LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 494

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INTERIM REPORT 10

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*
Martin TANG Yue Nien*

* *Independent Non-executive Directors*

EXECUTIVE DIRECTORS

William FUNG Kwok Lun, *Managing Director*
Bruce Philip ROCKOWITZ
Spencer Theodore FUNG

GROUP CHIEF COMPLIANCE OFFICER

James SIU Kai Lau

COMPANY SECRETARY

Terry WAN Mei Chow

PRINCIPAL BANKERS

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

LEGAL ADVISORS

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

AUDITOR

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

REGISTERED OFFICE

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

HONG KONG OFFICE

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

HIGHLIGHTS

HALF YEAR RESULTS TO 30 JUNE 2010

(HK$ million)	**2010**	2009	**Change**
Turnover	**51,792**	46,292	**+12%**
Core Operating Profit	**2,635**	1,697	**+55%**
As % of Turnover	**5.09%**	3.67%	
Profit attributable to shareholders of the Company	**2,171**	1,397	**+55%**
Earnings per Share – Basic	**57.5 HK cents**	38.3 HK cents	**+50%**
Dividend per Share	**38 HK cents**	26 HK cents	**+46%**

- Record high growth of core operating profit over a half-year period
- Record high margins due to strong onshore businesses and increasing involvement in value-added services
- Delivered strong operating leverage with continued cost savings
- Turnover modestly improved, reflecting the effects of early stage of the economic recovery together with contributions from previous acquisitions and outsourcing deals
- Entered into a landmark sourcing deal with Wal-Mart Stores, Inc., announced acquisition of 7 companies, and signed 4 licensing deals so far this year

CHAIRMAN'S STATEMENT

The world finds itself at an important crossroads as it enters the second half of 2010. Much has changed over the past two years: from the financial crisis of 2008 through the recession of 2009, the global economy slowly regained its footing and is now demonstrating signs of recovery. While this is good news for Li & Fung, our customers and the many countries around the world where we do business, we will keep a watchful eye as the recovery may not be very robust.

Of course, much is dependent on external factors. The world needs unfettered access to trade now more than ever if it wishes to curb unemployment, stimulate growth and boost incomes. Developments regarding the debt crisis in the European Union as well as continuing signs of rising protectionism also bear watching.

The Group has spent much of the last two years positioning itself for growth in the post-recession economy. Our strategy has included continuing to pursue organic growth, outsourcing deals and acquisitions while maintaining a healthy balance sheet. We believe that with the global economy slowly recovering, the Group's prospects in many areas appear promising. Therefore, we will continue to lay the groundwork for the upcoming Three-Year Plan 2011-2013.

PERFORMANCE

In the first half of the year, Group turnover increased by 12% to HK$51,792 million. Profit attributable to shareholders was HK$2,171 million, an increase of 55% compared to the same period last year (HK$1,397 million for 2009). Earnings per share were 57.5 HK cents compared with 38.3 HK cents for 2009.

The Board of Directors has resolved to declare an interim dividend of 38 HK cents per share (2009: 26 HK cents).

MARKET & BUSINESS

One of Li & Fung's primary strengths is its adaptability. With a network of over 12,000 active factories around the world, we are able to offer our customers unparalleled service and choice when sourcing products.

To maintain this competitive advantage, Li & Fung is always on the lookout for high-quality, cost-effective sourcing markets. Rising raw material and labour costs in China due to inflation and the need for a fairer distribution of income, respectively, have inevitably impacted the overall cost of production. The Group had anticipated that the southern and central, coastal manufacturing areas of China would become more expensive, so it began shifting some of its business to other areas of the country, in particular the northern and western China.

At the same time the Group has also continued its penetration in markets such as Bangladesh, Vietnam, Indonesia and India, which offer viable options to our customers.

The Group continues to actively pursue organic growth and acquisitions. Our sourcing arrangement with Wal-Mart Stores, Inc., and acquisition of Visage Group Limited are good examples of this. There is no doubt that these deals will further solidify our market share in the respective business areas.

Another area of constant focus for Li & Fung is environmental stewardship and managing climate change. The Group is in constant pursuit of ways to minimize the operational footprint of its sourcing base and reduce energy, water and waste. It will continue to make this a cornerstone of its business approach now and in the years to come.

PROSPECTS

The global economy is slowly emerging from the recession, though the recovery process remains a delicate one. The vitality of Asian countries had a large role to play in keeping the world away from the brink, in particular China, the world's second-biggest economy.

However, challenges remain, such as continuing high unemployment levels – especially in the US and Europe – modest consumer spending levels in the US and the European debt crisis. Looking forward, we must assume general softness in the EU economy and the Euro, both of which could affect the Group's business there.

According to the WTO, international trade is forecast to rebound by 9.5% in 2010 provided the economic environment is relatively stable, and this will be vital to the ongoing recovery as well as development in areas of the world that need it most. Now is the time for countries to abandon protectionist urges and support the conclusion of the Doha round, which will help kick-start a new era of multilateral trade that can support growth and prosperity for established and emerging nations alike.

There are enough positive signs in the economy and the Group's business to move forward with a sense of cautious optimism. What we cannot expect is a return to "normal", a term that has to be redefined in the wake of the past two years. Companies remain conservative in their spending and investments, and we can expect this pattern to continue in the near future. Still, we feel confident from a competitive perspective that the Group is well equipped to grow across markets and seize opportunities wherever they may be.

I would like to take this opportunity to thank the Group's staff, whose hard work over the past couple of years has helped cement Li & Fung's leadership position as we embark upon our next Three-Year Plan.

Victor FUNG Kwok King
Chairman

Hong Kong, 12 August 2010

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

The Group's turnover in the first half of 2010 increased by 12% to US$6,640 million (approximately HK$52 billion), reflecting the effects of nascent economic recovery in the United States (the "US") together with contributions from previous acquisitions and outsourcing deals.

The continued growth of our higher-margin onshore business in the US and Europe, disciplined cost control and an increased number of value-added services helped deliver solid operating leverage, which resulted in the highest core operating profit growth over a half-year period.

- Total Margin increased by 30%, increasing as a percentage of turnover from 11.65% to 13.51%
- Core Operating Profit increased by 55%; Core Operating Profit Margin increased to 5.09% from 3.67%
- Profit Attributable to shareholders reached HK$2,171 million, representing an increase of 55% over the same period in 2009

So far 2010 has been very eventful for the Group. It entered into a landmark sourcing arrangement with Wal-Mart Stores, Inc. in January and continued to expand market share via its acquisition strategy, announced two large acquisitions for Visage Group Limited and Jimlar Corporation, as well as five small roll-up acquisitions with Heusel Textilhandelsgesellschaft mbH, Jackel Group, HTP Group, Cipriani Accessories Inc. and Kenas Furniture Group. Also, LF USA, a subsidiary of Li & Fung Limited, signed four important licensing deals during the period under review.

In May 2010, the Group successfully issued a US$400 million bond that was very well received by fixed income investors. This issue was subsequently increased by US$350 million to a total of US$750 million in July. The net proceeds will be applied primarily toward further business development and acquisitions.

SEGMENTAL ANALYSIS

In the first half of 2010, softgoods and hardgoods accounted for 73% and 27% of turnover respectively. **Softgoods** turnover grew 15%, which was largely due to organic growth by some existing customers, together with contributions from previous acquisitions like Wear Me Apparel, LLC and Visage Group Limited, as well as outsourcing deals like Liz Claiborne Inc. and The Talbots, Inc..

Turnover from the **hardgoods** business increased by 5%, reflecting improving market sentiment resulting in solid organic growth.

Geographically, the **US** continued to be the Group's key export market, representing 67% of total turnover during the period under review, an increase from 61% over the same period in 2009. This was again due to recent acquisitions like Wear Me Apparel, LLC in the US and outsourcing deals like The Talbots, Inc. as well as solid organic growth. Turnover increased by 22%, reflecting slightly more positive consumer sentiment overall. Operating profit grew by 69%, which was largely attributed to contributions from our higher margin US onshore business as it continues to grow and perform well.

Europe accounted for 25% of turnover, reflecting a drop of 5%. This was due to the impact of customers facing insolvency (e.g. Arcandor and Deutsche Woolworth) and weaker sentiment overall in Europe. On the other hand, operating profit increased significantly by 22%, driven mainly by cost control in our sourcing operations and contributions from the European onshore business.

Turnover in **Canada, Central & Latin America**, and **Australasia** accounted for 3%, 1% and 3% of the Group's total respectively, representing declines of 5% and 8% and growth of 8% from those geographies' previous performances. Operating profit declined by 7% and 3% respectively in Canada, Central & Latin America, while Australasia's operating profit grew 20%. **Japan** and the rest of the world represented a 2% share of Group turnover, an increase of 2%. This was coupled with an increase of 35% in operating profit due to organic growth in the South African market.

ACQUISITIONS

The Group announced total of two large acquisitions (Visage Group Limited and Jimlar Corporation) and five roll-up acquisitions (Heusel Textilhandelsgesellschaft mbH, Jackel Group, HTP Group, Cipriani Accessories Inc. and Kenas Furniture Group) so far this year.

LARGE ACQUISITIONS

Over the past few years, the Group has set goals to rapidly expand its European onshore businesses by acquisitions. In February 2010, Li & Fung acquired Visage Group Limited, a leading private-label apparel supplier to high street and mass retailers in the UK. The acquisition adds substantial scale to Li & Fung's existing operation and furthers the objective of developing a significant European onshore presence. In addition, it has now developed relationships with most of the leading UK retailers, thus increasing the Group's overall market share and providing an excellent platform for future growth.

In August, Li & Fung acquired US-based Jimlar Corporation. Jimlar Corporation is a leading designer, distributor and supplier of footwear in the US and internationally, producing footwear under license for Coach and Calvin Klein as well as for its own brands Frye, Mountrek and RJ Colt. The acquisition is a significant step in expanding the Group's onshore presence in the US as well as its capabilities in the footwear business. It should also provide further footwear sourcing capabilities for the Group as a whole.

SMALL ROLL-UP ACQUISITIONS

In February 2010, Li & Fung acquired Heusel Textilhandelsgesellschaft mbH, a well established player in the children's apparel market in Germany that has solid business relationships with a number of key retailers there.

In May, Li & Fung acquired the Hong Kong-based Jackel Group, servicing the beauty industry in the areas of primary packaging, fragrance and personal care. The acquisition creates significant synergies with the Group's existing health, beauty and cosmetics ("HBC") business and dramatically strengthens its HBC platform as it continues to grow in this new segment.

In addition, Li & Fung acquired the Hong Kong-based HTP Group, a design-driven jeanswear specialist in June. The deal further strengthens the Group's capabilities in denim, and it is expected to create many synergies with its existing customers in this important product category.

In the same month, the Group entered into an agreement to acquire substantially all of the assets of Cipriani Accessories Inc. and its affiliate, The Max Leather Group. Cipriani Accessories Inc. is a leading designer, distributor and importer of men's and women's accessories in the US, Mexico and Canada. The acquisition further strengthens the market position and capabilities in the fashion accessories business of LF USA, a subsidiary of Li & Fung Limited.

In August, Li & Fung acquired one of China's leading furniture export trading companies, Kenas Furniture Group, which sells furniture to premier retailers and lifestyle brands overseas.

OUTSOURCING DEAL

In January, the Group entered into an agreement with Wal-Mart Stores, Inc. to establish a mutually beneficial sourcing arrangement with the Wal-Mart Group. Under the sourcing arrangement, Direct Sourcing Group ("DSG"), a wholly owned subsidiary of the Group, provides buying agency services to the Wal-Mart Group globally.

LICENSING DEALS

LF USA signed four licensing deals in the first half of the year:

(i) A partnership with celebrity stylist and fashion visionary Rachel Zoe to create a new contemporary lifestyle collection. The collection will offer a unique selection of women's apparel, footwear, handbags, jewelry and accessories;

(ii) The expansion of its licensing agreement with TapouT, the leading marketer of mixed martial arts apparel and gear, to include men's and junior's sportswear. Under the terms of this new agreement, LF USA's Wear Me Apparel division, which has made products for TapouT since 2008, will be responsible for the production and distribution of sportswear under the TapouT and PTS brands;

(iii) The formation of a new company with Star Branding that will focus on creating lifestyle concepts inspired by the powerful connections between consumers and the worlds of music, entertainment and sports. The partners in Star Branding, Tommy and Andy Hilfiger along with Bernt Ullman and Joe Lamastra, will infuse the new brands with their unique sense of fashion and popular culture. The new venture, called MESH (Music Entertainment Sports Holdings), will combine LF USA's strength in building global brands, supported by its global sourcing network and distribution resources, and Star Branding's expertise in fashion and licensing opportunities inspired by music, entertainment and sports celebrities;

(iv) A licensing agreement with "Sean John" Men's Sportswear and Active Wear. Sean John is a contemporary lifestyle brand inspired by music mogul Sean "Diddy" Combs; the creative and design as well as distribution will be performed by LF USA.

The above deals once again demonstrate the tremendous opportunities the Group can create for various businesses and concepts by allowing them to leverage its global sourcing and network capabilities. Li & Fung's management structure also has ample scale and resources to support these new businesses, and the Group expects more such deals in the future. In the long run, they will further solidify the Group's market share in their respective areas and contribute positively to its bottom line.

PROGRESS ON THREE-YEAR PLAN 2008-2010

This is the final year of the current Three-Year Plan 2008-2010. The turnover target of US$20 billion and core operating profit target of US$1 billion set in 2007 is made all the more challenging due to the unexpected onset of the global financial crisis of 2008 and 2009.

In May 2010, the Group successfully issued a US$400 million bond offer, which was very well received by fixed income investors. The bond was issued at a coupon rate of 5.25% per annum for a 10-year term, due 2020. This bond was further increased by US$350 million to a total of US$750 million on the same terms. The net proceeds will be applied primarily toward business development and acquisitions.

Li & Fung has maintained strong credit ratings from Moody's and Standard & Poor's, at A3 (stable) and A- (stable) respectively. The Group continues to enjoy healthy cash flow and has strong credit ratios. For details, please refer to the following "Financial Position and Liquidity" section.

Li & Fung will also continue to monitor market conditions to ensure the continuing strength of its franchise and to meet its responsibilities to all its stakeholders, including customers, employees, vendors and shareholders.

FINANCIAL POSITION AND LIQUIDITY

The Group remained in a strong financial position for the period under review with cash and cash equivalents amounting to HK$5,423 million as of the end of June 2010.

Normal trading operations were well supported by more than HK$20 billion in bank trading facilities. In addition, the Group had available bank loans and overdraft facilities of HK$4,285 million, out of which HK$1,180 million was committed facilities. As of 30 June 2010, only HK$341 million of the Group's bank loan and overdraft facilities was utilized and this represented only 8% utilization of these facilities. No drawdown was made out of the committed facilities.

At balance sheet date, the Group's gearing ratio was about 8%, calculated as net debt divided by total capital. The gearing ratio increased in comparison with that of 31 December 2009 because the Group issued some additional long-term bond of US$400 million (equivalent to approximately HK$3.1 billion) in May 2010 for business development and acquisitions. Net debt of HK$1,555 million is calculated as total borrowings (i.e. the long-term bond of HK$6,978 million) less cash and cash equivalents of HK$5,423 million. Total capital is calculated as total equity of HK$18,561 million plus net debt. The current ratio was 1.3, based on current assets of HK$24,790 million and current liabilities of HK$18,750 million.

On 16 July 2010, the Group increased the bond by US$350 million to US$750 million. This added a further approximately HK$2.8 billion to our cash reserve for our further development and acquisitions.

CREDIT RISK MANAGEMENT

Credit risk mainly arises from trade and other receivables as well as the Group's cash and bank balances.

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

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

(i) A significant portion of business is secured by back-to-back payment arrangement or covered by letters of credit, customers' standby letters of credit, bank guarantees or credit insurance;

(ii) Certain trade receivable balances on open account term are factored to external financial institutions without recourse;

(iii) The Group's credit control team makes ongoing assessment of each individual customer and vendor and determines the credit limits based on, among other factors, their trading and settlement history as well as their respective financial background.

FOREIGN EXCHANGE RISK MANAGEMENT

Most of the Group's cash balances were deposits in HK$ and US$ with major global financial institutions, 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 are managed by the Group treasury through the use of foreign exchange forward contracts. Pursuant to the Group policy in place, foreign exchange forward contracts, or any other financial derivatives, are entered into by the Group for hedging purposes. The Group has not entered into any financial derivatives for speculation.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As of the date of this announcement, the Group has disputes with Hong Kong Inland Revenue ("HKIR") involving additional tax assessments amounting to approximately HK$1,924 million on both the non-taxable claim of certain non-Hong Kong sourced income ("Offshore Claim") and the deduction claim of marketing expenses ("Deduction Claim") for the years of assessment from 1992/1993 to 2008/2009.

The Commissioner of the HKIR issued a determination on 14 June 2004 to one of its subsidiaries, Li & Fung (Trading) Limited ("LFT"), confirming additional tax assessments totalling HK$333 million relating to the years of assessment from 1992/93 to 2001/02. Under further legal advice from the Group's counsel, the directors believe that the Group has meritorious defence to appeal against the Commissioner's determination. Accordingly, LFT 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.

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

The Group has considered the reasoning of the Board of Review Decision and, having obtained professional advice, decided to lodge an appeal against the Board of Review Decision in respect of the Deduction Claim. An application requiring the Board of Review to state a case on questions of law for the opinion of the High Court was made by LFT on 10 July 2009.

On the other hand, the HKIR also lodged an appeal against the Board of Review Decision in respect of the Offshore Claim. An application requiring the Board of Review to state a case on questions of law for the opinion of the High Court was made by the HKIR on 10 July 2009.

On 19 March 2010, the Board of Review stated a case on questions of law in respect of both LFT's appeal in respect of the Deduction Claim, and the HKIR's appeal in respect of the Offshore Claim. On 1 April 2010, both LFT and the HKIR transmitted the stated case to the High Court for determination. On 15 July 2010, the HKIR applied to the High Court to remit the stated case to the Board of Review for amendment so as to include certain evidence and additional questions of law in the stated case.

As of the date of this interim financial report, the HKIR's application to amend the stated case has been fixed to be heard before the Court of First Instance on 17 February 2011, whereas the appeal in respect of the Board of Review decision by both LFT and the HKIR has been fixed to be heard before the Court of First Instance on 6 April 2011.

The Group has also filed objections with the HKIR against the remaining additional tax assessments of HK$1,591 million. The case before the Board of Review and now the High Court only applies to the additional tax assessments in respect of LFT for the years of assessment from 1992/93 to 2001/02. Our dispute with the HKIR regarding the remaining additional tax assessments in respect of certain other subsidiaries for the years of assessment from 1992/93 to 2001/02, and in respect of the Group for the period after the 2001/02 assessment years, is ongoing and has not yet been determined. It is therefore not yet before the Board of Review, and no hearing is currently scheduled.

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

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

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

PEOPLE

As of 30 June 2010, the Group had a total workforce of 15,113, of whom 3,003 were based in Hong Kong and 12,110 were located overseas.

The Group continues investing in people through its learning and development strategies and programs. To further strengthen our people as well as the Company's core functional and management capabilities, we have organized various practical, interactive and user-friendly programs focused on technical and management skills.

A class of 47 design associates graduated from the Design Support Program, the curriculum of which was created in collaboration with three leading design institutions, namely the Hong Kong Polytechnic University, the Fashion Institute of Technology of the United States and the Institut Français de la Mode of France. Graduates are now working on design development and technical support in different business streams. A second class comprising selected colleagues from Hong Kong, Shanghai, Istanbul and New Delhi is scheduled to start soon.

The Group is conscious of keeping its senior management team equipped with contemporary tools to manage business challenges and capture growth opportunities. In this regard the Group launched two Leadership Program classes designed in conjunction with the MIT Sloan School of Management and The University of Hong Kong. Executives spent their learning weeks at MIT in Boston and The University of Hong Kong.

Total manpower costs for the Group for the six months ending 30 June 2010 were HK$2,493 million, compared with HK$2,165 million for the same period in 2009.

CORPORATE GOVERNANCE

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

Corporate governance practices adopted by the Company during the six-month period to 30 June 2010 are in line with those practices set out in the Company's 2009 Annual Report.

THE BOARD

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

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

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board held **six** meetings to date in 2010 (with an **average attendance rate of 93%**).

BOARD COMMITTEES

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:

- Nomination Committee
- Audit Committee
- Risk Management Committee
- Compensation Committee

NOMINATION COMMITTEE

The Nomination Committee was established to make recommendations to the Board on the appointment of Directors, evaluation of board composition, assessment of the independence of Independent Non-executive Directors and the management of board succession.

The Committee met **once** to date in 2010 (with a **100% attendance rate**) to review the board composition, the re-appointment of retiring directors at 2009 Annual General Meeting and the nomination of directors to fill board vacancies in 2010 and to assess the independence of Independent Non-executive Directors. 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 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 2010 (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 set out in the Committee's written terms of reference and make relevant recommendations to the Board.

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, goodwill assessment, listing rules and statutory compliance, connected transactions, internal controls, risk management, financial reporting matters (including the interim financial report for the six months ended 30 June 2010 for the Board's approval) and the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function as well as their training programmes and budget. Its current members include:

Mr Paul Edward SELWAY-SWIFT* – *Committee Chairman*
Mr Allan WONG Chi Yun*
Professor Franklin Warren McFARLAN*
Mr Makoto YASUDA*
Mr Martin TANG Yue Nien*

RISK MANAGEMENT COMMITTEE

The Risk Management Committee was established to make 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 2010 (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 established to approve 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 met **three** times to date in 2010 (with a **100% attendance rate**) to review and approve all Executive Directors' (including the Group Managing Director) remuneration packages and the granting of share options under the current 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*
Mr Martin TANG Yue Nien*

* *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**. All the newly joined staff are briefed and requested to acknowledge the understanding of the Code. For ease of reference and as a constant reminder, a copy of the latest guidelines is posted in the Company's internal electronic portal for reference by all staff.

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. 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. Details of the Company's internal control and risk management processes are set out in the Corporate Governance Section on pages 27 to 30 of the Company's 2009 Annual Report.

The Group's Internal Audit team within the **Corporate Governance Division** (CGD), under the supervision of our Group Chief Compliance Officer, independently reviews the internal controls and evaluates their adequacy, effectiveness and compliance. Our Group Chief Compliance Officer **reports major findings and recommendations to the Audit Committee** on a regular basis.

Based on the respective assessments made by Senior Management, the Group's CGD and the external auditor, the Audit Committee considered that for the six months ended 30 June 2010:

- the internal controls and accounting systems of the Group were in place and functioning effectively and were designed to provide reasonable assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with management's authorization and the accounts were reliable for publication.

- there was an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

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 2010. 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 2010.

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 full compliance with all 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 2010.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

Li & Fung has continued its commitment to corporate social responsibility and sustainability. The Company has developed a Supplier Code of Conduct to be observed by its approved suppliers around the globe and has more than 120 in-house dedicated compliance staff worldwide to conduct supplier evaluations and monitor compliance to the Code among suppliers.

Li & Fung provides systematic training both internally to its employees and externally to its suppliers for meeting compliance requirements. The Company also strives for environmental protection, energy saving, reduction in waste and carbon emissions as well as water pollution prevention. Details of the Company's initiatives on corporate social responsibility and sustainability practices are set out in the Company's 2009 Annual Report.

INVESTOR RELATIONS AND COMMUNICATIONS

Li & Fung has a proactive policy for promoting investor relations and communications by maintaining regular dialogue and fair disclosure with institutional shareholders, fund managers, analysts and the media. Management attends investor meetings on a regular basis and has participated in a number of major investor conferences in Asia and North America. The Group is followed by a large number of analysts, and many of them publish reports on it regularly.

Li & Fung's corporate website (*www.lifung.com*) facilitates effective communications with shareholders, investors and other stakeholders by making corporate information and other relevant financial and non-financial information available electronically and on a timely basis. This includes extensive information about the Group's performance and activities via the Annual Report, Interim Report, press releases and announcements. Webcasts of results presentations for analysts are also made available.

PEOPLE

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. Details of Human Resources practices are set out in Management Discussion and Analysis section of this 2010 Interim Report.

INFORMATION TECHNOLOGY

The Company's commitments in supporting Information Technology investments in 2010 continued to focus on leveraging pro-active customer service solutions, both infrastructure and application. Specifically, programs targeting closer customer collaboration, business process improvement, and business-centric solutions have been instrumental in driving increased customer value.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Victor FUNG Kwok King
Group Non-Executive Chairman
Chairman of Nomination Committee and Risk Management Committee

Aged 64. Brother of Dr William Fung Kwok Lun and father of Mr Spencer Theodore Fung. Group Chairman of Li & Fung group companies including the Company and the publicly listed Integrated Distribution Services Group Limited, Convenience Retail Asia Limited and Trinity Limited. A director of King Lun Holdings Limited and its wholly owned subsidiary, Li & Fung (1937) Limited, substantial shareholders of the Company. Joined the Group in 1973 as Manager and became Managing Director of the Group's export trading business in 1977. Became Group Managing Director in 1981 and Group Chairman in 1989. Holds Bachelor and Master Degrees in Electrical Engineering from the Massachusetts Institute of Technology, and a Doctorate in Business Economics from Harvard University. An independent non-executive director of BOC Hong Kong (Holdings) Limited in Hong Kong and Baosteel Group Corporation in the People's Republic of China. Retired as independent non-executive director of CapitaLand Limited in Singapore in April 2010. Becoming Honorary Chairman of International Chamber of Commerce in July 2010 following two years as its Chairman. A member of Chinese People's Political Consultative Conference. Vice chairman of China Centre for International Economic Exchanges since March 2009. A member of the Commission on Strategic Development of the Hong Kong Government. Chairman of the Greater Pearl River Delta Business Council and the Hong Kong–Japan Business Co-operation Committee. From 1991 to 2000, Chairman of the Hong Kong Trade Development Council. From 1996 to 2003, the Hong Kong representative on the APEC Business Advisory Council. From 1999 to 2008, Chairman of the Hong Kong Airport Authority. From 2001 to November 2009, Chairman of The Council of The University of Hong Kong. Awarded the Gold Bauhinia Star in 2003 and Grand Bauhinia Medal in 2010 for distinguished service to the community.

William FUNG Kwok Lun
Group Managing Director

Aged 61. Brother of Dr Victor Fung Kwok King and uncle of Mr Spencer Theodore Fung. Group Managing Director since 1986. Joined the Group in 1972 and became a Director of the Group's export trading business in 1976. Graduated from Princeton University with a Bachelor of Science degree in Engineering. Holds an MBA degree from the Harvard Graduate School of Business. Degrees of Doctor of Business Administration, *honoris causa*, were conferred by the Hong Kong University of Science & Technology and by the Hong Kong Polytechnic University. An independent non-executive director of VTech Holdings Limited, Shui On Land Limited and Sun Hung Kai Properties Limited. An independent director of Singapore Airlines Limited. A non-executive director of various companies within the Li & Fung Group including Convenience Retail Asia Limited, Integrated Distribution Services Group Limited and Trinity Limited. A director of King Lun Holdings Limited and its wholly owned subsidiary, Li & Fung (1937) Limited, substantial shareholders of the Company. Retired as non-executive director of HSBC Holdings PLC on 28 May 2010. Past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Pacific Economic Cooperation Committee. Awarded the Silver Bauhinia Star by the Hong Kong Special Administrative Region Government in 2008.

DIRECTORS (CONTINUED)

Bruce Philip ROCKOWITZ
President

Aged 51. An Executive Director since 2001 and President of the Group since 2004 when he took over day to day oversight of the Group's operations. In 1981, co-founded Colby International Limited, a large Hong Kong buying agent, and was the Chief Executive Officer until 2000 when Colby was acquired by Li & Fung. Member of the Advisory Board for the Wharton School's Jay H Baker Retailing Initiative, an industry research center for retail at the University of Pennsylvania. Board member of the Educational Foundation for the Fashion Industries, the private fund-raising arm of the Fashion Institute of Technology. In December 2008, ranked first by Institutional Investor for the Asia's Best CEOs in the consumer category. In March 2010, ranked as one of the world's 30 best CEOs by Barron's. Non-Executive Chairman of the Pure Group, a lifestyle, fitness and yoga group operating in Hong Kong, Singapore and Taiwan. An independent non-executive director of Wynn Macau, Limited.

Paul Edward SELWAY-SWIFT
Independent Non-Executive Director
Chairman of Audit Committee

Aged 66. An Independent Non-executive Director since 1992. Chairman of Pure Circle Ltd, a producer of natural food ingredients, which is quoted on the London Stock Exchange. Also, Chairman of Atlantis Investment Management (Ireland) Ltd. An independent non-executive director of EA Asia Absolute Return Fund and EA Asia Absolute Return Master Fund with effect from 14 June 2010. A director of several other companies including Harvard International PLC and Temenos Group AG. Formerly, Deputy Chairman of HSBC Investment Bank PLC, a director of The Hongkong and Shanghai Banking Corporation Limited in Hong Kong, Chairman of Singer & Friedlander Group PLC, a banking and investment management group, and Novae Group PLC, a specialist insurance group.

Allan WONG Chi Yun
Independent Non-Executive Director
Chairman of Compensation Committee

Aged 59. An Independent Non-executive Director since 1999. Chairman and Group Chief Executive Officer of VTech Holdings Limited. Co-founded VTech Group in 1976. Holds a Bachelor of Science degree in Electrical Engineering from The University of Hong Kong, a Master of Science degree in Electrical and Computer Engineering from the University of Wisconsin and an Honorary Doctorate of Technology from the Hong Kong Polytechnic University. A council member of The University of Hong Kong, an independent non-executive director of both The Bank of East Asia, Limited and China-Hongkong Photo Products Holdings Limited.

DIRECTORS (CONTINUED)

Franklin Warren McFARLAN

Independent Non-Executive Director

Aged 72. An Independent Non-executive Director since 1999. Professor Emeritus of Business Administration at Harvard University. Guest Professor and Co-Director of the China Business Case Center at Tsinghua University-SEM. A Professor at the Harvard Graduate School of Business Administration since 1973. Formerly, Faculty Chairman of Advanced Management Program and Chairman of Executive Education Programs. Graduated from the Harvard Business School with a doctorate. Senior Associate Dean from 1990 to 2004. An independent non-executive director of Computer Sciences Corporation. An independent non-executive director of thinkorswim Group Inc from 2004 to 2009.

Makoto YASUDA

Independent Non-Executive Director

Aged 72. An Independent Non-executive Director since 2001. Chairman and Chief Executive of international advisory firm Yasuda Makoto & Co., Ltd. Engaged in private equity investment and management activities in Asia for more than 35 years. An independent non-executive director of other companies including Yamatake Corporation. Formerly, Director & Executive Vice President of Private Investment Company for Asia (PICA) S.A. Graduated from Gakushuin University and University of Illinois.

Martin TANG Yue Nien

Independent Non-Executive Director

Aged 61. An Independent Non-executive Director since 2009. Former Chairman, Asia of Spencer Stuart & Associates, a global executive search consulting firm. An independent non-executive director of CEI Contract Manufacturing Ltd, a Singapore publicly-listed company. Formerly, a member of the Professional Service Advisory Committee of the Hong Kong Trade Development Council. Holds a Bachelor of Science degree in Electrical Engineering from Cornell University and Master of Science in Management from the Massachusetts Institute of Technology.

Spencer Theodore FUNG

Executive Director

Aged 37. An Executive Director since 2008. Chief Executive Officer of LF Europe, managing the Group's European onshore business. Joined the Group in 2001. Holds a Bachelor of Arts degree from Harvard College and Master of Science in Accounting and Master in Business Administration degrees from Northeastern University. A U.S. Certified Public Accountant. The son of Dr Victor Fung Kwok King, Group Chairman, and nephew of Dr William Fung Kwok Lun, Group Managing Director.

GROUP CHIEF COMPLIANCE OFFICER

James SIU Kai Lau

Aged 66. Joined the Group in 1993 as Chief Financial Officer and as the Chief Compliance Officer since 1996. An executive director of Li & Fung (1937) Limited, a substantial shareholder of the Li & Fung Group of companies including publicly listed Integrated Distribution Services Group Limited, Convenience Retail Asia Limited and Trinity Limited of which he is also their respective Group Chief Compliance Officers. Formerly, partner-in-charge (1981-1989) of the Hong Kong audit practice of Coopers & Lybrand (currently PricewaterhouseCoopers) specializing in advising corporate clients on mergers, acquisitions, finance and on public listings. Community work includes currently serving as member of the Supervisory Board of the Hong Kong Housing Society and Chairman of its Audit Committee (2001 to 2006). A member of the Professional Accountants in Business Committee of the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (2002 – 2006). The Deputy Chairman of the Corporate Governance Committee of the HKICPA (2007). A member of the Securities and Futures Commission Dual Filing Advisory Group (2004-2010). A Fellow of both the Institute of Chartered Accountants in Australia and the HKICPA. A Fellow member of the Hong Kong Institute of Directors. Holds a Bachelor of Economics degree from University of Tasmania, Australia.

SENIOR MANAGEMENT

Henry CHAN
Executive Director of Li & Fung (Trading) Limited

Aged 60. Responsible for the LF One business stream, managing the Group's hardlines business world-wide. Joined the Group in 1972. An Executive Director of the Company from 1992 to May 2009. Graduated from The University of Hong Kong with a Bachelor of Social Science degree. Holds an MBA degree from The Chinese University of Hong Kong. A member of The Hong Kong Institute of Directors.

Danny LAU Sai Wing
Executive Director of Li & Fung (Trading) Limited

Aged 58. Responsible for the LF Ten business stream, managing the Group's US apparel, brands and specialty stores business. Graduated from the University of Kansas with a Bachelor of Science Degree in Business and Accounting. First job in garment manufacturing before joining Li & Fung in 1981. An Executive Director of the Company from 1992 to May 2009. A director of the Clothing Technology Demonstration Centre Co Ltd. from 1995 to 2003. Past community work includes having served as a committee member of the Government's Workplace English Campaign, the Hong Kong Exporters' Association and Clothing Industry Training Authority.

SENIOR MANAGEMENT (CONTINUED)

Annabella LEUNG Wai Ping
Executive Director of Li & Fung (Trading) Limited

Aged 57. Responsible for the LF Seven business stream, managing the Group's European apparel accounts. Formerly, the Regional Director of North Asia Apparel for Inchcape, a global sourcing network acquired by the Company in 1995. An Executive Director of the Company from 2000 to May 2010. Holds a Master of Science degree in Biology from Northeastern University. Serving on the Softgoods Sub-committee of The Hong Kong Exporters' Association, Advisory Board of the Hong Kong Export Credit Insurance Corporation and the Vetting Committee for the Professional Services Development Assistance Scheme of Commerce, Industry and Technology Bureau.

Richard Nixon DARLING
President of LF USA

Aged 57. President of LF USA business stream and responsible for the Group's U.S. Onshore business strategy which holds a portfolio of well known proprietary brands, entertainment and fashion licenses and private label brands for U.S. retailers. The founder of The Millwork Trading Co., Ltd (now known as "LF USA Inc."), a joint venture with Li & Fung that became a wholly owned subsidiary in 1999. Serves on the Board of Directors of "Fashion Delivers", a charitable organization that assists children and families in distressed situations. Vice chairman of the American Apparel and Footwear Association, the leading industry trade group.

Marc Robert COMPAGNON
Executive Director of Li & Fung (Trading) Limited

Aged 51. Responsible for the LF Eight business stream, managing the Group's U.S. department store business, U.S. wholesale apparel sourcing as well as the Group's branded apparel business. Joined the Group in 2000 at the time of the acquisition of Colby International Limited where he was Chief Merchandising Officer for 17 years and was responsible for establishing Colby's global sourcing network and sales and marketing strategies. Holds a Bachelor of Science degree from the University of Vermont. Non-Executive Chairman of Cebu Dream Realized, INC, a hotel and restaurant group.

Dow Peter FAMULAK
Chief Executive Officer of DSG

Aged 49. Chief Executive Officer of the DSG group of companies, a dedicated sourcing stream servicing Wal-Mart globally. Previously, Chief Executive Officer of LF Europe and in charge of the Group's European onshore business, and also co-led the Group's health, beauty and cosmetic initiative with Guy d'Auriol. Joined the Group in 2000 at the time of the acquisition of Colby International Limited where he was an Executive Vice President. Former partner in the law firm of Baker & McKenzie, Hong Kong office where he worked from 1992 until he joined Colby. Graduated from the University of British Columbia with a BA Economics (Honours) and from law school at the University of Saskatchewan. A member of The Law Society of Hong Kong, The Law Society of England and Wales and The Law Society of British Columbia (Canada).

SENIOR MANAGEMENT (CONTINUED)

Emily MAK MOK Oi Wai
Chief Operating Officer of DSG

Aged 49. Chief Operating Officer of the DSG group of companies, a dedicated sourcing stream servicing Wal-Mart globally. Previously headed the LF Three business stream, managing the Group's department store, mass market, supermarket and specialty store apparel business in the Americas, as well as the Southern Hemisphere and Japan. Joined the Group in 2000 with the acquisition of Colby International Limited where Emily was the Chief Operating Officer and directly responsible for the operational and merchandising matters for Colby's apparel business worldwide. Graduated from The University of Hong Kong with a Bachelor of Social Sciences degree.

Guy d'AURIOL
Chief Executive Officer of LF Beauty

Aged 48. Chief Executive Officer of LF Beauty business stream, managing the Group's global health, beauty and cosmetic business. Joined the Group in 2007 at the time of acquisition of CGroup – a company which he had co-founded with his brother Yan d'Auriol in 1985. Engaged in the Supply Chain Management of beauty and cosmetic products for premier cosmetics brands and retailers worldwide for over 20 years.

Lale KESEBI
Executive Director of Li & Fung (Trading) Limited

Aged 41. Responsible for the Group's corporate operations teams including legal, vendor compliance, human resources, corporate services and internal corporate communications. Joined the Group in 2003. Holds a Bachelor of Science (Honours) degree and a Bachelor of Law degree from Dalhousie University. Past member of The Law Society of British Columbia (Canada). Formerly, Chair of the Canadian Chamber's Business Policy & Government Relations committee and the Debenture and Scholarship committee of the Canadian International School in Hong Kong. Chair of the Corporate Sustainability Committee of the Company.

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

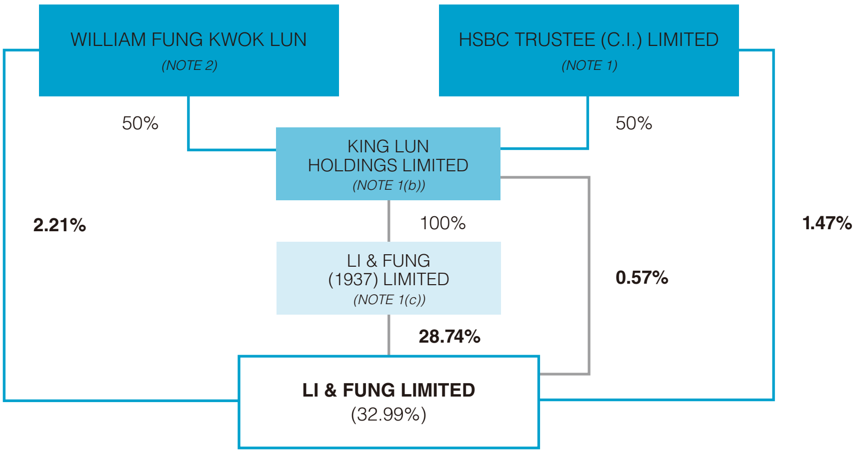
As at 30 June 2010, the directors and chief executives of the Company and their associates had the following interests in the shares of HK$0.025 each ("Shares") and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and 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 of Hong Kong Limited (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	**Family interest**	**Trust/ Corporate Interest**	**Equity derivatives (share options)**	**Total**	**Percentage of issued share capital**
Victor Fung Kwok King	–	–	1,173,370,880[1]	–	1,173,370,880	30.78%
William Fung Kwok Lun	70,851,330	4,400	1,129,703,080[2]	1,320,000[3]	1,201,878,810	31.52%
Spencer Theodore Fung*	352,000	–	1,173,370,880[1]	705,000[3]	1,174,427,880	30.80%
Bruce Philip Rockowitz	3,587,800	–	32,411,510[4]	22,620,880[5]	58,620,190	1.53%
Franklin Warren McFarlan	–	–	57,200[6]	–	57,200	0.00%
Martin Tang Yue Nien	–	–	20,000[7]	–	20,000	0.00%

* *Son of Dr Victor Fung Kwok King*

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



NOTES:

As at 30 June 2010,

(1) each of Dr Victor Fung Kwok King and Mr Spencer Theodore Fung was deemed to have interests in 1,173,370,880 Shares held in the following manner:

(a) 55,825,000 Shares were directly held by HSBC Trustee (C.I.) Limited as trustee of a trust established for the benefit of the family members of Dr Victor Fung Kwok King (the "Trust").

(b) 21,945,880 Shares were directly held by King Lun Holdings Limited ("King Lun"), a private company incorporated in the British Virgin Islands owned as to 50% by HSBC Trustee (C.I.) Limited as trustee of the Trust and 50% by Dr William Fung Kwok Lun.

(c) 1,095,600,000 Shares were indirectly held by King Lun through its wholly-owned Hong Kong incorporated subsidiary, Li & Fung (1937) Limited ("LF (1937)").

(2) 12,157,200 Shares of these 1,129,703,080 Shares were held by Golden Step Limited, a company beneficially owned by Dr William Fung Kwok Lun. The balance of 1,117,545,880 Shares were directly and indirectly held by King Lun as mentioned in *Note 1 (b) and (c)* above.

(3) these interests represented the interests in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, the details of which are set out in the Share Options section stated below.

(4) 32,411,510 Shares in the Company were held by Hurricane Millennium Holdings Limited ("HMHL"), a company beneficially owned by a trust which had been set up for the benefit of family members of Mr Bruce Philip Rockowitz.

(5) these interests represented:

(a) the beneficial interest of Mr Bruce Philip Rockowitz in 675,000 underlying shares in respect of share options granted by the Company to Mr Bruce Philip Rockowitz, the details of which are set out in the Share Options section stated below; and

(b) the deemed interest of Mr Bruce Philip Rockowitz in 21,945,880 underlying shares in the Company in respect of options granted by King Lun to HMHL to purchase such shares in the Company in four tranches during the period from 25 December 2010 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 were held by a trust established for the benefit of Professor Franklin Warren McFarlan.

(7) 20,000 Shares in the Company were held by a trust of which Mr Martin Tang Yue Nien was a beneficiary.

(B) SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

By virtue of the SFO, each of Dr Victor Fung Kwok King, Dr William Fung Kwok Lun and Mr Spencer Theodore Fung was taken as at 30 June 2010 to have short position through King Lun, in which all of them were deemed to have interests as disclosed above, in respect of an aggregate of 21,945,880 underlying Shares, representing 0.57% 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 54,945,880 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 2010, 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 Code.

(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 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 2010, there are options relating to 94,373,500 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 1/1/2010	Granted[2]	Exercised[1]	Lapsed	As at 30/6/2010	Price HK$	Grant Date	Exercisable Period
William Fung Kwok Lun	880,000	–	(880,000)	–	–	25.55	24/1/2008	01/3/2009 – 28/2/2011
	880,000	–	(440,000)	–	440,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	880,000	–	–	–	880,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
Bruce Philip Rockowitz	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	–	(450,000)	–	–	25.55	24/1/2008	01/3/2009 – 28/2/2011
	450,000	–	(225,000)	–	225,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	450,000	–	–	–	450,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
Spencer Theodore Fung	36,000	–	(36,000)	–	–	13.45	20/6/2005	20/6/2009 – 19/6/2012
	176,000	–	–	–	176,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	176,000	–	–	–	176,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	176,000	–	–	–	176,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
	–	177,000	–	–	177,000	41.52	25/3/2010	01/3/2011 – 28/2/2013
Continuous contract	4,301,800	–	(4,221,800)	(80,000)	–	13.45	20/6/2005	20/6/2007 – 19/6/2010
Employees	7,862,400	–	(4,961,800)	(176,000)	2,724,600	13.45	20/6/2005	20/6/2008 – 19/6/2011
	11,749,200	–	(4,346,000)	(176,000)	7,227,200	13.45	20/6/2005	20/6/2009 – 19/6/2012
	169,200	–	(169,200)	–	–	13.72	23/1/2006	20/6/2007 – 19/6/2010
	682,000	–	(165,000)	–	517,000	13.72	23/1/2006	20/6/2008 – 19/6/2011
	762,000	–	(245,000)	–	517,000	13.72	23/1/2006	20/6/2009 – 19/6/2012
	8,000	–	(8,000)	–	–	15.65	19/6/2006	20/6/2007 – 19/6/2010
	368,000	–	(124,000)	–	244,000	15.65	19/6/2006	20/6/2008 – 19/6/2011
	990,000	–	(530,000)	–	460,000	15.65	19/6/2006	20/6/2009 – 19/6/2012
	1,379,000	–	(487,000)	–	892,000	25.50	02/2/2007	20/6/2008 – 19/6/2011
	5,218,000	–	(2,398,000)	–	2,820,000	25.50	02/2/2007	20/6/2009 – 19/6/2012
	1,327,000	–	(693,000)	–	634,000	29.93	13/7/2007	20/6/2009 – 19/6/2012
	23,790,500	–	(9,050,500)	(356,000)	14,384,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	23,228,000	–	(2,394,000)	(356,000)	20,478,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	23,228,000	–	–	(356,000)	22,872,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
	2,238,500	–	(473,000)	(30,000)	1,735,500	30.00	21/5/2008	01/3/2009 – 28/2/2011
	1,400,000	–	(197,500)	(30,000)	1,172,500	30.00	21/5/2008	01/3/2010 – 29/2/2012
	1,400,000	–	–	(30,000)	1,370,000	30.00	21/5/2008	01/3/2011 – 28/2/2013
	1,174,900	–	(451,900)	–	723,000	26.20	13/8/2008	01/3/2009 – 28/2/2011
	1,697,100	–	(411,900)	–	1,285,200	26.20	13/8/2008	01/3/2010 – 29/2/2012
	1,697,100	–	–	–	1,697,100	26.20	13/8/2008	01/3/2011 – 28/2/2013
	2,729,000	–	(1,325,000)	(66,000)	1,338,000	17.22	24/2/2009	01/3/2010 – 29/2/2012
	2,408,000	–	–	(60,000)	2,348,000	17.22	24/2/2009	01/3/2011 – 28/2/2013
	1,792,500	–	(193,200)	(19,200)	1,580,100	27.80	14/8/2009	01/3/2010 – 29/2/2012
	2,123,700	–	–	(25,500)	2,098,200	27.80	14/8/2009	01/3/2011 – 28/2/2013
	–	2,556,100	–	–	2,556,100	41.52	25/3/2010	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$37.84.

(2) The closing market price per Share as at the date preceding the date on which the share options were granted was HK$41.75.

(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 2009. 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 2010, 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 (21,945,880) Interest of controlled corporation (1,095,600,000)[1]	1,117,545,880	29.31%
HSBC Trustee (C.I.) Limited	Trustee (55,825,000)[2] Interest of controlled corporation (1,117,545,880)[2]	1,173,370,880[2]	30.78%
Janus Capital Management LLC	Investment manager	248,427,460	6.51%
JPMorgan Chase & Co.	Beneficial owner (5,755,769) Investment manager (83,337,126) Custodian corporation/approved lending agent (125,289,137)	214,382,032	5.62%
Short Positions			
King Lun Holdings Limited	Beneficial owner	21,945,880[3]	0.57%
HSBC Trustee (C.I.) Limited	Interest of controlled corporation	21,945,880[4]	0.57%
JPMorgan Chase & Co.	Beneficial owner (4,280,000) Investment manager (434,000)	4,714,000	0.12%
Lending Pool			
JPMorgan Chase & Co.	Custodian corporation/approved lending agent	125,289,137	3.28%

NOTES:

(1) 1,095,600,000 Shares were held by LF (1937) which is a wholly owned subsidiary of King Lun. Both of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun were directors of King Lun and LF (1937).

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

(3) This short position represented King Lun's short position in 21,945,880 underlying shares which constituted unlisted physically settled equity derivatives pursuant to arrangement as described in the Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures section stated above.

(4) HSBC Trustee (C.I.) Limited was taken to have short position in the same underlying shares held by 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 2010.

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 38 HK cents (2009: 26 HK cents) per Share for the six months ended 30 June 2010 absorbing a total of HK$1,449 million (2009: HK$978 million).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 27 August 2010 to 2 September 2010, 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 4:30 p.m. on 26 August 2010. Dividend warrants will be despatched on 3 September 2010.

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 30 to 51, which comprises the consolidated balance sheet of Li & Fung Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2010 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the 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, 12 August 2010

CONDENSED INTERIM FINANCIAL REPORT

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	**UNAUDITED SIX MONTHS ENDED 30 JUNE** **2010** **HK$'000**	2009 HK$'000
Turnover	*3*	**51,791,920**	46,292,167
Cost of sales		**(45,065,002)**	(41,109,934)
Gross profit		**6,726,918**	5,182,233
Other income		**270,932**	213,088
Total margin		**6,997,850**	5,395,321
Selling expenses		**(999,559)**	(707,508)
Merchandising expenses		**(3,025,797)**	(2,654,853)
Administrative expenses		**(337,084)**	(336,101)
Core operating profit		**2,635,410**	1,696,859
Other non-core operating expenses		**(87,589)**	(47,929)
Operating profit	*3 & 4*	**2,547,821**	1,648,930
Interest income		**36,206**	35,620
Interest expenses		**(270,661)**	(211,651)
Share of profits less losses of associated companies		**7,439**	11,276
Profit before taxation		**2,320,805**	1,484,175
Taxation	*5*	**(150,407)**	(88,202)
Profit for the period		**2,170,398**	1,395,973
Attributable to:			
Shareholders of the Company		**2,171,295**	1,396,641
Non-controlling interests		**(897)**	(668)
		2,170,398	1,395,973
Earnings per share for profit attributable to the shareholders of the Company during the period	*7*		
– basic		**57.5 HK cents**	38.3 HK cents
– diluted		**56.9 HK cents**	38.1 HK cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	UNAUDITED SIX MONTHS ENDED 30 JUNE	
	2010	2009
	HK$'000	HK$'000
Profit for the period	**2,170,398**	1,395,973
Other comprehensive income:		
Currency translation differences	**(344,174)**	65,706
Net fair value gains/(losses) on cash flow hedges, net of tax	**31,415**	(43,434)
Net fair value (losses)/gains of available-for-sale financial assets, net of tax	**(1,542)**	2,909
Other comprehensive (expense)/income for the period, net of tax	**(314,301)**	25,181
Total comprehensive income for the period	**1,856,097**	1,421,154
Attributable to:		
Shareholders of the Company	**1,856,306**	1,421,892
Non-controlling interests	**(209)**	(738)
Total comprehensive income for the period	**1,856,097**	1,421,154

CONSOLIDATED BALANCE SHEET

	Note	UNAUDITED 30 JUNE 2010 HK$'000	AUDITED 31 DECEMBER 2009 HK$'000
Non-current assets			
Intangible assets	8	**22,516,139**	18,202,527
Property, plant and equipment	8	**1,366,428**	1,255,705
Prepaid premium for land leases		**2,376**	2,426
Associated companies		**34,903**	28,251
Available-for-sale financial assets		**679,039**	720,184
Deferred tax assets		**72,355**	58,180
		24,671,240	20,267,273
Current assets			
Inventories		**2,609,449**	2,382,632
Due from related companies		**110,486**	98,706
Trade and bills receivable	9	**13,511,403**	12,561,374
Other receivables, prepayments and deposits		**2,747,992**	2,331,847
Derivative financial instruments		**47,088**	2,620
Cash and bank balances		**5,763,666**	4,202,267
		24,790,084	21,579,446
Current liabilities			
Trade and bills payable	10	**13,109,333**	12,005,113
Accrued charges and sundry payables		**2,700,861**	3,120,427
Balance of purchase consideration payable for acquisitions to be settled by cash	11	**1,357,793**	1,138,668
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	11	**365,595**	323,700
Taxation		**570,941**	520,969
Bank advances for discounted bills	9	**305,366**	302,123
Bank overdrafts		**340,608**	47,315
		18,750,497	17,458,315
Net current assets		**6,039,587**	4,121,131
Total assets less current liabilities		**30,710,827**	24,388,404

	Note	**UNAUDITED 30 JUNE 2010 HK$'000**	AUDITED 31 DECEMBER 2009 HK$'000
Financed by:			
Share capital	*12*	**95,297**	94,403
Reserves		**17,050,779**	15,810,930
Proposed dividend		**1,449,106**	1,854,313
		18,499,885	17,665,243
Shareholders' funds attributable to the Company's shareholders		**18,595,182**	17,759,646
Non-controlling interests		**(34,587)**	(33,455)
Total equity		**18,560,595**	17,726,191
Non-current liabilities			
Long-term liabilities	*11*	**12,031,677**	6,425,251
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	*11*	**–**	140,350
Post-employment benefit obligations		**25,778**	25,766
Deferred tax liabilities		**92,777**	70,846
		12,150,232	6,662,213
		30,710,827	24,388,404

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Attributable to Shareholders of the Company						
	Share capital HK$'000	Share premium HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2010	**94,403**	**14,182,564**	**(392,609)**	**3,875,288**	**17,759,646**	**(33,455)**	**17,726,191**
Comprehensive income							
Profit or loss	–	–	–	**2,171,295**	**2,171,295**	**(897)**	**2,170,398**
Other comprehensive income							
Currency translation differences	–	–	**(344,862)**	–	**(344,862)**	**688**	**(344,174)**
Net fair value losses on available-for-sale financial assets, net of tax	–	–	**(1,542)**	–	**(1,542)**	–	**(1,542)**
Net fair value gains on cash flow hedges, net of tax	–	–	**31,415**	–	**31,415**	–	**31,415**
Total other comprehensive income	–	–	**(314,989)**	–	**(314,989)**	**688**	**(314,301)**
Total comprehensive income	–	–	**(314,989)**	**2,171,295**	**1,856,306**	**(209)**	**1,856,097**
Transactions with owners							
Employee share option scheme:							
– value of employee services	–	–	**27,257**	–	**27,257**	–	**27,257**
– proceeds from share issued	**894**	**720,329**	–	–	**721,223**	–	**721,223**
– transfer to share premium	–	**136,112**	**(136,112)**	–	–	–	–
Release of shares held by escrow agent for settlement of acquisition consideration	–	–	**98,455**	–	**98,455**	–	**98,455**
Transfer to capital reserve	–	–	**477**	**(477)**	–	–	–
2009 final dividend paid	–	–	–	**(1,867,705)**	**(1,867,705)**	**(923)**	**(1,868,628)**
Total transactions with owners	**894**	**856,441**	**(9,923)**	**(1,868,182)**	**(1,020,770)**	**(923)**	**(1,021,693)**
Balance at 30 June 2010	**95,297**	**15,039,005**	**(717,521)**	**4,178,401**	**18,595,182**	**(34,587)**	**18,560,595**

	Unaudited						
	Attributable to Shareholders of the Company						
	Share capital HK$'000	Share premium HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2009	90,853	11,140,378	(506,457)	2,687,300	13,412,074	(29,720)	13,382,354
Comprehensive income							
Profit or loss	–	–	–	1,396,641	1,396,641	(668)	1,395,973
Other comprehensive income							
Currency translation differences	–	–	65,776	–	65,776	(70)	65,706
Net fair value gains on available-for-sale financial assets, net of tax	–	–	2,909	–	2,909	–	2,909
Net fair value losses on cash flow hedges, net of tax	–	–	(43,434)	–	(43,434)	–	(43,434)
Total other comprehensive income	–	–	25,251	–	25,251	(70)	25,181
Total comprehensive income	–	–	25,251	1,396,641	1,421,892	(738)	1,421,154
Transactions with owners							
Employee share option scheme:							
– value of employee services	–	–	31,960	–	31,960	–	31,960
– proceeds from share issued	174	89,192	–	–	89,366	–	89,366
– transfer to share premium	–	16,597	(16,597)	–	–	–	–
2008 final dividend paid	–	–	–	(1,199,839)	(1,199,839)	(441)	(1,200,280)
Issue of shares upon a private placing	3,007	2,678,660	–	–	2,681,667	–	2,681,667
Total transactions with owners	3,181	2,784,449	15,363	(1,199,839)	1,603,154	(441)	1,602,713
Balance at 30 June 2009	94,034	13,924,827	(465,843)	2,884,102	16,437,120	(30,899)	16,406,221

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	UNAUDITED SIX MONTHS ENDED 30 JUNE	
	2010	2009
	HK$'000	HK$'000
Net cash inflow from operating activities	**1,178,543**	1,223,192
Net cash outflow from investing activities	**(1,591,821)**	(1,479,626)
Net cash outflow before financing activities	**(413,278)**	(256,434)
Net cash inflow from financing activities	**1,731,070**	1,118,349
Increase in cash and cash equivalents	**1,317,792**	861,915
Cash and cash equivalents at 1 January	**4,154,952**	2,181,965
Effect of foreign exchange rate changes	**(49,686)**	(15,651)
Cash and cash equivalents at 30 June	**5,423,058**	3,028,229
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	**5,763,666**	3,158,686
Bank overdrafts	**(340,608)**	(130,457)
	5,423,058	3,028,229

NOTES TO CONDENSED INTERIM FINANCIAL REPORT

1 GENERAL INFORMATION

Li & Fung Limited ("the Company") and its subsidiaries (together, "the Group") is 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 a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

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

These condensed interim financial report are presented in HK dollars, unless otherwise stated. This condensed interim financial report was approved for issue on 12 August 2010.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

This interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA. This interim financial report should be read in conjunction with the annual accounts for the year ended 31 December 2009, which had been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

Except as described below, the accounting policies applied are consistent with those of the annual accounts for the year ended 31 December 2009, as described in those annual accounts.

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

(a) Revised and amended standards mandatory for the first time for the financial year beginning 1 January 2010 adopted by the Group

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', are 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.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit and loss account. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

As the Group has adopted HKFRS 3 (revised), it is required to adopt HKAS 27 (revised), 'consolidated and separate financial statements', at the same time. HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(b) Amendments and interpretations to existing standards effective in 2010 but not relevant to the Group

- HK(IFRIC)-Int 17, 'Distributions of non-cash assets to owners'
- 'Additional exemptions for first-time adopters' (Amendment to HKFRS 1)
- HKAS 39 (Amendment), 'Eligible hedged items'
- HKFRS 2 (Amendment), 'Group cash-settled share-based payment transaction'
- First improvements to Hong Kong Financial Reporting Standards (2008)
- Second improvements to Hong Kong Financial Reporting Standards (2009)

(c) The following are new standards, new interpretations and amendments to standards and interpretations relevant to the Group that have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

- HKFRS 9, 'Financial instruments' addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess HKFRS 9's full impact. The Group has not yet decided when to adopt HKFRS 9.
- HKAS 24 (Revised) 'Related party disclosures' supersedes HKAS 24 'Related party disclosures' issued in 2003. The revised HKAS 24 is required to be applied from 1 January 2011.
- Under 'Classification of rights issues' (Amendment to HKAS 32), for rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010.
- Amendments to HK(IFRIC)-Int 14 'Prepayments of a minimum funding requirement' corrects an unintended consequence of HK(IFRIC) Int-14, HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction. Without the amendments, entities are not permitted to recognise as an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was not intended when HK(IFRIC)-Int 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. The amendments should be applied retrospectively to the earliest comparative period presented. This is not currently applicable to the Group.
- HK(IFRIC)-Int 19, 'Extinguishing financial liabilities with equity instruments' clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010.
- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010, by HKICPA. All improvements are effective in the financial year of 2011.

3 SEGMENT INFORMATION

The Group is principally engaged in export trading of consumer products. The Group operates globally and has a sourcing network composing over 80 offices in more than 40 economies. Turnover represents revenue generated from sales at invoiced value to customers outside the Group less discounts and returns.

The Company is domiciled in Bermuda. The Group's management considers the business principally from a geographical perspective. Business reportable operating segments identified are geographical areas where the customers are located such as United States of America, Europe, Canada, Australasia, Central and Latin America and Rest of the world.

The Group's management assesses the performance of the operating segments based on a measure of operating profit. This measurement basis includes profit of the operating segments before share of results of associated companies, interest income, interest expenses and tax, but excludes material gain or loss which is of capital nature or non recurring nature such as gain or loss on disposal or impairment provision on property, plant and equipment, investments, goodwill or other assets. Other information provided to the Group's management is measured in a manner consistent with that in this interim financial report.

	TURNOVER SIX MONTHS ENDED 30 JUNE		**OPERATING PROFIT SIX MONTHS ENDED 30 JUNE**		**DEPRECIATION & AMORTIZATION SIX MONTHS ENDED 30 JUNE**		**NON-CURRENT ASSETS (OTHER THAN AVAILABLE-FOR-SALE FINANCIAL ASSETS AND DEFERRED TAX ASSETS)**	
							30 June	31 December
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Principal markets:								
United States of America	**34,548,222**	28,385,749	**2,109,793**	1,251,518	**446,753**	188,458	**15,215,286**	13,861,401
Europe	**13,023,152**	13,678,224	**372,832**	304,418	**52,932**	45,280	**7,733,329**	4,705,639
Canada	**1,407,519**	1,484,453	**50,048**	53,844	**3,643**	3,381	**276,176**	273,559
Australasia	**1,334,394**	1,236,828	**50,992**	42,537	**3,292**	2,799	**167,488**	139,355
Central and Latin America	**560,947**	609,506	**21,327**	22,017	**1,657**	1,395	**100,662**	139,392
Rest of the world	**917,686**	897,407	**30,418**	22,525	**2,629**	1,953	**426,905**	369,563
	51,791,920	46,292,167	**2,635,410**	1,696,859	**510,906**	243,266	**23,919,846**	19,488,909
Other non-core operating expenses			**(87,589)**	(47,929)				
			2,547,821	1,648,930				
Interest income			**36,206**	35,620				
Interest expenses			**(270,661)**	(211,651)				
Share of profits less losses of associated companies			**7,439**	11,276				
Profit before taxation			**2,320,805**	1,484,175				
Taxation			**(150,407)**	(88,202)				
Profit for the period			**2,170,398**	1,395,973				

Turnover consists of sales of softgoods and hardgoods as follows:

	UNAUDITED SIX MONTHS ENDED 30 JUNE	
	2010	2009
	HK$'000	HK$'000
Softgoods	**37,648,557**	32,835,790
Hardgoods	**14,143,363**	13,456,377
	51,791,920	46,292,167

For the six months ended 30 June 2010, approximately 12% (2009: 12%) of the Group's turnover is derived from a single external customer. This turnover is attributable to the United States of America segment.

4 OPERATING PROFIT

Operating profit is stated after charging the following:

	UNAUDITED SIX MONTHS ENDED 30 JUNE	
	2010	2009
	HK$'000	HK$'000
Amortization of computer software and system development costs	**20,106**	4,715
Amortization of brand licenses	**255,970**	56,476
Amortization of other intangible assets arising from business combination	**87,589**	47,929
Depreciation of property, plant and equipment	**147,241**	134,146
Loss on disposal of property, plant and equipment	**19,873**	6,035
Staff costs including directors' emoluments	**2,492,876**	2,164,948

5 TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% (2009: 16.5%) 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	
	2010	2009
	HK$'000	HK$'000
Current taxation		
– Hong Kong profits tax	**22,916**	33,784
– Overseas taxation	**119,878**	61,792
Deferred taxation	**7,613**	(7,374)
	150,407	88,202

As of the date of this announcement, the Group has disputes with Hong Kong Inland Revenue ("HKIR") involving additional tax assessments amounting to approximately HK$1,924 million on both the non-taxable claim of certain non-Hong Kong sourced income ("Offshore Claim") and the deduction claim of marketing expenses ("Deduction Claim") for the years of assessment from 1992/1993 to 2008/2009.

The Commissioner of the HKIR issued a determination on 14 June 2004 to one of its subsidiaries, Li & Fung (Trading) Limited ("LFT"), confirming additional tax assessments totalling HK$333 million relating to the years of assessment from 1992/93 to 2001/02. Under further legal advice from the Group's counsel, the directors believe that the Group has meritorious defence to appeal against the Commissioner's determination. Accordingly, LFT 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.

5 TAXATION (CONTINUED)

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

The Group has considered the reasoning of the Board of Review Decision and, having obtained professional advice, decided to lodge an appeal against the Board of Review Decision in respect of the Deduction Claim. An application requiring the Board of Review to state a case on questions of law for the opinion of the High Court was made by LFT on 10 July 2009.

On the other hand, the HKIR also lodged an appeal against the Board of Review Decision in respect of the Offshore Claim. An application requiring the Board of Review to state a case on questions of law for the opinion of the High Court was made by the HKIR on 10 July 2009.

On 19 March 2010, the Board of Review stated a case on questions of law in respect of both LFT's appeal in respect of the Deduction Claim, and the HKIR's appeal in respect of the Offshore Claim. On 1 April 2010, both LFT and the HKIR transmitted the stated case to the High Court for determination. On 15 July 2010, the HKIR applied to the High Court to remit the stated case to the Board of Review for amendment so as to include certain evidence and additional questions of law in the stated case.

As of the date of this interim financial report, the HKIR's application to amend the stated case has been fixed to be heard before the Court of First Instance on 17 February 2011, whereas the appeal in respect of the Board of Review decision by both LFT and the HKIR has been fixed to be heard before the Court of First Instance on 6 April 2011.

The Group has also filed objections with the HKIR against the remaining additional tax assessments of HK$1,591 million. The case before the Board of Review and now the High Court only applies to the additional tax assessments in respect of LFT for the years of assessment from 1992/93 to 2001/02. Our dispute with the HKIR regarding the remaining additional tax assessments in respect of certain other subsidiaries for the years of assessment from 1992/93 to 2001/02, and in respect of the Group for the period after the 2001/02 assessment years, is ongoing and has not yet been determined. It is therefore not yet before the Board of Review, and no hearing is currently scheduled.

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

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

6 INTERIM DIVIDEND

	UNAUDITED SIX MONTHS ENDED 30 JUNE 2010 HK$'000	2009 HK$'000
Proposed, of HK$0.38 (2009: HK$0.26) per ordinary share	**1,449,106**	978,494

A dividend of HK$1,867,705,000 proposed for the year ended 31 December 2009 was paid in May 2010 (2009: HK$1,199,839,000).

7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$2,171,295,000 (2009: HK$1,396,641,000) and on the weighted average number of 3,773,915,000 (2009: 3,650,964,000) shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of 3,773,915,000 (2009: 3,650,964,000) ordinary shares in issue by 40,358,000 (2009: 12,983,000) 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				Property, plant and equipment
	Intangible assets arising from business combination HK$'000	Brand licenses HK$'000	Computer software and system development costs HK$'000	Total HK$'000	Total HK$'000
Six months ended 30 June 2010					
Net book amount as at 1 January 2010	17,468,032	410,542	323,953	18,202,527	1,255,705
Additions	–	958,337	33,374	991,711	232,426
Acquisition of businesses/subsidiaries	3,950,158	–	–	3,950,158	102,304
Adjustments to purchase consideration and net assets value	3,543	–	–	3,543	–
Disposals	–	–	(161)	(161)	(51,023)
Amortization/depreciation charge	(87,589)	(255,970)	(20,106)	(363,665)	(147,241)
Exchange adjustment	(266,776)	–	(1,198)	(267,974)	(25,743)
Net book amount as at 30 June 2010	**21,067,368**	**1,112,909**	**335,862**	**22,516,139**	**1,366,428**

9 TRADE AND BILLS RECEIVABLE

The ageing analysis of trade and bills receivable based on invoice date 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 2010 (unaudited)	**13,161,205**	**294,140**	**33,391**	**22,667**	**13,511,403**
Balance at 31 December 2009 (audited)	12,095,108	377,931	71,239	17,096	12,561,374

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

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

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

Certain subsidiaries of the Group discounted bills receivable balances amounting to HK$305,366,000 (31 December 2009: HK$302,123,000) to banks in exchange for cash as at 30 June 2010. The transactions have been accounted for as collateralized bank advances.

As at 30 June 2010, trade receivables of HK$149,165,000 (31 December 2009: HK$106,773,000) were pledged as security for the Group's borrowings.

10 TRADE AND BILLS PAYABLE

The ageing analysis of trade and bills payable based on invoice date 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 2010 (unaudited)	**12,678,676**	**300,880**	**34,064**	**95,713**	**13,109,333**
Balance at 31 December 2009 (audited)	11,744,955	109,297	44,873	105,988	12,005,113

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

11 LONG-TERM LIABILITIES

	UNAUDITED 30 JUNE 2010 HK$'000	AUDITED 31 DECEMBER 2009 HK$'000
Long-term loans from non-controlling interests	**38,867**	38,867
Balance of purchase consideration payable for acquisitions	**5,632,115**	3,422,340
Long-term notes – unsecured	**6,977,775**	3,872,325
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**365,595**	464,050
License royalty payables	**1,117,145**	450,039
	14,131,497	8,247,621
Current portion of balance of purchase consideration payable for acquisitions	**(1,357,793)**	(1,138,668)
Current portion of balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**(365,595)**	(323,700)
Current portion of license royalty payables	**(376,432)**	(219,652)
	12,031,677	6,565,601

12 SHARE CAPITAL AND OPTIONS

	No. of shares (in thousand)	HK$'000
Authorized		
At 1 January 2010, ordinary shares of HK$0.025 each	4,000,000	100,000
At 30 June 2010, ordinary shares of HK$0.025 each *(Note)*	**6,000,000**	**150,000**
Issued and fully paid		
At 1 January 2010, ordinary shares of HK$0.025 each	3,776,118	94,403
Exercise of share options	35,756	894
At 30 June 2010, ordinary shares of HK$0.025 each	**3,811,874**	**95,297**

NOTE: Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 18 May 2010, the Company's authorized share capital was increased from HK$100,000,000 to HK$150,000,000 by the creation of an additional 2,000,000,000 new shares of HK$0.025 each in the capital of the Company.

12 SHARE CAPITAL AND OPTIONS (CONTINUED)

Details of share options granted by the Company pursuant to the Share Option Scheme and the share options outstanding at 30 June 2010 are as follows:

			Number of Share Options				
Grant Date	Exercise Price HK$	Exercisable period	As at 1/1/2010	Granted	Exercised	Lapsed	As at 30/6/2010
20/6/2005	13.45	20/6/2007 – 19/6/2010	4,301,800	–	(4,221,800)	(80,000)	–
20/6/2005	13.45	20/6/2008 – 19/6/2011	8,302,400	–	(5,401,800)	(176,000)	2,724,600
20/6/2005	13.45	20/6/2009 – 19/6/2012	12,225,200	–	(4,822,000)	(176,000)	7,227,200
23/1/2006	13.72	20/6/2007 – 19/6/2010	169,200	–	(169,200)	–	–
23/1/2006	13.72	20/6/2008 – 19/6/2011	682,000	–	(165,000)	–	517,000
23/1/2006	13.72	20/6/2009 – 19/6/2012	762,000	–	(245,000)	–	517,000
19/6/2006	15.65	20/6/2007 – 19/6/2010	8,000	–	(8,000)	–	–
19/6/2006	15.65	20/6/2008 – 19/6/2011	368,000	–	(124,000)	–	244,000
19/6/2006	15.65	20/6/2009 – 19/6/2012	990,000	–	(530,000)	–	460,000
02/2/2007	25.50	20/6/2008 – 19/6/2011	1,379,000	–	(487,000)	–	892,000
02/2/2007	25.50	20/6/2009 – 19/6/2012	5,218,000	–	(2,398,000)	–	2,820,000
13/7/2007	29.93	20/6/2009 – 19/6/2012	1,327,000	–	(693,000)	–	634,000
24/1/2008	25.55	01/3/2009 – 28/2/2011	25,296,500	–	(10,380,500)	(356,000)	14,560,000
24/1/2008	25.55	01/3/2010 – 29/2/2012	24,734,000	–	(3,059,000)	(356,000)	21,319,000
24/1/2008	25.55	01/3/2011 – 28/2/2013	24,734,000	–	–	(356,000)	24,378,000
21/5/2008	30.00	01/3/2009 – 28/2/2011	2,238,500	–	(473,000)	(30,000)	1,735,500
21/5/2008	30.00	01/3/2010 – 29/2/2012	1,400,000	–	(197,500)	(30,000)	1,172,500
21/5/2008	30.00	01/3/2011 – 28/2/2013	1,400,000	–	–	(30,000)	1,370,000
13/8/2008	26.20	01/3/2009 – 28/2/2011	1,174,900	–	(451,900)	–	723,000
13/8/2008	26.20	01/3/2010 – 29/2/2012	1,697,100	–	(411,900)	–	1,285,200
13/8/2008	26.20	01/3/2011 – 28/2/2013	1,697,100	–	–	–	1,697,100
24/2/2009	17.22	01/3/2010 – 29/2/2012	2,729,000	–	(1,325,000)	(66,000)	1,338,000
24/2/2009	17.22	01/3/2011 – 28/2/2013	2,408,000	–	–	(60,000)	2,348,000
14/8/2009	27.80	01/3/2010 – 29/2/2012	1,792,500	–	(193,200)	(19,200)	1,580,100
14/8/2009	27.80	01/3/2011 – 28/2/2013	2,123,700	–	–	(25,500)	2,098,200
25/3/2010	41.52	01/3/2011 – 28/2/2013	–	2,733,100	–	–	2,733,100
		Total	129,157,900	2,733,100	(35,756,800)	(1,760,700)	94,373,500

Subsequent to 30 June 2010, 1,563,400 Shares have been allotted and issued under the Option Scheme.

13 OTHER RESERVES

	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**	**Total HK$'000**
Balance at 1 January 2010	**(464,050)**	**27,157**	**311,027**	**1,297**	**6,112**	**(274,152)**	**(392,609)**
Comprehensive income							
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**(344,862)**	**(344,862)**
Net fair value losses on available-for-sale financial assets, net of tax	**–**	**–**	**–**	**(1,542)**	**–**	**–**	**(1,542)**
Net fair value gains on cash flow hedges, net of tax	**–**	**–**	**–**	**–**	**31,415**	**–**	**31,415**
Transactions with owners							
Employee share option scheme:							
– value of employee services	**–**	**–**	**27,257**	**–**	**–**	**–**	**27,257**
– transfer to share premium	**–**	**–**	**(136,112)**	**–**	**–**	**–**	**(136,112)**
Release of shares held by escrow agent for settlement of acquisition consideration	**98,455**	**–**	**–**	**–**	**–**	**–**	**98,455**
Transfer to capital reserve	**–**	**477**	**–**	**–**	**–**	**–**	**477**
At 30 June 2010	**(365,595)**	**27,634**	**202,172**	**(245)**	**37,527**	**(619,014)**	**(717,521)**

	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	Total HK$'000
Balance at 1 January 2009	(464,050)	25,307	241,102	–	943	(309,759)	(506,457)
Comprehensive income							
Currency translation differences	–	–	–	–	–	65,776	65,776
Net fair value gains on available-for-sale financial assets, net of tax	–	–	–	2,909	–	–	2,909
Net fair value losses on cash flow hedges, net of tax	–	–	–	–	(43,434)	–	(43,434)
Transactions with owners							
Employee share option scheme:							
– value of employee services	–	–	31,960	–	–	–	31,960
– transfer to share premium	–	–	(16,597)	–	–	–	(16,597)
At 30 June 2009	(464,050)	25,307	256,465	2,909	(42,491)	(243,983)	(465,843)

14 BUSINESS COMBINATIONS

During the period, the Group completed several acquisitions with a total estimated performance-based consideration of approximately HK$4,395,753,000. These acquisitions were made with the aims to expand the Group's existing scale of operation and enlarge the Group's market presence.

On 25 February 2010, the Group entered into an agreement to acquire the entire issued share capital of Visage Group Limited ("Visage Group"). Visage Group is a leading private-label apparel supplier to leading high street and mass retailers in the UK. Visage Group has strong expertise and capabilities in design and product development in men's, ladies and childrenswear.

In May 2010, the Group acquired the entire interest of Hong Kong-based Jackel Group, which services the beauty industry in primary packaging, fragrance and personal care.

In June 2010, the Group acquired the entire business of the Hong Kong-based HTP Group, which is a design driven jeanswear specialist.

The Group consolidated the results of these acquired businesses upon obtaining their controls through acquiring the entire/ predominate voting rights in their respective board of directors. Individual acquisitions of Visage Group, Jackel Group and HTP Group, and certain other smaller acquisitions, and their aggregate, have no significant contribution to the revenue and profit of the Group from either their dates of acquisition or for the six months ended 30 June 2010, had these acquisitions occurred on 1 January 2010.

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

	Total HK$'000
Purchase consideration	4,395,753
Less: provisional fair value of net assets acquired	(1,067,936)
Goodwill	3,327,817

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

As at the date of this interim report, the Group has yet to finalize the fair value assessments for new assets acquired from these acquisitions. The Group expects to finalize the purchase price allocations by 31 December 2010. Acquisition-related costs have been recognized as administrative expenses in the consolidated profit and loss account.

14 BUSINESS COMBINATIONS (CONTINUED)

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

	Total HK$'000
Net assets acquired	
Intangible assets	622,341
Property, plant and equipment	102,304
Inventories	318,837
Trade and bills receivable	726,598
Other receivables, prepayments and deposits	36,249
Taxation	6,122
Cash and bank balances	423,572
Trade and bills payables	(749,105)
Accrued charges and sundry payables	(418,839)
Deferred taxation	(143)
Provisional fair value of net assets acquired	1,067,936

15 CONTINGENT LIABILITIES

	UNAUDITED 30 JUNE 2010 HK$'000	AUDITED 31 DECEMBER 2009 HK$'000
Guarantees in respect of banking facilities granted to associated companies	**5,850**	5,850

16 COMMITMENTS

(A) OPERATING LEASE COMMITMENTS

At 30 June 2010, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	UNAUDITED 30 JUNE 2010 HK$'000	AUDITED 31 DECEMBER 2009 HK$'000
Within one year	**405,720**	451,966
In the second to fifth year inclusive	**1,074,198**	1,177,030
After the fifth year	**1,327,660**	1,364,779
	2,807,578	2,993,775

(B) CAPITAL COMMITMENTS

	UNAUDITED 30 JUNE 2010 HK$'000	AUDITED 31 DECEMBER 2009 HK$'000
Contracted but not provided for:		
Property, plant and equipment	**80,288**	33,526

17 RELATED PARTY TRANSACTIONS

Pursuant to certain sale and leaseback agreements and some other properties tenancy agreements entered into by the Group with certain 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$55,701,000 for the six months ended 30 June 2010 (2009: HK$60,546,000).

On 23 May 2008, the Company entered into the 2008 Logistics Agreement (the "2008 Logistics Agreement") with LF 1937, a substantial shareholder of the Company, pursuant to which LF 1937 and certain other entities, such as Integrated Distribution Services Group Limited, with LF 1937 as a common substantial shareholder would provide a variety of logistics services to the Group. The 2008 Logistics Agreement covers the scope of services contemplated under the original PB Logistics Agreement entered into on 14 September 2007 between the Group and Integrated Distribution Services Group Limited. In respect of the 2008 Logistics Agreement the Group paid logistics service charges of HK$77,340,000 for the six months ended 30 June 2010 (2009: HK$58,950,000).

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

18 FINANCIAL RISK MANAGEMENT

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

(A) MARKET RISK

(i) Foreign exchange risk

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

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

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

The Group's cash is mainly kept in either 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.

At 30 June 2010 and up to the date of the Group's interim financial report, the Group held no material financial derivative instruments except for certain foreign exchange forward contracts entered into for hedging of foreign exchange risk exposure on sales and purchases transacted in different currencies *((i) above)*. At 30 June 2010, fair value of foreign exchange forward contracts entered into by the Group amounted to HK$47,088,000 (31 December 2009: HK$2,620,000), which have been reflected in full in the Group's consolidated balance sheet as derivative financial instruments (assets).

(iii) Cash flow and fair value interest rate risk

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

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

18 FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) CREDIT RISK

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

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

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

(i) A significant portion of business is secured by back-to-back payment arrangement or covered by letters of credit, customers' standby letters of credit, bank guarantees or credit insurance;

(ii) Certain trade receivable balances on open account term are factored to external financial institutions without recourse;

(iii) The Group's credit control team makes assessment of each individual customer and vendor and determines the credit limits based on, among other factors, their trading and settlement history and their respective financial background.

(C) LIQUIDITY RISK

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

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

19 EVENTS AFTER BALANCE SHEET DATE

In July 2010, the Group completed the acquisition of substantially all assets of Cipriani Accessories Inc. and its affiliate, The Max Leather Group. Cipriani Accessories Inc., is a leading designer, distributor and importer of men's and women's accessories in the US, Mexico and Canada.

In the same month, the Group issued additional long term notes of US$350 million (equivalent to approximately HK$2,730 million), which have a maturity date of 13 May 2020 and bear a fixed interest rate of 5.25% per annum. These additional long term notes consolidated and form a single series with the long term notes of US$400 million (equivalent to approximately HK$3,120 million) issued in May 2010 and both would rank *pari passu* with each others. Fund raised with these long term notes are primarily intended for business development and acquisitions.

In August 2010, the Group completed another two acquisitions namely, Jimlar Corporation and Kenas Furniture Group. Jimlar Corporation is an U.S. – based leading designer, distributor and supplier of footwear in the U.S. and internationally. Kenas Furniture is a China's leading furniture trading companies which sells furniture to premier retailers and brands overseas. Kenas Furniture Group, based in shanghai, has strong in-house capabilities in furniture design and product development.

20 APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board of Directors on 12 August 2010.

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
Dow Jones Sustainability Asia Pacific Index
Hang Seng Corporate Sustainability Index Series

KEY DATES

12 August 2010
Announcement of 2010 Interim Results

27 August 2010 to 2 September 2010
(both days inclusive)
Closure of Register of Shareholders

3 September 2010
Payment of 2010 Interim Dividend

REGISTRAR & TRANSFER OFFICES

Principal:
HSBC Bank Bermuda Limited
(formerly: The Bank of Bermuda Limited)
6 Front Street, Hamilton HM11, 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 2010
3,811,874,186 shares

Market Capitalization as at 30 June 2010
HK$133,987,377,637

Earnings per share for 2010
Interim 57.5 HK cents

Dividend per share for 2010
Interim 38 HK cents

INVESTOR RELATIONS CONTACT

Ms Mable Chan
Senior Vice President
– Corporate Communications and Investor Relations

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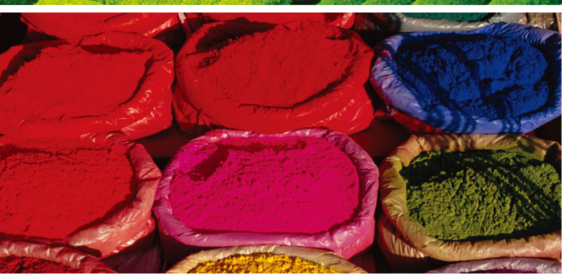

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