

 **LI & FUNG LIMITED**

(Incorporated in Bermuda with limited liability)
Stock Code: 494

中期業績報告 **2016**
Interim Report



We are Li & Fung





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On our cover:

Meet our innovators

Back row (from left to right):

Ong Yi Hoo, Chris Okazaki, Margot Brent

Front row (from left to right):

Alison Tai, Reto Matter, Brian Chan

Photo by Larry Yeung

Corporate information

Executive Directors

William Fung Kwok Lun
Spencer Theodore Fung
Marc Robert Compagnon

Non-executive Directors

Victor Fung Kwok King
Paul Edward Selway-Swift*
Allan Wong Chi Yun*
Margaret Leung Ko May Yee*
Martin Tang Yue Nien*

** Independent Non-executive Directors*

Chief Financial Officer

Edward Lam Sung Lai

Group Chief Compliance and Risk Management Officer

Jason Yeung Chi Wai

Company Secretary

Terry Wan Mei Chow

Auditor

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Citibank, N.A.
JPMorgan Chase Bank, N.A.
Standard Chartered Bank (Hong Kong) Limited

Legal Advisors

Mayer Brown JSM
16th-19th Floors, Prince's Building
10 Chater Road, Central, Hong Kong

Registered Office

Canon's Court, 22 Victoria Street
Hamilton HM 12, Bermuda

Hong Kong Office

11th Floor, LiFung Tower
888 Cheung Sha Wan Road
Kowloon, Hong Kong

Highlights

2016 FIRST HALF OVERVIEW

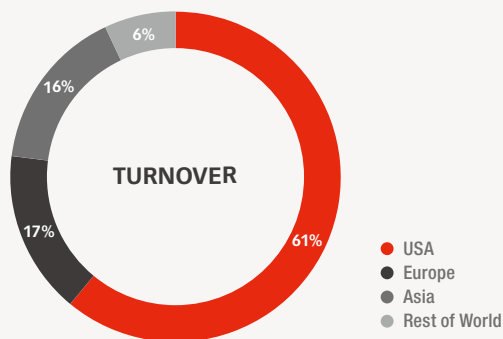
US\$ **8,071M**
TURNOVER

US\$ **935M**
TOTAL MARGIN

US\$ **156M**
CORE OPERATING PROFIT

GROUP GEOGRAPHICAL MARKET TURNOVER

US\$ **8,071M**



EARNINGS PER SHARE (BASIC)

6.7 HK cents

0.87 US cents

DIVIDENDS PER SHARE (INTERIM)

11.0 HK cents

1.4 US cents

OPERATING CASH FLOW

US\$ **152M**

CASH AND BANK BALANCES

US\$ **531M**

GEARING RATIO

24%

21,982 EMPLOYEES
WORLDWIDE



40+
ECONOMIES

We operate an extensive global supply chain network with some 22,000 people in more than 250 offices and distribution centers around the world, working with our vendor base of more than 15,000 suppliers to add value to our global brand and retail customers.

A letter from our Chairman



William Fung
Group Chairman

Dear Shareholders,

As we traversed the first six months of 2016, global economies remained soft and consumer spending generally cautious. We continued to be negatively affected by a persistently deflationary environment, increased geopolitical uncertainties and weak European and Asian currencies. Nevertheless, despite macroeconomic headwinds, we continue to focus on building a sustainable enterprise for long-term growth.

During the first half of the year, we successfully divested our Asia consumer and healthcare distribution business, which is a non-core business for us. This divestment re-aligns our strategic focus on our core trading and logistics businesses and allows us to better focus our resources and management attention.

The Impact of Brexit

Although the full impact is unknown at this point, the recent Brexit referendum is leading to additional global economic uncertainties. As a result, Europe's consumer confidence, employment and foreign investments are expected to be affected. UK brands and retailers face immediate rising overseas input prices due to the weaker British Pound, while soft consumer sentiment makes it difficult to pass on these costs to consumers. In the meantime, European brands and retailers also suffer similar negative impact as a result of Brexit which may weaken the Euro and add to uncertainty across the Eurozone.

A more subdued European economic outlook will exacerbate the already-sluggish demand in Asian exports, which may also be disadvantaged if there is a relative appreciation of the Asian currencies against the British Pound and Euro. Over the longer run, free-trade agreement (FTA) negotiations between China and the EU are likely to be more difficult without the advocacy and involvement of the UK, who has played an instrumental role in promoting deeper China-EU ties. Production countries that are currently benefiting from preferential tariff treatments under the EU's Generalized Scheme of Preferences are set to lose such privileges when exporting to

the UK and would need to re-negotiate new FTAs. Separation of the UK from the EU is likely to lessen the bargaining power of a reduced EU in future trade negotiations. All of these potential effects are expected to add uncertainty and extra complexity to the sourcing landscape.

E-commerce Brings about Huge Sourcing and Logistics Opportunities

The advent of e-commerce and the increase in competitive pressure it brings continue to disrupt retail markets. However, the need for supply chains to be digitized to work with the increasingly digitized consumer market will bring a lot of opportunities for Li & Fung.

At the retail level, there is an influx of online retailers entering the market, fighting for market share and competing largely on price. Brick-and-mortar retailers continue to invest in omni-channel capabilities to compete for the online consumer. An increasingly larger proportion of the goods we supply to our brick-and-mortar retail customers is being sold by them online under the omni-channel model. This has greatly intensified price competition which coupled with a generally weak consumption market has resulted in a persistently highly-promotional marketplace. At the same time, many online retailers are also launching their own private label lines. With our deep expertise in developing private labels, we are already helping some online retailers source their private label collections. We feel this move to private label will be a major trend with the pure play online retailers and will present significant opportunities for Li & Fung.

In addition, e-commerce players also compete heavily on their logistics capabilities. With our leadership in e-logistics in Asia, we are becoming the trusted logistics partner for both pure online retailers and traditional retailers' online business. We were early investors in logistics capabilities to pick-and-pack by the piece and expedite in small packages to consumers. This requires a thorough integration of IT systems with those of our customers and last-mile transportation companies. We are now reaping the fruits of these early investments.

China Remains to be an Important Sourcing Base

China has remained an important sourcing hub due to its abundance of highly skilled labor, strong production expertise, efficient infrastructural support and a relatively stable political and social situation. Its labor costs, which rose dramatically in its last Five-Year Plan, have stabilized. Coupled with low raw material prices and a lower RMB exchange rate, China has regained some of its competitiveness. Recent geopolitical unrest and disruptions in other parts of the world have also accentuated the importance of working with an experienced and stable supply country, like China, despite a higher cost.

As a result, there is a slowdown in the decanting of production out of China. Furthermore, China's one-belt-one-road initiative is expected to reinforce China's dominance and importance in the global supply chain, as it continues to explore opportunities with its neighbors to connect production and consumers across the region.

Continual Focus on Value Added Services

Our Vendor Support Services (VSS) business, which serves our vendor base by increasing their sustainability and competitiveness, has continued to make progress in the first half of the year. Following from our efforts in 2015, VSS continued to track ahead of plans and improve profitability and we expect VSS to contribute over 5% of COP in 2016.

Building a Sustainable Enterprise in a Volatile Market

Under the current market conditions, there is little sign of any meaningful turnaround in consumer demand and trade flows for the remainder of 2016. We expect the next six months to continue to be overshadowed by uncertainties. While the US market continues to recover and shows growth, this growth is subdued and muted. The outcome of the upcoming US presidential election will set the tone for the country's economic direction. In Europe, it will take some time to resolve the issues arising from Brexit before it can restart its growth momentum. In the meantime, we expect Asian growth to be lackluster given the slowdown of the Chinese economy and the impact from Europe.

For Li & Fung, the difficult macro and retail environment may lead to volume and margin pressures for our trading business in the near term. Nonetheless, we will focus on productivity and cost efficiency improvements while continuing to execute our strategies for our key product verticals. Our VSS program is growing as expected and is contributing positively to profitability. I remain upbeat on the prospects of our VSS program and I am confident that it will become one of our important profit contributors. In addition, I expect our logistics business will sustain its robust growth through increasing business with existing customers, geographical expansion, new contracts and broader service offerings.

We have commenced the planning of our next Three-Year Plan for the period of 2017 to 2019, which will focus on maintaining our global leadership position in the consumer goods supply chain. We will develop and maintain our excellence by leveraging on our deep product expertise and diverse sourcing base, while helping our customers to stay competitive. In the future, we foresee a proliferation of FTAs, increasingly on a bilateral, rather than a multilateral, basis that will shift the dynamics of global sourcing, increasing the complexity of the sourcing landscape to Li & Fung's advantage. In such a sourcing world, major brands and retailers will increasingly need to rely on reputable supply chain managers who have strong product expertise and a flexible global footprint to minimize supply disruption risks while increasing competitiveness. We believe Li & Fung is in a prime position to fulfill that role in the coming years.

I would like to extend my gratitude to our colleagues for their dedication and hard work, amid challenging market conditions, in driving our resilient performance during the past six months.

Yours sincerely,

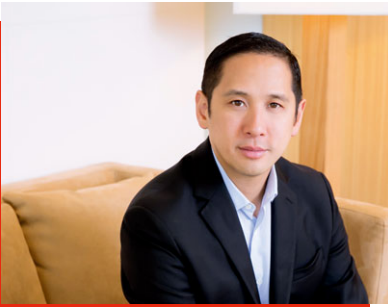
William Fung Kwok Lun

Group Chairman



Major brands and retailers will increasingly need to rely on reputable supply chain managers to increase their competitiveness.

A letter from our CEO



Spencer Fung
Group Chief Executive Officer

Dear Shareholders,

2016 is the last year of our current Three-Year Plan and I am pleased to say that we have been diligently executing our strategic goals and making important progress. In 2014 we set out to 1) build a sustainable enterprise 2) simplify our business and 3) focus on organic growth. We have embedded these three goals into everything we do in the Company. We have taken a deliberate course of action to minimize short-term actions and instead focus on initiatives that will benefit the long-term foundation of the business like investing in people, systems, infrastructure and innovation. We have simplified our Company by spinning off non-core assets like our global brands and licensing business, now Global Brands Group, and our Asia consumer and healthcare distribution business and also simplified our organizational structure and processes globally. We have also focused on organic growth and won new customers as well as increased our share of wallet from existing customers. Our actions have all worked together to enhance our foundation and are helping us build a sustainable enterprise.

The macro environment, however, has been one of the toughest we have ever seen. Industry pressures, geopolitical uncertainties, US election concerns, a Brexit reality and the sad rise of terrorist activity has caused uncertainty in the market and affected consumer confidence. The retail environment is almost permanently promotional and many brick-and-mortar retailers are now under constant pressure. Further, many retailers are focused on working down excess inventory from previous seasons and reducing overall levels of inventory and increasing their speed to market. E-commerce players continue to take market share and cause disruption to how consumers spend and how retailers compete. Technological advancements have brought new disruptions to industries at an ever-accelerating pace. The sourcing market continues a multi-year deflationary trend and global terrorism has affected many countries, including key production markets in Turkey and Bangladesh. Our Company performance in the first half of the year reflects these challenges and as a result our business volume decreased.

During these turbulent times, our business foundation remains solid. Our Three-Year Plan goals have helped us focus on our core business and solidify our multi-channel sourcing strategy such that more of our customers now use our entire end-to-end supply chain services. While the overall business has been under pressure, we continue to convert our strong pipeline of new customers every few months and to help more e-commerce customers with their private label strategies. Our reorganization last year to focus more on our core customers enabled us to increase our share of wallet. Additionally, our three product vertical groups are now deeper into their supply chains, creating asset-light ecosystems focused on technology and innovation. Our logistics business continues a multi-year double-digit growth pattern with in-country logistics and global freight and within that e-logistics is growing even faster and capitalizing on the explosive growth of e-commerce in China and around Asia. Our new Silicon Valley office has also been bringing new innovative ideas, exploring new partnerships in technology and leading our advanced data analytics strategy. Finally, our Vendor Support Services has also grown very well from a low base and we are forecasting it to exceed our goal of 5% core operating profit this year.

We expect the second half of 2016 to remain challenging and we will continue implementing our margin enhancement and cost control measures to counteract the effects of the environment and mitigate pressure to our business. We continue working on process reengineering and investing in software and automation to increase our efficiency. Meanwhile, we have already begun planning for our next Three-Year Plan for 2017-2019. Although we are still early in the process, we are quite excited to be working across some key themes such as speed, innovation and digitalization of the supply chain, which we believe will play an integral part of our strategy. I am very encouraged by the passion the whole team has shown so far and am looking forward to announcing next year how we are planning to make further progress in building a long-term sustainable future for Li & Fung.

Yours sincerely,

Spencer Fung
Group CEO



We are excited to be working on speed, innovation and digitalization of the supply chain.

WAFUNG



TOWER

利豐大廈

Our performance

Group Geographical Market Turnover

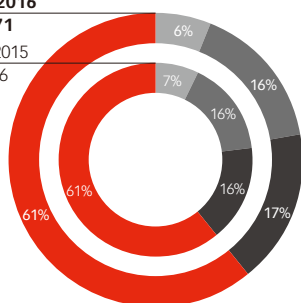
US\$m

1H 2016

8,071

1H 2015

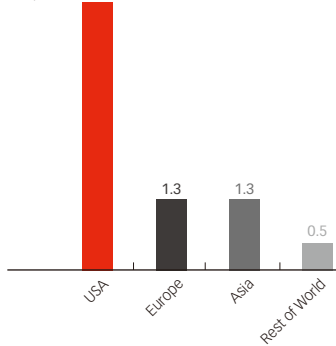
8,626



- USA
- Europe
- Asia
- Rest of World

US\$b

4.9



YoY % (5.9%) (2.7%) (6.9%) (17.9%)

Results Overview

First Half 2016 Performance

Results

	1H 2016 US\$m	1H 2015 US\$m	Change %
Turnover	8,071	8,626	(6.4%)
Total Margin	935	984	(4.9%)
% of Turnover	11.6%	11.4%	
Operating Costs	779	801	(2.8%)
% of Turnover	9.7%	9.3%	
Core Operating Profit	156	182	(14.2%)
% of Turnover	1.9%	2.1%	
Write-back of acquisition payable	–	60	
Profit attributable to Shareholders	72	149	
Adjusted profit attributable to Shareholders*	92	110	(16.5%)

* Excluding non-cash M&A items (write-back of acquisition payable, amortization of other intangible assets and non-cash interest expenses)

The first six months of the year was the toughest retail and trading period we have operated in since the global financial crisis in 2008. The global retail industry continued to be severely challenged by weak economies, soft consumer sentiment and a highly promotional environment. Our brand and retail customers were affected by subdued consumer demand and inventory build-up. They have therefore been increasingly cautious in placing new orders so as to reduce inventory level, which negatively impacted our top-line turnover.

However, the tough operating environment did not slow down our pace in executing strategic goals outlined in our Three-Year Plan: building a long-term sustainable enterprise, simplifying the business and focusing on organic growth. We successfully completed the divestment of our Asia consumer and healthcare distribution business in June 2016 as part of our strategic goal to focus resources on the core trading and logistics business. This divestment reinforced the Group's strong cash flow and solid balance sheet, and provided additional flexibility for our capital structure to fund future growth. Our Logistics Network continued to sustain growth momentum and generated double-digit organic growth in core operating profit. In addition, our Vendor Support Services (VSS), which leverages our extensive relationship with our vendors and converts them into a new group of customers, continued to stay ahead of plan. We have also continued to reposition our customer base and developed our product vertical expertise; our new customer pipeline remains strong. Additionally, we have focused on increasing productivity, which is helping support our margins and profitability. In particular, with our digitized sourcing platform, we have been able to streamline our cost base and improve operating leverage. It also opens up opportunities to capitalize on the vast amount of data processed through our platform. Speed, innovation and digitalization will play a crucial part in our next Three-Year Plan.

TURNOVER

Our turnover in the first half decreased by 6.4% year-on-year to US\$8.1 billion due mainly to the continued deflationary environment and reduced orders from customers as a result of uncertain consumer demand. Reduced orders were exacerbated by customers placing orders closer to the key sales periods as well as their objectives in keeping a lower inventory level on an ongoing basis. From a geographical perspective, the US and Europe remained the largest contributors to our total turnover, contributing 61% and 17%, respectively. Turnover from the Trading Network, representing 95% of our total turnover, declined by 6.2% while turnover from the Logistics Network declined by 10.5%. The continued sharp decline in global freight rates contributed to the overall reduction in turnover from the Logistics Network despite increased business from new and existing customers.

During the period, both our trading and logistics businesses were exposed to considerable volatility in exchange rates, particularly to the British Pound which fluctuated significantly as a result of the Brexit vote. Overall, the weaker European and Asian currencies against the US dollar contributed to lower translated turnover for both our Trading and Logistics Networks.

TOTAL MARGIN

Total margin decreased by 4.9% to US\$935 million during the first half of 2016, mainly due to the decline in total turnover. We improved our total margin percentage from 11.4% to 11.6% during the period, supported by an increase in the Logistics Network's total margin percentage due to a better customer mix, more efficient freight procurement, and increased sales of value-added services in our global freight management business.

OPERATING COSTS

Operating costs decreased by 2.8% to US\$779 million as a result of our sustained efforts to improve operating efficiency and productivity through the use of technology. This was particularly evident in our Trading Network in which operating costs declined by 5.2%. In the meantime, our Logistics Network continued to make investments with 13.3% increase in operating costs in order to support its geographical expansion and organic growth.

CORE OPERATING PROFIT

Core operating profit decreased by 14.2% year-on-year to US\$156 million due to a lower contribution from our Trading Network. The decline in Trading Network turnover dragged down the Trading Network's core operating profit by 19.1%. This was offset by the 20.8% surge in the Logistics Network's core operating profit.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Since the profit attributable to Shareholders of US\$72 million as reported in first half of 2016 did not include any write-back of consideration payable, our reported profit attributable to Shareholders decreased by 51.4% year-on-year, as prior year's profit attributable to Shareholders incorporated US\$60 million of write-back of consideration payable. Excluding write-back of consideration payable, as well as other non-cash M&A items, such as amortization of M&A related intangible assets and non-cash interest expenses, the adjusted profit attributable to Shareholders declined by 16.5% when compared to the same period last year.



Trading Network Geographical Market Turnover

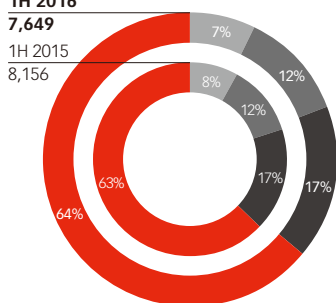
US\$m

1H 2016

7,649

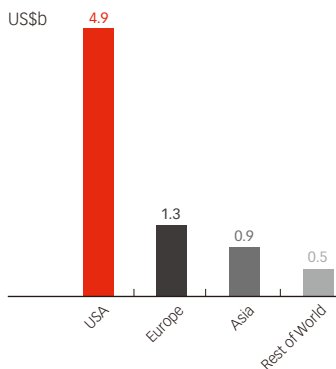
1H 2015

8,156



- USA
- Europe
- Asia
- Rest of World

US\$b



YoY % (5.5%) (0.0%) (10.6%) (17.9%)

Segment Analysis

Trading Network

Results

	1H 2016 US\$m	1H 2015 US\$m	Change %
Turnover	7,649	8,156	(6.2%)
Total Margin	788	855	(7.8%)
% of Turnover	10.3%	10.5%	
Operating Costs	659	695	(5.2%)
% of Turnover	8.6%	8.5%	
Core Operating Profit	129	160	(19.1%)
% of Turnover	1.7%	2.0%	

In our Trading Network, we provide end-to-end sourcing solutions through our global network for a diverse mix of global brands and retail customers. The retail landscape has been evolving as it adapts to changes in consumption behavior and our customers are actively adjusting their supply chains to remain competitive. Our multi-channel sourcing business model enables us to provide customers with both agency and principal-trading services regardless of how they source their products. To solidify our leadership position in specific product categories, we continued to deepen our product expertise through focused product verticals, namely sweaters, furniture and beauty. During the first half of 2016, we have made significant progress in our product verticals, especially our furniture business where our product innovation allowed us to improve margin and increase market share with key furniture customers.

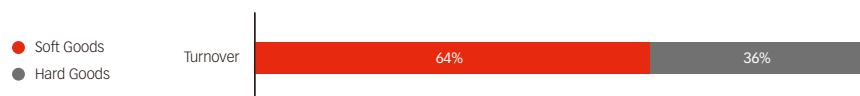
Our agency-based sourcing services, in which we act as a strategic sourcing agent for our customers under multi-year contracts, provide a steady turnover base and represent a significant part of our Trading Network business. In our product-focused principal trading business, we act as either an onshore importer or an offshore supplier to our customers, where the terms of each order are mutually agreed on a per program basis. As a principal trader, we sell to our customers' in-house buying offices. In contrast to our agency role, we are responsible for product design all the way to local logistics tailored to specific customers' requirements.

TURNOVER

Turnover of the Trading Network, comprising 64% soft goods and 36% hard goods, decreased by 6.2% to US\$7.6 billion during the first half of 2016. Our agency business, which contributed approximately two-third of the total Trading Network turnover, continued to be adversely affected by ongoing deflationary input prices. For our principal business, selling prices remained under pressure due to soft retail demand and the highly promotional retail environment. The slowdown in the retail environment, high inventory level and uncertain consumer demand caused our brand and retail customers to be more cautious in placing orders. The emergence of e-commerce and our customers' desires to reduce overall inventory level had led to a shorter order cycle. This adversely impacted volume placement for both our agency and principal businesses. We expect this destocking cycle will continue to impact us until the supply chain order cycle is totally adjusted.

European and Asian currencies continued to be volatile in the first half. The brief stabilization of these currencies in the first quarter was quickly interrupted by the UK Brexit vote, which led to further weakness. The relative strength of the US dollar led to an unfavorable translation impact for our non-US dollar denominated transactions.

Product Mix



Despite the challenging operating environment in our Trading Network, we continue to serve a diversified group of customers globally, ranging from brands, department stores, specialty stores, clubs, hypermarkets, and pure-play e-commerce. We continued to reposition our customer base and expand our turnover proportionate percentage in brands, clubs, off-price discount stores, and e-commerce players. In addition, our prospective customer pipeline remained strong across various product verticals and business units. Pure e-commerce players are also accelerating the development of their own private label strategies and we are well placed to service them.

Turnover from our US business, which is predominantly agency-based, decreased by 5.5% year-on-year to US\$4.9 billion, as a result of deflationary prices and lower unit volumes. The lower unit volumes were mainly driven by our customers' lower retail sales volumes. Our customers are buying more cautiously, reflecting ongoing weak consumer demand and high inventory levels.

Our European business remained flat year-on-year at US\$1.3 billion as supported by our increased market share in our core European customers despite the unfavorable foreign exchange translation, as well as volatile macro environment and uncertain political conditions. Our European trading business is predominantly principal-based with orders transacted in local currencies. The depreciation of European currencies against the US\$, our reporting currency, had a significant adverse translation impact on our reported European business turnover.

Turnover in Asia decreased by 10.6% year-on-year to US\$0.9 billion, of which approximately US\$569 million was attributed to our Asia consumer and healthcare distribution business which was divested on 30 June 2016, as part of the strategic re-alignment of Li & Fung. As a result of this strategic divestment, the financial results of our Asia consumer and healthcare distribution business will no longer contribute to the Trading Network going forward. Turnover in Asia was negatively impacted by the subdued economic environment across Asia, particularly in China, and the depreciation of Asian currencies against the US\$. Turnover in the Rest of World decreased by 17.9% year-on-year to US\$0.5 billion due mainly to the negative foreign currency impact.

TOTAL MARGIN

Total margin across the Trading Network decreased by 7.8% year-on-year to US\$788 million as a result of turnover decline and the continued margin pressure on our principal business. The negative foreign exchange impact on turnover had a direct corresponding impact on total margin. Total margin percentage decreased from 10.5% to 10.3% during the first half of 2016 as compared to the corresponding period in 2015. The continued margin pressure was driven by our brand and retail customers, who faced their own pricing pressures in the challenging retail environment. In response to such margin pressure, we continued to work closely with our customers to optimize their supply chains as well as to provide differentiated, innovative and well-designed products to support higher margins.

OPERATING COSTS

Operating costs in our Trading Network declined by 5.2% to US\$659 million as we continued to streamline our operations and look for process efficiency to reduce operating costs amid the challenging market conditions. We also increased provision in accounts receivable to cover the credit risk with a customer in the Chapter 11 process in the US. From the overall operating efficiency perspective, we were able to use technology to realize productivity gains and improve operating leverage. We continued to invest prudently to fuel our growth in new customer accounts and deepen our product expertise. In particular, we invested in the required infrastructure and resources for our VSS unit to scale.

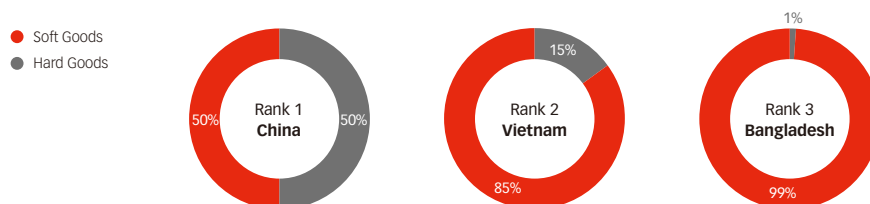
CORE OPERATING PROFIT

Core operating profit decreased by 19.1% year-on-year to US\$129 million during the first half of 2016, due to a decline in turnover of 6.2% and total margin of 7.8% despite a 5.2% reduction in operating costs.

Correspondingly, core operating profit margin decreased from 2.0% in the first half of 2015 to 1.7% in 2016 as a result of total margin percentage decreased from 10.5% to 10.3% and operating costs percentage increased from 8.5% to 8.6%.

TOP SOURCING COUNTRIES

Our global vendor network covers more than 40 economies, which allows for flexibility when moving orders from one production country to another to handle capacity constraints and satisfy customers' needs. Within this global network, our top three sourcing countries continue to be China, Vietnam and Bangladesh. While China accounted for more than 50% of our sourcing unit volume, we are one of the largest exporters of the product categories in which we trade in most of our sourcing countries. This comprehensive global network with a strong local presence, critical mass and long operating history is one of our key competitive strengths. As the sourcing landscape continues to evolve with the moving of sourcing away from China and multiple trade agreements in play, we are well positioned to scale our existing operations in individual countries to meet our customers' changing sourcing needs.



VENDOR SUPPORT SERVICES

Our VSS unit was formed in the first year of our current Three-Year Plan to tap into the potential of converting our vendor base of more than 15,000 to a new customer base for services that can improve their operational efficiencies and compliance levels. Following the initial investments, pilot programs were launched in selected markets in 2015. We rolled out our digital total sourcing portal to connect with all our vendors, launched bulk purchase programs in raw materials procurement and product liabilities insurance, developed working capital management tools and services for our suppliers, and initiated various vendor compliance services. The results of our initial pilot phase in 2015 were better than expected, and we continued our global roll-out during the first half of 2016. Our VSS unit is profitable and tracking ahead of plans to deliver 5% of core operating profit.

Logistics Network

Results

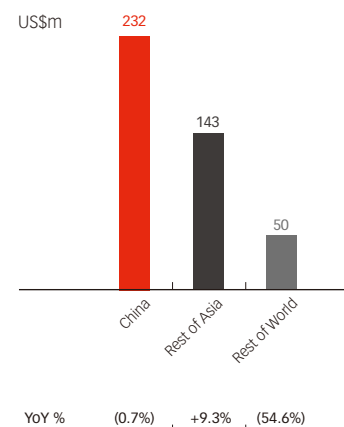
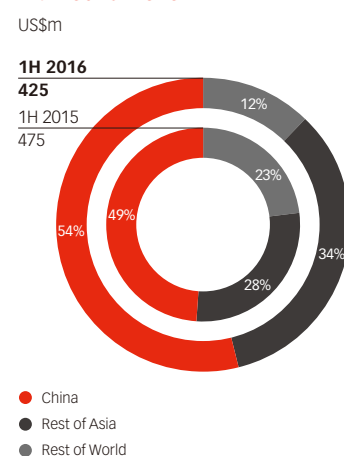
	1H 2016 US\$m	1H 2015 US\$m	Change %
Turnover	425	475	(10.5%)
Total Margin	148	129	+14.6%
Operating Costs	120	106	+13.3%
Core Operating Profit	27	23	+20.8%
<i>% of Turnover</i>	6.4%	4.8%	

Our Logistics Network provides fully integrated solutions to our logistics customers through our in-country logistics and global freight management services. Operating as part of a total supply chain solution, we are able to leverage our deep understanding of our customers' business and service needs. Our knowledge and network along the entire global supply chain combined with our strength in Asia allow us to offer unique and bespoke solutions to our customers, making us the logistics partner of choice. We create value through operational excellence, best-in-class IT systems and data analytics. These are further enhanced with an established e-commerce trade partner platform and capabilities.

Our in-country logistics business offers logistics and supply chain solutions in Asia focusing on our core verticals – footwear and apparel, fast-moving consumer goods, food and beverage, and retail and healthcare products. We serve a strong portfolio of blue chip multinational customers and continued to win new ones in our respective verticals during the first half of 2016. Our menu of service includes distribution center management, order management, local transportation (including last mile), reverse logistics as well as innovative and sophisticated services, such as hubbing and consolidation, data analytics e-commerce and omni-channel retail fulfillment services.

Our global freight management business offers full service international freight solutions, including freight forwarding, buyer consolidation and deconsolidation, customs brokerage, order management and inter-modal transportation services. The scale of this business increased significantly following the acquisition of China Container Line in 2014. With more than half a million TEUs of shipping volume, we are now one of the leading freight forwarders in China.

Logistics Network Geographical Market Turnover



TURNOVER

Turnover of our Logistics Network decreased by 10.5% year-on-year to US\$425 million, mainly attributable to the substantial drop in global freight rates, improved customer mix, and unfavorable foreign currency translation. As more than 80% of our Logistics Network turnover was generated in Asia in local currencies, our reported turnover was also exposed to currency volatility.

Our in-country logistics business maintained its strong organic growth momentum especially at the core operating profit level, driven by new customer wins, wallet share gains from existing customers and the increasing trend toward the fast growing e-commerce market where we possess leadership capabilities. We also improved our customer mix by focusing on higher margin customers and exiting unprofitable ones. The first half of 2016 also witnessed our expansion into Korea and Japan, and the inauguration of our state-of-the-art distribution hub in Singapore.

Global freight rates in the first half of 2016 continued to be under pressure across all routes and were below the average rates observed in the same period in 2015. Nevertheless, our global freight management business continued to focus on gaining market share through geographical expansion and cross-selling of our freight services to both in-country logistics and Trading Network's customers. To mitigate margin impact from low freight rates, we undertook proactive measures including prudent freight procurement, active contract management, and value-added services such as buyer consolidation solutions to drive core operating profit growth.

CORE OPERATING PROFIT

Core operating profit increased by 20.8% year-on-year to US\$27 million despite a decrease in turnover, largely as a result of an improvement in core operating profit margin from 4.8% to 6.4% during the first half of 2016. The higher margin in in-country logistics business was mainly due to our increased scale, continued focus on optimizing our customer portfolio and enhanced productivity through improved operating efficiency of our distribution centers. Prudent freight procurement, active contract management, and value-added services also allowed us to improve our margin in the global freight management business.

Balance Sheet and Capital Structure

Strong Cash Position

Li & Fung has a strong and stable cash flow conversion business which, together with cash on hand carried forward from the previous year, more than adequately funded our working capital, dividends, interest expenses and capital expenditure in the first half of 2016.

- Operating cash flow of US\$152 million is in line with core operating profit after working capital and depreciation adjustments and tax payments
- Capital expenditures of US\$44 million and payments for consideration payable for previous acquisitions of US\$14 million
- Net cash proceeds of US\$301 million from the disposal of the Asia consumer and healthcare distribution business
- Dividends paid of US\$163 million
- Net interest expenses paid of US\$39 million, and distribution to perpetual capital securities holders of US\$15 million

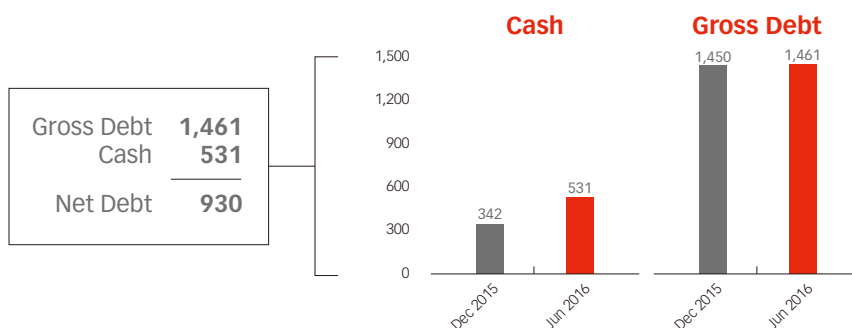
In terms of future commitments, the remaining balance of total purchase consideration payable for acquisitions was reduced to US\$229 million by the end of June 2016, of which US\$169 million are earn-out payments to be paid over the course of the next three years. We remain asset-light and our on-going total capital expenditures are mainly comprised of upgrade of IT systems, expansion of our logistics business and ongoing maintenance capital expenditures.

Solid Balance Sheet

Our solid balance sheet was enhanced by cash proceeds received from the divestment of our Asia consumer and healthcare distribution business. Our cash position was US\$531 million as of 30 June 2016 after payment of the 2015 final dividend. Our total borrowing remained stable at US\$1,461 million with a weighted average tenure of over three years. With the US\$500 million bond due in May 2017, we have secured over US\$700 million of three-year committed facilities with tenure up to 2019 to provide us with the maximum flexibility in deciding on the timing of either refinancing or repayment of such bonds to reduce our overall leverage. The majority of our debt is at a fixed rate and denominated in US\$. Our net debt (total borrowings minus cash) was at US\$930 million as of 30 June 2016. Given the macroeconomic and political uncertainties we have witnessed this year, we remain cautious in managing our balance sheet and maximize flexibility to provide comfort to both our customers and vendors.

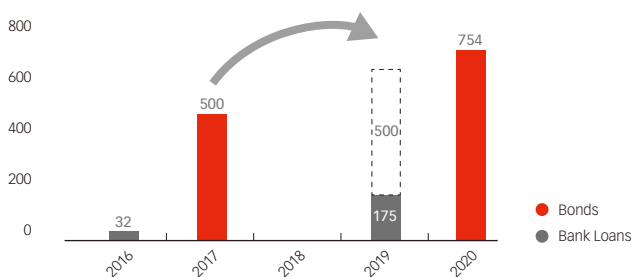
Cash and Gross Debt

US\$m



Debt Maturity Schedule

US\$m



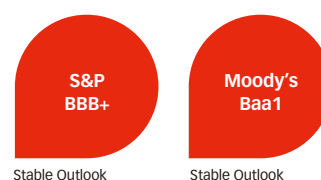
Net Gearing and Net Current Assets

Our net gearing ratio as stated in the unaudited consolidated balance sheet was 24% as of 30 June 2016 (31 December 2015: 27%).

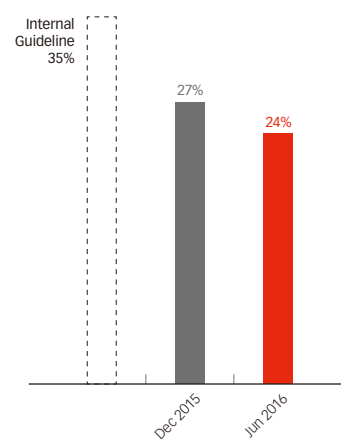
We continued to adopt a conservative approach in managing our balance sheet and capital structure. As at 30 June 2016, our credit ratings from Moody's is Baa1 (stable outlook) and Standard & Poor's is BBB+ (stable outlook). We are committed to maintaining a solid balance sheet, healthy cash flow and strong credit ratios, with the overall long-term target of retaining an investment grade rating to support our growth.

We have three-year unused committed facilities up to 2019 which allow us to have maximum flexibility to determine the exact refinancing timing and amount of our US\$500 million bond due in May 2017. Excluding this bond, our pro-forma current ratio would be 1.1 as at 30 June 2016.

Credit Rating



Net Gearing Ratio

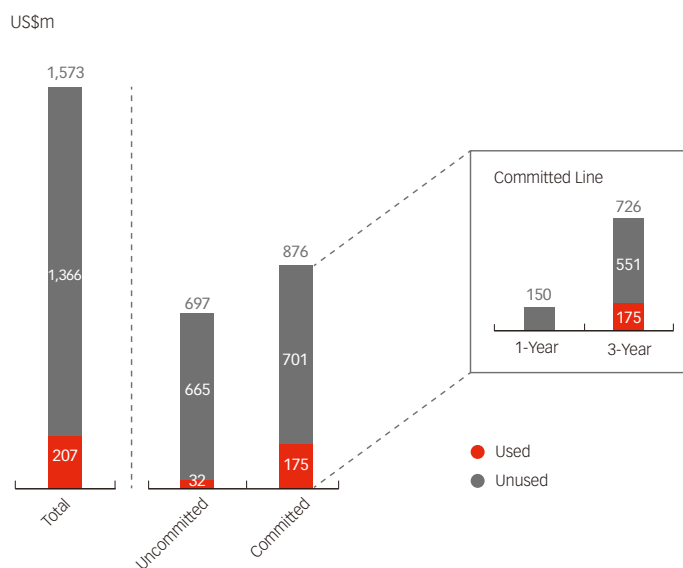


Banking Facilities

Bank Loans and Overdrafts

As at 30 June 2016, we had available bank loans and overdraft facilities of US\$1,573 million comprising US\$876 million committed and US\$697 million uncommitted facilities. At 30 June 2016, US\$207 million of our bank loans and overdraft facilities were drawn down, with US\$175 million from revolving committed facilities with tenure of up to three years due in 2019. The unused limits on bank loans and overdraft facilities amounted to US\$1,366 million and this includes US\$701 million unused committed facilities, of which \$551 million were part of the three-year committed facilities.

Unused Bank Loans



Trade Finance

Our normal trading operations are well supported by approximately US\$2.5 billion in bank trading facilities including mostly letters of credit issued to suppliers and bills discounting. Letters of credit are a common means of payment to suppliers to support cross-border trades. Our payment obligations on letters of credit issued to suppliers are only crystallized when our suppliers have delivered the merchandise to our customers, or to us, in accordance with the terms and conditions specified in the related contractual documents. As at 30 June 2016, approximately 22% of the trade facilities were used.

Contingent Liabilities and Goodwill

Adjustments to Purchase Consideration Payables

Given the unique nature of our acquired businesses, which are private enterprises relying on their respective entrepreneurs' commercial skills to drive their success, we generally structure our acquisitions with incentive schemes and contingent payments on purchase consideration payables linking to the future performance of the acquired businesses.

We follow a stringent internal financial and accounting policy in evaluating potential adjustment to the estimated fair value of purchase consideration payable in accordance with the accounting standard HKFRS 3 (Revised) "Business Combination".

Our contingent consideration payables are performance-based payments in the form of "earn-out" and "earn-up" payments depending on a set of predetermined performance targets mutually agreed with the entrepreneurs in accordance with the sale & purchase agreement.

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

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

While many of our acquired businesses remain profitable and are growing, we may still be required to make a downward fair value adjustment to certain consideration payable should the acquired businesses be unable to achieve the predetermined performance threshold within the specific timeframe as stipulated in the sale & purchase agreement. Given that the contingent consideration entitlement is usually contractual in nature and is based on a specific formula linking to a particular threshold, the underlying business performance of the acquired businesses could continue to perform and grow, yet we may still be required to adjust the consideration payable, especially if the high performance thresholds of earn-ups are not reached. For the half year ended 30 June 2016, there was no write-back of contingent consideration.

Goodwill Impairment Tests

We performed goodwill impairment tests based on the cash generating units (CGU) which manage the acquired businesses in accordance with HKAS 36. Based on our assessment of all of the CGUs under the current operating structure, we have determined that there is no goodwill impairment as of 30 June 2016, as the recoverable amount of each CGU was in excess of its respective carrying value of the goodwill. We will continue to perform goodwill impairment tests on an on-going basis.

Risk Management

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

Credit Risk Management

Credit risk mainly arises from trade and other receivables. Our principal trading business carries a higher credit risk profile given we are acting as a supplier and we therefore take full counterparty risk of our customers in terms of accounts receivable and inventory. With the increased insolvency risk among global brands and retail customers, we have deployed a global credit risk management framework with tightened risk profile, and applied prudent policies to manage our credit risk with such receivables, which include, but are not limited to, the measures set out below:

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

With the increased credit risk profile of selected customers, we have taken a cautious approach in our provision in accounts receivable, and we will continue to monitor closely the development of the Chapter 11 bankruptcy proceedings of one of our key customers, which continues to conduct business as usual during the Chapter 11 process while completing its financial and operational reorganization.

Foreign Exchange Risk Management

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

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

For transactions subject to foreign exchange risk, we fully hedge our foreign currency exposure once we receive confirmed orders or enter into customer transactions. To mitigate the impact from changes in foreign exchange rates, we regularly review our operations in these selected countries and make necessary hedging arrangements in certain currencies against the US\$. However, we do not enter into foreign currency hedges with respect to the local financial results and long-term equity investments of our non-US\$ foreign operations for both our income statements and balance sheet reporting purposes. Since our functional currency is in US\$, we are subject to exchange rate exposure from translation of foreign operations' local results to US\$ at average rate for the period for group consolidation. Our net equity investments in non-US\$ denominated businesses are also subject to unrealized translation gain or loss on consolidation. Fluctuation of relevant currencies against the US\$ will result in unrealized gain or loss from time to time, which is reflected as movement in exchange reserve in the consolidated statement of changes in equity.

From a medium to long-term perspective, we manage our operations in the most cost effective way possible within our global network. We strictly prohibit any financial derivative arrangement merely for speculation.

People

As an asset light business, our success is overwhelmingly dependent on our people. We are very proud of and grateful for their expertise, dedication and hard work. As at 30 June 2016, we have a total workforce of 21,982, of which 6,377 are warehouse related employees for our logistics and distribution businesses. In terms of geography, 3,490 of our people were based in Hong Kong, 8,740 were based in Mainland China and 9,752 were based overseas.

Total manpower costs for the first half of 2016 were US\$504 million, compared with US\$495 million for the first half of 2015, with the majority of the increase due to increase in direct labor cost associated with warehouse related employees as well as full period financial impact resulting from the adoption of new share award scheme in May 2015.

Outlook

We expect the rest of 2016 to remain challenging. The global retail market continues to struggle with soft consumer demand and geopolitical instability will weigh on consumer sentiment.

We expect highly promotional activities and the deflationary environment to continue, and our trading volume will be under pressure given brands and retailers are transitioning through a destocking cycle. In the meantime, we are focused on new areas of growth such as focused product verticals, logistics and VSS, as well as on increasing our turnover mix in high-growth segments such as e-commerce and off-price retailers, to counteract these headwinds.

In addition, we will continue targeting the expansion of our customer base and converting our strong customer pipeline. As a global leader in supply chain management, we continue to be prudent in managing customer credit risks as we continue to expand our customer base.

The more challenging environment will also provide VSS with more opportunities to help our global vendor network.


Building a sustainable business for the long term remains a key theme. The long-term investments in IT and backend infrastructure will provide our business with the runway to improve our productivity by automating processes and workflow. As a result, we expect to reap the benefits of this productivity and operating leverage in the coming years.

As we approach the end of the current Three-Year Plan, we are on track in meeting our strategic goals. We are in the process of developing our next Three-Year Plan for 2017-2019, which will be announced early next year. Speed, innovation and digitalization of our business will be a key theme. For example, our presence in Silicon Valley, established to encourage and facilitate partnerships and collaboration in innovation initiatives, has expanded to data analytics which is a crucial part of our supply chain digitalization efforts. These initial efforts will ramp up over time and we are excited about the related potential new business opportunities on the horizon.



Our commitment to good governance

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

Our corporate governance practices followed during the first six months of 2016 are in line with the practices set out in [our 2015 Annual Report](#) and on our corporate website .

The Board

The Board is currently composed of three Executive Directors, one Non-executive Director and four Independent Non-executive Directors. Details of the composition of the Board are set out in the “Corporate information” section on page 2.

There is no change in the Board and Board Committees since 1 January 2016 up to the date of this report.

Board and Committee Meetings to Date in 2016

	Number of Meetings	Average Attendance Rate
Board	5	98%
Nomination Committee	3	100%
Audit Committee	3	100%
Risk Management and Sustainability Committee	3	100%
Remuneration Committee	1	100%

Review of Interim Financial Information

The Audit Committee has reviewed the interim financial information for the six months ended 30 June 2016 for the Board's approval.

Risk Management and Internal Control

Our risk management and internal control processes remain in line with the practices set out in the ["Our approach to risk management"](#) section on pages 52 to 59 of our 2015 Annual Report, a copy of which is available on our corporate website [LI](#).

Based on the respective assessments made by management and the Corporate Governance team responsible for internal audit activities, the Audit Committee considered that for the first six months of 2016:

- The risk management and internal controls and accounting systems of the Group remain in place and functioning effectively, and were designed to provide reasonable but not absolute assurance that material assets are protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with management's authorization and the interim financial information were reliable for publication
- An ongoing process is in place for identifying, evaluating and managing the significant risks faced by the Group

Compliance with the Corporate Governance Code

The Board reviewed the Company's corporate governance practices for the first six months of 2016 and is satisfied that it has been in full compliance with all of the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report (with the amendments came into effect on 1 January 2016) contained in Appendix 14 of the Listing Rules.

Directors' and Relevant Employees' Securities Transactions

The Company has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code. Relevant employees who are likely to be in possession of unpublished price-sensitive information ("Inside Information") of the Group are also subject to compliance with written guidelines in line with the Model Code. Specific confirmation of compliance has been obtained from each Director for the interim reporting period. No incident of non-compliance by Directors and relevant employees was noted.

We continue to comply with our policy on Inside Information in compliance with our obligations under the SFO and Listing Rules.



Our Senior Management Team

From left to right: Henry Chan, Mannel Fernandez, Marc Compagnon, Wai Ping Leung, Lâle Kesebi, Spencer Fung, Joseph Phi, William Fung, Emily Mak, Victor Fung, Richard Darling, Stephen Lister, Gerard Raymond and Edward Lam



Directors' interests

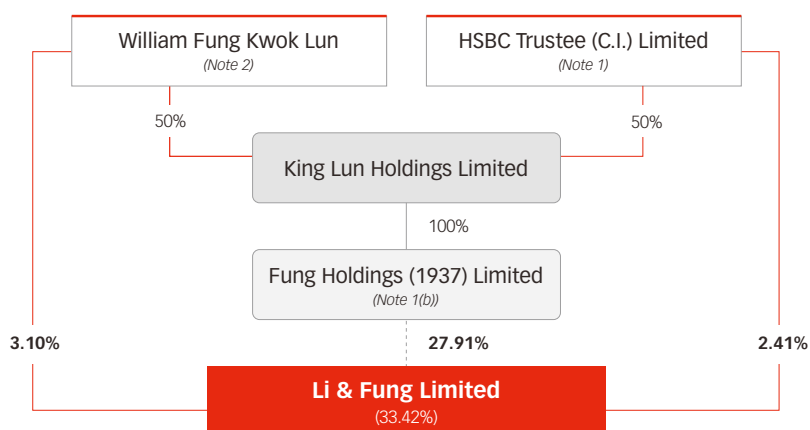
As at 30 June 2016, the Directors and chief executives of the Company and their associates had the following interests in the Shares, underlying shares and debentures of the Company and its associated corporations (as defined under Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

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

Name of Director	Number of Shares				Total	Percentage of Issued Share Capital
	Personal Interest	Family Interest	Trust/ Corporate Interest	Equity Derivatives (Share Options)		
Victor Fung Kwok King	2,814,444	–	2,551,966,180 ¹	–	2,554,780,624	30.35%
William Fung Kwok Lun	177,120,260	108,800 ^{2(a)}	2,425,362,472 ^{2(b)}	7,509,000 ⁷	2,610,100,532	31.01%
Spencer Theodore Fung*	1,498,000	–	2,552,686,180 ^{1&3}	11,569,000 ⁷	2,565,753,180	30.48%
Marc Robert Compagnon	976,800	14,000	12,902,980 ⁴	10,945,000 ⁷	24,838,780	0.29%
Paul Edward Selway-Swift	36,000	–	16,000 ⁵	–	52,000	0.00%
Martin Tang Yue Nien	60,000	–	60,000 ⁶	–	120,000	0.00%

* Son of Victor Fung Kwok King

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



NOTES:

As at 30 June 2016,

- (1) Victor Fung Kwok King and Spencer Theodore Fung were each deemed to have interests in 2,551,966,180 Shares held in the following manner:
- (a) 203,012,308 Shares were indirectly held by HSBC Trustee (C.I.) Limited through its wholly-owned subsidiary, First Island Developments Limited. HSBC Trustee is the trustee of a trust established for the benefit of the family members of Victor Fung Kwok King (the "Trust"); and
- (b) 2,195,727,908 Shares were directly held by Fung Holdings (1937) Limited, a wholly-owned subsidiary of King Lun Holdings Limited, and 153,225,964 Shares were indirectly held by FH (1937) through its wholly-owned subsidiary, Fung Distribution International Limited. King Lun is a company owned 50% by HSBC Trustee as trustee of the Trust and 50% by William Fung Kwok Lun.
- (2) (a) Apart from 108,800 Shares, the spouse of William Fung Kwok Lun held US\$2,000,000 of the perpetual subordinated capital securities of the Company.
- (b) Out of 2,425,362,472 Shares, 26,114,400 Shares and 50,294,200 Shares were held by Golden Step Limited and Step Dragon Enterprise Limited respectively and both companies are beneficially owned by William Fung Kwok Lun. The balance of 2,348,953,872 Shares were indirectly held by King Lun as mentioned in Note (1)(b) above.
- (3) Out of 2,552,686,180 Shares, 720,000 Shares represented the interests in Award Shares granted by the Company and remained unvested. Details on such Award Shares are set out in Share Award Scheme section stated below. The balance of 2,551,966,180 Shares represented the deemed interests of Spencer Theodore Fung as mentioned in Note (1) above.
- (4) Out of 12,902,980 Shares, 613,200 Shares represented the interests in Award Shares granted by the Company and remained unvested. Details on such Award Shares are set out in Share Award Scheme section stated below. The balance of 12,289,780 Shares were held by Profit Snow Holdings Limited, a company beneficially owned by Marc Robert Compagnon.
- (5) 16,000 Shares were held by a trust of which Paul Edward Selway-Swift is a beneficiary.
- (6) 60,000 Shares were held by a trust of which Martin Tang Yue Nien is a beneficiary.
- (7) These interests represented the interests in underlying shares in respect of Share Options granted by the Company to these Directors as beneficial owners, the details of which are set out in the Share Option Schemes section stated below.

(B) Short Positions in Shares, Underlying Shares and Debentures of the Company

As at 30 June 2016, none of the Directors and chief executives of the Company or their associates had any short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (as defined under Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(C) Share Options and Award Shares

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

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

Long-term Incentive Schemes

(A) Share Option Schemes

2003 OPTION SCHEME

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

As at 30 June 2016, there were Share Options relating to 14,000,000 Shares granted by the Company representing 0.17% of the issued Shares as at the date of this Report pursuant to the 2003 Option Scheme which were valid and outstanding.

2014 OPTION SCHEME

The 2014 Option Scheme was adopted by the Shareholders at the annual general meeting of the Company held on 15 May 2014. As at 30 June 2016, there were Share Options relating to 89,788,000 Shares granted by the Company representing 1.07% of the issued Shares as at the date of this Report pursuant to the 2014 Option Scheme which were valid and outstanding.

Details of the Share Options granted under the 2003 Option Scheme and the 2014 Option Scheme that remain outstanding as at 30 June 2016 are as follows:

Grant Date	Exercise Price HK\$	Grantees	Number of Share Options				Exercisable Period
			As at 1/1/2016	Granted	Lapsed	As at 30/6/2016	
2003 Option Scheme							
22/12/2011	12.12 ¹	Spencer Theodore Fung	8,000,000	–	(1,000,000)	7,000,000	Exercisable in seven equal tranches during the period from 1/5/2015 to 30/4/2023 with each tranche having an exercisable period of two years
		Marc Robert Compagnon	8,000,000	–	(1,000,000)	7,000,000	
2014 Option Scheme							
21/5/2015	7.49 ²	William Fung Kwok Lun	7,509,000	–	–	7,509,000	Exercisable in three tranches during the period from 1/1/2016 to 31/12/2019 with each tranche having an exercisable period of two years
		Spencer Theodore Fung	4,569,000	–	–	4,569,000	
		Marc Robert Compagnon	3,945,000	–	–	3,945,000	
		Continuous Contract Employees	72,272,000	–	–	72,272,000	
16/11/2015	5.81 ³	Continuous Contract Employees	889,000	–	–	889,000	Exercisable in two tranches during the period from 1/1/2017 to 31/12/2019 with each tranche having an exercisable period of two years
19/5/2016	4.27 ⁴	Continuous Contract Employees	–	604,000	–	604,000	Exercisable during the period from 1/1/2018 to 31/12/2019
		Total	105,184,000	604,000	(2,000,000)	103,788,000	

NOTES:

- (1) Following the spin-off and separate listing of Global Brands, the exercise price applicable to the Share Options outstanding on the record date for the distribution in specie (i.e. 7 July 2014) was adjusted from HK\$14.50 to HK\$12.12 with effect from 31 August 2014.
- (2) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange's daily quotation sheet on 20 May 2015 was HK\$7.29.
- (3) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange's daily quotation sheet on 13 November 2015 was HK\$5.58.
- (4) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange's daily quotation sheet on 18 May 2016 was HK\$4.25.
- (5) Details of Share Options granted by the Company are set out in Note 12 to the condensed interim financial information.

(B) Share Award Scheme

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

During the period, a total of 1,160,000 Award Shares were awarded to eligible persons pursuant to the Share Award Scheme, and out of which 22,000 Award Shares were awarded to a connected person. The 22,000 Award Shares were purchased from the open market. The balance of 1,138,000 Award Shares granted to non-connected persons were satisfied by the Award Shares which had not been vested and/or been forfeited in accordance with the terms of the Share Award Scheme.

During the period, a total of 3,289,800 Award Shares were unvested and/or forfeited and out of which 1,138,000 Award Shares were applied to the awards to non-connected persons. As at 30 June 2016, a balance of 3,494,800 Award Shares were forfeited and held by the trustee to be applied towards future awards.

As at 30 June 2016, 191,601,749 Award Shares are available for grant of awards in the futures under the Share Award Scheme, representing approximately 2.28% of the Shares in issue.

The movement in the Share Awards under the Share Award Scheme during the period are as follows:

Grant Date	Grantees	Number of Award Shares			As at 30/6/2016	Vesting Date
		As at 1/1/2016	Granted	Unvested/ Forfeited*		
21/5/2015	Spencer Theodore Fung	720,000	-	-	720,000	To be vested in four tranches with the vesting date on 31 December of each year from 2016 to 2019
	Marc Robert Compagnon	613,200	-	-	613,200	
	Connected Persons other than Directors	5,453,600	-	-	5,453,600	
	Non-connected Persons	47,327,400	-	(3,232,800)	44,094,600	
16/11/2015	Non-connected Persons	1,035,000	-	(57,000)	978,000	To be vested in four tranches with the vesting date on 31 December of each year from 2016 to 2019
19/05/2016	Connected Person other than Directors	-	22,000	-	22,000	To be vested in four tranches with the vesting date on 31 December of each year from 2016 to 2019
	Non-connected Persons	-	1,138,000	-	1,138,000	
	Total	55,149,200	1,160,000	(3,289,800)	53,019,400	

* Award Shares that are not vested and/or are forfeited in accordance with the terms of the Share Award Scheme are held by the Trustee to be applied towards future awards in accordance with the provisions of the Share Award Scheme. During the period, 1,138,000 Award Shares had been applied from the 3,289,800 Award Shares which were unvested and/or forfeited.

Substantial shareholders' interests

As at 30 June 2016, other than the interests of the Directors or chief executives of the Company as disclosed in the Directors' interests section, the following persons had interests in the Shares of the Company which are required to be disclosed to the Company under Section 336 of the SFO:

Name of Shareholder	Capacity	Number of Shares	Percentage of Issued Share Capital
Long Positions			
HSBC Trustee (C.I.) Limited	Trustee	2,551,966,180 ¹	30.32%
King Lun Holdings Limited	Interest of controlled corporation	2,348,953,872 ²	27.91%
Commonwealth Bank of Australia	Interest of controlled corporation	1,359,555,529	16.15%
The Capital Group Companies, Inc.	Interest of controlled corporation	759,601,000	9.02%

NOTES:

As at 30 June 2016,

(1) Please refer to Note (1) under the "Directors' interests" section.

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

Save as disclosed above, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying shares of the Company as at 30 June 2016.

Other information

Changes in Information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in information of Directors since the Company's 2015 Annual Report and up to 25 August 2016, being the approval date of this Report, are set out below:

- Victor Fung Kwok King was appointed advisor of the Infrastructure Financing Facilitation Office of The Hong Kong Monetary Authority in July 2016
- Margaret Leung Ko May Yee has additionally assumed the role of chief executive of Chong Hing Bank Limited with effect from 27 May 2016, and retired as independent non-executive director of China Construction Bank Corporation with effect from 17 June 2016
- The name of CEI Contract Manufacturing Limited, of which Martin Tang Yue Nien is an independent non-executive director, has been changed to "CEI Limited" with effect from 6 April 2016

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

Interim Dividend

The Board has resolved to declare an interim dividend of 11 HK cents (2015: 13 HK cents) per Share for the six months ended 30 June 2016, absorbing a total of US\$119 million (2015: US\$141 million).

Closure of Register of Members

The register of members of the Company will be closed from 9 September 2016 to 12 September 2016, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 pm on 8 September 2016. Dividend warrants will be dispatched on 20 September 2016. Shares of the Company will be traded ex-dividend from 7 September 2016.

Information for investors

Listing Information

Listing: The Stock Exchange of Hong Kong Limited

Stock Code: 494

Ticker Symbol

Reuters: 0494.HK

Bloomberg: 494 HK Equity

Index Recognition

Hang Seng Index

Hang Seng High Dividend Yield Index

MSCI Index Series

MSCI Global Sustainability Indexes

FTSE4Good Index Series

Hang Seng Corporate Sustainability Index Series

Key Dates

25 Aug 2016 Announcement of the 2016 Interim Results

7 Sep 2016 Dividend Ex-entitlement for Shares

9-12 Sep 2016 (both days inclusive) Closure of Register of Shareholders

20 Sep 2016 Payment of 2016 Interim Dividend

Registrar & Transfer Offices

Principal

Estera Management (Bermuda) Limited

Canon's Court, 22 Victoria Street

Hamilton HM 12, Bermuda

Hong Kong Branch

Tricor Abacus Limited

Level 22, Hopewell Centre

183 Queen's Road East, Hong Kong

Telephone: (852) 2980 1333

lifung-ecom@hk.tricorglobal.com

Share Information

Board Lot Size: 2,000 Shares

Shares outstanding as at 30 June 2016

8,415,447,306 Shares

Market capitalization as at 30 June 2016

HK\$31,473,772,924

Basic earnings per Share for 2016

Interim 0.87 US cents

Dividend per Share for 2016

Interim 11 HK cents

Enquiries

Institutional investors and securities analysts:

Investor Relations | ir@lifung.com

Media and potential business partners:

Corporate Communications | media@lifung.com

Shareholders addressed to the Board:

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Websites

www.lifung.com | www.irasia.com/listco/hk/lifung

A Chinese version of this Report can be downloaded from the Company's website and can be obtained from the Company's Hong Kong branch share registrar, Tricor Abacus Limited. In the event of any difference, the English version prevails.

本報告中文版可從本公司網站下載，及向本公司於香港之股份過戶登記處卓佳雅柏勤有限公司索取。如中英版本有任何差異，請以英文版本為準。

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 information set out on pages 45 to 76, which comprises the consolidated balance sheet of Li & Fung Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2016 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 information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information 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 information 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 information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 August 2016

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	
		2016 US\$'000	2015 US\$'000
Turnover	3	8,070,733	8,625,611
Cost of sales		(7,150,033)	(7,664,676)
Gross profit		920,700	960,935
Other income		14,776	22,616
Total margin		935,476	983,551
Selling and distribution expenses		(290,945)	(315,139)
Merchandising and administrative expenses		(488,093)	(486,142)
Core operating profit	3	156,438	182,270
Gain on remeasurement of contingent consideration payable	4	–	60,151
Amortization of other intangible assets	4	(17,337)	(17,742)
Gain on disposal of business	4&15(c)	7,871	–
One-off reorganization costs	4	(5,863)	–
Operating profit	3&4	141,109	224,679
Interest income		5,611	2,971
Interest expenses			
Non-cash interest expenses		(2,247)	(3,750)
Cash interest expenses		(44,732)	(44,916)
		(46,979)	(48,666)
Share of profits less losses of associated companies		1,582	1,475
Profit before taxation		101,323	180,459
Taxation	5	(14,595)	(17,866)
Net profit for the period		86,728	162,593
Attributable to:			
Shareholders of the Company		72,315	148,685
Holders of perpetual capital securities		15,000	15,000
Non-controlling interests		(587)	(1,092)
		86,728	162,593

Consolidated profit and loss account (continued)

	<i>Note</i>	Unaudited	
		Six months ended 30 June	2015
		2016	
		US\$'000	US\$'000
Earnings per share for profit attributable to the Shareholders of the Company during the period	7		
– Basic (equivalent to)		6.7 HK cents 0.87 US cents	13.8 HK cents 1.78 US cents
– Diluted (equivalent to)		6.7 HK cents 0.86 US cents	13.8 HK cents 1.78 US cents

Details of dividends to Shareholders of the Company are set out in *Note 6*. The notes on pages 53 to 76 form an integral part of this interim financial information.

Consolidated statement of comprehensive income

	Unaudited	
	Six months ended 30 June	
	2016	2015
	US\$'000	US\$'000
Net Profit for the Period	86,728	162,593
Other Comprehensive Income/(Expense):		
<i>Items that will not be reclassified to profit or loss</i>		
Remeasurements from post-employment benefits recognized in reserve, net of tax	1	2
Total Items that will not be Reclassified to Profit or Loss	1	2
<i>Items that may be reclassified subsequently to profit or loss</i>		
Currency translation differences*	(56,287)	7,052
Net fair value gains/(losses) on cash flow hedges, net of tax	2,066	(8,322)
Net fair value gains on available-for-sale financial assets, net of tax	86	76
Total Items that may be Reclassified Subsequently to Profit or Loss	(54,135)	(1,194)
Total Other Comprehensive Expense for the Period, Net of Tax	(54,134)	(1,192)
Total Comprehensive Income for the Period	32,594	161,401
Attributable to:		
Shareholders of the Company	18,676	149,017
Holders of perpetual capital securities	15,000	15,000
Non-controlling interests	(1,082)	(2,616)
Total Comprehensive Income for the Period	32,594	161,401

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

The notes on pages 53 to 76 form an integral part of this interim financial information.

Consolidated balance sheet

	Note	Unaudited 30 June 2016 US\$'000	Audited 31 December 2015 US\$'000
Non-current Assets			
Intangible assets	8	3,955,857	4,266,863
Property, plant and equipment	8	213,027	241,626
Prepaid premium for land leases		132	1,942
Associated companies		11,502	10,070
Joint venture		925	313
Available-for-sale financial assets		3,940	3,854
Other receivables, prepayments and deposits		30,291	26,217
Deferred tax assets		29,912	36,527
		4,245,586	4,587,412
Current Assets			
Inventories		385,753	566,002
Due from related companies		588,163	486,939
Trade and bills receivable	9	1,268,472	1,689,413
Other receivables, prepayments and deposits		242,606	256,818
Derivative financial instruments		3,100	4,272
Cash and bank balances		530,958	342,243
		3,019,052	3,345,687
Current Liabilities			
Due to related companies		1,767	1,038
Trade and bills payable	10	2,144,447	2,464,785
Accrued charges and sundry payables		408,271	601,129
Purchase consideration payable for acquisitions	11	74,772	86,266
Taxation		45,136	56,463
Bank advances for discounted bills	9	31,313	33,681
Short-term bank loans		32,093	95,819
Current portion of long-term notes	11	499,578	–
		3,237,377	3,339,181
Net Current (Liabilities)/Assets		(218,325)	6,506
Total Assets Less Current Liabilities		4,027,261	4,593,918

Consolidated balance sheet (continued)

	<i>Note</i>	Unaudited 30 June 2016 US\$'000	Audited 31 December 2015 US\$'000
Financed by:			
Share capital	12	13,487	13,487
Reserves		2,356,970	2,489,386
<hr/>			
Shareholders' funds attributable to the Company's Shareholders		2,370,457	2,502,873
Holders of perpetual capital securities	13	503,000	503,000
Non-controlling interests		(1,044)	4,293
<hr/>			
Total Equity		2,872,413	3,010,166
Non-current Liabilities			
Long-term notes	11	753,972	1,253,823
Purchase consideration payable for acquisitions	11	154,161	156,236
Other long-term liabilities	11	185,460	116,420
Post-employment benefit obligations		20,779	21,909
Deferred tax liabilities		40,476	35,364
<hr/>			
		1,154,848	1,583,752
<hr/>			
		4,027,261	4,593,918
<hr/>			

The notes on pages 53 to 76 form an integral part of this interim financial information.

Consolidated statement of changes in equity

	Unaudited							
	Attributable to Shareholders of the Company					Holders of Perpetual Capital Securities US\$'000 (Note 13)	Non-controlling Interests US\$'000	Total Equity US\$'000
	Share Capital US\$'000 (Note 12)	Share Premium US\$'000	Other Reserves US\$'000 (Note 14)	Retained Earnings US\$'000	Total US\$'000			
Balance at 1 January 2016	13,487	704,618	554,903	1,229,865	2,502,873	503,000	4,293	3,010,166
Comprehensive Income/(Expense)								
Profit or loss	-	-	-	72,315	72,315	15,000	(587)	86,728
Other Comprehensive (Expense)/Income								
Currency translation differences	-	-	(55,792)	-	(55,792)	-	(495)	(56,287)
Net fair value gains on available-for-sale financial assets, net of tax	-	-	86	-	86	-	-	86
Net fair value gains on cash flow hedges, net of tax	-	-	2,066	-	2,066	-	-	2,066
Remeasurements from post-employment benefits recognized in reserve, net of tax	-	-	1	-	1	-	-	1
Total other comprehensive expense, net of tax	-	-	(53,639)	-	(53,639)	-	(495)	(54,134)
Total Comprehensive (Expense)/Income	-	-	(53,639)	72,315	18,676	15,000	(1,082)	32,594
Transactions with Owners in their Capacity as Owners								
Purchase of shares for Share Award Scheme	-	-	(12)	-	(12)	-	-	(12)
Employee Share Option and Share Award Scheme:								
- value of employee services	-	-	11,590	-	11,590	-	-	11,590
Distribution to holders of perpetual capital securities	-	-	-	-	-	(15,000)	-	(15,000)
Transfer to capital reserve	-	-	61	(61)	-	-	-	-
2015 final dividends paid	-	-	-	(162,670)	(162,670)	-	-	(162,670)
Disposal of business	-	-	-	-	-	-	(4,255)	(4,255)
Total Transactions with Owners in their Capacity as Owners	-	-	11,639	(162,731)	(151,092)	(15,000)	(4,255)	(170,347)
Balance at 30 June 2016	13,487	704,618	512,903	1,139,449	2,370,457	503,000	(1,044)	2,872,413

	Unaudited							
	Attributable to Shareholders of the Company					Holders of Perpetual Capital Securities US\$'000 (Note 13)	Non- controlling Interests US\$'000	Total Equity US\$'000
	Share Capital US\$'000 (Note 12)	Share Premium US\$'000	Other Reserves US\$'000 (Note 14)	Retained Earnings US\$'000	Total US\$'000			
Balance at 1 January 2015	13,398	699,476	634,098	1,251,512	2,598,484	503,000	8,594	3,110,078
Comprehensive Income/(Expense)								
Profit or loss	–	–	–	148,685	148,685	15,000	(1,092)	162,593
Other Comprehensive Income/(Expense)								
Currency translation differences	–	–	8,576	–	8,576	–	(1,524)	7,052
Net fair value gains on available-for-sale financial assets, net of tax	–	–	76	–	76	–	–	76
Net fair value losses on cash flow hedges, net of tax	–	–	(8,322)	–	(8,322)	–	–	(8,322)
Remeasurements from post-employment benefits recognized in reserve, net of tax	–	–	2	–	2	–	–	2
Total other comprehensive income/(expense), net of tax	–	–	332	–	332	–	(1,524)	(1,192)
Total Comprehensive Income/(Expense)	–	–	332	148,685	149,017	15,000	(2,616)	161,401
Transactions with Owners in their Capacity as Owners								
Issue of shares for Share Award Scheme	89	–	(89)	–	–	–	–	–
Purchase of shares for Share Award Scheme	–	–	(7,300)	–	(7,300)	–	–	(7,300)
Employee Share Option and Share Award Scheme:								
– value of employee services	–	–	4,164	–	4,164	–	–	4,164
Distribution to holders of perpetual capital securities	–	–	–	–	–	(15,000)	–	(15,000)
Transfer to capital reserve	–	–	92	(92)	–	–	–	–
2014 final and special dividends paid	–	–	–	(303,388)	(303,388)	–	–	(303,388)
Total Transactions with Owners in their Capacity as Owners	89	–	(3,133)	(303,480)	(306,524)	(15,000)	–	(321,524)
Balance at 30 June 2015	13,487	699,476	631,297	1,096,717	2,440,977	503,000	5,978	2,949,955

The notes on pages 53 to 76 form an integral part of this interim financial information.

Condensed consolidated cash flow statement

	Note	Unaudited	
		2016	2015
		US\$'000	US\$'000
Operating Activities			
Operating profit before working capital changes		204,868	227,905
Changes in working capital		(24,076)	(19,330)
Net cash inflow generated from operations		180,792	208,575
Profits tax paid		(29,174)	(28,596)
Net Cash Inflow from Operating Activities		151,618	179,979
Investing Activities			
Settlement of consideration payable for prior years acquisitions of businesses		(13,607)	(15,941)
Disposal of business	15(b)	301,169	–
Capital expenditure		(43,865)	(37,288)
Other investing activities		5,255	4,004
Net Cash Inflow/(Outflow) from Investing Activities		248,952	(49,225)
Net Cash Inflow before Financing Activities		400,570	130,754
Financing Activities			
Interest paid		(44,732)	(44,916)
Distribution made to holders of perpetual capital securities		(15,000)	(15,000)
Dividends paid		(162,670)	(303,388)
Purchase of shares for Share Award Scheme		(12)	(7,300)
Other financing activities		11,274	13,012
Net Cash Outflow from Financing Activities		(211,140)	(357,592)
Increase/(Decrease) in Cash and Cash Equivalents		189,430	(226,838)
Cash and cash equivalents at 1 January		342,243	538,529
Effect of foreign exchange rate changes		(715)	3,343
Cash and Cash Equivalents at 30 June		530,958	315,034
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		530,958	315,034

The notes on pages 53 to 76 form an integral part of this interim financial information.

Notes to condensed interim financial information

1 General Information

Li & Fung Limited and its subsidiaries are principally engaged in managing the supply chain for retailers and brands worldwide with more than 250 offices across 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.

This condensed interim financial information is presented in US dollars, unless otherwise stated. This condensed interim financial information was approved for issue on 25 August 2016.

2 Basis of Preparation and Accounting Policies

The unaudited condensed interim financial information (the "interim financial information") 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 information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the HKICPA and Appendix 16 of the Listing Rules. This interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

As at 30 June 2016, the Group recorded net current liabilities of US\$218,325,000 (31 December 2015: net current assets of US\$6,506,000) which was primarily due to the long-term notes of US\$500 million which will become due in May 2017. The Group has secured over US\$700 million in committed facilities with tenure of three years up to 2019, in which US\$551 million are unutilized, to provide the Group with the maximum flexibility in deciding on the timing of either refinancing or repayment of the long-term notes to reduce the Group's overall leverage.

Management of the Company has considered internally generated funds and financial resources available to the Group in adoption of going concern basis in the preparation of the interim financial information.

Except as described in (a) below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements.

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

2 Basis of Preparation and Accounting Policies (continued)

(a) New Standards and Amendments to Existing Standards Adopted by the Group

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

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

The application of the above new standards and amendments to existing standards in the current interim period has had no material effect on the amounts reported in the interim financial information and/or disclosures set out in the interim financial information.

(b) New Standards and Amendments to Existing Standards that have been Issued but are not yet Effective and have not been Early Adopted by the Group

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

HKAS 7 Amendment	Disclosure Initiative ¹
HKAS 12 Amendment	Recognition of Deferred Tax Assets for Unrealised Losses ¹
HKFRS 9	Financial Instruments ²
HKFRS 10 and HKAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ³

Notes:

¹ Effective for financial periods beginning on or after 1 January 2017

² Effective for financial periods beginning on or after 1 January 2018

³ Effective for financial periods beginning on or after 1 January 2019

⁴ Effective date to be determined

3 Segment Information

The Company is domiciled in Bermuda. The Group is principally engaged in managing the supply chain for retailers and brands worldwide with more than 250 offices across 40 economies spanning across the Americas, Europe, Africa and Asia Pacific. Turnover represents revenue generated from sales and services rendered at invoiced value to customers outside the Group less discounts and returns.

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

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

3 Segment Information (continued)

	Trading Network US\$'000	Logistics Network US\$'000	Elimination US\$'000	Total US\$'000
Six months ended 30 June 2016 (Unaudited)				
Turnover	7,649,072	425,073	(3,412)	8,070,733
Total margin	787,877	147,599		935,476
Operating costs	(658,723)	(120,315)		(779,038)
Core operating profit	129,154	27,284		156,438
Amortization of other intangible assets				(17,337)
Gain on disposal of business				7,871
One-off reorganization costs				(5,863)
Operating profit				141,109
Interest income				5,611
Interest expenses				
Non-cash interest expenses				(2,247)
Cash interest expenses				(44,732)
				(46,979)
Share of profits less losses of associated companies				1,582
Profit before taxation				101,323
Taxation				(14,595)
Net profit for the period				86,728
Depreciation and amortization	45,101	8,895		53,996
30 June 2016 (Unaudited)				
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	3,556,076	655,658		4,211,734

3 Segment Information (continued)

	Trading Network US\$'000	Logistics Network US\$'000	Elimination US\$'000	Total US\$'000
Six months ended 30 June 2015 (Unaudited)				
Turnover	8,155,545	474,969	(4,903)	8,625,611
Total margin	854,756	128,795		983,551
Operating costs	(695,063)	(106,218)		(801,281)
Core operating profit	159,693	22,577		182,270
Gain on remeasurement of contingent consideration payable				60,151
Amortization of other intangible assets				(17,742)
Operating profit				224,679
Interest income				2,971
Interest expenses				
Non-cash interest expenses				(3,750)
Cash interest expenses				(44,916)
				(48,666)
Share of profits less losses of associated companies				1,475
Profit before taxation				180,459
Taxation				(17,866)
Net profit for the period				162,593
Depreciation and amortization	48,575	8,301		56,876
31 December 2015 (Audited)				
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	3,890,628	656,403		4,547,031

3 Segment Information (continued)

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

	Turnover		Non-current assets (other than available-for-sale financial assets and deferred tax assets)	
	Unaudited		Unaudited	Audited
	Six months ended 30 June		30 June	31 December
	2016	2015	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000
United States of America	4,936,008	5,244,933	1,994,331	2,024,579
Europe	1,346,052	1,383,281	1,107,812	1,161,115
Asia	1,258,445	1,351,615	893,457	1,127,532
Rest of the world	530,228	645,782	216,134	233,805
	8,070,733	8,625,611	4,211,734	4,547,031

Turnover consists of sales of soft goods, hard goods and logistics income as follows:

	Unaudited	
	Six months ended 30 June	
	2016	2015
	US\$'000	US\$'000
Soft goods	4,868,700	5,120,982
Hard goods	2,776,289	3,019,829
Logistics	425,744	484,800
	8,070,733	8,625,611

For the six months ended 30 June 2016, approximately 12% (2015: 14%) of the Group's total turnover is derived from a single external customer, which is wholly attributable to the Trading Network.

4 Operating Profit

Operating profit is stated after crediting and charging the following:

	Unaudited	
	Six months ended 30 June	
	2016	2015
	US\$'000	US\$'000
Crediting		
Gain on remeasurement of contingent consideration payable*	–	60,151
Gain on disposal of business*	7,871	–
Charging		
Staff costs including directors' emoluments	504,189	494,577
One-off reorganization costs*	5,863	–
Amortization of system development, software and other license costs	6,515	7,516
Amortization of other intangible assets*	17,337	17,742
Amortization of prepaid premium for land leases	57	64
Depreciation of property, plant and equipment	30,087	31,554
Net loss on disposal of property, plant and equipment	4,553	2,311

* Excluded from the core operating profit

5 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits 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 to the consolidated profit and loss account represents:

	Unaudited	
	Six months ended 30 June	
	2016	2015
	US\$'000	US\$'000
Current taxation		
– Hong Kong profits tax	1,275	5,895
– Overseas taxation	16,085	13,645
Deferred taxation	(2,765)	(1,674)
	14,595	17,866

6 Interim Dividend

	Unaudited	
	Six months ended 30 June	
	2016	2015
	US\$'000	US\$'000
Proposed, of HK\$0.11 (equivalent to US\$0.014) (2015: HK\$0.13 (equivalent to US\$0.017)) per ordinary share (<i>Note</i>)	119,291	140,980

Note:

Final dividend of US\$162,670,000 proposed for the year ended 31 December 2015 were paid in June 2016 (2015: final and special dividends of US\$227,541,000 and US\$75,847,000 respectively).

7 Earnings per Share

The calculation of basic earnings per share is based on the Group's profit attributable to Shareholders of US\$72,315,000 (2015: US\$148,685,000) and on the weighted average number of 8,354,869,000 (2015: 8,354,612,000) shares in issue during the period.

The diluted earnings per share for the six months ended 30 June 2016 was calculated by adjusting the weighted average number of 8,354,869,000 (2015: 8,354,612,000) ordinary shares in issue by 56,502,000 (2015: 13,871,000) to assume conversion of all dilutive potential ordinary shares granted under the Company's Share Option and Share Award Scheme. For the determination of dilutive potential ordinary share granted under the Company, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding Share Options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the Share Options and Award Shares.

8 Capital Expenditure

	Intangible Assets US\$'000	Property, Plant and Equipment US\$'000
Six months ended 30 June 2016		
Net book amount as at 1 January 2016 (audited)	4,266,863	241,626
Additions	8,156	38,335
Disposals	(2,913)	(4,659)
Disposal of business	(229,756)	(27,255)
Amortization (Note (b))/depreciation charge	(23,852)	(30,087)
Exchange differences	(62,641)	(4,933)
Net Book Amount as at 30 June 2016 (unaudited)	3,955,857	213,027
Six months ended 30 June 2015		
Net book amount as at 1 January 2015 (audited)	4,349,083	244,907
Adjustments to purchase consideration payable for acquisitions and net asset values (Note (a))	554	–
Additions	1,288	36,633
Disposals	(8)	(2,384)
Amortization (Note (b))/depreciation charge	(25,258)	(31,554)
Exchange differences	1,541	(3,215)
Net Book Amount as at 30 June 2015 (unaudited)	4,327,200	244,387

Notes:

(a) These were adjustments to purchase consideration payable for acquisitions and net asset values related to certain acquisitions of businesses in the prior year, which were previously determined on a provisional basis. During the measurement period of twelve months following a transaction, the Group recognized adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. The corresponding adjustments to intangible assets stated above are adjusting other assets/liabilities of the same amount for the six months ended 30 June 2015.

(b) Amortization of intangible assets included amortization of system development, software and other license costs of US\$6,515,000 (2015: US\$7,516,000) and amortization of other intangible assets arising from business combinations of US\$17,337,000 (2015: US\$17,742,000).

At 30 June 2016, no land and buildings were pledged as security for the Group's short-term bank loans (31 December 2015: US\$2,545,000).

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 2016 (unaudited)	1,207,181	52,292	8,184	815	1,268,472
Balance at 31 December 2015 (audited)	1,595,433	83,376	7,900	2,704	1,689,413

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 were approximately the same as their carrying values as at 30 June 2016. The fair value of the Group's trade and bills receivable balance as at 30 June 2016 has taken into account a provision of US\$15.6 million for a particular customer under the Trading Network, which had filed Chapter 11 bankruptcy.

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

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

Certain subsidiaries of the Group transferred bills receivable balances amounting to US\$31,313,000 (31 December 2015: US\$33,681,000) to banks in exchange for cash as at 30 June 2016. The transactions have been accounted for as collateralized bank advances.

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 2016 (unaudited)	2,101,523	30,780	4,128	8,016	2,144,447
Balance at 31 December 2015 (audited)	2,365,315	80,822	2,885	15,763	2,464,785

The fair values of the Group's trade and bills payable were approximately the same as their carrying values as at 30 June 2016.

11 Long-term Liabilities

	Unaudited 30 June 2016 US\$'000	Audited 31 December 2015 US\$'000
Long-term bank loans – unsecured	175,000	100,000
Long-term notes – unsecured	1,253,550	1,253,823
Purchase consideration payable for acquisitions	228,933	242,502
Other long-term liabilities	10,460	16,420
	1,667,943	1,612,745
Current portion of long-term notes – unsecured	(499,578)	–
Current portion of purchase consideration payable for acquisitions	(74,772)	(86,266)
	1,093,593	1,526,479

Balance of purchase consideration payable for acquisitions as at 30 June 2016 included performance-based earn-out and earn-up contingent considerations of US\$169,021,000 and US\$59,912,000 respectively (31 December 2015: US\$181,186,000 and US\$61,316,000). Earn-out 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. Earn-up 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.

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 each acquired business and the potential impact on the gain or loss on remeasurement of contingent consideration payables and goodwill for each acquired businesses.

However, if the total actual contingent consideration payables are 10% higher or lower than the total contingent consideration payables estimated by management, the resulting aggregate impact to the gain or loss on remeasurement of contingent consideration payables recognized to the profit and loss account would be US\$22,893,000.

12 Share Capital, Share Options and Award Shares

	Number of Shares (in thousand)	HK\$'000	Equivalent to US\$'000
Authorized			
At 1 January 2016, ordinary shares of HK\$0.0125 each	12,000,000	150,000	19,231
At 30 June 2016, ordinary shares of HK\$0.0125 each	12,000,000	150,000	19,231
Issued and Fully Paid			
At 1 January 2016, ordinary shares of HK\$0.0125 each	8,415,447	105,193	13,487
At 30 June 2016, ordinary shares of HK\$0.0125 each	8,415,447	105,193	13,487

Details of Share Options granted by the Company pursuant to the 2003 Option Scheme and 2014 Option Scheme and outstanding at 30 June 2016 are as follows:

Grant Date	Exercise Price HK\$	Exercisable Period	Number of Share Options			
			As at 1/1/2016	Granted	Lapsed	As at 30/06/2016
22/12/2011	12.12 ¹	1/5/2014–30/4/2016	2,000,000	–	(2,000,000)	–
22/12/2011	12.12 ¹	1/5/2015–30/4/2017	2,000,000	–	–	2,000,000
22/12/2011	12.12 ¹	1/5/2016–30/4/2018	2,000,000	–	–	2,000,000
22/12/2011	12.12 ¹	1/5/2017–30/4/2019	2,000,000	–	–	2,000,000
22/12/2011	12.12 ¹	1/5/2018–30/4/2020	2,000,000	–	–	2,000,000
22/12/2011	12.12 ¹	1/5/2019–30/4/2021	2,000,000	–	–	2,000,000
22/12/2011	12.12 ¹	1/5/2020–30/4/2022	2,000,000	–	–	2,000,000
22/12/2011	12.12 ¹	1/5/2021–30/4/2023	2,000,000	–	–	2,000,000
21/5/2015	7.49	1/1/2016–31/12/2017	28,274,000	–	–	28,274,000
21/5/2015	7.49	1/1/2017–31/12/2018	29,935,000	–	–	29,935,000
21/5/2015	7.49	1/1/2018–31/12/2019	30,086,000	–	–	30,086,000
16/11/2015	5.81	1/1/2017–31/12/2018	285,000	–	–	285,000
16/11/2015	5.81	1/1/2018–31/12/2019	604,000	–	–	604,000
19/05/2016	4.27	1/1/2018–31/12/2019	–	604,000	–	604,000
		Total	105,184,000	604,000	(2,000,000)	103,788,000

NOTE:

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

Subsequent to 30 June 2016, no Shares have been allotted and issued under the Share Option Scheme.

The Share Options outstanding at 30 June 2016 had a weighted average remaining contractual life of 2.71 years (31 December 2015: 3.15 years).

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

Details of Award Shares granted by the Company pursuant to the Share Award Scheme and outstanding at 30 June 2016 are as follows:

Grant Date	Fair Value per Share HK\$	Vesting Date	Number of Award Shares			
			As at 1/1/2016	Granted	Unvested/ Forfeited	As at 30/06/2016
21/5/2015	7.49	31/12/2016	13,108,100	–	(779,300)	12,328,800
21/5/2015	7.49	31/12/2017	20,097,500	–	(1,198,100)	18,899,400
21/5/2015	7.49	31/12/2018	13,914,300	–	(836,100)	13,078,200
21/5/2015	7.49	31/12/2019	6,994,300	–	(419,300)	6,575,000
16/11/2015	5.33	31/12/2016	100,600	–	(5,800)	94,800
16/11/2015	5.33	31/12/2017	346,400	–	(19,200)	327,200
16/11/2015	5.33	31/12/2018	342,100	–	(18,800)	323,300
16/11/2015	5.33	31/12/2019	245,900	–	(13,200)	232,700
19/5/2016	4.27	31/12/2016	–	10,400	–	10,400
19/5/2016	4.27	31/12/2017	–	394,500	–	394,500
19/5/2016	4.27	31/12/2018	–	381,700	–	381,700
19/5/2016	4.27	31/12/2019	–	373,400	–	373,400
		Total	55,149,200	1,160,000	(3,289,800)	53,019,400

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

During the period, a total of 1,160,000 Award Shares were granted. 22,000 Award Shares granted to a connected person were purchased from open market and 1,138,000 Award Shares granted to non-connected persons were applied from the 3,289,800 Award Shares which had not been vested and/or been forfeited in accordance with the terms of the Share Award Scheme.

13 Perpetual Capital Securities

On 8 November 2012, the Company issued perpetual subordinated capital securities (the "Perpetual Capital Securities") with an aggregate principal amount of US\$500 million. The Perpetual Capital Securities do not have maturity date and the distribution payments can be deferred at the discretion of the Company. Therefore, the Perpetual Capital Securities are classified as equity instruments and recorded in equity in the consolidated balance sheet. The amount as at 30 June 2016 included the accrued distribution payments net off by the actual distribution to holders during the period. For the period ended 30 June 2016, the accrued distribution payment was US\$3,000,000 (31 December 2015: US\$3,000,000) and the actual distribution to holders was US\$15,000,000 (31 December 2015: US\$30,000,000).

14 Other Reserves

	Unaudited								Total US\$'000
	Treasury Shares US\$'000 (Note (a))	Capital Reserve US\$'000 (Note (b))	Contributed Surplus US\$'000	Employee Share-based Compensation Reserve US\$'000	Revaluation Reserve US\$'000	Hedging Reserve US\$'000	Defined Benefit Obligation Reserve US\$'000	Exchange Reserve US\$'000	
Balance at 1 January 2016	(13,300)	2,306	710,000	54,662	2,845	2,812	(11,129)	(193,293)	554,903
Other Comprehensive (Expense)/ Income									
Currency translation differences	-	-	-	-	-	-	-	(55,792)	(55,792)
Net fair value gains on available-for-sale financial assets, net of tax	-	-	-	-	86	-	-	-	86
Net fair value gains on cash flow hedges, net of tax	-	-	-	-	-	2,066	-	-	2,066
Remeasurements from post-employment benefits recognized in reserve, net of tax	-	-	-	-	-	-	1	-	1
Transactions with Owners in their Capacity as Owners									
Purchase of shares for Share Award Scheme	(12)	-	-	-	-	-	-	-	(12)
Employee Share Option and Share Award Scheme:									
– value of employee services	-	-	-	11,590	-	-	-	-	11,590
Transfer to capital reserves	-	61	-	-	-	-	-	-	61
Balance at 30 June 2016	(13,312)	2,367	710,000	66,252	2,931	4,878	(11,128)	(249,085)	512,903

14 Other Reserves (continued)

	Unaudited								Total US\$'000
	Treasury Shares US\$'000 (Note (a))	Capital Reserve US\$'000 (Note (b))	Contributed Surplus US\$'000	Employee Share-based Compensation Reserve US\$'000	Revaluation Reserve US\$'000	Hedging Reserve US\$'000	Defined Benefit Obligation Reserve US\$'000	Exchange Reserve US\$'000	
Balance at 1 January 2015	(6,739)	3,922	710,000	37,049	2,719	8,889	(11,066)	(110,676)	634,098
Other Comprehensive Income/ (Expense)									
Currency translation differences	-	-	-	-	-	-	-	8,576	8,576
Net fair value gains on available-for-sale financial assets, net of tax	-	-	-	-	76	-	-	-	76
Net fair value losses on cash flow hedges, net of tax	-	-	-	-	-	(8,322)	-	-	(8,322)
Remeasurements from post-employment benefits recognized in reserve, net of tax	-	-	-	-	-	-	2	-	2
Transactions with Owners in their Capacity as Owners									
Issue of shares for Share Award Scheme	(89)	-	-	-	-	-	-	-	(89)
Purchase of shares for Share Award Scheme	(7,300)	-	-	-	-	-	-	-	(7,300)
Employee Share Option and Share Award Scheme:									
- value of employee services	-	-	-	4,164	-	-	-	-	4,164
Transfer to capital reserves	-	92	-	-	-	-	-	-	92
Balance at 30 June 2015	(14,128)	4,014	710,000	41,213	2,795	567	(11,064)	(102,100)	631,297

Notes:

(a) Treasury shares represent the excess shares issued for settlement of consideration for certain prior year acquisitions held by escrow agent and shares issued and purchased for Share Award Scheme held by the trustee.

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

15 Disposal of Business

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

	Unaudited 2016 US\$'000
Net assets disposed	
Non-current assets	278,186
Current assets	537,853
Current liabilities	(498,443)
Non-current liabilities	(3,002)
Less: Non-controlling interests	(4,255)
Book value of net assets disposed	310,339

(b) Analysis of net inflow of cash and cash equivalents in respect of disposal of business:

	Unaudited 2016 US\$'000
Consideration received net of expenses paid	290,407
Settlement of amount due from the disposed business to the Group	65,917
Less: Cash and cash equivalents of the disposed business	(55,155)
Net inflow of cash and cash equivalents in respect of disposal of business	301,169

(c) Analysis of net gain on disposal of business:

	Unaudited 2016 US\$'000
Estimated consideration net of expenses incurred	318,210
Less: Net assets disposed	(310,339)
Net gain on disposal of business	7,871

16 Contingent Liabilities

	Unaudited 30 June 2016 US\$'000	Audited 31 December 2015 US\$'000
Guarantees in respect of banking facilities granted to associated companies	750	750

17 Commitments

(a) Operating Lease Commitments

As at 30 June 2016, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited 30 June 2016 US\$'000	Audited 31 December 2015 US\$'000
Within one year	113,378	139,170
In the second to fifth year inclusive	184,681	209,399
After the fifth year	96,662	119,010
	394,721	467,579

(b) Capital Commitments

	Unaudited 30 June 2016 US\$'000	Audited 31 December 2015 US\$'000
Contracted but not provided for:		
Property, plant and equipment	3,724	1,945
System development, software and other license costs	479	1,170
	4,203	3,115

18 Charges on Assets

Save as disclosed in *Note 8*, there were no charges on the Group's assets as at 30 June 2016 and 31 December 2015.

19 Related Party Transactions

The Group had the following material transactions with its related parties during the period ended 30 June 2016 and 2015:

	Note	Unaudited	
		Six months ended 30 June 2016 US\$'000	2015 US\$'000
Distribution and sales of goods	(i)	11,124	10,945
Operating leases rental paid	(ii)	13,276	12,845
Turnover on buying agency services provided	(iii)	628,238	698,277
Rental and license fee paid	(iv)	816	1,117
Rental and license fee received	(iv)	1,518	1,801
Logistics related services income	(v)	7,066	5,527

Notes:

- (i) Pursuant to the master distribution and sale of goods agreement entered into on 5 December 2014 with FH (1937) for a term of three years ending 31 December 2017, certain distribution and sales of goods was made on mutually agreed normal commercial terms with FH (1937) and its associates.
- (ii) Pursuant to the master agreement for leasing of properties dated 6 December 2013 entered into with FH (1937) for a term of three years ending 31 December 2016, the Group had rental charge for certain properties leased from FH (1937) and its associates during the period based on mutually agreed normal commercial terms.
- (iii) Pursuant to the buying agency agreement entered into with Global Brands Group on 24 June 2014, the Group provided buying agency services to Global Brands Group and its associates for a term of three years from the listing date of Global Brands Group. For the six months ended 30 June 2016, the Group provided buying agency services to Global Brands Group with an aggregate turnover of approximately US\$628,238,000 (2015: US\$698,277,000).
- (iv) Pursuant to the master property agreement entered into with Global Brands Group on 24 June 2014, the Group and Global Brands Group had rental and license fee to and from one another for certain properties and license offices, showroom and warehouse premises on mutually agreed terms from the listing date of Global Brands Group to 31 December 2016. For the six months ended 30 June 2016, aggregate rental and license fee paid to and from one another approximated to US\$2,334,000 (2015: US\$2,918,000).
- (v) Pursuant to the master agreement for provision of logistics-related services entered into on 20 August 2015, the Group provided certain logistics-related services to FH (1937) and its associates during the period. The aggregate service income, excluding the passed-through costs for direct freight forwarding, approximated to US\$7,066,000 (2015: US\$5,527,000).

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

20 Financial Risk Management

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

(a) Market Risk

(i) FOREIGN EXCHANGE RISK

Most of the Group's cash balances were deposits in HK\$ and US\$ with major global financial institutions, and most of the Group's borrowings were denominated in US\$.

The Group's revenues and payments were transacted mainly in the same currency, predominantly in US\$. Therefore, it considers there to be no significant risk exposure in relation to foreign exchange rate fluctuations. There are small portions of sales and purchases transacted in different currencies, for which the Group arranges hedging by means of foreign exchange forward contracts.

While the Group's net revenue is substantially in US\$, the Group is exposed to currency fluctuation on operating costs in sourcing countries such as China, Bangladesh, Vietnam, Korea and India to a certain extent. The Group manages such foreign currency risks through the following measures:

- (i) From a short-term perspective, the Group arranges foreign exchange forward contracts for hedging on operating costs in individual countries as and when appropriate; and
- (ii) From a medium-to-long-term perspective, the Group manages the operations in the most cost-effective way possible within our global network.

The Group in general does not enter into foreign currency hedges in respect of its long-term equity investment. In particular, the Group's net equity investments in non-US dollar-denominated on-shore wholesale business under the Trading Network are subject to unrealized translation gain or loss on consolidation. Fluctuation of relevant currencies against the US dollar will result in unrealized gain or loss from time to time, which is reflected as movement in exchange reserve in the consolidated statement of changes in equity.

The Group strictly prohibits any financial derivative arrangement merely for speculation.

20 Financial Risk Management (continued)

(a) Market Risk (continued)

(II) PRICE RISK

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

At 30 June 2016 and up to the date of the Group's interim financial information, 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 2016, fair value of foreign exchange forward contracts entered into by the Group amounted to US\$3,100,000 (31 December 2015: US\$4,272,000), which has been reflected in full in the Group's consolidated balance sheet as derivative financial instruments assets.

(III) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

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

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

20 Financial Risk Management (continued)

(b) Credit Risk

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

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

(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 facility and cash and cash equivalents) on the basis of expected cash flow.

21 Fair Value Estimation

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

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

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2016:

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Assets				
Available-for-sale financial assets				
– Club debentures	–	–	3,940	3,940
Derivative financial instrument used for hedging	–	3,100	–	3,100
Total Assets	–	3,100	3,940	7,040
Liabilities				
Purchase consideration payable for acquisitions	–	–	228,933	228,933
Total Liabilities	–	–	228,933	228,933

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

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Assets				
Available-for-sale financial assets				
– Club debentures	–	–	3,854	3,854
Derivative financial instrument used for hedging	–	4,272	–	4,272
Total Assets	–	4,272	3,854	8,126
Liabilities				
Purchase consideration payable for acquisitions	–	–	242,502	242,502
Total Liabilities	–	–	242,502	242,502

21 Fair Value Estimation (continued)

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

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

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

Specific valuation techniques used to value financial instruments include:

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS USED FOR HEDGING

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

PURCHASE CONSIDERATION PAYABLE FOR ACQUISITIONS

The Group recognizes the fair value of those purchase considerations for acquisitions, as of their respective acquisition dates as part of the consideration transferred in exchange for the acquired businesses. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired businesses and significant judgment on time value of money. These calculations use cash flow projections for post-acquisition performance. The discount rate used is based on the prevailing incremental cost of borrowings of the Group from time to time ranging from 1.0% to 2.5%.

21 Fair Value Estimation (continued)

The following table presents the changes in level 3 instruments for the six months ended 30 June 2016 and 2015:

	2016		2015	
	Purchase Consideration Payable for Acquisitions US\$'000	Others US\$'000	Purchase Consideration Payable for Acquisitions US\$'000	Others US\$'000
Opening balance as at 1 January (audited)	242,502	3,854	458,080	3,709
Fair value gains	–	86	–	76
Settlement	(13,607)	–	(15,941)	–
Remeasurement of purchase consideration payable for acquisitions	–	–	(60,151)	–
Others	38	–	3,946	19
Closing Balance as at 30 June (unaudited)	228,933	3,940	385,934	3,804

22 Approval of Interim Financial Information

The interim financial information was approved by the Board of Directors on 25 August 2016.

Glossary

In this Report, unless otherwise specified the following glossary applies.

2003 Option Scheme	the share option scheme of the Company adopted by the Shareholders at the annual general meeting of the Company held on 12 May 2003 which expired on 11 May 2013
2014 Option Scheme	the share option scheme of the Company adopted by the Shareholders at the annual general meeting of the Company held on 15 May 2014
associate(s), chief executive(s), connected person(s), substantial shareholder(s)	each has the meaning as described in the Listing Rules
Award Shares	the Shares granted under the Share Award Scheme to an eligible person(s) approved for participation in the Share Award Scheme
Board	the board of Directors of the Company
Company, Li & Fung	Li & Fung Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
Director(s)	a director(s) of the Company
FH (1937)	Fung Holdings (1937) Limited, a company incorporated in Hong Kong, which is a substantial shareholder of the Company
Fung Distribution	Fung Distribution International Limited, a company incorporated in the British Virgin Islands, which is a wholly-owned subsidiary of FH (1937)
Global Brands	Global Brands Group Holding Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
Global Brands Group	Global Brands and its subsidiaries
Group	the Company and its subsidiaries
HK\$	Hong Kong dollar(s), the lawful currency of Hong Kong
Hong Kong	the Hong Kong Special Administrative Region of PRC
HSBC Trustee	HSBC Trustee (C.I.) Limited, acting in its capacity as the trustee of a trust established for the benefit of the family members of Victor Fung Kwok King
King Lun	King Lun Holdings Limited, a company incorporated in the British Virgin Islands owned 50% by HSBC Trustee and 50% by William Fung Kwok Lun

Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Companies under Appendix 10 of the Listing Rules
PRC	the People's Republic of China
Report	the interim report of the Company for the half year ended 30 June 2016
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	ordinary share(s) of HK\$0.0125 each in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Share Award Scheme	the share award scheme of the Company adopted by the Shareholders at the annual general meeting of the Company held on 21 May 2015
Share Option(s)	the outstanding option(s) granted under the 2003 Option Scheme and/or 2014 Option Scheme
Stock Exchange	The Stock Exchange of Hong Kong Limited
US\$	United States dollar(s), the lawful currency of the United States of America

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