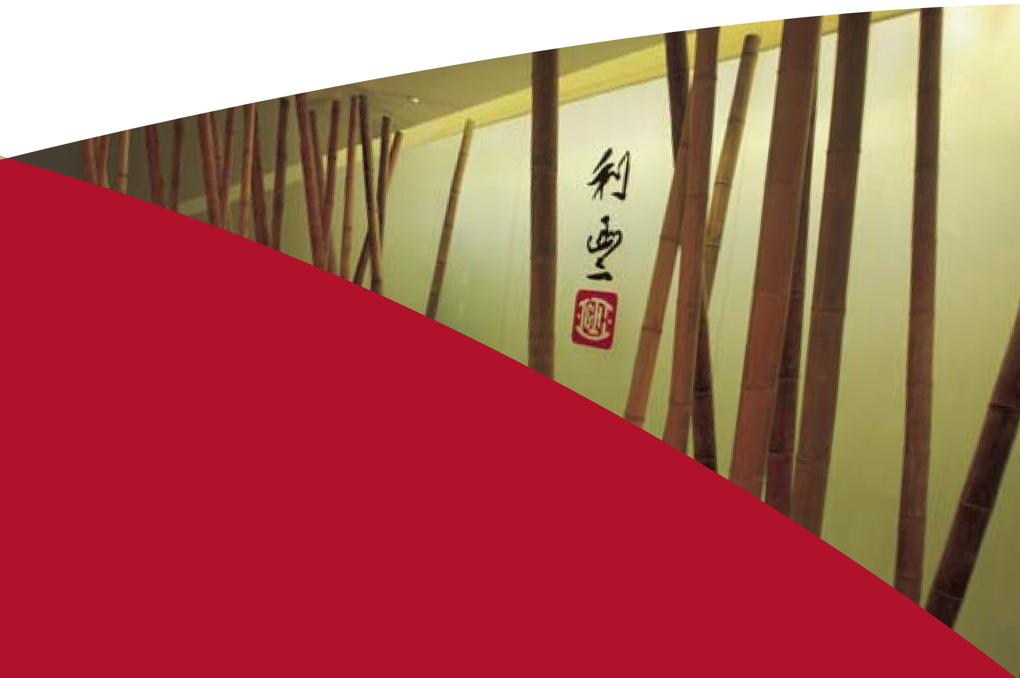
LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 494

Interim Report 07
中期業績報告




TOYS R US

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Corporate Information

Non–Executive Directors

Victor FUNG Kwok King, *Chairman*
Paul Edward SELWAY–SWIFT*
Allan WONG Chi Yun*
Franklin Warren McFARLAN*
Makoto YASUDA*
LAU Butt Farn

** Independent Non–executive Directors*

Executive Directors

William FUNG Kwok Lun, *Managing Director*
Bruce Philip ROCKOWITZ
Henry CHAN
Danny LAU Sai Wing
Annabella LEUNG Wai Ping

Group Chief Compliance Officer

James SIU Kai Lau

Chief Operating Officer

Chen Kuan JEANG

Company Secretary

Terry WAN Mei Chow

Qualified Accountant

Edward YIM Kam Chuen

Legal Advisors

Johnson Stokes & Master
17th Floor, Prince's Building
10 Chater Road, 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

Registered Office

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

Principal Place of Business

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

Auditor

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

Highlights

Half Year Results To 30 June 2007

(HK$ millions)	**2007**	2006	**Change**
Turnover	**37,772**	27,970	**+35%**
Core Operating Profit	**1,179**	836	**+41%**
As % of Turnover	***3.12%***	*2.99%*	
Profit attributable to shareholders of the Company	**1,051**	764	**+38%**
Earnings per Share – Basic	**30.8 HK cents**	23.6 HK cents	**+31%**
Dividend per Share	**21 HK cents**	16 HK cents	**+31%**

Highlights

- Very robust first half results
- Strong growth seen in both soft and hardgoods
- Driven by both acquisition and organic growth
- US onshore business exceeding targets
- Momentum for outsourcing remains strong
- Our business continues to perform well in spite of the complex trade environment
- Outlook positive for the remainder of the year

Chairman's Statement

Introduction

Despite uncertain US economic conditions, Li & Fung ("the Group") continued to deliver strong results for the first six months of this year. Our order book remains strong given the global trend to outsourcing, and our involvement in the private label business provides counter-cyclical growth in an uncertain US environment.

Both US and European markets continued to provide strong bottom-line results for the Group as we continue to forge a leading global position as the partner of choice for a growing client base. With our acquisition of KarstadtQuelle International Services, we have also successfully diversified geographically with Europe now accounting for 23% in turnover in the first six months, up 71% over the same period last year.

Li & Fung has seen the trend towards outsourcing across Europe and the US continue to grow steadily during the first six months of 2007. This has driven organic growth and growth through acquisitions, and has enabled the Group to capitalize on its capacity to continually value-add, strengthening our compelling customer offer.

I am particularly pleased to report that these interim results continue to point towards the realization of the goals outlined in our Three-Year Plan which ends in December, this year. This plan (2005–2007) targeted some challenging goals but was grounded in our solid understanding of the global supply chain business and our belief in the capacity of Li & Fung and our people to scale new heights. The results to date certainly indicate that we are on track to achieve our goal of US$10 billion in annual turnover.

Performance

In the first half of the year, Group turnover increased by 35% to HK$37,772 million. Profit attributable to shareholders was HK$1,051 million, an increase of 38% when compared with HK$764 million for the first half of 2006. Basic earnings per share were 30.8 HK cents (2006: 23.6 HK cents).

The Board of Directors has resolved to declare an interim dividend of 21 HK cents per share (2006: 16 HK cents).

Market and Business

Despite concerns about the impact of the sub-prime market on the US domestic property market, consumer spending grew during the period under review.

The acquisitions of the sourcing divisions of key businesses such as Tommy Hilfiger and beauty and cosmetics supply chain company CGroup demonstrate the Group's commitment to continued product diversification and long-term expansion, in line with the objectives set out in the Three-Year Plan.

These acquisitions complement the Group's organic business growth strategy, broadening Li & Fung's sourcing power on a global scale. Importantly, such acquisitions also offer opportunities to expand the customer base and build on our geographic diversification.

The period under review has also seen a healthy growth of onshore US business particularly in the private label, licensed brands and proprietary brands which complement the Group's core sourcing business.

Our early foray into US proprietary brands more than two years ago is also paying dividends with our US onshore business in total recording a strong performance during the first six months of the year.

The issue of the Group's first bond offering of US$500 million during the period has enabled such opportunities to be harnessed. Rated A3 (stable) by Moody's and A- (stable) by Standard & Poor's, the bond has been well received by institutional investors.

The pace of change in production in core source markets has accelerated, with China no longer setting the fastest pace. That said, China remains a key sourcing country but faces increasing competition from emerging markets which include Indonesia, Vietnam, Bangladesh and Pakistan.

Continued global diversification will further shore up Li & Fung's capacity to absorb business fluctuation across its portfolio.

Prospects

With our track record, Li & Fung is increasingly being viewed as a valuable strategic partner for retailers worldwide and underpins the lucrative benefits inherent in the scalable nature of the sourcing business.

The move into the health and beauty business, with the acquisition of CGroup was a first for Li & Fung and will complement existing hardgoods and softgoods businesses offering significant potential to achieve synergies across our existing client base. This expansion into a new product category will form an important plank of the next Three-Year Plan.

This reinforces our goal of principally growing organically while seeking to expand and fill in niche markets through strategic acquisitions.

With a strong first half of the year, I am pleased to confirm that Li & Fung will continue to invest in infrastructure – particularly in our people – which is critical to support our growth.

Corporate Governance

The Group remains firmly committed to high standards of corporate governance and will continue to promote a strong compliance culture, by upholding the principles of transparency, accountability and independence.

Conclusion

The first six months of 2007 have underpinned the success factors embedded in our Three-Year Plan. These robust results come off the back of years of solid growth and stand Li & Fung in good stead for continued strong performance.

The Group looks forward to outlining its next Three-Year-Plan which will continue to build on the global opportunities presented by world markets.

Finally, I would like to express my appreciation to the Board, the management team and the staff who contribute to the ongoing success of Li & Fung.

Victor FUNG Kwok King
Chairman
Hong Kong, 15 August 2007

Management Discussion and Analysis

Results Review

This is the third year of the Group's Three-Year Plan 2005–2007. The Group has made excellent progress in line with the Plan's target of achieving a turnover of US$10 billion by the end of 2007.

The Group has seen robust growth for the first half of 2007. Turnover increased by 35% to HK$37,772 million, reflecting Li & Fung's continued success in growing both organically and through new acquisitions. This also represents the strongest turnover growth in the interim reporting period since 2000.

Profit attributable to shareholders reached HK$1,051 million for the first half of 2007, an increase of 38% over the same period in 2006.

While the world has seen increasing complexity in the trade arena and this is expected to continue, Li & Fung has continued to perform well as its asset light strategy enabled the Group to operate with substantial flexibility.

The outsourcing trend continued steadily in the first half of 2007. Companies are increasingly rethinking the strategy of managing their own buying office and are outsourcing to third party specialists instead. Consequently, the Group has been able to continue to expand its existing customer base. Following the high profile outsourcing agreements with the KarstadtQuelle group of Germany and global designer company Tommy Hilfiger, we have completed a further three smaller outsourcing deals this year.

Our US onshore strategy is progressing well. The Group's early involvement in the trend of retailers' focus on proprietary brands has proved to be very timely and is expected to continue to fuel the growth of our US onshore business going forward.

All our margins showed an increasing trend in a mildly inflationary environment. Total margins increased from 10.6% to 10.8% of turnover during the first half of 2007, reflecting our continued success in moving up the value chain. Lower margins in some of the outsourcing business were offset by more value-added sourcing businesses and our higher margin US onshore business.

Core operating profits increased by 41% as a result of further penetration amongst our existing customers and increasing contributions from earlier acquisitions. Core operating profit margin improved from 3% to 3.1%.

Investment in back office infrastructure has continued in 2007.

In May this year, the Group successfully issued an inaugural bond offer of US$500 million, which was very well received by fixed income investors. The notes were issued at a coupon rate of 5.50% per annum for a ten-year term, due 2017. We will be applying the net proceeds towards business development, acquisitions and refinancing the Group's existing indebtedness.

Segmental Analysis

For the first half of 2007, soft and hardgoods accounted for 71% and 29% of turnover respectively. **Softgoods** turnover increased by 37% whereas operating profit increased by 39%. The improvement reflects robust growth from our existing customers and the contribution from new customers like Tommy Hilfiger.

Turnover and operating profit from the **hardgoods** business grew by 30% and 53% respectively. This reflects continued strong organic growth in the hardgoods segment together with positive contributions from previous acquisitions such as Rosetti Handbags & Accessories.

Geographically, the **US** market continues to be the Group's key export market, representing 68% of the Group's total turnover during the period under review. Turnover and operating profit grew by 28% and 42% respectively, reflecting increased private brand penetration and new proprietary brand business. In addition, Li & Fung has continued to move up the supply chain, offering more value-added services and improving margins.

Our US onshore business continues to make good progress. Our target in the current Three-Year Plan is for this business to reach US$1 billion by the end of 2007. Contributions from the three primary areas: private label, proprietary brands and licensing recognized brands are on track and performing well. We are particularly glad that our early involvement in proprietary brands about two years ago has proved to be timely and fruitful for the onshore business.

The other important market of **Europe** accounted for 23% in turnover, reflecting a growth of 71% from same period last year driven mainly by contributions from the KarstadtQuelle International Services acquisition. Operating profits grew by 38% reflecting the lower margins of that business.

Other markets such as **Canada, Latin America**, and **Australasia** accounted for 3.5%, 1.5%, and 2.5% each in turnover of the Group. Turnover and operating profit growth was – 4%, 28%, and 25% as well as 21%, 62% and 32% respectively. While these markets are relatively small compared to the US and Europe, the Group will continue to grow in these smaller markets where we have dominant positions. Finally, **Japan** and the rest of the world represents a turnover share of 1.9%, and experienced growth of 74% in turnover and 94% in operating profit.

New Business Ventures

The Group has been on a constant lookout for opportunities that would provide a platform for new sources of long-term growth and product diversification. The acquisition of CGroup in June this year marked Li & Fung's first foray into the Health, Beauty and Cosmetics ("HBC") business. CGroup will provide a strategic platform for the Group to develop a strong HBC business with our existing customers as well as new customers in the continually expanding health and beauty sector. We are confident that this initiative will be one of the drivers of our next Three-Year Plan (2008–2010).

Acquisitions

We continue to grow our business organically and supplement our expansion with further acquisitions through our two-pronged acquisition strategy (that is, we buy smaller companies and businesses on a continuous basis to augment our existing capabilities and at the same time seek, on a more opportunistic basis, to acquire larger companies and businesses that may transform the company significantly) as the means to expand geographical diversification and our product offer.

In the first half of the year, the Group acquired the global sourcing operations of Tommy Hilfiger. The cash consideration for the purchase was approximately US$248 million and was financed by the Group's internal cash reserves. While the transaction enables Tommy Hilfiger to access a broader buying office network, it also enhances the Group's ability to operate in the designer arena globally.

In June this year, Li & Fung also entered into an agreement to acquire the shares of CGroup, the Hong Kong based international HBC supply chain company. The purchase consideration was approximately US$120 million, with two contingent amounts of up to a total of US$80 million payable if certain profit targets are met. The consideration will be satisfied in cash and by the issue of new shares of the Company. This first venture into the HBC sector will complement our existing hardgoods and softgoods businesses. The Group sees tremendous opportunities to leverage potential synergies with our existing customers through this acquisition.

The Group announced on 15 August 2007 that it has entered into agreement to acquire Peter Black International Limited ("PB Group"). PB Group is a long established, large supplier of footwear, accessories, gifts and personal care merchandise for leading UK and Continental European retailers. This transaction will provide a unique platform and infrastructure for the future development of Li & Fung's European onshore business. This will also add strong expertise and capabilities in product design and development in both the footwear and beauty businesses, and will double our HBC business overnight.

In addition, the Group announced on 15 August 2007 that it has entered into agreement to acquire substantially all of the assets of Pacific Alliance, LLC, Regatta U.S.A. LLC, and all of their related companies (collectively "Regatta"). Regatta is a leading US apparel and brand management company offering proprietary brands and private label products. This transaction will help establish Li & Fung as the leader in design and marketing of proprietary brands. It will help further expand our in-house brand management and marketing capabilities to enhance existing and future proprietary brands and private label product offerings.

Prospects and Progress on Three-Year Plan 2005-2007

This is the final year of the current Three-Year Plan 2005–2007. The Group is delighted to report that we are well on track to meet our Plan's US$10 billion turnover target by the end of 2007. We experienced solid growth in 2005 and 2006. The first half of 2007 proved to be a robust half year and we expect the momentum to continue with strong orders to date.

The Group is committed to continuing its investment in its infrastructure in 2007 to support future strong growth, including investment in information technology, human resources and financial accounting systems.

We will continue to grow our business organically by expanding our geographical presence and product mix. In addition to our sourcing business, we have been successful in offering more value-added services to our customers. We are increasingly involved in product planning, design services and development, in addition to raw material and factory sourcing. Strict and increased monitoring of social, environmental and health compliance of the factories used for our customers is an increasingly important part of our services. Further down the supply chain, we also provide quality control, testing, export documentation and logistics services with more and more of our shipments conducted on a landed duty paid basis with customers.

The Group is continuing to pursue further acquisitions for the remainder of this year to complement our organic business growth and to build foundations for further growth in our next Three-Year Plan 2008–2010.

Financial Position and Liquidity

The Group continued to be in a strong financial position for the half year under review with cash and cash equivalents amounting to HK$4,269 million at the end of June 2007.

Normal trading operations were well supported by more than HK$17,543 million in bank trading facilities. In addition, the Group had available bank loans and overdraft facilities of HK$4,688 million, out of which only HK$2,862 million was utilized.

At balance sheet date, the Group's gearing ratio was approximately 46.9%, calculated on the basis of the Group's long-term notes of HK$3,863 million over shareholders' funds of HK$8,242 million. The current ratio was 1.2, based on current assets of HK$17,440 million and current liabilities of HK$14,131 million.

Impact of Changes in Accounting Standards

The following new standards, amendments to standards and interpretations are relevant to the Group and are mandatory for financial year ending 31 December 2007.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of these new standards, amendments to standards and interpretations does not have any significant impact on the Group's interim financial report.

Foreign Exchange Risk Management

Most of the Group's cash balances were deposits in HK$ or US$ with major banks in Hong Kong, and most of the Group's assets, liabilities, revenues and payments were held in either HK$ or US$. Therefore, we consider that the risk exposure to foreign exchange rate fluctuations is minimal.

Foreign exchange risks arising from sales and purchases transacted in different currencies is managed by the Group treasury, with the use of foreign exchange forward contracts.

Capital Commitments and Contingent Liabilities

At the date of this announcement, the Group has a long-running dispute with the Hong Kong Inland Revenue Department related to the non-taxable claims of certain non-Hong Kong sourced income and the deduction of certain marketing expenses of approximately HK$1,015 million for the years of assessment from 1992/1993 to 2005/2006. The disputes were initiated in 1999 and have been disclosed in our annual reports since that year. The Group has been working with its accounting and legal advisors in respect of its dealings with the Hong Kong Inland Revenue Department in relation to these matters. A hearing of the disputes was held before the Board of Review in January 2006 but as at the date of this announcement, the result is not yet known.

The structure of the Group's offshore sourcing and marketing activities was established at the time of the Group's re-listing on the Hong Kong Stock Exchange in 1992, when the Group sought advice from its external professional advisors. The directors consider that sufficient tax provision has been made in the accounts in this regard and no additional material tax liabilities are expected to eventuate.

Other than the above, there are no material contingent liabilities or off-balance-sheet obligations.

Human Resources

As of the end of June 2007, the Group had a total workforce of 10,825 of whom 3,381 were based in Hong Kong and 7,444 were located overseas. The Group offers its staff competitive remuneration schemes. In addition, bonuses and share options are also granted to eligible staff based on individual and Group performance.

The Group is committed to nurturing a learning culture in the organization. Emphasis is placed on training and development, as the Group's success is dependent upon the efforts of a skilled and motivated work force. Training programs have been developed to align with the profiles of different job levels and functions. There are different series of training programs in place including: the Management Development Series and Professional Development Series focusing on the management skills training for managerial and frontline staff; the Functional Competency Training Series focusing on the technical skills training for merchandising and quality assurance functions; and Language Training for all staff. During the first half year of 2007, we also developed a new Global Induction Program across the whole group. Through this program, we aim to better integrate new staff and facilitate their development within the Company.

In addition, there are two key resourcing programs: the Management Trainee Program and the Merchandising Development Program. The Management Trainee Program, first launched in 2003, is a global corporate management program, aimed at attracting and developing high potential university graduates to become our future leaders through accelerated career development opportunities. The program is now five years old. The Merchandising Development Program, first launched in February 2006, is a corporate resourcing program, with the aim of developing a merchandising frontline resource pool through structured training. A customized diploma program for trainees has been developed in collaboration with the Hong Kong Polytechnic University, to obtain industry recognition and to establish industry standards for merchandising skill sets. This year, the Merchandising Development Program won two awards: Most Innovative Award and Certificate of Excellence in the Award for Excellence in Training 2007, conferred by the Hong Kong Management Association.

The Group invested in sophisticated human resource software during the period under review. Total staff costs for the first half of 2007 were HK$1,639 million, compared with HK$1,246 million for the same period last year.

Corporate Governance

The Board of Directors and management are committed to principles of good corporate governance consistent with prudent enhancement and management of **shareholder value**. These principles emphasize transparency, accountability and independence. Corporate governance practices adopted by the Company during the six-month period to 30 June 2007 are in line with those practices set out in the Company's 2006 Annual Report.

The Board

The Board is composed of the Group Non-Executive Chairman, the Group Executive Managing Director, four Executive Directors and five Non-executive Directors (of whom four are independent).

In order to reinforce their respective independence, accountability and responsibility, the role of the Group Chairman is separate from that of the Group Managing Director. Their respective responsibilities are clearly established and defined by the Board in writing.

The Board held **six** meetings to date in 2007 (with an **average attendance rate of 86%**) to discuss the overall strategy as well as the operation and financial performance of the Group.

The Board has established the following committees (all chaired by Non-executive Directors) with defined terms of reference (available to shareholders upon request), which are on no less exacting terms than those set out in the Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"): the Nomination Committee, the Audit Committee, the Risk Management Committee and the Compensation Committee.

Nomination Committee

The Nomination Committee was established in August 2001 and is chaired by the Group Non-Executive Chairman. Its written terms of reference cover recommendations to the Board on the appointment of Directors, evaluation of board composition and the management of board succession with reference to certain guidelines as endorsed by the Committee. These guidelines include appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills, and time commitments of members.

The Committee met **once** to date in 2007 (with a **100% attendance rate**) to review the board composition. Its current members include:

Dr Victor FUNG Kwok King – *Committee Chairman*
Mr Paul Edward SELWAY-SWIFT*
Mr Makoto YASUDA*

Audit Committee

The Audit Committee was established in 1998 to review the Group's financial reporting, internal controls and corporate governance issues and make relevant recommendations to the Board. All Committee members possess appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules.

The Audit Committee met **three** times to date in 2007 (with a **100% attendance rate**) to review with senior management and the Company's internal and external auditors, the Group's significant internal controls and financial matters as required in the Committee's written terms of reference. The Committee's review covers the audit plans and findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, listing rules and statutory compliance, internal controls, risk management and financial reporting matters (including the interim financial report for the six months ended 30 June 2007 for the Board's approval). Its current members include:

Mr Paul Edward SELWAY-SWIFT* – *Committee Chairman*
Dr Victor FUNG Kwok King
Mr Allan WONG Chi Yun*
Professor Franklin Warren McFARLAN*
Mr Makoto YASUDA*

Risk Management Committee

The Risk Management Committee was established in August 2001 and is chaired by the Group's Non-Executive Chairman. Its written terms of reference include offering recommendations to the Board on the Group's risk management and internal control systems. The Committee reports to the Board in conjunction with the Audit Committee. The Risk Management Committee met **once** to date in 2007 (with a **100% attendance rate**) to review risk management procedures pertinent to the Group's significant investments and operations. Its current members include:

Dr Victor FUNG Kwok King – *Committee Chairman*
Dr William FUNG Kwok Lun
Mr Bruce Philip ROCKOWITZ
Mr James SIU Kai Lau (Group Chief Compliance Officer)

Compensation Committee

The Compensation Committee was formed in 1993 and is chaired by an independent Non-executive Director. The Committee's responsibilities as set out in its written terms of reference include approving the remuneration policy for all Directors and senior executives, and the annual allocation of share options to employees under the Company's Share Option Scheme. It annually reviews the Group's remuneration policy. The Committee met **once** to date in 2007 (with a **100% attendance rate**) to review the incentive schemes for the next Three-Year Plan (2008-2010). Its current members include:

Mr Allan WONG Chi Yun* – *Committee Chairman*
Dr Victor FUNG Kwok King
Professor Franklin Warren McFARLAN*

* *independent non-executive director*

Code of Conduct and Business Ethics

The Group's **reputation capital** is built on its long-established standards of ethics in conducting business. Guidelines of the Group's core business ethical practices as endorsed by the Board are set out in the **Company's Code of Conduct and Business Ethics for all Directors and staff**. For ease of reference and as a constant reminder, a copy of the latest guidelines is posted in the Company's internal electronic Bulletin Board and is available to all staff.

Directors' Securities Transactions

The Group has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Specific confirmation has been obtained from each Director to confirm compliance with the Model Code for the six months ended 30 June 2007. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code. No incident of non-compliance by Directors and relevant employees was noted by the Company for the six months ended 30 June 2007.

Internal Control and Risk Management

The Board is responsible for maintaining a sound and an effective system of internal controls in Li & Fung and for reviewing its effectiveness through the Audit Committee. Such a system is designed to manage the risk of failure to achieve corporate objectives. It aims to provide reasonable but not absolute assurance against material misstatement, loss or fraud. Qualified personnel throughout the Group maintain and monitor these systems of controls on an ongoing basis.

The Group operates within an established control environment, which is consistent with the principles outlined in *Internal Control and Risk Management – A Basic Framework* issued by the Hong Kong Institute of Certified Public Accountants. The scope of internal control for the Group relates to three major areas: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations. Details of the Company's internal control and risk management processes are set out in Corporate Governance Section on pages 29 to 31 of the Company's 2006 Annual Report.

Based on the assessments made by senior management and the Group's Internal Audit team for the six months ended 30 June 2007, the Audit Committee is satisfied that:

- the internal controls and accounting systems of the Group are in place and functioning effectively and are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorization and the accounts are reliable for publication.
- there is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

Compliance with the Code on Corporate Governance Practices

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with the applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the period ended 30 June 2007.

Corporate Social Responsibility and Sustainability

Li & Fung has developed a Supplier Code of Conduct to be observed by its approved suppliers around the globe. The Code is a set of standards based on local and national laws and regulations, and International Labor Organization core conventions. These standards include underage labor, forced/prison labor, wages and compensation, working hours, discrimination, disciplinary practices, freedom of association, health and safety, environment, and the right of access. A copy of the Code is available at our corporate website *(www.lifung.com)*.

Li & Fung is a member of Business for Social Responsibility (BSR), an international US-based non-profit organization whose mission is to promote socially responsible business practices, innovation and collaboration that demonstrate respect for ethical values, people, community and the environment. Li & Fung is also an active member of BSR's Labor Standards Working Group, a sector-specific working group that focuses on supply chain labor standards issues. The working group meets periodically to address common industry challenges and work on collaborative projects.

Li & Fung is also a participant in the United Nation's Global Compact initiative, which embraces and supports a set of core values in the areas of human rights, labor standards, the environment and anti-corruption. The initiative achieves this through the dissemination of good practices based on certain universal principles derived from international conventions and declarations – the Ten Principles. These cover the respect of and support for the protection of human rights, abstinence from human rights abuses, freedom of association, elimination of all forms of forced and child labor, elimination of discrimination in employment, promotion of environmental responsibility, and the elimination of corruption.

Since 2005, Li & Fung has also been included as a constituent member of the FTSE4Good Index Series from FTSE Group (UK) recognizing Li & Fung's commitment to high corporate social responsibility standards.

Investor Relations and Communications

The Company continues to pursue a proactive policy of promoting investor relations and communications by maintaining regular meetings with institutional shareholders and analysts. As a channel to further promote effective communication, the Company has maintained a corporate website *(www.lifung.com)* to disseminate shareholder information and other relevant financial and non-financial information electronically on a timely basis. Webcasts of results presentations given to analysts have also been made available on our corporate website.

Information Technology

Li & Fung adopts an advanced and efficient technology and business system to support the growing business activities of the Company, the details of which are set out on pages 34 to 35 of the Company's 2006 Annual Report.

Staff and Community

As a global Supply Chain Management service provider, Li & Fung recognizes that human capital is a key asset to the sustained growth and profitability of the Company. The Group therefore places due emphasis on resourcing, development and retention of our staff, the details of which are set out in Management Discussion and Analysis section of this 2007 Interim Report and on pages 35 to 37 of the Company's 2006 Annual Report.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

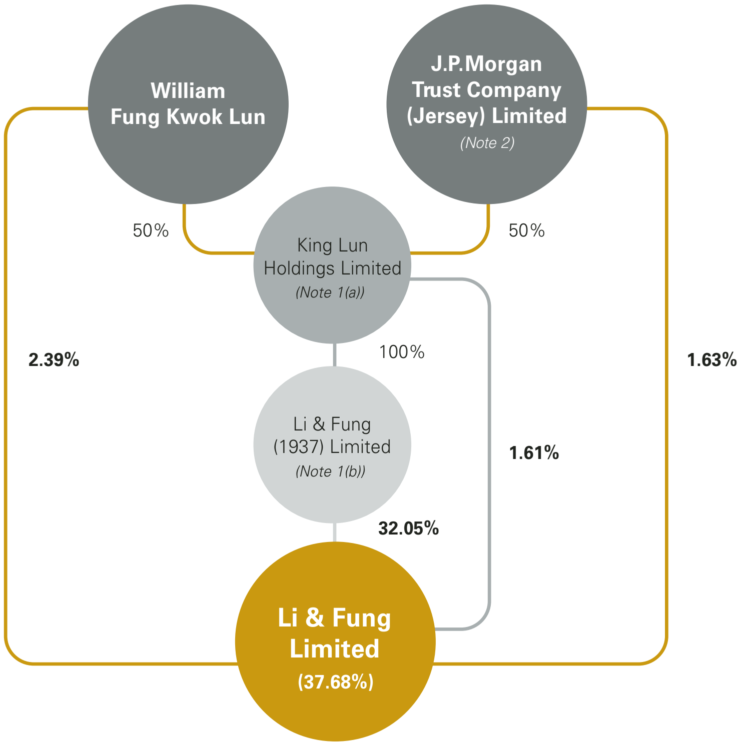
As at 30 June 2007, the directors and chief executives of the Company and their associates had the following interests in the shares of HK$0.025 each ("Shares") and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("the Model Code"):

(A) Long Position in Shares and underlying shares of the Company

	Number of Shares						
	Personal interest	Corporate interest	Family interest	Trust/ similar interest	Equity derivatives (share options)	Total	Percentage of issued share capital
Victor Fung Kwok King	–	1,150,545,880 [1]	–	55,825,000 [2]	–	1,206,370,880	35.29%
William Fung Kwok Lun	79,928,530	1,150,545,880 [1]	4,400	–	1,760,000 [3]	1,232,238,810	36.05%
Bruce Philip Rockowitz	712,800	–	–	11,411,510 [4]	57,145,880 [5]	69,270,190	2.02%
Henry Chan	3,514,000	–	–	–	1,760,000 [3]	5,274,000	0.15%
Danny Lau Sai Wing	7,468,000	–	–	–	1,760,000 [3]	9,228,000	0.26%
Annabella Leung Wai Ping	3,128,000	–	–	–	1,760,000 [3]	4,888,000	0.14%
Lau Butt Farn	2,420,000	–	–	–	–	2,420,000	0.07%
Franklin Warren McFarlan	–	–	–	57,200 [6]	–	57,200	0.00%

Notes:

The interests of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun in Shares of the Company as at 30 June 2007 are summarized in the following chart:



(1) (a) King Lun Holdings Limited ("King Lun"), a private company incorporated in the British Virgin Islands, held 54,945,880 Shares.

(b) King Lun through its wholly-owned Hong Kong incorporated subsidiary, Li & Fung (1937) Limited, held 1,095,600,000 Shares.

Dr Victor Fung Kwok King and Dr William Fung Kwok Lun are deemed to have interests in the 1,150,545,880 Shares, i.e. the total number of Shares mentioned in *Notes (1)(a) and (b)* above, through their personal or other interests in King Lun as set out below:

(i) 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family of Dr Victor Fung Kwok King.

(ii) 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by Dr William Fung Kwok Lun.

(2) 55,825,000 Shares in the Company are held by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family of Dr Victor Fung Kwok King.

(3) These interests represent 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 Options section stated below.

(4) 11,411,510 Shares in the Company are held by Hurricane Millennium Holdings Limited ("HMHL"), a company beneficially owned by a trust which has been set up for the benefit of family members of Mr Bruce Philip Rockowitz.

(5) These interests represent:

(a) the beneficial interest of Mr Bruce Philip Rockowitz in 2,200,000 underlying shares in respect of share options granted by the Company to Mr Bruce Philip Rockowitz; and

(b) the deemed interest of Mr Bruce Philip Rockowitz in 54,945,880 underlying shares in the Company in respect of options granted by King Lun to HMHL to purchase such shares in the Company in ten tranches during the period from 25 December 2004 to 24 December 2019 with each tranche having an exercisable period of six years pursuant to an agreement made between King Lun and HMHL.

(6) 57,200 Shares in the Company are held by a trust established for the benefit of Professor Franklin Warren McFarlan.

(B) Short positions in Shares and underlying shares of the Company

By virtue of the SFO, each of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun was taken as at 30 June 2007 to have short position through King Lun, in which both of them are deemed to have interests as disclosed above, in respect of an aggregate of 54,945,880 underlying shares in the Company, representing 1.61 percent of the total issued share capital of the Company. Such interest constitutes, for the purposes of the SFO, a short position of King Lun under unlisted physically settled equity derivative which arise under an agreement made between King Lun and HMHL pursuant to which options were granted by King Lun to HMHL to purchase such shares in the Company in ten tranches during the period from 25 December 2004 to 24 December 2019, with each tranche having an exercisable period of six years.

Save as disclosed above, as at 30 June 2007, none of the directors and chief executive of the Company or their associates had any short position in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of 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 Mode.

(C) Share Options

The interests of the directors and chief executives in the share options (being regarded as unlisted physically settled equity derivatives) of the Company are detailed in the Share Options section stated below.

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

Share Options

Share Option Scheme

At the 2003 Annual General Meeting of the Company held on 12 May 2003, a share option scheme (the "Option Scheme") of the Company was adopted by the shareholders of the Company. As at 30 June 2007, there are options relating to 92,316,900 Shares granted by the Company pursuant to the Option Scheme which are valid and outstanding.

Movement of the share options under the Option Scheme during the period is as follows:

	Number of Share Options					Exercise Price		
	As at 1/1/2007	Granted	Exercised	Lapsed	As at 30/6/2007	HK$	Grant Date	Exercisable Period
William Fung Kwok Lun	880,000	–	880,000	–	–	13.45	20/6/2005	20/6/2007 – 19/6/2010
	880,000	–	–	–	880,000	13.45	20/6/2005	20/6/2008 – 19/6/2011
	880,000	–	–	–	880,000	13.45	20/6/2005	20/6/2009 – 19/6/2012
Bruce Philip Rockowitz	440,000	–	–	–	440,000	8.36	23/5/2003	23/5/2005 – 22/5/2008
	440,000	–	–	–	440,000	8.36	23/5/2003	23/5/2006 – 22/5/2009
	440,000	–	–	–	440,000	13.45	20/6/2005	20/6/2007 – 19/6/2010
	440,000	–	–	–	440,000	13.45	20/6/2005	20/6/2008 – 19/6/2011
	440,000	–	–	–	440,000	13.45	20/6/2005	20/6/2009 – 19/6/2012
Henry Chan	440,000	–	–	–	440,000	8.36	23/5/2003	23/5/2006 – 22/5/2009
	440,000	–	–	–	440,000	13.45	20/6/2005	20/6/2007 – 19/6/2010
	440,000	–	–	–	440,000	13.45	20/6/2005	20/6/2008 – 19/6/2011
	440,000	–	–	–	440,000	13.45	20/6/2005	20/6/2009 – 19/6/2012
Danny Lau Sai Wing	440,000	–	–	–	440,000	8.36	23/5/2003	23/5/2006 – 22/5/2009
	440,000	–	–	–	440,000	13.45	20/6/2005	20/6/2007 – 19/6/2010
	440,000	–	–	–	440,000	13.45	20/6/2005	20/6/2008 – 19/6/2011
	440,000	–	–	–	440,000	13.45	20/6/2005	20/6/2009 – 19/6/2012
Annabella Leung Wai Ping	440,000	–	–	–	440,000	8.36	23/5/2003	23/5/2006 – 22/5/2009
	440,000	–	–	–	440,000	13.45	20/6/2005	20/6/2007 – 19/6/2010
	440,000	–	–	–	440,000	13.45	20/6/2005	20/6/2008 – 19/6/2011
	440,000	–	–	–	440,000	13.45	20/6/2005	20/6/2009 – 19/6/2012

	Number of Share Options					Exercise Price HK$	Grant Date	Exercisable Period
	As at 1/1/2007	Granted	Exercised	Lapsed	As at 30/6/2007			
Continuous contract	986,200	–	854,200 [1]	132,000	–	8.36	23/5/2003	23/5/2004 – 22/5/2007
Employees	2,938,200	–	1,095,900 [1]	–	1,842,300	8.36	23/5/2003	23/5/2005 – 22/5/2008
	5,711,300	–	2,495,600 [1]	–	3,215,700	8.36	23/5/2003	23/5/2006 – 22/5/2009
	37,800	–	37,800 [1]	–	–	9.00	20/8/2004	20/8/2005 – 19/8/2008
	832,000	–	545,200 [1]	–	286,800	9.00	20/8/2004	20/8/2006 – 19/8/2009
	22,274,500	–	2,168,800 [1]	418,000	19,687,700	13.45	20/6/2005	20/6/2007 – 19/6/2010
	21,340,000	–	–	550,000	20,790,000	13.45	20/6/2005	20/6/2008 – 19/6/2011
	20,790,000	–	–	660,000	20,130,000	13.45	20/6/2005	20/6/2009 – 19/6/2012
	693,000	–	72,600 [1]	–	620,400	13.72	23/1/2006	20/6/2007 – 19/6/2010
	1,397,000	–	–	55,000	1,342,000	13.72	23/1/2006	20/6/2008 – 19/6/2011
	1,397,000	–	–	55,000	1,342,000	13.72	23/1/2006	20/6/2009 – 19/6/2012
	212,000	–	62,000 [1]	–	150,000	15.65	19/6/2006	20/6/2007 – 19/6/2010
	2,220,000	–	–	–	2,220,000	15.65	19/6/2006	20/6/2008 – 19/6/2011
	2,300,000	–	–	160,000	2,140,000	15.65	19/6/2006	20/6/2009 – 19/6/2012
	–	2,127,000 [2]	–	77,000	2,050,000	25.50	02/2/2007	20/6/2008 – 19/6/2011
	–	7,425,000 [2]	–	165,000	7,260,000	25.50	02/2/2007	20/6/2009 – 19/6/2012

Notes:

(1) The weighted average closing market price per Share immediately before the dates on which the Share Options were exercised was HK$26.34.

(2) The closing market price per Share as at the date preceding the date on which the share options were granted was HK$25.50.

(3) The above options granted are recognized as expenses in the accounts in accordance with the Company's accounting policy as set out in the annual accounts for the year ended 31 December 2006. Other details of share options granted by the Company are set out in *Note 11* to the accounts.

Interests and Short Positions of Substantial Shareholders

As at 30 June 2007, other than the interests of the directors or chief executive of the Company as disclosed above, the following persons had interests in the Shares of the Company which fall 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			
King Lun Holdings Limited	Beneficial owner (54,945,880) Interest of controlled corporation (1,095,600,000)[1]	1,150,545,880[2]	33.66%
J.P. Morgan Trust Company (Jersey) Limited	Trustee (55,825,000) Interest of controlled corporation (1,150,545,880)[2]	1,206,370,880[3]	35.29%
Janus Capital Management LLC	Investment manager	171,242,660	5.01%
Short Positions			
King Lun Holdings Limited	Beneficial owner	54,945,880[4]	1.61%
J.P. Morgan Trust Company (Jersey) Limited	Interest of controlled corporation	54,945,880[5]	1.61%
Lending Pool			
State Street Corporation	Interest of controlled corporation	265,269,264	7.76%

Notes:

(1) 1,095,600,000 Shares are held by Li & Fung (1937) Limited which is a wholly-owned subsidiary of King Lun.

(2) (a) 50% of issued share capital of King Lun is owned by J.P. Morgan Trust Company (Jersey) Limited and its interests in 1,150,545,880 Shares of the Company is duplicated in the interests of J.P. Morgan Trust Company (Jersey) Limited.

(b) By virtue of the SFO, each of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun is deemed to be interested in 1,150,545,880 Shares of the Company held by King Lun Holdings Limited as described in *Note (1)* under the above section of Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures.

(3) By virtue of the SFO, Dr Victor Fung Kwok King is deemed to be interested in 1,206,370,880 Shares held by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family of Dr Victor Fung Kwok King.

(4) This short position represents King Lun's short position in 54,945,880 underlying shares which constitutes unlisted physically settled equity derivatives pursuant to arrangement as described in the Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures section stated above.

(5) J.P. Morgan Trust Company (Jersey) Limited is taken to have short position in the same underlying shares held by its controlled corporation, King Lun.

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 2007.

Other Information

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

The Company has not redeemed any of its securities during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

Interim Dividend

The Board of Directors has resolved to declare an interim dividend of 21 HK cents (2006: 16 HK cents) per Share for the six months ended 30 June 2007 absorbing a total of HK$720 million (2006: HK$519 million).

Closure of Register of Members

The Register of Members will be closed from 11 September 2007 to 17 September 2007, both days inclusive, during which period no transfer of shares will be effected. 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 registrars, Tricor Abacus Limited (formerly known as Abacus Share Registrars Limited) at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 10 September 2007. Dividend warrants will be despatched on 19 September 2007.

Independent Review Report

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

Introduction

We have reviewed the condensed interim financial report set out on pages 29 to 47, which comprises the consolidated balance sheet of Li & Fung Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2007 and the related consolidated profit and loss account, consolidated statements of changes in equity and condensed consolidated cash flows 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 Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial report in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial report based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 15 August 2007

Condensed Interim Financial Report

Consolidated Profit and Loss Account

	Note	Unaudited Six months ended 30 June 2007 HK$'000	 2006 HK$'000
Turnover	*2*	**37,771,538**	27,970,274
Cost of sales		**(33,858,537)**	(25,152,988)
Gross profit		**3,913,001**	2,817,286
Other revenues		**169,461**	134,927
Total margin		**4,082,462**	2,952,213
Selling expenses		**(683,244)**	(447,287)
Merchandising expenses		**(1,923,473)**	(1,417,384)
Administrative expenses		**(296,618)**	(251,340)
Core operating profit		**1,179,127**	836,202
Amortization of intangible assets arising from business combinations		**(4,007)**	–
Gain on disposal of properties		**–**	3,268
Operating profit	*2 & 3*	**1,175,120**	839,470
Interest income		**130,265**	23,056
Interest expenses		**(175,980)**	(43,050)
Share of profits less losses of associated companies		**8,355**	11,507
Profit before taxation		**1,137,760**	830,983
Taxation	*4*	**(85,765)**	(66,702)
Profit after taxation		**1,051,995**	764,281
Attributable to:			
Shareholders of the Company		**1,051,447**	764,105
Minority interest		**548**	176
		1,051,995	764,281
Interim dividend	*5*	**719,520**	518,742
Earnings per share for profit attributable to the shareholders of the Company during the period	*6*		
– basic		**30.8 HK cents**	23.6 HK cents
– diluted		**30.4 HK cents**	23.5 HK cents

Consolidated Balance Sheet

	Note	Unaudited 30 June 2007 HK$'000	Audited 31 December 2006 HK$'000
Non-current assets			
Intangible assets	*7*	**8,017,641**	4,713,163
Fixed assets	*7*	**1,164,816**	1,114,368
Prepaid premium for land leases		**672,644**	681,179
Associated companies		**21,053**	13,930
Available-for-sale financial assets		**106,303**	81,605
Deferred tax assets		**132,299**	105,982
		10,114,756	6,710,227
Current assets			
Inventories		**1,625,812**	1,331,258
Due from related companies		**64,805**	61,977
Trade and bills receivable	*8*	**9,929,921**	9,231,482
Other receivables, prepayments and deposits		**1,523,302**	1,316,053
Cash and bank balances		**4,295,906**	3,394,085
		17,439,746	15,334,855
Current liabilities			
Derivative financial instruments		**3,049**	4,413
Trade and bills payable	*9*	**8,529,525**	7,544,176
Accrued charges and sundry payables		**1,465,848**	1,315,691
Balance of purchase consideration payable for acquisitions	*10*	**770,144**	760,221
Taxation		**394,150**	320,632
Bank advances for discounted bills	*8*	**107,113**	123,282
Short-term bank loans		**2,835,178**	2,776,968
Bank overdrafts		**26,490**	91,744
		14,131,497	12,937,127
Net current assets		**3,308,249**	2,397,728
Total assets less current liabilities		**13,423,005**	9,107,955

	Note	**Unaudited 30 June 2007 HK$'000**	Audited 31 December 2006 HK$'000
Financed by:			
Share capital	*11*	**85,445**	85,239
Reserves		**7,436,878**	6,883,215
Proposed dividend		**719,520**	1,330,754
	12	**8,156,398**	8,213,969
Shareholders' funds		**8,241,843**	8,299,208
Minority interest	*12*	**(31,629)**	(32,363)
Total equity		**8,210,214**	8,266,845
Non-current liabilities			
Long-term liabilities	*10*	**5,167,992**	797,487
Post-employment benefit obligations		**26,464**	25,464
Deferred taxation		**18,335**	18,159
		13,423,005	9,107,955

Consolidated Statement of Changes in Equity

	Note	Unaudited Six months ended 30 June **2007** **HK$'000**	 2006 HK$'000
Total equity at 1 January		**8,266,845**	4,624,801
Currency translation differences	*12*	**58,911**	32,376
Net fair value gains/(losses) of available-for-sale financial assets	*12*	**24,698**	(1,453)
Net fair value gains/(losses) on cash flow hedges	*12*	**2,657**	(13,031)
Net income recognized directly in equity		**86,266**	17,892
Profit for the period	*12*	**1,051,995**	764,281
Total recognized income for the period		**1,138,261**	782,173
Final dividend paid	*12*	**(1,331,338)**	(1,044,290)
Employee share option scheme:			
– value of employee services	*12*	**51,060**	29,233
– shares issued	*11*	**206**	233
– share premium on issue of new shares	*12*	**85,180**	81,955
Total equity as at 30 June		**8,210,214**	4,474,105

Condensed Consolidated Cash Flow Statement

	Unaudited Six months ended 30 June	
	2007	2006
	HK$'000	HK$'000
Net cash inflow from operating activities	**1,324,263**	969,675
Net cash outflow from investing activities	**(2,842,537)**	(792,042)
Net cash (outflow)/inflow before financing activities	**(1,518,274)**	177,633
Net cash inflow/(outflow) from financing activities	**2,466,952**	(634,352)
Increase/(decrease) in cash and cash equivalents	**948,678**	(456,719)
Cash and cash equivalents at 1 January	**3,302,341**	1,043,913
Effect of foreign exchange rate changes	**18,397**	5,367
Cash and cash equivalents at 30 June	**4,269,416**	592,561
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	**4,295,906**	913,600
Bank overdrafts	**(26,490)**	(321,039)
	4,269,416	592,561

Notes to Condensed Interim Financial Report

1 Basis of preparation and accounting policies

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

This interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA. This interim financial report should be read in conjunction with the annual accounts for the year ended 31 December 2006.

The accounting policies adopted are consistent with those of the annual accounts for the year ended 31 December 2006, as described in the annual accounts for the year ended 31 December 2006.

The following new standards, amendments to standards and interpretations are relevant to the Group and are mandatory for financial year ending 31 December 2007:

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of these new standards, amendments to standards and interpretations has no significant impact on the Group interim results and financial position.

The following new standard and interpretation, which are relevant to the Group, have been issued but are not effective for 2007 and have not been early adopted by the Group:

HKFRS 8	Operating Segments
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The adoption of these new standard or interpretation will have no material impact on the accounts of the Group and will not result in substantial changes to the Group's accounting policies.

2 Segment information

The principal activity of the Group is export trading of consumer products.

(a) Geographical segments

An analysis of the Group's segment turnover and contribution to operating profit for the period by geographical segment is as follows:

	Turnover Six months ended 30 June		Operating profit Six months ended 30 June	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Principal markets:				
United States of America	**25,609,215**	19,942,596	**805,619**	566,476
Europe	**8,582,674**	5,027,811	**242,137**	175,058
Canada	**1,326,351**	1,375,392	**50,091**	41,319
Australasia	**954,867**	761,758	**38,761**	29,329
Latin America	**565,430**	440,784	**20,654**	12,762
Japan and rest of the world	**733,001**	421,933	**21,865**	11,258
	37,771,538	27,970,274	**1,179,127**	836,202
Amortization of intangible assets arising from business combinations			**(4,007)**	–
Gain on disposal of properties			**–**	3,268
			1,175,120	839,470

(b) Business segments

An analysis of the Group's segment turnover and contribution to operating profit for the period by business segment is as follows:

	Turnover Six months ended 30 June		Operating profit Six months ended 30 June	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Softgoods	**26,630,824**	19,371,138	**1,002,402**	720,490
Hardgoods	**11,140,714**	8,599,136	**176,725**	115,712
	37,771,538	27,970,274	**1,179,127**	836,202
Amortization of intangible assets arising from business combinations			**(4,007)**	–
Gain on disposal of properties			**–**	3,268
			1,175,120	839,470

3 Operating profit

Operating profit is stated after charging/(crediting) the following:

	Six months ended 30 June	
	2007	2006
	HK$'000	HK$'000
Amortization of system development costs	**4,837**	3,901
Amortization of intangible assets arising from business combinations	**4,007**	–
Depreciation of fixed assets	**90,582**	84,144
Gain on disposal of properties	**–**	(3,268)
(Gain)/loss on disposal of fixed assets	**(231)**	420
Employee share option expenses	**51,060**	29,233

4 Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Six months ended 30 June	
	2007	2006
	HK$'000	HK$'000
Current taxation		
– Hong Kong profits tax	**80,227**	59,745
– Overseas taxation	**31,441**	14,713
Deferred taxation	**(25,903)**	(7,756)
	85,765	66,702

At the date of approval of this interim financial report, certain subsidiaries of the Group have disputes with the Hong Kong Inland Revenue involving additional assessments of tax of approximately HK$1,015 million on the non-taxable claim of certain non-Hong Kong sourced income and the deduction claim of marketing expenses for the years of assessment from 1992/1993 to 2005/2006.

The Commissioner of the Hong Kong Inland Revenue issued a determination dated 14 June 2004 with disagreement to the Group's objection against the additional tax assessments of HK$333 million. Under further legal advice from the Group's counsel, the directors believe that the Group has meritorious defence to the additional tax assessments and the Group proceeded to appeal to the Board of Review against the Commissioner's determination and served a notice of appeal to the Board of Review on 13 July 2004. The appeal was heard before the Board of Review in January 2006 but, as at the date of this interim financial report, the result is not yet known.

4 Taxation (continued)

The Group has also filed objections to the Hong Kong Inland Revenue against the remaining additional tax assessments of HK$682 million issued to the subsidiaries.

The directors consider that no material tax liabilities will finally crystallize and sufficient tax provision has been made in the interim financial report in this regard.

5 Interim dividend

	Six months ended 30 June	
	2007	2006
	HK$'000	HK$'000
Proposed, of HK$0.21 (2006: HK$0.16) per ordinary share	**719,520**	518,742

6 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$1,051,447,000 (2006: HK$764,105,000) and on the weighted average number of 3,412,440,000 (2006: 3,233,557,000) shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of 3,412,440,000 (2006: 3,233,557,000) ordinary shares in issue by 43,612,000 (2006: 21,153,000) to assume conversion of all dilutive potential ordinary shares granted under the Company's Option Scheme. 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.

7 Capital expenditure

	Intangible assets				
	Goodwill* HK$'000	**Intangible assets arising from business combinations** HK$'000	**System development costs** HK$'000	**Total** HK$'000	**Fixed assets** HK$'000
Six months ended 30 June 2007					
Net book amount as at 1 January 2007	4,685,533	–	27,630	4,713,163	1,114,368
System development costs recognized as asset	–	–	8,146	8,146	–
Fixed assets additions	–	–	–	–	106,741
Acquisition of businesses/subsidiaries *(Note 13)*	2,604,032	668,000	–	3,272,032	25,190
Adjustments to purchase consideration and net assets value	14,319	–	–	14,319	–
Disposals	–	–	–	–	(12,352)
Amortization/depreciation charge	–	(4,007)	(4,837)	(8,844)	(90,582)
Exchange adjustment	18,825	–	–	18,825	21,451
Net book amount as at 30 June 2007	**7,322,709**	**663,993**	**30,939**	**8,017,641**	**1,164,816**

* *Goodwill arising from business combinations is tested for impairment annually and when there is indication of impairment. Up to the date of this interim financial report, no events or changes in circumstances have indicated that the goodwill might be impaired.*

8 Trade and bills receivable

The ageing analysis of trade and bills receivable is as follows:

	Current to 90 days HK$'000	**91 to 180 days** HK$'000	**181 to 360 days** HK$'000	**Over 360 days** HK$'000	**Total** HK$'000
Balance at 30 June 2007	**9,390,605**	**329,102**	**198,834**	**11,380**	**9,929,921**
Balance at 31 December 2006	8,541,183	581,852	91,267	17,180	9,231,482

All trade and bills receivable are either repayable within one year or on demand. Accordingly, the fair value of the Group's trade and bills receivables are approximately the same as the carrying value.

A significant portion of the Group's business are 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 are on open account terms payable against deliveries of shipments which are often covered by customers' standby letters of credit, bank guarantees or credit insurance.

8 Trade and bills receivable (continued)

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

The Group transferred certain bills receivable balances amounting to HK$107,113,000 to banks in exchange for cash as at 30 June 2007. The transactions have been accounted for as collateralized banks advances.

9 Trade and bills payable

The ageing analysis of trade and bills payable is as follows:

	Current to 90 days HK$'000	91 to 180 days HK$'000	181 to 360 days HK$'000	Over 360 days HK$'000	Total HK$'000
Balance at 30 June 2007	**8,377,984**	**95,744**	**29,285**	**26,512**	**8,529,525**
Balance at 31 December 2006	7,203,198	245,151	52,929	42,898	7,544,176

The fair value of the Group's trade and bills payable are approximately the same as the carrying value.

10 Long-term liabilities

	30 June 2007 HK$'000	31 December 2006 HK$'000
Long-term loans from minority shareholders	**38,867**	38,867
Balance of purchase consideration payable for acquisitions	**2,036,323**	1,518,841
Long-term notes – unsecured	**3,862,946**	–
	5,938,136	1,557,708
Current portion of balance of purchase consideration payable for acquisitions	**(770,144)**	(760,221)
	5,167,992	797,487

11 Share capital and options

	No. of shares (in thousand)	HK$'000
Authorized		
At 1 January 2007, ordinary shares of HK$0.025 each	4,000,000	100,000
At 30 June 2007, ordinary shares of HK$0.025 each	**4,000,000**	**100,000**
Issued and fully paid		
At 1 January 2007, ordinary shares of HK$0.025 each	3,409,576	85,239
Exercise of share options *(Note)*	8,213	206
At 30 June 2007, ordinary shares of HK$0.025 each	**3,417,789**	**85,445**

11 Share capital and options (continued)

Note:

Details of share options granted by the Company pursuant to the Option Scheme and the share options outstanding at 30 June 2007 are as follows:

			Number of Share Options				
Grant Date	Exercise Price HK$	Exercisable period	As at 1/1/2007	Granted	Exercised	Lapsed	As at 30/6/2007
23/5/2003	8.36	23/5/2004 – 22/5/2007	986,200	–	(854,200)	(132,000)	–
23/5/2003	8.36	23/5/2005 – 22/5/2008	3,378,200	–	(1,095,900)	–	2,282,300
23/5/2003	8.36	23/5/2006 – 22/5/2009	7,471,300	–	(2,495,600)	–	4,975,700
20/8/2004	9.00	20/8/2005 – 19/8/2008	37,800	–	(37,800)	–	–
20/8/2004	9.00	20/8/2006 – 19/8/2009	832,000	–	(545,200)	–	286,800
20/6/2005	13.45	20/6/2007 – 19/6/2010	24,914,500	–	(3,048,800)	(418,000)	21,447,700
20/6/2005	13.45	20/6/2008 – 19/6/2011	23,980,000	–	–	(550,000)	23,430,000
20/6/2005	13.45	20/6/2009 – 19/6/2012	23,430,000	–	–	(660,000)	22,770,000
23/1/2006	13.72	20/6/2007 – 19/6/2010	693,000	–	(72,600)	–	620,400
23/1/2006	13.72	20/6/2008 – 19/6/2011	1,397,000	–	–	(55,000)	1,342,000
23/1/2006	13.72	20/6/2009 – 19/6/2012	1,397,000	–	–	(55,000)	1,342,000
19/6/2006	15.65	20/6/2007 – 19/6/2010	212,000	–	(62,000)	–	150,000
19/6/2006	15.65	20/6/2008 – 19/6/2011	2,220,000	–	–	–	2,220,000
19/6/2006	15.65	20/6/2009 – 19/6/2012	2,300,000	–	–	(160,000)	2,140,000
02/2/2007	25.50	20/6/2008 – 19/6/2011	–	2,127,000	–	(77,000)	2,050,000
02/2/2007	25.50	20/6/2009 – 19/6/2012	–	7,425,000	–	(165,000)	7,260,000

Subsequent to 30 June 2007, 8,495,000 Shares have been allotted and issued under the Option Scheme.

Details of share options granted by the Company pursuant to the Option Scheme subsequent to the balance sheet date are set out as follows:

Grant Date	Exercise Price HK$	Exercisable Period	Number of Share Options Granted
13/7/2007	29.93	20/6/2009 – 19/6/2012	1,635,000

12 Reserves

	Attributable to shareholders of the Company									
	Share premium HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Revaluation reserve HK$'000	Hedging reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Sub-total HK$'000	Minority Interests HK$'000	Total HK$'000
Balance at 1 January 2006	3,337,585	7,334	107,122	6,369	2,609	(73,528)	1,195,954	4,583,445	(32,058)	4,551,387
2005 final dividend paid	–	–	–	–	–	–	(1,044,290)	(1,044,290)	–	(1,044,290)
Currency translation differences	–	–	–	–	–	73,190	–	73,190	(148)	73,042
Transfer to capital reserve	–	15,257	–	–	–	–	(15,257)	–	–	–
Transfer to share capital on Bonus Issue	(7,354)	–	–	–	–	–	–	(7,354)	–	(7,354)
Share premium on private placing	2,719,435	–	–	–	–	–	–	2,719,435	–	2,719,435
Net fair value losses of available-for-sale financial assets	–	–	–	(7,496)	–	–	–	(7,496)	–	(7,496)
Net fair value losses on cash flow hedges	–	–	–	–	(6,530)	–	–	(6,530)	–	(6,530)
Profit/(loss) for the year	–	–	–	–	–	–	2,201,819	2,201,819	(157)	2,201,662
Employee share option scheme:										
– value of employee services	–	–	58,465	–	–	–	–	58,465	–	58,465
– proceeds from shares issued	162,537	–	–	–	–	–	–	162,537	–	162,537
– transfer to share premium	35,559	–	(35,559)	–	–	–	–	–	–	–
2006 interim dividend paid	–	–	–	–	–	–	(519,252)	(519,252)	–	(519,252)
Reserves	6,247,762	22,591	130,028	(1,127)	(3,921)	(338)	488,220	6,883,215	(32,363)	6,850,852
Proposed dividend	–	–	–	–	–	–	1,330,754	1,330,754	–	1,330,754
At 31 December 2006	6,247,762	22,591	130,028	(1,127)	(3,921)	(338)	1,818,974	8,213,969	(32,363)	8,181,606
Balance at 1 January 2007, as per above	6,247,762	22,591	130,028	(1,127)	(3,921)	(338)	1,818,974	8,213,969	(32,363)	8,181,606
2006 final dividend paid	–	–	–	–	–	–	(1,331,338)	(1,331,338)	–	(1,331,338)
Currency translation differences	–	–	–	–	–	58,725	–	58,725	186	58,911
Net fair value gains on available-for-sale financial assets	–	–	–	24,698	–	–	–	24,698	–	24,698
Net fair value gains on cash flow hedges	–	–	–	–	2,657	–	–	2,657	–	2,657
Profit for the period	–	–	–	–	–	–	1,051,447	1,051,447	548	1,051,995
Employee share option scheme:										
– value of employee services	–	–	51,060	–	–	–	–	51,060	–	51,060
– proceeds from shares issued	85,180	–	–	–	–	–	–	85,180	–	85,180
– transfer to share premium	16,151	–	(16,151)	–	–	–	–	–	–	–
Reserves	6,349,093	22,591	164,937	23,571	(1,264)	58,387	819,563	7,436,878	(31,629)	7,405,249
Proposed dividend	–	–	–	–	–	–	719,520	719,520	–	719,520
At 30 June 2007	**6,349,093**	**22,591**	**164,937**	**23,571**	**(1,264)**	**58,387**	**1,539,083**	**8,156,398**	**(31,629)**	**8,124,769**

13 Business combinations

On 9 March 2007, the Group acquired the global sourcing operations of designer Tommy Hilfiger. Tommy Hilfiger is one of the largest and most globally developed designer brands in the world and has attained a unique positioning as a premium American lifestyle brand. Tommy Hilfiger focuses on menswear, womenswear, jeanswear and childrenswear. The acquired global sourcing operations source the merchandise from Hong Kong, Taiwan, India, Bangladesh, Sri Lanka, Tunisia, USA and Honduras.

On 15 June 2007, the Group acquired CGroup HK Limited, Concept 3 Limited and CGroup US Inc (collectively referred as "CGroup"). CGroup is a leading global supply-chain manager of health, beauty and cosmetic products for premier cosmetics brands and retailers worldwide. It operates from its head office in Hong Kong, production offices in Hong Kong and China and strong marketing and sales offices in New York and Paris.

Individual acquisitions of Tommy Hilfiger's global sourcing operations and CGroup, and their aggregate, have/would have no significant contribution to the turnover and profit of the Group from both their date of acquisition and for the period ended 30 June 2007, had their acquisitions occurred on 1 January 2007.

Details of provisional net assets acquired and goodwill are as follows:

	Global sourcing operations of Tommy Hilfiger HK$'000	**CGroup HK$'000**	**Total HK$'000**
Purchase consideration:			
Consideration	**1,932,156**	**1,409,353**	**3,341,509**
Direct expenses relating to the acquisitions	**12,500**	**6,000**	**18,500**
Total purchase consideration	**1,944,656**	**1,415,353**	**3,360,009**
Less: preliminary fair value of net assets acquired	**(471,899)**	**(284,078)**	**(755,977)**
Goodwill *(Note 7)*	**1,472,757**	**1,131,275**	**2,604,032**

The goodwill is attributable to the profitability and the synergies expected to arise from the acquired business.

As at the date of this interim report, the Group has yet to finalize the fair value amount of the net identifiable assets acquired. The Group expects to finalize the purchase price allocation before December 2007.

13 Business combinations (continued)

The assets and liabilities arising from the acquisitions are as follows:

	Acquirees' carrying amount	Preliminary fair value		
	Total HK$'000	Global sourcing operations of Tommy Hilfiger HK$'000	CGroup HK$'000	Total HK$'000
Net assets acquired				
Intangible assets arising from business combinations *(Note)*	–	468,000	200,000	668,000
Fixed assets	25,190	3,899	21,291	25,190
Inventories	53,012	–	53,012	53,012
Trade and bills receivable	109,202	–	109,202	109,202
Other receivables, prepayments and deposits	36,644	–	36,644	36,644
Cash and bank balances	6,058	–	6,058	6,058
Derivative financial instruments	(216)	–	(216)	(216)
Trade and bills payables	(48,953)	–	(48,953)	(48,953)
Accrued charges and sundry payables	(23,002)	–	(23,002)	(23,002)
Taxation	(3,144)	–	(3,144)	(3,144)
Short term bank loans	(57,793)	–	(57,793)	(57,793)
Bank overdrafts	(9,021)	–	(9,021)	(9,021)
Preliminary value of net assets acquired	87,977	471,899	284,078	755,977

Note: Intangible assets arising from these business combinations represent a buying agency agreement and customer relationships. The Group is engaging an external firm of valuers to perform fair value assessment on these potential provisional intangible assets in accordance with HKAS38 "Intangible Assets" and HKFRS3 "Business Combination", which have not been completed by date of the interim financial report, but estimates have been recorded in the preliminary purchase price allocation indicated above. These assessments are expected to be finalized before the end of December 2007. Should the estimates be different from the finalized valuation, goodwill from the respective acquisitions would be adjusted accordingly.

14 Contingent liabilities

	30 June 2007 HK$'000	31 December 2006 HK$'000
Guarantees in respect of banking facilities granted to associated companies	**5,850**	5,850
Other guarantees	**9,600**	9,600
	15,450	15,450

15 Commitments

(a) Operating lease commitments

At 30 June 2007, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30 June 2007 HK$'000	31 December 2006 HK$'000
Within one year	**174,780**	155,397
In the second to fifth year inclusive	**444,200**	347,351
After the fifth year	**382,623**	389,451
	1,001,603	892,199

(b) Capital commitments

	30 June 2007 HK$'000	31 December 2006 HK$'000
Contracted but not provided for:		
Property, plant and equipment	**2,139**	3,050

16 Financial risk management

The Group's overall risk management policy focuses on minimizing all potential financial risks of the Group.

(a) Foreign exchange risk

The Group operates globally with almost all of its sales and purchases traded in foreign currencies, mostly in US dollar. HK dollar is pegged to US dollar at a range between 7.75 to 7.85, the foreign exchange exposure between US dollar and HK dollar is therefore limited.

The Group is exposed to foreign exchange risk arising from various currency exposures mainly to the extent of its receivable and payable in currencies other than US dollar, such as Euro and Sterling Pound. To minimize such risks, sales and purchases are generally transacted in same currency.

Foreign exchange risk arising from sales and purchases transacted in different currencies are managed by the Group treasury with the use of foreign exchange forward contracts.

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

16 Financial risk management (continued)

(b) Credit risk

The Group has stringent policies in place to manage its credit risk.

The Group's business is mainly 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 remaining balances of the business are on open account terms payable against deliveries of shipments which are mostly covered by customers' standby letters of credit, bank guarantees or credit insurance.

(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.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets/liabilities, other than its HK dollar and US dollar bank deposits, bank loans and long term notes, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

17 Events after balance sheet date

On 15 August 2007, the Group entered into agreements to acquire Peter Black International Limited ("PB Group"), and the businesses of Regatta (U.S.A.) LLC, Pacific Alliance Manufacturing Group, LLC, Pacific Alliance Manufacturing, Inc., P.A. Group, LLC and Donnkenny LLC (collectively "Regatta") at considerations of approximately GBP48.14 million and US$148 million, respectively. These acquisitions constitute discloseable transactions of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

PB Group is a long established, large supplier of footwear, accessories, gifts and personal care merchandise for leading retailers in both UK and Continental Europe, and a provider of supply chain services in the UK. Regatta is a US leading apparel and brand management company offering proprietary brands and private label products. The Group will be assessing the fair value of assets, liabilities, contingent liabilities and identifiable intangible assets, if any, of PB Group and Regatta as at the acquisition date and it is impracticable to disclose their respective amounts together with the goodwill so arising at the current stage. Further details of these transactions are set out in separate announcements of the Company published as of the same date of the interim financial report.

18 Approval of interim financial report

The interim financial report was approved by the Board of Directors on 15 August 2007.

Information for Investors

Listing Information

Listing: Hong Kong Exchange

Stock code: 494

Ticker Symbol

Reuters: 0494.HK

Bloomberg: 494 HK Equity

Index Constituent

Hang Seng Index

MSCI Index Series

FTSE4Good Index Series

Key Dates

15 August 2007

Announcement of 2007 Interim Results

11 September 2007 to 17 September 2007 (both days inclusive)

Closure of Register of Shareholders

19 September 2007

Payment of 2007 Interim Dividend

Share Information

Board lot size: 2,000 shares

Shares outstanding as at 30 June 2007

3,417,789,086 shares

Market Capitalization as at 30 June 2007

HK$96,210,762,771

Earnings per share for 2007

Interim 30.8 HK cents

Dividend per share for 2007

Interim 21.0 HK cents

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