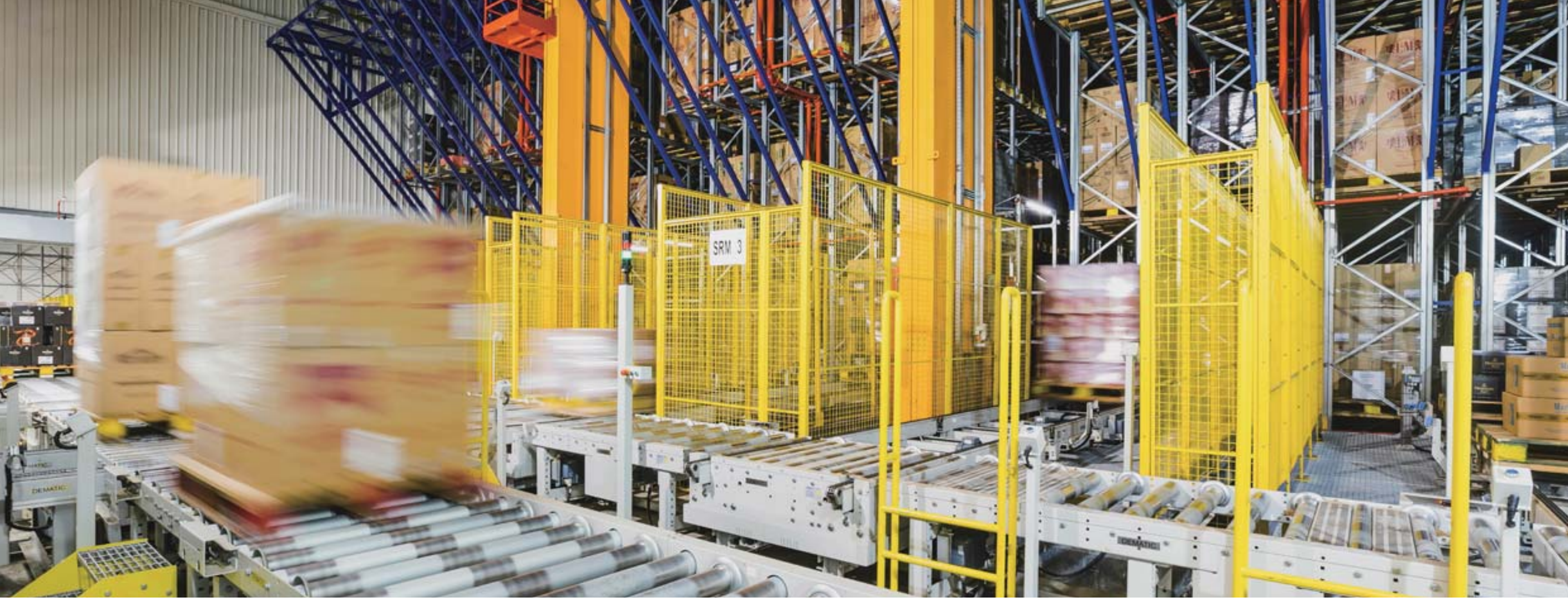
CREATING THE SUPPLY CHAIN OF THE FUTURE
創造未來的供應鏈

Interim Report
中期業績報告
2018

LI & FUNG LIMITED

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



Contents

Our goal is to create the supply chain of the future to help our customers navigate the digital economy and to improve the lives of one billion people in the supply chain.

Speed

Our goal is to decrease lead times and increase speed to market for our customers. We want to be more agile and produce results more quickly by simplifying processes, using technology and embracing new ways of working with our customers and other industry partners.

Innovation

We are embedding innovation not only into our product and service offerings but also in new business models and ways of working with our customers and other ecosystem partners, enabling a culture of open innovation and collaboration.

Digitalization

To achieve speed and innovation our goal is the digitalization of the entire supply chain. By digitizing key aspects of the supply chain from product development, material costings and sampling, to the final creation and delivery of products, we are creating an end-to-end platform that will make customers' processes more seamless, efficient and cost effective enabling us to deliver data-driven insights and customized services.

Please scan the QR code
to read our report.

Corporate Information

Executive Directors

William Fung Kwok Lun
Spencer Theodore Fung
Marc Robert Compagnon
Joseph C. Phi

Non-executive Directors

Victor Fung Kwok King
Allan Wong Chi Yun*
Margaret Leung Ko May Yee*
Martin Tang Yue Nien*
Chih Tin Cheung*
John G. Rice*

* Independent Non-executive Directors

Chief Financial Officer

Edward Lam Sung Lai

Group Chief Compliance and Risk Management Officer

Jason Yeung Chi Wai

Company Secretary

Terry Wan Mei Chow

Auditor

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

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited

Citibank, N.A.

Standard Chartered Bank (Hong Kong) Limited

JPMorgan Chase Bank, N.A.

Legal Advisors

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

Registered Office

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

Hong Kong Office

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

Highlights

2018 FIRST HALF OVERVIEW (CONTINUING OPERATIONS)

Turnover

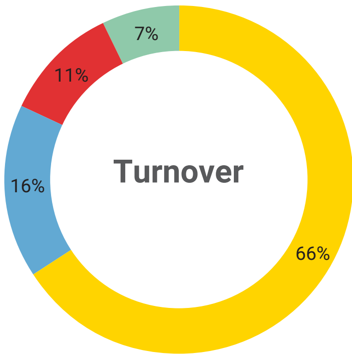
US$5,850M

Total margin

US$614M

Core operating profit

US$124M



Group geographical market turnover

US$5,850M

USA
Europe
Asia
Rest of World

Earnings per share (basic)

4.6 HK cents

0.6 US cents

Dividends per share (interim)*

3.0 HK cents

0.4 US cents

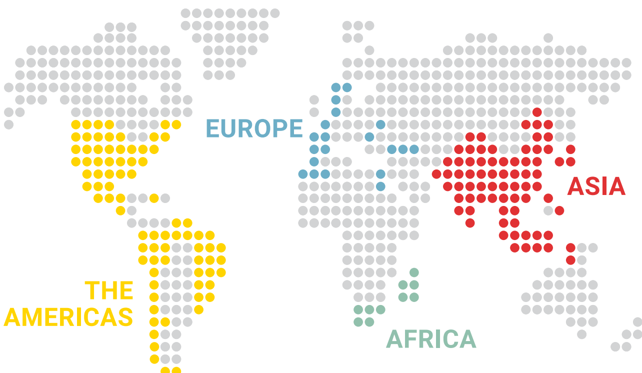
Economies

50+

Employees worldwide

17,374

We operate an extensive global supply chain network with over 17,000 people in around 230 offices around the world, working with a comprehensive network of suppliers in over 50 economies to add value to our global brand and retail customers.



Operating cash flow**

US$158M

Cash and bank balances

US$319M

Gearing ratio

20%

* Including Continuing Operations and Discontinued Operations.
** Adjusted for non-cash items before working capital changes and profit tax paid.

A Letter from Our Chairman

We are at the mid-point of our transformative Three-Year Plan. Creating the supply chain of the future demands a fundamental mindset shift, not only from us, but also from our customers and all stakeholders along the supply chain.

Dear Shareholders,

This interim results report carries particular significance because we are mid-way through one of the most interesting three-year plans in Li & Fung's history. Creating the supply chain of the future demands a fundamental transformation of mindset and way of working, not only from us, but also from our customers and all stakeholders along the supply chain. While our business is morphing, seismic shifts are occurring in our ecosystem, coupled with cyclical economic and geopolitical turbulence, and all these changes reinforce each other's impact. Steering a business during a time of exponential change is never easy but our commitment is unwavering. While we create the supply chain of the future and future-proof our business, we are also countering traditional economic and geopolitical turbulence with our tried and true model of a flexible and global sourcing network.

Economic Recovery and Geopolitical Risks

Our biggest market, the United States, continued to report strong economic growth in the first half of 2018 and is now in its second-longest economic expansion in history. The national unemployment rate improved steadily, dipping below 4% in April for the first time in nearly two decades, and the job creation figure exceeded economists' forecasts. The inflation rate has been edging up steadily year-to-date and the expectation is that the Fed will continue its rate hike cycle.

Growth in Europe eased slightly from the strong momentum we saw last year. However, the recent currency turmoil in Turkey may present a risk to this steady growth trajectory and the deadline for Brexit and pressure to reach an agreement between the United Kingdom and European Union will intensify closer to the date. These uncertainties will pose higher headline risks and have a negative influence on economic and consumer sentiment.

China has concerns over a heated housing market and potential disruption from trade conflict with the US, but the country has maintained a steady growth rate in the first half of the year and continued to grow its ever-increasing middle class market.

The Korean peninsula crisis that put the world at the brink of war a year ago moderated significantly as North Korea has started striking a more reconciliatory tone towards the US after the Singapore summit in June. However, while the risk of major military conflicts in East Asia has abated, tension in other hotspots like the Middle East may potentially pressure oil prices upward, which will translate to higher raw material and transportation prices for consumer goods.

Trade Agreements and Tariffs

Negotiations over Brexit and NAFTA Modernization, both initiated in 2017, remain a work-in-progress. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a reincarnation of the Trans-Pacific Partnership after the US withdrawal, was signed in March but less than half of the partner countries have ratified the agreement. Meanwhile the Transatlantic Trade and Investment Partnership (TTIP), once held back by trade tension between Europe and the US, recently regained momentum. We believe these negotiations are part of a complex process of global trade realignment and may take years to conclude.

At the center stage of all this is the friction between China and the US. The recent escalation of tension casts further uncertainty over tariffs and the barrier to entry for products on both sides. We do not know when the two governments will resolve their differences. The need for contingency plans by our customers has clearly become more pressing and we are confident that our traditional comprehensive network of suppliers in over 50 economies provides the best cushion against any potential shock to the supply chain. Furthermore, as a company with a long history, we have a successful track record of operating under turmoil from protectionism and are already helping our customers reconfigure their production bases to weather this present storm.

Evolution of China's Place in Global Trade

Regardless of the outcome of the ongoing US/China trade negotiations, decanting of low-value added production away from China will continue because of multiple drivers. First of all, the demographic shift in China is shrinking its working population and pushing labor costs higher. Coupled with the tense relationship with the US, the Chinese government is encouraging its labor-intensive manufacturers to move overseas and re-orient the economy towards a domestic consumption, service and technology-led growth model. This economic evolution will contribute to an increasing middle class and consumption, which will have far-reaching implications for intra-Asia trade and logistics. While we continue to cultivate new customers in our traditional markets and help customers mitigate impact from any trade war, we are focused on capitalizing on this long-term trend in China, in particular, and in Asia in general.

Omni-Channel Development

Consumer trends and changes have accelerated and spread globally. Consumer expectation has changed permanently and businesses are deriving tangible value from being omni-channel. E-commerce is more than just a retail format, it is also an enabler for data analytics on consumer behavior that leads to more accurate prediction of consumer taste and purchases.

Our traditional comprehensive network of suppliers in over 50 economies provides the best cushion against any potential shock to the supply chain.

The new norm for retail calls for a new supply chain paradigm that is characterized by quicker turnaround, more frequent, but smaller, orders and leaner inventory. Li & Fung is proactively reshaping its supply chains and will continue to lead the change. A by-product of this transformation is multi-year destocking by brands and retailers. We are addressing the headwinds from this destocking trend with sharper focus on converting new business. An even more strategic focus is on building and aligning our core competencies with the most adaptable and innovative customers who we believe will emerge as winners in the current retail reshuffling.

The Supply Chain of the Future

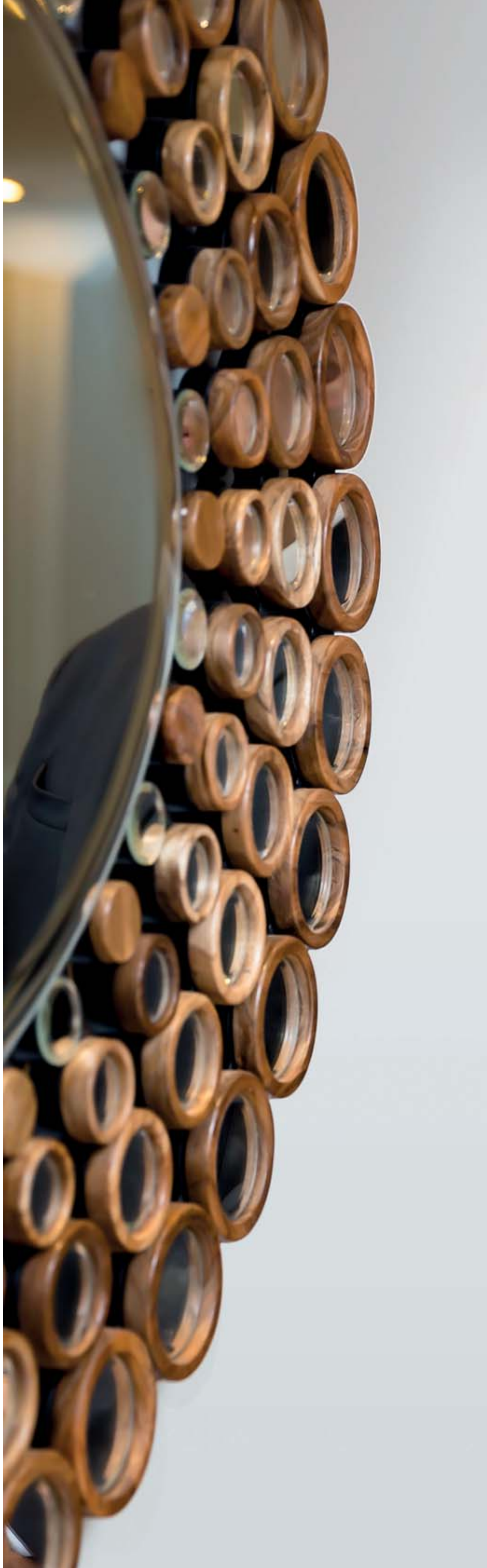
When we launched the current Three-Year Plan, the supply chain of the future was an ambitious vision. Today, the vision is materializing and our services are generating tangible benefits for our customers. For the rest of the Three-Year Plan, we expect more partners to join our efforts in transforming the retail supply chain and our digitalization efforts will accelerate. I am grateful to our colleagues, our customers and our suppliers for their open minds, perseverance and patience as together we continue to turn our vision of the supply chain of the future into a reality.

Yours sincerely,

William Fung Kwok Lun
Group Chairman

A Letter from Our CEO

With the ever-changing needs of our customers, more movements in the production base, and the need to create the end-to-end digital platform, we have reorganized our core Supply Chain Solutions business to put even greater focus on our customers.



Dear Shareholders,

Li & Fung is now at the half-way mark of our Three-Year Plan (3YP) of 2017–2019 to create the Supply Chain of the Future. As we take a pause to examine how we have done so far, we are excited to report that we exceeded our financial and strategic objectives during the first year of our Plan. 2018, however, is shaping up to be an increasingly challenging year for the Company as the environment continues to evolve faster than ever before. In April 2018, we successfully divested our three Product Verticals and brought in US$1.1 billion of cash which helped strengthen our capital structure. Our Core Operating Profit (COP) was down 18% driven by a lower turnover, which was affected by the ongoing destocking trend, customer bankruptcies and store closures. We continued a firm control of cost in our Supply Chain Solutions business, balanced by investments made to support the double-digit growth of our Logistics business and investments in our digital platform. We also announced an aggressive reorganization to better focus on our core customers, as well as the plan to take our Logistics business public via a separate listing on the Hong Kong Stock Exchange.

In recent months the world has been consumed by the US-China trade war. As a global supply chain company, we have always employed a diversified sourcing strategy with production in more than 50 countries. With 20–30 years of history in most of these and strong relationships with the local governments, supplier communities and business leaders, we are able to quickly move production from one country to another should the trade war intensify. Despite three rounds of additional tariffs, less than 2% of our business is affected. While the tariffs do not directly impact our turnover, we have specific plans with individual customers to reposition their orders should the trade war escalate. With a globally diversified network, we are in the best position to absorb any shock and to gain market share if the situation deteriorates.

As a part of the half-time review of our Three-Year Plan, we announced one of the most important reorganizations in our history. Because of the ever-changing needs of our customers, more movements in the production base, and the need to create the end-to-end digital platform, we have reorganized our core Supply Chain Solutions business to put even greater focus on our customers. We created six new account management teams to be fully dedicated to customer-facing services and are appointing a Chief Operating Officer to run our global production platform to free up time from our customer-facing teams. The account management teams will ensure that our customers have our undivided attention in helping them achieve their goals. The production platform will harmonize our KPIs across geographies and provide a consistent level of service, making it easier than ever before to migrate production from one country to another. A new Chief Digital Officer will focus on speeding up the development of our end-to-end digital platform. The first stages of the digital platform have already been developed with our 3D virtual design team, in particular, being well received by customers for increasing their speed to market. This aggressive reorganization puts us in an offensive position to improve customer satisfaction and drive growth for our Company.

Our Logistics business continues to outperform its competition, registering 15% year-on-year COP growth and a 27% compound annual growth rate in COP since it became part of Li & Fung in 2010. Both in-country logistics and freight forwarding have strong momentum and, in particular, e-commerce logistics in China is very strong, almost doubling its growth from last year. Recently we expanded our services to the Healthcare and Electronics verticals and have expanded to new countries including Korea, Japan, Vietnam, and India – bringing additional growth to the business. To further enhance this growth, we announced our intention to seek an IPO of the Logistics business on the Hong Kong Stock Exchange as early as the first half of 2019. We will remain a controlling shareholder of LF Logistics and continue to consolidate the results of LF Logistics in our financial statements. The two businesses are highly synergistic and will continue to cross-sell and co-develop an end-to-end digital supply chain that will service our customers and suppliers seamlessly.

As we move into the second half of our Three-Year Plan to create the supply chain of the future, we remain excited about the amazing opportunities that lie ahead. Our customers, suppliers, and colleagues are excited to execute our vision and we are now more laser focused than ever. With the changing environment we have aggressively reorganized our Company to focus on our core customers and services, and to speed up the development of our end-to-end digital platform. I look forward to giving you a further update at our 2018 annual results announcement and I want to take this opportunity to thank all our colleagues, partners, and the investment community for your continued support and faith in Li & Fung.

Yours sincerely,

Spencer Fung
Group CEO

As we move into the second half of our Three-Year Plan to create the supply chain of the future, we remain excited about the amazing opportunities that lie ahead.

Our Performance

For our Three-Year Plan (2017-2019),
we are diligently executing
our key themes of speed, innovation
and digitalization to create
the supply chain of the future.

Our Performance

We remain on track to deliver a fully-integrated digital platform that connects suppliers, customers and other partners with end-to-end visibility and data analytics which will enable us to provide better and faster supply chain services.

Results Overview

Mid-point of Three-Year Plan (2017–2019)

Our Three-Year Plan (2017–2019) got off a strong start in its first year. In 2017, we met our financial targets despite a tough operating environment. The strong start created a higher comparative base for this year, both in terms of core operating profits and margin trends. Pressure on turnover from destocking and deflation remained throughout the first half of 2018. Beginning last year, we spearheaded a comprehensive productivity drive for the entire business operations, and our productivity initiatives continued in 2018. Since the majority of productivity gains were realized last year, the incremental efficiency is having a smaller impact this year. Furthermore, in order to maintain our leadership position in several of our digitalization efforts, we have accelerated our investments in digitalization, which will add to our operating expenses for the year.

While the retail industry and its supply chain continue to undergo profound fundamental shifts, we remain focused on executing our vision to create the supply chain of the future.

Multi-year Destocking Trend

All retailers – online and offline – are focused on carrying the right merchandise at the right time to satisfy today's fast changing consumer trends. In order to achieve this, they are looking for solutions to speed up their design-to-production cycle, causing a transitional inventory destocking until optimized inventory levels are reached. Our company has been offering a speed model and digitalization modules to help customers win in the marketplace. Early adopters of the speed model and digitalization modules have already witnessed better operational results in terms of increased sell-through, reduced mark-down and improved inventory levels. Their success has in turn generated additional interest from other customers. While the adoption of our speed model and digitalization modules is positive for the retail industry and our company in the long run, it creates a transitional headwind for our turnover as customers destock their inventory level to a new normal.

At the same time, traditional retailers, who were under pressure from e-commerce a few years ago, have been fighting back with new technologies and innovative solutions. Their investment in e-commerce has allowed them to recapture retail sales and become competitive with pure online competitors. However, this led to an unprecedented number of store closures in 2017 and the pace of store closure is poised to be even higher in 2018. Also, as retailers rationalize their retail footprints, a recalibration of inventory is required. Physical stores typically carry more inventory to create an attractive visual to attract shoppers to the store. As retailers move retail sales to online channels, they are reducing their retail footprints; thus, destocking their store inventory to lower levels. This destocking transition has had a negative impact to our turnover.

We expect the destocking trend to continue until the industry settles into a new inventory equilibrium. We also believe the destocking is a transient phenomenon through which our customers will achieve better operations and financial strength. Destocking can be a multi-year process depending on the pace of adoption of each customer, who are at different stages in this journey. This means the impact on our business might be spread out. Some retailers will encounter more challenges in adapting to new landscape, resulting in distress and, in some cases, bankruptcies.

Increased Global Competition in Retail

The competition in retail has increased dramatically due to global e-commerce and logistics. Pure e-commerce brands have been gaining scale and market share as they ship globally. Technology giants have also expanded into brick-and-mortar format in addition to their e-commerce platforms to host brands and facilitate global retail sales. Borderless sales are becoming more of a commonplace as e-commerce platforms around the world sell directly to end-consumers globally. This has led to increased price transparency across the markets and channels. As a response, retailers are permanently promotional in order to capture sales, requiring our customers to source ever more cost-effectively.

Select Economies Recovering but Trade Uncertainty Looms

While the economic recovery, especially in the US, remained solid, uncertainties loomed and posed potential disruptions to the supply chain. Tension between China and the US over trade further escalated in 2018 with potential implications on alternatives for sourcing countries. Separately, China is also tightening environmental regulations, adding to inflationary pressure on manufacturers. With a vast global network of factories spanning more than 50 economies, we are prepared to take advantage of any disruption in the global trade flow and help our customers source the right merchandise at the right time. This remains a core competitive advantage of the Company and a key differentiator during uncertain times.

Strategic Initiatives

On the strategy front, we have been making strides in transforming the business. The global business development team, a dedicated resource on a global basis set up in early 2017, has successfully developed a strong customer pipeline by adopting a solution-based approach. From this pipeline, we aim to convert new key customers that are critical in meeting our current Three-Year Plan. For existing customers, our account management teams continued to assist our customers in adopting changing business needs and upsell our new value-added services.

Efforts by the corporate development team, set up to bring together diverse partners in the ecosystem, have begun to bear fruits. The team has entered into multiple cooperation arrangements with various technology start-ups and supply chain ecosystem partners to develop and offer new supply chain services to our brands and retailer customers, as well as factories. Our data universe continued to grow organically, providing an ever-more fertile ground for our data analytics team to generate new insights and develop differentiated data analytics products such as the trend engine, helping our customers make better-informed design and buying decisions.

Speed Model and Digitalization

Our Group remains focused on speed to increase the velocity of our customers' supply chains to meet growing consumer expectations driven by e-commerce. We have created a speed model along with a series of digitalization modules to facilitate the faster supply chain. Early adopters of our supply chain solutions with emphasis on speed and digitalization have achieved better operational results in terms of increased sell-through, reduced mark-down and improved inventory levels. Their success has generated additional interest from other customers. Furthermore, we have made significant effort and investment in developing and rolling out our digital offerings such as the virtual sampling, materials marketplace, trend engine, production tracking tool, and dynamic costing portal. These digitalization modules can further shorten the design-to-production-cycle and have gained significant traction along various parts of the supply chain.

While we earmarked US$150 million for spending on digitalization over the Three-Year Plan, the scale of investment in 2017 was relatively conservative since we were in the early exploration stage. With our leadership position in digitalized supply chain established, we have accelerated the investments in digitalization to maintain the momentum and further entrench our lead. Some of this spending will be classified as operating expenses instead of capital expenditures. This will have a negative impact on our operating profit but it will also reduce expected capital expenditure.

Overall, we are pleased with our progress in digitalization and we remain on track to deliver a fully-integrated digital platform that connects suppliers, customers and other partners with end-to-end visibility and data analytics. This will serve as the nucleus of our future service offerings enabling Li & Fung to provide better, faster supply chain services beyond the traditional sourcing services.

IPO of Logistics business

Our Logistics business ("LF Logistics") has grown double digit on an annualized basis top and bottom line since it became a part of Li & Fung at the end of 2010. It continues to benefit from the tailwind of the rising middle-class consumption in Asia, e-commerce logistics, geographic and vertical expansions. In order to further accelerate LF Logistics business' growth momentum, we have decided to seek a separate listing of our Logistics business on the Hong Kong Stock Exchange. We have engaged professional third parties as advisers to advise on the potential spin-off and separate listing of LF Logistics. Post spin-off, we expect to remain the controlling shareholder of LF Logistics and continue to consolidate the results of LF Logistics in our financial statements. We expect the timing of the listing would be as early as first half 2019 depending on market conditions and other factors. We believe the proposed spin-off will allow us to unlock the value of LF Logistics and accelerate its growth, and further enhance the capital structure and financial flexibility for the Group.

Strategic Divestment of Product Verticals

In December 2017, we announced the strategic divestment of the three Product Verticals, furniture, beauty and sweaters for US$1.1 billion to further simplify our business. The divestment received approval from our Independent Shareholders in January 2018. The transaction was subsequently approved by the regulators and completed in April 2018. Our financial results and management discussion and analysis will mainly focus on our Continuing Operations, which consist of Supply Chain Solutions, Logistics and Onshore Wholesale businesses. The three Product Verticals are classified as Discontinued Operations and presented separately in the consolidated profit and loss account as a single line item.

Special Dividend and Redemption of US$500 Million Perpetual Capital Securities

The divestment of the three Product Verticals brought in US$1.1 billion in cash. In May 2018, we returned US$520 million to our shareholders in the form of special dividends. In the same month, we also redeemed US$500 million in perpetual capital securities. The redemption further strengthened our capital structure and it will also reduce our distribution to perpetual capital securities holders by US$30 million on an annual basis.

Results

The following financial results summary mainly focuses on our Continuing Operations, which includes Supply Chain Solutions, Logistics and Onshore Wholesale businesses. The three Product Verticals are classified as Discontinued Operations and are presented separately as a single line item.

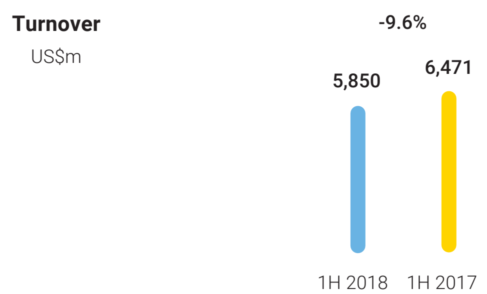
	Group Results[1]		
(US$ million)	**1H 2018**	1H 2017 (Restated)[2]	Change %
Turnover	**5,850**	6,471	(9.6%)
Total Margin	**614**	642	(4.4%)
As % of Turnover	***10.5%***	*9.9%*	
Operating Costs	**489**	491	(0.2%)
As % of Turnover	***8.4%***	*7.6%*	
Core Operating Profit	**124**	151	(18.0%)
As % of Turnover	***2.1%***	*2.3%*	
Gain on Remeasurement of Contingent Consideration Payable	**–**	30	
Profit for the Period			
– Continuing Operations	**79**	123	
– Discontinued Operations	**(138)**	10	
– Total	**(59)**	133	
Profit Attributable to Shareholders[3]			
– Continuing Operations	**50**	91	
– Discontinued Operations[1]	**(135)**	10	
– Total	**(85)**	101	
Adjusted Profit Attributable to Shareholders[4]	**50**	62	(19.2%)

1. Group results with Discontinued Operations separately presented given the strategic divestment of the three Product Verticals in April 2018. The loss attributable to Shareholders of US$135 million is the result of an operating loss of the discontinued business of the three Product Verticals of US$21 million during primarily the first three months of 2018 and final disposal losses resulting from discontinued business of US$114 million.
2. Restated historical financials to reflect the three Product Verticals presented as Discontinued Operations
3. Excluding profit attributable to holders of perpetual capital securities and non-controlling interests
4. Profit attributable to shareholders for Continuing Operations excluding gain on remeasurement of contingent consideration payable.

TURNOVER

Group turnover, on a like-for-like basis, excluding the impact of the divestment of the three Product Verticals, decreased by 9.6% to US$5.9 billion. This was mainly due to customers' ongoing destocking trend and retail store closures. Turnover was also negatively impacted by customers who went through bankruptcy situations in prior year.

These developments presented both opportunities and challenges. While in the short run conservative procurement by our customers led to smaller orders with shorter lead times – and hence lowered our turnover, it also provided growth opportunities for our digitalization modules. Customers who adopted these digitalization modules to increase speed have been achieving better sell-through and reduced mark-down rates. This in turn has improved our customers' inventory turns with lower inventory level. Despite the short-term pressure on our turnover, our ability to provide a faster and more flexible supply chain to shorten the supply chain production cycle is helping us cultivate stickier, longer-lasting customer relationships in the medium term.



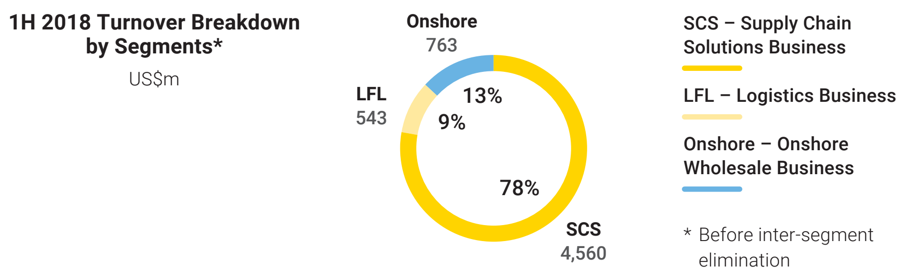
Our Supply Chain Solutions business, Logistics business and Onshore Wholesale business, accounted for 78%, 9% and 13% of Group turnover respectively.

Turnover of Supply Chain Solutions business decreased by 14.4% primarily due to customers' on-going destocking trend, retail store closures and deflationary pressure on input prices as well as the change in business operating model with one of our key customers from a services contract to a joint venture arrangement to facilitate upselling of digital supply chain services.

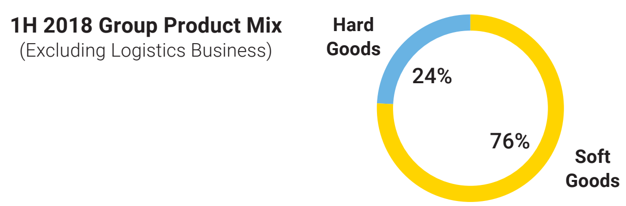
Logistics business turnover increased by 10.9% driven by strong demand for in-country logistics services. The growth momentum of the Logistics business continued to be largely driven by an increase in domestic consumption in China, e-logistics growth, deeper penetration of our core customers and entry into new markets.

The turnover of our Onshore Wholesale business in the Americas, Europe and Asia increased by 13.1% due to the expansion of our Asia direct onshore wholesale business, as well as our global promotional theme business. We continued to experience pressure on our top line through anemic consumer sentiment and an unstable economic environment particularly in the UK.

The Products segment has been restated since the Annual Report 2017 to include only the Onshore Wholesale business in the Americas, Europe and Asia reflecting the strategic divestment of the three Product Verticals.

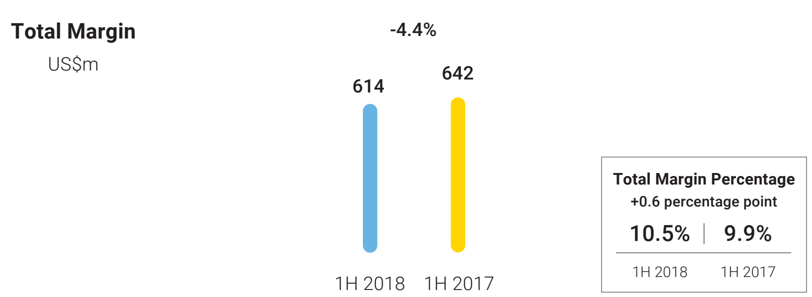


Excluding the Logistics business, the Group derived 76% and 24% of 2018 first half turnover from soft goods and hard goods respectively. This remained unchanged compared to last year on a like-for-like basis.



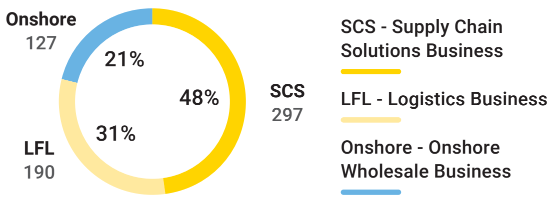
TOTAL MARGIN

On a like-for-like basis, excluding the impact of the divestment of the three Product Verticals on 2017 and 2018 results, total margin decreased by 4.4% to US$614 million. The decrease was mainly due to lower turnover in the Supply Chain Solutions business, offset by the business growth in Logistics and Onshore Wholesale. Total margin percentage improved by 0.6 percentage point on a like-for-like basis to 10.5% due to the increased contribution from the higher-margin Logistics and Onshore Wholesale businesses.



Supply Chain Solutions business, Logistics business and Onshore Wholesale business accounted for 48%, 31% and 21% of the Group's total margin respectively. Total margin increased year on year in Logistics business by 14.2% and Onshore Wholesale business by 2.0%, offset by the reduction in total margin in Supply Chain Solutions business of 15.5%, which primarily was due to the reduction in turnover.

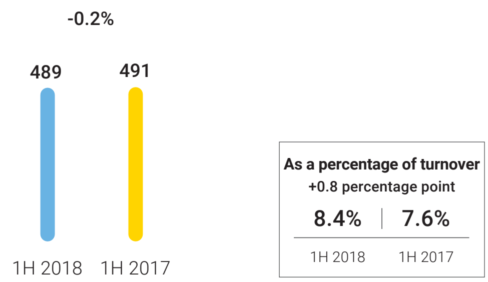
1H 2018 Total Margin Breakdown by Segments
US$m



OPERATING COSTS

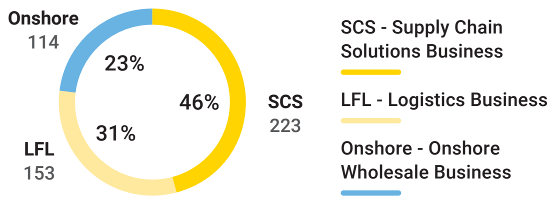
On a like-for-like basis, excluding the impact of the divestment of the three Product Verticals in 2017 and 2018 results, operating costs decreased by 0.2% to US$489 million. The decrease resulted primarily from our sustained efforts to enhance operating efficiency and productivity through the use of technology and process improvement. It was offset by the increase in operating costs in our Logistics business to support its business expansion and organic growth.

Operating Costs
US$m



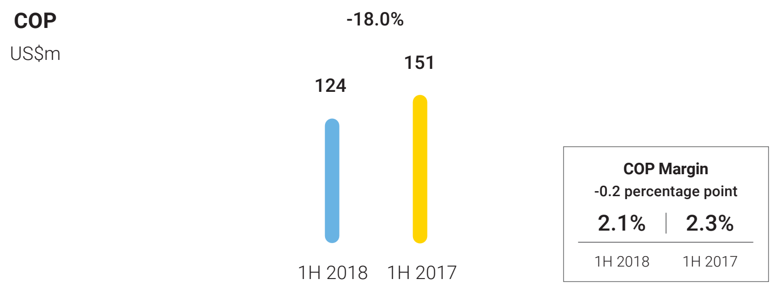
Supply Chain Solutions business, Logistics business and Onshore Wholesale business accounted for 46%, 31% and 23% of operating costs respectively. The operating costs of the Supply Chain Solutions business decreased by 9.8% driven by on-going productivity improvement and process streamlining. Operating costs for the Logistics business increased by 14.0% as a result of continued business expansion. The operating costs of the Onshore Wholesale business increased by 3.9% to support the Asia business.

1H 2018 Operating Costs Breakdown by Segments
US$m



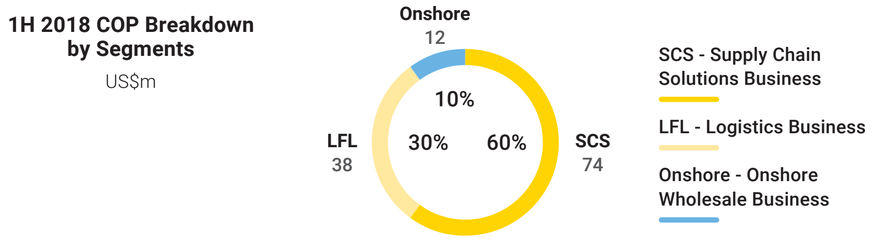
CORE OPERATING PROFIT

On a like-for-like basis, excluding the impact of the divestment of the three Product Verticals in 2017 and 2018 results, core operating profit ("COP") decreased by 18.0% to US$124 million. The decrease in COP was largely due to a decrease in turnover and total margin in the Supply Chain Solutions business, as well as the continued investment in digitalization which is in line with our long-term plan. As a result of the increase in operating cost percentage to turnover, COP margin decreased by 0.2 percentage point to 2.1%.



In the first half of 2018, the Supply Chain Solutions business, Logistics business and Onshore Wholesale business accounted for 60%, 30% and 10% of the COP of the Continuing Operations respectively.

While the Supply Chain Solutions and Onshore Wholesale businesses' COP decreased by 29.1% and 12.9% respectively, the Logistics business' COP increased by 15.1%.

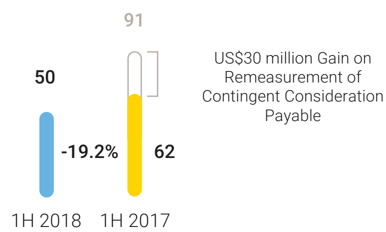


NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

2018 adjusted net profit attributable to shareholders for Continuing Operations decreased by 19.2% to US$50 million, taking into account that 2017 was impacted by the US$30 million gain on remeasurement of contingent consideration payable. On a reported basis, net profit attributable to shareholders for Continuing Operations decreased by 45.4%.

The Group recorded a net loss of US$85 million attributable to shareholders for the first half of 2018 as compared to a net profit of US$101 million in the first half of 2017, as a result of an operating loss of the discontinued business of the three Product Verticals of US$21 million during primarily the first three months of 2018 and final disposal losses resulting from discontinued business of US$114 million. The losses were primarily triggered by the realization of prior period foreign exchange non-cash translation losses of the discontinued business in the Group equity account at the time of closing in 2018.

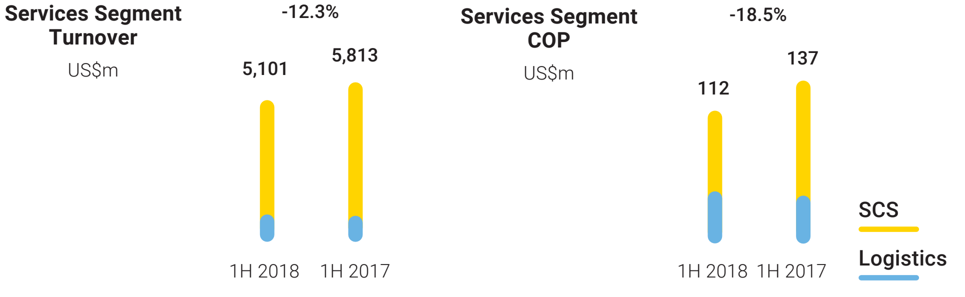
Net Profit Attributable to Shareholders
(Continuing Operations)
US$m



Services Segment

The Services segment is composed of the Supply Chain Solutions business and Logistics business. We provide end-to-end supply chain solutions, from product design, raw materials procurement, production and quality control, to warehouse management and last-mile delivery to retail stores or end-consumers.

Cross-selling between Supply Chain Solutions and Logistics businesses has enhanced business opportunities and further solidified our relationships with customers. In 2018, the Logistics business continued to perform in line with the growth strategy, while the Supply Chain Solutions business has experienced a challenging environment due to destocking and the slower than expected customer adoption of our digital supply chain services. In total, the core operating profit of our Services segment decreased by 18.5%.



Services – Supply Chain Solutions Business

Supply Chain Solutions business, which accounted for 78% of turnover, is the largest revenue generator for the Group. It offers strategic supply chain services, from product design and development to raw material and factory sourcing as well as manufacturing control for our brands and retail customers. The business has a diversified customer base that includes brands, specialty stores, department stores, big box retailers, e-commerce players, hypermarkets, off-price retailers and clubs. We have also converted our vendor base to a new customer base for services that can improve the factories' operational efficiencies and compliance levels.

Furthermore, we have been making significant strides in our journey of transformation. We have been investing in a new digital strategy to transform the business. It includes four platforms covering raw materials, 3D design, production and vendor management. The raw materials online marketplace connects factories with a global catalogue of available fabric from textile mills. The dedicated digital team in the 3D design platform simplifies the product development process by creating 3D digital designs across various digital tools and aggregating the digital assets in the content library for easy e-commerce, virtual showroom and runway display. The production platform optimizes production with an integrated digital tracking tool, which alert merchandisers to defects and problem issues. The vendor platform is the central point of entry for our vendors in processing orders and transactions, and also gives them access to the digital materials, design and production platforms. Our overall digital platform connects suppliers, customers and other partners with end-to-end visibility and data analytics. This will serve as the nucleus of our future service offerings enabling Li & Fung to provide better, faster supply chain services beyond the traditional sourcing services.

Supply Chain Solutions Business Results

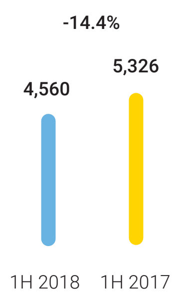
	1H 2018 US$m	1H 2017 US$m	Change %
Turnover	**4,560**	5,326	(14.4%)
Total Margin	**297**	351	(15.5%)
As % of Turnover	***6.5%***	*6.6%*	
Operating Costs	**223**	247	(9.8%)
As % of Turnover	***4.9%***	*4.6%*	
Core Operating Profit	**74**	104	(29.1%)
As % of Turnover	***1.6%***	*2.0%*	

In 2018, the destocking trend that we saw at the end of 2017 continued and has impacted the turnover of the Supply Chain Solutions business. Retailers continue to face headwind in the form of pressure on sales and margins. Soft goods remained the largest contributor, accounting for 78% of turnover. Deflationary pressure on input prices remained at a low-single-digit percentage year on year. We continued our efforts to expand our customer base, especially in the off-price segments and in the hard goods product categories. This largely offset pressure from retail store closures and the ongoing destocking trend in the US. Many of our customers have started to embrace our new value proposition: a speed and digital supply chain model, realizing tangible improvements in increased sell-through, reduced mark-down and improved inventory levels. This trend will continue to drive growth with existing customers and attract new ones. We continued to implement effective cost control and focus on enhanced productivity.

TURNOVER

Turnover of our Supply Chain Solutions business decreased by 14.4% to US$4.6 billion. Faced with a weak consumer market and a volatile retail environment, retailers continued destocking and reduced their buying programs. In the US, the situation was exacerbated by a high number of store closures, which required less store inventory and led to even more cautious buying patterns. Given the strong sales performance of retailers in the off-price channel and hard goods categories and our increased business development efforts, we have grown our business in these areas. However, the destocking by our customers had a larger negative impact on our turnover in the first half. Given retailers are shipping closer to the major sale seasons, which are all in the second half of the year, this has exacerbated the decrease in turnover in the first half of the year. In addition, we changed the business operating model with one of our key customers from a services contract to joint venture arrangement to facilitate upselling of digital supply chain services, which further impact our recognition of total turnover.

Supply Chain Solutions Business Turnover
US$m

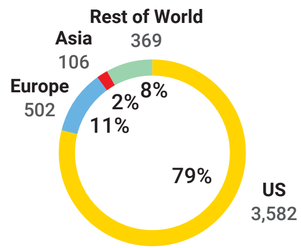


The US, Europe, Asia and Rest of World accounted for 79%, 11%, 2% and 8% of Supply Chain Solutions business turnover in first half of 2018, respectively.

Turnover of the business in the US, Europe, Asia and Rest of World decreased by 11.7%, 30.5%, 32.9% and 4.7%, respectively. Sales in Europe were impacted by changing the operating model with one of our key customers from a service contract to the joint venture arrangement.

1H 2018 Geographical Market Turnover

US$m

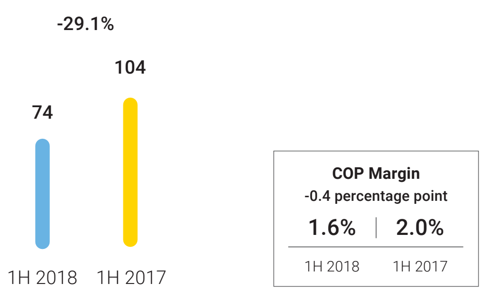


CORE OPERATING PROFIT

Core operating profit (COP) decreased by 29.1% to US$74 million while core operating profit margin decreased by 0.4 percentage point to 1.6%. This was driven by an 15.5% decrease in total margin on reduced turnover and decreased total margin of 0.1 percentage points, as offset by an 9.8% decrease in operating costs to US$223 million. The reduction in total margin was due to the mix shift from the decrease in higher margin accounts across our portfolio and a reduction in business from customers affected by store closure and bankruptcies. Cost savings resulted from productivity enhancement initiatives such as greater use of technology, process reengineering and digitalization. We continued our operational excellence program to re-allocate merchandiser roles closer to production and reorganized the merchandizing structure to accommodate the new digital models. Savings in operating costs were slightly offset by spending on our digitalization, in particular in the areas of 3D design and product development, as well as data analytics and raw materials platform.

COP

US$m



Services – Logistics Business

Logistics business continues its profitable growth momentum. Despite challenging and highly competitive market conditions, in-country logistics services have achieved another stellar first-half performance, with strong top-line and bottom-line growth. As with years past, China continued to lead the way as it benefitted from upsurge of domestic consumption, especially via e-commerce. Our early investment in e-logistics has paid handsome dividends and allowed us to enjoy first-mover advantage. ASEAN advanced aggressively, notching up high growth rates across all its economies where we operate. Our new markets of Korea, Japan and India also recorded impressive results well ahead of plan.

We currently operate nearly 26 million square feet of warehouse space serving customers across the four core verticals of footwear & apparel, fast-moving consumer goods, food & beverage and healthcare. Apart from providing storage and pick/pack service for the domestic market, we have progressively moved up the value chain by offering regional and global hub management, reverse logistics and other value-added services. Following the full implementation of the new Oracle transport management system as well as our digital control tower, transport grew by leaps and bounds. Over the six-month period, we have increased our transport market share by cross-selling to our existing warehousing customers as well as winning new standalone transport customers.

Global freight management was negatively impacted by global trade slowdown. Nevertheless, we continued to build our bench strength, expand our network and invest in state-of-the-art information technology platforms to aggressively grow the base, improve service level and enhance productivity.

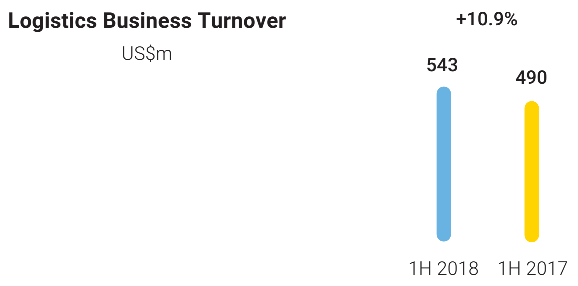
By cultivating strong partnership with an extraordinary list of strategic customers, we have retained and grown with our existing customers. By continuing our investment in our overall value proposition, we have wooed and won new customers across the four verticals.

Logistics Business Results

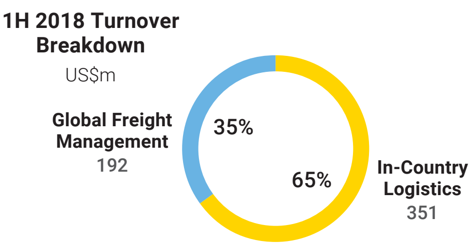
	1H 2018 US$m	1H 2017 US$m	Change %
Turnover	**543**	490	+10.9%
Total Margin	**190**	166	+14.2%
As % of Turnover	***35.0%***	*34.0%*	
Operating Costs	**153**	134	+14.0%
As % of Turnover	***28.1%***	*27.3%*	
Core Operating Profit	**38**	33	+15.1%
As % of Turnover	***6.9%***	*6.7%*	

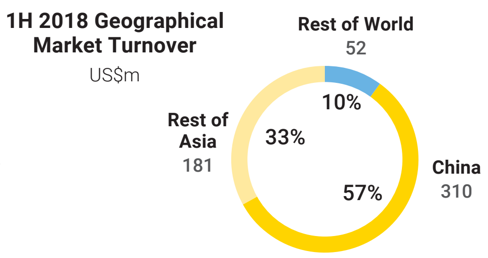
TURNOVER

Turnover of our Logistics business increased by 10.9% to US$543 million driven entirely by organic growth. Our new business wins together with the robust growth of consumption in Asia across all channels, in particular e-commerce, have provided strong impetus to in-country logistics business. Furthermore, we have made significant inroads into new markets like Japan, Korea, and India and have newly expanded into the electronics vertical. Weakening global trade and depressed freight rates have impacted our global freight management business.



In-country logistics and global freight management accounted for 65% and 35% of the turnover of the Logistics business.





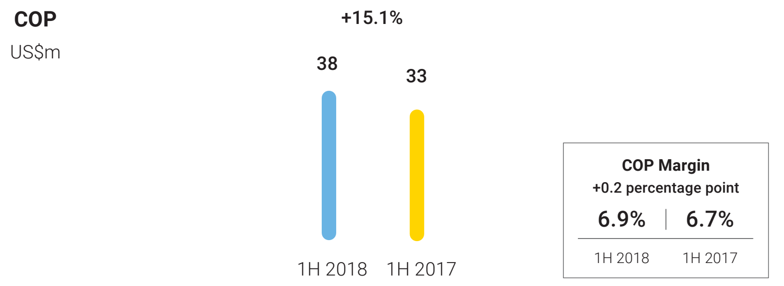
China is our key market for the Logistics business accounting for 57% of turnover. Rest of Asia, including Singapore, the Philippines, Malaysia, Thailand, Indonesia, India, Japan and Korea accounted for 33% of turnover, while Rest of World accounted for 10%.

China turnover increased by 10.8% due to strong growth momentum in the in-country logistics business partially offset by drop in freight rates which affected the global freight management business. Rest of Asia showed strong growth, registering 18.5% in first half 2018 as we ramp up new markets like Japan and Korea. Rest of World turnover decreased by 9.3% as it is purely a freight management business and was impacted by market weakness.

CORE OPERATING PROFIT

Core operating profit (COP) increased by 15.1% to US$38 million, tracking our double digit growth trend of the past seven years. This was mainly driven by new customer wins, geographical expansion and our continued focus on productivity improvement.

Core operating profit margin expanded by 0.2 percentage point to 6.9%. This was largely due to customer mix optimization, productivity gain and increased penetration of the higher-margin value-added services.



Products Segment

The Products segment consisted of our Onshore Wholesale business in three markets – the Americas, Europe, and Asia. The three Product Verticals that were part of this segment exited our Group in the first half 2018. We announced the strategic divestment of the three Product Verticals on 14 December 2017, obtained our Shareholders' approval on 31 January 2018 with 99.94% of Independent Shareholder votes in favor of the transaction and completed the transaction in April 2018. The strategic divestment will allow the Company to set the foundation for a more simplified organization with greater agility and focus on its core competencies, and enable our senior management team to focus resources on executing the Three-Year Plan.

Onshore Wholesale Business

Going forward, the Products segment will consist of the Onshore Wholesale business operating as an onshore supplier in the Americas, Europe and Asia, primarily supplying apparel to largely the same customer base as our Supply Chain Solutions business. The Onshore Wholesale business acts as an onshore importer for customers, and while the terms of each order are agreed on a per-program basis, its relationships with customers are typically long-term and strategic in nature. The business accounted for 13% of the Group's turnover in the first half of 2018. In the first half we have been able to make progress on the strategic development and repositioning of our Onshore Wholesale business to adopt a leaner and more agile structure. Turnover increased 13.1%, however, the business continued to face challenges with a lower total margin percentage due to customers' promotional activities and on-going margin pressure especially in the UK and US markets.

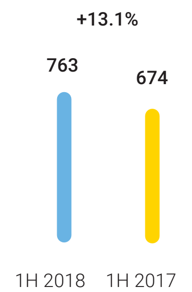
Onshore Wholesale Business Results

	1H 2018	1H 2017	Change
	US$m	US$m	%
Turnover	**763**	674	+13.1%
Total Margin	**127**	124	+2.0%
As % of Turnover	***16.6%***	*18.4%*	
Operating Costs	**114**	110	+3.9%
As % of Turnover	***15.0%***	*16.3%*	
Core Operating Profit	**12**	14	(12.9%)
As % of Turnover	***1.6%***	*2.1%*	

TURNOVER

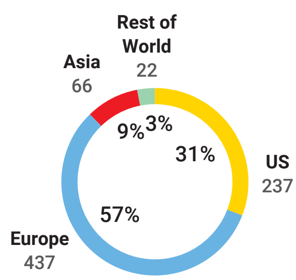
Turnover of the Onshore Wholesale business increased by 13.1% year on year to US$763 million. We have seen a recovery through turnover increase with some of our customers and turnover increase with our Asia direct business. Our sales to the Asian markets and our business with e-commerce platforms have shown signs of growth. However, short-term customer challenges and margin pressure remain, which would impact our onshore wholesale business.

Onshore Wholesale Business Turnover
US$m



The US, Europe and Asia accounted for 31%, 57%, and 9% of segment turnover, respectively. Turnover in the US increased by 15.3%, mainly driven by a recovery of some of our major customers. Turnover in Europe remained relatively flat with an increase of 2.2%. Turnover in Asia, while starting off at a low base, tripled from last year as we continue to build up our wholesale business for our Asia customers.

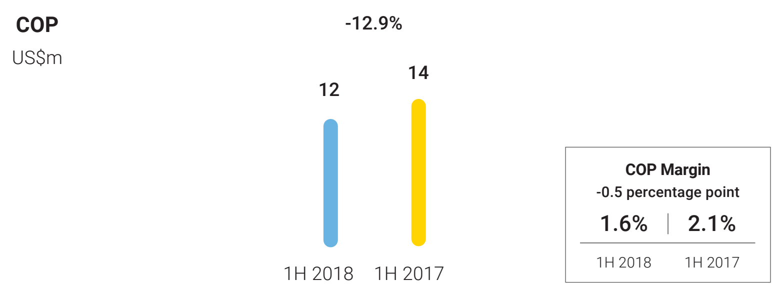
1H 2018 Geographical Market Turnover
US$m



CORE OPERATING PROFIT

Core operating profit (COP) for Onshore Wholesale business decreased from US$14 million to US$12 million as the turnover growth was offset by the reduction in total margin percentage from 18.4% to 16.6%.

Core operating profit margin decreased by 0.5 percentage point to 1.6%, which was largely driven by a 1.8 percentage point reduction in total margin percentage due to a highly promotional retail environment globally and anemic consumer sentiment in the UK, while our operating costs as a percentage of turnover improved by 1.3 percentage point. We have continued to invest in restructuring the business after the three Product Verticals divestment to adopt a leaner and more agile structure.



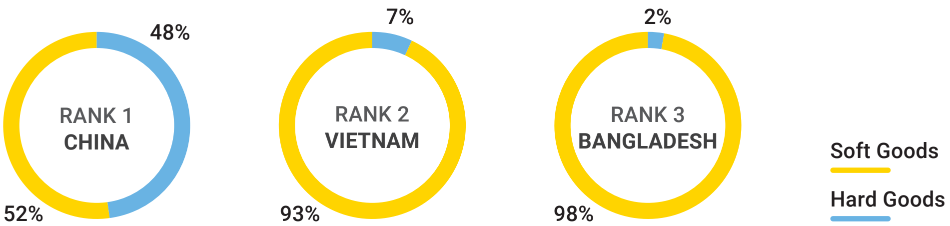
Product Verticals – Discontinued Operations

With the completion of the strategic divestment following Shareholders' approval in January 2018 and in line with our Annual Report 2017, the three Product Verticals have been classified as Discontinued Operations, similar to the spin-off of Global Brands Group in 2014. For the Product Verticals divestment, we have received a consideration of US$1.1 billion. The proceeds have been used to pay a special dividend of US$520 million (47.6 HK cents per share) and to redeem perpetual capital securities of US$500 million. We have recognized an operating loss attributable to Shareholders of the discontinued business of the three Product Verticals of US$21 million and a disposal loss of US$114 million from discontinued business. The losses were mainly triggered by the realization of prior period foreign exchange non-cash translation losses in the Group equity account at the time of closing in 2018.

Top Sourcing Countries

Our global network of factories spanning over 50 economies, allows for flexibility when moving orders from one production country to another to better manage manufacturing constraints and optimize customers' margins. In 2018, our top three sourcing countries were China, Vietnam and Bangladesh. We also have sizeable sourcing operations in other countries such as Cambodia, Indonesia and India. We are among the largest exporters in our product categories in our major sourcing countries. This comprehensive global network, combined with strong local presence, long operating history and critical mass, is one of Li & Fung's unique competitive strengths. As the sourcing landscape continues to evolve with changes in trade policies and sourcing requirements, we are very well positioned to scale our existing operations to source in the most efficient way possible for our customers.

Top Sourcing Countries



People

Our people are our most valuable assets. As at 30 June 2018, we had a total workforce of 17,374. The 17,374 workforce includes 7,320 warehouse-related employees primarily for our Logistics business. Total manpower costs of Continuing Operations for the first half of 2018 were US$355 million compared with US$376 million in 2017. We continue to enhance the productivity of our workforce and equip our people for the new digital world. We are grateful for our colleagues' commitment to build the supply chain of the future.

Balance Sheet and Capital Structure

Strong Cash Position

After taking into account the strategic divestment of the three Product Verticals, Li & Fung continues to have solid recurring cash flow and cash position from Continuing Operations, which comprises Supply Chain Solutions, Logistics and Onshore Wholesale businesses. Our operating cashflow, together with US$349 million cash on hand carried forward from 31 December 2017, more than adequately funded our working capital, interest expenses, capital expenditure, distribution, and our normal dividends. To summarize key cashflow statement items, other than the use of proceeds relating to the divestment of the three Product Verticals:

- Operating profit adjusted for non-cash items before working capital changes: US$158 million
- Working capital outflow of US$160 million, primary due to a 32% increase in accounts receivable from Global Brands Group as compared to same period last year in June 2017
- Capital expenditures of US$40 million, and tax paid of US$20 million
- Net interest expenses of US$18 million
- Distribution to perpetual capital securities holders of US$32 million
- 2017 final dividend payments of US$22 million

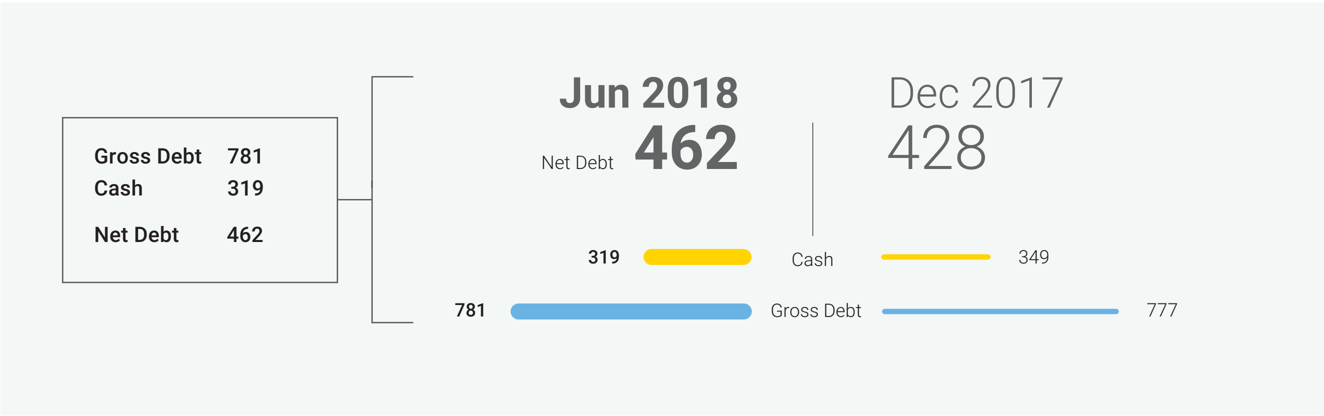
In terms of future commitments, the remaining balance of total purchase consideration payable for acquisitions was reduced to US$55 million by the end of June 2018, of which US$44 million is earn-out payments to be substantially paid over the course of the remaining of the current year, as well as next year. We continue to be asset-light, and our on-going total capital expenditures mainly include digitalization investments, logistics business expansion, as well as capital expenditures for continuing maintenance.

Strong Balance Sheet

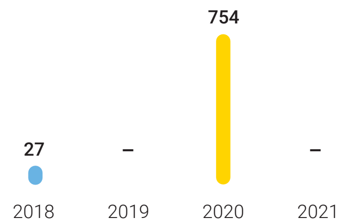
As at 30 June 2018, our cash position was US$319 million after the redemption of US$500 million in perpetual capital securities and payments of the 2017 final and special dividend using the proceeds from the strategic divestment of the three Product Verticals. We have also reduced our acquisition tail payments in form of remaining consideration payable further improving our balance sheet. Our total borrowings remained stable at US$781 million and net debt (total borrowings minus cash) was US$462 million as at 30 June 2018. Our weighted average tenure of total borrowing is around two years. The majority of our debt is at a fixed rate and denominated in US dollars.

Given the uncertainties in the global macroeconomic and geopolitical environments, we remain prudent and conservative in managing our balance sheet in order to maintain maximum financial flexibility. During first half of 2018, we have renewed and extended our long-term committed bank loan facilities totaling US$827 million with an average tenure of three years until 2021. The ample liquidity would allow us to have maximum flexibility in managing our near-term debt maturity profile.

Cash and Gross Debt
US$m



Debt Maturity Schedule
US$m



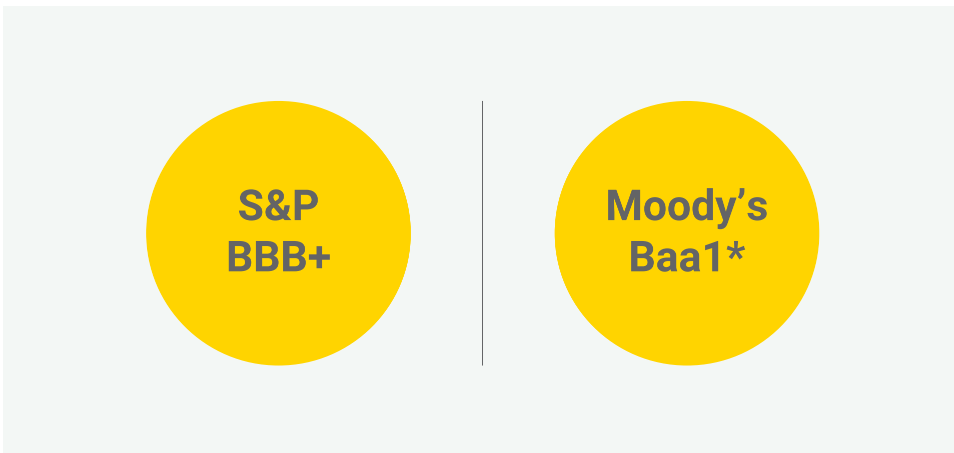
	2018	2019	2020	2021
Bank Loans	27	–	2	–
Bonds	–	–	752	–

Gearing Ratio and Current Ratio

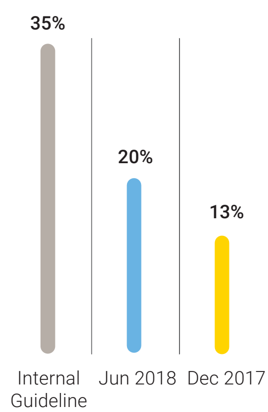
Our gearing ratio and current ratio of Continuing Operations were 20% and 1.0 respectively as at 30 June 2018 (13% and 1.4 respectively for the Group as at 31 December 2017). The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short-term bank loans, long-term bank loans and long-term notes) less cash and cash equivalents. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt.

We continued to take a conservative approach in managing our balance sheet and capital structure. As at 30 June 2018, our credit rating was Baa1 according to Moody's and BBB+ according to Standard & Poor's. We are committed to maintaining a strong balance sheet, healthy cash flow and strong credit ratios, with the long-term target of retaining an investment-grade rating.

Credit Rating



Gearing Ratio



* On 24 August 2018, Moody's Investors Service has downgraded the Company's credit rating from Baa1 to Baa2, maintaining investment grade.

Banking Facilities

Bank Loans and Overdrafts

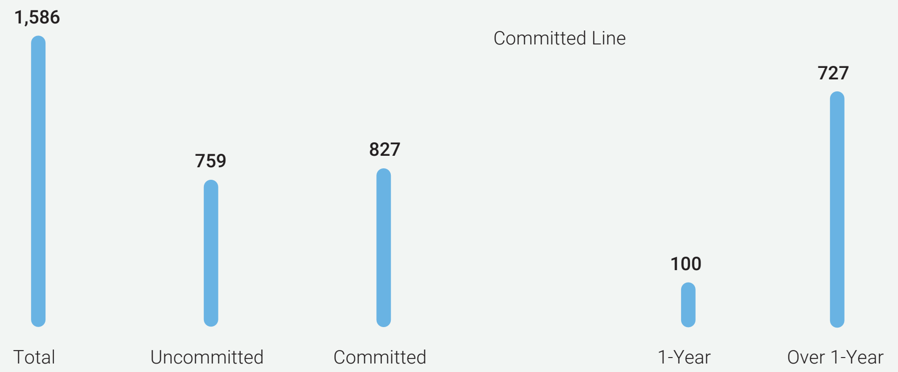
As at 30 June 2018, we had available bank loans and overdraft facilities of US$1,586 million, of which US$827 million were committed facilities. The majority of the committed facilities totaling US$727 million have a tenor of three years with maturities in 2021 or after. Only US$29 million of the Group's bank loans and overdraft facilities was utilized. Unused limits for bank loans and overdraft facilities amounted to US$1,557 million, with US$825 million being unused committed facilities.

Trade Finance

The Group's normal trading operations are well supported by US$2 billion in bank trading facilities that mainly include letters of credit issued to suppliers and bills discounting. A letter of credit is a common means of payment to suppliers to support cross-border trades. The Group's payment obligations on letters of credit issued to suppliers will only be crystallized when our suppliers have shipped the merchandise to our customers or to the Group in accordance with all the terms and conditions specified in the related contractual documents. As at 30 June 2018, only approximately 13% of the trade finance facilities was used.

Bank Loans and Overdraft Facilities

US$m



	Total	Uncommitted	Committed
Used	29	27	2
Unused	1,557	732	825

Contingent Liabilities and Goodwill

Adjustments to Purchase Consideration Payables

Given the unique nature of our acquired businesses, which are private enterprises that rely on their respective entrepreneurs' commercial skills to drive their success, we generally structure our acquisitions with incentive schemes and contingent payments on purchase consideration payables linked to the future performance of the acquired businesses. We follow a stringent internal financial and accounting policy in evaluating potential adjustment to the estimated fair value of purchase consideration payable in accordance with the accounting standard HKFRS 3 (Revised), Business Combinations.

Our contingent consideration payables are performance-based payments in the form of "earn-out" and "earn-up" payments, which depend on a set of predetermined performance targets mutually agreed upon with entrepreneurs in accordance with sale and purchase agreements.

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

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

While many of our acquired businesses remain profitable and are growing, we may still be required to make a downward fair value adjustment to certain purchase consideration payables should the acquired businesses be unable to achieve the predetermined performance threshold within the specific timeframe as stipulated in the sale and purchase agreement. Given that the contingent consideration entitlement is usually contractual in nature and based on a specific formula linking to a particular threshold, the underlying performance of the acquired businesses could continue to grow, yet we may still be required to adjust the purchase consideration payable, especially if the high performance thresholds of earn-ups are not reached.

Goodwill Impairment Tests

We perform goodwill impairment tests based on the cash-generating units (CGU) that manage acquired businesses in accordance with HKAS 36, Impairment of Assets. Based on our assessment of all of the CGUs under the current operating structure of the Group, we have determined that there was no goodwill impairment as at 30 June 2018, as the recoverable amount of each CGU was in excess of its respective carrying value of the goodwill. We will continue to perform goodwill impairment tests on an on-going basis.

Risk Management

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

Credit Risk Management

Credit risk mainly arises from trade and other receivables. Our principal trading business carries a higher credit risk profile given that we are acting as a supplier and therefore take full counterparty risk for our customers in terms of accounts receivable and inventory.

In addition, as we provide working capital solutions to our suppliers via LF Credit by selectively settling accounts payable earlier at a discount, we also assume direct counterparty risk for our customers for such receivables. With the increased insolvency risk among global brands and retail customers, we have deployed a global credit risk management framework with a tightened risk profile, and applied prudent policies to manage our credit risk with such receivables that include, but are not limited to, the measures set out below:

- We select customers in a cautious manner. Our credit control team uses a risk assessment system to evaluate the financial strength of individual customers prior to agreeing on trade terms. It is not uncommon for us to require securities (such as standby or commercial letters of credit, or bank guarantees) from customers who fall short of the required minimum score under our risk assessment system

- A significant portion of trade receivable balances is covered by trade credit insurance or factored to external financial institutions on a non-recourse basis

- We have established a credit risk system with a dedicated team, and tightened policies to ensure on-time recoveries from trade debtors

- We have put in place rigid internal policies that govern provisions made for both inventories and receivables to motivate business managers to step up their efforts in these two areas, and to avoid any significant impact on their financial performance

Foreign Exchange Risk Management

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

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

For transactions that are subject to foreign exchange risk, we hedge our foreign currency exposure once we receive confirmed orders or enter into customer transactions. To mitigate the impact from changes in foreign exchange rates, we regularly review our operations in these countries and make necessary hedging arrangements in certain currencies against the US dollar.

However, we do not enter into foreign currency hedges with respect to the local financial results and long-term equity investments of our non-US dollar foreign operations for either our income statements or balance sheet reporting purposes. Since our functional currency is the US dollar, we are subject to exchange rate exposure from the translation of foreign operations' local results to US dollars at the average rate for the period of group consolidation. Our net equity investments in non-US dollar-denominated businesses are also subject to unrealized translation gain or loss on consolidation. Fluctuation of relevant currencies against the US dollar will result in unrealized gain or loss from time to time, which is reflected as movement in exchange reserve in the consolidated statement of changes in equity.

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

Outlook

We had a strong start in the first year of our current Three-Year Plan. However, we are cautious of the rapidly changing retail environment around the globe and trade war uncertainties. We remain committed to investing in our digital future and enforcing our competitive advantage, which will help us achieve our long-term strategic and financial goals.

Our Supply Chain Solutions business will continue to face headwinds from destocking for the rest of the year and potentially the upcoming year. Nevertheless, our business development team remains focused on converting the customer pipeline, which is key to achieving the financial targets of the current Three-Year Plan. Given that retailers are shipping closer to the major sale seasons, we believe the majority of the shipment decisions will be made in the second half of the year. With uncertainties of global trade due to recent announced increase in tariffs, we expect brands and retailers will be more cautious in placing orders during the second half of the year, which in turn will impact our business. At the same time, in light of the global trade uncertainty, we see tremendous opportunities for brands and retailers to leverage our global network in mitigating the risk of their global supply chain. Our Three-Year Plan turnover target is contingent upon us winning a few large accounts as new customers. Our business development efforts on digital supply chain solutions continues although we anticipate full customer adoption will take time to materialize. Improving operating efficiencies will always be part of our key tenets. The savings from our productivity drive will be offset by our digitalization investment as we accelerate our digital investment efforts in the second half of the year.

Our in-country logistics business continues to benefit from our expanded geographical coverage, strong demand for global hubbing and e-logistics services as well as our aggressive push on transportation. With the continuing robust performance of the existing markets and with the successful penetration into new markets such as India and Vietnam, we are poised to ride on the trend of rapidly rising middle-class consumption in Asia for years to come. On the other hand, our global freight management business is expected to be negatively affected by the global trade tariffs situation, as well as the reduction in freight rate. In the meantime, we continue to improve our competitiveness in global freight management business with the recently implemented IT platform, enhanced leadership team and expanded agent network. After multiple years of purposeful expansion, we started to leverage our size to achieve economies of scale. We are confident that this unique competitive advantage together with our selective investment in technology and automation will create a new virtuous cycle of profitable growth.

Our Onshore Wholesale business had a difficult year in 2017 and has refocused its efforts in its turnaround for the rest of the year. While turnaround trend in topline of the business will continue, the retail environment remains promotional, which will be a headwind to the business' total margin. The business plans to leverage its momentum in promotional themes, expand its Asia-to-Asia business, and incorporate productivity initiatives.

Finally, our investment in our digitalization effort is starting to bear fruit with our customers. Overall, we are very pleased with our progress in digitalization and we remain on track to deliver a fully-integrated digital platform that connects suppliers, customers and other partners with end-to-end visibility and data analytics. This will serve as the nucleus of our future service offerings enabling Li & Fung to provide better, faster supply chain services beyond the traditional sourcing services.

Our Commitment to Good Governance

We are committed to the principles of transparency, accountability and independence to enhance shareholder value.

Our Commitment to Good Governance

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

Our corporate governance practices during the first six months of 2018 are in line with the practices set out in our 2017 Annual Report and on our corporate website.

The Board

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

Since 1 January 2018, the following changes to the Board and Board committees have occurred:

- John G. Rice has been appointed as an Independent Non-executive Director and a member of the Audit Committee of the Company with effect from 10 January 2018.
- Joseph C. Phi has been appointed as an Executive Director of the Company with effect from 10 January 2018.

Further details of changes in the information of our Directors are set out in the "Other Information" section on page 56.

Board and Committee Meetings to Date in 2018

	Number of Meetings	Average Attendance Rate
Board	4	100%
Nomination Committee	1	100%
Audit Committee	3	100%
Risk Management and Sustainability Committee	3	94%
Remuneration Committee	2	83%

Review of Interim Financial Information

The Audit Committee has reviewed the interim financial information for the six months ended 30 June 2018 for the Board's approval.

Risk Management and Internal Control

Our risk management and internal control processes remain in line with the practices set out in the "Our Approach to Risk Management" section on pages 62 to 71 of our 2017 Annual Report, which is available on our corporate website.

Based on the respective assessments made by management and the Corporate Governance team responsible for internal audit activities, the Audit Committee considered that for the first six months of 2018:

- The risk management and internal controls and accounting systems of the Group were in place and functioning effectively, and were designed to provide reasonable but not absolute assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with the Group's policies and Key Operating Guidelines under management's authorization and the financial information was 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 Corporate Governance Code

The Board has reviewed the Company's corporate governance practices for the first six months of 2018 and is satisfied that it has been in full compliance with all the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules.

Directors' and Relevant Employees' Securities Transactions

The Company has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code. We appreciate that some of our employees may have access to unpublished, price-sensitive information ("Inside Information") in their daily work; as such we have extended such procedures to cover relevant employees who are likely to be in possession of Inside Information of the Group. Relevant employees are also subject to compliance with written guidelines in line with the Model Code. Specific confirmation of compliance has been obtained from each Director for the interim reporting period. No incident of non-compliance by Directors and relevant employees was noted.

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

Our Senior Management Team

Back row (from left to right): Robert Sinclair, Roger Young, Stephen Lister, Deepika Rana, Sean Coxall, Manuel Fernandez and Richard Darling

Front row (from left to right): Emily Mak, Edward Lam, Marc Compagnon, William Fung, Spencer Fung, Victor Fung, Joseph Phi and Carmen Chau

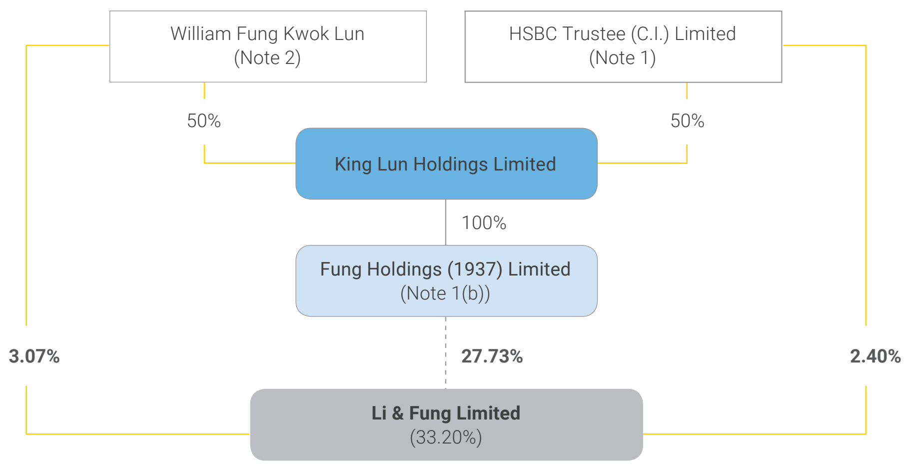
Directors' Interests

As at 30 June 2018, the Directors and chief executives of the Company and their associates had the following interests in the Shares, underlying shares and debentures of the Company and its associated corporations (as defined under Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

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

	Number of Shares					
Name of Director	Personal Interest	Family Interest	Trust/ Corporate Interest	Equity Derivatives (Share Options)	Total	Percentage of Issued Share Capital[8]
Victor Fung Kwok King	2,814,444	–	2,551,966,180[1]	–	2,554,780,624	30.16%
William Fung Kwok Lun	177,120,260	108,800	2,426,505,472[2]	5,006,000[7]	2,608,740,532	30.80%
Spencer Theodore Fung	1,948,000	–	2,554,858,180[1&3]	8,046,000[7]	2,564,852,180	30.28%
Marc Robert Compagnon	1,360,200	14,000	14,951,580[4]	7,630,000[7]	23,955,780	0.28%
Joseph C. Phi	3,752,878	38,000	2,434,800[5]	2,212,000[7]	8,437,678	0.10%
Martin Tang Yue Nien	60,000	–	60,000[6]	–	120,000	0.00%

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



NOTES:
As at 30 June 2018,

(1) Victor Fung Kwok King and Spencer Theodore Fung (son of Victor Fung Kwok King and as his family member) were each deemed to have interests in 2,551,966,180 Shares held in the following manner:

(a) 203,012,308 Shares were indirectly held by HSBC Trustee (C.I.) Limited through its wholly-owned subsidiary, First Island Developments Limited. HSBC Trustee is the trustee of a trust established for the benefit of the family members of Victor Fung Kwok King (the "Trust"); and

(b) 2,195,727,908 Shares were directly held by Fung Holdings (1937) Limited, a wholly-owned subsidiary of King Lun Holdings Limited, and 153,225,964 Shares were indirectly held by FH (1937) through its wholly-owned subsidiary, Fung Distribution International Limited. King Lun is a company owned 50% by HSBC Trustee as trustee of the Trust and 50% by William Fung Kwok Lun.

(2) 26,114,400 Shares and 50,294,200 Shares were held by Golden Step Limited and Step Dragon Enterprise Limited respectively, both companies are beneficially owned by William Fung Kwok Lun. 2,348,953,872 Shares were indirectly held by King Lun as mentioned in Note (1)(b) above. 1,143,000 Shares represented the interests in Award Shares granted by the Company and remained unvested. Details on such Award Shares are set out in "Share Award Scheme" section stated below.

(3) Out of 2,554,858,180 Shares, 2,892,000 Shares represented the interests in Award Shares granted by the Company and remained unvested. Details on such Award Shares are set out in "Share Award Scheme" section stated below. The balance of 2,551,966,180 Shares represented the deemed interests of Spencer Theodore Fung as mentioned in Note (1) above.

(4) Out of 14,951,580 Shares, 2,661,800 Shares represented the interests in Award Shares granted by the Company and remained unvested. Details on such Award Shares are set out in "Share Award Scheme" section stated below. The balance of 12,289,780 Shares were held by Profit Snow Holdings Limited, a company beneficially owned by Marc Robert Compagnon.

(5) 2,434,800 Shares represented the interests in Award Shares granted by the Company and remained unvested. Details on such Award Shares are set out in "Share Award Scheme" section stated below.

(6) 60,000 Shares were held by a trust of which Martin Tang Yue Nien is a beneficiary.

(7) These interests represented the interests in underlying shares in respect of Share Options granted by the Company to these Directors as beneficial owners, the details of which are set out in the "Share Option Schemes" section stated below.

(8) The approximate percentages were calculated based on 8,469,956,406 Shares in issue as at 30 June 2018.

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

As at 30 June 2018, none of the Directors and chief executives of the Company or their associates had any short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (as defined under Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(C) Share Options and Award Shares

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

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

Long-term Incentive Schemes

(A) Share Option Schemes

2003 OPTION SCHEME

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

As at 30 June 2018, there were Share Options relating to 10,000,000 Shares granted by the Company representing 0.12% of the issued Shares as at the date of this Report pursuant to the 2003 Option Scheme which were valid and outstanding.

2014 OPTION SCHEME

The 2014 Option Scheme was adopted by the Shareholders at the annual general meeting of the Company held on 15 May 2014. As at 30 June 2018, there were Share Options relating to 55,955,000 Shares granted by the Company representing 0.66% of the issued Shares as at the date of this Report pursuant to the 2014 Option Scheme which were valid and outstanding.

Details of the Share Options granted under the 2003 Option Scheme and the 2014 Option Scheme that remain outstanding as at 30 June 2018 are as follows:

Grant Date	Exercise Price HK$	Grantees	Number of Share Options: As at 1/1/2018	Lapsed	As at 30/6/2018	Exercisable period
2003 Option Scheme						
22/12/2011	12.12[1]	Spencer Theodore Fung	6,000,000	(1,000,000)	5,000,000	Exercisable in six equal tranches during the period from 1/5/2016 to 30/4/2023 with each tranche having an exercisable period of two years
		Marc Robert Compagnon	6,000,000	(1,000,000)	5,000,000	
2014 Option Scheme						
21/5/2015	7.49[2]	William Fung Kwok Lun	7,509,000	(2,503,000)	5,006,000	Exercisable in three tranches during the period from 1/1/2016 to 31/12/2019 with each tranche having an exercisable period of two years
		Spencer Theodore Fung	4,569,000	(1,523,000)	3,046,000	
		Marc Robert Compagnon	3,945,000	(1,315,000)	2,630,000	
		Joseph C. Phi	3,318,000	(1,106,000)	2,212,000	
		Continuous Contract Employees	65,330,000	(23,887,000)	41,443,000	
		Other Participants	604,000	(604,000)	–	
16/11/2015	5.81[3]	Continuous Contract Employees	889,000	–	889,000	Exercisable in two tranches during the period from 1/1/2017 to 31/12/2019 with each tranche having an exercisable period of two years
19/5/2016	4.27[4]	Continuous Contract Employees	604,000	–	604,000	Exercisable during the period from 1/1/2018 to 31/12/2019
13/7/2017	2.86[5]	Continuous Contract Employees	125,000	–	125,000	Exercisable during the period from 1/1/2018 to 31/12/2019
		Total	98,893,000	(32,938,000)	65,955,000	

NOTES:

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

(2) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange's daily quotation sheet on 20 May 2015 was HK$7.29.

(3) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange's daily quotation sheet on 13 November 2015 was HK$5.58.

(4) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange's daily quotation sheet on 18 May 2016 was HK$4.25.

(5) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange's daily quotation sheet on 12 July 2017 was HK$2.85.

(6) Details of Share Options granted by the Company are set out in Note 12 to the condensed interim financial information.

(B) Share Award Scheme

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

During the period, a total of 7,622,000 Award Shares were awarded to eligible persons pursuant to the Share Award Scheme, and out of which 6,084,000 Award Shares were awarded to connected persons. A total of 1,838,900 Shares held by the trustee of the Share Award Scheme in two separate funds had been applied to satisfy 300,900 Award Shares to connected persons and 1,538,000 Award Shares to non-connected persons in accordance with the terms of the Share Award Scheme. The remaining 5,783,100 Award Shares were purchased from the open market to satisfy awards to connected persons and no new Shares were allotted and issued by the Company to satisfy awards to non-connected persons pursuant to the terms of the Share Award Scheme.

As at 30 June 2018, the trustee of the Share Award Scheme held a total of 10,186,500 Shares which can be applied to satisfy awards to non-connected persons.

As at 30 June 2018, 129,267,249 Award Shares are available for grant of awards in the future under the Share Award Scheme, representing approximately 1.53% of the Shares in issue.

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

		Number of Award Shares				
Grant Date	Grantees	As at 1/1/2018	Granted	Unvested/ Forfeited*	As at 30/6/2018	Vesting Date
21/5/2015	Spencer Theodore Fung	270,000	–	–	270,000	To be vested in two tranches with the vesting date on 31 December of each year from 2018 to 2019
	Marc Robert Compagnon	229,800	–	–	229,800	
	Joseph C. Phi	193,800	–	–	193,800	
	Connected Persons other than Directors	1,852,800	–	(51,900)	1,800,900	
	Non-connected Persons	14,673,000	–	(1,165,400)	13,507,600	
16/11/2015	Non-connected Persons	449,800	–	(39,300)	410,500	To be vested in two tranches with the vesting date on 31 December of each year from 2018 to 2019
19/5/2016	Connected Persons other than Directors	14,600	–	–	14,600	To be vested in two tranches with the vesting date on 31 December of each year from 2018 to 2019
	Non-connected Persons	624,900	–	(57,700)	567,200	
14/11/2016	Non-connected Persons	122,200	–	(5,200)	117,000	To be vested in two tranches with the vesting date on 31 December of each year from 2018 to 2019
13/7/2017	Fung Kwok Lun William	1,143,000	–	–	1,143,000	To be vested in three tranches with the vesting date on 31 December of each year from 2018 to 2020
	Spencer Theodore Fung	1,143,000	–	–	1,143,000	
	Marc Robert Compagnon	953,000	–	–	953,000	
	Joseph C. Phi	762,000	–	–	762,000	
	Connected Persons other than Directors	4,512,000	–	(28,000)	4,484,000	
	Non-connected Persons	56,985,800	–	(4,127,200)	52,858,600	
23/3/2018	Spencer Theodore Fung	–	1,479,000	–	1,479,000	To be vested in three tranches with the vesting date on 31 December of each year from 2018 to 2020
	Marc Robert Compagnon	–	1,479,000	–	1,479,000	
	Joseph C. Phi	–	1,479,000	–	1,479,000	
	Connected Persons other than Directors	–	1,647,000	–	1,647,000	
	Non-connected Persons	–	1,538,000	(40,000)	1,498,000	
	Total	83,929,700	7,622,000	(5,514,700)	86,037,000	

* Award Shares that are not vested and/or are forfeited in accordance with the terms of the Share Award Scheme are held by the trustee to be applied towards future awards in accordance with the provisions of the Share Award Scheme.

Substantial Shareholders' Interests

As at 30 June 2018, other than the interests of the Directors or chief executives of the Company as disclosed in the "Directors' Interests" section, the following entities had interests in the Shares of the Company which are required to be disclosed to the Company under Section 336 of the SFO:

Name of Shareholder	Capacity	Number of Shares	Percentage of Issued Share Capital[3]
Long Positions			
HSBC Trustee (C.I.) Limited	Trustee	2,551,966,180[1]	30.13%
King Lun Holdings Limited	Interest of controlled corporation	2,348,953,872[2]	27.73%
The Capital Group Companies, Inc.	Interest of controlled corporation	674,166,000	7.96%
Commonwealth Bank of Australia	Interest of controlled corporation	594,508,489	7.02%
BlackRock, Inc.	Interest of controlled corporation	420,891,725	4.97%
Short Positions			
BlackRock, Inc.	Interest of controlled corporation	19,004,000	0.22%

NOTES:
As at 30 June 2018,

(1) Please refer to Note (1) under the "Directors' Interests" section stated above.

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

(3) The approximate percentages were calculated based on 8,469,956,406 Shares in issue as at 30 June 2018.

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 2018.

Other Information

Changes in Information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in information of Directors since the Company's 2017 Annual Report and up to the date of this Report are set out below:

- John G. Rice retired as vice chairman of General Electric Company with effect from 31 March 2018.
- William Fung Kwok Lun resigned as non-executive director of Trinity Limited with effect from 18 April 2018.
- Margaret Leung Ko May Yee retired as deputy chairman, managing director and executive director of Chong Hing Bank Limited with effect from 18 May 2018.
- Victor Fung Kwok King resigned as non-executive director of Trinity Limited with effect from 6 August 2018.

During the period and up to the date of this Report, changes in directors and members of board committees of the Company are set out below:

- Joseph C. Phi has been appointed as an Executive Director of the Company with effect from 10 January 2018.
- John G. Rice has been appointed as an Independent Non-executive Director and a member of the Audit Committee of the Company with effect from 10 January 2018.

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

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

Interim Dividend

The Board has resolved to declare an interim dividend of 3 HK cents (2017: 11 HK cents) per Share for the six months ended 30 June 2018, absorbing a total of US$33 million (2017: US$120 million).

In the current Three-Year Plan (2017–2019), the Company's dividend distribution is benchmarked against the Group's profit attributable to Shareholders. We expect to distribute 50% to 70% of our Group's annual profit to Shareholders as dividend. The actual distribution percentage will be determined by our Board based on our operating results, cash flow, financial position, business prospects, statutory and regulatory restrictions relating to dividend distribution and other factors the Board considers relevant.

Closure of Register of Members

The register of members of the Company will be closed from Thursday, 6 September 2018 to Friday, 7 September 2018, both days inclusive, during which period no transfer of Shares will be effected. To qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 5 September 2018. Dividend warrants will be despatched on Tuesday, 18 September 2018. Shares of the Company will be traded ex-dividend from Tuesday, 4 September 2018.

Information for Investors

Listing Information

Listing: The Stock Exchange of Hong Kong Limited

Stock Code: 494

Ticker Symbol
Reuters: 0494.HK
Bloomberg: 494 HK Equity

Index Recognition

FTSE4Good Index Series
Hang Seng Corporate Sustainability Benchmark Index
Hang Seng High Dividend Yield Index
MSCI Global Sustainability Indexes
MSCI Index Series
STOXX® Global ESG Leaders

Key Dates

22 Aug 2018 Announcement of the 2018 Interim Results

4 Sep 2018 Dividend Ex-entitlement for Shares

6-7 Sep 2018 (both days inclusive) Closure of the Register of Shareholders

18 Sep 2018 Payment of 2018 Interim Dividend

Registrar & Transfer Offices

Principal
Estera Management (Bermuda) Limited
Canon's Court, 22 Victoria Street
Hamilton HM 12, Bermuda

Hong Kong Branch
Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong
Telephone: (852) 2980 1333
lifung-ecom@hk.tricorglobal.com

Share Information

Board lot size: 2,000 Shares

Shares outstanding as at 30 June 2018
8,469,956,406 Shares

Market capitalization as at 30 June 2018
HK$24,393,474,449

Basic earnings/(losses) per Share for 2018
Interim Continuing Operations 0.6 US cents
Discontinuing Operations (1.61) US cents

Dividend per Share for 2018
Interim 3 HK cents

Enquiries

Institutional investors and securities analysts:
Investor Relations | ir@lifung.com

Media and potential business partners:
Corporate Communications | media@lifung.com

Shareholders addressed to the Board:
Company Secretariat | secretariat@lifung.com

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888 Cheung Sha Wan Road
Kowloon, Hong Kong
Telephone: (852) 2300 2300

Websites

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

A Chinese version of this Report can be downloaded from the Company's website and can be obtained from the Company's Hong Kong branch share registrar, Tricor Abacus Limited. In the event of any difference, the English version prevails.
本報告中文版可從本公司網站下載，及向本公司於香港之股份過戶登記處卓佳雅柏勤有限公司索取。如中英版本有任何差異，請以英文版本為準。

Independent Review Report

羅兵咸永道

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

Introduction

We have reviewed the interim financial information set out on pages 60 to 98, which comprises the consolidated balance sheet of Li & Fung Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2018 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 August 2018

Condensed Interim Financial Information

Consolidated Profit and Loss Account

	Note	Unaudited Six months ended 30 June 2018 US$'000	2017 US$'000 (Restated)
Continuing Operations			
Turnover	3	**5,850,340**	6,471,257
Cost of sales		**(5,257,349)**	(5,841,285)
Gross profit		**592,991**	629,972
Other income		**20,537**	11,906
Total margin		**613,528**	641,878
Selling and distribution expenses		**(179,978)**	(173,476)
Merchandising and administrative expenses		**(309,447)**	(317,039)
Core operating profit	3	**124,103**	151,363
Gain on remeasurement of contingent consideration payable	4	**–**	29,645
Amortization of other intangible assets	4	**(14,777)**	(10,717)
Operating profit	3&4	**109,326**	170,291
Interest income		**7,571**	6,622
Interest expenses			
Non-cash interest expenses		**(329)**	(2,451)
Cash interest expenses		**(25,155)**	(34,420)
		(25,484)	(36,871)
Share of profits less losses of associated companies and joint venture		**843**	1,174
Profit before taxation		**92,256**	141,216
Taxation	5	**(13,710)**	(18,232)
Profit for the period from Continuing Operations		**78,546**	122,984
Discontinued Operations			
(Loss)/profit for the period from Discontinued Operations	15(a)	**(137,971)**	9,532
Net (loss)/profit for the period		**(59,425)**	132,516

	Note	**Unaudited Six months ended 30 June 2018 US$'000**	2017 US$'000 (Restated)
Attributable to:			
Shareholders of the Company		**(85,027)**	100,955
Holders of perpetual capital securities		**29,063**	32,063
Non-controlling interests		**(3,461)**	(502)
		(59,425)	132,516
Attributable to Shareholders of the Company arising from:			
Continuing Operations		**49,946**	91,423
Discontinued Operations	15(a)	**(134,973)**	9,532
		(85,027)	100,955
Earnings/(losses) per share for profit/(losses) attributable to the Shareholders of the Company during the period	7		
– Basic from Continuing Operations		**4.6 HK cents**	8.5 HK cents
(equivalent to)		**0.60 US cents**	1.09 US cents
– Basic from Discontinued Operations		**(12.5) HK cents**	0.9 HK cents
(equivalent to)		**(1.61) US cents**	0.11 US cents
– Diluted from Continuing Operations		**4.6 HK cents**	8.4 HK cents
(equivalent to)		**0.59 US cents**	1.09 US cents
– Diluted from Discontinued Operations		**(12.4) HK cents**	0.9 HK cents
(equivalent to)		**(1.59) US cents**	0.11 US cents

Details of dividends to Shareholders of the Company are set out in Note 6. The notes on pages 69 to 98 form an integral part of this interim financial information.

Consolidated Statement of Comprehensive Income

	Note	Unaudited Six months ended 30 June 2018 US$'000	2017 US$'000 (Restated)
Net (loss)/profit for the period		**(59,425)**	132,516
Other comprehensive income/(expense):			
Item that will not be reclassified subsequently to profit or loss			
Net fair value gains on financial assets at fair value through other comprehensive income, net of tax		**250**	–
Items that may be reclassified subsequently to profit or loss			
Currency translation differences *		**(2,136)**	40,383
Realization of currency translation differences upon disposal of business		**62,685**	–
Net fair value gains/(losses) on cash flow hedges, net of tax		**4,407**	(13,511)
Net fair value gains on available-for-sale financial assets, net of tax		**–**	89
Total items that may be reclassified subsequently to profit or loss		**64,956**	26,961
Total other comprehensive income for the period, net of tax		**65,206**	26,961
Total comprehensive income for the period		**5,781**	159,477
Attributable to:			
Shareholders of the Company		**(19,817)**	127,904
Holders of perpetual capital securities		**29,063**	32,063
Non-controlling interests		**(3,465)**	(490)
Total comprehensive income for the period		**5,781**	159,477
Attributable to the Shareholders of the Company arising from:			
Continuing Operations		**99,747**	101,639
Discontinued Operations	15(a)	**(119,564)**	26,265
		(19,817)	127,904

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

The notes on pages 69 to 98 form an integral part of this interim financial information.

Consolidated Balance Sheet

	Note	Unaudited 30 June 2018 US$'000	Audited 31 December 2017 US$'000
Non-current assets			
Intangible assets	8	**2,329,702**	2,347,011
Property, plant and equipment	8	**210,197**	208,221
Prepaid premium for land leases		**18**	67
Associated companies		**13,499**	12,393
Joint venture		**688**	996
Available-for-sale financial assets		**–**	4,338
Financial assets at fair value through other comprehensive income		**4,588**	–
Other receivables, prepayments and deposits		**25,021**	27,738
Deferred tax assets		**20,509**	17,456
		2,604,222	2,618,220
Current assets			
Inventories		**172,060**	147,803
Due from related companies		**724,579**	463,163
Trade and bills receivable	9	**984,242**	1,148,560
Other receivables, prepayments and deposits		**168,573**	150,252
Derivative financial instruments		**7,035**	–
Cash and bank balances		**319,175**	348,940
		2,375,664	2,258,718
Assets classified as held for sale		**–**	1,641,065
Current liabilities			
Due to related companies		**410**	124
Trade and bills payable	10	**1,862,833**	1,733,661
Accrued charges and sundry payables		**346,569**	468,089
Purchase consideration payable for acquisitions	11	**36,876**	42,166
Taxation		**42,470**	43,908
Derivative financial instruments		**–**	5,355
Bank advances for discounted bills	9	**800**	1,724
Short-term bank loans		**27,420**	22,970
		2,317,378	2,317,997
Liabilities associated with assets classified as held for sale		**–**	466,570
Net current assets		**58,286**	1,115,216
Total assets less current liabilities		**2,662,508**	3,733,436

	Note	Unaudited 30 June 2018 US$'000	Audited 31 December 2017 US$'000
Financed by:			
Share capital	12	**13,574**	13,574
Reserves		**1,176,057**	1,734,172
Shareholders' funds attributable to the Company's Shareholders		**1,189,631**	1,747,746
Holders of perpetual capital securities	13	**655,687**	1,158,687
Written put option on non-controlling interests		**–**	(67,000)
Non-controlling interests		**(2,429)**	74,262
Total equity		**1,842,889**	2,913,695
Non-current liabilities			
Long-term notes	11	**751,918**	752,432
Purchase consideration payable for acquisitions	11	**18,286**	19,417
Other long-term liabilities	11	**27,234**	29,034
Post-employment benefit obligations		**15,870**	14,165
Deferred tax liabilities		**6,311**	4,693
		819,619	819,741
		2,662,508	3,733,436

The notes on pages 69 to 98 form an integral part of this interim financial information.

Consolidated Statement of Changes in Equity

	Unaudited								
	Attributable to Shareholders of the Company								
	Share capital US$'000 (Note 12)	Share premium US$'000	Other reserves US$'000 (Note 14)	Retained earnings US$'000	Total US$'000	Holders of perpetual capital securities US$'000 (Note 13)	Written put option on non-controlling interests US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2018	13,574	728,527	509,577	496,068	1,747,746	1,158,687	(67,000)	74,262	2,913,695
Comprehensive (expense)/income									
Profit or loss	–	–	–	(85,027)	(85,027)	29,063	–	(3,461)	(59,425)
Other comprehensive (expense)/income									
Currency translation differences	–	–	(2,132)	–	(2,132)	–	–	(4)	(2,136)
Realization of currency translation differences upon disposal of business	–	–	62,685	–	62,685	–	–	–	62,685
Net fair value gains on financial assets at fair value through other comprehensive income, net of tax	–	–	250	–	250	–	–	–	250
Net fair value gains on cash flow hedges, net of tax	–	–	4,407	–	4,407	–	–	–	4,407
Total other comprehensive income, net of tax	–	–	65,210	–	65,210	–	–	(4)	65,206
Total comprehensive income/(expenses)	–	–	65,210	(85,027)	(19,817)	29,063	–	(3,465)	5,781
Transactions with owners in their capacity as owners									
Purchase of shares for Share Award Scheme	–	–	(2,927)	–	(2,927)	–	–	–	(2,927)
Employee Share Option and Share Award Scheme									
– value of employee services	–	–	6,008	–	6,008	–	–	–	6,008
Redemption of perpetual capital securities	–	–	–	–	–	(500,000)	–	–	(500,000)
Distribution to holders of perpetual capital securities	–	–	–	–	–	(32,063)	–	–	(32,063)
2017 final dividends paid	–	–	–	(21,830)	(21,830)	–	–	–	(21,830)
2017 special dividends paid	–	–	(519,549)	–	(519,549)	–	–	–	(519,549)
Disposal of business	–	–	–	–	–	–	67,000	(73,226)	(6,226)
Total transactions with owners in their capacity as owners	–	–	(516,468)	(21,830)	(538,298)	(532,063)	67,000	(73,226)	(1,076,587)
Balance at 30 June 2018	13,574	728,527	58,319	389,211	1,189,631	655,687	–	(2,429)	1,842,889

The notes on pages 69 to 98 form an integral part of this interim financial information.

	Unaudited							
	Attributable to Shareholders of the Company							
	Share capital	Share premium	Other reserves	Retained earnings	Total	Holders of perpetual capital securities	Non-controlling interests	Total equity
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
	(Note 12)		(Note 14)			(Note 13)		
Balance at 1 January 2017, as previously reported	13,487	714,536	431,450	1,166,071	2,325,544	1,158,687	(1,083)	3,483,148
Impact of adoption of HKFRS 15	–	–	(3,073)	(21,091)	(24,164)	–	–	(24,164)
Balance at 1 January 2017, as restated	13,487	714,536	428,377	1,144,980	2,301,380	1,158,687	(1,083)	3,458,984
Comprehensive income/(expense)								
Profit or loss	–	–	–	100,955	100,955	32,063	(502)	132,516
Other comprehensive income/ (expense)								
Currency translation differences	–	–	40,371	–	40,371	–	12	40,383
Net fair value gains on available-for-sale financial assets, net of tax	–	–	89	–	89	–	–	89
Net fair value losses on cash flow hedges, net of tax	–	–	(13,511)	–	(13,511)	–	–	(13,511)
Total other comprehensive income, net of tax	–	–	26,949	–	26,949	–	12	26,961
Total comprehensive income/ (expenses)	–	–	26,949	100,955	127,904	32,063	(490)	159,477
Transactions with owners in their capacity as owners								
Employee Share Option and Share Award Scheme:								
– value of employee services	–	–	6,173	–	6,173	–	–	6,173
Distribution to holders of perpetual capital securities	–	–	–	–	–	(32,063)	–	(32,063)
Transfer to capital reserve	–	–	130	(130)	–	–	–	–
2016 final dividends paid	–	–	–	(130,136)	(130,136)	–	–	(130,136)
Total transactions with owners in their capacity as owners	–	–	6,303	(130,266)	(123,963)	(32,063)	–	(156,026)
Balance at 30 June 2017	13,487	714,536	461,629	1,115,669	2,305,321	1,158,687	(1,573)	3,462,435

The notes on pages 69 to 98 form an integral part of this interim financial information.

Condensed Consolidated Cash Flow Statement

	Note	Unaudited Six months ended 30 June 2018 US$'000	 2017 US$'000 (Restated)
Continuing Operations			
Operating activities			
Operating profit adjusted for non-cash items before working capital changes		**158,342**	181,242
Changes in working capital		**(160,108)**	(19,072)
Net cash (outflow)/inflow generated from operations		**(1,766)**	162,170
Profits tax paid		**(19,577)**	(28,742)
Net cash (outflow)/inflow from operating activities		**(21,343)**	133,428
Investing activities			
Settlement of consideration payable for prior years acquisitions of businesses		**(6,025)**	(6,025)
Considerations on disposal of business		**1,100,000**	–
Debt released, transaction costs and other closing adjustments for disposal of business*		**(95,073)**	–
Capital expenditure		**(40,473)**	(31,312)
Other investing activities		**9,731**	7,266
Net cash inflow/(outflow) from investing activities		**968,160**	(30,071)
Net cash inflow before financing activities		**946,817**	103,357
Financing activities			
Interest paid		**(25,155)**	(34,420)
Distributions made to holders of perpetual capital securities		**(32,063)**	(32,063)
Repayment of long-term notes		**–**	(500,000)
Dividends paid		**(541,379)**	(130,136)
Purchase of shares for Share Award Scheme		**(2,927)**	–
Redemption of perpetual capital securities		**(500,000)**	–
Other financing activities		**4,450**	35
Net cash outflow from financing activities		**(1,097,074)**	(696,584)
Decrease in cash and cash equivalents from Continuing Operations		**(150,257)**	(593,227)

		Unaudited Six months ended 30 June	
	Note	**2018** **US$'000**	2017 US$'000 (Restated)
Discontinued Operations			
(Decrease)/increase in cash and cash equivalents from Discontinued Operations	15(f)	**(71,978)**	22,182
Decrease in cash and cash equivalents		**(222,235)**	(571,045)
Cash and cash equivalents at 1 January			
Continuing Operations		**348,940**	830,558
Discontinued Operations		**192,578**	154,481
		541,518	985,039
Decrease in cash and cash equivalents		**(222,235)**	(571,045)
Effect of foreign exchange rate changes		**(108)**	2,273
Cash and cash equivalents of Continuing Operations at 30 June		**319,175**	416,267
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**319,175**	416,267

* The amount is set off by the cash and cash equivalents of Discontinued Operations as the divestment is on a cash free/debt free basis.

The notes on pages 69 to 98 form an integral part of this interim financial information.

Notes to Condensed Interim Financial Information

1 General Information

Li & Fung Limited and its subsidiaries are principally engaged in managing the supply chain for retailers and brands worldwide with over 230 offices across over 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 HM 12, Bermuda.

The Company's shares are listed on the Stock Exchange.

This condensed interim financial information is presented in US dollars, unless otherwise stated. This condensed interim financial information was approved for issue on 22 August 2018.

2 Basis of Preparation and Accounting Policies

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

This interim financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the HKICPA and Appendix 16 of the Listing Rules. This interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

Except as described in (a) below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements.

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

2 Basis of Preparation and Accounting Policies (continued)

(a) New standard, new interpretation and amendments to existing standards adopted by the Group

The following new standard, new interpretation and amendments to existing standards are mandatory for accounting periods beginning on or after 1 January 2018:

HKAS 40 Amendment	Transfer of Investment Property
HKFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 Amendment	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvement Project	Annual Improvements 2014–2016 Cycle

The application of the above new standard, new interpretation and amendments effective in the current interim period has had no material effect on the amounts reported in the interim financial information and/or disclosures set out in the interim financial information, except for HKFRS 9 "Financial Instruments" as set out below.

HKFRS 9, "Financial Instruments"

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

(I) CHANGES IN ACCOUNTING POLICIES

Available-for-Sale Financial Assets

Available-for-Sale Financial Assets (other than investments in subsidiary companies, associated companies or joint venture) are non-derivative equity financial investments which are measured at fair value. Management is eligible to make an irrevocable election, on an instrument-by-instrument basis, on equity investments other than those held for trading, to present changes in fair value through profit or loss or fair value through other comprehensive income ("FVOCI"). The Group has elected to measure as FVOCI, to which any fair value gains or losses accumulated in the revaluation reserve account will no longer be reclassified to profit or loss following the derecognition of such available-for-sale financial assets.

Loans and receivables

Loans and receivables are debt instruments that are within the Group's business model to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. At the end of the reporting period subsequent to initial recognition, loans and receivables are subsequently measured at amortized cost less impairment. Interest income using the effective interest method is recognized in the consolidated profit and loss accounts.

2 Basis of Preparation and Accounting Policies (continued)

(a) New standard, new interpretation and amendments to existing standards adopted by the Group (continued)

(I) CHANGES IN ACCOUNTING POLICIES (continued)

Impairment of financial assets

HKFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses ("ECL") model, which constitutes a change from the incurred loss model in HKAS 39 to with a forward-looking ECL model. HKFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires lifetime expected losses for amounts due from customers to be recognized from initial recognition of the trade receivables.

Impairment on other debt instruments at amortized cost are measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. As other debt instruments at amortized cost are considered to have low credit risk, the impairment provision applied is to recognize 12-month ECL.

Hedge accounting

HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of HKAS 39.

2 Basis of Preparation and Accounting Policies (continued)

(a) New standard, new interpretation and amendments to existing standards adopted by the Group (continued)

(II) EFFECTS OF CHANGES IN ACCOUNTING POLICIES

In accordance with the transitional provisions in HKFRS 9 paragraph 7.2.15 and 7.2.26, comparative figures have not been restated, where the comparative information for prior periods with respect to classification and measurement (including impairment) changes is not restated and differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 will be recognized as an adjustment to the opening balance of equity at the date of adoption, i.e. as at 1 January 2018.

Classification of available-for-sale financial assets

The Group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale financial assets as they are long-term strategic investments that are not expected to be sold in the short to medium term. Available-for-sale financial assets as at 31 December 2017 will continue to be measured at FVOCI after adoption of HKFRS 9.

Classification of loans and receivables

The Group's existing loans and receivables are debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest and therefore will continue to be measured at amortized cost.

Impairment of financial assets

For trade receivables and other debt instruments, the Group applies the simplified approach to provide for ECL prescribed by HKFRS 9, which requires the use of the lifetime expected losses for all trade receivables. The adoption of the simplified expected loss approach under HKFRS 9 has not resulted in any material impact to the carrying value of trade receivables as at 1 January 2018.

Hedge accounting

The Group applies hedge accounting prospectively. All hedge accounting relationships designated under the previous HKAS 39 have continued to be valid hedge accounting relationships in accordance with HKFRS 9. Upon transition to HKFRS 9, the Group continues to recognize derivative financial instruments which are not under effective hedge relationships to be classified under fair value through profit or loss.

The Group's risk management strategies and hedge documentation are aligned with the requirements of HKFRS 9 and these relationships are therefore treated as continuing hedges. The foreign currency forwards in place as at 31 December 2017 qualified as cash flow hedges under HKFRS 9. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of HKFRS 9 had no significant impact on the Group's financial information.

2 Basis of Preparation and Accounting Policies (continued)

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

The following new standards, new interpretation and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2019 or later periods, but the Group has not early adopted them:

HKAS 19 Amendment	Plan amendment, curtailment or settlement[1]
HKAS 28 Amendment	Long-term Interests in Associates and Joint Venture[1]
HKFRS 9 Amendment	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Annual Improvement Project	Annual Improvements 2015–2017 Cycle[1]

NOTES:

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective date to be determined

3 Segment Information

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

The Company is domiciled in Bermuda. The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its Hong Kong office is at 11/F, Li Fung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong. The Group is principally engaged in managing the supply chain for retailers and brands worldwide with over 230 offices across more than 40 economies spanning across the Americas, Europe, Africa and Asia. Turnover represents revenue generated from sales and services rendered at invoiced value to customers outside the Group less discounts and returns.

On 3 April 2018, the Group has completed the strategic divestment of three Product Verticals, having obtained necessary shareholders and regulatory approvals. The three Product Verticals are classified as Discontinued Operations and their results for the period and the comparatives are excluded from the Products segment and presented separately as one-line item below net profit of the Continuing Operations. Further details of financial information of the Discontinued Operations are set out in Note 15 to the financial information.

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

3 Segment Information (continued)

	Services US$'000	Products US$'000	Elimination US$'000	Total US$'000
Six months ended 30 June 2018 (Unaudited)				
Continuing Operations				
Turnover	5,100,514	762,693	(12,867)	5,850,340
Total margin	486,707	126,821		613,528
Operating costs	(375,099)	(114,326)		(489,425)
Core operating profit	111,608	12,495		124,103
Amortization of other intangible assets				(14,777)
Operating profit				109,326
Interest income				7,571
Interest expenses				
Non-cash interest expenses				(329)
Cash interest expenses				(25,155)
				(25,484)
Share of profits less losses of associated companies and joint venture				843
Profit before taxation				92,256
Taxation				(13,710)
Net profit for the period from Continuing Operations				78,546
Discontinued Operations				
Net loss for the period from Discontinued Operations				(137,971)
Net loss for the period				(59,425)
Depreciation and amortization (Continuing Operations)	34,636	8,081		42,717
30 June 2018 (Unaudited)				
Non-current assets (other than financial assets at fair value through other comprehensive income and deferred tax assets)	1,816,366	762,759		2,579,125

3 Segment Information (continued)

	Services US$'000 (Restated)	Products US$'000 (Restated)	Elimination US$'000 (Restated)	Total US$'000 (Restated)
Six months ended 30 June 2017 (Unaudited)				
Continuing Operations				
Turnover	5,812,935	674,320	(15,998)	6,471,257
Total margin	517,491	124,387		641,878
Operating costs	(380,476)	(110,039)		(490,515)
Core operating profit	137,015	14,348		151,363
Gain on remeasurement of contingent consideration payable				29,645
Amortization of other intangible assets				(10,717)
Operating profit				170,291
Interest income				6,622
Interest expenses				
Non-cash interest expenses				(2,451)
Cash interest expenses				(34,420)
				(36,871)
Share of profits less losses of associated companies and joint venture				1,174
Profit before taxation				141,216
Taxation				(18,232)
Net profit for the period from Continuing Operations				122,984
Discontinued Operations				
Net profit for the period from Discontinued Operations				9,532
Net profit for the period				132,516
Depreciation and amortization (Continuing Operations)	27,923	8,517		36,440
31 December 2017 (Audited)				
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	1,821,217	775,209		2,596,426

3 Segment Information (continued)

Supplementary analysis for the Services segment by Supply Chain Solutions and Logistics Services is as follows:

	Unaudited Six months ended 30 June	
	2018 US$'000	2017 US$'000 (Restated)
Turnover		
Supply Chain Solutions	**4,559,933**	5,325,596
Logistics Services	**542,905**	489,728
Elimination	**(2,324)**	(2,389)
	5,100,514	5,812,935

	Unaudited Six months ended 30 June	
	2018 US$'000	2017 US$'000 (Restated)
Core operating profit		
Supply Chain Solutions	**74,009**	104,359
Logistics Services	**37,599**	32,656
	111,608	137,015

The geographical analysis of turnover to external customers and non-current assets of the Continuing Operations (other than financial assets at fair value through other comprehensive income, available-for-sale financial assets and deferred tax assets) is as follows:

	Turnover		Non-current assets (other than financial assets at fair value through other comprehensive income, available-for-sale financial assets and deferred tax assets)	
	Unaudited Six months ended 30 June		**Unaudited 30 June**	Audited 31 December
	2018 US$'000	2017 US$'000 (Restated)	**2018 US$'000**	2017 US$'000
United States of America	**3,860,235**	4,310,051	**1,443,521**	1,448,557
Europe	**938,669**	1,153,059	**742,346**	783,277
Asia	**659,935**	602,511	**246,857**	227,014
Rest of the world	**391,501**	405,636	**146,401**	137,578
	5,850,340	6,471,257	**2,579,125**	2,596,426

3 Segment Information (continued)

Turnover to external customers consists of sales of goods of Supply Chain Solutions business, logistics services income and sales of goods of Products Segment as follows:

	Unaudited Six months ended 30 June	
	2018 US$'000	2017 US$'000 (Restated)
Sales of goods of Supply Chain Solutions business	**4,551,077**	5,316,658
Logistics services income	**537,336**	483,622
Sales of goods of Products Segment	**761,927**	670,977
	5,850,340	6,471,257

Turnover to external customers consists of sales of soft goods, hard goods and logistics services income as follows:

	Unaudited Six months ended 30 June	
	2018 US$'000	2017 US$'000 (Restated)
Sales of soft goods	**4,051,855**	4,571,413
Sales of hard goods	**1,261,149**	1,416,222
Logistics services income	**537,336**	483,622
	5,850,340	6,471,257

For the six months ended 30 June 2018, approximately 16% and 11% (2017 (restated): 15% and 10%) of the total turnover of the Group's Continuing Operations is derived from two external customers, of which 16% and 11% (2017 (restated): 15% and 10%) and less than 1% and less than 1% (2017 (restated): less than 1% and less than 1%) are attributable to the Services segment and Products segment respectively.

Segment information for the Discontinued Operations is set out in Note 15(b).

4 Operating Profit from Continuing Operations

Operating profit from Continuing Operations is stated after crediting and charging the following:

	Unaudited Six months ended 30 June	
	2018 US$'000	2017 US$'000 (Restated)
Crediting		
Gain on remeasurement of contingent consideration payable*	**–**	29,645
Charging		
Staff costs including directors' emoluments	**354,792**	375,842
Amortization of system development, software and other license costs	**4,551**	4,490
Amortization of other intangible assets*	**14,777**	10,717
Amortization of prepaid premium for land leases	**1**	4
Depreciation of property, plant and equipment	**23,388**	21,229
Net loss/(gain) on disposal of property, plant and equipment	**183**	(417)

* Excluded from the core operating profit

5 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	Unaudited Six months ended 30 June	
	2018 US$'000	2017 US$'000 (Restated)
Current taxation		
– Hong Kong profits tax	**2,686**	4,692
– Overseas taxation	**15,730**	20,019
Deferred taxation	**(4,706)**	(6,479)
	13,710	18,232

6 Interim Dividend

	Unaudited Six months ended 30 June	
	2018 **US$'000**	2017 US$'000
Proposed, of HK$0.03 (equivalent to US$0.004) (2017: HK$0.11 (equivalent to US$0.014)) per ordinary share (Note)	**32,745**	120,064

NOTE:
Final dividend of US$21,830,000 and the special dividend of US$519,549,000 for the year ended 31 December 2017 were paid in May 2018 (2017: final dividend of US$130,136,000).

7 Earnings/(Losses) per Share

The calculation of basic earnings per share is based on the Group's profit attributable to Shareholders arising from the Continuing Operations of US$49,946,000 (2017 (restated): US$91,423,000) and the Group's losses attributable to Shareholders arising from the Discontinued Operations of US$134,973,000 (2017 (restated): profit of US$9,532,000) and on the weighted average number of 8,376,564,000 (2017: 8,366,875,000) shares in issue during the period.

The diluted earnings per share for the six months ended 30 June 2018 was calculated by adjusting the weighted average number of 8,376,564,000 (2017: 8,366,875,000) ordinary shares in issue by 93,414,000 (2017: 48,572,000) to assume conversion of all dilutive potential ordinary shares granted under the Company's Share Option and Share Awards Scheme. For the determination of dilutive potential ordinary share granted under the Company, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding Share Options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the Share Options and vesting Award Shares.

8 Capital Expenditure

	Intangible assets US$'000	Property, plant and equipment US$'000
Six months ended 30 June 2018		
Net book amount as at 1 January 2018 (Audited)	**2,347,011**	**208,221**
Additions	**9,987**	**30,496**
Disposals	**(69)**	**(2,343)**
Amortization (Note)/depreciation charge	**(19,328)**	**(23,388)**
Exchange differences	**(7,899)**	**(2,789)**
Net book amount as at 30 June 2018 (Unaudited)	**2,329,702**	**210,197**
Six months ended 30 June 2017 (Restated)		
Net book amount as at 1 January 2017 (Audited)	3,896,973	221,550
Continuing Operations		
Additions	13,165	19,559
Disposals	–	(77)
Amortization/depreciation charge	(15,207)	(21,229)
Exchange differences	26,131	2,807
Discontinued Operations		
Additions	528	4,240
Disposals	–	(331)
Amortization/depreciation charge	(7,920)	(6,248)
Exchange differences	10,643	2,154
Net book amount as at 30 June 2017 (Unaudited)	3,924,313	222,425

NOTE:
Amortization of intangible assets included amortization of system development, software and other license costs of US$4,551,000 (2017: US$4,490,000) and amortization of other intangible assets arising from business combinations of US$14,777,000 (2017: US$10,717,000).

At 30 June 2018, no land and buildings were pledged as security for the Group's short-term bank loans (31 December 2017: Nil).

9 Trade and Bills Receivable

The ageing of trade and bills receivable based on invoice date is as follows:

	Current to 90 days US$'000	91 to 180 days US$'000	181 to 360 days US$'000	Over 360 days US$'000	Total US$'000
Balance at 30 June 2018 (Unaudited)	**915,209**	**47,712**	**18,653**	**2,668**	**984,242**
Balance at 31 December 2017 (Audited)	1,058,741	72,515	11,115	6,189	1,148,560

All trade and bills receivable are either repayable within one year or on demand. Accordingly, the fair values of the Group's trade and bills receivable were approximately the same as their carrying values as at 30 June 2018.

A significant portion of the Group's business is on sight letter of credit, usance letter of credit up to a tenor of 120 days, documents against payment or customers' letter of credit to suppliers. The balance of the business is on open account terms which are often covered by customers' standby letters of credit, bank guarantees, credit insurance or under a back-to-back payment arrangement with suppliers.

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

Certain subsidiaries of the Group transferred bills receivable balances amounting to US$800,000 (31 December 2017: US$1,724,000) to banks in exchange for cash as at 30 June 2018. The transactions have been accounted for as collateralized bank advances.

10 Trade and Bills Payable

The ageing of trade and bills payable based on invoice date is as follows:

	Current to 90 days US$'000	91 to 180 days US$'000	181 to 360 days US$'000	Over 360 days US$'000	Total US$'000
Balance at 30 June 2018 (Unaudited)	**1,784,179**	**49,787**	**7,715**	**21,152**	**1,862,833**
Balance at 31 December 2017 (Audited)	1,645,884	66,176	9,552	12,049	1,733,661

The fair values of the Group's trade and bills payable were approximately the same as their carrying values as at 30 June 2018.

11 Long-term Liabilities

	Unaudited 30 June 2018 US$'000	Audited 31 December 2017 US$'000
Long-term notes – unsecured	**751,918**	752,432
Purchase consideration payable for acquisitions	**55,162**	61,583
Other long-term liabilities	**27,234**	29,034
	834,314	843,049
Current portion of purchase consideration payable for acquisitions	**(36,876)**	(42,166)
	797,438	800,883

Balance of purchase consideration payable for acquisitions as at 30 June 2018 included performance-based earn-out and earn-up contingent considerations of US$44,093,000 and US$11,069,000 respectively (31 December 2017: US$44,162,000 and US$17,421,000). Earn-out is contingent consideration that would be realized if the acquired businesses achieve their respective base year profit target, calculated on certain predetermined basis, during the designated periods of time. Earn-up is contingent consideration that would be realized if the acquired businesses achieve certain growth targets, calculated based on the base year profits, during the designated periods of time.

The basis of the contingent consideration differs for each acquisition; generally the contingent consideration reflects a specified multiple of the post-acquisition financial profitability of the acquired business. Consequently, the actual additional consideration payable will vary according to the future performance of each individual acquired business, and the liabilities provided reflect estimates of such future performances.

Due to the number of acquisitions for which additional consideration remains outstanding and the variety of bases of determination, it is not practicable to provide any meaningful sensitivity in relation to the critical assumptions concerning future profitability of each acquired business and the potential impact on the gain or loss on remeasurement of contingent consideration payables and goodwill for each acquired businesses.

However, if the total actual contingent consideration payables are 10% higher or lower than the total contingent consideration payables estimated by management, the resulting aggregate impact to the gain or loss on remeasurement of contingent consideration payables recognized to the profit and loss account would be US$5,516,000.

12 Share Capital, Share Options and Award Shares

	Number of shares (in thousand)	HK$'000	Equivalent to US$'000
Authorized			
At 1 January 2018, ordinary shares of HK$0.0125 each	**12,000,000**	**150,000**	**19,231**
At 30 June 2018, ordinary shares of HK$0.0125 each	**12,000,000**	**150,000**	**19,231**
Issued and fully paid			
At 1 January 2018, ordinary shares of HK$0.0125 each	**8,469,956**	**105,874**	**13,574**
At 30 June 2018, ordinary shares of HK$0.0125 each	**8,469,956**	**105,874**	**13,574**

Details of Share Options granted by the Company pursuant to the 2003 Option Scheme and 2014 Option Scheme and outstanding at 30 June 2018 are as follows:

			Number of Share Options			
Grant Date	Exercise Price HK$	Exercisable period	As at 1/1/2018	Granted	Lapsed	As at 30/06/2018
22/12/2011	12.12[1]	1/5/2016–30/4/2018	2,000,000	–	(2,000,000)	**–**
22/12/2011	12.12[1]	1/5/2017–30/4/2019	2,000,000	–	–	**2,000,000**
22/12/2011	12.12[1]	1/5/2018–30/4/2020	2,000,000	–	–	**2,000,000**
22/12/2011	12.12[1]	1/5/2019–30/4/2021	2,000,000	–	–	**2,000,000**
22/12/2011	12.12[1]	1/5/2020–30/4/2022	2,000,000	–	–	**2,000,000**
22/12/2011	12.12[1]	1/5/2021–30/4/2023	2,000,000	–	–	**2,000,000**
21/5/2015	7.49	1/1/2016–31/12/2017	27,670,000	–	(27,670,000)	**–**
21/5/2015	7.49	1/1/2017–31/12/2018	28,727,000	–	(1,634,000)	**27,093,000**
21/5/2015	7.49	1/1/2018–31/12/2019	28,878,000	–	(1,634,000)	**27,244,000**
16/11/2015	5.81	1/1/2017–31/12/2018	285,000	–	–	**285,000**
16/11/2015	5.81	1/1/2018–31/12/2019	604,000	–	–	**604,000**
19/5/2016	4.27	1/1/2018–31/12/2019	604,000	–	–	**604,000**
13/7/2017	2.86	1/1/2018–31/12/2019	125,000	–	–	**125,000**
		Total	98,893,000	–	(32,938,000)	**65,955,000**

NOTE:

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

Subsequent to 30 June 2018, no Shares have been allotted and issued under the 2003 Option Scheme and 2014 Option Scheme.

The Share Options outstanding at 30 June 2018 had a weighted average remaining contractual life of 1.29 years (31 December 2017: 1.25 years).

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

Details of Award Shares granted by the Company pursuant to the Share Award Scheme and outstanding at 30 June 2018 are as follows:

			Number of Award Shares				
Grant Date	Fair Value per Share HK$	Vesting Date	As at 1/1/2018	Granted	Vested	Unvested/ Forfeited	As at 30/6/2018
21/5/2015	7.49	31/12/2018	11,461,100	–	–	(810,400)	**10,650,700**
21/5/2015	7.49	31/12/2019	5,758,300	–	–	(406,900)	**5,351,400**
16/11/2015	5.33	31/12/2018	260,800	–	–	(22,100)	**238,700**
16/11/2015	5.33	31/12/2019	189,000	–	–	(17,200)	**171,800**
19/5/2016	4.27	31/12/2018	323,000	–	–	(30,000)	**293,000**
19/5/2016	4.27	31/12/2019	316,500	–	–	(27,700)	**288,800**
14/11/2016	3.53	31/12/2018	61,100	–	–	(2,600)	**58,500**
14/11/2016	3.53	31/12/2019	61,100	–	–	(2,600)	**58,500**
13/7/2017	2.83	31/12/2018	22,361,400	–	–	(1,434,600)	**20,926,800**
13/7/2017	2.83	31/12/2019	21,574,400	–	–	(1,360,600)	**20,213,800**
13/7/2017	2.83	31/12/2020	21,563,000	–	–	(1,360,000)	**20,203,000**
23/3/2018	3.87	31/12/2018	–	2,576,000	–	(16,000)	**2,560,000**
23/3/2018	3.87	31/12/2019	–	2,523,000	–	(12,000)	**2,511,000**
23/3/2018	3.87	31/12/2020	–	2,523,000	–	(12,000)	**2,511,000**
		Total	83,929,700	7,622,000	–	(5,514,700)	**86,037,000**

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

During the period, a total of 7,622,000 Award Shares were awarded to eligible persons pursuant to the Share Award Scheme, and out of which 6,084,000 Award Shares were awarded to connected persons. A total of 1,838,900 Shares held by the trustee of the Share Award Scheme in two separate funds had been applied to satisfy 300,900 Award Shares to connected persons and 1,538,000 Award Shares to non-connected persons in accordance with the terms of the Share Award Scheme. The remaining 5,783,100 Award Shares were purchased from the open market to satisfy awards to connected persons and no new Shares were allotted and issued by the Company to satisfy awards to non-connected persons pursuant to the terms of the Share Award Scheme.

13 Perpetual Capital Securities

On 3 November 2016 and 8 November 2012, the Company issued perpetual subordinated capital securities (the "Perpetual Capital Securities") with an aggregate principal amount of US$650 million and US$500 million respectively. The Perpetual Capital Securities do not have maturity date and the distribution payments can be deferred at the discretion of the Company. Therefore, the Perpetual Capital Securities are classified as equity instruments and recorded in equity in the consolidated balance sheet. The Company redeemed US$500 million Perpetual Capital Securities issued on 8 November 2012 in full on 25 May 2018. The balances as at 30 June 2018 and 31 December 2017 included the accrued distribution payments.

14 Other Reserves

	Unaudited								
	Treasury shares US$'000 (Note (a))	Capital reserve US$'000 (Note (b))	Contributed surplus US$'000	Employee share-based compensation reserve US$'000	Revaluation reserve US$'000	Hedging reserve US$'000	Defined benefit obligation reserve US$'000	Exchange reserve US$'000	Total US$'000
Balance at 1 January 2018	(10,996)	7,646	710,000	66,043	3,329	226	(14,114)	(252,557)	509,577
Other comprehensive (expenses)/income									
Currency translation differences	–	–	–	–	–	–	–	(2,132)	(2,132)
Realisation of currency translation differences upon disposal of business	–	–	–	–	–	–	–	62,685	62,685
Net fair value gains on financial assets at FVOCI, net of tax	–	–	–	–	250	–	–	–	250
Net fair value gains on cash flow hedges, net of tax	–	–	–	–	–	4,407	–	–	4,407
Transactions with owners in their capacity as owners									
Purchase of shares for Share Award Scheme	(2,927)	–	–	–	–	–	–	–	(2,927)
Employee Share Option and Share Award Scheme:									
– value of employee services	–	–	–	6,008	–	–	–	–	6,008
2017 special dividends paid	–	–	(519,549)	–	–	–	–	–	(519,549)
Balance at 30 June 2018	(13,923)	7,646	190,451	72,051	3,579	4,633	(14,114)	(192,004)	58,319

14 Other Reserves (continued)

	Unaudited								
	Treasury shares US$'000 (Note (a))	Capital reserve US$'000 (Note (b))	Contributed surplus US$'000	Employee share-based compensation reserve US$'000	Revaluation reserve US$'000	Hedging reserve US$'000	Defined benefit obligation reserve US$'000	Exchange reserve US$'000	Total US$'000
Balance at 1 January 2017, as previously reported	(11,653)	2,785	710,000	65,749	3,155	7,185	(14,120)	(331,651)	431,450
Impact of adoption of HKFRS 15	–	–	–	–	–	–	–	(3,073)	(3,073)
Balance at 1 January 2017, as restated	(11,653)	2,785	710,000	65,749	3,155	7,185	(14,120)	(334,724)	428,377
Other comprehensive income/(expenses)									
Currency translation differences	–	–	–	–	–	–	–	40,371	40,371
Net fair value gains on available-for-sale financial assets, net of tax	–	–	–	–	89	–	–	–	89
Net fair value losses on cash flow hedges, net of tax	–	–	–	–	–	(13,511)	–	–	(13,511)
Transactions with owners in their capacity as owners									
Employee Share Option and Share Award Scheme:									
– value of employee services	–	–	–	6,173	–	–	–	–	6,173
Transfer to capital reserves	–	130	–	–	–	–	–	–	130
Balance at 30 June 2017	(11,653)	2,915	710,000	71,922	3,244	(6,326)	(14,120)	(294,353)	461,629

NOTES:

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

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

15 Discontinued Operations

The results of the Discontinued Operations are presented in the consolidated profit and loss account in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". The consolidated statement of comprehensive income and consolidated cash flow statement distinguish the Discontinued Operations from the Continuing Operations.

(a) Results of the Discontinued Operations have been included in the consolidated profit and loss accounts as follows:

	Unaudited	
	For the period from 1 January to 3 April 2018	Six months ended 30 June 2017
	US$'000	US$'000
Turnover	**382,235**	803,448
Cost of sales	**(298,146)**	(610,335)
Gross Profit	**84,089**	193,113
Selling and distribution expenses	**(27,294)**	(55,732)
Merchandising and administrative expenses	**(76,565)**	(118,629)
Core operating (loss)/profit	**(19,770)**	18,752
Amortization of other intangible assets	**(3,682)**	(6,796)
Operating (loss)/profit	**(23,452)**	11,956
Interest income	**157**	276
Interest expenses	**(1,068)**	(166)
(Loss)/profit before taxation	**(24,363)**	12,066
Taxation	**825**	(2,534)
(Loss)/profit after taxation	**(23,538)**	9,532
Net loss on disposal of Businesses (Note 15(e))	**(114,433)**	–
Net (loss)/profit for the period from Discontinued Operations	**(137,971)**	9,532
Attributable to:		
Shareholders of the Business	**(134,973)**	9,532
Non-controlling interest	**(2,998)**	–
	(137,971)	9,532

15 Discontinued Operations (continued)

(a) Results of the Discontinued Operations have been included in the consolidated profit and loss accounts as follows: (continued)

STATEMENT OF COMPREHENSIVE INCOME OF THE DISCONTINUED OPERATIONS

	Unaudited	
	For the period from 1 January to 3 April 2018 US$'000	Six months ended 30 June 2017 US$'000
Net (loss)/profit for the period	**(137,971)**	9,532
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	**15,409**	16,875
Net fair value losses on cash flow hedges, net of tax	**–**	(142)
Total items that may be reclassified subsequently to profit or loss	**15,409**	16,733
Total other comprehensive income for the period, net of tax	**15,409**	16,733
Total comprehensive (expense)/income for the period	**(122,562)**	26,265
Attributable to:		
Shareholders of the Business	**(119,564)**	26,265
Non-controlling interest	**(2,998)**	–
	(122,562)	26,265

(b) Geographical analysis of turnover of the Discontinued Operations

The turnover consists of sales to United States of America of US$186,326,000 (2017: US$407,276,000), Europe of US$105,993,000 (2017: US$244,940,000), Asia of US$65,608,000 (2017: US$97,614,000) and Rest of the world of US$24,308,000 (2017: US$53,618,000).

15 Discontinued Operations (continued)

(c) Operating profit of the Discontinued Operations

Operating profit of the Discontinued Operations is stated after charging the following:

	Unaudited	
	For the period from 1 January to 3 April 2018	Six months ended 30 June 2017
	US$'000	US$'000
Charging		
Cost of inventories sold	**298,146**	610,335
Amortization of system development, software and other license costs	**515**	1,124
Amortization of other intangible assets (excluded from the core operating profit)	**3,682**	6,796
Depreciation of property, plant and equipment	**3,251**	6,248
Net loss on disposal of property, plant and equipment	**–**	331
Staff costs including directors' emoluments	**36,906**	79,199

(d) Disposed net assets of the Discontinued Operations at the date of disposal are as follows:

	US$'000
Intangible assets	**1,632,176**
Property, plant and equipment	**40,394**
Other non-current assets	**9,556**
Trade and other receivables	**170,313**
Inventories	**130,268**
Cash and bank balances	**128,826**
Other current assets	**45**
Trade and other payables	**(236,687)**
Other current liabilities	**(16,112)**
Other non-current liabilities	**(92,410)**
	1,766,369
Remeasurement loss recognized in previous year	**(592,363)**
	1,174,006
Less: Non-controlling interest	**(6,226)**
Net assets disposed	**1,167,780**

15 Discontinued Operations (continued)

(e) Analysis of net loss on disposal of business of the Discontinued Operations is as follows:

	US$'000
Considerations on disposal of business	**1,100,000**
Cash and cash equivalents adjustment for disposal of business	**128,826**
Debt released, transaction costs and other closing adjustments for disposal of business	**(95,073)**
Less: Net assets disposed	**(1,167,780)**
Exchange reserve and others	**(80,406)**
Net loss on disposal of business	**(114,433)**

(f) An analysis of the cash flows of the Discontinued Operations is as follows:

	Unaudited	
	For the period from 1 January to 3 April 2018	Six months ended 30 June 2017
	US$'000	US$'000
Net cash (outflow)/inflow from operating activities	**(67,872)**	26,112
Net cash outflow from investing activities	**(3,981)**	(4,173)
Net cash (outflow)/inflow from financing activities*	**(125)**	243
Total cash flow	**(71,978)**	22,182

* Amounts adjusted to eliminate impact from financing activities between the Discontinued Operations and the Continuing Operations.

(g) Related Party Transactions

	Unaudited	
	For the period from 1 January to 3 April 2018	Six months ended 30 June 2017
	US$'000	US$'000
Distribution and sales of goods	**16**	772

Pursuant to the master distribution and sale of goods agreement entered into on 17 November 2017 with FH (1937) for a term of three years commencing from 1 January 2018 and ending on 31 December 2020, certain distribution and sales of goods was made on mutually agreed normal commercial terms with FH (1937) and its associates.

16 Contingent Liabilities from Continuing Operations

	Unaudited 30 June 2018 US$'000	Audited 31 December 2017 US$'000
Guarantees in respect of banking facilities granted to: Associated company	**750**	750

17 Commitments from Continuing Operations

(a) Operating lease commitments from Continuing Operations

As at 30 June 2018, the Continuing Operations of the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited 30 June 2018 US$'000	Audited 31 December 2017 US$'000
Within one year	**139,482**	145,887
In the second to fifth year inclusive	**239,662**	286,877
After the fifth year	**59,890**	83,291
	439,034	516,055

(b) Capital commitments from Continuing Operations

	Unaudited 30 June 2018 US$'000	Audited 31 December 2017 US$'000
Contracted but not provided for:		
Property, plant and equipment	**18,901**	4,510
System development, software and other license costs	**4,256**	5,030
	23,157	9,540

18 Related Party Transactions from Continuing Operations

The Continuing Operations of the Group had the following material transactions with its related parties during the six months ended 30 June 2018 and 2017:

		Unaudited Six months ended 30 June	
	Note	**2018 US$'000**	2017 US$'000 (Restated)
Distribution and sales of goods	(i)	**9,231**	9,279
Operating leases rental and license fee paid	(ii)	**11,253**	12,868
Operating leases rental and license fee received	(ii)	**679**	502
Sourcing and supply chain management services income	(iii)	**636,331**	607,929
Logistics related services income	(iv)	**9,286**	7,495
Sourcing and supply chain management services income	(v)	**13,692**	10,977
Service fee income	(vi)	**6,295**	–
Rental and license fee paid	(vii)	**74**	–
Rental income	(vii)	**3,463**	–
Ancillary sourcing, logistics and trading services income	(viii)	**1,485**	–
Office administrative expenses reimbursement	(ix)	**14,253**	–

NOTES:

(i) Pursuant to the master distribution and sale of goods agreement entered into on 17 November 2017 with FH (1937) for a term of three years commencing from 1 January 2018 and ending on 31 December 2020, certain distribution and sales of goods was made on mutually agreed normal commercial terms with FH (1937) and its associates.

(ii) Pursuant to the master lease agreement for leasing of properties or sub-leasing and/or licensing arrangement dated 14 November 2016 entered into with FH (1937) and its associates for a term of three years ending 31 December 2019, the Group had rental charge for certain properties leased from FH (1937) and its associates during the period based on mutually agreed normal commercial terms. For the six months ended 30 June 2018, aggregate operating lease rental and license fee paid to and from one another approximated to US$11,932,000 (2017: US$13,370,000).

(iii) Pursuant to the buying agency agreement entered (the "Old Buying Agency Agreement") into with Global Brands Group on 24 June 2014, the Group provided sourcing and supply chain management services to Global Brands Group and its associates for a term of three years from the listing date of Global Brands Group. In view of the expiry of the Old Buying Agency Agreement, the Group has entered into the amended and restated buying agency agreement (the "Amended and Restated Buying Agency Agreement") on 14 November 2016 for a term commencing on 9 July 2017 and ending on 31 March 2020. For the six months ended 30 June 2018, the Group provided sourcing and supply chain management services to Global Brands Group with an aggregate income of approximately US$636,331,000 (2017: US$607,929,000).

18 Related Party Transactions from Continuing Operations (continued)

NOTES: (continued)

(iv) Pursuant to the master agreement for provision of logistics-related services entered into on 17 November 2017, the Group provided certain logistics-related services to FH (1937) and its associates for a term of three years ending 31 December 2020. For the six months ended 30 June 2018, the aggregate service income, excluding the passed-through costs for direct freight forwarding, approximated to US$9,286,000 (2017: US$7,495,000).

(v) Pursuant to the sourcing and supply chain management agreement entered into with Trinity on 7 June 2017, the Group provided sourcing and supply chain management services to Trinity and its associates for a term from 1 June 2017 to 31 December 2019. For the six months ended 30 June 2018, the commission received for sourcing and supply chain management services to Trinity was US$1,522,000 (2017: US$998,000) and the underlying FOB value of the ordered products was US$12,170,000 (2017: US$9,979,000).

(vi) Pursuant to services agreement entered into with LH Pegasus Holding Limited ("LH Pegasus") on 3 April 2018, the Group provided certain back office functions related to IT, human resources, finance and accounting, corporate services and global transaction services to LH Pegasus and its subsidiaries for a term from 3 April 2018 to 31 December 2019. For the six months ended 30 June 2018, aggregate services fee received was US$6,295,000 (2017: Nil).

(vii) Pursuant to master property agreement entered into with LH Pegasus on 3 April 2018, the Group and LH Pegasus had rental and license fee to and from one another for certain sub-lease and license office, showroom and warehouse premises for a term from 3 April 2018 to 31 December 2020. For the six months ended 30 June 2018, aggregate rental and license fee paid to and from one another approximated to US$3,537,000 (2017: Nil).

(viii) Pursuant to ancillary sourcing, logistics and trading services agreement entered into with LH Pegasus on 3 April 2018 for a term from 3 April 2018 to 31 December 2020. The Group provided agency-based sourcing and logistics services to LH Pegasus. LH Pegasus provide principal trading services to the Group. For the six months ended 30 June 2018, aggregate ancillary sourcing, logistics and trading services paid to and from one another approximated to US$1,485,000 (2017: Nil).

(ix) Commencing 1 January 2018, the Group charged FH (1937) for costs incurred on certain centralized office support functions (including corporate services, regional information technology support and human resources) on a recovery basis, amounting to US$14,253,000 for the six-month period.

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

19 Financial Risk Management

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

(a) Market Risk

(I) FOREIGN EXCHANGE RISK

Most of the Group's cash balances are HK dollar and US dollar deposits with major global financial institutions and most of the Group's borrowings are denominated in US dollars.

The Group's revenues and payments are predominantly transacted in US dollars. Therefore, it considers there is no significant risk exposure in relation to foreign exchange rate fluctuations. There are small portions of sales and purchases transacted in different currencies, for which the Group arranges hedging through foreign exchange forward contracts.

For transactions that are subject to foreign exchange risk, the Group hedges its foreign currency exposure once it receives confirmed orders or enters into customer transactions. To mitigate the impact from changes in foreign exchange rates, the Group regularly reviews its operations in these countries and makes necessary hedging arrangements in certain currencies against the US dollar.

However, the Group does not enter into foreign currency hedges with respect to the local financial results and long-term equity investments of its non-US dollar foreign operations for either income statements or balance sheet reporting purposes. Since the Group's functional currency is the US dollar, it is subject to exchange rate exposure from the translation of foreign operations' local results to US dollars at the average rate for the period of group consolidation. The Group's net equity investments in non-US dollar-denominated businesses are also subject to unrealized translation gain or loss on consolidation. Fluctuation of relevant currencies against the US dollar will result in unrealized gain or loss from time to time, which is reflected as movement in exchange reserve in the consolidated statement of changes in equity.

From a medium-to long-term perspective, the Group manages the operations in the most cost-effective way possible within its global network. The Group strictly prohibits any financial derivative arrangement merely for speculation.

(II) PRICE RISK

The Group is exposed to price risk because of investments held by the Group and classified on the consolidated balance sheet as financial assets at FVOCI as at 30 June 2018 (31 December 2017: available-for-sale financial assets). The Group maintains these investments for long-term strategic purposes and the Group's overall exposure to price risk is not significant.

At 30 June 2018 and up to the date of the Group's interim financial information, the Group held no material financial derivative instruments except for certain foreign exchange forward contracts entered into for hedging of foreign exchange risk exposure on sales and purchases transacted in different currencies. At 30 June 2018, fair value of foreign exchange forward contracts entered into by the Group amounted to US$7,035,000 (31 December 2017: US$5,333,000 liabilities), which has been reflected in full in the Group's consolidated balance sheet as derivative financial instruments assets.

19 Financial Risk Management (continued)

(a) Market Risk (continued)

(III) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

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

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

(b) Credit Risk

Credit risk mainly arises from trade and other receivables as well as cash and bank balances of the Group. The Group's principal trading business carries a higher credit risk profile given that it is acting as a supplier and therefore takes full counterparty risk of its customers in terms of accounts receivable and inventory.

In addition, as the Group provides working capital solutions to the suppliers via LF Credit by selectively settling accounts payable earlier at a discount, it also assumes direct counterparty risk for the customers for such receivables. With the increased insolvency risk among global brands and retail customers, the Group has deployed a global credit risk management framework with tightened risk profile, and applied prudent policies to manage its credit risk with such receivables that include, but are not limited to, the measures set out below:

(i) The Group selects customers in a cautious manner. Its credit control team uses a risk assessment system to evaluate the financial strength of individual customers prior to agreeing on the trade terms. It is not uncommon that the Group requires securities (such as standby or commercial letter of credit, or bank guarantee) from customers that fall short of the required minimum score under its risk assessment system;

(ii) A significant portion of trade receivable balances are covered by trade credit insurance or factored to external financial institutions on a non-recourse basis;

(iii) It has established a credit risk system with a dedicated team, and tightened policies to ensure on-time recoveries from trade debtors; and

(iv) It has put in place rigid internal policies that govern provisions made for both inventories and receivables to motivate business managers to step up the efforts in these two areas so as and to avoid any significant impact on their financial performance.

(c) Liquidity Risk

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

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

20 Fair Value Estimation

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

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

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2018.

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Asset				
Financial assets at FVOCI				
– Club debentures	–	–	4,588	4,588
Derivative financial instrument used for hedging	–	7,035	–	7,035
Total assets	–	7,035	4,588	11,623
Liabilities				
Purchase consideration payable for acquisitions	–	–	55,162	55,162
Total liabilities	–	–	55,162	55,162

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2017.

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Available-for-sale financial assets				
– Club debentures	–	–	4,338	4,338
Total assets	–	–	4,338	4,338
Liabilities				
Derivative financial instrument used for hedging	–	5,355	–	5,355
Purchase consideration payable for acquisitions	–	–	61,583	61,583
Total liabilities	–	5,355	61,583	66,938

20 Fair Value Estimation (continued)

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

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

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

Derivative financial instruments used for hedging

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

Purchase consideration payable for acquisitions

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

20 Fair Value Estimation (continued)

The following table presents the changes in level 3 instruments for the six months ended 30 June 2018 and 2017.

	2018		2017	
	Purchase Consideration Payable for Acquisitions US$'000	**Others US$'000**	Purchase Consideration Payable for Acquisitions US$'000	Others US$'000
Opening balance as at 1 January (Audited)	**61,583**	**4,338**	161,536	4,164
Fair value gains	**–**	**250**	–	89
Settlement	**(6,025)**	**–**	(6,025)	–
Remeasurement of purchase consideration payable for acquisitions	**–**	**–**	(29,645)	–
Others	**(396)**	**–**	3,468	–
Closing balance as at 30 June (Unaudited)	**55,162**	**4,588**	129,334	4,253

21 Approval of Interim Financial Information

The interim financial information was approved by the Board of Directors on 22 August 2018.

Glossary

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

2003 Option Scheme	the share option scheme of the Company adopted by the Shareholders at the annual general meeting of the Company held on 12 May 2003, which expired on 11 May 2013
2014 Option Scheme	the share option scheme of the Company adopted by the Shareholders at the annual general meeting of the Company held on 15 May 2014
associate(s), chief executive(s), connected person(s), substantial shareholder(s)	each has the meaning as described in the Listing Rules
Award Shares	the Shares granted under the Share Award Scheme to an eligible person(s) approved for participation in the Share Award Scheme
Board	the board of Directors of the Company
China	the People's Republic of China
Company, Li & Fung	Li & Fung Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
Continuing Operations	Service segment and Onshore Wholesale business
Director(s)	a director(s) of the Company
Discontinued Operations	the three Product Verticals subject to the strategic divestment
FH (1937)	Fung Holdings (1937) Limited, a company incorporated in Hong Kong, which is a substantial shareholder of the Company
Fung Distribution	Fung Distribution International Limited, a company incorporated in the British Virgin Islands, which is a wholly-owned subsidiary of FH (1937)
Global Brands	Global Brands Group Holding Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
Global Brands Group	Global Brands and its subsidiaries
Group	the Company and its subsidiaries
HK$	Hong Kong dollar(s), the lawful currency of Hong Kong

Hong Kong	the Hong Kong Special Administrative Region of the People's Republic of China
HSBC Trustee	HSBC Trustee (C.I.) Limited, acting in its capacity as the trustee of a trust established for the benefit of the family members of Victor Fung Kwok King
Independent Shareholder(s)	Shareholder(s), other than FH (1937), Victor Fung Kwok King, William Fung Kwok Lun, Spencer Theodore Fung and Terence Fung Yue Ming and their respective associates
King Lun	King Lun Holdings Limited, a company incorporated in the British Virgin Islands owned 50% by HSBC Trustee and 50% by William Fung Kwok Lun
LH Pegasus	LH Pegasus Holding Limited, a company incorporated in British Virgin Islands, which is an indirect subsidiary of King Lun
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules
Product Verticals	the Group's furniture, beauty and sweaters product verticals
Report	the interim report of the Company for the half year ended 30 June 2018
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	ordinary share(s) of HK$0.0125 each in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Share Award Scheme	the share award scheme of the Company adopted by the Shareholders at the annual general meeting of the Company held on 21 May 2015
Share Option(s)	the outstanding option(s) granted under the 2003 Option Scheme and/or 2014 Option Scheme
Stock Exchange	The Stock Exchange of Hong Kong Limited
Trinity	Trinity Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
US$	United States dollar(s), the lawful currency of the United States of America

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