LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 494

INTERIM REPORT 08

中期業績報告




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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*

* *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
Spencer Theodore FUNG (appointed on 1 July 2008)

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

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

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

Citibank, N.A.

JPMorgan Chase Bank, N.A.

Standard Chartered Bank (Hong Kong) Limited

AUDITOR

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

HIGHLIGHTS

HALF YEAR RESULTS TO 30 JUNE 2008

(HK$ millions)	**2008**	2007	**Change**
Turnover	**47,393**	37,772	**+25%**
Core Operating Profit	**1,532**	1,179	**+30%**
As % of Turnover	**3.23%**	3.12%	
Profit attributable to shareholders of the Company	**1,238**	1,051	**+18%**
Earnings per Share – Basic	**36.0 HK cents**	30.8 HK cents	**+17%**
Dividend per Share	**24 HK cents**	21 HK cents	**+14%**

HIGHLIGHTS

- Robust turnover and core operating profit growth due to market share gains
- Driven by both organic and acquisition growth
- Acceleration of outsourcing deals in this uncertain economic environment
- Onshore strategy continues to progress well in US and Europe
- Three-Year Plan targets remain unchanged

CHAIRMAN'S STATEMENT

Li & Fung's commitment to a focused three-year business planning cycle has continued to stand the Group in good stead during the current uncertain global economic conditions. The 2008-2010 Three-Year Plan was developed to identify opportunities for growth and sets challenging targets for Li & Fung.

With customers taking stock during the current economic difficulties to focus on core competencies, the Group has continued to see an upswing in the demand for outsourcing. This upside has seen the Group not only buffered from the impact of the tightening global marketplace but in fact, benefited from new customers outsourcing their product procurement function.

The Group's articulated strategy of vertical and geographic diversification has helped spread its operations across the globe into new sourcing markets. It has also continued to increase its onshore business in US and Europe and branched into new product segments such as Health, Beauty and Cosmetics (HBC).

Our commitment to being an asset-light organisation is a principle embedded in our Three-Year Plan and one which has proved to be prescient in today's global economic conditions.

PERFORMANCE

In the first half of the year, Group turnover increased by 25% to HK$47,393 million. Profit attributable to shareholders was HK$1,238 million, an increase of 18% on the same period last year (HK$1,051 million for 2007). Earnings per share were 36 HK cents compared with 30.8 HK cents for 2007.

The Board of Directors has resolved to declare an interim dividend of 24 HK cents per share (2007: 21 HK cents).

MARKET AND BUSINESS

A variety of issues ranging from the fall-out of the US sub-prime crisis and in particular, increased fuel costs and rising labor costs in traditional sourcing markets have dominated global conditions during the period under review.

However, Li & Fung has remained committed to further grow our onshore business in the US & Europe and to diversify geographically its sourcing markets to soften the impact of these global trends. Indeed, global inflationary pressures have seen increased demand for the resources, network and expertise of Li & Fung.

The Group has established strong sourcing capabilities in emerging markets such as Vietnam, Bangladesh, Sri Lanka, India and Turkey. These markets each offer advantageous points of difference, and have enabled the Group to meet the needs of its customers worldwide. In addition, in the mainland of China, following the migration of factories from the coastal area to inland locations, the Group has expanded its network to 20 offices. Li & Fung will continue to be alert to new sourcing market opportunities and to take advantage of those as they arise and to maximise the quality and cost-competitiveness of existing markets.

The current global trends offer the Group new opportunities. In times of uncertainty, our experience has shown that customers require shorter production lead times, so timing and speed have become even more critical. Li & Fung meets this important need due to the Group's scalability and extensive global networks. Indeed, it is this orchestrated network which has given the Group the capacity to respond to a more engaged consumer marketplace by offering worldwide resources, expertise and cost benefits. By breaking down the supply chain and reassembling its various elements according to customers' needs, Li & Fung has an inbuilt flexibility and capacity to adapt quickly to changed circumstances. This capacity has continued to meet customers' demand for worldwide supply in a timely and cost-effective manner.

In addition, in difficult economic times businesses have tended to focus on their core strengths and this has been borne out during the period under review. Increasingly, the trend to outsourcing has continued to grow as corporations have sought to reduce their cost pressures. This has led to a rising demand for business to outsource supply chain activities which are not their key strength.

Indeed, the weak economic conditions have seen the Group expand its market share as customers seek to benefit from scalability and outsourcing expertise.

PROSPECTS

Guided by the strategy laid out in the current Three-Year plan and a strong order book going forward, the Group remains cautiously optimistic. Indeed, the anticipated gains from acquisitions made during 2007 are yet to be fully realised.

At the same time, Li & Fung's growth strategy will continue to have a dual focus: that of both organic and strategic acquisitions. The Group will continue with this acquisition strategy to further augment our core competencies and networks.

Looking ahead, the Group believes it is also essential to note the critical importance of furthering the multilateral trade system. Li & Fung has maintained its support for the early resumption of the Doha round of talks which would benefit consumers and producers worldwide.

In this era of radical outsourcing, the Group remains confident that its business will continue to see sustained growth during the current Three-Year-Plan despite the current weak economic conditions.

Victor FUNG Kwok King
Chairman
Hong Kong, 13 August 2008

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

This is the first year of the Group's 2008-2010 Three-Year Plan. The two main components of the new Three-Year Plan are the targets of achieving a turnover of US$20 billion and a Core Operating Profit of US$1 billion by 2010. The Group is very pleased to report that we have made good progress in line with the Plan's targets. Turnover increased by 25% to US$6,076 million for the first half of 2008, reflecting Li & Fung's solid organic growth coupled with contributions from acquisitions made the previous year. The Group is also delighted to report that it has executed a number of key outsourcing deals and acquisitions during the first half of the year.

Core operating profits increased by 30% as a result of better market penetration and contributions from earlier acquisitions. Core operating margins increased slightly to 3.23%, mainly because of the higher margin businesses in the US that were acquired last year (e.g. Regatta and American Marketing Enterprises).

Profit attributable to shareholders reached HK$1,238 million for the first half of 2008, an increase of 18% over 2007.

Despite continued weak consumer sentiment throughout the first half of 2008, Li & Fung continued to perform well. Its scale and flexibility enabled the Group to gain market share in the markets where we operate.

The Group has successfully closed a number of key outsourcing deals in the first half of 2008, reflecting the continuing trend for customers to focus on their core competencies and outsource their sourcing operations to specialists like Li & Fung. Outsourcing deals were signed in the first half of 2008 with Toys"R"Us, Sanrio, Timberland, Kellwood and others.

The Group's total margins increased by 34% and, as a percentage of turnover, saw an increase from 10.81% to 11.50% in first half of 2008. These improved figures reflect the positive impact from our higher margin US onshore business.

SEGMENTAL ANALYSIS

For the first half of 2008, softgoods and hardgoods accounted for 70% and 30% of turnover respectively. **Softgoods** turnover increased by 24% while operating profit increased by 28%. The improvement reflects positive contributions from the 2007 acquisitions and outsourcing deals, which increased our addressable market.

Turnover and operating profit from the **hardgoods** business grew by 29% and 43% respectively.

The **US** market continues to be the Group's key export market, representing 60% of the Group's total turnover during the period under review, a fall from 68% in the first half of 2007. This reflects our continued success in diversifying geographically into Europe. Turnover and operating profit grew by 12% and 28% respectively, caused by our success in increasing our market through our active involvement in the proprietary brand business, in addition to our core private label business.

Europe's share of our business saw a significant jump from 23% to 30% in the first half, reflecting a growth of 68% over the same period last year. Operating profit grew by 45%. This strong growth is driven by a significant increase in business with the Arcandor Group and Tommy Hilfiger's European business.

Other markets such as **Canada, Central and Latin America**, and **Australasia** accounted for 3%, 1%, and 3% of total turnover. Growth in turnover in those markets was 16%, 19%, and 28%, and in operating profit was 13%, 14% and 10% respectively. The Group will continue to grow in these smaller markets where we have dominant positions. **Japan** and the rest of the world represents a turnover share of 2%; turnover and operating profit there grew 32% and 27% respectively.

OUTSOURCING DEALS

As expected in this weak economic environment, we have seen a flow of new outsourcing deals enter our system so far this year. Outsourcing deals were concluded with Toys“R”Us, Sanrio, Timberland, Kellwood and others.

In April 2008, the Group executed an outsourcing transaction with Toys“R”Us – Delaware, Inc to become their key supplier for its private label programme. Also, in April 2008, the Group executed an outsourcing deal with Sanrio Co., Ltd (owner of the Hello Kitty brand). This is expected to deliver synergies with our overall sourcing capabilities for the Japan market, as well as our development effort on Sanrio products.

In June 2008, the Group entered into an outsourcing deal with Timberland. This deal, combined with our global structure and vendor base, provides a great platform for us to grow the apparel business. In the same month, the Group also executed an outsourcing deal with Kellwood Holding Corp.

ACQUISITIONS

The Group has continued to pursue its two-pronged acquisition strategy to further its product offer and geographical diversification. With that, we have made five smaller, roll-up acquisitions and one large acquisition so far this year.

The Group increased its presence in the better priced fashion label arena by acquiring the Silvereed Group in February 2008 and Wilson & Wong Trading Company Limited in July 2008. Both are based in Hong Kong and are “virtual manufacturers” with focus on design and product development of ladies fashion garments. These deals will add a new portfolio of fashion customers for us.

The Group also continued to strengthen its capabilities in the Health, Beauty and Cosmetics (“HBC”) sector by acquiring Imagine in January and RT Sourcing in July 2008. Imagine is one of the leading companies in Asia designing and developing point-of-sale displays for retailers and manufacturers globally. RT Sourcing is a sourcing and development company that specializes in primary packaging and components for beauty brands and full service beauty products for retailers. With the addition of these two companies, the Group has greatly enhanced its capability to provide products in the HBC sector to brands and retailers alike.

In April 2008, the Group continued to further our US onshore business by acquiring the trademark and assets relating to the T-Shirt licensed business of Giant Merchandising. The transaction helps to provide further category and brand expansion in our licensed products business.

On 13 August 2008, Li & Fung announced that it has entered into an agreement to acquire all of the assets of Van Zeeland, Inc., a leading New York based importer of mid-tier and department store handbag brands including its flagship labels Kathy Van Zeeland Handbags, B. Makowsky and Tignanello. These brands are available in more than 1,300 retail locations including Macy’s and JC Penney. The purchase price was approximately US$330 million (HK$2,574 million) with additional incentives based on company performance. This acquisition will significantly strengthen the Group’s presence in the fashion accessories market and will establish Li & Fung as the leading handbag supplier in the US across all retail distribution channels. Kathy Van Zeeland and Bruce Makowsky will remain co-presidents of the Van Zeeland businesses.

The Group is consolidating the back offices of these acquired companies for integration into the Group’s under proper internal control and management systems.

PROGRESS ON THREE-YEAR PLAN 2008–2010

In March 2008, we announced our new Three-Year Plan. Specific targets to be achieved by the end of 2010:

i) a turnover of US$20 billion,

ii) a Core Operating Profit of US$1 billion, and

iii) operating leverage of doubling Core Operating Profit percentage growth over turnover percentage growth (i.e. 2x).

Although the new Three-Year Plan began against a backdrop of soft consumer markets and tensions between the US and China over product quality issues, the Group is pleased to report a strong flow of orders to date, that sets us firmly on track with the Plan.

Our newly acquired businesses such as CGroup, PB Beauty and Regatta have been fully integrated. Solid progress has been made on building the health, beauty and cosmetics platform and generating synergies with existing customers. Similar progress can be seen in both the proprietary brand businesses and the footwear business. In addition, we are progressing our plans to replicate the onshore business model in Europe, so it can become another engine of growth.

In addition, under the Three-Year Plan, the Group continues its two-pronged strategy of pursuing both large and small acquisitions to augment and complement our organic business growth.

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$1,361 million at the end of June 2008.

Normal trading operations were well supported by more than HK$19,640 million in bank trading facilities. In addition, the Group had available bank loans and overdraft facilities of HK$3,352 million, out of which HK$2,216 million was utilized.

At balance sheet date, the Group's gearing ratio was about 32%, calculated as net debt divided by total capital. Net debt of HK$4,615 million is calculated as total borrowings (including short-term bank loans of HK$1,341 million, long-term bank loan of HK$768 million and long-term notes of HK$3,867 million) less cash and cash equivalents of HK$1,361 million. Total capital is calculated as total equity of HK$9,617 million plus net debt. The current ratio was 1.2, based on current assets of HK$19,499 million and current liabilities of HK$16,699 million.

IMPACT OF CHANGES IN ACCOUNTING STANDARDS

Certain new interpretations to accounting standards have become mandatory for the first time for the financial year beginning 1 January 2008. However, these new interpretations are currently not relevant and have no impact on the Group.

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$1,288 million for the years of assessment from 1992/1993 to 2006/2007. 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

At the end of June 2008 the Group had a total workforce of 14,164 of whom 3,703 were based in Hong Kong and 10,461 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 workforce. 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, Professional Development Series and Supervisory Skills Series focusing on 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. A Global Induction Programme has been developed across the whole group and will be further enhanced during 2008 with the development of e-learning modules which will provide a more efficient and effective learning channel. The programme aims 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, and 85 trainees recruited from around the world are participating in the program. 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. The program will be "rolled out" to offshore offices in the latter half of this year. In 2007, 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. In July 2008, 25 trainees in HK graduated from the programme and received their diplomas from the HK Polytechnic University.

The Group invested in sophisticated human resource software during the period under review. Total staff costs for 2008 were HK$2,150 million, compared with HK$1,690 million for 2007.

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 2008 are in line with those practices set out in the Company's 2007 Annual Report.

THE BOARD

The Board is currently composed of the Group Non-Executive Chairman, the Group Executive Managing Director, five Executive Directors and four Independent Non-executive Directors.

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 **four** meetings to date in 2008 (with an **average attendance rate of 93%**) 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 Independent Non-executive Director or Non-executive Director) 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 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 2008 (with a **100% attendance rate**) to review the board composition and the nomination of directors to fill board vacancies in 2008. 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 2008 (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 2008 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 **twice** to date in 2008 (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)
Mr Chen Kuan JEANG (Chief Operating 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 granting and allocation of share options to employees under the Company's Share Option Scheme. It annually reviews the Group's remuneration policy. The Committee held **five** meetings to date in 2008 (with a **100% attendance rate**) to review the granting and allocation of share options. 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 portal 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 2008. 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 2008.

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 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 2007 Annual Report.

Based on the assessments made by senior management and the Group's Internal Audit team for the six months ended 30 June 2008, 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 financial statements 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 complied 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 2008.

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 Ethical Sourcing Working Group, a sector-specific working group that focuses on supply chain labor standards issues and 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 October 2007, Li & Fung has been included as one of the five Sustainability Leaders 2007/2008 under Clothing, Accessories and Footwear category as published in Sustainable Asset Management (SAM)'s Sustainability Yearbook 2008, the world's most insightful publication on corporate sustainability by assessing the 2,500 largest companies (as reflected in the Dow Jones Global Index) based on a wide range of economic, environmental and social criteria.

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.

Details of the Company's corporate social responsibility and sustainability practices are set out on pages 32 to 33 of the Company's 2007 Annual Report.

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. Webcasts of results presentations given to analysts have also been made available on our corporate website *(www.lifung.com)*.

Our corporate website continues to disseminate shareholder information and other relevant financial and non-financial information electronically on a timely basis.

INFORMATION TECHNOLOGY

Li & Fung continues to invest in strengthening and growing its technology infrastructure and application systems to support our business growth and continues to increase efficiency across all processes and business activities of the Company, the details of which are set out on page 35 of the Company's 2007 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 2008 Interim Report and on pages 36 to 37 of the Company's 2007 Annual Report.

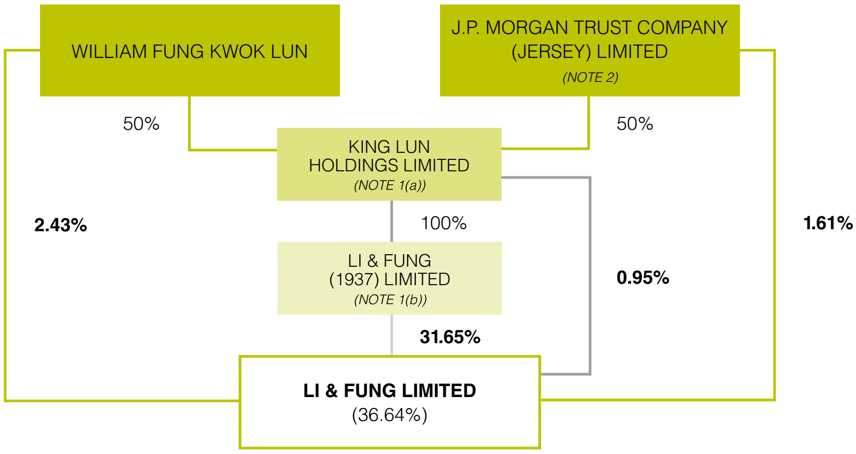
DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2008, 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	–	1,128,545,880 [1]	–	55,825,000 [2]	–	1,184,370,880	34.21%
William Fung Kwok Lun	68,651,330	1,140,703,080 [3]	4,400	–	3,520,000 [4]	1,212,878,810	35.03%
Bruce Philip Rockowitz	2,032,800	–	–	21,411,510 [5]	35,175,880 [6]	58,620,190	1.69%
Henry Chan	3,954,000	–	–	–	2,670,000 [4]	6,624,000	0.19%
Danny Lau Sai Wing	7,914,000	–	–	–	2,230,000 [4]	10,144,000	0.29%
Annabella Leung Wai Ping	4,306,000	–	–	–	2,230,000 [4]	6,536,000	0.19%
Franklin Warren McFarlan	–	–	–	57,200 [7]	–	57,200	0.00%

The interests of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun in Shares of the Company are summarized in the following chart:–



NOTES:

(1) As at 30 June 2008,

(a) King Lun Holdings Limited ("King Lun"), a private company incorporated in the British Virgin Islands, held 32,945,880 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 1,128,545,880 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) 12,157,200 Shares of these 1,140,703,080 Shares are held by Golden Step Limited, a company beneficially owned by Dr William Fung Kwok Lun. The balance of 1,128,545,880 Shares are directly and indirectly held by King Lun as mentioned in *Note (1)* above.

(4) 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.

(5) 21,411,510 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.

(6) These interests represent:–

(a) the beneficial interest of Mr Bruce Philip Rockowitz in 2,230,000 underlying shares in respect of share options granted by the Company to Mr Bruce Philip Rockowitz; and

(b) the deemed interest of Mr Bruce Philip Rockowitz in 32,945,880 underlying shares in the Company in respect of options granted by King Lun to HMHL to purchase such shares in the Company in six tranches during the period from 25 December 2008 to 24 December 2019 with each tranche having an exercisable period of six years pursuant to an agreement made between King Lun and HMHL.

(7) 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 2008 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 32,945,880 underlying shares in the Company, representing 0.95 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 six tranches during the period from 25 December 2008 to 24 December 2019, with each tranche having an exercisable period of six years.

Save as disclosed above, as at 30 June 2008, 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 2008, there are options relating to 153,657,000 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		
	As at 1/1/2008	Granted	Exercised	Cancelled	Lapsed	As at 30/6/2008	Price HK$	Grant Date	Exercisable Period
William Fung Kwok Lun	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
	–	880,000[2]	–	–	–	880,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	–	880,000[2]	–	–	–	880,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	–	880,000[2]	–	–	–	880,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
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
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
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
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
Danny Lau Sai Wing	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
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
Annabella Leung Wai Ping	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
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2011 – 28/2/2013

	Number of Share Options						Exercise		
	As at 1/1/2008	Granted	Exercised	Cancelled	Lapsed	As at 30/6/2008	Price HK$	Grant Date	Exercisable Period
Continuous contract	684,500	–	(629,500)	–	(55,000)	–	8.36	23/5/2003	23/5/2005 – 22/5/2008
Employees	2,059,000	–	(812,000)	–	–	1,247,000	8.36	23/5/2003	23/5/2006 – 22/5/2009
	148,400	–	(33,000)	–	–	115,400	9.00	20/8/2004	20/8/2006 – 19/8/2009
	8,580,600	–	(2,533,200)	–	–	6,047,400	13.45	20/6/2005	20/6/2007 – 19/6/2010
	20,114,000	–	(3,444,000)	–	(365,000)	16,305,000	13.45	20/6/2005	20/6/2008 – 19/6/2011
	19,910,000	–	–	(239,000)	(616,000)	19,055,000	13.45	20/6/2005	20/6/2009 – 19/6/2012
	251,400	–	(29,200)	–	–	222,200	13.72	23/1/2006	20/6/2007 – 19/6/2010
	1,212,000	–	(280,000)	–	(35,000)	897,000	13.72	23/1/2006	20/6/2008 – 19/6/2011
	1,287,000	–	–	(115,000)	(55,000)	1,117,000	13.72	23/1/2006	20/6/2009 – 19/6/2012
	48,000	–	(12,000)	–	–	36,000	15.65	19/6/2006	20/6/2007 – 19/6/2010
	2,002,000	–	(430,000)	–	–	1,572,000	15.65	19/6/2006	20/6/2008 – 19/6/2011
	2,090,000	–	–	(55,000)	–	2,035,000	15.65	19/6/2006	20/6/2009 – 19/6/2012
	2,028,000	–	–	–	(11,000)	2,017,000	25.50	02/2/2007	20/6/2008 – 19/6/2011
	7,205,000	–	–	(375,000)	(55,000)	6,775,000	25.50	02/2/2007	20/6/2009 – 19/6/2012
	1,593,000	–	–	(30,000)	–	1,563,000	29.93	13/7/2007	20/6/2009 – 19/6/2012
	–	25,136,000[2]	–	–	(88,000)	25,048,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	–	25,136,000[2]	–	–	(88,000)	25,048,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	–	25,136,000[2]	–	–	(88,000)	25,048,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
	–	2,705,000[3]	–	–	–	2,705,000	30.00	21/5/2008	01/3/2009 – 28/2/2011
	–	1,962,000[3]	–	–	–	1,962,000	30.00	21/5/2008	01/3/2010 – 29/2/2012
	–	1,962,000[3]	–	–	–	1,962,000	30.00	21/5/2008	01/3/2011 – 28/2/2013

NOTES:

(1) The weighted average closing market price per Share immediately before the dates on which the Share Options were exercised was HK$27.55.

(2) The closing market price per Share as at the date preceding the date on which the share options were granted was HK$24.95.

(3) The closing market price per Share as at the date preceding the date on which the share options were granted was HK$29.10.

(4) 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 2007. Other details of share options granted by the Company are set out in *Note 12* to the accounts.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at 30 June 2008, 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 (32,945,880) Interest of controlled corporation (1,095,600,000)[1]	1,128,545,880[2]	32.60%
J.P. Morgan Trust Company (Jersey) Limited	Trustee (55,825,000) Interest of controlled corporation (1,128,545,880)[2]	1,184,370,880[3]	34.21%
Janus Capital Management LLC	Investment manager	283,078,060	8.18%
Allianz SE	Interest of controlled corporation	19,111,900	0.55%
Short Positions			
King Lun Holdings Limited	Beneficial owner	32,945,880[4]	0.95%
J.P. Morgan Trust Company (Jersey) Limited	Interest of controlled corporation	32,945,880[5]	0.95%
Lending Pool			
Allianz SE	Custodian corporation/ approved lending agent	265,557,445	7.67%

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 1,128,545,880 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 1,128,545,880 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 1,184,370,880 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 32,945,880 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 2008.

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 24 HK cents (2007: 21 HK cents) per Share for the six months ended 30 June 2008 absorbing a total of HK$832 million (2007: HK$720 million).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 8 September 2008 to 12 September 2008, 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 at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 5 September 2008. Dividend warrants will be despatched on 17 September 2008.

INDEPENDENT REVIEW REPORT

PRICEWATERHOUSECOOPERS

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF LI & FUNG LIMITED

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 23 to 43, which comprises the consolidated balance sheet of Li & Fung Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2008 and the related consolidated profit and loss account, consolidated statements of changes in equity and condensed 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, 13 August 2008

CONDENSED INTERIM FINANCIAL REPORT

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	UNAUDITED SIX MONTHS ENDED 30 JUNE 2008 HK$'000	2007 HK$'000
Turnover	*3*	**47,393,271**	37,771,538
Cost of sales		**(42,106,599)**	(33,858,537)
Gross profit		**5,286,672**	3,913,001
Other revenues		**165,435**	169,461
Total margin		**5,452,107**	4,082,462
Selling expenses		**(942,538)**	(683,244)
Merchandising expenses		**(2,636,235)**	(1,923,473)
Administrative expenses		**(341,123)**	(296,618)
Core operating profit		**1,532,211**	1,179,127
Other non-core operating income/(expenses)		**5,777**	(4,007)
Operating profit	*3 & 4*	**1,537,988**	1,175,120
Interest income		**42,026**	130,265
Interest expenses		**(236,577)**	(175,980)
Share of profits less losses of associated companies		**10,608**	8,355
Profit before taxation		**1,354,045**	1,137,760
Taxation	*5*	**(116,008)**	(85,765)
Profit after taxation		**1,238,037**	1,051,995
Attributable to:			
Shareholders of the Company		**1,237,951**	1,051,447
Minority interest		**86**	548
		1,238,037	1,051,995
Interim dividend	*6*	**831,664**	719,520
Earnings per share for profit attributable to the shareholders of the Company during the period	*7*		
– basic		**36.0 HK cents**	30.8 HK cents
– diluted		**35.6 HK cents**	30.4 HK cents

CONSOLIDATED BALANCE SHEET

	Note	**UNAUDITED 30 JUNE 2008 HK$'000**	AUDITED 31 DECEMBER 2007 HK$'000
Non-current assets			
Intangible assets	*8*	**11,642,741**	11,374,637
Property, plant and equipment	*8*	**1,268,630**	1,130,002
Prepaid premium for land leases		**2,613**	2,554
Associated companies		**25,183**	14,575
Available-for-sale financial assets		**41,646**	85,465
Deferred tax assets		**111,809**	115,604
		13,092,622	12,722,837
Current assets			
Inventories		**2,629,060**	2,059,618
Due from related companies		**87,473**	71,689
Trade and bills receivable	*9*	**13,101,750**	13,716,146
Other receivables, prepayments and deposits		**2,211,972**	1,746,722
Cash and bank balances		**1,468,612**	1,472,365
		19,498,867	19,066,540
Current liabilities			
Derivative financial instruments		**21,589**	21,809
Trade and bills payable	*10*	**11,516,950**	11,231,148
Accrued charges and sundry payables		**2,026,873**	2,394,858
Balance of purchase consideration payable for acquisitions	*11*	**947,955**	1,257,254
Taxation		**506,360**	465,765
Bank advances for discounted bills	*9*	**231,086**	328,175
Short-term bank loans		**1,340,758**	441,796
Bank overdrafts		**107,426**	205,261
		16,698,997	16,346,066
Net current assets		**2,799,870**	2,720,474
Total assets less current liabilities		**15,892,492**	15,443,311

	Note	**UNAUDITED 30 JUNE 2008 HK$'000**	AUDITED 31 DECEMBER 2007 HK$'000
Financed by:			
Share capital	*12*	**86,550**	86,268
Reserves		**8,729,700**	8,082,371
Proposed dividend		**831,664**	1,726,678
	13	**9,561,364**	9,809,049
Shareholders' funds		**9,647,914**	9,895,317
Minority interest	*13*	**(30,814)**	(31,053)
Total equity		**9,617,100**	9,864,264
Non-current liabilities			
Long-term liabilities	*11*	**5,759,728**	5,063,586
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	*11*	**464,050**	464,050
Post-employment benefit obligations		**31,335**	30,335
Deferred tax liabilities		**20,279**	21,076
		15,892,492	15,443,311

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	UNAUDITED SIX MONTHS ENDED 30 JUNE **2008** **HK$'000**	 2007 HK$'000
Total equity at 1 January		**9,864,264**	8,266,845
Currency translation differences	*13*	**59,348**	58,911
Disposal of available-for-sale financial assets	*13*	**(32,077)**	–
Net fair value (losses)/gains of available-for-sale financial assets	*13*	**(1,163)**	24,698
Net fair value gains on cash flow hedges	*13*	**2,119**	2,657
Net income recognized directly in equity		**28,227**	86,266
Profit for the period	*13*	**1,238,037**	1,051,995
Total recognized income for the period		**1,266,264**	1,138,261
Final dividends paid	*13*	**(1,727,959)**	(1,331,338)
Employee share option scheme:			
– value of employee services	*13*	**75,923**	51,060
– shares issued	*12*	**282**	206
– share premium on issue of new shares	*13*	**138,326**	85,180
Total equity as at 30 June		**9,617,100**	8,210,214

CONSOLIDATED CONDENSED CASH FLOW STATEMENT

	UNAUDITED SIX MONTHS ENDED 30 JUNE	
	2008	2007
	HK$'000	HK$'000
Net cash inflow from operating activities	**1,076,615**	1,324,263
Net cash outflow from investing activities	**(877,318)**	(2,842,537)
Net cash inflow/(outflow) before financing activities	**199,297**	(1,518,274)
Net cash (outflow)/inflow from financing activities	**(106,832)**	2,466,952
Increase in cash and cash equivalents	**92,465**	948,678
Cash and cash equivalents at 1 January	**1,267,104**	3,302,341
Effect of foreign exchange rate changes	**1,617**	18,397
Cash and cash equivalents at 30 June	**1,361,186**	4,269,416
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	**1,468,612**	4,295,906
Bank overdrafts	**(107,426)**	(26,490)
	1,361,186	4,269,416

NOTES TO CONDENSED INTERIM FINANCIAL REPORT

1 GENERAL INFORMATION

Li & Fung Limited ("the Company") and its subsidiaries (together, "the Group") is principally engaged in export trading of consumer products. The Group operates globally and has sourcing network covers over 80 offices in more than 40 economies.

The Company is limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed interim financial report (the "interim financial report") has been reviewed by the Company's audit committee and 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 2007.

Except as described below, the accounting policies adopted are consistent with those of the annual accounts for the year ended 31 December 2007, as described in the accounts for the year ended 31 December 2007.

The following new interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are currently not relevant to the Group.

HK(IFRIC) – Int 11,	'HKFRS 2 – Group and treasury share transactions'
HK(IFRIC) – Int 12,	'Service concession arrangements'
HK(IFRIC) – Int 14,	'HKAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction'

The following new standards, amendments and interpretations to existing standards are not yet effective for the financial year beginning 1 January 2008 and have not been early adopted by the Group in the interim financial report.

HKFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, 'Segment reporting', and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail, but it appears likely that the number of reported segments may increase.

HKAS 23 (revised), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group, as the Group currently applies a policy of capitalizing borrowing costs.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

HKFRS 2 (revised) 'Share-based payment', effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group, as the Group does not have any Save-As-You-Earn or relevant schemes.

HKFRS 3 (revised), 'Business combinations' and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates' and HKAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group. The Group does not have any joint ventures.

HKAS 1 (revised), 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. Management is in the process of developing proforma accounts under the revised disclosure requirements of this standard.

HKAS 32 (revised), 'Financial instruments: presentation', and consequential amendments to HKAS 1, 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group as the Group, does not have any puttable instruments.

HK(IFRIC) – Int 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008. Management is evaluating the effect of this interpretation on its revenue recognition.

3 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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Principal markets:				
United States of America	**28,554,456**	25,609,215	**1,031,583**	805,619
Europe	**14,438,657**	8,582,674	**349,954**	242,137
Canada	**1,540,704**	1,326,351	**56,625**	50,091
Australasia	**1,218,292**	954,867	**42,697**	38,761
Central and Latin America	**670,334**	565,430	**23,609**	20,654
Rest of the world	**970,828**	733,001	**27,743**	21,865
	47,393,271	37,771,538	**1,532,211**	1,179,127
Other non-core operating income/(expenses)			**5,777**	(4,007)
			1,537,988	1,175,120

3 SEGMENT INFORMATION (CONTINUED)

(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	
	2008 **HK$'000**	2007 HK$'000	**2008** **HK$'000**	2007 HK$'000
Softgoods	**32,983,015**	26,630,824	**1,279,372**	1,002,402
Hardgoods	**14,410,256**	11,140,714	**252,839**	176,725
	47,393,271	37,771,538	**1,532,211**	1,179,127
Other non-core operating income/(expenses)			**5,777**	(4,007)
			1,537,988	1,175,120

4 OPERATING PROFIT

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

	UNAUDITED SIX MONTHS ENDED 30 JUNE	
	2008 **HK$'000**	2007 HK$'000
Gain on disposal of available-for-sale financial assets	**(31,022)**	–
Amortization of computer software and system development costs	**6,094**	4,837
Amortization of intangible assets arising from business combinations	**25,245**	4,007
Amortization of brand licenses	**40,019**	9,528
Depreciation of property, plant and equipment	**111,082**	90,582
Loss/(gain) on disposal of property, plant and equipment	**2,133**	(231)
Employee share option expenses	**75,923**	51,060

5 TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% (2007: 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:

	UNAUDITED SIX MONTHS ENDED 30 JUNE	
	2008	2007
	HK$'000	HK$'000
Current taxation		
– Hong Kong profits tax	**55,487**	80,227
– Overseas taxation	**57,656**	31,441
Deferred taxation	**2,865**	(25,903)
	116,008	85,765

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$1,288 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 2006/2007.

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 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 condensed interim financial report, the result is not yet known.

The Group has also filed objections to the Hong Kong Inland Revenue against the remaining additional tax assessments of HK$955 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 condensed interim financial report in this regard.

6 INTERIM DIVIDEND

	UNAUDITED SIX MONTHS ENDED 30 JUNE	
	2008	2007
	HK$'000	HK$'000
Proposed, of HK$0.24 (2007: HK$0.21) per ordinary share	**831,664**	719,520

A dividend of HK$1,727,959,000 proposed for the year ended 31 December 2007 was paid in 21 May 2008 (2007: HK$1,331,338,000).

7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$1,237,951,000 (2007: HK$1,051,447,000) and on the weighted average number of 3,436,596,000 (2007: 3,412,440,000) shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of 3,436,596,000 (2007: 3,412,440,000) ordinary shares in issue by 42,121,000 (2007: 43,612,000) 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.

8 CAPITAL EXPENDITURE

	Intangible assets arising from business combinations HK$'000	Brand licenses HK$'000	Computer software and system development costs HK$'000	Intangible assets Total HK$'000	Property, plant and equipment Total HK$'000
Six months ended 30 June 2008					
Net book amount as at 1 January 2008	11,234,794	91,733	48,110	11,374,637	1,130,002
Computer software and system development costs recognized as asset	–	–	12,675	12,675	–
Additions	–	40,939	–	40,939	259,087
Acquisition of business	210,257	–	–	210,257	2,158
Adjustment to purchase consideration and net assets value	23,705	–	–	23,705	–
Disposals	–	–	–	–	(17,262)
Amortization/depreciation charge	(25,245)	(40,019)	(6,094)	(71,358)	(111,082)
Exchange adjustment	51,901	–	(15)	51,886	5,727
Net book amount as at 30 June 2008	**11,495,412**	**92,653**	**54,676**	**11,642,741**	**1,268,630**

9 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 2008	**12,342,534**	**585,001**	**133,644**	**40,571**	**13,101,750**
Balance at 31 December 2007	12,509,235	980,865	192,938	33,108	13,716,146

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.

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 HK$231,086,000 (31 December 2007: HK$328,175,000) to banks in exchange for cash as at 30 June 2008. The transactions have been accounted for as collateralized banks advances.

As at 30 June 2008, trade receivables of HK$67,678,000 were pledged as security for the Group's borrowings (31 December 2007: HK$372,280,000).

10 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 2008	**10,732,260**	**659,745**	**89,823**	**35,122**	**11,516,950**
Balance at 31 December 2007	10,685,357	430,439	66,046	49,306	11,231,148

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

11 LONG-TERM LIABILITIES

	UNAUDITED 30 JUNE 2008 HK$'000	AUDITED 31 DECEMBER 2007 HK$'000
Long-term loans from minority shareholders	**38,867**	38,867
Balance of purchase consideration payable for acquisitions	**2,007,780**	2,382,084
Long-term notes – unsecured	**3,866,698**	3,864,822
Long-term bank loan – unsecured	**768,000**	–
License royalty payables	**95,664**	93,522
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**464,050**	464,050
	7,241,059	6,843,345
Current portion of balance of purchase consideration payable for acquisitions	**(947,955)**	(1,257,254)
Current portion of license royalty payables	**(69,326)**	(58,455)
	6,223,778	5,527,636

12 SHARE CAPITAL AND OPTIONS

	No. of shares (in thousand)	**HK$'000**
Authorized		
At 1 January 2008, ordinary shares of HK$0.025 each	4,000,000	100,000
At 30 June 2008, ordinary shares of HK$0.025 each	4,000,000	100,000
Issued and fully paid		
At 1 January 2008, ordinary shares of HK$0.025 each	3,450,706	86,268
Exercise of share options *(Note)*	11,283	282
At 30 June 2008, ordinary shares of HK$0.025 each	3,461,989	86,550

12 SHARE CAPITAL AND OPTIONS (CONTINUED)

NOTE:

Details of share options granted by the Company pursuant to the Share Option Scheme and the share options outstanding at 30 June 2008 are as follows:

Grant Date	Exercise Price HK$	Exercisable Period	Number of Share Options					
			As at 1/1/2008	Granted	Exercised	Lapsed	Cancelled	As at 30/6/2008
23/5/2003	8.36	23/5/2005 – 22/5/2008	1,124,500	–	(1,069,500)	(55,000)	–	–
23/5/2003	8.36	23/5/2006 – 22/5/2009	2,939,000	–	(1,692,000)	–	–	1,247,000
20/8/2004	9.00	20/8/2006 – 19/8/2009	148,400	–	(33,000)	–	–	115,400
20/6/2005	13.45	20/6/2007 – 19/6/2010	9,900,600	–	(3,413,200)	–	–	6,487,400
20/6/2005	13.45	20/6/2008 – 19/6/2011	22,754,000	–	(4,324,000)	(365,000)	–	18,065,000
20/6/2005	13.45	20/6/2009 – 19/6/2012	22,550,000	–	–	(616,000)	(239,000)	21,695,000
23/1/2006	13.72	20/6/2007 – 19/6/2010	251,400	–	(29,200)	–	–	222,200
23/1/2006	13.72	20/6/2008 – 19/6/2011	1,212,000	–	(280,000)	(35,000)	–	897,000
23/1/2006	13.72	20/6/2009 – 19/6/2012	1,287,000	–	–	(55,000)	(115,000)	1,117,000
19/6/2006	15.65	20/6/2007 – 19/6/2010	48,000	–	(12,000)	–	–	36,000
19/6/2006	15.65	20/6/2008 – 19/6/2011	2,002,000	–	(430,000)	–	–	1,572,000
19/6/2006	15.65	20/6/2009 – 19/6/2012	2,090,000	–	–	–	(55,000)	2,035,000
02/2/2007	25.50	20/6/2008 – 19/6/2011	2,028,000	–	–	(11,000)	–	2,017,000
02/2/2007	25.50	20/6/2009 – 19/6/2012	7,205,000	–	–	(55,000)	(375,000)	6,775,000
13/7/2007	29.93	20/6/2009 – 19/6/2012	1,593,000	–	–	–	(30,000)	1,563,000
24/1/2008	25.55	01/3/2009 – 28/2/2011	–	27,816,000	–	(88,000)	–	27,728,000
24/1/2008	25.55	01/3/2010 – 29/2/2012	–	27,816,000	–	(88,000)	–	27,728,000
24/1/2008	25.55	01/3/2011 – 28/2/2013	–	27,816,000	–	(88,000)	–	27,728,000
21/5/2008	30.00	01/3/2009 – 28/2/2011	–	2,705,000	–	–	–	2,705,000
21/5/2008	30.00	01/3/2010 – 29/2/2012	–	1,962,000	–	–	–	1,962,000
21/5/2008	30.00	01/3/2011 – 28/2/2013	–	1,962,000	–	–	–	1,962,000

Subsequent to 30 June 2008, 3,279,600 Shares have been allotted and issued under the Option Scheme.

12 SHARE CAPITAL AND OPTIONS (CONTINUED)

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
13/8/2008	26.20	1/3/2009 – 28/2/2011	269,100
13/8/2008	26.20	1/3/2010 – 29/2/2012	1,490,700
13/8/2008	26.20	1/3/2011 – 28/2/2013	3,367,100

13 RESERVES

	Attributable to shareholders of the Company										
	Share premium HK$'000	Shares held by escrow agent for settlement of acquisition consideration HK$'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 2007	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	–	–	–	–	–	–	175,744	–	175,744	370	176,114
Transfer to capital reserve	–	–	1,232	–	–	–	–	(1,232)	–	–	–
Shares issued for business acquisitions	463,611	(464,050)	–	–	–	–	–	–	(439)	–	(439)
Net fair value gains on available-for-sale financial assets	–	–	–	–	28,262	–	–	–	28,262	–	28,262
Net fair value losses on cash flow hedges	–	–	–	–	–	(3,810)	–	–	(3,810)	–	(3,810)
Profit for the year	–	–	–	–	–	–	–	3,060,036	3,060,036	940	3,060,976
Employee share option scheme:											
– value of employee services	–	–	–	111,756	–	–	–	–	111,756	–	111,756
– proceeds from shares issued	274,716	–	–	–	–	–	–	–	274,716	–	274,716
– transfer to share premium	51,374	–	–	(51,374)	–	–	–	–	–	–	–
2007 interim dividend paid	–	–	–	–	–	–	–	(719,847)	(719,847)	–	(719,847)
Reserves	7,037,463	(464,050)	23,823	190,410	27,135	(7,731)	175,406	1,099,915	8,082,371	(31,053)	8,051,318
Proposed dividend	–	–	–	–	–	–	–	1,726,678	1,726,678	–	1,726,678
At 31 December 2007	7,037,463	(464,050)	23,823	190,410	27,135	(7,731)	175,406	2,826,593	9,809,049	(31,053)	9,777,996

13 RESERVES (CONTINUED)

	Attributable to shareholders of the Company										
	Share premium HK$'000	Shares held by escrow agent for settlement of acquisition consideration HK$'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 2008, as per above	7,037,463	(464,050)	23,823	190,410	27,135	(7,731)	175,406	2,826,593	9,809,049	(31,053)	9,777,996
2007 final dividend paid	–	–	–	–	–	–	–	(1,727,959)	(1,727,959)	–	(1,727,959)
Currency translation differences	–	–	–	–	–	–	59,195	–	59,195	153	59,348
Disposal of financial assets available-for-sale	–	–	–	–	(32,077)	–	–	–	(32,077)	–	(32,077)
Net fair value losses on available-for-sale financial assets	–	–	–	–	(1,163)	–	–	–	(1,163)	–	(1,163)
Net fair value gains on cash flow hedges	–	–	–	–	–	2,119	–	–	2,119	–	2,119
Profit for the period	–	–	–	–	–	–	–	1,237,951	1,237,951	86	1,238,037
Employee share option scheme:											
– value of employee services	–	–	–	75,923	–	–	–	–	75,923	–	75,923
– proceeds from shares issued	138,326	–	–	–	–	–	–	–	138,326	–	138,326
– transfer to share premium	25,342	–	–	(25,342)	–	–	–	–	–	–	–
Reserves	7,201,131	(464,050)	23,823	240,991	(6,105)	(5,612)	234,601	1,504,921	8,729,700	(30,814)	8,698,886
Proposed dividend	–	–	–	–	–	–	–	831,664	831,664	–	831,664
At 30 June 2008	**7,201,131**	**(464,050)**	**23,823**	**240,991**	**(6,105)**	**(5,612)**	**234,601**	**2,336,585**	**9,561,364**	**(30,814)**	**9,530,550**

14 BUSINESS COMBINATIONS

During the period, the Group completed several acquisitions with a total estimated consideration of approximately HK$207,706,000.

On 18 January 2008, the Group entered into an agreement to acquire the entire issued share capital of C.D.P. Asia Limited ("Imagine"). Imagine is based in Hong Kong and is one of the leading companies in Asia specializing in designing and developing point-of-sale displays for retailers and manufacturer globally. The Group also advanced a loan of approximately HK$31,740,000 to Imagine at completion for Imagine to repay all outstanding indebtedness owed by it to the sellers. As the sellers are directors of certain subsidiaries of the Company, the Acquisition constitutes a connected transaction for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

On 29 February 2008, the Group entered into an agreement to acquire business of the Silvereed Group, which is based in Hong Kong specializing in design and product development of ladies fashion garments.

In April 2008, the Group acquired the trademark and assets relating to the T-Shirt licensing business of Giant Merchandising. This business is primarily based in the US.

Individual acquisitions of Imagine, Silvereed Group and Giant Merchandising's T-Shirt licensing business, and their aggregate, have no significant contribution to the revenue and profit of the Group from both their date of acquisition and for the six months ended 30 June 2008, had their acquisitions occurred on 1 January 2008.

14 BUSINESS COMBINATIONS (CONTINUED)

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

	Total HK$'000
Purchase consideration:	
Consideration	207,706
Direct expenses relating to the acquisitions	11,796
Total purchase consideration	219,502
Less: preliminary fair value of net assets acquired	(31,350)
Goodwill	188,152

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 2008.

The carrying amounts of the assets and liabilities of the acquired businesses approximate their preliminary fair value and are as follows:

	Total HK$'000
Net assets acquired	
Customer relationships	22,105
Property, plant and equipment	2,158
Inventories	29,343
Trade and bills receivable	40,192
Other receivables, prepayments and deposits	6,433
Taxation	1,523
Cash and bank balances	1,465
Derivative financial instruments	(205)
Trade and bills payables	(30,953)
Accrued charges and sundry payables	(36,760)
Deferred taxation	(133)
Bank overdrafts	(3,818)
Preliminary fair value of net assets acquired	31,350

15 CONTINGENT LIABILITIES

	UNAUDITED 30 JUNE 2008 HK$'000	AUDITED 31 DECEMBER 2007 HK$'000
Guarantees in respect of banking facilities granted to associated companies	**5,850**	5,850

16 COMMITMENTS

(A) OPERATING LEASE COMMITMENTS

At 30 June 2008, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	UNAUDITED 30 JUNE 2008 HK$'000	AUDITED 31 DECEMBER 2007 HK$'000
Within one year	**345,046**	288,099
In the second to fifth year inclusive	**754,551**	705,436
After the fifth year	**482,909**	500,533
	1,582,506	1,494,068

(B) CAPITAL COMMITMENTS

	UNAUDITED 30 JUNE 2008 HK$'000	AUDITED 31 DECEMBER 2007 HK$'000
Contracted but not provided for:		
Property, plant and equipment	**146,684**	116,724

17 RELATED PARTY TRANSACTIONS

Pursuant to certain sales and leaseback agreements entered into by the Group in prior years with entities indirectly wholly owned by Dr William Fung Kwok Lun and a trust established for the family of Dr Victor Fung Kwok King, the Group paid rental of HK$40,707,000 (2007: HK$3,946,000) for the six months ended 30 June 2008.

On 23 May 2008, the Group entered into a logistic agreement with Li & Fung (1937) Limited, a substantial shareholder of the Company, for provision of a variety of logistics services to the Group. Further details of this logistic agreement have been set out in an announcement of the Company dated 23 May 2008. For the six months ended 30 June 2008, the aggregate logistic service fee charged against the Group amounted to HK$38,610,000.

Saved as above and the acquisition of Imagine as set out in *Note 14* to the interim financial report, the Group had no other material related party transactions during the period.

18 FINANCIAL RISK MANAGEMENT

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

(A) MARKET RISK

(i) Foreign exchange risk

The Group operates globally 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 receivables and payables 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 mainly kept in either HK dollar or US dollar to minimize the foreign exchange risk.

(ii) Price risk

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

18 FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) MARKET RISK (CONTINUED)

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, 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 and HK 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. Long-term notes issued at fixed coupon expose the Group to fair value interest rate risk. Group's policy is to maintain diversified mix of variable and fixed rate borrowings based on prevailing market condition.

(B) CREDIT RISK

Credit risk mainly arises from trade receivables and cash and bank. Most of the Group's cash and cash equivalents are held in major global financial institutions. 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 tenor of 120 days, documents against payment or customers' letter of credit to supplier. 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.

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.

19 EVENT AFTER BALANCE SHEET DATE

On 13 August 2008, the Group entered into an agreement to acquire all of the assets of Van Zeeland, Inc., a leading New York based importer of mid-tier and department store handbag brands. The purchase price was approximately HK$2,574,000,000, with additional incentive based on company performance.

Besides, the Group also completed two relatively smaller acquisitions after balance sheet date namely, Wilson & Wong Trading Company Limited ("W&W") and RT Sourcing, which are both based in Hong Kong. W&W focuses on design and product development of ladies fashion garments, whereas RT Sourcing is a sourcing and development company specializing in primary packaging and components for beauty brands and full service beauty products for retailers.

The Group will be verifying the fair value of assets, liabilities and contingent liabilities of these newly acquired businesses, as at the respective acquisition dates and it is impracticable to disclose their respective amounts together with the goodwill so arising at the current stage.

20 APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board of Directors on 13 August 2008.

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

13 August 2008
Announcement of 2008 Interim Results

8 September 2008 to 12 September 2008
(both days inclusive)
Closure of Register of Shareholders

17 September 2008
Payment of 2008 Interim Dividend

REGISTRAR & TRANSFER OFFICES

Principal:
The Bank of Bermuda Limited
6 Front Street, Hamilton HM 11, Bermuda

Hong Kong Branch:
Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

SHARE INFORMATION

Board lot size: 2,000 shares

Shares outstanding as at 30 June 2008:
3,461,988,986 shares

Market Capitalization as at 30 June 2008:
HK$81,356,741,171

Basic earnings per share for 2008
Interim 36 HK cents

Dividend per share for 2008
Interim 24 HK cents

ENQUIRIES CONTACT

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Vice President – Investor Relations

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