairman of Pure Circle Ltd, a producer of natural food ingredients, which is quoted on the London Stock Exchange. Also, Chairman of Atlantis Investment Management (Ireland) Ltd. Formerly, Deputy Chairman of HSBC Investment Bank PLC, a director of The Hongkong and Shanghai Banking Corporation Limited in Hong Kong, Harvard International PLC and Temenos Group AG, Chairman of Singer & Friedlander Group PLC, a banking and investment management group, and Novae Group PLC, a specialist insurance group.

Allan WONG Chi Yun

Independent Non-executive Director
Chairman of Remuneration Committee

Aged 61. An Independent Non-executive Director since 1999. Chairman and Group Chief Executive Officer of VTech Holdings Limited. Co-founded VTech Group in 1976. Holds a Bachelor of Science degree in Electrical Engineering from The University of Hong Kong, a Master of Science degree in Electrical and Computer Engineering from the University of Wisconsin and an Honorary Doctorate of Technology from the Hong Kong Polytechnic University. A board member of the Airport Authority Hong Kong. Deputy Chairman and independent non-executive director of The Bank of East Asia, Limited. An independent non-executive director of China-Hongkong Photo Products Holdings Limited. Awarded the Silver Bauhinia Star and the Gold Bauhinia Star in 2003 and 2008 respectively.

Franklin Warren McFARLAN

Independent Non-executive Director

Aged 75. An Independent Non-executive Director since 1999. Baker Foundation Professor and Professor Emeritus of Business Administration at Harvard University. Guest Professor and Co-Director of the China Business Case Center at Tsinghua University-SEM. A Professor at the Harvard Graduate School of Business Administration since 1973. Formerly, Faculty Chairman of Advanced Management Program and Chairman of Executive Education Programs. Graduated from the Harvard Business School with a doctorate. Senior Associate Dean from 1990 to 2004. An independent non-executive director of Computer Sciences Corporation from 1989 to 2012 and thinkorswim Group Inc from 2004 to 2009.

Martin TANG Yue Nien

Independent Non-executive Director

Aged 63. An Independent Non-executive Director since 2009. Former Chairman, Asia of Spencer Stuart & Associates, a global executive search consulting firm. An independent non-executive director of the publicly-listed CEI Contract Manufacturing Ltd and China NT Pharma Group Limited. Holds a Bachelor of Science degree in Electrical Engineering from Cornell University and Master of Science in Management from the Massachusetts Institute of Technology.

Benedict CHANG Yew Teck

Non-executive Director

Aged 58. A Non-executive Director since 2011. Previously, group managing director of Integrated Distribution Services Group Limited ("**IDS**") which was privatized on 29 October 2010. A director of IDS from 2003 to April 2011. A director of Fung Holdings (1937) Limited, a substantial shareholder of the Company. Graduated from the University of Surrey, United Kingdom, with a Bachelor of Science Degree (First Class Honours) in Marine Engineering. Chairman of the Advisory Committee of the Li & Fung Institute of Supply Chain Management and Logistics of The Chinese University of Hong Kong. A member of the Advisory Board of the School of Information Systems, Singapore Management University.

FU Yuning

Independent Non-executive Director

Aged 55. An Independent Non-executive Director since 2011. Chairman of China Merchants Group Limited, China Merchants Holdings (International) Company Limited and China Merchants Bank Co., Ltd. Graduated from Dalian Institute of Technology in the PRC with a Bachelor Degree in Port and Waterway Engineering. Holds a Doctorate Degree in Mechanical Engineering from Brunel University, United Kingdom where he also worked as a Post-Doctorate research fellow briefly. Formerly, Chairman of China Merchants Energy Shipping Co., Ltd. and China International Marine Containers (Group) Co., Ltd., and formerly, also an independent non-executive director of Sino Land Company Limited, Integrated Distribution Services Group Limited and CapitaLand Limited.

Srinivasan PARTHASARATHY

Group Chief Compliance Officer

Aged 55. Group Chief Compliance Officer of the Company since 2011. Also, the Group Chief Compliance Officer of Fung Holdings (1937) Limited, a substantial shareholder of the Company and of the Fung Retailing Group of companies including Convenience Retail Asia Limited and Trinity Limited of which he is also their respective Group Chief Compliance Officer. With 30 years of experience and held various financial and commercial positions within the Fung Group since 1999, and the Inchcape Group before that, in Hong Kong, Singapore, the UK and the Middle East. A Commerce Graduate of Bombay University and qualified as a Chartered Accountant in India, securing fourth position in the All India Merit Rankings. A Fellow Member of the Chartered Institute of Management Accountants, UK.

SENIOR MANAGEMENT OF THE GROUP

The biographies of the Senior Management of the Group as at the date of this Offering Circular are as follows:

Henry CHAN

President of LF Products

Aged 62. President of LF Products managing the Group's hardlines principal business globally. Joined the Group in 1972. An Executive Director of the Company from 1992 to May 2009. Graduated from The University of Hong Kong with a Bachelor of Social Science degree. Holds an MBA degree from The Chinese University of Hong Kong. A member of The Hong Kong Institute of Directors and also a member of the advisory Board of the MBA Programmes of the Faculty of Business Administration, The Chinese University of Hong Kong.

Annabella LEUNG Wai Ping

President of LF Fashion

Aged 59. President of LF Fashion managing the Group's apparel and fashion accessories principal business globally. Formerly, the Regional Director of North Asia Apparel for Inchcape, a global sourcing network acquired by the Company in 1995. An Executive Director of the Company from 2000 to May 2010. Holds a Master of Science degree in Biology from Northeastern University. Served on various advisory boards in the Hong Kong Exporters' Association, Hong Kong Trade Development Council, Clothing Industry Training Authority, and Hong Kong Export Credit Insurance Corporation. Now serving as Chairman of the Vetting Committee for the Professional Services Development Assistance Scheme of Commerce and Economic Development Bureau.

Richard Nixon DARLING

President of LF USA

Aged 59. President of LF USA overseeing the Group's distribution model in the U.S. which has built a unique portfolio of well-known consumer and fashion brands, licensed and private label products. The founder of The Millwork Trading Co., Ltd (now known as "**LF USA Inc.**"), a joint venture with Li & Fung that became a wholly owned subsidiary in 1999. Serves as Chairman of the Board of Directors of the American Apparel and Footwear Association and as a board member for "Fashion Delivers" and Board of Governors for the Parson's School of Design.

Marc Robert COMPAGNON

President of LF Sourcing

Aged 54. President of LF Sourcing overseeing the Group's global agency business for apparel and hard goods as well as the sourcing for the Group's distribution business. Joined the Group in 2000 at the time of the acquisition of Colby International Limited where he was Chief Merchandising Officer for 17 years and was responsible for establishing Colby's global sourcing network and sales and marketing strategies. Holds a Bachelor of Science degree from the University of Vermont. Founding member of Cotton's Revolutions, and the Global Apparel, Footwear and Textile Initiative (GAFTI). Non-Executive Chairman of Cebu Dream Realized, INC, a hotel and restaurant group.

Dow Peter FAMULAK

President of LF Europe, DSG & LF Beauty

Aged 51. President of LF Europe, managing the Group's European distribution business. Also, President of the DSG group of companies, a dedicated sourcing group servicing Wal-Mart globally, and President of LF Beauty, the Group's health, beauty and cosmetic business. Joined the Group in 2000 at the time of the acquisition of Colby International Limited where he was an Executive Vice President. Former partner in the law firm of Baker & McKenzie, Hong Kong office where he worked from 1992 until he joined Colby. Graduated from the University of British Columbia with a BA Economics (Honours) and from law school at the University of Saskatchewan. A member of The Law Society of Hong Kong, The Law Society of England and Wales and The Law Society of British Columbia (Canada).

Emily MAK MOK Oi Wai

President of LF USA Sourcing

Aged 51. President of LF USA Sourcing, managing all Asia operations of LF USA. Joined the Group in 2000 with the acquisition of Colby International Limited where Emily was the Chief Operating Officer and directly responsible for the operational and merchandising matters for Colby's apparel business worldwide. After that, managing the Group's department store, mass market, supermarket and specialty store apparel business in the Americas, Southern Hemisphere and Japan. Prior to her current role, the Chief Operating Officer of the DSG group of companies, a dedicated sourcing group servicing Wal Mart globally. Graduated from The University of Hong Kong with a Bachelor of Social Sciences degree.

Joseph Chua PHI

President of LF Logistics

Aged 50. President of LF Logistics managing the Group's logistics, freight services, and supply chain management businesses. An Executive Director of Integrated Distribution Services Group Limited from 2004 to April 2011. Joined the Group in 1999. Graduated *magna cum laude* from the University of The Philippines with a Bachelor of Science degree in Industrial Engineering and attained an MBA degree with top honors from the same university. Member of Phi Kappa Phi and Pi Gamma Mu international honor societies. Co-convener of the Li & Fung China Advisory Council. Chairman of GS1 Hong Kong. Director of GS1 Management Board. Member of the Advisory Committee, Centre for Marketing and Supply Chain Management at Hong Kong University of Science and Technology (HKUST). Member of Supply Chain 50, an association of the top supply chain professionals in the world.

Gerard Jan RAYMOND

President of LF Asia — Food, Health, Beauty & Cosmetics

Aged 55. President of LF Asia managing the Group's food, health, beauty and cosmetics distribution business in Asia. Previously, an Executive Vice President, Distribution and Regional Managing Director of Integrated Distribution Services Group Limited. Joined the Group in 2003. Educated in Australia with a Bachelor's degree in Business. A Fellow of the Australian Marketing Institute.

Jason Andrew RABIN

President of LF Asia — Fashion & Home

Aged 42. President of LF Asia managing the Group's fashion and home distribution business in Asia. The founder of Kids Headquarters, children's and young men's apparel manufacturer, which he began in 1994. Joined the Group in 2009 when Kids Headquarters was acquired by Li & Fung. Graduated from the University of Miami in 1992. Received awards from the children's clothing industry, such as SPARC, Ernie Awards & LIMA.

Lale KESEBI

Executive Director of Li & Fung (Trading) Limited

Aged 44. Executive Director of Li & Fung (Trading) Limited. Responsible for the Group's corporate operations teams including legal, vendor compliance, human resources, corporate services and internal corporate communications. Joined the Group in 2003. Holds a Bachelor of Science (Honours) degree and a Bachelor of Law degree from Dalhousie University. Past member of The Law Society of British Columbia (Canada). Formerly, Chair of the Canadian Chamber's Business Policy & Government Relations committee and the Debenture and Scholarship committee of the Canadian International School in Hong Kong. Currently, a member of the Steering Committee for the Mentoring Programme for Women Leaders of The Women's Foundation in Hong Kong. Chair of the Corporate Sustainability Committee of the Company.

PRINCIPAL SHAREHOLDERS

As at 30 September 2012, other than the interests of the directors or chief executive of the Company as disclosed below, the following persons had interests in more than 5% of the shares of the Company which fall to be disclosed to the Company under Section 336 of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) ("**SFO**"):

Name of Shareholder	Capacity	Number of Shares	Percentage of issued share capital
Long Positions			
King Lun Holdings Limited	Beneficial owner (32,891,760) Interest of controlled corporation (2,348,953,872)[1]	2,381,845,632	28.49%
HSBC Trustee (C.I.) Limited	Trustee	2,553,080,340[2]	30.54%
Janus Capital Management LLC	Investment manager	566,265,325	6.77%
JPMorgan Chase & Co.	Beneficial owner (18,993,879) Investment manager (175,101,236) Custodian corporation/approved lending agent (369,505,655)	563,600,770	6.74%
Deutsche Bank Aktiengesellschaft	Beneficial owner (44,185,703) Investment manager (1,248,115) Person having a security interest in shares (53,457,748) Custodian corporation/approved lending agent (516,563,143)	615,454,709	7.36%
The Capital Group Companies, Inc.	Interest of controlled corporation	635,847,101	7.60%
Capital Research and Management Company	Investment manager	558,656,000	6.68%
Short Positions			
King Lun Holdings Limited	Beneficial owner	32,891,760[3]	0.39%
HSBC Trustee (C.I.) Limited	Trustee	32,891,760[4]	0.39%
JPMorgan Chase & Co.	Beneficial owner	5,653,879	0.06%
Deutsche Bank Aktiengesellschaft	Beneficial owner (37,034,710) Person having a security interest in shares (42,050,190)	79,084,900	0.94%
Lending Pool			
JPMorgan Chase & Co.	Custodian corporation/approved lending agent	369,505,655	4.42%
Deutsche Bank Aktiengesellschaft	Custodian corporation/approved lending agent	516,563,143	6.18%

Notes:

(1) 2,195,727,908 Shares were directly held by Fung Holdings (1937) Limited ("**FH (1937)**") which also through its wholly owned subsidiary, Fung Distribution International Limited ("**FDI**"), indirectly held 153,225,964. FH (1937) was a wholly owned subsidiary of King Lun Holdings Limited ("**King Lun**"). Both of Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun were directors of King Lun, FH (1937) and FDI.

(2) Please refer to Note (1) under the Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures section stated below.

(3) This short position represented King Lun's short position in 32,891,760 underlying shares which constituted unlisted physically settled equity derivatives pursuant to arrangement as described in the Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures section stated below.

(4) HSBC Trustee was taken to have short position in the same underlying shares held by King Lun.

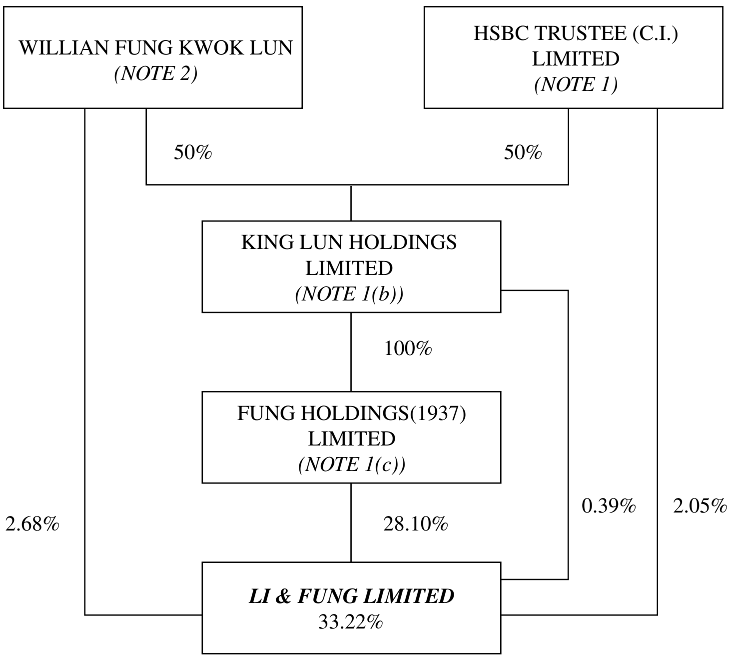
Directors' interests in shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Section 352 of the SFO as of 30 September 2012:

As at 30 September 2012, the directors and chief executives of the Company and their associates had the following interests in the shares of HK$0.0125 each ("**Shares**") and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**"):

	Number of Shares					
	Personal interest	Family interest	Trust/ Corporate Interest	Equity derivatives (share options)	Total	Percentage of issued share capital
Victor Fung Kwok King	2,814,444	—	2,553,080,340[1]	—	2,555,894,784	30.58%
William Fung Kwok Lun	144,342,660	108,800	2,458,254,232[2]	2,430,000[3]	2,605,135,692	31.17%
Spencer Theodore Fung*	1,408,000	—	2,553,080,340[1]	11,326,000[3]	2,565,814,340	30.70%
Bruce Philip Rockowitz	7,625,600	—	53,823,020[4]	36,221,760[5]	97,670,380	1.16%
Paul Edward Selway-Swift	36,000	60,000	16,000[6]	—	112,000	0.00%
Franklin Warren McFarlan	—	—	114,400[7]	—	114,400	0.00%
Martin Tang Yue Nien	—	—	60,000[8]	—	60,000	0.00%
Benedict Chang Yew Teck	4,053,200	—	—	—	4,053,200	0.04%

* Son of Dr. Victor Fung Kwok King

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



Notes:

As at 30 September 2012,

(1) each of Dr Victor Fung Kwok King and Mr Spencer Theodore Fung was deemed to have interests in 2,553,080,340 Shares held in the following manner:

  (a) 171,234,708 Shares were indirectly held by HSBC Trustee (C.I.) Limited ("**HSBC Trustee**") through its wholly owned subsidiary, First Island Developments Limited. HSBC Trustee is the trustee of a trust established for the benefit of the family members of Dr Victor Fung Kwok King (the "**Trust**");

  (b) 32,891,760 Shares were directly held by King Lun, a private company incorporated in the British Virgin Islands owned as to 50% by HSBC Trustee as trustee of the Trust and 50% by Dr William Fung Kwok Lun; and

  (c) 2,195,727,908 Shares were directly held by FH (1937), a wholly owned subsidiary of King Lun, and 153,225,964 Shares were indirectly held by FH (1937) through its wholly owned subsidiary, FDI.

(2) Out of 2,458,254,232 Shares, 26,114,400 Shares and 50,294,200 Shares were held by Golden Step Limited and Step Dragon Enterprise Limited, both companies were beneficially owned by Dr William Fung Kwok Lun. The balance of 2,381,845,632 Shares were directly and indirectly held by King Lun as mentioned in Note (1) (b) and (c) above.

(3) these interests represented the interests in underlying shares in respect of share options granted by the Company to these directors as beneficial owners.

(4) 53,823,020 Shares in the Company were held by Hurricane Millennium Holdings Limited ("**HMHL**"), a company beneficially owned by a trust which had been set up for the benefit of family members of Mr Bruce Philip Rockowitz.

(5) these interests represented:

  (a) the beneficial interest of Mr Bruce Philip Rockowitz in 3,330,000 underlying shares in respect of share options granted by the Company to Mr Bruce Philip Rockowitz; and

  (b) the deemed interest of Mr Bruce Philip Rockowitz in 32,891,760 underlying shares in the Company in respect of options granted by King Lun to HMHL to purchase such shares in the Company in three tranches during the period from 25 December 2011 to 24 December 2019 with each tranche having an exercisable period of six years pursuant to an agreement made between King Lun and HMHL.

(6) 16,000 Shares in the Company were held by a trust of which Mr. Paul Edward Selway-Swift is a beneficiary.

(7) 114,400 Shares in the Company were held by a trust established for the benefit of Professor Franklin Warren McFarlan.

(8) 60,000 Shares in the Company were held by a trust of which Mr Martin Tang Yue Nien was a beneficiary.

RELATED PARTY TRANSACTIONS

The following table sets forth amounts due to/from the Group and the Company from related companies as of 31 December 2011.

	The Group		The Company	
	2010	2011	2010	2011
	US$'000	US$'000	US$'000	US$'000
Due from:				
(a) Subsidiaries	—	—	3,650,510	3,855,441
(b) Associated companies	8,330	9,876	—	—
(c) Related companies	4,833	7,072	—	—
	13,168	16,948	3,650,510	3,855,441
Due to:				
(a) Associated companies	—	333	—	—
(b) Related companies	6,531	12,342	—	—
	6,531	12,675	—	—

The amounts are unsecured, interest free and repayable on demand, except for amounts due from associated companies amounting to US$9,710,000 (2010: US$7,788,000) which are unsecured but interest bearing at approximately 5% per annum. Fair value of amounts due from related companies is approximately the same as carrying value.

Pursuant to the master agreement for leasing of properties that the Company entered into with FH (1937), a substantial shareholder of the Company, on 13 January 2011, the Group leased certain properties from FH (1937) and its associates during the year and the aggregate rental paid was US$23,913,000. The equivalent figure for 2010 was US$15,481,000.

On 30 June 2011, the Group entered into agreements to dispose of properties in Turkey and Taiwan and the entire registered capital of a subsidiary incorporated in the PRC to entities indirectly wholly owned by Dr. William Fung Kwok Lun and a trust established for the family of Dr. Victor Fung Kwok King at an aggregate consideration of approximately US$26,720,000. The considerations for the properties were determined by reference to valuations of certain independent professional valuers, which were fully paid and recognized as cash inflow from investing activities in the consolidated cash flow statement.

On 30 June 2011, the Group entered into an agreement to dispose of the Group's medical equipment businesses in East Malaysia, Indonesia, Singapore and West Malaysia to subsidiaries of Fung Distribution International Limited (formerly: Li & Fung (Distribution) Limited) at an aggregate consideration of approximately US$57,700,000. The considerations were fully paid and recognized as cash inflow from investing activities in the consolidated cash flow statement. Fung Distribution International Limited is a wholly owned subsidiary of FH (1937).

On 23 May 2008, the Company entered into the 2008 Logistics Agreement (the "**2008 Logistics Agreement**") with FH (1937), a substantial Shareholder of the Company, pursuant to which FH (1937) and certain other entities, such as Integrated Distribution Services Group Limited, with FH (1937) as a common substantial shareholder, will provide a variety of logistics services to the Group. The 2008 Logistics Agreement covers the scope of services contemplated under the original PB Logistics Agreement entered into on 14 September 2007 between the Group and Integrated Distribution Services Group Limited. In respect of these logistic agreements the Group paid logistics service charges of US$18,649,000 for the year ended and 2010.

TERMS AND CONDITIONS OF THE SECURITIES

The following is the text of the Conditions of the Securities which (subject to modification) will be endorsed on each definitive certificate evidencing the Securities (if issued):

The U.S.$500,000,000 perpetual capital securities (the "**Securities**", which expression includes any further securities issued pursuant to Condition 15 (*Further issues*) and forming a single series therewith) of Li & Fung Limited (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated 8 November 2012 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and Citicorp International Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 8 November 2012 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, Citigroup Global Markets Deutschland AG as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Securities), Citibank, N.A., London Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Securities), Citibank, N.A., London Branch as agent bank (the "**Agent Bank**" which expression includes any successor agent bank appointed from time to time in connection with the Securities), the transfer agent named therein (the "**Transfer Agent**", which expression includes any successor or additional transfer agent appointed from time to time in connection with the Securities), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Securities) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Transfer Agent and the Paying Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these terms and conditions (the "**Conditions**") are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. The Holders (as defined in Condition 3(a) (*Register, Title and Transfers — Register*)) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of all the provisions of the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Holders during normal business hours at the principal office for the time being of the Trustee, being at the date hereof 56/F One Island East, 18 Westlands Road, Island East Hong Kong.

1 Form and Denomination

The Securities are in registered form in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

2 Status and Subordination of the Securities

(a) *Status of the Securities*: The Securities constitute direct, unsecured and subordinated obligations of the Issuer which rank *pari passu* and without any preference among themselves and with any Parity Obligations (as defined in Condition 18 (*Definitions*)) of the Issuer. The rights and claims of the Holders in respect of the Securities are subordinated as provided in this Condition 2.

(b) *Ranking of claims in respect of the Securities*: In the event of the Winding-Up (as defined in Condition 18 (*Definitions*)) of the Issuer, there shall be payable by the Issuer in respect of each Security (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the Holder of such Security if, on the day prior to the commencement of the Winding-Up of the Issuer, and thereafter, such Holder were the holder of one of a class of preference shares in the capital of the Issuer (and if more than one class of preference shares is outstanding, the most junior ranking class of such preference shares) ("**Issuer Notional Preference Shares**") having an equal right to return of assets in the Winding-Up of the Issuer and so ranking *pari passu* with the holders of that class or classes of preference shares (if any) which have a preferential right to return of assets in the Winding-Up over, and so rank in priority to the holders of Junior Obligations of the Issuer, but subordinated to the claims of all other present and future creditors of the Issuer (other than Parity Obligations of the Issuer), on the assumption that the amount that such Holder of a Security was entitled to receive in respect of each Issuer Notional Preference Share on a return of assets in such Winding-Up were an amount equal to the principal amount of the relevant Security (or the Make Whole Amount if applicable) together with accrued and unpaid Distributions (including any Arrears of Distributions or any Additional Distribution Amount (each as defined in Condition 4(d)(iv) (*Distribution — Distribution Deferral — Cumulative Deferral*)).

(c) *Set-off — Securities*: Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the Securities, and each Holder shall, by virtue of his holding of any Securities, be deemed to have waived all such rights of set-off, deduction, withholding or retention against the Issuer. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with the Securities is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its Winding-Up, the liquidator of the Issuer) and, until such time as payment is made, shall hold such amount in trust for the Issuer (or the liquidator) and accordingly any such discharge shall be deemed not to have taken place.

3 Register, Title and Transfers

(a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Securities outside Hong Kong and the United Kingdom in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Security means the person in whose name such Security is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof). A certificate (each, a "**Certificate**") will be issued to each Holder in respect of its registered holding. Each Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title*: The Holder of each Security shall (except as otherwise required by law) be treated as the absolute owner of such Security for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Securities or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers*: Subject to Condition 3(f) (*Register, Title and Transfers — Closed periods*) and Condition 3(g) (*Register, Title and Transfers — Regulations concerning transfers and registration*) below, a Security may be transferred upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Security may not be transferred unless the principal amount of Securities transferred and (where not all of the Securities held by a Holder are being transferred) the principal amount of the balance of Securities not transferred are Authorised Denominations. Where not all the Securities represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Securities will be issued to the transferor.

(d) *Registration and delivery of Certificates*: Within five business days of the surrender of a Certificate in accordance with Condition 3(c) (*Register, Title and Transfers — Transfers*), the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Securities transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this Condition 3 (*Register, Title and Transfer)*, "**business day**" means a day, excluding a Saturday and a Sunday, on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge*: The transfer of a Security will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity and/or security and/or pre-funding as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Holders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or Distribution (as defined in Condition 4(a) (*Distribution — Accrual of Distribution*)) in respect of the Securities.

(g) *Regulations concerning transfers and registration*: All transfers of Securities and entries on the Register are subject to the detailed regulations concerning the transfer of Securities scheduled to the Agency Agreement. The parties to the Agency Agreement may agree, without the consent of the Holders to any modifications to any provisions thereof (including the regulations concerning the transfer of Securities). A copy of the current regulations will be mailed (free of charge) by the Registrar to any Holder who requests in writing a copy of such regulations.

4 Distribution

(a) *Accrual of Distribution*: Subject to Condition 4(d) (*Distribution — Distribution Deferral*), the Securities confer a right to receive distributions (each a "**Distribution**") from, and including, 8 November 2012 (the "**Issue Date**") at the Distribution Rate (as defined in Condition 4(b) (*Distribution — Rate of Distribution*)) in accordance with this Condition 4 (*Distribution*). Subject to Condition 4(d) (*Distribution — Distribution Deferral*), Distributions shall be payable on the Securities semi-annually in arrear on 25 May and 25 November of each year (each, a "**Distribution Payment Date**"), except that the first payment of Distribution shall be made on 25 May 2013 (also, a "**Distribution Payment Date**") in respect of the period from (and including) the Issue Date to (but excluding) such Distribution Payment Date.

Unless otherwise provided for in these Conditions, each Security will cease to confer the right to receive any Distribution from the due date for redemption unless, upon due presentation, payment of the full amount due is improperly withheld or refused. In such latter event, Distribution will continue to accrue at the applicable Distribution Rate (after as well as before any judgment) up to but excluding whichever is the earlier of (a) the date on which all sums due in respect of any Security are received by or on behalf of the relevant Holder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Holders that it has received all sums due in respect of the Securities up to such seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Holders under these Conditions).

The amount of Distribution payable on the first Distribution Payment Date shall be U.S.$6,566.00 in respect of each Security of U.S.$200,000 denomination and be U.S.$32.83 in respect of each Security of U.S.$1,000 denomination. The amount of Distribution payable on each Distribution Payment Date up to and including the First Reset Date shall be U.S.$6,000.00 in respect of each Security of U.S.$200,000 denomination and U.S.$30.00 in respect of each Security of U.S.$1,000 denomination. If a Distribution is required to be paid in respect of a Security on any other date, it shall be calculated by applying the Distribution Rate to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Security divided by the Calculation Amount, where "**Calculation Amount**" means U.S.$1,000 and "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

Distribution payable under this Condition 4 (*Distribution*) will be paid in accordance with Condition 6 (*Payments*).

(b) *Rate of Distribution*: The rate of distribution ("**Distribution Rate**") applicable to the Securities shall be:

(i) in respect of the period from, and including, the Issue Date to, but excluding, 25 May 2018 (the "**First Reset Date**"), the Initial Distribution Rate;

(ii) in respect of the period from, and including, the First Reset Date to, but excluding, 25 May 2023 (the "**Second Reset Date**"), the First Reset Distribution Rate;

(iii) from and including, each Reset Date falling on and after the Second Reset Date, to, but excluding, the immediately following Reset Date, up to the Reset Date falling on 25 May 2043 (the "**Additional Step-up Margin Reset Date**"), the Second Reset Distribution Rate; and

(iv) from, and including, each Reset Date falling on and after the Additional Step-up Margin Reset Date, to, but excluding, the immediately following Reset Date, the Third Reset Distribution Rate.

(c) *Calculation of Distribution Rate*: The Agent Bank will, on the Calculation Business Day prior to each Reset Date, calculate the applicable Reset Distribution Rate payable in respect of the Securities. The Agent Bank will cause the applicable Reset Distribution Rate determined by it to be notified to the Issuer, the Paying Agents, the Trustee, the Holders and each listing authority, stock exchange and/or quotation system (if any) on to which the Securities have then been admitted to listing, trading and/or quotation as soon as practicable after the relevant Reset Date. All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4(c) (*Distribution — Calculation of Distribution Rate*) by the Agent Bank will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Trustee and the Holders and no liability to any such person will attach to the Agent Bank or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(d) *Distribution Deferral*:

(i) *Optional Deferral*: The Issuer may, at its sole discretion, elect to defer, in whole or in part, any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date (an "**Optionally Deferred Distribution Payment**") by giving notice (an "**Optional Distribution Deferral Notice**") to the Holders (in accordance with Condition 16 (*Notices*)) not more than 10 nor less than five Business Days prior to a scheduled Distribution Payment Date (an "**Optional Deferral Event**") unless, during the three months ending on the day before that scheduled Distribution Payment Date a Compulsory Distribution Payment Event has occurred. Any partial payment of outstanding Distribution (including any Arrears of Distribution and any Additional Distribution Amount) by the Issuer shall be shared by the Holders of all outstanding Securities on a *pro-rata* basis.

A "**Compulsory Distribution Payment Event**" occurs if either or both of the following criteria are met:

(A) a dividend, distribution or other payment is declared, paid or made on any Junior Obligations (other than a payment declared, paid or made in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants); or

(B) the Issuer redeems, reduces, cancels, buys-back or acquires for any consideration any of its Junior Obligations (except for a repurchase or other acquisition of any securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants).

(ii) *No obligation to pay*: The Issuer shall have no obligation to pay any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) on any Distribution Payment Date if it validly elects not to do so in accordance with Condition 4(d)(i) (*Distribution — Distribution Deferral — Optional Deferral*) and any failure to pay any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) shall not constitute a default of the Issuer in respect of the Securities.

(iii) *Requirements as to Notice*: Prior to publishing any Optional Distribution Deferral Notice, the Issuer shall deliver to each of the Trustee and the Principal Paying Agent a certificate in the form scheduled to the Trust Deed signed by two directors of the Issuer confirming that an Optional Deferral Event has occurred and is continuing, and that no Compulsory Distribution Payment Event has occurred and is continuing.

The Trustee shall be entitled to accept such certificate as sufficient evidence of the occurrence of an Optional Deferral Event, in which event it shall be conclusive and binding on the Holders.

(iv) *Cumulative Deferral*: any Distribution deferred pursuant to this Condition 4(d) (*Distribution — Distribution Deferral)* shall constitute "**Arrears of Distribution**". The Issuer may, at its sole discretion, elect to further defer any Arrears of Distribution by complying with the foregoing notice requirements applicable to any deferral of an accrued Distribution. The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distribution may be deferred pursuant to this Condition 4(d) (*Distribution — Distribution Deferral)* except that this Condition 4(d)(iv) (*Distribution — Distribution Deferral — Cumulative Deferral)* shall be complied with until all outstanding Arrears of Distribution have been paid in full.

Each amount of Arrears of Distribution shall bear interest at the Distribution Rate as if it constituted the principal of the Securities and the amount of such interest (the "**Additional Distribution Amount**") with respect to Arrears of Distribution shall be due and payable pursuant to this Condition 4 (*Distribution*) and shall be calculated by applying the Distribution Rate to the amount of the Arrears of Distribution and otherwise *mutatis mutandis* as provided in the foregoing provisions of this Condition 4 (*Distribution*). The Additional Distribution Amount accrued up to any Distribution Payment Date shall be added, for the purpose of calculating the Additional Distribution Amount accruing thereafter, to the amount of Arrears of Distribution remaining unpaid on such Distribution Payment Date so that it will itself become Arrears of Distribution.

(v) *Restrictions in the case of an Optional Deferral*: If on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full by reason of Condition 4(d)(i) (*Distribution — Distribution Deferral — Optional Deferral*), the Issuer shall not:

(A) declare, pay or make any dividends, distributions or other payments on, and will procure that no dividend, distribution or other payment is declared, paid or made on any of its Junior Obligations or its Parity Obligations (except in relation to the Parity Obligations of the Issuer, on a *pro-rata* basis), save that such restriction shall not apply to payments declared, paid or made in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants; or

(B) redeem, reduce, cancel, buy-back or acquire for any consideration any of its Junior Obligations or its Parity Obligations (except in relation to the Parity Obligations of the Issuer, on a *pro-rata* basis), save that such restriction shall not apply to an exchange of any of its Parity Obligations in whole for Junior Obligations or a repurchase or other acquisition of any securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants, in each case, unless and until the Issuer (i) has satisfied in full all outstanding Arrears of Distributions and any Additional Distribution Amounts or (ii) is permitted to do so by an Extraordinary Resolution of the Holders.

(vi) *Satisfaction of Arrears of Distribution by payment*: The Issuer:

(A) may satisfy any Arrears of Distribution (in whole or in part) at any time by giving notice of such election to the Holders (in accordance with Condition 16 (*Notices*)), the Trustee and the Principal Paying Agent not more than 20 nor less than 10 Business Days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution on the payment date specified in such notice). Any partial payment of outstanding Arrears of Distribution by the Issuer shall be paid to the Holders of all outstanding Securities on a *pro-rata* basis; and

(B) in any event shall satisfy any outstanding Arrears of Distribution deferred in accordance with Condition 4(d)(i) (*Distribution — Distribution Deferral — Optional Deferral*) (in whole but not in part, and including any Additional Distribution Amount) on the earliest to occur of:

(1) the next Distribution Payment Date falling immediately after a breach of Condition 4(d)(v) (*Distribution — Distribution Deferral - Restrictions in the case of an Optional Deferral*);

(2) the date on which the Securities are redeemed at the option of the Issuer upon an Optional Redemption (as defined in Condition 5(b) (*Redemption and Purchase — Redemption at the option of the Issuer*));

(3) a Special Event Redemption Date (as defined in Condition 18 (*Definitions*)); and

(4) the Winding Up (as defined in Condition 18 (*Definitions*)) of the Issuer.

(vii) *No default*: Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of any Distribution payment in accordance with this Condition 4(d) (*Distribution — Distribution Deferral*) shall not constitute a default for any purpose (including, without limitation, pursuant to Condition 8 (*Non-payment*)) on the part of the Issuer.

5 Redemption and Purchase

(a) *No fixed redemption date*: The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 2 (*Status and Subordination of the Securities*) and without prejudice to Condition 8 (*Non-payment*)) only have the right to redeem or purchase them in accordance with the following provisions of this Condition 5 (*Redemption and Purchase*).

(b) *Redemption at the option of the Issuer*: The Securities may be redeemed at the option of the Issuer (an "**Optional Redemption**") in whole, but not in part, on the First Reset Date, the Second Reset Date or any Distribution Payment Date after the Second Reset Date (each, a "**Call Settlement Date**") on the Issuer giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Securities on the relevant Call Settlement Date) at the Redemption Amount.

(c) *Redemption for tax reasons*: The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable) at the Redemption Amount, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) the Issuer has or will become obliged to pay material additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Bermuda or Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 1 November 2012; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

(a "**Withholding Tax Event**") *provided, however, that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such material additional amounts if a payment in respect of the Securities were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 5(c) (*Redemption and Purchase — Redemption for tax reasons*), the Issuer shall deliver or procure that there is delivered to the Trustee:

(A) a certificate, signed by two directors of the Issuer, stating that the circumstances referred to in (i) and (ii) of this Condition 5(c) (*Redemption and Purchase — Redemption for tax reasons*) prevail and setting out the details of such circumstances; and

(B) an opinion, in form and substance satisfactory to the Trustee, of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such material additional amounts as a result of such change or amendment.

The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (i) and (ii) of this Condition 5(c) (*Redemption and Purchase — Redemption for tax reasons*), in which event they shall be conclusive and binding on the Holders.

Upon the expiry of any such notice as is referred to in this Condition 5(c) (*Redemption and Purchase - Redemption for tax reasons*), the Issuer shall be bound to redeem the Securities in accordance with this Condition 5(c) (*Redemption and Purchase — Redemption for tax reasons*).

For the purposes of this Condition 5(c) (*Redemption and Purchase — Redemption for tax reasons*), "material additional amounts" means additional amounts certified to the Trustee as material by two directors of the Issuer.

(d) *Redemption upon a Capital Event*: The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable) at their Early Redemption Price, if, immediately before giving such notice, the Issuer satisfies the Trustee that an amendment, clarification or change has occurred in the rules of S&P, Moody's or any of their respective successors to the rating business thereof, which amendment, clarification or change results in a lower equity credit for the Securities than the equity credit assigned on the Issue Date (a "**Capital Event**").

Prior to the publication of any notice of redemption pursuant to this Condition 5(d) (*Redemption and Purchase — Redemption upon a Capital Event*), the Issuer shall deliver or procure that there is delivered to the Trustee a certificate signed by two directors of the Issuer stating that the circumstances referred to above prevail and setting out the details of such circumstances.

The Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the circumstances set out above, in which event it shall be conclusive and binding on the Holders.

Upon the expiry of any such notice as is referred to in this Condition 5(d) (*Redemption and Purchase - Redemption upon a Capital Event*), the Issuer shall be bound to redeem the Securities in accordance with this Condition 5(d) (*Redemption and Purchase — Redemption upon a Capital Event*), *provided that* such date for redemption shall be no earlier than the last day before the date on which the Securities will no longer be eligible for the same or higher category of equity credit.

(e) *Redemption upon an Accounting Event*: The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable) at their Early Redemption Price, if, immediately before giving such notice, the Issuer satisfies the Trustee that as a result of any changes or amendments to HKFRS (as defined in Condition 18 (*Definitions*)) or any other accounting standards that may replace HKFRS for the purposes of the consolidated financial statements of the Issuer (the "**Relevant Accounting Standard**"), the Securities must not or must no longer be recorded as "equity" of the Issuer pursuant to the Relevant Accounting Standard (an "**Accounting Event**").

Prior to the publication of any notice of redemption pursuant to this Condition 5(e) (*Redemption and Purchase — Redemption upon an Accounting Event*), the Issuer shall deliver or procure that there is delivered to the Trustee:

(A) a certificate, signed by two directors of the Issuer, stating that the circumstances referred to above prevail and setting out the details of such circumstances; and

(B) an opinion, in form and substance satisfactory to the Trustee, of the Issuer's independent auditors stating that the circumstances referred to above prevail and the date on which the relevant change or amendment to the Relevant Accounting Standard is due to take effect.

The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out above, in which event they shall be conclusive and binding on the Holders.

Upon the expiry of any such notice as is referred to in this Condition 5(e) (*Redemption and Purchase — Redemption upon an Accounting Event*), the Issuer shall be bound to redeem the Securities in accordance with this Condition 5(e) (*Redemption and Purchase — Redemption upon an Accounting Event*) *provided that* such date for redemption shall be no earlier than the last day before the date on which the Securities must not or must no longer be so recorded as "equity" of the Issuer pursuant to the Relevant Accounting Standard.

(f) *Redemption in the case of minimal outstanding amount*: The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on the Issuer giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable) at the Redemption Amount, if, immediately before giving such notice, the aggregate principal amount of the Securities outstanding is less than 20 per cent. of the aggregate principal amount originally issued (including any further securities issued in accordance with Condition 15 (*Further Issues*)).

Upon expiry of any such notice as is referred to in this Condition 5(f) (*Redemption and Purchase — Redemption in the case of minimal outstanding amount*), the Issuer shall be bound to redeem the Securities in accordance with this Condition 5(f) (*Redemption and Purchase — Redemption in the case of minimal outstanding amount*).

(g) *No other redemption*: The Issuer shall not be entitled to redeem the Securities and shall have no obligation to make any payment of principal in respect of the Securities otherwise than as provided in Conditions 5(b) (*Redemption and Purchase — Redemption at the option of the Issuer*) to 5(f) (*Redemption in the case of minimal outstanding amount*) (both inclusive) and Condition 8 (*Non-payment)*.

(h) *Purchase*: The Issuer, any of its Subsidiaries or any of their respective agents may:

(i) prior to the First Reset Date, at any time purchase Securities up to a maximum amount representing 25 per cent. of the aggregate principal amount of the Securities issued on the Issue Date in the open market or otherwise and at any price; and

(ii) following the First Reset Date, at any time purchase Securities in the open market or otherwise and at any price.

(i) *Cancellation*: All Securities redeemed or purchased by the Issuer, any of its Subsidiaries or any agents acting on their behalf in relation to such redemption or purchase shall be cancelled and may not be reissued or resold.

6 Payments

(a) *Principal*: Payments of principal shall be made in U.S. dollars by U.S. dollar cheque drawn on, or, upon application by a Holder of a Security to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

(b) *Distribution*: Payments of Distribution (including any Arrears of Distribution and any Additional Distribution Amount) shall be made in U.S. dollars by U.S. dollar cheque drawn on, or upon application by a Holder of a Security to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account (in the case of Distribution payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws*: All payments in respect of the Securities are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Holders in respect of such payments.

(d) *Payments on business days*: Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and Distribution payable on redemption) on the later of the due date for payment and the day on which the relevant Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of Distribution payable other than on redemption) on the due date for payment. A Holder of a Security shall not be entitled to any payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6(d) (*Payments — Payments on business days*) arriving after the due date for payment or being lost in the mail. In this Condition 6(d) (*Payments — Payments on business days*), "**business day**" means any day, other than a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Certificate, in the place in which the Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Security, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Certificate.

(f) *Record date*: Each payment in respect of a Security will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Security is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

7 Taxation

All payments of principal and Distribution (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Bermuda or Hong Kong or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Holders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Security:

(a) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Security by reason of its having some connection with Bermuda or Hong Kong other than the mere holding of the Security; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Directive implementing the conclusions of the ECOFIN Council meeting on 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) where (in the case of a payment of principal or Distribution on redemption) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Certificate on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in New York City by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Holders.

Any reference in these Conditions to principal, Distribution, Arrears of Distribution or Additional Distribution Amount shall be deemed to include any additional amounts in respect of principal, Distribution, Arrears of Distribution or Additional Distribution Amount (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

If the Issuer becomes subject at any time to any taxing jurisdiction other than Bermuda or Hong Kong, references in these Conditions to Bermuda or Hong Kong shall be construed as references to Bermuda or Hong Kong and such other jurisdiction or, as the case may be, such other jurisdiction only.

8 Non-payment

(a) *Limited rights to institute proceedings*: Notwithstanding any of the provisions below in this Condition 8 (*Non-payment*), the right to institute Winding-Up (as defined in Condition 18 *(Definitions*)) proceedings is limited to circumstances where payment has become due. In the case of any Distribution, such Distribution will not be due if the Issuer has elected to defer that Distribution in accordance with Condition 4(d) (*Distribution — Distribution Deferral*). In addition, nothing in this Condition 8 (*Non-payment*), including any restriction on commencing proceedings, shall in any way restrict or limit any rights of the Trustee or any of its directors, officers, employees or agents to claim from or to otherwise take any action against the Issuer, in respect of any costs, charges, fees, expenses or liabilities incurred by such party pursuant to or in connection with the Trust Deed or the Securities.

(b) *Proceedings for Winding-Up*: Upon (i) an order being made or an effective resolution being passed for the Winding-Up of the Issuer or (ii) the Issuer failing to make payment in respect of the Securities for a period of ten days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the Securities and the Trustee may, subject to the provisions of Condition 8(d) (*Non-payment — Entitlement of Trustee*), institute proceedings for the Winding-Up of the Issuer and/or prove and/or claim in the Winding-Up of the Issuer for the principal amount of the Securities (or the Make Whole Amount if applicable) together with Distribution, Arrears of Distribution and any Additional Distribution Amount accrued to the day prior to the commencement of the Winding-Up.

(c) *Enforcement*: Without prejudice to Condition 8(b) (*Non-payment — Proceedings for Winding-Up*) but subject to the provisions of Condition 8(d) (*Non-payment — Entitlement of Trustee*), the Trustee may without further notice to the Issuer institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed or the Securities (other than any payment obligation of the Issuer under or arising from the Securities or the Trust Deed, including, without limitation, payment of any principal or premium or satisfaction of any Distributions (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities, including any damages awarded for breach of any obligations), provided that in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

(d) *Entitlement of Trustee*: The Trustee at its discretion may and, if so requested in writing by Holders of at least twenty five per cent. in aggregate principal amount of the Securities then outstanding or if so directed by an Extraordinary Resolution, shall take any of the actions referred to in Condition 8(b) (*Non-payment — Proceedings for Winding-Up*) or Condition 8(c) (*Non-Payment — Enforcement*) against the Issuer to enforce the terms of the Trust Deed or the Securities subject in any such case to the Trustee having been indemnified and/or secured and/or pre-funded to its satisfaction.

(e) *Right of Holders*: No Holder shall be entitled to proceed directly against the Issuer or to institute proceedings for the Winding-Up of the Issuer or to prove or claim in such Winding-Up unless the Trustee, having become so bound to proceed or being able to prove or claim in such Winding-Up, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 8 (*Non-payment*).

(f) *Extent of Holders' remedy*: No remedy against the Issuer, other than as referred to in this Condition 8 (*Non-payment*), shall be available to the Trustee or the Holders, whether for the recovery of amounts owing in respect of the Securities under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Securities under the Trust Deed.

9 Prescription

Claims against the Issuer for payment in respect of the Securities shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of Distributions) from the appropriate Relevant Date in respect of them.

10 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

11 Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified, secured and/or prefunded to its satisfaction and to be relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Holders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Holders as a class and will not be responsible for any consequence for individual Holders of Securities as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Securities, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Holders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar, principal paying agent and additional or successor paying agents and transfer agent; *provided, however, that* the Issuer shall at all times maintain:

(a) a principal paying agent and a registrar;

(b) a paying agent outside the EU and a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC; and

(c) a paying agent in Singapore where the Securities may be presented or surrendered for payment or redemption, for so long as the Securities are listed on the Singapore Exchange Securities Trading Limited ("**SGX-ST**") and the rules of the SGX-ST so require.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Holders (in accordance with Condition 16 (*Notices*)).

12 Meetings of Holders; Modification and Waiver

(a) *Meetings of Holders*: The Trust Deed contains provisions for convening meetings of Holders to consider matters relating to the Securities, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee upon the request in writing of Holders holding not less than ten per cent. of the aggregate principal amount of the outstanding Securities. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than fifty per cent. of the aggregate principal amount of the outstanding

Securities or, at any adjourned meeting, two or more persons being or representing a Holder or Holders whatever the principal amount of the Securities held or represented; *provided*, *however*, *that* certain proposals (including any proposal to change any date fixed for payment of principal or Distribution (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities, to reduce the amount of principal or Distribution (including any Arrears of Distribution and any Additional Distribution Amount) payable on any date in respect of the Securities, to alter the method of calculating the amount of any payment in respect of the Securities or the date for any such payment, to change the currency of payments under the Securities, to amend the subordination provisions in the Trust Deed, or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Holders at which two or more persons holding or representing not less than $66^2/_3$ per cent. or, at any adjourned meeting, twenty five per cent. of the aggregate principal amount of the outstanding Securities shall form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Holders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Holders of not less than 90 per cent. of the aggregate principal amount of Securities for the time being outstanding will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

(b) *Modification and waiver*: The Trustee may, without the consent of the Holders, agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Holders and to any modification of the Securities or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Holders, authorise or waive any proposed breach or breach of the Securities or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Holders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified by the Issuer to the Holders (in accordance with Condition 16 (*Notices*)) as soon as practicable thereafter.

13 Enforcement

The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed and the Securities, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least twenty five per cent. of the aggregate principal amount of the outstanding Securities or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or secured and/or pre-funded to its satisfaction.

No Holder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14 Substitution or Variation

If a Special Event (as defined in Condition 18 (*Definitions*)) has occurred and is continuing, then the Issuer may, subject to Condition 4 (*Distribution*) (without any requirement for the consent or approval of the Holders) and subject to its having satisfied the Trustee immediately prior to the giving of any notice referred to herein that the provisions of this Condition 14 (*Substitution or Variation*) have been complied with, and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16 (*Notices*), the Holders (which notice shall be irrevocable), at any time either (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities, and the Trustee shall (subject to the following provisions of this Condition 14 (*Substitution or Variation*) and subject to the receipt by it of the certificate of the directors of the Issuer referred to herein) agree to such substitution or variation.

Upon expiry of such notice, the Issuer shall either vary the terms of or, as the case may be, substitute the Securities in accordance with this Condition 14 (*Substitution or Variation*), as the case may be.

In connection therewith, any outstanding Arrears of Distribution (including any Additional Distribution Amount) will be satisfied in full in accordance with the provisions of Condition 4(b) (*Distribution — Distribution Deferral*).

The Trustee shall use reasonable endeavours to assist the Issuer in the substitution of the Securities for, or the variation of the terms of the Securities so that they remain, or as appropriate, become, Qualifying Securities, provided that the Trustee shall not be obliged to participate in, or assist with, any such substitution or variation if the terms of the proposed Qualifying Securities or the participation in or assistance with such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not participate or assist as provided above, the Issuer may redeem the Securities as provided in Condition 5 (*Redemption and Purchase*).

In connection with any substitution or variation in accordance with this Condition 14, the Issuer shall comply with the rules of any stock exchange on which the Securities are for the time being listed or admitted to trading.

Any such substitution or variation in accordance with the foregoing provisions shall not be permitted if any such substitution or variation would give rise to a Special Event with respect to the Securities or the Qualifying Securities.

15 **Further Issues**

The Issuer may from time to time, without the consent of the Holders and in accordance with the Trust Deed, create and issue further securities having the same terms and conditions as the Securities in all respects (or in all respects except for the first Distribution Payment Date) so as to form a single series with the Securities. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of securities having the benefit of the Trust Deed.

16 **Notices**

Notices to the Holders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

17 **Governing Law and Jurisdiction**

(a) *Governing law*: The Securities and the Trust Deed and any non-contractual obligations arising out of or in connection with the Securities and the Trust Deed are governed by, and shall be construed in accordance with, English law, except that the subordination provisions applicable to the Issuer set out in Condition 2 (*Status and Subordination of the Securities*) and Clauses 5.1 to 5.3 of the Trust Deed shall be governed by, and construed in accordance with, Bermuda law.

(b) *Jurisdiction:* The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Securities and accordingly any legal action or proceedings arising out of or in connection with any Securities ("**Proceedings**") may be brought in such courts. Pursuant to the Trust Deed, the Issuer has irrevocably submitted to the jurisdiction of such courts.

(c) *Agent for Service of Process:* Pursuant to the Trust Deed, the Issuer has irrevocably appointed an agent in England to receive service of process in any Proceedings in England based on any of the Securities.

18 **Definitions**

For the purposes of these Conditions:

"**Additional Step-Up Margin**" means 0.75 per cent..

"**Business Day**" means any day, excluding a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in Hong Kong and New York City.

"**Calculation Business Day**" means any day, excluding a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in New York City and Hong Kong.

"**Calculation Date**" means, for the purpose of calculating:

(a) the Reset Distribution Rate, the commencement date of the relevant Reset Distribution Period; and

(b) any applicable Make Whole Amount, the applicable date fixed for redemption under Condition 5(d) (*Redemption and Purchase — Redemption upon a Capital Event*) or Condition 5(e) (*Redemption and Purchase — Redemption upon an accounting event*).

"**Comparable Treasury Issue**" means:

(a) in relation to calculating the Reset Distribution Rate, the U.S. Treasury security selected by the Agent Bank as having a maturity of five years that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of five years; and

(b) in relation to calculating a Make Whole Amount, the U.S. Treasury security selected by the Agent Bank as having a maturity comparable to the Remaining Life that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most closely corresponding to the Remaining Life.

"**Comparable Treasury Price**" means, with respect to any Calculation Date, the average of three Reference Treasury Dealer Quotations for such Calculation Date.

"**Early Redemption Price**" means, in relation to a redemption pursuant to any of Conditions 5(d) (*Redemption and Purchase — Redemption upon a Capital Event*) and 5(e) (*Redemption and Purchase — Redemption upon an accounting event*), either:

(a) if the redemption date falls prior to the First Reset Date, the greater of:

(i) the principal amount of the Securities, together with any Distribution accrued to the date fixed for redemption (including any Arrears of Distributions and any Additional Distribution Amount); and

(ii) the Make Whole Amount, together with any Distribution accrued to the date fixed for redemption (including any Arrears of Distributions and any Additional Distribution Amount); or

(b) if the redemption date falls on or after the First Reset Date, the principal amount of the Securities, together with any Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount).

"**First Reset Distribution Rate**" means the Treasury Rate as at the First Reset Date plus the Initial Spread per annum.

"**HKFRS**" means Hong Kong Financial Reporting Standards, as amended from time to time.

"**Initial Distribution Rate**" means 6.0 per cent. per annum.

"**Initial Spread**" means 5.276 per cent..

"**Junior Obligations**" means the ordinary shares of the Issuer or any other securities ranking *pari passu* therewith in respect of which all payments of dividends and distributions are discretionary (save with respect to part (B) of the definition of "Compulsory Distribution Payment Event" contained in Condition 4(d)(i) (*Distribution — Distribution Deferral — Optional Deferral*) and to Condition 4(d)(v)(B) (*Distribution — Distribution Deferral — Restrictions in the case of an Optional Deferral*) in which case Junior Obligations means any class of the Issuer's share capital).

"**Make Whole Amount**" means, with respect to any redemption date pursuant to a redemption in accordance with Conditions 5(d) (*Redemption and Purchase — Redemption upon a Capital Event*) and 5(e) (*Redemption and Purchase — Redemption upon an accounting event*), the amount, as determined by the Agent Bank, equal to the sum of: (a) the present value of the principal amount of the Securities to be redeemed discounted from the next Reset Date; and (b) the present value of all Distributions payable (or but for any deferral would be payable) on a Distribution Payment Date after such redemption date (exclusive of Distributions accrued to the redemption date) to, and including, the next Reset Date, discounted to the redemption date on a semi-annual basis (assuming a 360 day year consisting of twelve 30 day months) at the Treasury Rate plus 1.75 per cent. per annum.

"**Moody's**" means Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors.

"**Parity Obligations**" means any instrument or security (including without limitation any preference share) issued, entered into or guaranteed by the Issuer (i) which ranks or is expressed to rank, by its terms or by operation of law, *pari passu* with an Issuer Notional Preference Share and (ii) the terms of which provide that the making of payments thereon and distributions in respect thereof are fully at the discretion of the Issuer and/or, in the case of an instrument or security guaranteed by the Issuer, the issuer thereof.

"**Person**" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation, limited liability company, government or any agency or political subdivision thereof or any other entity.

"**Qualifying Securities**" means securities that:

(a) have terms not materially less favourable to an investor from the terms of the Securities (as reasonably determined by the Issuer, and provided that a certification to such effect (and confirming that the conditions set out in (i) and (ii) below have been satisfied) of two directors of the Issuer shall have been delivered to the Trustee prior to the substitution or variation of the relevant Securities upon which certificate the Trustee shall rely absolutely), *provided that*:

    (i) they are issued by the Issuer or any wholly-owned direct or indirect finance subsidiary of the Issuer with a guarantee of the Issuer; and

    (ii) they (or, as appropriate, the guarantee as aforesaid) shall rank *pari passu* with the Securities on a Winding-Up of the issuer or guarantor thereof, shall preserve the Holders' rights to any Arrears of Distribution, any Additional Distribution Amount and any other payment that has accrued with respect to the relevant securities, and shall contain terms which provide for the same Distribution Rate, Distribution Payment Dates and redemption events, from time to time applying to the Securities; and other terms of such securities are substantially identical (as reasonably determined by the Issuer) to the Securities, save for the modifications or amendments to such terms that are specifically required to be made in order to avoid or resolve an Accounting Event, a Capital Event or, as the case may be, a Withholding Tax Event;

(b) have been, or will on issue be, assigned at least the same rating as that assigned by the Rating Agencies to the Securities immediately prior to such substitution or variation; and

(c) are listed on the Official List of the SGX-ST or another securities exchange of international standing regularly used for the listing and quotation of debt securities offered and traded in the international markets.

"**Rating Agencies**" means (1) S&P, (2) Moody's, (3) if one or more of S&P or Moody's shall not make a rating of the Securities publicly available, a United States nationally recognised securities rating agency or agencies, as the case may be, selected by the Issuer, which shall be substituted for S&P or Moody's, as the case may be.

"**Redemption Amount**" means the principal amount of the Securities, together with Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount).

"**Reference Treasury Dealer**" means each of the three nationally recognised investment banking firms selected by the Agent Bank that are primary U.S. Government securities dealers.

"**Reference Treasury Dealer Quotations**" means with respect to each Reference Treasury Dealer and any Calculation Date, the average, as determined by the Agent Bank, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Agent Bank by such Reference Treasury Dealer at 5.00 p.m., New York City time, on the third Business Day immediately preceding such Calculation Date.

"**Remaining Life**" means the remaining term of the Securities from the applicable redemption date to the next Reset Date after such redemption date.

"**Reset Date**" means the First Reset Date, the Second Reset Date, and each of the days falling every five calendar years after the Second Reset Date.

"**Reset Distribution Period**" means the period beginning on and including the First Reset Date and ending on but excluding the following Reset Date, and each successive period beginning on and including a Reset Date and ending on but excluding the next succeeding Reset Date.

"**Reset Distribution Rate**" means the First Reset Distribution Rate or, as the case may be, the Second Reset Distribution Rate or, as the case may be, the Third Reset Distribution Rate.

"**S&P**" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

"**Second Reset Distribution Rate**" means the Treasury Rate as at the relevant Reset Date plus the Initial Spread plus the Step-Up Margin per annum.

"**Special Event**" means a Withholding Tax Event, a Capital Event, an Accounting Event, or any combination of the foregoing.

"**Special Event Redemption**" means a redemption in respect of: (i) a Withholding Tax Event (as defined in Condition 5(c) (*Redemption and Purchase — Redemption for tax reasons*)), or (ii) a Capital Event (as defined in Condition 5(d) (*Redemption and Purchase — Redemption upon a Capital Event*)), or (iii) an Accounting Event (as defined in Condition 5(e) (*Redemption and Purchase — Redemption upon an accounting event*)), or (iv) redemption in the case of minimal amount outstanding (as described in Condition 5(f) (*Redemption and Purchase — Redemption in the case of minimal amount outstanding*)).

"**Special Event Redemption Date**" means the date on which the Securities are redeemed in a Special Event Redemption.

"**Step-Up Margin**" means 0.25 per cent.

"**Subsidiary**" or "**Subsidiaries**" of any Person means (a) any corporation, association or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total ordinary voting power of shares of capital stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof (or persons performing similar functions) or (b) any partnership, joint venture limited liability company or similar entity of which more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, is, in the case of clauses (a) and (b), at the time owned or controlled, directly or indirectly, by (1) such Person, (2) such Person and one or more Subsidiaries of such Person or (3) one or more Subsidiaries of such Person.

"**Third Reset Distribution Rate**" means the Treasury Rate as at the relevant Reset Date plus the Initial Spread plus the Step-up Margin plus the Additional Step-Up Margin per annum.

"**Treasury Rate**" means the rate in percentage per annum notified by the Agent Bank to the Issuer and the Holders (in accordance with Condition 16 (*Notices*)) equal to the yield, under the heading that represents the average for the week immediately prior to the relevant Calculation Date, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption "Treasury constant maturities" for the maturity corresponding to the Comparable Treasury Issue (in the case of calculating a Make Whole Amount, if there is no Comparable Treasury Issue with a maturity within three months before or after the next Reset Date after such redemption date, yields for the two published maturities most closely corresponding to such Reset Date will be determined and the Treasury Rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month). If such release (or any successor release) is not published during the week preceding the Calculation Date or does not contain such yields, "Treasury Rate" means the rate in percentage rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Calculation Date. The Treasury Rate will be calculated on the Calculation Business Day preceding the relevant Calculation Date.

"**Winding-Up**" means the order by a competent authority for the bankruptcy, winding-up, liquidation or similar procedure in respect of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction, merger or amalgamation (x) the terms of which reorganisation, reconstruction, merger or amalgamation have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and (y) which does not result in the Securities thereby becoming redeemable or repayable in accordance with these Conditions).

TAXATION

The statements herein regarding taxation are based on the laws in force as at the date of this document and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following is a general description of certain Bermudan and Hong Kong tax considerations relating to the Securities. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Securities and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules.

Bermuda

Tax

In Bermuda there are no taxes on profits, income or dividends, nor is there any capital gains tax, estate duty or death duty. Profits can be accumulated and it is not obligatory for a company to pay dividends. The Company is required to pay an annual government fee (the "**Government Fee**"), which is determined on a sliding scale by reference to a company's authorised share capital and share premium account, with the minimum fee being BD$1,995 and the maximum fee being BD$31,120 (the Bermuda dollar ("**BD**") is treated at par with the US dollar). The Government Fee is payable at the end of January in every year and is based on the authorised share capital and share premium account as they stood at 31 August in the preceding year.

The Bermuda government has enacted legislation under which the Minister of Finance in Bermuda is authorised to give an assurance to an exempted company or a partnership that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income or computed on any capital asset, gain or appreciation, then the imposition of any such tax shall not be applicable to such entities or any of their operations. In addition, there may be included an assurance that any such tax or any tax in the nature of estate duty or inheritance tax shall not be applicable to the shares, debentures or other obligations of such entities. This assurance has been obtained by the Company for a period ending on 28 March 2016, which assurance can, by application, be extended to 31 March 2035.

Stamp Duty

The law relating to stamp duties has been fundamentally changed as a result of the enactment of certain legislation that came into force on 1 April 1990. Stamp duty is no longer chargeable in respect of the incorporation, registration or licensing of an exempted company, nor, subject to certain minor exceptions, on their transactions. Accordingly, no stamp duty will be payable on the issue or transfer of the Securities.

Hong Kong

The following summary of certain Hong Kong tax consequences of the purchase, ownership and disposition of the Securities is based upon laws, regulations, decisions and practice now in effect, all of which are subject to change (possibly with retroactive effect). The summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Securities and does not purport to deal with the consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Securities should consult their own tax advisors concerning the application of Hong Kong tax laws to their particular situation as well as any consequences of the purchase, ownership and disposition of the Securities arising under the laws of any other taxing jurisdiction.

Withholding tax

Under current Hong Kong legislation, no tax in Hong Kong is required to be withheld from or chargeable on payments of principal or interest in respect of the Securities or in respect of any capital gains arising from the sale of the Securities.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap. 112 of the Law of Hong Kong) (the "**Inland Revenue Ordinance**") as it is currently applied by the Inland Revenue Department, interest on the Securities is not subject to Hong Kong profits tax except under the following circumstances:

(i) interest on the Securities is received by or accrues to a corporation (other than a financial institution) carrying on a trade, profession or business in Hong Kong; or

(ii) interest on the Securities is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or

(iii) interest on the Securities is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

Pursuant to the Exemption from Profits Tax (Interest Income) Order, interest income accruing to a person other than a financial institution on deposits (denominated in any currency and whether or not the deposit is evidenced by a certificate of deposit) placed with, inter alia, a financial institution in Hong Kong (within the meaning of section 2 of the Banking Ordinance (Cap. 155) of Hong Kong) is exempt from the payment of Hong Kong profits tax. This exemption does not apply, however, to deposits that are used to secure or guarantee money borrowed in certain circumstances.

Sums derived from the sale, disposal or redemption of Securities will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Securities are acquired and disposed of, including where such activities were undertaken.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Securities will be subject to profits tax.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or subsequent transfer of a Security.

Estate duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 commenced operation on 11 February 2006. Estates of persons who pass away on or after the commencement date of that ordinance are not subject to Hong Kong estate duty.

EU Savings Directive

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual or to certain other persons in another Member State, except that Austria and Luxembourg may instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited and The Hongkong and Shanghai Banking Corporation Limited (together the "**Joint Lead Managers**") have, pursuant to a Subscription Agreement dated 1 November 2012 among the Company and the Joint Lead Managers, agreed with the Company, subject to the satisfaction of certain conditions, to subscribe for the Securities the Issue Price (100 per cent. of their principal amount), any subsequent offering of the Securities to investors may be at a price different from the Issue Price. The Company has agreed to pay the Joint Lead Managers certain fees and underwriting commissions, to reimburse the Joint Lead Managers for certain of their expenses in connection with the initial sale and distribution of the Securities, and to indemnify the Joint Lead Managers against certain liabilities in connection with the offering and sale of the Securities. In addition, the Company has agreed to pay to certain private banks a commission based on the principal amount of the Securities purchased by private bank clients. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Securities.

The Joint Lead Managers and certain of their affiliates may have performed investment banking and advisory services for the Company from time to time, for which they have received customary fees and expenses. The Joint Lead Managers and certain of their affiliates may, from time to time, engage in transactions with and perform services for the Company in the ordinary course of business.

The Joint Lead Managers and certain of their affiliates may purchase the Securities and be allocated the Securities for asset management and/or proprietary purposes but not with a view to distribution.

The Joint Lead Managers and their respective affiliates may purchase the Securities for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Securities and/or other securities of the Company or its subsidiaries or associates at the same time as the offer and sale of the Securities or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Securities to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Securities).

In connection with the issue of the Securities, Citigroup Global Markets Limited (or persons acting on its behalf) may over-allot Securities or effect transactions with a view to supporting the market price of the Securities at a level higher than that which might otherwise prevail for a limited period, but in doing so Citigroup Global Markets Limited shall act as principal and not as agent of the Company. However, there is no assurance that Citigroup Global Markets Limited (or persons acting on its behalf) will undertake such stabilisation action. Any stabilisation action may begin on or after the date on which public disclosure of the terms of the Securities is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Securities and 60 days after the date of the allotment of the Securities. Such stabilisation shall be conducted in accordance with all applicable laws and rules. Any loss or profit sustained as a consequence of any such over-allotment or stabilisation shall be jointly for the account of and shared equally between the Joint Lead Managers.

United States

The Securities have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in accordance with Regulation S or pursuant to any other exemption from, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Securities within the United States. In addition, until 40 days after commencement of the offering, an offer or sale of Securities within the United States by a dealer whether or not participating in the offering may violate the registration requirements of the Securities Act.

Terms used in the paragraph above have the meanings given to them by Regulation S under the Securities Act.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

(1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")), received by it in connection with the issue or sale of any Securities in circumstances in which section 21(1) of the FSMA does not apply to the Company; and

(2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

Hong Kong

Each Joint Lead Manager has represented, warranted and agreed that:

(1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Securities other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) (the "**SFO**") of Hong Kong and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) (the "**CO**") of Hong Kong or which do not constitute an offer to the public within the meaning of the CO; and

(2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore, as amended (the "**SFA**"). Each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Securities or caused such Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell such Securities or cause such Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Securities, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Note:

Where Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor) (as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the SFA.

Japan

The Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the "**Financial Instruments and Exchange Act**"). Accordingly, each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Securities in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Bermuda

Each Joint Lead Manager has acknowledged that: (i) this Offering Circular, the Securities and any other document relating to the Securities are not subject to, and have not received approval from either the Bermuda Monetary Authority or the Registrar of Companies in Bermuda and no statement to the contrary, explicit or implicit, is authorised to be made in this regard; (ii) for the purposes of the Companies Act 1981 of Bermuda (as amended), the Securities being offered hereby are being offered on a private basis to investors who satisfy the criteria outlined in any of the documents relating to the Securities; (iii) the Securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 of Bermuda (as amended); (iv) non-Bermudian persons may not carry on or engage in any trade or business in Bermuda unless such persons are authorised to do so under applicable Bermuda legislation; and (v) engaging in the activity of offering or marketing the securities being offered in Bermuda to persons in Bermuda may be deemed to be carrying on business in Bermuda.

General

No action has been or will be taken in any jurisdiction by the Company or any Joint Lead Manager that would, or is intended to, permit a public offering of the Securities, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Company and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Securities or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Securities, in all cases at their own expense.

GENERAL INFORMATION

1. The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg with the Common Code of 085180843. The International Securities Identification Number (the "**ISIN**") for the Securities is XS0851808435.

2. Approval in-principle has been received from the SGX-ST for the listing and quotation of the Securities on the Official List of the SGX-ST. So long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, the Company shall appoint and maintain a paying agent in Singapore, where the Securities may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for Individual Certificates. In addition, in the event that the Global Certificate is exchanged for Individual Certificates, an announcement of such exchange shall be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the Individual Certificates, including details of the paying agent in Singapore, for so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require.

3. The Company has obtained all necessary consents, approvals and authorisations as may be required in Bermuda and Hong Kong in connection with the issue and performance of the Securities. The issue of the Securities was authorised by a resolution of the Board of Directors of the Company passed on 30 October 2012.

4. Except as disclosed in this Offering Circular, there has been no adverse change in the prospects of the Issuer or the Group nor any adverse change in the financial or trading position of the Group since 30 June 2012.

5. Except as disclosed in this Offering Circular, neither the Company or any of the Company's Subsidiaries is involved in any governmental, legal or arbitration proceedings which may have or during the 12 months prior to the date of this Offering Circular have had an effect on the financial position or profitability of the Group which is material in the context of the issue of the Securities, nor is the Company or any of the Company's Subsidiaries aware that any such proceedings are pending or threatened.

6. For so long as any Securities are outstanding, copies (and certified English translations where the documents are not in English) of the following documents may be inspected and will be made available free of charge at the office of the Trustee:

   (a) the Memorandum and Articles of Association of the Company;

   (b) a copy of the consolidated audited financial statements of the Group for the year ended 31 December 2011 and the auditor's report from PricewaterhouseCoopers dated 22 March 2012;

   (c) a copy of the unaudited consolidated financial information of the Group for the six months ended 30 June 2012 and the auditor's review report from PricewaterhouseCoopers dated 9 August 2012;

   (d) the Trust Deed to be dated on or about 8 November 2012; and

   (e) the Agency Agreement to be dated on or about 8 November 2012.

7. The financial statements of the Company as at and for the year ended 31 December 2011 included in this Offering Circular have been audited by PricewaterhouseCoopers, Certified Public Accountants.

   PricewaterhouseCoopers has given and not withdrawn its written consent to the reproduction of their audit report dated 22 March 2012 on the published annual consolidated financial statements of the Company for the year ended 31 December 2011, respectively and with references to PricewaterhouseCoopers, in the form and context in which they appear.

   PricewaterhouseCoopers has given and not withdrawn its written consent to the reproduction of their review report dated 9 August 2012 on the unaudited consolidated financial information of the Company for the six months ended 30 June 2012, respectively and with references to PricewaterhouseCoopers, in the form and context in which they appear.

8. The Company publishes annual reports containing the audited consolidated financial statements of the Company not later than four months after the date upon which the financial period ended. The Company publishes interim reports containing the unaudited consolidated results of the Company for the first six months of each financial year not later than three months after the end of that six-month period. The Company does not publish audited interim consolidated financial statements. The Company does not publish unconsolidated financial statements other than unconsolidated balance sheets and certain notes to the financial statements which it includes in its annual reports.

   Copies of the annual and interim reports (including the financial statements) published by the Company will be made available free of charge at the office of the Trustee.

INDEX TO FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE COMPANY FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2012

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2011

Notes:

1. The unaudited consolidated financial information of the Company set out herein have been reproduced from the Company's interim report for the six months ended 30 June 2012 and page references are references to pages set out in such annual report.

2. The audited consolidated financial statements of the Company set out herein have been reproduced from the Company's annual report for the year ended 31 December 2011 and page references are references to pages set out in such annual report.

INDEPENDENT REVIEW REPORT

羅兵咸永道

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF LI & FUNG LIMITED
(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 30 to 55, which comprises the consolidated balance sheet of Li & Fung Limited ("Company") and its subsidiaries (together, the "Group") as at 30 June 2012 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial report in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial report based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 9 August 2012

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
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CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	UNAUDITED SIX MONTHS ENDED 30 JUNE 2012 US$'000	2011 US$'000
Turnover	*3*	**9,127,651**	8,798,218
Cost of sales		**(7,846,338)**	(7,581,215)
Gross profit		**1,281,313**	1,217,003
Other income		**40,763**	37,991
Total margin		**1,322,076**	1,254,994
Selling and distribution expenses		**(410,999)**	(350,939)
Merchandising expenses		**(629,774)**	(564,050)
Administrative expenses		**(59,848)**	(57,564)
Core operating profit		**221,455**	282,441
Gain on remeasurement of contingent consideration payable		**198,295**	–
(Loss)/gain on disposal of businesses/subsidiary	*17*	**(303)**	46,544
Gain on disposal of properties/property holding subsidiary		**–**	13,670
Other non-core operating expenses		**(34,315)**	(24,549)
Operating profit	*3 & 4*	**385,132**	318,106
Interest income		**10,578**	6,567
Interest expenses			
Non-cash interest expenses		**(12,018)**	(11,008)
Cash interest expenses		**(54,255)**	(50,561)
		(66,273)	(61,569)
Share of profits less losses of associated companies		**1,262**	1,499
Profit before taxation		**330,699**	264,603
Taxation	*5*	**(18,056)**	(28,154)
Profit for the period		**312,643**	236,449
Attributable to:			
Shareholders of the Company		**312,280**	235,523
Non-controlling interests		**363**	926
		312,643	236,449
Earnings per share for profit attributable to the shareholders of the Company during the period	*7*		
– basic		**3.80 US cents**	2.92 US cents
– diluted		**3.79 US cents**	2.90 US cents

Details of dividends to shareholders of the Company are set out in *Note 6*.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	UNAUDITED SIX MONTHS ENDED 30 JUNE	
	2012	2011
	US$'000	US$'000
Profit for the period	**312,643**	236,449
Other comprehensive (expense)/income:		
Currency translation differences	**(217)**	20,009
Net fair value loss on cash flow hedges, net of tax	**(4,457)**	(4,881)
Net fair value gain on available-for-sale financial assets, net of tax	**30**	129
Net actuarial loss from post employment benefits recognized in reserve, net of tax	**(85)**	–
Realization of revaluation reserve on disposal of available-for-sale financial assets, net of tax	**75**	–
Other comprehensive (expense)/income for the period, net of tax	**(4,654)**	15,257
Total comprehensive income for the period	**307,989**	251,706
Attributable to:		
Shareholders of the Company	**307,679**	250,526
Non-controlling interests	**310**	1,180
Total comprehensive income for the period	**307,989**	251,706

CONSOLIDATED BALANCE SHEET

	Note	**UNAUDITED 30 JUNE 2012 US$'000**	AUDITED 31 DECEMBER 2011 US$'000
Non-current assets			
Intangible assets	*8*	**6,738,713**	6,525,999
Property, plant and equipment	*8*	**369,629**	325,432
Prepaid premium for land leases		**3,041**	3,144
Associated companies		**8,230**	7,015
Available-for-sale financial assets		**65,591**	70,574
Deposits		**18,271**	12,537
Deferred tax assets		**29,281**	24,148
		7,232,756	6,968,849
Current assets			
Inventories		**1,074,685**	1,035,788
Due from related companies		**28,901**	16,948
Trade and bills receivable	*9*	**2,094,319**	2,004,542
Other receivables, prepayments and deposits		**446,309**	454,310
Derivative financial instruments		**7,097**	13,743
Cash and bank balances		**307,054**	426,240
		3,958,365	3,951,571
Current liabilities			
Due to related companies		**12,456**	12,675
Trade and bills payable	*10*	**2,400,943**	2,336,991
Accrued charges and sundry payables		**575,269**	734,213
Balance of purchase consideration payable for acquisitions to be settled by cash	*11*	**492,602**	323,712
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent		**–**	1,764
Taxation		**86,202**	103,006
Bank advances for discounted bills	*9*	**33,717**	40,298
Short-term bank loans		**156,457**	111,936
Bank overdrafts		**558**	225
		3,758,204	3,664,820
Net current assets		**200,161**	286,751
Total assets less current liabilities		**7,432,917**	7,255,600

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	UNAUDITED 30 JUNE 2012 US$'000	AUDITED 31 DECEMBER 2011 US$'000
Financed by:			
Share capital	*12*	**13,392**	12,987
Reserves		**4,274,245**	3,566,195
Proposed dividend		**160,717**	354,611
		4,434,962	3,920,806
Shareholders' funds attributable to the Company's shareholders		**4,448,354**	3,933,793
Non-controlling interests		**10,033**	4,813
Total equity		**4,458,387**	3,938,606
Non-current liabilities			
Long-term notes	*11*	**1,255,734**	1,256,007
Balance of purchase consideration payable for acquisitions settled by cash	*11*	**1,304,593**	1,646,664
Other long-term liabilities	*11*	**345,680**	348,351
Post-employment benefit obligations		**13,099**	13,096
Deferred tax liabilities		**55,424**	52,876
		2,974,530	3,316,994
		7,432,917	7,255,600

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Attributable to shareholders of the Company						
	Share capital US$'000	**Share premium US$'000**	**Other reserves US$'000 *(Note 13)***	**Retained earnings US$'000**	**Total US$'000**	**Non-controlling interests US$'000**	**Total equity US$'000**
Balance at 1 January 2012	**12,987**	**3,114,097**	**(27,439)**	**834,148**	**3,933,793**	**4,813**	**3,938,606**
Comprehensive income							
Profit or loss	**–**	**–**	**–**	**312,280**	**312,280**	**363**	**312,643**
Other comprehensive income							
Currency translation differences	**–**	**–**	**(164)**	**–**	**(164)**	**(53)**	**(217)**
Net fair value gain on available-for-sale financial assets, net of tax	**–**	**–**	**30**	**–**	**30**	**–**	**30**
Net fair value loss on cash flow hedges, net of tax	**–**	**–**	**(4,457)**	**–**	**(4,457)**	**–**	**(4,457)**
Net actuarial loss from post employment benefits recognized in reserve, net of tax	**–**	**–**	**(85)**	**–**	**(85)**	**–**	**(85)**
Realization of revaluation reserve on disposal of available-for-sale financial assets, net of tax	**–**	**–**	**75**	**–**	**75**	**–**	**75**
Total other comprehensive income	**–**	**–**	**(4,601)**	**–**	**(4,601)**	**(53)**	**(4,654)**
Total comprehensive income	**–**	**–**	**(4,601)**	**312,280**	**307,679**	**310**	**307,989**
Transactions with owners							
Issue of shares upon a private placing	**337**	**497,923**	**–**	**–**	**498,260**	**–**	**498,260**
Employee share option scheme:							
– value of employee services	**–**	**–**	**5,629**	**–**	**5,629**	**–**	**5,629**
– proceeds from shares issued	**68**	**65,160**	**–**	**–**	**65,228**	**–**	**65,228**
– transfer to share premium	**–**	**14,644**	**(14,644)**	**–**	**–**	**–**	**–**
Release of shares held by escrow agent for settlement of acquisition consideration	**–**	**–**	**1,764**	**–**	**1,764**	**–**	**1,764**
Transfer to capital reserve	**–**	**–**	**124**	**(124)**	**–**	**–**	**–**
Capitalization of loan from non-controlling interests	**–**	**–**	**–**	**–**	**–**	**4,910**	**4,910**
2011 final dividend paid	**–**	**–**	**–**	**(363,999)**	**(363,999)**	**–**	**(363,999)**
Total transactions with owners	**405**	**577,727**	**(7,127)**	**(364,123)**	**206,882**	**4,910**	**211,792**
Balance at 30 June 2012	**13,392**	**3,691,824**	**(39,167)**	**782,305**	**4,448,354**	**10,033**	**4,458,387**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Unaudited						
	Attributable to shareholders of the Company						
	Share capital US$'000	Share premium US$'000	Other reserves US$'000 *(Note 13)*	Retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2011	12,899	3,015,794	(22,868)	620,204	3,626,029	6,049	3,632,078
Comprehensive income							
Profit or loss	–	–	–	235,523	235,523	926	236,449
Other comprehensive income							
Currency translation differences	–	–	19,755	–	19,755	254	20,009
Net fair value gain on available-for-sale financial assets, net of tax	–	–	129	–	129	–	129
Net fair value loss on cash flow hedges, net of tax	–	–	(4,881)	–	(4,881)	–	(4,881)
Total other comprehensive income	–	–	15,003	–	15,003	254	15,257
Total comprehensive income	–	–	15,003	235,523	250,526	1,180	251,706
Transactions with owners							
Employee share option scheme:							
– value of employee services	–	–	7,256	–	7,256	–	7,256
– proceeds from shares issued	83	76,116	–	–	76,199	–	76,199
– transfer to share premium	–	17,757	(17,757)	–	–	–	–
Transfer to capital reserve	–	–	74	(74)	–	–	–
2010 final dividend paid	–	–	–	(269,851)	(269,851)	–	(269,851)
Total transactions with owners	83	93,873	(10,427)	(269,925)	(186,396)	–	(186,396)
Balance at 30 June 2011	12,982	3,109,667	(18,292)	585,802	3,690,159	7,229	3,697,388

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	UNAUDITED	
	SIX MONTHS ENDED 30 JUNE	
	2012	2011
	US$'000	US$'000
Net cash (outflow)/inflow from operating activities	**(12,074)**	212,548
Net cash outflow from investing activities	**(290,870)**	(477,705)
Net cash outflow before financing activities	**(302,944)**	(265,157)
Net cash inflow/(outflow) from financing activities	**184,266**	(97,444)
Decrease in cash and cash equivalents	**(118,678)**	(362,601)
Cash and cash equivalents at 1 January	**426,015**	940,232
Effect of foreign exchange rate changes	**(841)**	(4,230)
Cash and cash equivalents at 30 June	**306,496**	573,401
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	**307,054**	574,934
Bank overdrafts	**(558)**	(1,533)
	306,496	573,401

NOTES TO CONDENSED INTERIM FINANCIAL REPORT

1 GENERAL INFORMATION

Li & Fung Limited ("the Company") and its subsidiaries (together, "the Group") are principally engaged in managing the supply chain for retailers and brands worldwide from over 300 offices and distribution centers in more than 40 economies.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

These condensed interim financial report are presented in US dollars, unless otherwise stated. This condensed interim financial report was approved for issue on 9 August 2012.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed interim financial report (the "interim financial report") has been reviewed by the Company's audit committee and, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), by the Company's auditor, PricewaterhouseCoopers.

This interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA and Appendix 16 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited. This interim financial report should be read in conjunction with the annual accounts for the year ended 31 December 2011, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The preparation of interim financial report requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim financial report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated accounts for the year ended 31 December 2011.

Except as described in (a) below, the accounting policies applied are consistent with those of the annual accounts for the year ended 31 December 2011, as described in those annual accounts.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group

The following new and amended standards and interpretations of HKFRSs are mandatory for accounting periods beginning on or after 1 January 2012 but are not relevant to the Group's operations:

HKAS 12 (amendment)	Deferred tax: recovery of underlying assets
HKFRS 1 (amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters
HKFRS 7 (amendment)	Disclosures – Transfers of financial assets

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(b) The following are new standards, new interpretations and amendments to standards and interpretations relevant to the Group that have been issued but are not effective for the accounting period beginning 1 January 2012 and have not been early adopted:

HKAS 1 (amendment)	Presentation of financial statements [1]
HKAS 19 (2011)	Employee benefits [2]
HKAS 27 (2011)	Separate financial statements [2]
HKAS 28 (2011)	Investments in associates and joint ventures [2]
HKAS 32 (amendment)	Financial instruments: Presentation – Offsetting financial assets and financial liabilities [3]
HKFRS 7 (amendment)	Financial instruments: Presentation – Offsetting financial assets and financial liabilities [2]
HKFRS 7 and 9 (amendments)	Mandatory effective date and transition disclosures [4]
HKFRS 9	Financial instruments [4]
HKFRS 10	Consolidated financial statements [2]
HKFRS 11	Joint arrangements [2]
HKFRS 12	Disclosures of interests in other entities [2]
HKFRS 13	Fair value measurement [2]
HK(IFRIC) – Int 20	Stripping costs in the production phase of a surface mine [2]
Fourth annual improvements Project (2011)	Improvements to HKFRS published in June 2012 [2]

NOTES:

(1) Effective for financial periods beginning on or after 1 July 2012
(2) Effective for financial periods beginning on or after 1 January 2013
(3) Effective for financial periods beginning on or after 1 January 2014
(4) Effective for financial periods beginning on or after 1 January 2015

3 SEGMENT INFORMATION

The Company is domiciled in Bermuda. The Group is principally engaged in managing the supply chain for retailers and brands worldwide from over 300 offices and distribution centers in more than 40 economies. Turnover represents revenue generated from sales and services rendered at invoiced value to customers outside the Group less discounts and returns.

The Group's management (Chief Operating Decision-Maker) considers the business principally from the perspective of three global Networks, namely Trading Network, Logistics Network and Distribution Network. Trading Network is the operating segment that focuses on the global sourcing business. Logistics Network is the operating segment that runs both the Group's international and domestic logistics services networks globally. Distribution Network is the operating segment that operates the onshore distribution businesses in the US, Pan-European and Asian regions.

The Group's management assesses the performance of the operating segments based on the core operating profit. This measurement basis includes profit of the operating segments before share of results of associated companies, interest income, interest expenses and tax, but excludes any material gain or loss which is of capital nature or non recurring nature such as gain or loss on disposal or impairment provision on property, plant and equipment, investments, goodwill or other assets, gain on remeasurement of contingent consideration payable or acquisition-related costs. Other information provided to the Group's management is measured in a manner consistent with that in the interim financial report. Certain prior period comparatives of segment information have been reclassified to conform to the current period presentation.

3 SEGMENT INFORMATION (CONTINUED)

	Trading Network US$'000	Logistics Network US$'000	Distribution Network US$'000	Elimination US$'000	Total US$'000
Six months ended 30 June 2012 (Unaudited)					
Turnover	7,230,367	223,672	2,901,322	(1,227,710)	9,127,651
Total margin	621,620	87,367	613,089		1,322,076
Operating costs	(420,988)	(82,934)	(596,699)		(1,100,621)
Core operating profit	200,632	4,433	16,390		221,455
Gain on remeasurement of contingent consideration payable					198,295
Loss on disposal of businesses					(303)
Other non-core operating expenses					(34,315)
Operating profit					385,132
Interest income					10,578
Interest expenses					
Non-cash interest expenses					(12,018)
Cash interest expenses					(54,255)
					(66,273)
Share of profits less losses of associated companies					1,262
Profit before taxation					330,699
Taxation					(18,056)
Profit for the period					312,643
Depreciation & amortization	22,911	5,177	110,786		138,874
30 June 2012 (Unaudited)					
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	2,159,066	528,139	4,450,679		7,137,884

3 SEGMENT INFORMATION (CONTINUED)

	Trading Network US$'000	Logistics Network US$'000	Distribution Network US$'000	Elimination US$'000	Total US$'000
Six months ended 30 June 2011 (Unaudited)					
Turnover	6,958,287	212,791	2,739,438	(1,112,298)	8,798,218
Total margin	591,083	84,360	579,551		1,254,994
Operating costs	(384,425)	(81,920)	(506,208)		(972,553)
Core operating profit	206,658	2,440	73,343		282,441
Gain on disposal of businesses/ subsidiary					46,544
Gain on disposal of properties/ property holding subsidiary					13,670
Other non-core operating expenses					(24,549)
Operating profit					318,106
Interest income					6,567
Interest expenses					
Non-cash interest expenses					(11,008)
Cash interest expenses					(50,561)
					(61,569)
Share of profits less losses of associated companies					1,499
Profit before taxation					264,603
Taxation					(28,154)
Profit for the period					236,449
Depreciation & amortization	18,617	8,643	71,416		98,676
31 December 2011 (Audited)					
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	2,012,456	525,483	4,336,188		6,874,127

3 SEGMENT INFORMATION (CONTINUED)

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

	TURNOVER UNAUDITED SIX MONTHS ENDED 30 JUNE		NON-CURRENT ASSETS (OTHER THAN AVAILABLE-FOR-SALE FINANCIAL ASSETS AND DEFERRED TAX ASSETS)	
			UNAUDITED 30 JUNE	AUDITED 31 DECEMBER
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
United States of America	**5,665,567**	5,091,299	**4,537,636**	4,255,844
Europe	**1,677,718**	1,928,269	**1,268,667**	1,324,471
China	**555,485**	526,253	**450,893**	436,051
Rest of Asia	**599,293**	601,366	**630,128**	624,440
Canada	**293,262**	321,196	**116,621**	111,368
Australasia	**148,431**	184,313	**56,634**	60,770
Central and Latin America	**134,906**	102,269	**58,053**	45,072
South Africa and Middle East	**52,989**	43,253	**19,252**	16,111
	9,127,651	8,798,218	**7,137,884**	6,874,127

Turnover to external parties consists of sales of softgoods, hardgoods and logistics income are as follows:

	UNAUDITED SIX MONTHS ENDED 30 JUNE	
	2012	2011
	US$'000	US$'000
Softgoods	**5,827,892**	5,611,282
Hardgoods	**3,102,413**	2,995,679
Logistics	**197,346**	191,257
	9,127,651	8,798,218

For the six months ended 30 June 2012, approximately 14.7% (2011: 12.1%) of the Group's turnover is derived from a single external customer, of which, 13.1% (2011: 10.6%) and 1.6% (2011: 1.5%) are attributable to the Trading Network and Distribution Network segments respectively.

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	UNAUDITED SIX MONTHS ENDED 30 JUNE	
	2012	2011
	US$'000	US$'000
Crediting		
Gain on remeasurement of contingent consideration payable *(Note)*	**198,295**	–
Charging		
Amortization of computer software and system development costs	**3,659**	3,220
Amortization of brand licenses	**65,314**	42,672
Amortization of other intangible assets	**32,144**	22,164
Amortization of prepaid premium for land leases	**75**	38
Depreciation of property, plant and equipment	**37,682**	30,582
Loss on disposal of plant and equipment	**240**	1,243
Staff costs including directors' emoluments	**628,321**	556,134

NOTE: During the period, the Group remeasured contingent considerations payable for all acquisitions with outstanding contingent consideration arrangements. Based on the market outlook and the prevailing business plans and projections, the provisions for performance-based contingent considerations for the acquisitions of Visage Group Limited and HTP Group completed in 2010 were remeasured and reduced by US$198,295,000 in aggregate. The revised provisions for performance-based contingent considerations are calculated based on discounted cash flows with the revision of estimated future profit of these acquired businesses. These decreases in provision for contingent consideration were recognized as non-core operating gain on remeasurement of contingent consideration payable.

5 TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	UNAUDITED SIX MONTHS ENDED 30 JUNE	
	2012	2011
	US$'000	US$'000
Current taxation		
– Hong Kong profits tax	**3,842**	4,418
– Overseas taxation	**16,884**	27,417
Deferred taxation	**(2,670)**	(3,681)
	18,056	28,154

As of the date of this interim financial report, the Group has disputes with the Hong Kong Inland Revenue ("HKIR") involving additional tax assessments amounting to approximately US$247 million on both the non-taxable claim of certain non-Hong Kong sourced income ("Offshore Claim") and the deduction claim of marketing expenses ("Deduction Claim") for the years of assessment from 1992/93 to 2010/11.

5 TAXATION (CONTINUED)

The Commissioner of the HKIR issued a determination on 14 June 2004 to one of our subsidiaries, Li & Fung (Trading) Limited ("LFT"), confirming additional tax assessments totalling US$43 million relating to the years of assessment from 1992/93 to 2001/02. Based upon professional advice then obtained, the directors believed that the Group had meritorious reasons to justify appealing against the Commissioner's determination. Accordingly, LFT lodged a notice of appeal to the Board of Review on 13 July 2004. The appeal was heard before the Board of Review in January 2006.

The Board of Review issued its decision on 12 June 2009 ("the Board of Review Decision") and held partially in favour of LFT. It agreed that the Offshore Claim for the years of assessment from 1992/93 to 2001/02 is valid. In other words, the relevant assessments in respect of such Offshore Claim should be annulled. On the other hand, the Board of Review disagreed with the Deduction Claim for the years of assessment from 1992/93 to 2001/02. Therefore, the relevant assessments in respect of such Deduction Claim should be confirmed.

The Group considered the reasoning of the Board of Review Decision and, having obtained professional advice, decided to lodge an appeal against the Board of Review Decision in respect of the Deduction Claim.

On the other hand, the HKIR also lodged an appeal against the Board of Review Decision in respect of the Offshore Claim.

On 19 March 2010, the Board of Review stated a case on questions of law in respect of both LFT's appeal on the Deduction Claim, and the HKIR's appeal on the Offshore Claim. On 1 April 2010, both LFT and the HKIR transmitted the stated case to the High Court for determination.

The appeal by the HKIR in respect of the Board of Review Decision on the Offshore Claim was dismissed by the Court of First Instance on 18 April 2011, which upheld the Board of Review Decision. LFT was also awarded costs of the appeal.

On 16 May 2011, the HKIR lodged an appeal against the judgment of the Court of First Instance to the Court of Appeal, which appeal was heard by the Court of Appeal on 14 and 15 February 2012. On 19 March 2012, the Court of Appeal delivered its judgment. It upheld the judgment of the Court of First Instance, and dismissed the HKIR's appeal. Any appeal against the judgment of the Court of Appeal to the Court of Final Appeal will require permission of the Court of Appeal or the Court of Final Appeal. As no application for such permission was submitted by the HKIR before the deadline, the Court of Appeal judgment on the Offshore Claim is considered as final.

As regards LFT's appeal on the Deduction Claim, upon the consent of the parties, the Court of First Instance has remitted the case stated to the Board of Review and directed it to make further findings of fact and to determine certain issues. As of the date of this interim financial report, further directions/decisions from the Board of Review are awaited.

The Group has also filed objections with the HKIR against the remaining additional tax assessments of US$204 million. The case before the Board of Review and now the Court of Appeal only applies to the additional tax assessments in respect of LFT for the years of assessment from 1992/93 to 2001/02. The Group's dispute with the HKIR regarding the remaining additional tax assessments in respect of certain other subsidiaries for the years of assessment from 1992/93 to 2001/02, and in respect of the Group for the period after the 2001/02 assessment years, is ongoing and has not yet been determined. Such dispute is therefore not yet before the Board of Review, and no hearing is currently scheduled.

5 TAXATION (CONTINUED)

Based on the assessment of the Group's professional advisers on the merits of LFT's further appeal in respect of the Deduction Claim and the HKIR's further appeal in respect of the Offshore Claim (which has now been dismissed by the Court of Appeal), and having taken into account the impact and ramification that the Board of Review Decision has on the tax affairs of LFT, the directors consider that no material tax liabilities will finally crystallize and sufficient tax provision has been made in the accounts in this regard.

On 11 June 2010, the Group also applied for a judicial review of the decision of the Commissioner of the HKIR rejecting LFT's application for an unconditional holdover of tax for the year of assessment 2008/09 pending the determination of the objection lodged with the HKIR. The Group purchased tax reserve certificates in respect of LFT for the year of assessment 2008/09 as directed by the Commissioner of the HKIR pending the decision of the judicial review application. As of the date of this interim financial report, the hearing date for the judicial review application is yet to be fixed.

6 INTERIM DIVIDENDS

	UNAUDITED SIX MONTHS ENDED 30 JUNE	
	2012	2011
	US$'000	US$'000
Proposed, of US$0.019 (equivalent to HK$0.15) (2011: US$0.024 (equivalent to HK$0.19)) per ordinary share	**160,717**	197,360

A dividend of US$363,999,000 proposed for the year ended 31 December 2011 was paid in May 2012 (2011: US$269,851,000).

7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of US$312,280,000 (2011: US$235,523,000) and on the weighted average number of 8,220,235,000 (2011: 8,070,223,000) shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of 8,220,235,000 (2011: 8,070,223,000) ordinary shares in issue by 16,223,000 (2011: 52,128,000), to assume conversion of all dilutive potential ordinary shares granted under the Company's Option Scheme. For the calculation 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.

8 CAPITAL EXPENDITURE

	Intangible assets US$'000	Property, plant and equipment US$'000
Six months ended 30 June 2012		
Net book amount as at 1 January 2012	6,525,999	325,432
Adjustments to purchase consideration and net asset value *(Note (a))*	(22,149)	–
Adjustments to purchase consideration for acquisitions completed prior to 1 January 2010 *(Note (b))*	87,192	–
Additions	68,054	81,907
Acquisition of businesses/subsidiaries	175,828	3,170
Disposal of businesses	–	(1,365)
Disposals	–	(983)
Amortization *(Note (c))*/depreciation	(101,117)	(37,682)
Exchange differences	4,906	(850)
Net book amount as at 30 June 2012 (unaudited)	**6,738,713**	**369,629**

NOTES:

(a) These are adjustments to purchase considerations and net asset values related to certain acquisitions of businesses/subsidiaries in the prior year, which were previously determined on a provisional basis. During the measurement period, the Group recognized adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Save as adjustments to intangible assets stated above, there were corresponding net adjustments to purchase consideration of US$29,278,000 and other assets/liabilities of approximately US$7,129,000.

(b) For acquisitions completed prior to 1 January 2010, the effective date of HKFRS 3 (Revised) "Business Combination" being adopted by the Group, changes in accrued contingent considerations determined based on post-acquisition performance were made against goodwill.

(c) Amortization of intangible assets included amortization of computer software and system development costs of US$3,659,000, amortization of brand licenses of US$65,314,000 and amortization of other intangible assets arising from business combination of US$32,144,000.

9 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 30 June 2012 (unaudited)	**1,991,922**	**79,705**	**10,003**	**12,689**	**2,094,319**
Balance at 31 December 2011 (audited)	1,879,710	100,825	13,178	10,829	2,004,542

All trade and bills receivable are either repayable within one year or on demand. Accordingly, the fair values of the Group's trade and bills receivable approximates their carrying values.

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 and is often covered by customers' standby letters of credit, bank guarantees, credit insurance or under a back-to-back payment arrangement with suppliers.

9 TRADE AND BILLS RECEIVABLE (CONTINUED)

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

Certain subsidiaries of the Group discounted bills receivable balances amounting to US$33,717,000 (31 December 2011: US$40,298,000) to banks in exchange for cash as at 30 June 2012. The transactions have been accounted for as collateralized bank advances.

As at 30 June 2012, trade receivables of US$21,750,000 (31 December 2011: US$8,820,000) were pledged as security for the Group's borrowings.

10 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 30 June 2012 (unaudited)	**2,339,192**	**46,940**	**8,258**	**6,553**	**2,400,943**
Balance at 31 December 2011 (audited)	2,254,085	56,542	7,474	18,890	2,336,991

The fair values of the Group's trade and bills payable approximates their carrying values.

11 LONG-TERM LIABILITIES

	UNAUDITED 30 JUNE 2012 US$'000	AUDITED 31 DECEMBER 2011 US$'000
Long-term loans from non-controlling shareholders	**–**	4,910
Long-term bank loans – unsecured	**100,000**	105,489
Long-term notes – unsecured	**1,255,734**	1,256,007
Balance of purchase consideration payable for acquisitions to be settled by cash	**1,797,195**	1,970,376
License royalty payable	**214,306**	225,036
Other non-current liability (non-financial liability)	**66,193**	66,530
	3,433,428	3,628,348
Current portion of balance of purchase consideration payable for acquisitions to be settled by cash	**(492,602)**	(323,712)
Current portion of license royalty payable	**(34,819)**	(53,614)
	2,906,007	3,251,022

Balance of purchase consideration payable for acquisitions to be settled by cash as at 30 June 2012 included performance-based earnout and earnup contingent consideration of US$926,494,000 and US$870,701,000, respectively (31 December 2011: US$1,073,257,000 and US$897,119,000). Earnout is contingent consideration that would be realized if the acquired businesses achieve their respective base year profit target, calculated on certain predetermined basis, during the designated periods of time. Earnup is contingent consideration that would be realized if the acquired businesses achieve certain growth targets, calculated based on the base year profits, during the designated periods of time.

11 LONG-TERM LIABILITIES (CONTINUED)

Earnout and earnup of certain acquisitions were remeasured during the period, details are set out in *Note 4* and *Note 8* to the interim financial report.

The basis of the contingent consideration differs for each acquisition; generally however the contingent consideration reflects a specified multiple of the post-acquisition financial profitability of the acquired business. Consequently, the actual additional consideration payable will vary according to the future performance of each individual acquired business, and the liabilities provided reflect estimates of such future performances. Due to the number of acquisitions for which additional consideration remains outstanding and the variety of basis of determination, it is not practicable to provide any meaningful sensitivity in relation to the critical assumptions concerning future profitability of the acquired business.

Should the total actual additional consideration paid in the period ended 30 June 2012 be 0.1% higher/lower than the corresponding amount of contingent consideration estimated by management as payable at 30 June 2012, there would be consequent increases/reductions in non-core operating expenses for the period ended 30 June 2012 and goodwill of US$1,622,000 and US$175,000 respectively.

12 SHARE CAPITAL AND OPTIONS

	No. of shares (in thousand)	HK$'000	Equivalent to US$'000
Authorized			
At 1 January 2012, ordinary shares of HK$0.0125 each	12,000,000	150,000	19,231
At 30 June 2012, ordinary shares of HK$0.0125 each	**12,000,000**	**150,000**	**19,231**
Issued and fully paid			
At 1 January 2012, ordinary shares of HK$0.0125 each	8,104,154	101,302	12,987
Issue of shares upon a private placing *(Note)*	210,000	2,625	337
Exercise of share options	42,303	529	68
At 30 June 2012, ordinary shares of HK$0.0125 each	**8,356,457**	**104,456**	**13,392**

NOTE:

Pursuant to a placing agreement dated 27 March 2012, Fung Holdings (1937) Limited (formerly known as Li & Fung (1937) Limited) ("FH (1937)") placed 210,000,000 existing shares of HK$0.0125 each in the share capital of the Company to not less than six independent professional, institutional and/or individual investors at a price of HK$18.62 per share and to subscribe from the Company for the same number of shares at the same price before taking into account the placing commission and other expenses borne or incurred by FH (1937) in relation to the placing and/or the subscription. The net proceeds of the subscription amounted to approximately US$498,260,000 was used by the Company as general working capital of the Group which may include funding future business development and acquisitions by the Group from time to time.

12 SHARE CAPITAL AND OPTIONS (CONTINUED)

Details of share options granted by the Company pursuant to the Share Option Scheme and the share options outstanding at 30 June 2012 are as follows:

			Number of Share Options					
Grant Date	Exercise Price HK$	Exercisable period	As at 1/1/2012	Granted	Exercised	Cancelled	Lapsed	As at 30/6/2012
20/6/2005	6.72	20/6/2009 – 19/6/2012	5,336,000	–	(5,226,000)	–	(110,000)	–
23/1/2006	6.86	20/6/2009 – 19/6/2012	924,000	–	(924,000)	–	–	–
19/6/2006	7.82	20/6/2009 – 19/6/2012	420,000	–	(320,000)	–	(100,000)	–
2/2/2007	12.75	20/6/2009 – 19/6/2012	2,688,000	–	(1,956,000)	–	(732,000)	–
13/7/2007	14.96	20/6/2009 – 19/6/2012	872,000	–	(872,000)	–	–	–
24/1/2008	12.77	1/3/2010 – 29/2/2012	24,704,800	–	(19,822,800)	(2,882,000)	(2,000,000)	–
24/1/2008	12.77	1/3/2011 – 28/2/2013	37,123,000	–	(6,367,000)	–	–	30,756,000
21/5/2008	15.00	1/3/2010 – 29/2/2012	1,344,000	–	(984,000)	(180,000)	(180,000)	–
21/5/2008	15.00	1/3/2011 – 28/2/2013	2,206,000	–	(522,000)	–	–	1,684,000
13/8/2008	13.10	1/3/2010 – 29/2/2012	1,552,300	–	(895,600)	(408,800)	(247,900)	–
13/8/2008	13.10	1/3/2011 – 28/2/2013	2,602,800	–	(608,400)	–	–	1,994,400
24/2/2009	8.61	1/3/2010 – 29/2/2012	684,000	–	(116,000)	(416,000)	(152,000)	–
24/2/2009	8.61	1/3/2011 – 28/2/2013	1,604,000	–	(412,000)	–	–	1,192,000
14/8/2009	13.90	1/3/2010 – 29/2/2012	2,241,000	–	(1,998,800)	(90,400)	(151,800)	–
14/8/2009	13.90	1/3/2011 – 28/2/2013	3,616,400	–	(1,272,200)	–	–	2,344,200
25/3/2010	20.76	1/3/2011 – 28/2/2013	4,866,600	–	–	–	–	4,866,600
15/11/2010	22.42	1/3/2011 – 28/2/2013	2,357,200	–	–	–	–	2,357,200
11/4/2011	20.21	1/5/2012 – 30/4/2015	32,860,000	–	–	–	–	32,860,000
11/4/2011	20.21	1/5/2013 – 30/4/2015	33,404,000	–	–	–	–	33,404,000
11/4/2011	20.21	1/5/2014 – 30/4/2016	83,226,000	–	–	–	–	83,226,000
21/11/2011	15.20	1/5/2012 – 30/4/2015	2,039,000	–	(6,000)	–	–	2,033,000
21/11/2011	15.20	1/5/2013 – 30/4/2015	4,228,000	–	–	–	–	4,228,000
21/11/2011	15.20	1/5/2014 – 30/4/2016	9,457,000	–	–	–	–	9,457,000
22/12/2011	14.50	1/5/2013 – 30/4/2015	3,000,000	–	–	–	–	3,000,000
22/12/2011	14.50	1/5/2014 – 30/4/2016	3,000,000	–	–	–	–	3,000,000
22/12/2011	14.50	1/5/2015 – 30/4/2017	3,000,000	–	–	–	–	3,000,000
22/12/2011	14.50	1/5/2016 – 30/4/2018	3,000,000	–	–	–	–	3,000,000
22/12/2011	14.50	1/5/2017 – 30/4/2019	3,000,000	–	–	–	–	3,000,000
22/12/2011	14.50	1/5/2018 – 30/4/2020	3,000,000	–	–	–	–	3,000,000
22/12/2011	14.50	1/5/2019 – 30/4/2021	3,000,000	–	–	–	–	3,000,000
22/12/2011	14.50	1/5/2020 – 30/4/2022	3,000,000	–	–	–	–	3,000,000
22/12/2011	14.50	1/5/2021 – 30/4/2023	3,000,000	–	–	–	–	3,000,000
26/6/2012	15.09	1/5/2013 – 30/4/2015	–	3,789,000	–	(47,000)	–	3,742,000
26/6/2012	15.09	1/5/2014 – 30/4/2016	–	8,447,000	–	(90,000)	–	8,357,000
		Total	287,356,100	12,236,000	(42,302,800)	(4,114,200)	(3,673,700)	249,501,400

Subsequent to 30 June 2012, 837,400 Shares have been allotted and issued under the Option Scheme.

13 OTHER RESERVES

	Unaudited							
	Shares held by escrow agent for settlement of acquisition consideration US$'000	**Capital reserve US$'000**	**Employee share-based compensation reserve US$'000**	**Revaluation reserve US$'000**	**Hedging reserve US$'000**	**Defined benefit obligation US$'000**	**Exchange reserve US$'000**	**Total US$'000**
Balance at 1 January 2012	**(8,503)**	**3,618**	**47,237**	**2,496**	**9,474**	**(3,549)**	**(78,212)**	**(27,439)**
Comprehensive income								
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**–**	**(164)**	**(164)**
Net fair value gain on available-for-sale financial assets, net of tax	**–**	**–**	**–**	**30**	**–**	**–**	**–**	**30**
Net fair value loss on cash flow hedges, net of tax	**–**	**–**	**–**	**–**	**(4,457)**	**–**	**–**	**(4,457)**
Net actuarial loss from post employment benefits recognized in reserve, net of tax	**–**	**–**	**–**	**–**	**–**	**(85)**	**–**	**(85)**
Realization of revaluation reserve on disposal of available-for-sale financial assets, net of tax	**–**	**–**	**–**	**75**	**–**	**–**	**–**	**75**
Transactions with owners								
Employee share option scheme:								
– value of employee services	**–**	**–**	**5,629**	**–**	**–**	**–**	**–**	**5,629**
– transfer to share premium	**–**	**–**	**(14,644)**	**–**	**–**	**–**	**–**	**(14,644)**
Release of shares held by escrow agent for settlement of acquisition consideration	**1,764**	**–**	**–**	**–**	**–**	**–**	**–**	**1,764**
Transfer to capital reserve	**–**	**124**	**–**	**–**	**–**	**–**	**–**	**124**
At 30 June 2012	**(6,739)**	**3,742**	**38,222**	**2,601**	**5,017**	**(3,634)**	**(78,376)**	**(39,167)**

	Unaudited							
	Shares held by escrow agent for settlement of acquisition consideration US$'000	Capital reserve US$'000	Employee share-based compensation reserve US$'000	Revaluation reserve US$'000	Hedging reserve US$'000	Defined benefit obligation US$'000	Exchange reserve US$'000	Total US$'000
Balance at 1 January 2011	(23,385)	3,544	45,826	2,308	(752)	–	(50,409)	(22,868)
Comprehensive income								
Currency translation differences	–	–	–	–	–	–	19,755	19,755
Net fair value gain on available-for-sale financial assets, net of tax	–	–	–	129	–	–	–	129
Net fair value loss on cash flow hedges, net of tax	–	–	–	–	(4,881)	–	–	(4,881)
Transactions with owners								
Employee share option scheme:								
– value of employee services	–	–	7,256	–	–	–	–	7,256
– transfer to share premium	–	–	(17,757)	–	–	–	–	(17,757)
Transfer to capital reserve	–	74	–	–	–	–	–	74
At 30 June 2011	(23,385)	3,618	35,325	2,437	(5,633)	–	(30,654)	(18,292)

14 BUSINESS COMBINATIONS

During the period, the Group completed a series of acquisitions to expand the Group's existing scale of operation and enlarge the Group's market presence. The Group was not required to made any announcement in accordance with Chapter 14 of the Listing Rules for any individual acquisition completed during the period since none of the acquisitions, on a standalone basis, would be of sufficient material to be recognized as a notifiable transaction, and, for reasons of materiality and commercial sensitivity, no disclosure is provided of the details and impact of any individual acquisition. However, on a collective basis, the estimated aggregate undiscounted total consideration amounted to approximately US$196 million, of which the aggregate initial considerations paid was approximately US$52 million and the aggregate potential undiscounted performance-based contingent consideration payable could range from nil to US$144 million. The estimated fair value of the aggregate contingent consideration payable of approximately US$136 million was determined based on applying agreed multiples to the estimated post-acquisition performance of the acquired businesses/subsidiaries and time value of money.

The contributions of these acquisitions to the Group in this period and the result of the Group as if these acquisitions had occurred on 1 January 2012 are as follows:

	Contribution of the acquired businesses/ subsidiaries for the six months ended 30 June 2012 US$'000	**Group results as if the acquisitions had occurred on 1 January 2012 US$'000**
Turnover	21,792	9,144,067
Total margin	8,514	1,328,662
Operating costs	(5,312)	(1,106,929)
Core operating profit	3,202	221,733
Profit after tax	1,590	310,979

Details of provisional net assets acquired, goodwill and acquisition-related costs are as follows:

	US$'000
Purchase consideration to be settled by cash	187,793
Less: provisional fair value of net assets acquired *(Note)*	(41,972)
Goodwill	145,821
Acquisition-related costs (included in other non-core operating expenses in the consolidated profit and loss account for the period ended 30 June 2012)	2,171

NOTE: As at the date of this interim financial report, verification of individual assets/liabilities of the acquired businesses is in progress and the Group has not finalized the fair value assessments. The relevant fair value of individual assets/liabilities stated above are provisional.

The goodwill is attributable to the acquired workforces, the profitability and the synergies expected to arise from the acquired businesses. Goodwill recognized of US$58,786,000 is expected to be deductible for income tax purposes.

14 BUSINESS COMBINATIONS (CONTINUED)

The initial carrying amounts of the assets and liabilities, other than intangible assets arising from business combinations, of the acquired businesses approximate their provisional fair values at respective acquisition date and are as follows:

	US$'000
Net assets acquired:	
Intangible assets (excluding goodwill)[(i)]	30,007
Property, plant and equipment	3,170
Inventories	2,296
Trade and bills receivable[(ii)]	4,131
Other receivables, prepayments and deposits	6,410
Cash and bank balances	1,190
Taxation	(1,569)
Trade and bills payables	(2,131)
Accrued charges and sundry payables	(753)
Bank overdrafts	(779)
Fair value of net assets acquired	41,972

(i) Intangible assets arising from business combinations represent customer relationships, and trademarks. The Group has engaged external valuers to perform fair value assessments on these intangible assets in accordance with HKAS 38 "Intangible Assets" and HKFRS 3 "Business Combination". As at the date of the interim financial report, the valuation assessments have not yet been completed and the Group has not finalized the fair value assessments for all of the intangible assets. The relevant fair values of intangible assets stated above are stated on a provisional basis.

(ii) The fair value of trade and bills receivables with a fair value of US$4,131,000 which are to be collectible in full.

Details of these acquisitions are as follows:

In February 2012, the Group acquired Algreta Solutions Limited, which is based in UK and is a source tagging recycling solution provider with the capability to apply electronic article surveillance (EAS) tags on retail merchandise at the manufacturing source.

In March 2012, the Group acquired Palamon (International) Ltd, a leading role-play, costumes and party accessories trading company servicing mass retailers and toy retailers.

During the same month, the Group also acquired Added Extras, LLC, a leading marketer of licensed youth cosmetics and personal care products based in New York.

In June 2012, the Group acquired Dragon Concept HK Ltd, a design driven virtual manufacturer supplying fashion bags, shoes and accessories to the mid-tier and high-end markets.

14 BUSINESS COMBINATIONS (CONTINUED)

Analysis of the net outflow of cash and cash equivalents in respect of the acquisitions:

	US$'000
Purchase consideration	187,793
Purchase consideration payable *(Note)*	(136,246)
Cash and cash equivalents acquired	(411)
Net outflow of cash and cash equivalents in respect of the acquisitions	51,136

NOTE: Balances are the discounted aggregate estimated fair value of deferred considerations payable for the acquired businesses as at respective acquisition dates, which included performance-based earnout and earnup contingent considerations of US$98,946,000 and US$37,300,000. Final amounts of consideration settlements will be determined based on future performance of the acquired businesses.

15 CONTINGENT LIABILITIES

	UNAUDITED 30 JUNE 2012 US$'000	AUDITED 31 DECEMBER 2011 US$'000
Guarantees in respect of banking facilities granted to associated companies	**750**	750

16 COMMITMENTS

(a) OPERATING LEASE COMMITMENTS

At 30 June 2012, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	UNAUDITED 30 JUNE 2012 US$'000	AUDITED 31 DECEMBER 2011 US$'000
Within one year	**173,123**	192,411
In the second to fifth year inclusive	**489,716**	494,911
After the fifth year	**477,384**	549,867
	1,140,223	1,237,189

16 COMMITMENTS (CONTINUED)

(b) CAPITAL COMMITMENTS

	UNAUDITED 30 JUNE 2012 US$'000	AUDITED 31 DECEMBER 2011 US$'000
Contracted but not provided for:		
Property, plant and equipment	**32,025**	14,713
Computer software and system development	**21,743**	11,729
Authorised but not contracted for:		
Property, plant and equipment	**64,545**	74,072
Computer software and system development	**15,216**	38,791
	133,529	139,305

17 RELATED PARTY TRANSACTIONS

Pursuant to the master agreement for leasing of properties that the Company entered into with FH (1937), the substantial shareholder of the Company, on 13 January 2011, the Group leased certain properties from FH (1937) and its associates during the period with aggregate rental paid of US$12,060,000 (2011: US$11,853,000).

On 19 January 2012, the Group entered into a sales and purchase agreement with LiFung Kids (Holdings) Limited ("LiFung Kids"), a subsidiary of FH (1937), for its divestment of certain apparel retailing business at the initial consideration of US$17.8 million, subject to upward or downward adjustment with reference to net tangible assets, provided that the total consideration will not exceed US$26.7 million.

On the same date, the Group also entered into a new distribution and sale of goods agreement with FH (1937) to set out the framework of the terms for distribution and sales of goods by the Group to the FH (1937) Group for a term of three years from 1 January 2012 to 31 December 2014. This new agreement replaces the original distribution and sale of goods agreement expiring on 31 December 2012 and covers the scope of business contemplated under the Group's agreement to engage LiFung Kids as the Group's exclusive retail distributor for certain branded children's apparel, children's footwear and various other related products in Hong Kong, the PRC and Macau. Based on these distribution and sale of goods agreements, the Group recorded sales of US$5,685,000 (2011: US$980,000) for the interim period.

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

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

18 FINANCIAL RISK MANAGEMENT

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

(a) MARKET RISK

(i) Foreign exchange risk

The Group operates globally and is exposed to foreign exchange risk arising from various currency exposures mainly to the extent of its receivables and payables in currencies other than US dollar, such as HK dollar, Euro dollar and Sterling Pound. To minimize such risks, sales and purchases are generally transacted in the same currency. HK dollar is pegged to US dollar at a range between 7.75 to 7.85 and the foreign exchange exposure between US dollar and HK dollar is therefore limited.

Foreign exchange risk arising from sales and purchases transacted in different currencies are managed by the Group treasury with the use of foreign exchange forward contracts. Pursuant to the Group policy in place, foreign exchange forward contracts, or any other financial derivatives, are entered into by the Group for hedging purposes. The Group has not entered into any financial derivatives for speculation.

The Group's cash is mainly kept in either US dollar or HK dollar to minimize the foreign exchange risk.

(ii) Price risk

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

At 30 June 2012 and up to the date of the Group's interim financial report, the Group held no material financial derivative instruments except for certain foreign exchange forward contracts entered into for hedging of foreign exchange risk exposure on sales and purchases transacted in different currencies *((i) above)*. At 30 June 2012, the fair value of foreign exchange forward contracts entered into by the Group amounted to US$7,097,000 (31 December 2011: US$13,743,000), which have been reflected in full in the Group's consolidated balance sheet as derivative financial instruments assets.

(iii) Cash flow and fair value interest rate risk

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

The Group's interest rate risk arises mainly from its bank deposits of various major currencies, US dollar denominated long-term notes and the US dollar denominated available-for-sale debt security. Bank borrowings at variable rates expose the Group to cash flow interest rate risk. Long-term notes and available-for-sale debt security issued at fixed interest rate expose the Group to fair value interest rate risk. The Group's policy is to maintain a diversified mix of variable and fixed rate borrowings based on prevailing market conditions.

18 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK

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

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

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

(i) A significant portion of business is secured by back-to-back payment arrangement or covered by letters of credit, customers' standby letters of credit, bank guarantees or credit insurance;
(ii) Certain trade receivable balances on open account term are factored to external financial institutions without recourse;
(iii) The Group's credit control team makes assessment of each counter party and determines the credit limits based on, among other factors, their trading and settlement history and their respective financial background.

(c) LIQUIDITY RISK

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

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

19 APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board of Directors on 9 August 2012.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

TO THE SHAREHOLDERS OF LI & FUNG LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated accounts of Li & Fung Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 67 to 159, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED ACCOUNTS

The directors of the Company are responsible for the preparation of consolidated accounts that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated accounts based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated accounts that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

OPINION

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2012

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2011

	Note	**2011** **US$'000**	2010 US$'000 (Restated) *Note 1.1(c)*
Turnover	*3*	**20,030,271**	15,912,201
Cost of sales		**(17,043,929)**	(13,746,389)
Gross profit		**2,986,342**	2,165,812
Other income		**87,862**	72,477
Total margin		**3,074,204**	2,238,289
Selling and distribution expenses		**(834,099)**	(418,214)
Merchandising expenses		**(1,247,993)**	(1,001,527)
Administrative expenses		**(110,056)**	(93,410)
Core operating profit	*3*	**882,056**	725,138
Gain on disposal of businesses/subsidiary	*30(c), 35*	**50,994**	–
Gain on disposal of properties/property holding subsidiary	*30(d), 35*	**13,666**	–
Other non-core operating expenses	*4*	**(66,779)**	(45,820)
Operating profit	*4*	**879,937**	679,318
Interest income		**19,490**	13,567
Interest expenses	*5*		
Non-cash interest expenses		**(21,538)**	(19,272)
Cash interest expenses		**(107,056)**	(79,171)
		(128,594)	(98,443)
Share of profits less losses of associated companies		**1,231**	1,850
Profit before taxation		**772,064**	596,292
Taxation	*6*	**(90,660)**	(47,525)
Profit for the year		**681,404**	548,767
Attributable to:			
Shareholders of the Company	*7*	**681,229**	548,491
Non-controlling interests		**175**	276
		681,404	548,767
Earnings per share for profit attributable to the shareholders of the Company during the year			
– basic	*8*	**8.43 US cents**	7.17 US cents
– diluted	*8*	**8.39 US cents**	7.09 US cents

Details of dividends to Shareholders of the Company are set out in *Note 9*. The notes on pages 75 to 159 are an integral part of these consolidated accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 US$'000	2010 US$'000 (Restated) *Note 1.1(c)*
Profit for the year	**681,404**	548,767
Other comprehensive income/(expense):		
Currency translation differences	**(28,024)**	(15,218)
Net fair value gain on available-for-sale financial assets, net of tax	**188**	2,142
Net fair value gain/(loss) on cash flow hedges, net of tax	**10,226**	(1,536)
Net actuarial loss from post employment benefits recognized in reserve	**(3,549)**	–
Other comprehensive expense for the year, net of tax	**(21,159)**	(14,612)
Total comprehensive income for the year	**660,245**	534,155
Attributable to:		
– Shareholders of the Company	**660,291**	533,836
– Non-controlling interests	**(46)**	319
Total comprehensive income for the year	**660,245**	534,155

The notes on pages 75 to 159 are an integral part of these consolidated accounts.

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	As at 31 December 2011 US$'000	2010 US$'000 (Restated) *Note 1.1(c)*	As at 1 January 2010 US$'000 (Restated) *Note 1.1(c)*
Non-current assets				
Intangible assets	*12*	**6,525,999**	4,882,166	2,333,657
Property, plant and equipment	*13*	**325,432**	309,186	160,988
Prepaid premium for land leases	*14*	**3,144**	3,814	311
Associated companies	*16*	**7,015**	6,140	3,622
Available-for-sale financial assets	*17*	**70,574**	84,330	92,331
Deposits	*21*	**12,537**	10,200	8,633
Deferred tax assets	*29*	**24,148**	20,195	7,459
		6,968,849	5,316,031	2,607,001
Current assets				
Inventories	*18*	**1,035,788**	768,687	305,466
Due from related companies	*19*	**16,948**	13,163	12,655
Trade and bills receivable	*21*	**2,004,542**	2,079,012	1,610,433
Other receivables, prepayments and deposits	*21*	**454,310**	348,396	290,321
Derivative financial instruments	*20*	**13,743**	–	336
Cash and bank balances	*22*	**426,240**	968,530	538,752
		3,951,571	4,177,788	2,757,963
Current liabilities				
Due to related companies	*19*	**12,675**	6,531	–
Trade and bills payable	*23*	**2,336,991**	2,208,404	1,539,117
Accrued charges and sundry payables	*23*	**734,213**	581,980	389,732
Balance of purchase consideration payable for acquisitions to be settled by cash	*27*	**323,712**	248,314	145,983
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	*27*	**1,764**	16,646	41,500
Taxation		**103,006**	94,238	66,791
Derivative financial instruments	*20*	**–**	1,892	–
Bank advances for discounted bills	*21*	**40,298**	41,905	38,734
Short-term bank loans	*24*	**111,936**	89,154	–
Bank overdrafts	*22, 24*	**225**	28,298	6,066
		3,664,820	3,317,362	2,227,923
Net current assets		**286,751**	860,426	530,040
Total assets less current liabilities		**7,255,600**	6,176,457	3,137,041

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December 2011

	Note	**As at 31 December** **2011** **US$'000**	As at 31 December 2010 US$'000 (Restated) *Note 1.1(c)*	As at 1 January 2010 US$'000 (Restated) *Note 1.1(c)*
Financed by:				
Share capital	*25*	**12,987**	12,899	12,103
Reserves	*26*	**3,566,195**	3,343,896	2,027,042
Proposed dividend		**354,611**	269,234	237,732
		3,920,806	3,613,130	2,264,774
Shareholders' funds attributable to the Company's shareholders		**3,933,793**	3,626,029	2,276,877
Non-controlling interests		**4,813**	6,049	(4,289)
Total equity		**3,938,606**	3,632,078	2,272,588
Non-current liabilities				
Long term notes	*27*	**1,256,007**	1,256,552	496,452
Balance of purchase consideration payable for acquisitions settled by cash	*27*	**1,646,664**	920,428	292,778
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	*27*	**–**	–	17,994
Other long-term liabilities	*27*	**348,351**	329,713	44,843
Post-employment benefit obligations	*28*	**13,096**	8,311	3,303
Deferred tax liabilities	*29*	**52,876**	29,375	9,083
		3,316,994	2,544,379	864,453
		7,255,600	6,176,457	3,137,041

Victor Fung Kwok King
Director

William Fung Kwok Lun
Director

The notes on pages 75 to 159 are an integral part of these consolidated accounts.

BALANCE SHEET

As at 31 December 2011

	Note	As at 31 December 2011 US$'000	2010 US$'000 (Restated) *Note 1.1(c)*	As at 1 January 2010 US$'000 (Restated) *Note 1.1(c)*
Interests in subsidiaries	*15*	**1,339,604**	1,339,604	302,512
Current assets				
Due from related companies	*19*	**3,855,441**	3,650,510	2,532,192
Other receivables, prepayments and deposits	*21*	**249**	254	187
Cash and bank balances	*22*	**295**	186	224
		3,855,985	3,650,950	2,532,603
Current liabilities				
Accrued charges and sundry payables	*23*	**9,760**	14,630	3,990
		9,760	14,630	3,990
Net current assets		**3,846,225**	3,636,320	2,528,613
Total assets less current liabilities		**5,185,829**	4,975,924	2,831,125
Financed by:				
Share capital	*25*	**12,987**	12,899	12,103
Reserves	*26(b)*	**3,562,224**	3,437,239	2,084,838
Proposed dividend	*26(b)*	**354,611**	269,234	237,732
		3,916,835	3,706,473	2,322,570
Shareholders' funds		**3,929,822**	3,719,372	2,334,673
Non-current liabilities				
Long-term notes	*27*	**1,256,007**	1,256,552	496,452
		5,185,829	4,975,924	2,831,125

Victor Fung Kwok King
Director

William Fung Kwok Lun
Director

The notes on pages 75 to 159 are an integral part of these consolidated accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to shareholders of the Company						
	Share capital US$'000	**Share premium US$'000**	**Other reserves US$'000** *Note 26(a)*	**Retained earnings US$'000**	**Total US$'000**	**Non-controlling interests US$'000**	**Total equity US$'000**
Balance at 1 January 2011	**12,899**	**3,015,794**	**(22,868)**	**620,204**	**3,626,029**	**6,049**	**3,632,078**
Comprehensive income							
Profit or loss	**–**	**–**	**–**	**681,229**	**681,229**	**175**	**681,404**
Other comprehensive income							
Currency translation differences	**–**	**–**	**(27,803)**	**–**	**(27,803)**	**(221)**	**(28,024)**
Net fair value gain on available-for-sale financial assets, net of tax	**–**	**–**	**188**	**–**	**188**	**–**	**188**
Net fair value gain on cash flow hedges, net of tax	**–**	**–**	**10,226**	**–**	**10,226**	**–**	**10,226**
Net actuarial loss from post employment benefits recognized in reserve	**–**	**–**	**(3,549)**	**–**	**(3,549)**	**–**	**(3,549)**
Total other comprehensive income	**–**	**–**	**(20,938)**	**–**	**(20,938)**	**(221)**	**(21,159)**
Total comprehensive income	**–**	**–**	**(20,938)**	**681,229**	**660,291**	**(46)**	**660,245**
Transactions with owners							
Employee share option scheme:							
– value of employee services	**–**	**–**	**18,906**	**–**	**18,906**	**–**	**18,906**
– proceeds from shares issued	**88**	**80,808**	**–**	**–**	**80,896**	**–**	**80,896**
– transfer to share premium	**–**	**17,495**	**(17,495)**	**–**	**–**	**–**	**–**
Release of shares held by escrow agent for settlement of acquisition consideration	**–**	**–**	**14,882**	**–**	**14,882**	**–**	**14,882**
Transfer to capital reserve	**–**	**–**	**74**	**(74)**	**–**	**–**	**–**
2010 final dividend paid	**–**	**–**	**–**	**(269,851)**	**(269,851)**	**–**	**(269,851)**
2011 interim dividend paid	**–**	**–**	**–**	**(197,360)**	**(197,360)**	**(1,190)**	**(198,550)**
Total transactions with owners	**88**	**98,303**	**16,367**	**(467,285)**	**(352,527)**	**(1,190)**	**(353,717)**
Balance at 31 December 2011	**12,987**	**3,114,097**	**(27,439)**	**834,148**	**3,933,793**	**4,813**	**3,938,606**

	Attributable to shareholders of the Company						
	Share capital US$'000	Share premium US$'000	Other reserves US$'000 *Note 26(a)*	Retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2010 – Restated *(Note 1.1(c))*	12,103	1,818,277	(50,335)	496,832	2,276,877	(4,289)	2,272,588
Comprehensive income							
Profit or loss	–	–	–	548,491	548,491	276	548,767
Other comprehensive income							
Currency translation differences	–	–	(15,261)	–	(15,261)	43	(15,218)
Net fair value gain on available-for-sale financial assets, net of tax	–	–	2,142	–	2,142	–	2,142
Net fair value loss on cash flow hedges, net of tax	–	–	(1,536)	–	(1,536)	–	(1,536)
Total other comprehensive income	–	–	(14,655)	–	(14,655)	43	(14,612)
Total comprehensive income	–	–	(14,655)	548,491	533,836	319	534,155
Transactions with owners							
Employee share option scheme:							
– value of employee services	–	–	33,281	–	33,281	–	33,281
– proceeds from share issued	169	143,287	–	–	143,456	–	143,456
– transfer to share premium	–	27,330	(27,330)	–	–	–	–
Release of shares held by escrow agent for settlement of acquisition consideration	–	–	36,109	–	36,109	–	36,109
Transfer to capital reserve	–	–	62	(62)	–	–	–
2009 final dividend paid	–	–	–	(239,241)	(239,241)	(559)	(239,800)
2010 interim dividend paid	–	–	–	(185,816)	(185,816)	–	(185,816)
Issue of shares for privatization of IDS	627	1,026,900	–	–	1,027,527	–	1,027,527
Acquisition of businesses/subsidiaries	–	–	–	–	–	10,578	10,578
Total transactions with owners	796	1,197,517	42,122	(425,119)	815,316	10,019	825,335
Balance at 31 December 2010 – Restated *(Note 1.1(c))*	12,899	3,015,794	(22,868)	620,204	3,626,029	6,049	3,632,078

The notes on pages 75 to 159 are an integral part of these consolidated accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011

	Note	**2011** **US$'000**	2010 US$'000 (Restated) *Note 1.1(c)*
Operating activities			
Net cash inflow generated from operations	*30(a)*	**987,058**	778,965
Hong Kong profits tax paid		**(14,100)**	(6,966)
Overseas taxation paid		**(48,735)**	(26,648)
Net cash inflow from operating activities		**924,223**	745,351
Investing activities			
Purchase of property, plant and equipment		**(113,223)**	(78,438)
Disposal of property, plant and equipment		**11,912**	9,142
Disposal of available-for-sale financial assets	*17*	**944**	77
Partial repayment on debt security	*17*	**13,000**	10,000
Payment for computer software and system development costs		**(4,832)**	(4,126)
Acquisitions of businesses/subsidiaries	*31*	**(701,169)**	(464,723)
Settlement of consideration payable for prior years acquisitions of businesses/subsidiaries		**(287,774)**	(209,790)
Interest received		**19,490**	13,567
Dividends received from associated companies	*16*	**300**	686
Disposal of prepaid premium for land leases		**77**	351
Proceed from disposal of businesses/subsidiary	*30(c)*	**64,060**	–
Proceeds from disposal of properties/property holding subsidiary	*30(d)*	**26,201**	–
Net cash outflow from investing activities		**(971,014)**	(723,254)
Net cash (outflow)/inflow before financing activities		**(46,791)**	22,097
Financing activities			
Net proceeds from issuance of shares	*30(b)*	**80,896**	143,456
Net drawdown/(repayment) of bank loans	*30(b)*	**25,483**	(13,295)
Interest paid		**(107,056)**	(79,170)
Dividends paid		**(468,401)**	(425,616)
Net proceeds from issuance of long-term notes		**–**	760,268
Net cash (outflow)/inflow from financing		**(469,078)**	385,643
(Decrease)/increase in cash and cash equivalents		**(515,869)**	407,740
Cash and cash equivalents at 1 January		**940,232**	532,686
Effect of foreign exchange rate changes		**1,652**	(194)
Cash and cash equivalents at 31 December		**426,015**	940,232
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	*22*	**426,240**	968,530
Bank overdrafts	*22*	**(225)**	(28,298)
		426,015	940,232

The notes on pages 75 to 159 are an integral part of these consolidated accounts.

NOTES TO THE ACCOUNTS

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

1.1 BASIS OF PREPARATION

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

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

(a) Revised and amended standards and interpretations adopted by the Group

The following revised and amended standards and interpretations of HKFRSs are mandatory for accounting periods beginning on or after 1 January 2011 but they are not relevant to the Group's operations:

HKAS 24 (revised)	Related party disclosures
HKAS 32 (amendment)	Classification of rights issues
HKFRS 1 (amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters
HK(IFRIC) – Int 14 (amendment)	Prepayments of a minimum funding requirement
HK(IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments
Third annual improvements project (2010)	Improvements to HKFRS published in May 2010

(b) Standards and amendments to existing standards that have been issued but are not yet effective and have not been early adopted by the Group

The following new standards and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2012 or later periods, but the Group has not early adopted them:

HKAS 1 (amendment)	Presentation of financial statements[3]
HKAS 12 (amendment)	Deferred tax: recovery of underlying assets[2]
HKAS 19 (amendment)	Employee benefits[4]
HKFRS 1 (amendment)	Severe hyperinflation and removal of fixed dates of first-time adopters[1]
HKFRS 7 (amendment)	Disclosures – Transfers of financial assets[1]
HKFRS 9	Financial instruments[4]
HKFRS 10 and HKAS 27 (2011)	Consolidated financial statements and Separate financial statements[4]
HKFRS 11 and HKAS 28 (2011)	Joint arrangements and Associates and joint ventures[4]
HKFRS 12	Disclosure of interests in other entities[4]
HKFRS 13	Fair value measurements[4]
HK(IFRIC) – Int 20	Stripping costs in the production phase of a surface mine[4]

NOTES:

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (CONTINUED)

(b) Standards and amendments to existing standards that have been issued but are not yet effective and have not been early adopted by the Group (continued)

The Group is in the process of making an assessment of the impact of these standards and amendments to existing standards upon initial application. So far, it has concluded that these new standards and amendments to existing standards are unlikely to have a significant impact on the Group's results of operations and financial position.

(c) Changes in functional and presentation currencies

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

In prior years, the Company regarded Hong Kong dollar ("HK dollar") as its functional currency. However, as a result of the Group's continuous acquisitions in recent years, the Company and most of its major operating subsidiaries' business transactions in terms of operating, investing and financing activities have increasingly placed greater reliance on US dollar. As such, effective from 1 January 2011, the Company and certain of its subsidiaries have changed their functional currencies from HK dollar to US dollar. US dollar has also been adopted as the presentation currency of the Group's consolidated accounts.

The change in functional currency of the Company was applied prospectively from date of change in accordance with HKAS 21 "The Effect of Changes in Foreign Exchange Rate". On the date of the change of functional currency, all assets, liabilities, issued capital and other components of equity and profit and loss account items were translated into US dollar at the exchange rate on that date.

The change in presentation currency of the Group has been applied retrospectively in accordance with HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", and the comparative figures as at 1 January 2010 and 31 December 2010 and for the year ended 31 December 2010 have also been restated to US dollar accordingly.

The changes in functional and presentation currencies have no significant impact on the financial positions of the Group as at 1 January 2010, 31 December 2010 and 2011, or the results and cash flows of the Group for the years ended 31 December 2010 and 2011.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.2 CONSOLIDATION

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December 2011.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

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

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

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

(b) Transactions with non-controlling interests

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

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.2 CONSOLIDATION (CONTINUED)

(c) Associated companies

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

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

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

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

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

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

1.3 SEGMENT REPORTING

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

1.4 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts are presented in US dollar, which is the Company's functional and presentation currency *(Note 1.1(c))*.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.4 FOREIGN CURRENCY TRANSLATION (CONTINUED)

(b) Transactions and balances

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

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

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

(c) Group companies

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

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

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

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

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

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

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.4 FOREIGN CURRENCY TRANSLATION (CONTINUED)

(c) Group companies (continued)

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

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

1.5 PROPERTY, PLANT AND EQUIPMENT

(a) Land and buildings

Freehold land is stated at cost less impairment.

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

(b) Other property, plant and equipment

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

(c) Depreciation and impairment

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

Buildings and leasehold improvements	2% – 20%
Furniture, fixtures and equipment	$6^2/_3$% – $33^1/_3$%
Plant and machinery	10% – 15%
Motor vehicles and company boat	15% – 20%

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

(d) Gain or loss on disposal

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

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.6 INTANGIBLE ASSETS

(a) Goodwill

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

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

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

(b) Computer software and system development costs

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

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

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

(c) Other intangible assets arising from business combinations

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

(d) Brand licenses

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

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.7 IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATED COMPANIES AND NON-FINANCIAL ASSETS

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

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

1.8 FINANCIAL ASSETS

Classification

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

(a) Loans and receivables

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

(b) Available-for-sale financial assets

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

Recognition and measurement

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

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

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.8 FINANCIAL ASSETS (CONTINUED)

Recognition and measurement (continued)

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

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

1.9 IMPAIRMENT OF FINANCIAL ASSETS

(a) Assets carried at amortized cost

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

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

- Significant financial difficulty of the issuer or obligor;

- A breach of contract, such as a default or delinquency in interest or principal payments;

- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;

- The disappearance of an active market for that financial asset because of financial difficulties; or

- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.9 IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(a) Assets carried at amortized cost (continued)

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

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

(b) Assets classified as available-for-sale

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

1.10 INVENTORIES

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

1.11 TRADE AND OTHER RECEIVABLES

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

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.12 SHARE CAPITAL

Ordinary shares are classified as equity.

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

1.13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

1.14 BORROWINGS

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

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

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

1.15 CURRENT AND DEFERRED TAX

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

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

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

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

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

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.15 CURRENT AND DEFERRED TAX (CONTINUED)

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

1.16 EMPLOYEE BENEFITS

(a) Employee leave entitlements

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

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

(b) Discretionary bonus

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

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

(c) Post employment benefit obligations

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

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

For defined benefit plans, pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans on an annual basis. The pension obligation is measured as the present value of the estimated future cash outflows, discounted by reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities. Actuarial gains and losses are recognized over the average remaining service lives of employees.

The Group's net obligation in respect of long service payments on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The obligation is calculated using the projected unit credit method by a qualified actuary. The discount rate is determined by reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.16 EMPLOYEE BENEFITS (CONTINUED)

(d) Share-based compensation

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

- including any market performance conditions;

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

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

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

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

1.17 PROVISIONS

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

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

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

1.18 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.18 CONTINGENT LIABILITIES AND CONTINGENT ASSETS (CONTINUED)

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

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

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

1.19 TOTAL MARGIN

Total margin includes trading gross profit and other recurring income relating to the trading, distribution and logistics business.

1.20 CORE OPERATING PROFIT

Core operating profit is the profit before taxation generated from the Group's trading, distribution and logistics business which excludes share of results of associated companies, interest income, interest costs, tax, material gain or loss which are of capital nature or non-recurring nature (such as gain or loss on disposal or impairment provision of property, plant and equipment, investments, goodwill or other assets) and acquisition-related costs.

1.21 REVENUE RECOGNITION

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

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

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

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

Operating lease rental income is recognized on a straight-line basis.

Interest income is recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

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

Other income are recognized when the services are rendered.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.22 BORROWING COSTS

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

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

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

1.23 OPERATING LEASES

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

1.24 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

Movements in the fair values of hedging derivatives are included within shareholders' equity *(Note 26)*. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Cash flow hedge

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

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

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.24 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

(a) Cash flow hedge (continued)

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

(b) Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognized immediately in the consolidated profit and loss account.

1.25 TRADE PAYABLES

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

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

1.26 DIVIDEND DISTRIBUTION

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

1.27 SHARES HELD BY ESCROW AGENT FOR SETTLEMENT OF ACQUISITION CONSIDERATION

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

1.28 FINANCIAL GUARANTEE CONTRACT

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) ESTIMATED IMPAIRMENT OF INTANGIBLE ASSETS INCLUDING GOODWILL

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in *Note 1.6*. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates *(Note 12)*.

(b) USEFUL LIVES OF INTANGIBLE ASSETS

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

(c) IMPAIRMENT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group follows the guidance of HKAS 39 when determining whether an investment in available-for-sale financial assets is other than temporarily impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the expected time span the Group will hold on to this investment. Based on the Group's estimation, no impairment provision is required to be made for available-for-sale financial assets during the current year *(Note 17)*.

(d) INCOME TAXES

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

(e) CONTINGENT CONSIDERATIONS OF ACQUISITIONS

Certain of the Group's business acquisitions involved post-acquisition performance-based contingent considerations. HKFRS 3 (Revised) is effective prospectively to business combinations for which acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The Group follows the requirement of HKFRS 3 (Revised) to recognize the fair value of those contingent considerations for acquisitions, as of their respective acquisition dates as part of the consideration transferred in exchange for the acquired business. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired business and significant judgment on time value of money. Contingent considerations shall be re-measured at their fair value resulting from events or factors emerge after the acquisition date, with any resulting gain or loss recognized in the consolidated profit and loss account in accordance with HKFRS 3 (Revised). For acquisitions completed prior to 1 January 2010, the effective date of HKFRS 3 (Revised), changes in the fair value of contingent consideration was recognized in goodwill.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(e) CONTINGENT CONSIDERATIONS OF ACQUISITIONS (CONTINUED)

The basis of the contingent consideration differs for each acquisition; generally however the contingent consideration reflects a specified multiple of the post-acquisition financial profitability of the acquired business. Consequently, the actual additional consideration payable will vary according to the future performance of each individual acquired business, and the liabilities provided reflect estimates of such future performances. Due to the number of acquisitions for which additional consideration remains outstanding and the variety of bases of determination, it is not practicable to provide any meaningful sensitivity in relation to the critical assumptions concerning future profitability of the acquired business.

Should the total actual additional consideration paid in the year ended 31 December 2011 be 0.1% higher/lower than the corresponding amount of contingent consideration estimated by management as payable at 31 December 2011, there would consequent increases/reductions in other non-core operating expenses for the year ended 31 December 2011 and goodwill of US$1,820,000 and US$151,000 respectively.

3 SEGMENT INFORMATION

The Company is domiciled in Bermuda. The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its Hong Kong office is at 11/F, Li Fung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong. The Group is principally engaged in managing the supply chain for retailers and brands worldwide from over 300 offices and distribution centers in more than 40 economies. Turnover represents revenue generated from sales and services rendered at invoiced value to customers outside the Group less discounts and returns.

During the year, the Group has accomplished a major restructuring of its operations which resulted in three new operating segments. The Group's management (Chief Operating decision-maker) considers the business principally from the perspective of three global Networks, namely Trading Network, Logistics Network and Distribution Network. Trading Network is the operating segment that focuses on the global sourcing business. Logistics Network is the operating segment that runs both the Group's international and domestic logistics services networks globally. Distribution Network is the operating segment that operates the onshore distribution businesses in the US, Pan-European and Asian regions. Prior period comparative segment information has been restated accordingly.

The Group's management assesses the performance of the operating segments based on a measure of operating profit, referred to as core operating profit (see *Note 1.20*). This measurement basis includes profit of the operating segments before share of results of associated companies, interest income, interest expenses and tax, but excludes material gain or loss which is of capital nature or non recurring nature such as gain or loss on disposal or impairment provision on property, plant and equipment, investments, goodwill or other assets, or acquisition-related costs. Other information provided to the Group's management is measured in a manner consistent with that in the accounts.

3 SEGMENT INFORMATION (CONTINUED)

	Trading Network US$'000	Logistics Network US$'000	Distribution Network US$'000	Elimination US$'000	Total US$'000
Year ended 31 December 2011					
Turnover	**15,880,099**	**446,431**	**6,305,419**	**(2,601,678)**	**20,030,271**
Total margin	**1,410,282**	**175,517**	**1,488,405**		**3,074,204**
Operating costs	**(845,121)**	**(162,573)**	**(1,184,454)**		**(2,192,148)**
Core operating profit	**565,161**	**12,944**	**303,951**		**882,056**
Gain on disposal of businesses/subsidiary					**50,994**
Gain on disposal of properties/property holding subsidiary					**13,666**
Other non-core operating expenses					**(66,779)**
Operating profit					**879,937**
Interest income					**19,490**
Interest expenses					
Non-cash interest expenses					**(21,538)**
Cash interest expenses					**(107,056)**
					(128,594)
Share of profits less losses of associated companies					**1,231**
Profit before taxation					**772,064**
Taxation					**(90,660)**
Profit for the year					**681,404**
Depreciation & amortization	**41,158**	**10,499**	**174,885**		**226,542**
31 December 2011					
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	**2,012,456**	**525,483**	**4,336,188**		**6,874,127**

3 SEGMENT INFORMATION (CONTINUED)

	Trading Network US$'000	Logistics Network US$'000	Distribution Network US$'000	Elimination US$'000	Total US$'000
Year ended 31 December 2010 – Restated					
Turnover	13,741,995	73,198	3,911,803	(1,814,795)	15,912,201
Total margin	1,176,844	27,344	1,034,101		2,238,289
Operating costs	(744,285)	(32,661)	(736,205)		(1,513,151)
Core operating profit/(loss)	432,559	(5,317)	297,896		725,138
Other non-core operating expenses					(45,820)
Operating profit					679,318
Interest income					13,567
Interest expenses					
Non-cash interest expenses					(19,272)
Cash interest expenses					(79,171)
					(98,443)
Share of profits less losses of associated companies					1,850
Profit before taxation					596,292
Taxation					(47,525)
Profit for the year					548,767
Depreciation & amortization	33,567	2,065	123,322		158,954
31 December 2010 – Restated					
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	1,249,084	493,467	3,468,955		5,211,506
1 January 2010 – Restated					
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	927,213	–	1,579,998		2,507,211

3 SEGMENT INFORMATION (CONTINUED)

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

	Turnover		Non-current assets (other than available-for-sale financial and deferred tax assets)		
			As at 31 December		As at 1 January
	2011	2010	**2011**	2010	2010
	US$'000	US$'000 (Restated)	**US$'000**	US$'000 (Restated)	US$'000 (Restated)
United States of America	**11,982,146**	10,347,772	**4,255,844**	3,156,844	1,930,783
Europe	**4,281,735**	3,855,722	**1,324,471**	910,028	466,278
China	**1,130,676**	280,892	**436,051**	465,484	7,705
Rest of Asia	**1,223,679**	261,532	**624,440**	550,375	8,444
Canada	**674,179**	530,025	**111,368**	57,073	34,154
Australasia	**378,200**	361,937	**60,770**	40,566	29,539
Central and Latin America	**256,998**	187,266	**45,072**	21,948	17,190
South Africa and Middle East	**102,658**	87,055	**16,111**	9,188	13,118
	20,030,271	15,912,201	**6,874,127**	5,211,506	2,507,211

Turnover to external parties consists of sales of softgoods, hardgoods and logistics income is as follows:

	2011	2010
	US$'000	US$'000 (Restated)
Softgoods	**12,911,434**	11,028,821
Hardgoods	**6,719,740**	4,817,035
Logistics	**399,097**	66,345
	20,030,271	15,912,201

For the year ended 31 December 2011, approximately 13.3% (2010: 14.5%) of the Group's turnover is derived from a single external customer, of which 11.8% (2010: 13.0%) and 1.5% (2010: 1.5%) are attributable to the Trading Network and Distribution Network segments respectively.

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2011 US$'000	2010 US$'000 (Restated)
Crediting		
Gain on disposal of prepaid premium for land leases	**–**	350
Gain on disposal of businesses/subsidiary *(Note 30(c))*	**50,994**	–
Gain on disposal of properties/property holding subsidiary *(Note 30(d))*	**13,666**	–
Net exchange gains	**6,330**	–
Charging		
Cost of inventories sold	**17,043,929**	13,746,389
Amortization of computer software and system development costs *(Note 12)*	**6,205**	5,348
Amortization of brand licenses *(Note 12)*	**97,394**	78,755
Amortization of other intangible assets *(Note 12)**	**51,878**	27,663
Amortization of prepaid premium for land leases *(Note 14)*	**180**	37
Depreciation of property, plant and equipment *(Note 13)*	**70,885**	47,151
Loss on disposal of property, plant and equipment	**2,222**	4,640
Loss on disposal of computer software and system development costs	**367**	26
Net provision for impairment of available-for-sale financial assets *(Note 17)*	**–**	66
Operating leases rental in respect of land and building	**191,076**	84,013
Provision for impaired receivables *(Note 21)*	**15,552**	17,297
Staff costs including directors' emoluments *(Note 10)*	**1,227,029**	793,234
Business acquisition-related costs *(Note 31)**	**14,901**	18,157
Net exchange losses	**–**	4,536

* *Included in other non-core operating expenses*

4 OPERATING PROFIT (CONTINUED)

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

	2011 US$'000	2010 US$'000 (Restated)
Audit services	**5,017**	3,402
Non-audit services		
– due diligence reviews on acquisitions	**2,201**	2,593
– taxation services	**2,335**	1,621
– others	**247**	378
Total remuneration to auditors charged to consolidated profit and loss account	**9,800**	7,994

NOTE: Of the above audit and non-audit services fees, US$4,920,000 (2010: US$3,306,000) and US$4,783,000 (2010: US$4,592,000) respectively are payable to the Company's auditor.

5 INTEREST EXPENSES

	2011 US$'000	2010 US$'000 (Restated)
Non-cash interest expenses on purchase consideration, license royalty payable and long-term notes		
– wholly repayable within five years	**16,624**	16,575
– not wholly repayable within five years	**4,914**	2,697
Cash interest on bank loans and overdrafts, long-term notes		
– wholly repayable within five years	**40,181**	30,012
– not wholly repayable within five years	**66,875**	49,159
	128,594	98,443

6 TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit 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/(credited) to the consolidated profit and loss account represents:

	2011 **US$'000**	2010 US$'000 (Restated)
Current taxation		
– Hong Kong profits tax	**11,689**	12,678
– Overseas taxation	**55,889**	38,371
Underprovision in prior years	**4,196**	2,464
Deferred taxation *(Note 29)*	**18,886**	(5,988)
	90,660	47,525

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

	2011 **%**	2010 %
Calculated at a taxation rate of	**16.5**	16.5
Effect of different taxation rates in other countries	**(3.7)**	(7.0)
Income net of expenses not subject to taxation	**(2.8)**	(4.4)
Underprovision in prior years	**0.5**	0.4
Utilization of previously unrecognized tax losses	**(0.2)**	(0.1)
Unrecognized tax losses	**1.4**	2.5
Effective tax rate	**11.7**	7.9

As of the date of the annual report, the Group has disputes with the Hong Kong Inland Revenue ("HKIR") involving additional tax assessments amounting to approximately US$247 million on both the non-taxable claim of certain non-Hong Kong sourced income ("Offshore Claim") and the deduction claim of marketing expenses ("Deduction Claim") for the years of assessment from1992/1993 to 2010/2011.

The Commissioner of the HKIR issued a determination on 14 June 2004 to one of our subsidiaries, Li & Fung (Trading) Limited ("LFT"), confirming additional tax assessments totalling US$43 million relating to the years of assessment from 1992/93 to 2001/02. Based upon professional advice then obtained, the directors believed that the Group had meritorious defence to appeal against the Commissioner's determination. Accordingly, LFT lodged a notice of appeal to the Board of Review on 13 July 2004. The appeal was heard before the Board of Review in January 2006.

6 TAXATION (CONTINUED)

The Board of Review issued its decision on 12 June 2009 ("the Board of Review Decision") and held partially in favour of LFT. It agreed that the Offshore Claim for the years of assessment from 1992/93 to 2001/02 is valid. In other words, the relevant assessments in respect of such Offshore Claim should be annulled. On the other hand, the Board of Review disagreed with the Deduction Claim for the years of assessment from 1992/93 to 2001/02. Therefore, the relevant assessments in respect of such Deduction Claim should be confirmed.

The Group considered the reasoning of the Board of Review Decision and, having obtained professional advice, decided to lodge an appeal against the Board of Review Decision in respect of the Deduction Claim.

On the other hand, the HKIR also lodged an appeal against the Board of Review Decision in respect of the Offshore Claim.

On 19 March 2010, the Board of Review stated a case on questions of law in respect of both LFT's appeal on the Deduction Claim, and the HKIR's appeal on the Offshore Claim. On 1 April 2010, both LFT and the HKIR transmitted the stated case to the High Court for determination.

The appeal by the HKIR in respect of the Board of Review Decision on the Offshore Claim was dismissed by the Court of First Instance on 18 April 2011, which upheld the Board of Review Decision. LFT was also awarded costs of the appeal.

On 16 May 2011, the HKIR lodged an appeal against the judgment of the Court of First Instance to the Court of Appeal, which appeal was heard by the Court of Appeal on 14 and 15 February 2012. On 19 March 2012, the Court of Appeal has delivered its judgment. It has upheld the judgment of the Court of First Instance, and dismissed the HKIR's appeal. Any appeal against the judgment of the Court of Appeal to the Court of Final Appeal will require permission of the Court of Appeal or the Court of Final Appeal. The HKIR has until 16 April 2012 to apply for such permission to appeal.

As regards LFT's appeal on the Deduction Claim, upon the consent of the parties, the Court of First Instance remitted the case stated to the Board of Review and directed it to make further findings of fact and to determine certain issues. As of the date of this annual report, further directions/decisions from the Board of Review are awaited.

The Group has also filed objections with the HKIR against the remaining additional tax assessments of US$204 million. The case before the Board of Review and now the Court of Appeal only applies to the additional tax assessments in respect of LFT for the years of assessment from 1992/93 to 2001/02. The Group's dispute with the HKIR regarding the remaining additional tax assessments in respect of certain other subsidiaries for the years of assessment from 1992/93 to 2001/02, and in respect of the Group for the period after the 2001/02 assessment years, is ongoing and has not yet been determined. It is therefore not yet before the Board of Review, and no hearing is currently scheduled.

Based on the assessment of the Group's legal counsel on the merits of LFT's further appeal in respect of the Deduction Claim and the HKIR's further appeal in respect of the Offshore Claim (which has now been dismissed by the Court of Appeal), and having taken into account the impact and ramification that the Board of Review Decision has on the tax affairs of LFT, the directors consider that no material tax liabilities will finally crystallize and sufficient tax provision has been made in the accounts in this regard.

6 TAXATION (CONTINUED)

On 11 June 2010, the Group also applied for a judicial review of the decision of the Commissioner of the HKIR rejecting LFT's application for an unconditional holdover of tax for the year of assessment 2008/09 pending the determination of the objection lodged with the HKIR. The Group purchased tax reserve certificates in respect of LFT for the year of assessment 2008/09 as directed by the Commissioner of the HKIR pending the decision of the judicial review application. As of the date of this annual report, the hearing date for the judicial review application is yet to be fixed.

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of US$562,977,000 (2010: US$569,383,000) *(Note 26)*.

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of US$681,229,000 (2010: US$548,491,000) and on the weighted average number of 8,079,799,000 (2010: 7,644,510,000) shares in issue during the year after taking into account the effect of the Share Subdivision in May 2011.

Diluted earnings per share is calculated by adjusting the weighted average number of 8,079,799,000 (2010: 7,644,510,000) ordinary shares in issue by 35,476,000 (2010: 86,438,000), after taking into account the effect of the Share Subdivision in May 2011, to assume conversion or all dilutive potential ordinary shares granted under the Company's Option Scheme and release of all shares held by escrow agents for settlement of acquisition consideration. For the calculation 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.

9 DIVIDENDS

	2011 **US$'000**	2010 US$'000 (Restated)
Interim, paid, of US$0.024 (equivalent to HK$0.19) (2010: US$0.024 (equivalent to HK$0.19)) per ordinary share *(Note)*	**197,360**	185,816
Final, proposed, of US$0.044 (equivalent to HK$0.34) (2010: US$0.033 (equivalent to HK$0.26)) per ordinary share *(Note)*	**354,611**	269,234
	551,971	455,050

At a meeting held on 22 March 2012, the Directors proposed a final dividend of US$0.044 (equivalent to HK$0.34) per share. The proposed dividends are not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2012 *(Note 26)*.

NOTE: Interim and final dividend per share of 2010 have been adjusted for the effect of Share Subdivision in May 2011.

10 STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

	2011 US$'000	2010 US$'000 (Restated)
Salaries and bonuses	**1,078,720**	675,893
Staff benefits	**78,259**	55,076
Pension costs of defined contribution plans	**47,117**	27,106
Employee share option expenses	**18,906**	33,281
Pension costs of defined benefits plans *(Note 28)*	**3,066**	1,694
Long service payments	**961**	184
	1,227,029	793,234

Forfeited contributions totalling US$1,142,000 (2010: US$2,364,000) were utilized during the year and no remaining amount was available at the year-end to reduce future contributions.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS

The remuneration of every Director for the year ended 31 December 2011 is set out below:

	2011					
Name of Director	**Fees US$'000**	**Salary & allowance US$'000**	**Discretionary bonuses US$'000**	**Other benefits *(Note)* US$'000**	**Employer's contribution to pension scheme US$'000**	**Total US$'000**
Executive directors						
William Fung Kwok Lun	**21**	**615**	**4,105**	**–**	**2**	**4,743**
Bruce Philip Rockowitz	**21**	**572**	**4,104**	**43**	**2**	**4,742**
Spencer Theodore Fung	**21**	**1,024**	**301**	**10**	**2**	**1,358**
Non-executive directors						
Victor Fung Kwok King	**70**	**–**	**–**	**–**	**–**	**70**
Paul Edward Selway-Swift	**56**	**–**	**–**	**–**	**–**	**56**
Allan Wong Chi Yun	**46**	**–**	**–**	**–**	**–**	**46**
Franklin Warren McFarlan	**44**	**–**	**–**	**–**	**–**	**44**
Martin Tang Yue Nien	**45**	**–**	**–**	**–**	**–**	**45**
Benedict Chang Yew Teck	**19**	**–**	**–**	**–**	**–**	**19**
Fu Yuning	**7**	**–**	**–**	**–**	**–**	**7**

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS (CONTINUED)

	2010					
Name of Director	Fees US$'000	Salary & allowance US$'000	Discretionary bonuses US$'000	Other benefits *(Note)* US$'000	Employer's contribution to pension scheme US$'000	Total US$'000
Executive directors						
William Fung Kwok Lun	11	615	3,231	–	2	3,859
Bruce Philip Rockowitz	11	622	3,227	49	2	3,911
Spencer Theodore Fung	11	1,045	21	–	2	1,079
Non-executive directors						
Victor Fung Kwok King	44	–	–	–	–	44
Paul Edward Selway-Swift	32	–	–	–	–	32
Allan Wong Chi Yun	28	–	–	–	–	28
Franklin Warren McFarlan	22	–	–	–	–	22
Makoto Yasuda	22	–	–	–	–	22
Martin Tang Yue Nien	22	–	–	–	–	22

NOTE: Other benefits include leave pay, insurance premium and club membership.

During the year, Shares were issued to certain directors of the Company pursuant to exercise of the following Share Options under the Option Scheme:

Number of Share Options exercised *(NOTE 1)*	Exercise Price *(NOTE 2)*	Exercisable Period
352,000 (2010: 2,660,000)	HK$12.77	01/3/2009–28/2/2011
880,000 (2010: 1,330,000)	HK$12.77	01/3/2010–29/2/2012
1,760,000 (2010: Nil)	HK$12.77	01/3/2011–28/2/2013

NOTE 1: The Share Options were exercised before Share Subdivision mentioned in *Note 25(a)* to the accounts and is adjusted for the effect of Share Subdivision.

NOTE 2: The exercise price is adjusted for the effect of Share Subdivision.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS (CONTINUED)

As at 31 December 2011, certain directors held the following Share Options (after adjustment of Share Subdivision) to acquire Shares of the Company:

Number of Share Options	Exercise Price	Exercisable Period
802,000 (2010: 1,682,000 *(Note 3)*)	HK$12.77	01/3/2010–29/2/2012
1,252,000 (2010: 3,012,000 *(Note 3)*)	HK$12.77	01/3/2011–28/2/2013
354,000 (2010: 354,000 *(Note 3)*)	HK$20.76	01/3/2011–28/2/2013
1,440,000 (2010: Nil)	HK$20.21	01/5/2012–30/4/2015
1,440,000 (2010: Nil)	HK$20.21	01/5/2013–30/4/2015
3,600,000 (2010: Nil)	HK$20.21	01/5/2014–30/4/2016
1,000,000 (2010: Nil)	HK$14.50	01/5/2013–30/4/2015
1,000,000 (2010: Nil)	HK$14.50	01/5/2014–30/4/2016
1,000,000 (2010: Nil)	HK$14.50	01/5/2015–30/4/2017
1,000,000 (2010: Nil)	HK$14.50	01/5/2016–30/4/2018
1,000,000 (2010: Nil)	HK$14.50	01/5/2017–30/4/2019
1,000,000 (2010: Nil)	HK$14.50	01/5/2018–30/4/2020
1,000,000 (2010: Nil)	HK$14.50	01/5/2019–30/4/2021
1,000,000 (2010: Nil)	HK$14.50	01/5/2020–30/4/2022
1,000,000 (2010: Nil)	HK$14.50	01/5/2021–30/4/2023

NOTE 3: The number of Share Options is adjusted for the effect of Share Subdivision.

The closing market price of the Shares as at 30 December 2011 was HK$14.38.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(b) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include two (2010: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals (2010: three) during the year are as follows:

	2011	2010
	US$'000	US$'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	**4,053**	2,405
Discretionary bonuses	**5,951**	4,238
Contributions to pension scheme	**27**	4
	10,031	6,647

	Number of individuals	
Emolument bands	**2011**	2010
US$1,858,974 – US$1,923,077 (equivalent to HK$14,500,001 – HK$15,000,000)	**–**	1
US$2,051,282 – US$2,115,385 (equivalent to HK$16,000,001 – HK$16,500,000)	**–**	1
US$2,500,000 – US$2,564,103 (equivalent to HK$19,500,001 – HK$20,000,000)	**1**	–
US$2,628,205 – US$2,692,308 (equivalent to HK$20,500,001 – HK$21,000,000)	**–**	1
US$3,461,539 – US$3,525,641 (equivalent to HK$27,000,001 – HK$27,500,000)	**1**	–
US$3,974,359 – US$4,038,462 (equivalent to HK$31,000,001 – HK$31,500,000)	**1**	–

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

12 INTANGIBLE ASSETS

	The Group								
	Goodwill US$'000	Brand licenses US$'000	Buying agency and license agreements US$'000	Customer relationships US$'000	Licensor relationships US$'000	Trademarks and brandnames US$'000	Computer software and system development costs US$'000	Others US$'000	Total US$'000
At 1 January 2011									
Cost	4,142,831	376,567	60,867	258,085	71,999	92,451	57,380	1,900	5,062,080
Accumulated amortization	–	(115,747)	(8,031)	(25,332)	(9,358)	(7,429)	(13,475)	(542)	(179,914)
Net book amount	4,142,831	260,820	52,836	232,753	62,641	85,022	43,905	1,358	4,882,166
Year ended 31 December 2011									
Opening net book amount	4,142,831	260,820	52,836	232,753	62,641	85,022	43,905	1,358	4,882,166
Exchange differences	(19,953)	(207)	–	(233)	(2,114)	(190)	(739)	–	(23,436)
Acquisition of businesses/subsidiaries *(Note 31)*	1,360,849	34,801	–	213,168	45,079	60,601	4	300	1,714,802
Adjustments to purchase consideration and net asset value[i]	25,820	16,291	33,100	(42,822)	–	(3,200)	–	–	29,189
Adjustments to purchase consideration for acquisitions completed prior to 1 January 2010[ii]	5,536	–	–	–	–	–	–	–	5,536
Additions	–	68,911	–	–	–	–	4,832	–	73,743
Disposal of businesses/subsidiary *(Note 30(c))*	–	–	–	(157)	–	–	–	–	(157)
Disposals	–	–	–	–	–	–	(367)	–	(367)
Amortization	–	(97,394)	(6,580)	(25,897)	(9,234)	(9,804)	(6,205)	(363)	(155,477)
Closing net book amount	5,515,083	283,222	79,356	376,812	96,372	132,429	41,430	1,295	6,525,999
At 31 December 2011									
Cost	5,515,083	495,605	93,967	427,925	114,904	149,657	61,037	2,200	6,860,378
Accumulated amortization	–	(212,383)	(14,611)	(51,113)	(18,532)	(17,228)	(19,607)	(905)	(334,379)
Net book amount	5,515,083	283,222	79,356	376,812	96,372	132,429	41,430	1,295	6,525,999

[i] *These are adjustments to purchase considerations and net asset values related to certain acquisitions of businesses/subsidiaries in the prior year, which were previously determined on a provisional basis. During the measurement period, the Company recognized adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Save as adjustments to goodwill and other intangible assets arising from business combination stated above, there were corresponding net adjustments to purchase consideration of US$8,425,000 and other assets/liabilities of approximately US$20,764,000.*

[ii] *For acquisitions completed prior to 1 January 2010, the effective date of HKFRS 3 (Revised) "Business Combination" being adopted by the Group, the changes in accrued contingent considerations determined based on post-acquisition performance were made against goodwill.*

12 INTANGIBLE ASSETS (CONTINUED)

	The Group								
	Goodwill US$'000	Brand licenses US$'000	Buying agency and license agreements US$'000	Customer relationships US$'000	Licensor relationships US$'000	Trademarks and brandnames US$'000	Computer software and system development costs US$'000	Others US$'000	Total US$'000
At 1 January 2010 – Restated									
Cost	1,989,464	89,626	60,867	103,538	29,000	77,754	49,647	1,900	2,401,796
Accumulated amortization	–	(36,992)	(4,856)	(10,002)	(5,197)	(2,706)	(8,115)	(271)	(68,139)
Net book amount	1,989,464	52,634	56,011	93,536	23,803	75,048	41,532	1,629	2,333,657
Year ended 31 December 2010 – Restated									
Opening net book amount	1,989,464	52,634	56,011	93,536	23,803	75,048	41,532	1,629	2,333,657
Exchange differences	(16,207)	–	–	54	–	(2)	(87)	–	(16,242)
Acquisition of businesses/subsidiaries	2,101,198	41,662	–	154,494	43,000	14,700	3,708	–	2,358,762
Adjustments to purchase consideration for acquisitions completed prior to 1 January 2010 *	68,376	–	–	–	–	–	–	–	68,376
Additions	–	245,279	–	–	–	–	4,126	–	249,405
Disposals	–	–	–	–	–	–	(26)	–	(26)
Amortization	–	(78,755)	(3,175)	(15,331)	(4,162)	(4,724)	(5,348)	(271)	(111,766)
Closing net book amount	4,142,831	260,820	52,836	232,753	62,641	85,022	43,905	1,358	4,882,166
At 31 December 2010 – Restated									
Cost	4,142,831	376,567	60,867	258,085	71,999	92,451	57,380	1,900	5,062,080
Accumulated amortization	–	(115,747)	(8,031)	(25,332)	(9,358)	(7,429)	(13,475)	(542)	(179,914)
Net book amount	4,142,831	260,820	52,836	232,753	62,641	85,022	43,905	1,358	4,882,166

* *For acquisitions completed prior to 1 January 2010, the effective date of HKFRS 3 (Revised) "Business Combination" being adopted by the Group, the changes in accrued contingent considerations determined based on post-acquisition performance were made against goodwill.*

12 INTANGIBLE ASSETS (CONTINUED)

IMPAIRMENT TEST FOR GOODWILL

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

An operating segment-level summary of the goodwill allocation is presented below.

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Trading Network	**1,683,726**	1,012,184	754,337
Logistics Network	**460,300**	456,814	–
Distribution Network	**3,371,057**	2,673,833	1,235,127
	5,515,083	4,142,831	1,989,464

In accordance with HKAS 36 "Impairment of Assets" the Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amounts to their carrying amounts as at the balance sheet date. Goodwill impairment review has been performed at the lowest level of CGU which generates cash flow independently. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projection based on one-year financial budget approved by management and extrapolated perpetually with an estimated general long-term continuous annual growth of not more than 5%. The discount rate used of approximately 10% is pre-tax and reflects specific risk related to the relevant segments. The budgeted gross margin and net profit margin were determined by management for each individual CGU based on past performance and its expectations for market development. Management believes that any reasonably foreseeable changes in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

13 PROPERTY, PLANT AND EQUIPMENT

	The Group					
	Land and buildings US$'000	Leasehold improvements US$'000	Furniture, fixtures and equipment US$'000	Plant and machinery US$'000	Motor vehicles and company boat US$'000	Total US$'000
At 1st January 2010 – Restated						
Cost	19,933	137,569	152,252	27,474	5,653	342,881
Accumulated depreciation	(4,828)	(52,813)	(99,672)	(20,455)	(4,125)	(181,893)
Net book amount	15,105	84,756	52,580	7,019	1,528	160,988
Year ended 31 December 2010 – Restated						
Opening net book amount	15,105	84,756	52,580	7,019	1,528	160,988
Exchange differences	(449)	1,304	294	(367)	(7)	775
Acquisition of businesses/subsidiaries	16,767	22,210	13,737	73,609	3,595	129,918
Additions	3,248	33,621	32,105	8,539	925	78,438
Disposals	(199)	(9,073)	(4,099)	(128)	(283)	(13,782)
Depreciation	(701)	(20,294)	(22,014)	(3,300)	(842)	(47,151)
Closing net book amount	33,771	112,524	72,603	85,372	4,916	309,186
At 31 December 2010 – Restated						
Cost	38,800	180,042	185,447	106,645	9,049	519,983
Accumulated depreciation	(5,029)	(67,518)	(112,844)	(21,273)	(4,133)	(210,797)
Net book amount	33,771	112,524	72,603	85,372	4,916	309,186
Year ended 31 December 2011						
Opening net book amount	**33,771**	**112,524**	**72,603**	**85,372**	**4,916**	**309,186**
Exchange differences	**(1,323)**	**(1,174)**	**(1,160)**	**(1,429)**	**(43)**	**(5,129)**
Acquisition of businesses/subsidiaries *(Note 31)*	**–**	**932**	**4,383**	**350**	**220**	**5,885**
Adjustments to purchase consideration and net asset value*	**–**	**–**	**113**	**–**	**121**	**234**
Additions	**2,739**	**32,929**	**46,713**	**29,258**	**1,584**	**113,223**
Disposals	**(3,469)**	**(2,391)**	**(1,007)**	**(6,480)**	**(787)**	**(14,134)**
Disposal of businesses/subsidiary *(Note 30(c))*	**–**	**(100)**	**(129)**	**(544)**	**–**	**(773)**
Disposals of properties/property holding subsidiary *(Note 30(d))*	**(12,175)**	**–**	**–**	**–**	**–**	**(12,175)**
Depreciation	**(1,469)**	**(26,340)**	**(27,977)**	**(13,343)**	**(1,756)**	**(70,885)**
Closing net book amount	**18,074**	**116,380**	**93,539**	**93,184**	**4,255**	**325,432**
At 31 December 2011						
Cost	**19,218**	**205,264**	**217,604**	**119,889**	**7,739**	**569,714**
Accumulated depreciation	**(1,144)**	**(88,884)**	**(124,065)**	**(26,705)**	**(3,484)**	**(244,282)**
Net book amount	**18,074**	**116,380**	**93,539**	**93,184**	**4,255**	**325,432**

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation of US$38,493,000 (2010: US$33,477,000), US$13,864,000 (2010: US$10,587,000), US$13,389,000 (2010: US$2,336,000) and US$5,139,000 (2010: US$751,000) has been expensed in merchandising expenses, administrative expenses, selling and distribution expenses and cost of sales respectively.

At 31 December 2011, land and buildings of US$3,990,000 (31 December 2010: US$7,500,000 and 1 January 2010: Nil) were pledged as security for the Group's short-term bank loans *(Note 24)*.

* *Adjustments to net asset values related to certain acquisitions of businesses/subsidiaries in the prior year, that were previously determined on a provisional basis.*

14 PREPAID PREMIUM FOR LAND LEASES

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

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Outside Hong Kong, held on:			
Leases of between 10 to 50 years	**2,715**	3,372	311
Leases of over 50 years	**429**	442	–
	3,144	3,814	311

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
Beginning of the year	**3,814**	311
Acquisition of businesses/subsidiaries	**–**	3,514
Disposal	**(77)**	(1)
Disposal of properties/property holding subsidiary *(Note 30(d))*	**(239)**	–
Amortization of prepaid premium for land leases	**(180)**	(37)
Exchange differences	**(174)**	27
End of the year	**3,144**	3,814

Amortization of US$170,000 (2010: Nil) and US$10,000 (2010: US$37,000) has been expensed in selling and distribution expenses and merchandising expenses respectively.

15 INTERESTS IN SUBSIDIARIES

	The Company		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Unlisted shares, at cost	**1,089,285**	1,089,285	52,193
Loan to a subsidiary	**250,319**	250,319	250,319
	1,339,604	1,339,604	302,512

The loan to a subsidiary is interest free and unsecured. The Company does not have any intention to seek repayment from the subsidiary.

Details of principal subsidiaries are set out on in *Note 41*.

16 ASSOCIATED COMPANIES

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
Beginning of the year	**6,140**	3,622
Share of profits less losses of associated companies	**1,231**	1,850
Dividend received	**(300)**	(686)
Acquisition of businesses/subsidiaries	**–**	184
Addition	**–**	1,228
Exchange differences	**(56)**	(58)
Total interest in associated companies	**7,015**	6,140

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

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
Beginning of the year	**84,330**	92,331
Partial repayment on debt security	**(13,000)**	(10,000)
Disposals	**(944)**	(77)
Fair value gains on available-for-sale financial assets *(Note 26)*	**188**	2,142
Net impairment provision	**–**	(66)
End of the year	**70,574**	84,330

Available-for-sale financial assets include the following:

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Listed securities:			
– Equity securities – overseas	**–**	1,342	1,162
Unlisted securities:			
– Debt security *(Note)*	**67,000**	80,000	90,000
– Equity securities	**14**	14	196
– Club debentures	**3,560**	2,974	973
	70,574	84,330	92,331
Market value of listed securities	**–**	1,342	1,162

NOTE: In November 2009, the Group subscribed for an unlisted debt security (the "Promissory Note") from an independent third party of US$90,000,000. The Promissory note is interest bearing at 7.5% per annum and repayable by 30 June 2014. It is secured by, among other things, certain collaterals such as trademarks, patents and licenses. The maximum exposure to credit risk at the reporting date is the carrying value of the Promissory Note. Value of the Promissory Note is determined with discounted cash flow analysis based on the prevailing required rate of return at balance sheet date of certain comparable debt instruments in the market.

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Available-for-sale financial assets are denominated in the following currencies:

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
HK dollar	**3,560**	2,974	973
US dollar	**67,000**	80,000	90,000
Japanese Yen	**–**	1,342	1,162
Pound Sterling	**14**	14	196
	70,574	84,330	92,331

18 INVENTORIES

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Finished goods	**992,426**	727,672	289,909
Raw materials	**43,362**	41,015	15,557
	1,035,788	768,687	305,466

At 31 December 2011, inventories of US$48,250,000 (31 December 2010: US$24,194,000 and 1 January 2010: US$19,229,000) were pledged as security for the Group's bank overdrafts *(Note 24)*.

19 DUE FROM/(TO) RELATED COMPANIES

	The Group			The Company		
	As at 31 December		As at 1 January	As at 31 December		As at 1 January
	2011	2010	2010	**2011**	2010	2010
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
		(Restated)	(Restated)		(Restated)	(Restated)
Due from:						
Subsidiaries	**–**	–	–	**3,855,441**	3,650,510	2,532,192
Associated companies	**9,876**	8,330	12,655	**–**	–	–
Related companies	**7,072**	4,833	–	**–**	–	–
	16,948	13,163	12,655	**3,855,441**	3,650,510	2,532,192
Due to:						
Associated companies	**333**	–	–	**–**	–	–
Related companies	**12,342**	6,531	–	**–**	–	–
	12,675	6,531	–	**–**	–	–

The amounts are unsecured, interest free and repayable on demand, except for amounts due from an associated company amounting to US$9,710,000 (31 December 2010: US$7,788,000 and 1 January 2010: US$11,004,000) which are unsecured but interest bearing at approximately 5% per annum. Fair values of amounts due from related companies are approximately the same as the carrying values.

20 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Forward foreign exchange contracts – assets/(liabilities) *(Note 38)*	**13,743**	(1,892)	336

Gains in equity of US$9,474,000 (31 December 2010: Losses of US$752,000 and 1 January 2010: Gains of US$784,000) on forward foreign exchange contracts as of 31 December 2011 will be released to the consolidated profit and loss account at various dates between one month to one year from the balance sheet date *(Note 26)*.

For the years ended 31 December 2011 and 2010, there was no material ineffective portion recognized in the profit or loss account arising from cash flow hedges.

21 TRADE AND OTHER RECEIVABLES

	The Group			The Company		
			As at			As at
	As at 31 December		1 January	As at 31 December		1 January
	2011	2010	2010	**2011**	2010	2010
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
		(Restated)	(Restated)		(Restated)	(Restated)
Trade and bills receivable – net	**2,004,542**	2,079,012	1,610,433	**–**	–	–
Other receivables, prepayments and deposits	**466,847**	358,596	298,954	**249**	254	187
	2,471,389	2,437,608	1,909,387	**249**	254	187
Less: non-current portion						
Deposits	**(12,537)**	(10,200)	(8,633)	**–**	–	–
	2,458,852	2,427,408	1,900,754	**249**	254	187

The fair values of the Group's and the Company's trade and other receivables were approximately the same as their carrying values as at 31 December 2011.

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

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Current to 90 days	**1,879,710**	1,994,478	1,550,655
91 to 180 days	**100,825**	69,071	48,453
181 to 360 days	**13,178**	7,022	9,133
Over 360 days	**10,829**	8,441	2,192
	2,004,542	2,079,012	1,610,433

21 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

As of 31 December 2011, trade receivables of US$1,969,722,000 (31 December 2010: US$2,054,233,000 and 1 January 2010: US$1,597,638,000) that are current or less than 90 days past due are not considered impaired. Trade receivables of US$34,820,000 (31 December 2010: US$24,779,000 and 1 January 2010: US$12,795,000) were past due over 90 days but not considered to be impaired. These relate to a number of independent customers for whom there is no recent history of default. The past due ageing analysis of these trade receivables is as follows:

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
91 to 180 days	**15,935**	13,633	6,814
Over 180 days	**18,885**	11,146	5,981
	34,820	24,779	12,795

As of 31 December 2011, outstanding trade receivables of US$26,827,000 (31 December 2010: US$19,488,000 and 1 January 2010: US$19,480,000) and other receivables of US$27,087,000 (31 December 2010: US$25,756,000 and 1 January 2010: US$14,188,000) were considered impaired and fully provided. The individually impaired receivables mainly relate to transactions in disputes.

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

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
At 1 January	**45,244**	33,668
Provision for receivable impairment *(Note 4)*	**18,232**	19,662
Receivables written off during the year as uncollectible	**(6,882)**	(5,721)
Unused amounts reversed *(Note 4)*	**(2,680)**	(2,365)
At 31 December	**53,914**	45,244

21 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

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

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

Certain subsidiaries of the Group transferred bills receivable balances amounting to US$40,298,000 (31 December 2010: US$41,905,000 and 1 January 2010: US$38,734,000) to banks in exchange for cash as at 31 December 2011. The transaction has been accounted for as collateralized bank advances.

At 31 December 2011, trade receivables of US$8,820,000 (31 December 2010: US$14,752,000 and 1 January 2010: US$13,689,000) were pledged as security for the Group's bank overdrafts *(Note 24)*.

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

	The Group			**The Company**		
	As at 31 December		As at 1 January	**As at 31 December**		As at 1 January
	2011	2010	2010	**2011**	2010	2010
	US$'000	US$'000 (Restated)	US$'000 (Restated)	**US$'000**	US$'000 (Restated)	US$'000 (Restated)
HK dollar	**219,602**	179,334	127,662	**249**	254	187
US dollar	**1,626,663**	1,648,113	1,529,075	**–**	–	–
Euro dollar	**244,333**	229,783	201,573	**–**	–	–
Pound sterling	**78,011**	86,155	24,702	**–**	–	–
Renminbi	**104,649**	84,272	8,467	**–**	–	–
Malaysia Ringgit	**42,126**	59,554	–	**–**	–	–
Thailand Baht	**52,252**	50,248	194	**–**	–	–
Others	**91,216**	89,949	9,081	**–**	–	–
	2,458,852	2,427,408	1,900,754	**249**	254	187

22 CASH AND CASH EQUIVALENTS

	The Group			The Company		
			As at			As at
	As at 31 December		1 January	**As at 31 December**		1 January
	2011	2010	2010	**2011**	2010	2010
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
		(Restated)	(Restated)		(Restated)	(Restated)
Cash and bank balances	**426,240**	968,530	538,752	**295**	186	224
Bank overdrafts *(Note 24)*						
– Secured	**(225)**	(5,582)	(6,065)	**–**	–	–
– Unsecured	**–**	(22,716)	(1)	**–**	–	–
	(225)	(28,298)	(6,066)	**–**	–	–
	426,015	940,232	532,686	**295**	186	224

The effective interest rate at the balance sheet date on short-term bank balances was 1.1% (31 December 2010: 0.8% and 1 January 2010: 0.6%) per annum; these deposits have an average maturity period of 38 days (31 December 2010: 30 days and 1 January 2010: 15 days).

23 TRADE AND OTHER PAYABLES

	The Group			The Company		
			As at			As at
	As at 31 December		1 January	**As at 31 December**		1 January
	2011	2010	2010	**2011**	2010	2010
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
		(Restated)	(Restated)		(Restated)	(Restated)
Trade and bills payable	**2,336,991**	2,208,404	1,539,117	**–**	–	–
License royalty payable *(Note 27)*	**53,614**	7,553	28,160	**–**	–	–
Other accrued charges and sundry payables	**680,599**	574,427	361,572	**9,760**	14,630	3,990
	734,213	581,980	389,732	**9,760**	14,630	3,990
	3,071,204	2,790,384	1,928,849	**9,760**	14,630	3,990

The fair values of the Group's and the Company's trade and other payables were approximately the same as their carrying values as at 31 December 2011.

23 TRADE AND OTHER PAYABLES (CONTINUED)

At 31 December 2011, the ageing of trade and bills payable based on invoice date is as follows:

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Current to 90 days	**2,254,085**	2,107,054	1,505,764
91 to 180 days	**56,542**	77,836	14,012
181 to 360 days	**7,474**	7,476	5,753
Over 360 days	**18,890**	16,038	13,588
	2,336,991	2,208,404	1,539,117

24 BANK BORROWINGS

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Long-term bank loans			
– Unsecured *(Note 27)*	**105,489**	102,040	–
Short-term bank loans			
– Secured	**4,713**	3,379	–
– Unsecured	**107,223**	85,775	–
	111,936	89,154	–
Bank overdrafts *(Note 22)*			
– Secured	**225**	5,582	6,065
– Unsecured	**–**	22,716	1
	225	28,298	6,066
Total bank borrowings	**217,650**	219,492	6,066

As at 31 December 2011, 31 December 2010 and 1 January 2010, the carrying amounts of the Group's borrowings approximated their fair values.

24 BANK BORROWINGS (CONTINUED)

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

	As at 31 December										As at 1 January				
	2011					2010					2010				
	HKD	**USD**	**Euro**	**GBP**	**RMB**	HKD	USD	Euro	GBP	RMB	HKD	USD	Euro	GBP	RMB
Long-term bank loans	**1.5%**	**0.9%**	**–**	**–**	**–**	1.3%	1.7%	–	–	–	–	–	–	–	–
Short-term bank loans	**1.5%**	**1.3%**	**–**	**–**	**–**	0.9%	1.8%	–	–	5.0%	–	–	–	–	–
Bank overdrafts	**–**	**6.3%**	**2.9%**	**6.3%**	**–**	–	1.8%	2.9%	1.5%	5.1%	–	–	2.9%	2.3%	–

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

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

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
HK dollar	**56,188**	76,060	–
US dollar	**127,500**	55,507	–
Euro dollar	**222**	237	3,719
Pound Sterling	**427**	12,080	2,347
Renminbi	**–**	35,001	–
Others	**33,313**	40,607	–
	217,650	219,492	6,066

25 SHARE CAPITAL AND OPTIONS

	No. of shares (in thousand)	HK$'000	Equivalent US$'000
Authorized			
At 1 January 2010, ordinary shares of HK$0.025 each	4,000,000	100,000	12,821
Increase in ordinary shares of HK$0.025 each	2,000,000	50,000	6,410
At 31 December 2010, ordinary shares of HK$0.025 each	6,000,000	150,000	19,231
At 1 January 2011, ordinary shares of HK$0.025 each	**6,000,000**	**150,000**	**19,231**
Share Subdivision *(Note (a))*	**6,000,000**	**–**	**–**
At 31 December 2011, ordinary shares of HK$0.0125 each	**12,000,000**	**150,000**	**19,231**
Issued and fully paid			
At 1 January 2010, ordinary shares of HK$0.025 each	3,776,117	94,403	12,103
Issue of shares to IDS Shareholders electing for the Share Alternative under the Scheme *(Note (b))*	195,719	4,893	627
Exercise of share options	52,633	1,316	169
At 31 December 2010, ordinary shares of HK$0.025 each	4,024,469	100,612	12,899
At 1 January 2011, ordinary shares of HK$0.025 each	**4,024,469**	**100,612**	**12,899**
Exercise of share options before Share Subdivision	**23,290**	**582**	**74**
Share Subdivision *(Note (a))*	**4,047,760**	**–**	**–**
Exercise of share options after Share Subdivision	**8,635**	**108**	**14**
At 31 December 2011, ordinary shares of HK$0.0125 each	**8,104,154**	**101,302**	**12,987**

NOTES:

(a) At the 2011 Annual General Meeting of the Company held on 18 May 2011, an ordinary resolution was duly passed under which each of the existing issued and unissued shares of HK$0.025 each in the share capital of the Company as of 19 May 2011 was subdivided (the "Share Subdivision") into two shares of HK$0.0125 each.

All the Share Options which were granted and remained outstanding as of 19 May 2011 were adjusted with the Share Subdivision and accordingly, the number of Share Options increased by one share for each share in the Share Options and the subscription prices per Share were adjusted by half.

(b) Under the acquisition of Integrated Distribution Services Group Limited and its subsidiaries (the "IDS Group") by the Company by way of privatization (the "Privatization") pursuant to scheme of arrangement, 195,719,000 new ordinary shares of HK$0.025 each of the Company were issued on 4 November 2010 under the scheme to those IDS shareholders electing for the share alternative on the ratio of 0.585 Share for every IDS share held by the IDS shareholders whose names appear on the IDS register of shareholders on the date of acquisition on 29 October 2010.

25 SHARE CAPITAL AND OPTIONS (CONTINUED)

Details of share options granted by the Company pursuant to the Option Scheme and the share options outstanding at 31 December 2011 are as follows:

			Number of Share Options										
				Before Share Subdivision					After Share Subdivision				
Grant Date	Exercise Price HK$	Exercisable period	As at 1/1/2011	Granted	Exercised	Cancelled	Lapsed	Adjustment for Share Subdivision	Granted	Exercised	Cancelled	Lapsed	As at 31/12/2011
20/6/2005	6.72	20/6/2008–19/6/2011	1,973,600	–	(1,302,600)	–	–	671,000	–	(1,342,000)	–	–	–
20/6/2005	6.72	20/6/2009–19/6/2012	5,414,200	–	(2,136,200)	–	–	3,278,000	–	(1,220,000)	–	–	5,336,000
23/1/2006	6.86	20/6/2008–19/6/2011	462,000	–	(231,000)	–	–	231,000	–	(462,000)	–	–	–
23/1/2006	6.86	20/6/2009–19/6/2012	462,000	–	–	–	–	462,000	–	–	–	–	924,000
19/6/2006	7.82	20/6/2008–19/6/2011	194,000	–	–	–	–	194,000	–	(388,000)	–	–	–
19/6/2006	7.82	20/6/2009–19/6/2012	260,000	–	–	–	–	260,000	–	(100,000)	–	–	420,000
2/2/2007	12.75	20/6/2008–19/6/2011	372,000	–	(184,000)	–	–	188,000	–	(248,000)	–	(128,000)	–
2/2/2007	12.75	20/6/2009–19/6/2012	1,472,000	–	(128,000)	–	–	1,344,000	–	–	–	–	2,688,000
13/7/2007	14.96	20/6/2009–19/6/2012	482,000	–	–	–	–	482,000	–	–	(92,000)	–	872,000
24/1/2008	12.77	1/3/2009–28/2/2011	7,107,000	–	(4,744,000)	(817,000)	(1,546,000)	–	–	–	–	–	–
24/1/2008	12.77	1/3/2010–29/2/2012	19,166,400	–	(5,695,000)	–	–	13,471,400	–	(2,178,000)	(60,000)	–	24,704,800
24/1/2008	12.77	1/3/2011–28/2/2013	24,378,000	–	(4,976,500)	–	–	19,401,500	–	(1,620,000)	(60,000)	–	37,123,000
21/5/2008	15.00	1/3/2009–28/2/2011	922,000	–	(541,000)	(97,500)	(283,500)	–	–	–	–	–	–
21/5/2008	15.00	1/3/2010–29/2/2012	1,020,500	–	(333,500)	–	–	687,000	–	(30,000)	–	–	1,344,000
21/5/2008	15.00	1/3/2011–28/2/2013	1,370,000	–	(267,000)	–	–	1,103,000	–	–	–	–	2,206,000
13/8/2008	13.10	1/3/2009–28/2/2011	389,200	–	(173,700)	(89,200)	(126,300)	–	–	–	–	–	–
13/8/2008	13.10	1/3/2010–29/2/2012	1,107,900	–	(294,000)	–	–	813,900	–	(75,500)	–	–	1,552,300
13/8/2008	13.10	1/3/2011–28/2/2013	1,697,100	–	(334,500)	–	–	1,362,600	–	(122,400)	–	–	2,602,800
24/2/2009	8.61	1/3/2010–29/2/2012	794,000	–	(332,000)	–	–	462,000	–	(164,000)	(76,000)	–	684,000
24/2/2009	8.61	1/3/2011–28/2/2013	2,348,000	–	(1,279,600)	–	–	1,068,400	–	(472,800)	(60,000)	–	1,604,000
14/8/2009	13.90	1/3/2010–29/2/2012	1,274,500	–	(79,300)	–	–	1,195,200	–	(149,400)	–	–	2,241,000
14/8/2009	13.90	1/3/2011–28/2/2013	2,098,200	–	(258,400)	–	–	1,839,800	–	(63,200)	–	–	3,616,400
25/3/2010	20.76	1/3/2011–28/2/2013	2,733,100	–	–	–	–	2,733,100	–	–	(599,600)	–	4,866,600
15/11/2010	22.42	1/3/2011–28/2/2013	1,178,600	–	–	–	–	1,178,600	–	–	–	–	2,357,200
11/4/2011	20.21	1/5/2012–30/4/2015	–	16,501,000	–	–	–	16,501,000	–	–	(142,000)	–	32,860,000
11/4/2011	20.21	1/5/2013–30/4/2015	–	16,777,000	–	–	–	16,777,000	–	–	(150,000)	–	33,404,000
11/4/2011	20.21	1/5/2014–30/4/2016	–	41,722,000	–	–	–	41,722,000	–	–	(218,000)	–	83,226,000
21/11/2011	15.20	1/5/2012–30/4/2015	–	–	–	–	–	–	2,162,000	–	(123,000)	–	2,039,000
21/11/2011	15.20	1/5/2013–30/4/2015	–	–	–	–	–	–	4,476,000	–	(248,000)	–	4,228,000
21/11/2011	15.20	1/5/2014–30/4/2016	–	–	–	–	–	–	10,011,000	–	(554,000)	–	9,457,000
22/12/2011	14.50	1/5/2013–30/4/2015	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
22/12/2011	14.50	1/5/2014–30/4/2016	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
22/12/2011	14.50	1/5/2015–30/4/2017	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
22/12/2011	14.50	1/5/2016–30/4/2018	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
22/12/2011	14.50	1/5/2017–30/4/2019	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
22/12/2011	14.50	1/5/2018–30/4/2020	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
22/12/2011	14.50	1/5/2019–30/4/2021	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
22/12/2011	14.50	1/5/2020–30/4/2022	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
22/12/2011	14.50	1/5/2021–30/4/2023	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
		Total	78,676,300	75,000,000	(23,290,300)	(1,003,700)	(1,955,800)	127,426,500	43,649,000	(8,635,300)	(2,382,600)	(128,000)	287,356,100

Subsequent to 31 December 2011, 31,048,800 Shares have been allotted and issued under the Option Scheme.

25 SHARE CAPITAL AND OPTIONS (CONTINUED)

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

Date of grant	20/06/2005	23/01/2006	19/06/2006	02/02/2007	13/07/2007	24/01/2008	21/05/2008	13/08/2008	24/02/2009	14/08/2009	25/03/2010	15/11/2010	11/04/2011	21/11/2011	22/12/2011
Option value *(Note)*	US$0.13 – US$0.16	US$0.12 – US$0.16	US$0.18 – US$0.24	US$0.31 – US$0.36	US$0.36	US$0.29 – US$0.39	US$0.38 – US$0.53	US$0.36 – US$0.50	US$0.29 – US$0.35	US$0.45 – US$0.56	US$0.26	US$0.43	US$0.45 – US$0.57	US$0.42 – US$0.53	US$0.45 – US$0.77
Share price at date of grant *(Note)*	HK$6.72	HK$6.70	HK$7.82	HK$12.75	HK$14.6	HK$12.77	HK$15.00	HK$13.10	HK$8.61	HK$13.90	HK$20.76	HK$22.42	HK$20.21	HK$14.24	HK$14.14
Exercisable price *(Note)*	HK$6.72	HK$6.86	HK$7.82	HK$12.75	HK$14.96	HK$12.77	HK$15.00	HK$13.10	HK$8.61	HK$13.90	HK$20.76	HK$22.42	HK$20.21	HK$15.20	HK$14.50
Standard deviation	24%	27%	31%	33%	34%	36%	40%	42%	54%	58%	36%	36%	33%	48%	49%
Annual risk-free interest rate	2.79% – 3.54%	3.90% – 4.26%	4.09% – 4.79%	3.77% – 3.88%	4.35% – 4.61%	1.68% – 2.86%	1.06% – 2.20%	1.82% – 3.30%	0.33% – 1.15%	0.10% – 1.05%	0.22% – 0.57%	0.37% – 0.49%	0.29% – 1.80%	0.14% – 0.84%	0.15% – 1.35%
Life of options	5 – 7 years	4 – 6 years	4 – 6 years	4 – 5 years	5 years	3 – 5 years	3 – 5 years	3 – 5 years	3 – 4 years	3 – 4 years	3 years	3 years	4 – 5 years	4 – 5 years	4 – 12 years
Dividend yield	3.45%	3.45%	3.04%	3.01%	3.25%	3.25%	2.54%	2.54%	2.54%	2.43%	3.18%	3.18%	2.39%	2.39%	2.39%

Note: Prior year information have been adjusted for the effect of Bonus Issue in May 2006 and Share Subdivision in May 2011.

26 RESERVES

(a) THE GROUP

	Shares held by escrow agent for settlement of acquisition consideration *(Note (iii))* US$'000	Capital reserve *(Note (i))* US$'000	Employee share-based compensation reserve US$'000	Revaluation reserve US$'000	Hedging reserve US$'000	Deferred benefit obligation US$'000	Exchange reserve US$'000	Total US$'000
Balance at 1 January 2011	**(23,385)**	**3,544**	**45,826**	**2,308**	**(752)**	**–**	**(50,409)**	**(22,868)**
Comprehensive income								
Currency translation differences	–	–	–	–	–	–	(27,803)	(27,803)
Net fair value gains on available-for-sale financial assets, net of tax *(Note 17)*	–	–	–	188	–	–	–	188
Net fair value gains on cash flow hedges, net of tax	–	–	–	–	10,226	–	–	10,226
Net actuarial loss from post employment benefits	–	–	–	–	–	(3,549)	–	(3,549)
Transactions with owners								
Employee share option scheme:								
– value of employee services	–	–	18,906	–	–	–	–	18,906
– transfer to share premium	–	–	(17,495)	–	–	–	–	(17,495)
Release of shares held by escrow agent for settlement of acquisition consideration	14,882	–	–	–	–	–	–	14,882
Transfer to capital reserve	–	74	–	–	–	–	–	74
At 31 December 2011	**(8,503)**	**3,618**	**47,237**	**2,496**	**9,474**	**(3,549)**	**(78,212)**	**(27,439)**

26 RESERVES (CONTINUED)

(a) THE GROUP (CONTINUED)

	Shares held by escrow agent for settlement of acquisition consideration *(Note (iii))* US$'000	Capital reserve *(Note (i))* US$'000	Employee share-based compensation reserve US$'000	Revaluation reserve US$'000	Hedging reserve US$'000	Exchange reserve US$'000	Total US$'000
Balance at 1 January 2010 – Restated	(59,494)	3,482	39,875	166	784	(35,148)	(50,335)
Comprehensive income							
Currency translation differences	–	–	–	–	–	(15,261)	(15,261)
Net fair value gains on available-for-sale financial assets, net of tax *(Note 17)*	–	–	–	2,142	–	–	2,142
Net fair value losses on cash flow hedges, net of tax	–	–	–	–	(1,536)	–	(1,536)
Transactions with owners							
Employee share option scheme:							
– value of employee services	–	–	33,281	–	–	–	33,281
– transfer to share premium	–	–	(27,330)	–	–	–	(27,330)
Release of shares held by escrow agent for settlement of acquisition consideration	36,109	–	–	–	–	–	36,109
Transfer to capital reserve	–	62	–	–	–	–	62
At 31 December 2010 – Restated	(23,385)	3,544	45,826	2,308	(752)	(50,409)	(22,868)

26 RESERVES (CONTINUED)

(b) THE COMPANY

	Share premium US$'000	Shares held by escrow agent for settlement of acquisition consideration *(Note (iii))* US$'000	Contributed surplus account *(Note (ii))* US$'000	Employee share-based compensation reserve US$'000	Retained earnings US$'000	Total US$'000
Balance at 1 January 2011	**3,015,794**	**(23,385)**	**264,189**	**45,826**	**404,049**	**3,706,473**
Profit for the year	**–**	**–**	**–**	**–**	**562,977**	**562,977**
Employee share option scheme:						
– value of employee services	**–**	**–**	**–**	**18,906**	**–**	**18,906**
– proceeds from shares issued	**80,808**	**–**	**–**	**–**	**–**	**80,808**
– transfer to share premium	**17,495**	**–**	**–**	**(17,495)**	**–**	**–**
Release of shares held by escrow agent for settlement on acquisition consideration	**–**	**14,882**	**–**	**–**	**–**	**14,882**
2010 final dividend paid	**–**	**–**	**–**	**–**	**(269,851)**	**(269,851)**
2011 interim dividend paid	**–**	**–**	**–**	**–**	**(197,360)**	**(197,360)**
Reserves	**3,114,097**	**(8,503)**	**264,189**	**47,237**	**145,204**	**3,562,224**
Proposed dividend	**–**	**–**	**–**	**–**	**354,611**	**354,611**
At 31 December 2011	**3,114,097**	**(8,503)**	**264,189**	**47,237**	**499,815**	**3,916,835**
Balance at 1 January 2010 – Restated	1,818,277	(59,494)	264,189	39,875	259,723	2,322,570
Profit for the year	–	–	–	–	569,383	569,383
Employee share option scheme:						
– value of employee services	–	–	–	33,281	–	33,281
– proceeds from shares issued	143,287	–	–	–	–	143,287
– transfer to share premium	27,330	–	–	(27,330)	–	–
Release of shares held by escrow agent for settlement on acquisition consideration	–	36,109	–	–	–	36,109
2009 final dividend paid	–	–	–	–	(239,241)	(239,241)
2010 interim dividend paid	–	–	–	–	(185,816)	(185,816)
Issue of shares for privatization of IDS	1,026,900	–	–	–	–	1,026,900
Reserves	3,015,794	(23,385)	264,189	45,826	134,815	3,437,239
Proposed dividend	–	–	–	–	269,234	269,234
At 31 December 2010 – Restated	3,015,794	(23,385)	264,189	45,826	404,049	3,706,473

26 RESERVES (CONTINUED)

(b) THE COMPANY (CONTINUED)

NOTES:

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

(ii) The contributed surplus account of the Company represents:

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

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

(iii) The Company issued shares for acquisitions of CGroup and Regatta in 2007. These Shares were held by escrow agents and valued at the respective agreed upon issue price. During the year, certain portions of these shares amounted to approximately US$14,882,000 were released to the vendors as the settlement of deferred considerations. At the balance sheet date, the remaining shares held by the escrow agent amounted to approximately US$8,503,000 were deducted from total equity. The total amount of deferred consideration for the acquisition of CGroup had been finalized. Accordingly, the remaining shares held by the escrow agent for CGroup of approximately US$6,739,000 were considered as treasury shares of the Company as of 31 December 2011.

27 LONG-TERM LIABILITIES

	The Group			The Company		
			As at			As at
	As at 31 December		1 January	As at 31 December		1 January
	2011	2010	2010	**2011**	2010	2010
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
		(Restated)	(Restated)		(Restated)	(Restated)
Long-term loans from non-controlling shareholders	**4,910**	4,921	4,983	**–**	–	–
Long-term bank loans *(Note 24)*	**105,489**	102,040	–	**–**	–	–
Long-term notes – unsecured	**1,256,007**	1,256,552	496,452	**1,256,007**	1,256,552	496,452
Balance of purchase consideration payable for acquisitions	**1,970,376**	1,168,742	438,761	**–**	–	–
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**1,764**	16,646	59,494	**–**	–	–
License royalty payable	**225,036**	195,518	57,697	**–**	–	–
Other non-current liability (non-financial liability)	**66,530**	34,787	10,323	**–**	–	–
	3,630,112	2,779,206	1,067,710	**1,256,007**	1,256,552	496,452
Current portion of balance of purchase consideration payable for acquisitions	**(323,712)**	(248,314)	(145,983)	**–**	–	–
Current portion of balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**(1,764)**	(16,646)	(41,500)	**–**	–	–
Current portion of license royalty payable *(Note 23)*	**(53,614)**	(7,553)	(28,160)	**–**	–	–
	3,251,022	2,506,693	852,067	**1,256,007**	1,256,552	496,452

27 LONG-TERM LIABILITIES (CONTINUED)

Balance of purchase consideration for acquisitions and long-term loans from non-controlling shareholders are unsecured, interest-free and not repayable within twelve months. Unsecured long-term notes issued to independent third parties in 2007 of US$497,414,000 will mature in 2017 and bear annual coupon of 5.5%. Unsecured long-term notes issued to independent third parties in 2010 of US$758,593,000 will mature in 2020 and bear annual coupon of 5.25%.

The maturity of the financial liabilities is as follows:

	The Group			The Company		
	As at 31 December		As at 1 January	**As at 31 December**		As at 1 January
	2011	2010	2010	**2011**	2010	2010
	US$'000	US$'000 (Restated)	US$'000 (Restated)	**US$'000**	US$'000 (Restated)	US$'000 (Restated)
Within 1 year	**379,090**	272,513	215,643	**–**	–	–
Between 1 and 2 years	**509,996**	329,006	144,686	**–**	–	–
Between 2 and 5 years	**1,094,110**	744,521	195,216	**–**	–	–
Wholly repayable within 5 years	**1,983,196**	1,346,040	555,545	**–**	–	–
Over 5 years	**1,580,386**	1,398,379	501,842	**1,256,007**	1,256,552	496,452
	3,563,582	2,744,419	1,057,387	**1,256,007**	1,256,552	496,452

The fair values of the financial liabilities (non-current portion) are as follows:

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000 (Restated)	US$'000 (Restated)
Loans from non-controlling shareholders	**4,910**	4,921	4,983
Long-term bank loans – unsecured	**105,489**	102,040	–
Long-term notes – unsecured	**1,324,800**	1,309,325	503,330
Balance of purchase consideration payable for acquisitions	**1,646,664**	920,428	292,778
License royalty payable	**171,422**	187,965	29,537
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**–**	–	17,994
	3,253,285	2,524,679	848,622

27 LONG-TERM LIABILITIES (CONTINUED)

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

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Hong Kong dollar	**148,120**	166,261	17,360
US dollar	**2,970,644**	2,353,074	1,025,608
Pound sterling	**193,826**	209,232	12,419
Euro dollar	**233,809**	–	2,000
Others	**17,183**	15,852	–
	3,563,582	2,744,419	1,057,387

28 POST-EMPLOYMENT BENEFIT OBLIGATIONS

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Pension obligations *(Note)*	**7,713**	4,576	2,097
Long service payment liabilities	**5,383**	3,735	1,206
	13,096	8,311	3,303

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

28 POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Present value obligations	**43,808**	38,863	28,361
Fair value of plan assets	**(28,936)**	(28,792)	(18,957)
	14,872	10,071	9,404
Unrecognized actuarial losses	**(7,173)**	(5,495)	(7,307)
Amount not recognized as assets	**14**	–	–
Pension obligations	**7,713**	4,576	2,097

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

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
Current service cost	**2,795**	1,810
Interest cost	**1,358**	1,186
Expected return on plan assets	**(1,361)**	(955)
Net actuarial loss recognized during the year	**349**	392
Gains on curtailments and settlements	**(75)**	(739)
Total, included in staff costs *(Note 10)*	**3,066**	1,694

28 POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
At 1 January	**28,792**	18,957
Expected return on plan assets	**1,361**	955
Actuarial (losses)/gains	**(941)**	1,283
Exchange differences	**(480)**	737
Assets acquired in business combination	**–**	7,719
Transferred out	**(113)**	–
Employer contributions	**1,676**	1,392
Benefits paid	**(1,359)**	(2,251)
At 31 December	**28,936**	28,792

(iv) Movement in the net pension obligations recognized in the consolidated balance sheet:

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
At 1 January	**4,576**	2,097
Total expense – as shown in (ii)	**3,066**	1,694
Contributions paid	**(1,821)**	(1,392)
Exchange difference	**(151)**	343
Liabilities acquired in business combination	**426**	1,834
Net actuarial loss recognized through reserve	**1,617**	–
At 31 December	**7,713**	4,576

28 POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

(v) The principal actuarial assumptions used are as follows:

	As at 31 December		As at 1 January
	2011	2010	2010
	%	%	%
Discount rate	**1.75–7.75**	1.75–7.13	2.25–11.06
Expected rate of return on plan assets	**1.75–6.5**	1.75–6.4	2.25–7
Expected rate of future salary increases	**3–8**	3–8	3–5.5
Expected rate of future pension increases	**2.9**	3.3	3.4

(vi) Experience adjustments (loss)/gain:

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
Experience adjustments on plan liabilities	**(2,469)**	394
Experience adjustments on plan assets	**(941)**	1,283

29 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2010: 16.5%).

The movement on the net deferred tax liabilities is as follows:

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
At 1 January	**9,180**	1,624
Charged/(credited) to consolidated profit and loss account *(Note 6)*	**18,886**	(5,988)
Acquisition of businesses/subsidiaries *(Note 31)*	**(38)**	13,579
Adjustments to purchase consideration and net asset value	**572**	–
Disposal of subsidiaries	**135**	–
Exchange differences	**(7)**	(35)
At 31 December	**28,728**	9,180

29 DEFERRED TAXATION (CONTINUED)

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The Group has unrecognized tax losses of US$542,956,000 (31 December 2010: US$435,614,000 and 1 January 2010: US$232,361,000) to carry forward against future taxable income, out of which US$75,899,000 will expire during 2012 – 2026. Deferred tax assets for these tax losses are not recognized as it is not probable that related tax assets will be utilized in the foreseeable future.

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

	The Group									
Deferred tax assets	**Provisions**		**Decelerated tax depreciation allowances**		**Tax losses**		**Others**		**Total**	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	US$'000	US$'000 (Restated)	**US$'000**	US$'000 (Restated)	**US$'000**	US$'000 (Restated)	**US$'000**	US$'000 (Restated)	**US$'000**	US$'000 (Restated)
As at 1 January	**44,455**	24,464	**2,835**	4,035	**39,264**	12,137	**786**	358	**87,340**	40,994
Credited/(charged) to consolidated profit and loss account	**20,262**	217	**268**	(2,541)	**(9,279)**	23,453	**(627)**	475	**10,624**	21,604
Acquisition of businesses/subsidiaries	**–**	19,644	**38**	1,449	**–**	3,642	**–**	–	**38**	24,735
Disposal of businesses/subsidiary *(Note 30(c))*	**–**	–	**–**	–	**(151)**	–	**–**	–	**(151)**	–
Exchange differences	**(238)**	130	**(151)**	(108)	**54**	32	**–**	(47)	**(335)**	7
As at 31 December	**64,479**	44,455	**2,990**	2,835	**29,888**	39,264	**159**	786	**97,516**	87,340

	The Group							
Deferred tax liabilities	**Accelerated tax depreciation allowances**		**Intangible assets arising from business combinations**		**Others**		**Total**	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	US$'000	US$'000 (Restated)	**US$'000**	US$'000 (Restated)	**US$'000**	US$'000 (Restated)	**US$'000**	US$'000 (Restated)
As at 1 January	**11,018**	5,134	**82,736**	37,270	**2,766**	214	**96,520**	42,618
Charged/(credited) to consolidated profit and loss account	**16,766**	(1,848)	**9,397**	17,971	**3,347**	(507)	**29,510**	15,616
Acquisition of businesses/subsidiaries	**–**	7,697	**–**	27,495	**–**	3,122	**–**	38,314
Adjustments to purchase consideration and net asset value	**–**	–	**572**	–	**–**	–	**572**	–
Disposal of businesses/ subsidiary *(Note 30(c))*	**(16)**	–	**–**	–	**–**	–	**(16)**	–
Exchange differences	**(49)**	35	**–**	–	**(293)**	(63)	**(342)**	(28)
As at 31 December	**27,719**	11,018	**92,705**	82,736	**5,820**	2,766	**126,244**	96,520

29 DEFERRED TAXATION (CONTINUED)

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

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Deferred tax assets	**24,148**	20,195	7,459
Deferred tax liabilities	**(52,876)**	(29,375)	(9,083)
	(28,728)	(9,180)	(1,624)

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
The amounts shown in the consolidated balance sheet include the following:			
Deferred tax assets to be recovered after more than 12 months	16,666	19,084	6,425
Deferred tax assets to be recovered within 12 months	7,482	1,111	1,034
Deferred tax liabilities to be settled after more than 12 months	45,512	28,213	7,424
Deferred tax liabilities to be settled within 12 months	7,364	1,162	1,659

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW GENERATED FROM OPERATIONS

	2011 **US$'000**	2010 US$'000 (Restated)
Profit before taxation	**772,064**	596,292
Interest income	**(19,490)**	(13,567)
Interest expenses	**128,594**	98,443
Depreciation	**70,885**	47,151
Amortization of computer software and system development costs	**6,205**	5,348
Amortization of brand licenses	**97,394**	78,755
Amortization of other intangible assets arising from business combinations	**51,878**	27,663
Amortization of prepaid premium for land leases	**180**	37
Share of profits less losses of associated companies	**(1,231)**	(1,850)
Employee share option expenses	**18,906**	33,281
Loss on disposal of property, plant and equipment	**2,222**	4,640
Loss on disposal of computer software and system development costs	**367**	26
Net provision for impairment of available-for-sale financial assets	**–**	66
Gain on disposal of prepaid premium for land leases	**–**	(350)
Gain on disposal of businesses/subsidiary	**(50,994)**	–
Gain on disposal of properties/property holding subsidiary	**(13,666)**	–
Operating profit before working capital changes	**1,063,314**	875,935
Increase in inventories	**(119,856)**	(96,952)
Decrease in trade and bills receivable, other receivables and amount due from related companies	**139,535**	30,784
Decrease in trade and bills payable and other payables	**(95,935)**	(30,802)
Net cash inflow generated from operations	**987,058**	778,965

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	2011 Share capital including share premium *(Note 25 & 26)* US$'000	**2011** Bank loans US$'000	2010 Share capital including share premium *(Note 25 & 26)* US$'000 (Restated)	2010 Bank loans US$'000 (Restated)
At 1 January	**3,028,693**	**191,194**	1,830,380	–
Non cash movement				
Transfer from employee share-based compensation reserve	**17,495**	**–**	27,330	–
Acquisition of businesses *(Note 31)*	**–**	**748**	–	–
	3,046,188	**191,942**	1,857,710	–
Net proceeds from issue of shares	**80,896**	**–**	143,456	–
Issuance of shares for the Privatization of IDS	**–**	**–**	1,027,527	204,489
Net drawdown/(repayment) of bank loans	**–**	**25,483**	–	(13,295)
At 31 December	**3,127,084**	**217,425**	3,028,693	191,194

(c) DISPOSAL OF BUSINESSES/SUBSIDIARY

Details of net assets of disposed businesses/subsidiary at date of disposal are set out below:

	2011 US$'000
Net assets disposed	
Property, plant and equipment *(Note 13)*	**773**
Deferred tax assets *(Note 29)*	**151**
Inventory	**8,235**
Trade and bills receivable	**14,166**
Other receivables, prepayments and deposits	**13**
Intangible assets *(Note 12)*	**157**
Trade and bills payable	**(10,015)**
Accrued charges and sundry payables	**(366)**
Taxation	**(32)**
Deferred tax liabilities *(Note 29)*	**(16)**
Book value of net assets disposed	**13,066**

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(c) DISPOSAL OF BUSINESSES/SUBSIDIARY (CONTINUED)

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

	2011 US$'000
Consideration received	**66,246**
Expenses incurred in respect of the disposal	**(2,186)**
Net inflow of cash and cash equivalents in respect of disposal of businesses/subsidiary	**64,060**

Analysis of gain on disposal of businesses/subsidiary:

	2011 US$'000
Consideration net of expenses incurred	**64,060**
Less: Net assets disposed	**(13,066)**
Gain on disposal of businesses/subsidiary *(Note 4)*	**50,994**

(d) DISPOSAL OF PROPERTIES/PROPERTY HOLDING SUBSIDIARY

Details of net assets of disposed properties/property holding subsidiary at date of disposal are set out below:

	2011 US$'000
Net assets disposed	
Property, plant and equipments *(Note 13)*	**12,175**
Prepaid premium for land leases *(Note 14)*	**239**
Other receivables, prepayments and deposits	**36**
Accrued charges and sundry payables	**71**
Taxation	**14**
Book value of net assets disposed	**12,535**

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(d) DISPOSAL OF PROPERTIES/PROPERTY HOLDING SUBSIDIARY (CONTINUED)

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

	2011 **US$'000**
Consideration received	**26,720**
Expenses incurred in respect of the disposal	**(519)**
Net inflow of cash and cash equivalents in respect of disposal of properties/property holding subsidiary	**26,201**

Analysis of gain on disposal of properties/property holding subsidiary:

	2011 **US$'000**
Consideration net of expenses incurred	**26,201**
Less: Net assets disposed	**(12,535)**
Gain on disposal of properties/property holding subsidiary *(Note 4)*	**13,666**

31 BUSINESS COMBINATIONS

During the year, the Group completed a series of acquisitions to expand the Group's existing scale of operation and enlarge the Group's market presence. The Group was not required to made an announcement in accordance with Chapter 14 of the Listing Rules for any individual acquisition completed during the year since none of the acquisitions, on a standalone basis, would be of sufficient material to be recognized as notifiable transaction, and, for reasons of materiality and commercial sensitivity, no disclosure is provided of the details and impact of any individual acquisition. However, on a collective basis, the estimated aggregate undiscounted total consideration amounted to approximately US$1,849 million, among which aggregate initial considerations paid was approximately US$707 million and the aggregate potential undiscounted performance-based contingent consideration payable could range from nil to US$1,189 million. The fair value of the aggregate contingent consideration payable of approximately US$1,103 million was determined based on applying agreed multiples to the estimated post-acquisition performance of the acquired businesses/subsidiaries and time value of money.

The acquisitions completed by the Group in current year involved no non-controlling interest. The acquisition of businesses/subsidiaries contributed revenue of approximately US$1,219 million, core operating profit of approximately US$136 million and profit after tax of approximately US$85 million to the Group for the period from their respective dates of acquisition to 31 December 2011. If these acquisitions had occurred on 1 January 2011, Group revenue would have been approximately US$20,777 million; core operating profit would have been approximately US$957 million, profit after tax would have been approximately US$723 million. These amounts have been calculated using the Group's accounting policies, and adjusting the results of the relevant subsidiaries to reflect the additional amortization that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 January 2011, together with the consequential tax effect.

31 BUSINESS COMBINATIONS (CONTINUED)

Details of net assets acquired, goodwill and acquisition-related costs are as follows:

	US$'000
Purchase consideration to be settled by cash	1,809,916
Less: Fair value of net assets acquired *	(449,067)
Goodwill *(Note 12)*	1,360,849
Acquisition-related costs (included in other non-core operating expenses in the consolidated profit and loss account for the year ended 31 December 2011).	14,901

* *As at 31 December 2011, verification of individual assets/liabilities of the acquired businesses is in progress and the Group has not finalized the fair value assessments. The relevant fair value of individual assets/liabilities stated above are provisional.*

The goodwill is attributable to the acquired workforces, the profitability and the synergies expected to arise from the acquired businesses. Goodwill recognized of US$472,474,000 is expected to be deductible for income tax purposes.

The initial carrying amounts of the assets and liabilities, other than intangible assets arising from business combinations, of the acquired businesses approximate their fair values at respective acquisition dates and are as follows:

	US$'000
Net assets acquired:	
Intangible assets *(Note 12)*[i]	
– Customer relationships	213,168
– Licensor relationships	45,079
– Trademarks	60,601
– Brand licenses	34,801
– Computer software and system development costs	4
– Others	300
Property, plant and equipment *(Note 13)*	5,885
Inventories	164,420
Trade and bills receivable [ii]	166,052
Other receivables, prepayments and deposits	43,209
Cash and bank balances	7,144
Tax recoverable	153
Trade and bills payables	(62,349)
Accrued charges and sundry payables	(227,043)
Bank overdrafts	(1,111)
Bank loans	(748)
Bank advance for discounted bills	(536)
Deferred tax assets *(Note 29)*	38
Fair value of net assets acquired	449,067

31 BUSINESS COMBINATIONS (CONTINUED)

i *Intangible assets arising from business combinations represent customer relationships, trademarks, licensor relationships, brand licenses and various other smaller intangible assets. The Group has engaged external valuers to perform fair value assessments on these intangible assets in accordance with HKAS 38 "Intangible Assets" and HKFRS 3 "Business Combination". As at the date of the accounts, the valuation assessments have not yet been completed and the Group has not finalized the fair value assessments for all of the intangible assets. The relevant fair values of intangible assets stated above provisional.*

ii *The fair value of trade and bills receivables with a fair value of US$166,052,000 which are expected to be collectible in full.*

Details of these acquisitions are as follows:

In January 2011, the Group completed the acquisition of substantially all of the assets that constitutes a business of Oxford Apparel, which was one of the operating groups of Oxford Industries, Inc..

Also, in January 2011, the Group acquired Beyond Productions, LLC and Modium. Beyond Productions, LLC was a leading designer and licensor of women's fashion apparel and accessories. Modium was a virtual manufacturer of ladies' and men's woven apparel based in Istanbul, Turkey.

In March 2011, the Group acquired: (i) Celissa, a trading company based in Istanbul, Turkey, supplying wovens and knits to customers in Europe; (ii) Techno Source USA, Inc., one of the fastest-growing toy companies and a toy innovator with a track record of successfully introducing electronic and non-electronic games; and (iii) Stone Sapphire/Gemstone Printing, a company specializing in the supply of printed paper products and technical packaging.

In May 2011, the Group acquired: (i) Loyaltex Apparel Ltd., a sourcing and development company specialized in knits, woven/denim and sweater; (ii) TVMania, the leading Pan-European supplier of character licensed and branded merchandize with the most comprehensive set of licenses across Europe; (iii) Hampshire Designers, Inc.. It was the women's division of Hampshire Group Limited in the US; and (iv) Collection 2000, which specialized in fashion color cosmetics products for the beauty industry in the UK, with a range of products available in the majority of the country's leading mass color cosmetics retailers.

In June 2011, the Group acquired Exim Designs Co., Ltd., a Thai-based furniture trading company that specialized in ready-to-assemble, flat-pack furniture.

In July 2011, the Group acquired the business of Union Rich USA, LLC. and Lloyd Textile Fashion Company Limited. Union Rich USA, LLC. was a leading product development company specializing in storage and organization products for home and business and travel. Lloyd Textile Fashion Company Limited is a design Company with well-established relationships with customers and expert knowledge of men's product categories and markets.

In August 2011, the Group acquired the businesses of (i) Fishman and Tobin, Inc., which was a children's apparel company and a key supplier to the boy's dresswear market, specialized in boy's dresswear, boys and girls school uniforms, boys sportswear and men's dresswear; and (ii) Crimzon Rose International, one of the leading companies that designs, sources, markets and distributes costume jewelry and accessories under its own brands or licenses.

In September 2011, the Group acquired (i) Midway Enterprises (Guangzhou) Ltd, Wonderful World (HK) Ltd and Wonderful Overseas Limited from the Roly Group. They operate children apparel and toys businesses in Greater China; and (ii) True Innovations, LLC, one of the leading office and entertainment furniture trading companies servicing mass retailers.

31 BUSINESS COMBINATIONS (CONTINUED)

Analysis of the net outflow of cash and cash equivalents in respect of the acquisitions:

	US$'000
Purchase consideration	1,809,916
Purchase consideration payable *	(1,102,714)
Cash and cash equivalents acquired	(6,033)
Net outflow of cash and cash equivalents in respect of the acquisitions	701,169

* *Balances are the best estimated fair value of contingent consideration payables for respective acquisitions. Final amounts of consideration settlements would be determined based on future performance of the acquired businesses.*

32 CONTINGENT LIABILITIES

	The Group		The Company	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
		(Restated)		(Restated)
Guarantees in respect of banking facilities granted to:				
Subsidiaries	**–**	–	**3,530,212**	2,780,778
Associated companies	**750**	750	**–**	–
	750	750	**3,530,212**	2,780,778

33 COMMITMENTS

(a) OPERATING LEASE COMMITMENTS

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 17 years. At 31 December 2011, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
Within one year	**192,411**	135,431
In the second to fifth year inclusive	**494,911**	369,879
After the fifth year	**549,867**	221,675
	1,237,189	726,985

33 COMMITMENTS (CONTINUED)

(b) CAPITAL COMMITMENTS

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
Contracted but not provided for:		
Property, plant and equipment	**14,713**	1,925
Computer software and system development costs	**11,729**	10,809
Authorised but not contracted for:		
Property, plant and equipment	**74,072**	7,539
Computer software and system development costs	**38,791**	14,204
	139,305	34,477

34 CHARGES ON ASSETS

Save as disclosed in *Note 13*, *Note 18* and *Note 21*, at 31 December 2011 and 2010 there were no charges on the assets and undertakings of the Company and the Group.

35 RELATED PARTY TRANSACTIONS

Pursuant to the master agreement for leasing of properties that the Company entered into with LF 1937, the substantial shareholder of the Company, on 13 January 2011, the Group leased certain properties from LF 1937 and its associates during the year with aggregate rental paid of US$23,913,000 (2010: US$15,481,000).

On 30 June 2011, the Group entered into agreements to dispose of properties in Turkey and Taiwan and the entire registered capital of a subsidiary incorporated in the PRC to entities indirectly wholly owned by Dr. William Fung Kwok Lun and a trust established for the family of Dr. Victor Fung Kwok King at an aggregate consideration of approximately US$26,720,000. The considerations for the properties were determined by reference to valuations of certain independent professional valuers, which were fully paid and recognized as cash inflow from investing activities in the consolidated cash flow statement.

On the same date, the Group entered into an agreement to dispose of the Group's medical equipment businesses in East Malaysia, Indonesia, Singapore and West Malaysia to subsidiaries of Li & Fung (Distribution) Limited at an aggregate consideration of approximately US$57,700,000. The considerations were fully paid and recognized as cash inflow from investing activities in the consolidated cash flow statement. Li & Fung (Distribution) Limited is a wholly owned subsidiary of LF 1937.

During the year, there were certain expenses incurred by LF 1937 and recharged to the Group amounting to approximately US$6,154,000 (2010: US$6,154,000).

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

Save as above and the key management compensation as set out in *Note 11* to the accounts, the Group had no material related party transactions during the year.

36 FINANCIAL RISK MANAGEMENT

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

(a) MARKET RISK

(i) Foreign exchange risk

The Group operates globally with almost all of its sales and purchases traded in foreign currencies, mostly in US dollar. HK dollar is pegged to US dollar at a range between 7.75 to 7.85 and the foreign exchange exposure between US dollar and HK dollar is therefore limited.

The Group is exposed to foreign exchange risk arising from various currency exposures mainly to the extent of its receivables and payables in currencies other than US dollar, such as Euro dollar and Sterling Pound. To minimize such risks, sales and purchases are generally transacted in the same currency.

Foreign exchange risk arising from sales and purchases transacted in different currencies are managed by the Group treasury through the use of foreign exchange forward contracts. Pursuant to the Group policy in place, foreign exchange forward contracts, or any other financial derivatives, are entered into by the Group for hedging purposes. The Group has not entered into any financial derivatives for speculation.

The Group's cash is mainly kept in either HK dollar or US dollar to minimize the foreign exchange risk.

At 31 December 2011, if the major foreign currencies, such as Euro dollar and Sterling Pound, to which the Group had exposure to had strengthened/weakened by 10% (2010: 10%) against US and HK dollar with all other variables held constant, profit for the year and equity would have been approximately 2.0% (2010: 2.0%) and 2.0% (2010: 2.0%) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currencies denominated trade receivables, available-for-sale financial assets, borrowings and intangible assets.

(ii) Price risk

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

At 31 December 2011 and up to the report date of the accounts, the Group held no material financial derivative instruments except for certain foreign exchange forward contracts entered into for hedging of foreign exchange risk exposure on sales and purchases transacted in different currencies. At 31 December 2011, the fair value of foreign exchange forward contracts entered into by the Group amounted to US$13,743,000 (2010: liabilities of US$1,892,000), which has been reflected in full in the Group's consolidated balance sheet as derivative financial instruments assets.

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) MARKET RISK (CONTINUED)

(iii) Cash flow and fair value interest rate risk

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

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

At 31 December 2011, if the variable interest rates on the bank borrowings had been 0.1% higher/lower with all other variables held constant, profit for the year and equity would have been approximately US$2,368,000 (2010: US$1,233,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings. If the prevailing market interest rate on the available-for-sale debt security had been 0.1% higher/lower with all other variables held constant, the Group's profit would have been increased or decreased by approximately US$213,000 (2010: US$244,000).

(b) CREDIT RISK

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

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

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

(i) A significant portion of business is secured by back-to-back payment arrangements or covered by letters of credit, customers' standby letters of credit, bank guarantees or credit insurance;

(ii) Certain trade receivable balances on open account term are factored to external financial institutions without recourse;

(iii) The Group's credit control team makes an assessment of each individual customer and vendor and determines the credit limits based on, among other factors, their trading and settlement history as well as their respective financial background.

The Group's five largest customers, in aggregate, account for less than 30% of the Group's business. Transactions with these customers are entered into within the credit limits designated by the Group.

Except for trade receivables of US$26,827,000 (2010: US$19,488,000) and other receivables of US$27,087,000 (2010: US$25,756,000) were impaired and fully provided, none of the other financial assets including available-for-sale debt security *(Note 17)*, due from related companies *(Note 19)* and other receivables and deposits *(Note 21)* impaired as there is no recent history of default of the counterparties. The maximum exposure of these other financial assets to credit risk at the reporting date is their carrying amounts.

(c) LIQUIDITY RISK

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

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) LIQUIDITY RISK (CONTINUED)

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

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

	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over 5 years US$'000
The Group				
At 31 December 2011				
Bank loans	**–**	**49,000**	**56,489**	**–**
Balance of purchase consideration payable for acquisitions	**334,651**	**417,924**	**975,010**	**284,365**
Long-term notes – unsecured	**66,875**	**66,875**	**200,625**	**1,482,188**
License royalty payable	**58,651**	**67,566**	**87,191**	**24,613**
Financial guarantee contract	**750**	**–**	**–**	**–**
At 31 December 2010 – Restated				
Bank loans	–	47,591	55,855	–
Balance of purchase consideration payable for acquisitions	261,069	201,676	615,451	109,636
Long-term notes – unsecured	66,875	66,875	200,625	1,482,188
License royalty payable	7,843	54,862	99,593	46,510
Financial guarantee contract	750	–	–	–
At 1 January 2010 – Restated				
Balance of purchase consideration payable for acquisitions	155,404	105,578	150,465	45,940
Long-term notes – unsecured	27,500	27,500	82,500	582,500
License royalty payable	35,831	17,509	13,304	–
Financial guarantee contract	750	–	–	–
The Company				
At 31 December 2011				
Long-term notes – unsecured	**66,875**	**66,875**	**200,625**	**1,482,188**
Financial guarantee contract	**3,530,247**	**–**	**–**	**–**
At 31 December 2010 – Restated				
Long-term notes – unsecured	66,875	66,875	200,625	1,482,188
Financial guarantee contract	2,780,778	–	–	–
At 1 January 2010 – Restated				
Long-term notes – unsecured	27,500	27,500	82,500	582,500
Financial guarantee contract	2,780,778	–	–	–

37 CAPITAL RISK MANAGEMENT

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short-term bank loans *(Note 24)*, long-term bank loans *(Note 24)* and long-term notes *(Note 27)* less cash and cash equivalents *(Note 22))*. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt.

The Group's strategy is to maintain a gearing ratio not exceeding 35%. The gearing ratios at 31 December 2011 and 2010 were as follows:

	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Long-term bank loans *(Note 24)*	**105,489**	102,040	–
Short-term bank loans *(Note 24)*	**111,936**	89,154	–
Long-term notes *(Note 27)*	**1,256,007**	1,256,552	496,452
	1,473,432	1,447,746	496,452
Less: Cash and cash equivalents *(Note 22)*	**(426,015)**	(940,232)	(532,686)
Net debt	**1,047,417**	507,514	N/A
Total equity	**3,938,606**	3,632,078	2,272,588
Total capital	**4,986,023**	4,139,592	2,272,588
Gearing ratio	**21%**	12%	N/A

38 FAIR VALUE ESTIMATION

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial instruments that are measured at fair value at 31 December 2011.

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Derivative financial instruments used for hedging *(Note 20)*	**–**	**13,743**	**–**	**13,743**
Available-for-sale financial assets *(Note 17)*				
– Debt securities	**–**	**67,000**	**–**	**67,000**
– Equity securities	**–**	**–**	**14**	**14**
– Club debentures	**–**	**–**	**3,560**	**3,560**
Total assets	**–**	**80,743**	**3,574**	**84,317**

The following table presents the Group's financial instruments that are measured at fair value at 31 December 2010.

	Level 1 US$'000 (Restated)	Level 2 US$'000 (Restated)	Level 3 US$'000 (Restated)	Total US$'000 (Restated)
Assets/(liabilities)				
Derivative financial instruments used for hedging *(Note 20)*	–	(1,892)	–	(1,892)
Available-for-sale financial assets *(Note 17)*				
– Debt securities	–	80,000	–	80,000
– Equity securities	1,342	–	14	1,356
– Club debentures	–	–	2,974	2,974
Total assets/(liabilities)	1,342	78,108	2,988	82,438

38 FAIR VALUE ESTIMATION (CONTINUED)

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

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

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

Specific valuation techniques used to value financial instruments include:

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

The following table presents the changes in level 3 instruments for the year ended 31 December 2011.

	Equity securities US$'000	Club debentures US$'000	Total US$'000
Opening balance	**14**	**2,974**	**2,988**
Fair value gains	**–**	**610**	**610**
Disposal	**–**	**(24)**	**(24)**
Closing balance	**14**	**3,560**	**3,574**

39 EVENTS AFTER BALANCE SHEET DATE

On 19 March 2012, the Court of Appeal delivered a judgement on the appeal, which had been lodged by the HKIR on 16 May 2011 against the judgement of the Court of First Instance in respect of the Offshore Claim and heard before it on 14 and 15 February 2012. The Court of Appeal upheld the judgement of the Court of First Instance on the Offshore Claim and dismissed the HKIR's appeal *(Note 6)*.

40 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 22 March 2012.

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Held directly				
(2)	Integrated Distribution Services Group Limited	Bermuda	Ordinary US$12,000	100	Investment holding
(2)	LF Centennial Limited	British Virgin Islands	Ordinary US$50,000	100	Investment holding
(2)	LF Credit Limited	Bermuda	Ordinary US$12,000	100	Investment holding
(1)	Li & Fung (B.V.I.) Limited	British Virgin Islands	Ordinary US$400,010	100	Marketing services and investment holding
	Held indirectly				
	Alster International Trading Company Pte. Ltd.	Singapore	Ordinary S$5,000,000	100	Provision of inspection services and export trading
	American Marketing Enterprises Inc.	U.S.A.	Common Stock US$1,000	100	Wholesaling
(2)	Appleton Holdings Ltd.	British Virgin Islands	Ordinary US$1	100	Investment holding
	Black Cat Fireworks Limited	England	Ordinary GBP15,500,000	100	Wholesaling
	Bossini Fashion GmbH	Germany	EUR 468,000	100	Importer
	Bravado Star Manufacturing, LLC	U.S.A.	Capital contribution US$1	75	Wholesaling
	Briefly Stated Holdings, Inc.	U.S.A.	Common stock US$1,000	100	Investment holding
	Briefly Stated, Inc.	U.S.A.	Common stock US$3,000	100	Wholesaling
	C Group US LLC	U.S.A.	Capital contribution US$1,000	100	Marketing services
	Camberley Enterprises Limited	Hong Kong	Ordinary HK$250,000	100	Manufacturing and trading
	Camberley Trading Service (Shenzhen) Limited	The People's Republic of China	RMB1,500,000	100 foreign-owned enterprise	Export trading services
(2)	Centennial (Luxembourg) S.a.r.l.	Luxembourg	Euro 8,931,250	100	Investment holding
	CGroup HK Limited	Hong Kong	Ordinary HK$2,970,000 Class B Non-Voting HK$330,000	100	Export trading
	Character Direct Limited	Hong Kong	Ordinary HK$2	100	Design and marketing
	Civati Limited	Hong Kong	Ordinary US$450,000	100	Export trading
(2)	Colby Group Holdings Limited	British Virgin Islands	Ordinary US$45,000	100	Investment holding
(2)	Colby Property Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Colourful Express Trading Pte. Ltd.	Singapore	Ordinary S$2	100	Investment holding
	Colourful Lifestyle Productions Limited	Hong Kong	Ordinary HK$1,170,000	100	Provision of agency services

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Comet Feuerwerk GmbH	Germany	Euro 1,000,000	100	Fireworks wholesaling
	Concept 3 Limited	Hong Kong	Ordinary HK$2	100	Investment holding
	Costume Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Craftworks Limited	Hong Kong	Ordinary HK$1	100	Export trading
(2)	Crimzon Rose Accessories (Shenzhen) Co. Ltd.	The People's Republic of China	HK$1,500,000	100 foreign-owned enterprise	Wholesaling
	Crimzon Rose Asia Ltd	Hong Kong	Ordinary HK$3	100	Wholesaling
	Dana International Limited	Hong Kong	Ordinary HK$2	100	Investment holding
	Dodwell (Mauritius) Limited	Hong Kong	Ordinary "A" HK$300,000 Ordinary "B" HK$200,000	60	Export trading
	Dodwell (Singapore) Pte. Ltd.	Singapore	Ordinary S$200,000	100	Export trading services
(2)	Dongguan LF Beauty Manufacturing Services Limited	The People's Republic of China	HK$11,220,000	100 foreign-owned enterprise	Manufacturing and export trading
	DSG (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading service
	DSG (Shenzhen) Limited	The People's Republic of China	RMB3,000,000	100	Export trading services
	DSG Services Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading service
(2)	Direct Sourcing Group Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(2)	Direct Sourcing Group Investment Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Direct Sourcing Group Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
(2)	Eclat Properties Inc.	British Virgin Islands	Ordinary US$100	100	Property investment
(2)	Empire Knight Group Limited	British Virgin Islands	Ordinary US$1	100	Property investment
	Eslite Design Limited	Hong Kong	Ordinary HK$2	100	Provision of design services
	F&T Apparel LLC	U.S.A.	Capital contribution US$1	100	Wholesaling
(2)	Far East Logistics (Shenzhen) Co. Ltd	The People's Republic of China	HK$1,500,000	100 foreign-owned enterprise	Wholesaling
	Fashion Design (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Design
	Fashion Design NY LLC	U.S.A.	Capital contribution US$1	100	Design
	Forrestgrove Limited	Hong Kong	Ordinary HK$20	100	Export trading
	GB Apparel Limited	England	Ordinary GBP1,000	100	Investment holding
	GMR (Hong Kong) Limited	Hong Kong	Ordinary HK$2	100	Export trading
(2)	Golden Gate Fireworks Inc.	U.S.A.	Common stock US$600,000	100	Commission agent and investment holding
	Golden Horn N.V.	Netherlands Antilles	US$6,100	100	Investment holding
	Goodwest Enterprises Limited	Hong Kong	Ordinary HK$2	100	Export trading

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Principal subsidiaries				
	GSCM (HK) Limited	Hong Kong	Ordinary HK$140,000	100	Export trading
	Hanson Im-und Export GmbH	Germany	EUR 26,000	100	Wholesaling
	Heusel Textilhandelsgesellschaft mbH	Germany	Euro 225,000	100	Wholesaling
(2)	HTL Fashion Hazir Giyim Sanayi ve Ticaret Limited Sirketi	Turkey	YTL25,000	100	Manufacturing
	HTL Fashions (UK) Limited	England	Ordinary GBP1	100	Design and export trading
	HTP Fashion Limited	Hong Kong	Ordinary HK$1	100	Manufacturing and trading
	Homestead International Group Ltd.	U.S.A.	Voting Common Stock US$901 Non-Voting Common Stock US$99	100 Voting	Importer
	Homeworks Asia Limited	Hong Kong	Ordinary HK$2	100	Export trading
(2)	Homeworks (Europe) B.V.	The Netherlands	Ordinary Euro 18,000	100	Export trading
	IDS (Philippines), Inc.	The Philippines	Pesos 21,000,000	100	Distribution of consumer products and provision of logistics services
	IDS Logistics (Taiwan) Limited (now known as LF Logistics (Taiwan) Limited with effect from 5 Jan 2012)	Hong Kong	Ordinary HK$200	100	Provision of logistics and packaging services
	IDS Logistics (Thailand) Limited	Thailand	Ordinary Baht 303,750,000	100	Provision of logistics services
	IDS Logistics (UK) Limited	England	Ordinary GBP50,000	100	Provision of logistics services
	IDS Logistics Services (M) Sdn. Bhd. (now known as LF Logistics Services (M) Sdn. Bhd.with effect from 3 Jan 2012)	Malaysia	Ordinary RM2,000,000	100	Provision of logistics services
	IDS Logistics Services Pte. Ltd.) (now known as LF Logistics Services Pte. Ltd. with effect from 16 Jan 2012)	Singapore	Ordinary S$28,296,962	100	Provision of logistics services
	IDS Manufacturing Limited	Thailand	Ordinary Baht 469,500,000	100	Manufacturing of household, pharmaceutical and personal care products
	IDS Manufacturing Sdn. Bhd.	Malaysia	Ordinary RM23,000,000	100	Manufacturing of pharmaceutical, foods and toiletries products

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	IDS Marketing (Thailand) Limited	Thailand	Ordinary Baht 16,000,000 Preference 5,500,000 25% paid up	100	Distribution of consumer and pharmaceutical products
	IDS USA Inc.	U.S.A.	Common stock US$1	100	Provision of logistics services
	IDS USA West Inc.	U.S.A.	Common stock 2,000	100	Provision of logistics services
	Imagine POS Limited	Hong Kong	Ordinary "A" HK$2,000,000 Ordinary "B" HK$199,980	100	Export trading
(2)	International Sources LLC	U.S.A.	Capital contribution US$1	100	Trading of apparel
	International Sources Trading Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Jac Tissot Solutions GmbH	Germany	EUR 520,000	100	Importer
	JV Cosmetics Company Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading
(2)	JV Cosmetics (Dongguan) Co. Ltd.	The People's Republic of China	HK$105,000,000	100 foreign-owned enterprise	Manufacturing and trading
	Jackel Cosmetics Limited	Hong Kong	Class "A" HK$100,000 Class "B" non-voting HK$13,890	100	Export trading
(2)	Jackel France SAS	France	Ordinary Euro 37,500	100	Export trading
	Jackel, Inc.	U.S.A.	Class A voting common stock US$1 Class B non-voting common stock US$99	100	Export trading
	Jackel International (Asia) Limited	Hong Kong	Ordinary "A" HK$346,500 Ordinary "B" HK$49,500	100	Export trading
	Jackel International Europe SAS	France	Ordinary Euro 105,000	100	Export trading
	Jackel International Limited	Hong Kong	Ordinary HK$1	100	Export trading
	Jackel Vision Limited	Hong Kong	Ordinary HK$1	100	Export trading
	Jimlar Corporation	U.S.A.	Common stock US$974.260769	100	Wholesaling
	JMI Sportswear Pte. Ltd. (now known as LF Fashion Pte. Ltd. with effect from 5 Jan 2012)	Singapore	Ordinary S$10,000	100	Export trading
	Just Jamie and Paulrich Limited	England	Ordinary GBP878	100	Wholesaling
	Kenas Pacific Trading (Pte.) Ltd.	Singapore	Ordinary S$100	100	Export trading service
	Kariya Industries Limited	Hong Kong	Ordinary HK$1,000,000	100	Manufacturing and trading
	KHQ Investment LLC	U.S.A.	Capital contribution US$1,000	100	Wholesaling

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Kingsbury International Limited	Hong Kong	Ordinary HK$2	100	Export trading
	KVZ International Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	La Villa Development Limited	Hong Kong	Ordinary HK$1	100	Design and marketing of toys
	LamaLoLi GmbH	Germany	Euro 25,000	100	Wholesaling
(2)	Lenci Calzature SpA	Italy	Euro 206,400	100	Design, marketing and sourcing
	LF Accessories Group LLC	U.S.A.	Capital contribution US$1	100	Export trading
	LF Asia (Hong Kong) Limited (formerly known as IDS (Hong Kong) Limited)	Hong Kong	Ordinary HK$146,000,000	100	Distribution of consumer and pharmaceutical products
	LF Asia (Malaysia) Sdn. Bhd. (formerly known as IDS Services (Malaysia) Sdn. Bhd.)	Malaysia	Ordinary RM14,231,002	100	Distribution of consumer, pharmaceutical, and medical equipment products
	LF Asia (Singapore) Pte. Ltd. (formerly known as IDS Marketing (Singapore) Pte. Ltd.)	Singapore	Ordinary S$300,000 Preference S$60,000	100	Distribution of healthcare products
	LF Asia (Taiwan) Limited (formerly known as Branded Lifestyle Taiwan Holdings Limited)	Hong Kong	Ordinary HK$1	100	Retail of apparel and accessories
	LF Asia Sebor (Sabah) Sdn. Bhd. (formerly known as IDS Sebor Sabah Sdn. Bhd.)	Malaysia	Ordinary RM9,850,000	60	Distribution of consumer products
	LF Asia Sebor (Sarawak) Sdn. Bhd. (formerly known as IDS Sebor (Sarawak) Sdn. Bhd.)	Malaysia	Ordinary RM5,000,000	67.09	Distribution of consumer products
	LF Beauty Inc.	U.S.A.	Common stock US$1	100	Investment holding
	LF Beauty Limited	Hong Kong	Ordinary HK$1	100	Export trading
	LF Beauty Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
(2)	LF Beauty (Shenzhen) Ltd	The People's Republic of China	HK$8,500,000	100 foreign-owned enterprise	Export trading
	LF Beauty (UK) Limited	England	Ordinary GBP100	100	Design, marketing and manufacturing
(2)	LF Capital (II) Limited	British Virgin Islands	Class "A" US$185 Class "B" US$115	75	Investment holding
(2)	LF Capital Management Limited	British Virgin Islands	Ordinary US$1	100	Investment management
	LF Centennial Pte. Ltd.	Singapore	Ordinary S$100,000	100	Export trading
	LF Centennial Services (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading services

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	LF Centennial Service (Singapore) Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading services
(2)	LF Corporate Capital (I) Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	LF Credit Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Provision of trade-related services
	LF Europe (Germany) GmbH	Germany	Euro 25,000	100	Investment holding
	LF Europe Limited	England	Ordinary GBP26,788,000	100	Investment holding
(2)	LF European Capital Limited	British Virgin Islands	Ordinary US$1	75	Investment holding
	LF Fashion Service Pte. Ltd.	Singapore	Ordinary S$10,000	100	Wholesaling
	LF Home Limited	Hong Kong	Ordinary HK$2	100	Export trading
(2)	LF International Inc.	U.S.A.	Common stock US$30,002	100	Investment management
	LF Logistics (Hong Kong) Limited (formerly known as IDS Logistics (Hong Kong) Limited)	Hong Kong	Ordinary HK$10,000	100	Provision of logistics services
	LF National Brands Group LLC	U.S.A.	Capital contribution US$1	100	Design and marketing
	LF North America Holdings Co., Inc.	U.S.A.	Ordinary US$1	100	Investment holding
	LF Products (Shanghai) Limited	The People's Republic of China	RMB5,000,000	100 foreign-owned enterprise	Export, import and domestics trading
	LF Products Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
	LF Sourcing (Millwork) LLC	U.S.A.	Capital contribution US$1	100	Sourcing and export trading
	LF USA Inc.	U.S.A.	Common stock US$751,767,801 9.5% Preferred Stock US$0.17	100	Distribution and wholesaling
(2)	LFCF Investment I (Europe) Limited	British Virgin Islands	Ordinary US$1	100	Investment management
(2)	LFCF Investment I (USA) Limited	British Virgin Islands	Ordinary US$1	100	Investment management
(2)	Li & Fung Agencia de Compras em Portugal, Limitada	Portugal	Euro 99,760	100	Export trading
	Li & Fung (Bangladesh) Limited	Bangladesh	Ordinary Taka 9,500,000	100	Export trading services
	Li & Fung (Cambodia) Limited	Cambodia	Ordinary Riels 120,000,000	100	Export trading services
	Li & Fung (Europe) Holding Limited	England	Ordinary GBP100	100	Investment holding
	Li & Fung (Exports) Limited	Hong Kong	Ordinary HK$10,000 Non-voting deferred HK$8,600,000	100	Investment holding
(2)	Li & Fung (Guatemala) S.A.	Guatemala	Common shares Q5,000	100	Export trading services
(2)	Li & Fung (Honduras) Limited	Honduras	Nominative common shares Lps25,000	100	Export trading services

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	Li & Fung (India) Private Limited	India	Equity shares Rupee 64,000,200	100	Export trading services
	Li & Fung (Korea) Limited	Korea	Common stock Won 200,000,000	100	Export trading services
(2)	Li & Fung (Mauritius) Limited	Mauritius	"A" Shares Rupees 750,000 "B" Shares Rupees 500,000	60	Export trading services
(2)	Li & Fung (Morocco) SARL	Morocco	Dirhams10,000	100	Export trading services
	Li & Fung Mumessillik Pazarlama Limited Sirketi	Turkey	YTL15,639,650	100	Export trading services
(2)	Li & Fung (Nicaragua), Sociedad Anonima	Nicaragua	Nominative shares C$50,000	100	Export trading services
	Li & Fung Pakistan (Private) Limited	Pakistan	Rs10,000,000	100	Export trading services
	Li & Fung (Philippines) Inc.	The Philippines	Peso 1,000,000	100	Export trading services
(2)	Li & Fung (Portugal) Limited	England	Ordinary GBP100	100	Investment holding
	Li & Fung (Properties) Limited	Hong Kong	Ordinary HK$1,000,000	100	Investment holding
	Li & Fung (Singapore) Pte Limited	Singapore	Ordinary S$25,000	100	Export trading services
	Li & Fung South Africa (Proprietary) Limited	South Africa	Ordinary Rand 100	100	Export trading services
	Li & Fung Taiwan Holdings Limited	Taiwan	NT$287,996,000	100	Investment holding
	Li & Fung Taiwan Investments Limited	British Virgin Islands	Ordinary US$4,912,180	100	Investment holding
	Li & Fung (Taiwan) Limited	Taiwan	NT$63,000,000	100	Sourcing and inspection
	Li & Fung (Thailand) Limited	Thailand	Baht 20,000,000	100	Export trading services
(2)	Li & Fung Trading (Italia) S.r.l.	Italy	Euro 100,000	100	Export trading services
	Li & Fung (Trading) Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$10,000,000	100	Export trading and investment holding
	Li & Fung Trading Service (Shanghai) Company Limited	The People's Republic of China	US$6,000,000	100 foreign-owned enterprise	Export trading services
	Li & Fung Trading Service (Shenzhen) Limited	The People's Republic of China	RMB3,000,000	100 foreign-owned enterprise	Export trading services
	Li & Fung Trading (Shanghai) Limited	The People's Republic of China	RMB50,000,000	100 foreign-owned enterprise	Export trading
	Li & Fung (Vietnam) Limited	Vietnam	US$800,000	100	Export trading services
	Lion Rock Far East (1972) Limited	Hong Kong	Ordinary HK$20	100	Investment holding
	Lion Rock (Hong Kong) Limited	Hong Kong	Ordinary HK$10,000	100	Investment holding

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Lion Rock International Trading & Co.	Hong Kong	Capital contribution HK$3,000,000	100	Merchandising agent, freight forwarding and logistic services
	Lion Rock Services (Far East) & Co.	Hong Kong	Capital contribution HK$17,000,000	100	Merchandising agent
	Lion Rock Services (Switzerland) AG	Switzerland	CHF3,400,000	100	Export trading services
	Lloyd Textile Trading Limited	Hong Kong	Ordinary HK$1,000,000	100	Manufacturing and trading
	Lux Plush Enterprises Limited	Hong Kong	Ordinary HK$250,000	100	Export trading
	Match Winner Vertriebs-GmbH	Germany	EUR 26,000	100	Wholesaling
	Meredith Associates Limited	Hong Kong	Ordinary US$1,001	100	Investment holding
	MESH LLC	U.S.A.	Capital contribution US$1	75	Wholesaling
	Metro Seven LLC	U.S.A.	Capital contribution US$1	100	Wholesaling
(2)	Mercury (BVI) Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Midway Enterprises (Guangzhou) Limited	The People's Republic of China	US$8,570,000	100 foreign-owned enterprise	Manufacture and distribution of licensed children's apparel and accessories
	Mighty Hurricane Holdings Inc.	U.S.A.	Common shares of US$100	100	Wholesaling
	Miles Fashion Asia Pte. Ltd.	Singapore	Ordinary S$1	100	Export trading
	Miles Fashion GmbH	Germany	EUR 21,000,000	100	Importer
	Miles Fashion Group France EURL	France	EUR 10,000	100	Wholesaling
	Miles Fashion USA, Inc.	U.S.A.	US$1,000	100	Importer
	Millwork (Shenzhen) Limited	The People's Republic of China	RMB3,000,000	100 foreign-owned enterprise	Export trading services
	Millwork Holdings Co., Inc.	U.S.A.	Common stock US$1	100	Investment holding
	Millwork Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
(2)	Modium Konfeksiyon Sanayi ve Ticaret Anonim Sirketi	Turkey	A Shares YTL2,249,975 B Shares YTL25	100	Manufacturing
	Momentum Clothing Limited	England	Ordinary GBP100	100	Export trading
	Nanjing LF Asia Company Limited (formerly known as Nanjing IDS Marketing Company Limited)	The People's Republic of China	US$5,000,000	100 foreign-owned enterprise	Import/export and distribution of general merchandise
	Pacific Alliance USA, Inc.	U.S.A.	Common Stock US$1	100	Wholesaling
	Paco Trading (International) Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Patch Licensing LLC	U.S.A.	Capital contribution US$1	66 $^{2}/_{3}$	Wholesaling
	Perfect Trading Inc.	Egypt	LE 2,480,000	60	Export trading
	Peter Black Footwear & Accessories Limited	England	Ordinary GBP202,000	100	Design, marketing and sourcing

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Principal subsidiaries				
	Peter Black International Limited	England	Ordinary GBP1,020.42	100	Investment holding
	Peter Black Holdings Limited	England	Ordinary GBP16,268,648.75	100	Investment holding
	Peter Black Overseas Holdings Limited	England	Ordinary GBP2	100	Investment holding
	Phil Henson GmbH	Germany	Euro 50,000	100	Importer
	Product Development Partners Limited	Hong Kong	Ordinary HK$2	100	Export trading
	PromOcean France SAS	France	Euro 8,530,303	100	Wholesaling
	PromOcean GmbH	Germany	Euro 25,570	100	Wholesaling
	PromOcean No 1 Limited	England	Ordinary GBP1	100	Investment holding
	PromOcean Spain SL	Spain	Euro 3,005.06	100	Wholesaling
	PromOcean The Netherlands B.V.	The Netherlands	Euro 39,379.5	100	Wholesaling
	PromOcean UK Limited	England	Ordinary GBP1	100	Wholesaling
	PT Direct Sourcing Indonesia	Indonesia	Ordinary US250,000	100	Export trading services
	P.T. Lifung Indonesia	Indonesia	US$500,000	100	Export trading services
	Rhodes Limited	Hong Kong	Ordinary US$1,000	100	Export trading and sourcing
	RT Sourcing Asia Limited	Hong Kong	HK$102,000	100	Export trading
	RT Sourcing USA Inc.	U.S.A.	Common stock US$6	100	Importer
	RT Sourcing (Shenzhen) Co. Ltd.	The People's Republic of China	HK$1,000,000	100 foreign-owned enterprise	Export trading services
	RVVW Apparel LLC	U.S.A.	Capital contribution Nil	100	Wholesaling
	Ralsey Group Limited	U.S.A.	Common stock US$1	100	Wholesaling
(2)	Ratners Enterprises Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(2)	Region Giant Holdings Limited	British Virgin Islands	Ordinary US$31	100	Investment holding
	Rosetti Asia Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Rosetti Handbags and Accessories, Ltd.	U.S.A.	Common stock US$1	100	Wholesaling
	Shanghai Midway Xiaozhuren Trading Co., Ltd	The People's Republic of China	RMB500,000	100 foreign-owned enterprise	Retail of children's apparel and accessories
	Shiu Fung Fireworks Company Limited	Hong Kong	Ordinary "A" HK$1,100,000 Ordinary "B" HK$1,100,000	100	Export trading
	Shiu Fung Fireworks Trading (Changsha) Limited	The People's Republic of China	RMB4,000,000	100 foreign-owned enterprise	Export trading
	Shubiz Limited	England	Ordinary GBP2	100	Design, marketing and sourcing
	Shutoo Limited	England	Ordinary GBP1	100	Design, marketing and sourcing

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Silvereed (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading
	Sky Million International Limited	Hong Kong	Ordinary HK$2	100	Property investment
	Sports Brands Italia Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading
(2)	STS Shenzhen Testing Service Limited	The People's Republic of China	US$660,000	100 foreign-owned enterprise	Testing and technology consultation
(2)	Tantallon Enterprises Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(2)	Texnorte II-Industrias Texteis, Limitada	Portugal	Quotas Euro 5,000	100	Export trading
	Texnorte Industrial Limited	Hong Kong	Ordinary HK$2	100	Export trading
	TH Success Limited	Hong Kong	Ordinary HK$1,560,000	100	Export trading
	Toy Island Manufacturing Company Limited	Hong Kong	Ordinary HK$62,000,000	100	Design and marketing
	Toy Island (USA) LLC	U.S.A.	Capital contribution US$100	100	Marketing
	T.V.M. Design Services Ltd	Israel	Ordinary NIS100	100	Design and marketing
	Toonsland Limited	Hong Kong	Ordinary HK$200,000	100	Distribution of children's apparel and accessories
	TVM Europe GmbH	Germany	Euro 25,000	100	Wholesaling
	TVMania Italy S.r.l.	Italy	Euro 10,000	100	Wholesaling
	TVMania UK Limited	England	Ordinary GBP2	100	Wholesaling
	Ventana Bekleidungsfabrikation GmbH	Germany	Euro 26,000	100	Wholesaling
	Visage Group Limited	England	Ordinary GBP100,000	100	Investment holding
	Visage Holdings (2010) Limited	England	Ordinary GBP2	100	Investment holding
	Visage Holdings Limited	England	Ordinary GBP35,163	100	Investment holding
	Visage (Hong Kong) Limited	Hong Kong	Ordinary HK$100,000	100	Design and marketing
	Visage Limited	England	Ordinary GBP54,100	100	Design, marketing and sourcing
	VZI Investment Corp.	U.S.A.	Common stock US$1	100	Wholesaling
	W S Trading Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading
	Wonderful World Overseas Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Wilson Fabric Mart (China) Ltd (formerly known as Verity Enterprises Limited)	Hong Kong	Ordinary HK$2,000,000	100	Export trading
	Wilson Textile Limited	Hong Kong	Ordinary HK$1	100	Export trading
	888 UK Limited	England	Ordinary GBP100	100	Service company

NOTES:

(1) Li & Fung (B.V.I.) Limited provides the subsidiaries with promotional and marketing services outside Hong Kong.

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

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

The above table lists out the principal subsidiaries of the Company as at 31 December 2011 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Note	Principal associated companies	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity indirectly held by the Company	Principal activities
	Blue Work Trading Company Limited	Hong Kong	Ordinary HK$4,000,000	50	Export trading
#	Fireworks Management, Inc.	U.S.A.	Common stock US$60,000	25	Investment holding
#	Gulf Coast Fireworks Sales, L.L.C.	U.S.A.	Capital contribution US$3,109,995	30	Fireworks distribution
	Upsolut Merchandising GmbH & Co. KG	Germany	Euro 5,000	39	Distribution and wholesaling
#	Winco Fireworks International, L.L.C.	U.S.A.	Capital contribution US$8,708,785	30	Wholesaling
#	Winco Fireworks Mississippi, L.L.C.	U.S.A.	Capital contribution US$349,440	30	Wholesaling

The associated companies are not audited by PricewaterhouseCoopers.

The above table lists out the principal associated companies of the Company as at 31 December 2011 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other associated companies would, in the opinion of the directors, result in particulars of excessive length.

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