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

Interim Report
中期業績報告
2019

LI & FUNG LIMITED

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


PAINPOINT
RESPONSIVE
SORTING
TECHNOLOGY
DOMAIN
EXPERIENCE


1. Shipment Demand Mapping
Cambodia
Malaysia

Contents


Taking Photo


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
Joseph C. Phi

Non-executive Directors

Victor Fung Kwok King
Marc Robert Compagnon
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.

MUFG Bank, Ltd.

Standard Chartered Bank (Hong Kong) Limited

Legal Advisors

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

Registered Office

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10, Bermuda

Hong Kong Office

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

Highlights

2019 FIRST HALF OVERVIEW

Turnover

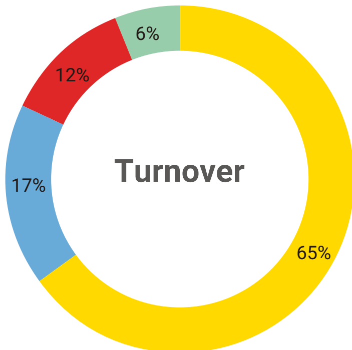
US$5,356M

Total margin

US$583M

Core operating profit

US$105M



Group geographical market turnover

US$5,356M

USA Europe Asia
Rest of World

Earnings per share (basic)

1.9 HK cents

0.25 US cents

Dividends per share (interim)

1 HK cent

0.1 US cents

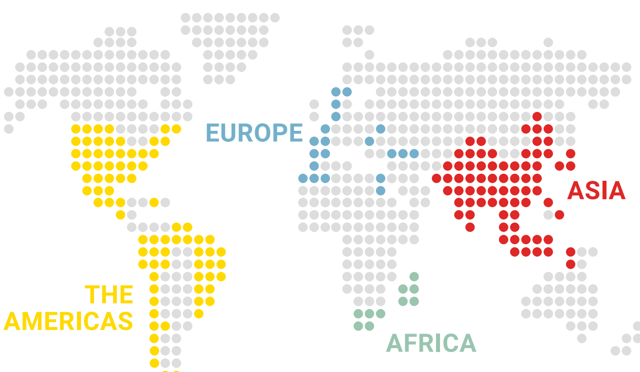
Economies

50+

Employees worldwide

16,121

We operate an extensive global supply chain network with over 16,000 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$126M

Cash and bank balances

US$811M

Gearing ratio

21%

A Letter from Our Chairman

Dear Shareholders,

With just a few months left in our current Three-Year Plan (2017–2019), and a few months away from a new decade, I would like to examine the current state of our business, the opportunities and challenges we face, and what the future may look like.

At the time of this letter, signals for the global economy has turned from mixed to slightly negative. The US Federal Reserve has recently lowered interest rates for the first time in 10 years, yet financial markets continue to indicate a future recession in the US. Germany experienced negative growth in the second quarter, dragging the momentum in Europe to near-zero. The uncertainty around Brexit continues to hold off business decisions and undermines economic prospects in both the UK and Europe. The Pound recently broke a new low in more than thirty years as a hard Brexit became more and more imminent. China's economic growth continued to moderate through the first half of 2019 and the friction between China and the US continues to be an overhang and optimism has become more measured. While the current economic climate appears gloomy, there may hopefully be respite coming from the US which historically experiences economic optimism during an election year.

Retail industry — supply chain as the key differentiator

The competitive landscape in the global retail industry is being profoundly shaped by technology especially at the consumer interface. By now, the race to omni-channel ("O-to-O") is largely over as major brands and retailers are already omni-channel. In the meantime, digitally-native companies continue to capture consumer wallet share. The advent of data analytics allows retailers to be more targeted in their marketing and product offering. However, it also heightens consumer expectations of personalized retail experience, further fueling the rapid shift in consumer preferences, so enhancement in the front-end alone is not enough.

The retail battlefield has already shifted to the supply chain which has stayed largely analog but will be increasingly digitalized by companies like Li & Fung — favoring procurement systems that supports the dynamics of omni-channel retail and seamless integration between the front-end and back-end. Only two years ago, early adopters of our speed model were considered pioneers. Today, shortening of merchandizing calendars to deliver speed is the marching order of the industry. This is good news for us at Li & Fung because customers are investing more in speeding up procurement and our vision of creating the Supply Chain of the Future addresses exactly these business needs. Our digital services offerings such as end-to-end 3D virtual design are powerful enablers for customers who expect ever-greater speed to market. Our leadership in 3D is well-recognized in the industry and has already led to new revenue opportunities. Building on what we have already accomplished on the digital platform, our new Chief Digital Officer is charting the next phase of our digitalized supply chain.

Escalation of the US-China trade war

The US-China trade war is becoming more protracted than anyone imagined when the first tariff-related announcement was made in March 2018, signaling the beginning of the trade conflict. Despite the escalation of tariff rates and expanding scope of products impacted by tariffs, an agreement seemed to be on the horizon several times in the past 18 months. 2019 started off on a calm note, briefly interrupted in May by announcements of tariff increase from 10% to 25% on US$200 billion worth of Chinese goods, and retaliatory Chinese tariffs on American products. Expectations ran high again after the two leaders left the G20 Osaka Summit on a relatively reconciliatory tone. Unfortunately, the subsequent truce lasted for one month only.

On 1 August, the US announced an additional 10% tariff on remaining US$300 billion worth of Chinese products. China reacted by stopping the purchase of US agricultural products. On 23 August, both countries unveiled retaliatory tariffs. If these tariffs go into effect as scheduled, over US$500 billion worth of Chinese goods will face tariffs of between 15% and 30% starting in October. In the same month, the US Treasury labeled China a currency manipulator as the Renminbi depreciated against the US dollar, adding another worrying dimension to the conflict.

It seems that the trade tension between China and the US will therefore continue to escalate and the situation is likely to remain volatile for the foreseeable future. This could be partially attributed to the election cycle in the US. However, there are more fundamental issues frustrating the relationship between the two countries. The issues emerge from areas such as technology leadership, intellectual property, ideological beliefs — all of which are far-reaching and may take a long time to resolve. Furthermore, the friction is part of the unraveling of the multilateral trade framework enshrined under the World Trade Organization (WTO).

In place of the WTO rules, there is a proliferation of bilateral trade regimes and free trade agreements. This emergence of bilateral free trade agreements has caused the complexity of global supply chain to expand exponentially. This complexity presents deep challenges for the global retail supply chain — yet at the same time — the biggest opportunity not seen in almost 20 years for our particular business model of dispersed production, operating in multiple countries.

Our global sourcing network

Having been in the supply chain business for generations, we appreciate there is no constancy in global trade. We have a well-diversified sourcing network that spans more than 50 economies and have always avoided over-reliance on China, or any single country, even when the environment appeared benign. We have not just focused on short-term efficiency and economic considerations by running a narrow sourcing base. Instead we have purposefully built a comprehensive network that diversifies risk and accommodates disruptions just as we are now facing.

Within our production network we have, over decades, cultivated deep relationships with factories, business communities and local governments. This diversified sourcing network gives us the ability to quickly shift production among countries for our customers, a unique competitive advantage that is difficult to replicate at our scale. This flexibility has proven extremely useful in the panic and scramble that followed the surprise tariff announcement. Our core strength will be even more apparent as tectonic shifts in the global trade landscape continue over the next number of years.

Our commitment to ESG

Our work in transforming the supply chain to meet the demands of a dynamic retail sector importantly focuses not only on improving working conditions but also on creating a positive environmental impact. For example, under the speed model, retailers manage to maintain a leaner inventory, greatly reducing waste. End-to-end 3D virtual design reduces the creation of physical samples and their transportation, reducing both material wastage and carbon footprint. It shows that achieving positive business results is inextricably linked to our environmental, social and governance (ESG) performance. We will continue to enhance our ESG initiatives to make our world more sustainable and create value for our various stakeholders along the supply chain.

Year of acceleration

2019 is our year of acceleration as we speed up our transformation into a digital organization. To accelerate the business growth of our logistics business, in June we welcomed Temasek as an investor into the logistics side of the business. The changes we are making to our business and the achievements we have made are of strategic significance and we are now better-positioned than ever to help our customers thrive in the digital economy. Everyone at the Company works tirelessly in turning our vision of the Supply Chain of the Future into reality and I would like to thank all colleagues for their efforts. I am grateful to our customers and suppliers for our continued partnership. The trade war is bringing a big disruption for the supply chain and we are here to help them navigate the complexities. Finally, I would like to express my heartfelt gratitude to our shareholders for the support throughout the years. I am confident that our transformation will yield business and financial results in the future — and the future is closer than it seems.

Yours sincerely,

William Fung Kwok Lun
Group Chairman

A Letter from Our CEO

Dear Shareholders,

2019 is the last year of our Three-Year Plan to create the Supply Chain of the Future. While 2017 was our 'Year of Experimentation' and 2018 was the 'Year of Focus', 2019 is a 'Year of Acceleration'. With our restructured organization and new management team, we are bridging many silos within our company and streamlining our operations to enable us to move a lot quicker. We are also accelerating our focus on digitalization of the supply chain as our customers begin to embrace our new digital tools. In August 2018 we announced our most important restructuring in three decades and we are now starting to truly leverage the buying power of Li & Fung.

The past few months have been some of the most complex times we have seen in global trade and the need for diversification and mitigation of risk is more important than ever. With our diversified, global sourcing network spanning across more than 50 economies, we have been actively helping our customers to diversify their risks by quickly migrating production. Our digital efforts have also accelerated and our end-to-end 3D virtual design service has taken a solid leadership position and is now starting to generate revenue. In August, we closed an investment of US$300 million by Temasek, the Singapore-headquartered investment company, and this will accelerate our growth in our logistics business and enhance the capital structure of the entire Group.

In the first half of 2019, our turnover was down by 8.4%, but we are now seeing a stabilization of our turnover going into 2020. The new organizational structure and management team have driven key improvements in the first half and we are now seeing the beginnings of a turnaround with improved key performance indicators (KPI), increased market share with top customers, accelerated conversion of new customers, and the monetization of our digital services. We are optimistic that our turnover will begin to see the bottom in 2020. Our total margin is still under pressure, although we are seeing some strong growth in Logistics business and some momentum in our Onshore Wholesale business. Our productivity increase is driving down cost for our core business which was offset by investment in digital and growing our Logistics business. As a result, Core Operating Profit (COP) is down by 18.6%. On our capital structure, we continue to deleverage and strengthen our balance sheet. On a proforma basis, assuming the Temasek investment had been completed by 30 June 2019, we have cash of US$861 million, net debt of US$193 million, gearing ratio of 8%, and a solid investment grade rating.

Looking outside the Company, the overall global trading environment has been very volatile in the past few months, and we see the world quickly moving away from the multilateral WTO framework to a proliferation of bilateral deals, led by the US-China trade dispute. We believe that we are now entering a 'new normal' in global trade that will continue for at least the next decade. As a result, the established rules of global trade are now highly complex and are more complicated than the quota era of 1974-2004. In times of complexity, it is critically important to diversify risk, and Li & Fung's long-standing global network of 50+ economies is best suited to help our customers diversify the threat of tariffs and other risks to production. We think this is one of the biggest opportunities we have seen in the past 20 years.

Internally, our restructuring into much more focused areas and bridging of the many silos in the company is on track. As part of the restructuring we have brought in a new management team with a strong track record in creating growth. Over the past six months, all our major operational KPIs have improved and our customers and suppliers have noticed an immediate difference. As a result of the improved productivity and customer service, we are starting to gain market share in our top customers. Our new business development efforts are introducing more sizable targets and accelerating sales conversion. Indeed, 2019 is turning out to be one of the best years in converting new customers. Our newly created sourcing and production platform has also been instrumental in helping our customers react quickly to the US-China trade dispute by mitigating the impact of tariffs. Finally, our new digital team has hit the ground running and already signed three new technology partnerships that will enhance our digital offerings. All in all, I am very pleased with the progress of the restructuring.

In terms of our digital solutions, we are progressing our vision of the Supply Chain of the Future and have made important progress on end-to-end 3D virtual design. From a very humble effort in 2017, we have evolved our 3D team to be a true leader in the industry. This is a part of the US$150 million investment we earmarked in 2017 to build the Supply Chain of the Future. Our 3D team is now the largest in the industry and consistently produces the highest quality output according to customer feedback. Despite our leadership position, we are still advancing at a pace that is faster than most of our competitors. We have begun to develop our own intellectual property and starting to generate revenue from this unique service. Furthermore, our 3D services are starting to disrupt the traditional industry. We have now fully digitized six different processes in the end-to-end retail value chain which is helping our customers and suppliers speed up their supply chain by an average of 30% and save costs of up to 1.2% of the retail value of their products. This is just the beginning of our digital journey, and we are very excited about what's to come.

In August, Temasek closed its investment in LF Logistics by acquiring 21.7% of the business for US$300 million. LF Logistics have experienced consistent double-digit growth for over a decade, and continues to show strong momentum, with 7.9% turnover growth on a constant currency basis. We have a very stable and strong management team and have been growing on the back of multiple growth drivers. Despite the slowing economy in China, the in-country logistics business is growing double-digit, with very strong growth rates in eLogistics. The newer markets of Japan, Korea and India are growing well, as are the new verticals of electronics and healthcare. This strong momentum was offset by weakness in our global freight management business due to the US-China trade dispute and depressed freight rates. On a constant currency basis, COP for the Logistics business grew double-digit to 10.8%.

Looking into the second half of 2019, we see more challenges in the global retail environment which will put pressure on both turnover and gross total margin. We will continue to deleverage our balance sheet and focus on the next phase of our restructuring to drive even better service delivery and increased productivity. We also expect our business development conversion to accelerate and our 3D revenue generation to gain further momentum which will help our turnover in 2020. As the global trading environment become increasingly complex, we will continue to use our global network to help our customers navigate this very difficult time. In this complex environment, the value of our business model of dispersed global production and agile, on-the-ground, decision making is benefiting our customers and our business.

I would like to take this opportunity to thank all our different stakeholders for their continued support as we continue our journey to create the Supply Chain of the Future.

Yours sincerely,

Spencer Fung
Group CEO

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.


Photos (8)
Live view

Our Performance

We are helping customers take their own digital leap as more customers come to us for digital services and assistance with integrating digital product development into their business processes.

Results Overview

Trade War Can Present an Opportunity for Our Large Global Network

The trade war between China and the US has become more protracted than expected given the complex geopolitical and ideological backdrop. While the continued uncertainty presents big challenges to the global retail supply chain, it can also present us with an opportunity. We have always maintained the largest diversified sourcing network of consumer goods in the world and are well-positioned to move production between countries and manage any potential shocks from tariff increases. The proliferation of bilateral free trade agreements seems to be the new norm, and this presents Li & Fung's business model with opportunities not seen for the last 20 years.

Across our network of more than 50 economies, we have cultivated deep relationships with factories, local business communities, and governments over the decades. These relationships allow us to move production to mitigate the impact of tariff hikes or other factors impacting the supply chain. As an example, we helped a US womenswear retailer formulate and execute a plan to reduce its reliance on China from 70% to 20% within 2 years by diversifying its sourcing to eight other economies across our network. Another customer, an accessories retailer, will decrease its China-sourcing from 40% to 10% by the end of 2020 by redirecting its orders to seven other economies.

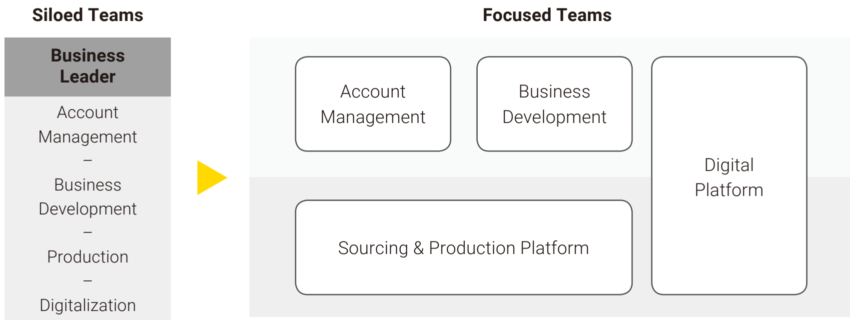
Besides helping our customers diversify their production, we are playing an active role in helping our vendor base adapt to the seismic shift in trade. First, many Chinese vendors experienced sudden declines in their capacity utilization rates as production of US-bound goods moved to other countries. We were able to help them fill idle capacity with orders from Europe and elsewhere. At the same time, we continued to consolidate our vendor base, directing orders to key vendors to help them counter this headwind. Second, many Chinese factory-owners want to expand and diversify their own production to other countries such as Vietnam, Pakistan and Bangladesh. Leveraging our local connections and deep government relationships in these countries, we are assisting our Chinese vendor base in navigating administrative procedures such as permit applications, understanding regulatory requirements and local labor conditions. Such knowledge-sharing further cements our relationships with vendors, especially in this moment of crisis.

While US-China tension has taken center stage now, uncertainties also loom between the US and multiple production countries, which may cause new disruptions in the future. We expect a realignment of global trade relationships to happen over the course of many years, and that a new, stable norm will take time to emerge. The value of our global network will remain even more apparent in this period of great uncertainty.

New Management Team Spearheading Reorganization

In August 2018, we announced a fundamental reorganization of our Supply Chain Solutions business. This included the forming of a sourcing and production platform across countries to focus on operational excellence, achieving separation of account management and business development responsibilities for customer-facing functions to gain market share, and creating of a digital platform for the entire organization. This reorganization was followed by the appointment of a Chief Operating Officer (COO) in October 2018 for the sourcing and production platform, the appointment of a Chief Digital Officer (CDO) in early January 2019 for the digital platform, and the promotion of a new Group President in late January 2019 to focus on account management and business development. These new senior management team members each have deep specialty knowledge and strong executional track records. Shortly after assuming their positions, the new leaders appointed the next layer of management, and changes will continue to permeate their organizations for the rest of this reporting year to reflect the new business strategy.

Focused Reorganization



The Group President oversees both account management and business development at Supply Chain Solutions. We have adopted a "3x3 Strategy" through which we place equal emphasis on the "soft" and "hard" aspects of customer relationship management. On the soft side, we have instilled the philosophy that revenue will come from customers who are delighted by the experiences we create, operations-centric behaviors that are measured and incentivized, and an obsession with improving customer satisfaction.

On the hard side, we have put in place a key performance indicator (KPI) dashboard that tracks operational excellence metrics which are aligned with the individual goals of customers and vendors. Following the system's implementation, KPIs such as on-time delivery rates and claim rates improved and customer satisfaction increased.

Dedicated account managers now have more time to focus on serving top customers and driving wallet share gain. Parallel to focusing on key customers, we began reviewing the tail of our customer base, with emphasis on sustainable profitability and risk management. We proactively pulled back from some higher-risk customers as well as small-scale customers despite the higher margins that came with their orders. This resulted in temporary pressure on turnover and total margin but stronger risk control and resource allocation.

On the business development side, our efforts were strengthened by our leadership in digital services and the geographic diversity of our sourcing network. We secured encouraging customer wins early in this six-month reporting period as many customers view us as their change agent to enhance the competitiveness of their global supply chains, and our conversion momentum to date suggests that 2019 may become one of our most prolific years in over a decade in terms of business development. As activities at these new accounts gradually ramp up, incremental business should begin to flow in as early as 2020.

Under the leadership of the new COO, the old, siloed model that was in place for many years has been replaced by a country-centric model, in which all businesses within a country integrate their resources for increased leverage, better communications and improved vendor management. Historical silos have been broken down; what in place now is a unified platform that transcends geographical borders and truly capitalizes on our scale. In each production country, new leaders with production knowledge and experience have been appointed, taking over from account managers who made decisions remotely under the old structure. These new country leaders are empowered to manage the execution of all sourcing and production activities with vendors to enable faster, more accurate decisions on the ground and be better positioned to support account management teams. Operating with more autonomy, country leaders will also be able to foster deeper relationships with vendors. With this new sourcing and production platform, we aim to replicate our successful productivity experiment in India, where we demonstrated positive jaws between revenue and operating costs over multiple years.

Quality assurance (QA) and quality control (QC) functions, historically siloed and customer-specific, have also been restructured. We consolidated multiple siloed QA/QC teams into a global quality account team that is organized to work better with our vendor base and deliver improved service to our customers. A quality center of excellence (COE) has been established as the focal point for our QA and QC initiatives and will set the benchmark, not only for us but for the industry as well. Standard harmonization across countries on a unified platform will also further strengthen our abilities to move production within our network amid trade war uncertainties.

Digitalization

Our digitalization initiatives began in 2017 when we earmarked US$150 million for related spending over the current Three-Year Plan. Our digital offering has gained significant traction among customers in the last two and a half years, and accelerated investment since 2018 has helped firmly secure our leadership in the 3D virtual design space. Since taking on the role in January 2019, our CDO has organized various applications into a unified platform to accelerate the build-out of our digital services. More customers have come to us for digital services and assistance with integrating digital product development into their business processes. We are also helping customers take their own digital leaps with design and development, visual planning and assorting, and digital selling. Currently, more than 25% of our supply chain solutions customers are engaged with our end-to-end virtual design center of excellence, and monetization has already begun with certain customers.

We have adopted flexible pricing models that cater to the specific business needs of our customers. Models range from charging a fee per style, to full subscription to the LF Digital Platform. The unique value proposition we offer our customers enables us to enjoy higher margins compared with traditional supply chain solutions services.

The Li & Fung digital platform is the nucleus of our future service offerings and warrants continued investment. Based on the current Three-Year Plan budget, spending on digitalization – which consists of capital expenditure and operating expenses – will amount to approximately US$60 million this year. Investment areas will include digital platform infrastructure, 3D virtual design, materials platform, and total sourcing portal. Furthermore, our corporate development team has also been active in working with our ecosystem partners to further accelerate and improve our digital services.

Our leadership in 3D virtual design has generated an encouraging momentum of new customer wins.

Temasek's US$300 Million Investment in Logistics business

Our Logistics business ("LF Logistics") achieved double digit top-line and bottom-line growth, on an annualized basis, since it became part of Li & Fung in 2010. It continues to benefit from the tailwind of rising middle-class consumption in Asia, the growth of e-commerce logistics, and geographic and vertical expansion. As preparatory work in connection with the proposed spin-off IPO of LF Logistics was underway, we continued to evaluate strategic alternatives for the business. After considering market conditions and geopolitical uncertainties, we decided to bring in Temasek as our pre-IPO strategic investor, who invested US$300 million for a 21.7% stake in LF Logistics. This values the Logistics business at approximately US$1.4 billion on a post-money basis and further validates its potential and management track record.

Through this transaction, we have not only accomplished some of the objectives of the proposed IPO, but also brought in a reputable long-term investor. Temasek's investment will help accelerate LF Logistics' business growth and enhance the Group's capital structure and financial flexibility. We will remain the controlling shareholder of LF Logistics and consolidate its results in our financial statements. Subsequent to the balance sheet date for the 2019 Interim Results, we completed the transaction on 8 August 2019. As a result of this transaction, the spin-off IPO will be postponed. In the next couple of years, we will continue to focus on growing LF Logistics and creating value for our shareholders before we reactivate the spin-off IPO.

Temasek's US$300M investment in LF Logistics at US$1.4B valuation to accelerate the growth of our logistics business and strengthen capital structure of the Group.

Results

The following financial results summary primarily focuses on our Continuing Operations, which includes the 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.

New accounting standard, HKFRS 16, which took effect in 2019, specifies how a company should recognize, measure, present and disclose leases. To maintain consistency in our financial information throughout the reporting period, we have applied this new standard retrospectively and restated prior period comparatives. As a result, the Group saw an increase in right-of-use assets and lease liabilities of US$392 million and US$421 million respectively as at 31 December 2018 and a decrease in net profit of US$1 million for the six months ended 30 June 2018.

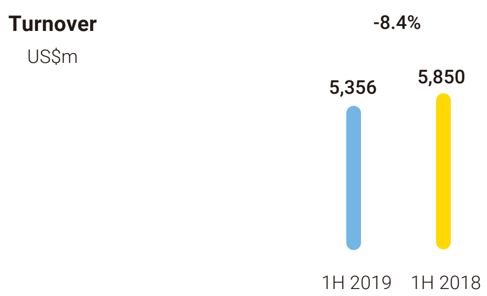
	Group Results[1]		
(US$ million)	**1H 2019**	1H 2018 (Restated)[3]	Change %
Turnover	**5,356**	5,850	-8.4%
Total Margin	**583**	614	-5.0%
As % of Turnover	***10.9%***	*10.5%*	
Operating Costs	**478**	485	-1.4%
As % of Turnover	***8.9%***	*8.3%*	
Core Operating Profit	**105**	129	-18.6%
As % of Turnover	***2.0%***	*2.2%*	
Profit for the Period			
– Continuing Operations	**37**	77	
– Discontinued Operations	**–**	(137)	
– Total	**37**	(60)	
Profit Attributable to Shareholders[2]			
– Continuing Operations	**21**	48	
– Discontinued Operations[1]	**–**	(134)	
– **Total**	**21**	(86)	

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$134 million in 2018 is the result of an operating loss of the discontinued business of the three Product Verticals of US$20 million primarily during the first three months of 2018 and final disposal losses resulting from the discontinued business of US$114 million.
2. Excluding profit attributable to holders of perpetual capital securities and non-controlling interests.
3. 2018 comparatives restated with adoption of new accounting standard, HKFRS 16 (Note 2 of the condensed interim financial information).

TURNOVER

Group turnover, on a like-for-like basis and excluding the impact of the divestment of the three Product Verticals in 2018, decreased by 8.4% to US$5.4 billion. This was mainly due to continued destocking by customers, store closures, customer exits in bankruptcy situations, as well as market share loss and exit of higher-risk and non-strategic customers, offset by new customer wins and market share gains for certain key customers.

Despite these developments, we have continued to expand our overall business with key customers, particular in Onshore Wholesale and Logistics businesses. Customers have continued to adopt our digital applications to increase speed to market and achieve better sell-through and reduced mark-down rates. This has also in turn improved their inventory turns and resulted in lower inventory levels. Despite short-term pressure on our turnover, our ability to provide a faster, more flexible supply chain and shorten the production cycle is helping us cultivate stickier, longer-lasting customer relationships in the medium term. As a result of improvement in operations and customer engagement, turnover is stabilizing.



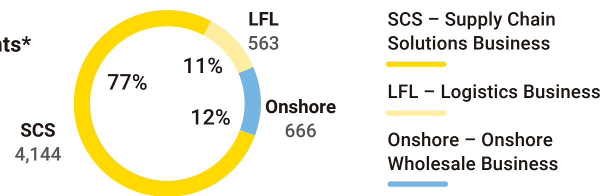
Our Supply Chain Solutions, Logistics and Onshore Wholesale businesses, accounted for 77%, 11% and 12% of Group turnover, respectively.

Supply Chain Solutions business turnover decreased by 9.1% primarily due to customers' destocking trend, customer turnover, exit of certain customers in bankruptcy situations, fewer sourcing activities via sourcing agents by some customers, and our proactive reduction of exposure to higher-risk and non-strategic customers. However, Supply Chain Solutions business was able to offset part of the reduction in turnover with market share gains in some key customers, especially in the hard goods area, and new customer wins.

Logistics business turnover increased by 3.8% driven by strong demand for in-country logistics services while the global freight business faced headwinds caused by the US-China trade conflict. On a constant currency basis, turnover increased by 7.9%. Growth momentum continued to be driven by rising domestic consumption in China, e-logistics growth, deeper penetration of our core customers and entry into new markets.

Onshore Wholesale business turnover in the Americas, Europe and Asia decreased by 12.6%. We continued to experience pressure on our top line from weak consumer sentiment and an unstable economic environment particularly in the United Kingdom and France. Our Onshore Wholesale business has also reduced its exposure to higher-risk customers, which negatively impacted turnover.

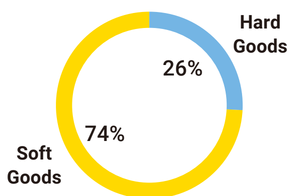
1H 2019
Turnover Breakdown by Segments*
US$m



* Before inter-segment elimination

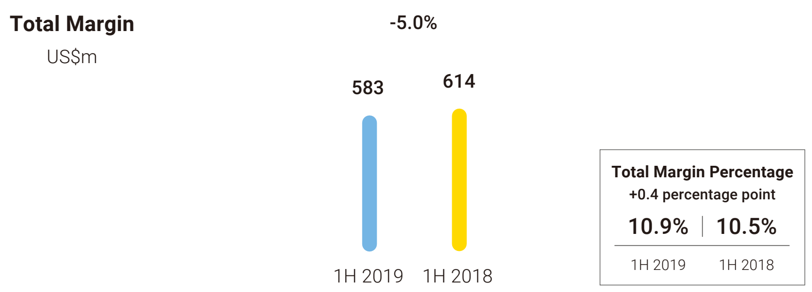
Excluding the Logistics business, the Group derived 74% and 26% of 2019 first half turnover from soft goods and hard goods respectively. Compared to the first half of 2018, the contribution from soft goods decreased by two percentage points.

1H 2019 Group Product Mix
(Excluding Logistics Business)

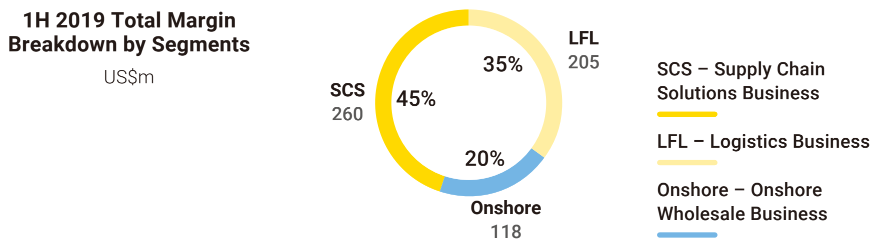


TOTAL MARGIN

On a like-for-like basis, excluding the impact of the divestment of the three Product Verticals on 2018 results, total margin decreased by 5.0% to US$583 million for the first half with total margin as a percentage of turnover increased from 10.5% to 10.9%. The increase in total margin as a percentage of turnover is the result of our segment diversification strategy to offer higher-margin services, such as logistics to our sourcing customers. The decrease of total margin amount was mainly due to lower turnover in Supply Chain Solutions business, margin pressure in Supply Chain Solutions business, and lower turnover in the Onshore Wholesale business. The decrease was offset by the business growth in Logistics business and selected customers growth in both Supply Chain Solutions and Onshore Wholesale businesses. The monetization of the higher-margin new digital services has just begun and is yet to reach its full potential. Total margin percentage improved by 0.4 percentage point on a like-for-like basis to 10.9% due to the increased contribution from the higher-margin Logistics business and an improvement in the Onshore Wholesale business. In addition, total margin percentage improved for both the Logistics business by 1.4% and Onshore Wholesale business by 1.0% during the first half of 2019.



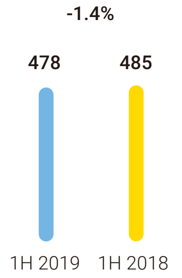
The Supply Chain Solutions, Logistics and Onshore Wholesale businesses accounted for 45%, 35% and 20% of total margin respectively. Total margin for the Logistics business saw a year-on-year increase of 7.9%. This was offset by reductions in total margin for the Supply Chain Solutions business and Onshore Wholesale business of 12.3% and 7.3%, respectively, due to lower turnover.



OPERATING COSTS

On a like-for-like basis and excluding the impact of the divestment of the three Product Verticals on 2018 results, operating costs decreased by 1.4% to US$478 million. We reduced our operating costs in the Supply Chain Solutions and Onshore Wholesale businesses by US$37 million through rightsizing as well as our sustained efforts to enhance operating efficiency and productivity through technology and process improvement. These savings were offset by continued investment in digitalization, and an increase in Logistics operating costs to support the business expansion and organic growth.

Operating Costs
US$m

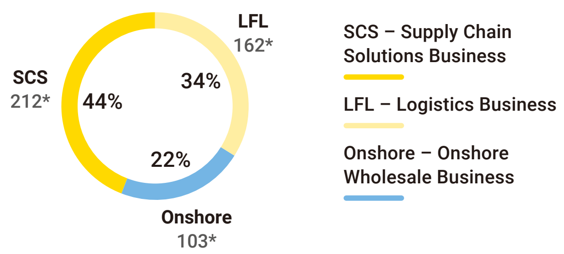


As a Percentage of Turnover
+0.6 percentage point

1H 2019	1H 2018
8.9%	8.3%

The Supply Chain Solutions, Logistics and Onshore Wholesale businesses accounted for 44%, 34% and 22% of operating costs respectively. Operating costs for the Supply Chain Solutions business decreased by 4.0% through rightsizing, on-going productivity improvements and process streamlining, though this was offset to a degree by investments in digitalization. Operating costs for the Logistics business increased by 8.4% as a result of continued business expansion. Operating costs for the Onshore Wholesale business decreased by 9.0% due to our restructuring efforts, particularly in the United Kingdom.

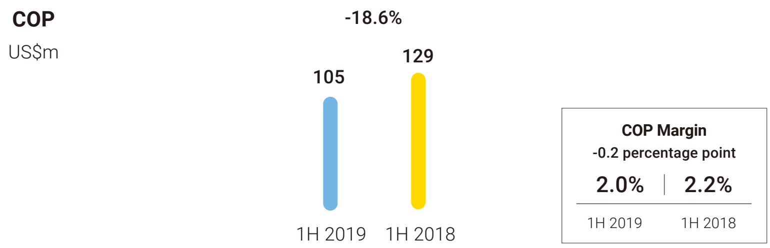
1H 2019 Operating Costs Breakdown by Segments
US$m



* The operating costs of SCS, LFL and Onshore were US$212.3 million, US$162.3 million and US$103.3 million respectively.

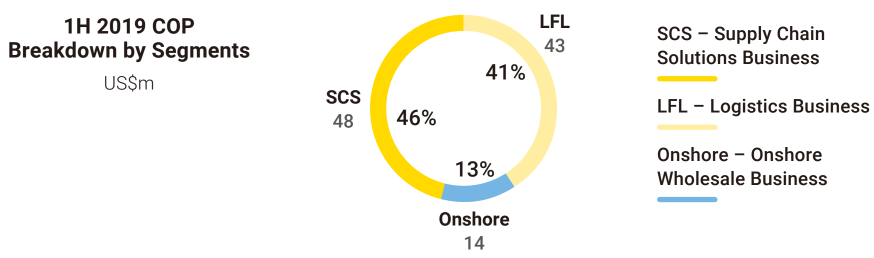
CORE OPERATING PROFIT

On a like-for-like basis and excluding the impact of the divestment of the three Product Verticals on 2018 results, core operating profit ("COP") decreased by 18.6% to US$105 million. This was largely due to reductions in turnover and total margin at the Supply Chain Solutions business as well as continued investment in digitalization according to our long-term plan. Corporate overhead costs are relatively fixed by nature to support our global network which added additional pressure to the COP. As a result of the increase in operating cost percentage relative to turnover, COP margin decreased by 0.2 percentage point to 2.0%.



In the first half of 2019, the Supply Chain Solutions, Logistics and Onshore Wholesale businesses accounted for 46%, 41% and 13% of our COP respectively.

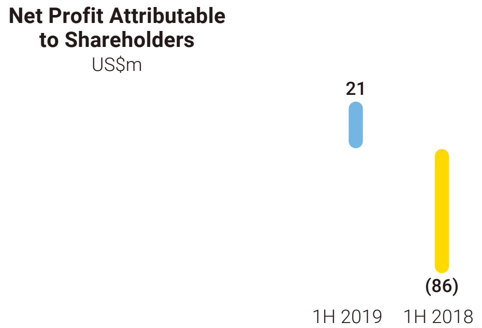
While COP for our Supply Chain Solutions business decreased by 36.5%, that of the Logistics and Onshore Wholesale businesses increased by 6.4% and 6.8% respectively.



NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group recorded a net profit attributable to shareholders of US$21 million for the first half of 2019. Compared to a net loss of US$86 million for the first half of 2018. The latter included an operating loss for the discontinued business of the three Product Verticals of US$20 million primarily during the first three months of 2018 and final disposal losses resulting from the discontinued business of US$114 million.

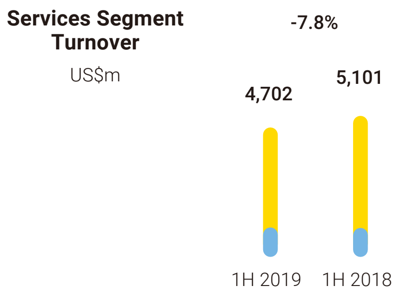
Net profit attributable to shareholders for Continuing Operations decreased to US$21 million over the first six months of 2019 compared with US$48 million during the same period last year. This was mainly due to a drop in COP, one-off reorganization costs related primarily for the setup of the country-centric's sourcing and production platform, and increased interest expenses in 2019. Net profit attributable to shareholders for Continuing Operations was also impacted by a higher effective tax rate in 2019 due to the higher contribution of the Logistics business in China, which has a higher corporate tax rate.

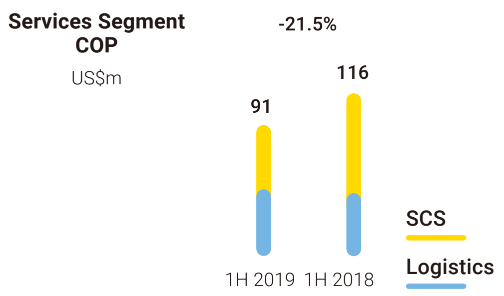


Services Segment

The Services segment is composed of the Supply Chain Solutions and Logistics businesses. 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 and end-consumers.

Cross-selling between Supply Chain Solutions and Logistics has created business opportunities and further solidified our relationships with customers. In 2019, the Logistics business continued its growth trajectory, while the Supply Chain Solutions business experienced a challenging environment with ongoing destocking, customer turnover, customer bankruptcies and loss of wallet share with selected customers. In total, COP for our Services segment decreased by 21.5%.





Services – Supply Chain Solutions

Our Supply Chain Solutions business, which accounted for 77% 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 brands and retailers. 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 improve the operational efficiencies and compliance levels of their factories.

Since 2017, we have been investing in a new digital strategy to transform our business and we have made significant strides on this journey. We have built four platforms covering raw materials, 3D design, production tracking and vendor platforms. The raw materials online platform connects factories with a proprietary global catalogue of fabrics available for our customers from textile mills. The dedicated 3D design team simplifies the product development process by creating 3D digital designs using a variety of digital tools and then aggregating these digital assets in a content library for direct use for e-commerce, virtual showrooms and runway displays. The production platform optimizes production with an integrated digital tracking application, which provides a streamlined view at every stage from pre-production to production and alerts merchandisers to defects and issues. The vendor platform is the central point of entry for our vendors to process orders and transactions, and it gives our vendors access to our other three platforms. Our overall digital platform connects suppliers, customers and other partners with end-to-end visibility and data analytics. The LF Digital Platform will serve as the nucleus of our future service offerings enabling us to provide better, faster supply chain services beyond our traditional sourcing services. Since joining in January 2019, our Chief Digital Officer has accelerated our digital transformation by building an integrated digital offering to help our customers.

Our end-to-end digital platform will serve as the nucleus of our future service offerings enabling us to provide better, faster supply chain services beyond our traditional sourcing services.

Supply Chain Solutions Business Results

	1H 2019	1H 2018*	Change
	US$m	US$m	%
Turnover	**4,144**	4,560	-9.1%
Total Margin	**260**	297	-12.3%
As % of Turnover	***6.3%***	*6.5%*	
Operating Costs	**212**	221	-4.0%
As % of Turnover	***5.1%***	*4.9%*	
Core Operating Profit	**48**	75	-36.5%
As % of Turnover	***1.2%***	*1.7%*	

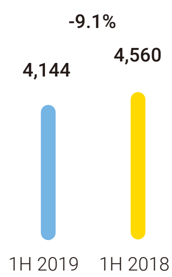
* The total margin, operating costs and COP of 1H 2018 were US$296.6 million, US$221.2 million and US$75.3 million respectively.

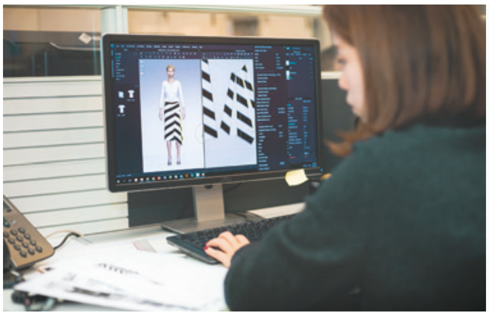
In the first half of 2019, the destocking trend as well as store closures from previous year persisted, impacting turnover for the Supply Chain Solutions business. Soft goods remained the largest contributor, accounting for 76% of turnover, while hard goods accounted for 24% of turnover. We continued our efforts to expand our customer base, especially in 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 embraced our new value proposition: a speed and digital supply chain model, realizing tangible improvements with increased sell-through, reduced mark-downs and improved inventory levels. This trend will continue to drive our growth with existing customers and attract new customers. We also continued to implement effective cost control and focus on enhanced productivity.

TURNOVER

Turnover for our Supply Chain Solutions business decreased by 9.1% to US$4.1 billion. As they adjust to the new norm of omni-channel retail, customers are continuing to destock and reduce their buying programs, which negatively impacted our turnover in the first half of 2019. In the US, this situation was exacerbated by a high number of store closures, which led to further inventory reductions and even more cautious buying patterns. However, due to our increased business development efforts and the strong sales performances of retailers in the off-price channel and hard goods categories, we have grown our business in these areas. Market share loss, exit of customers in bankruptcy situations and exit of higher-risk and non-strategic customers triggered in 2018 started to reflect in the first half 2019. In some cases, customers have reduced their sourcing activities via sourcing agents, which has negatively impacted our topline turnover. This was offset by new customer wins and increased market share for selected customers. To address these cases, we have restructured our senior management team at the Supply Chain Solutions business and formed the sourcing and production platform to break down silos and be laser-focused on customer service and operational excellence. Our new management team has tasked our account management teams to provide sharper focus on service performance and aligning KPIs with our customers with the goal of increasing our topline turnover and market share with customers. As a result of the improvement in operations and customer engagement, turnover is stabilizing and beginning to bottom out. Since restructuring and the new management team has been in place, there has been a net positive gain in market share.

Supply Chain Solutions Business Turnover
US$m



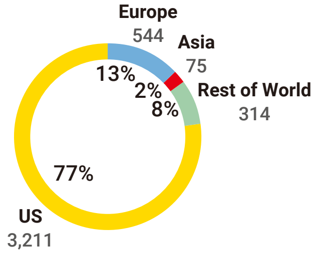


Many of our customers have embraced our new value proposition: a speed and digital supply chain model, realizing tangible improvements with increased sell-through, reduced mark-downs and improved inventory levels.

The US, Europe, Asia and Rest of World accounted for 77%, 13%, 2% and 8% of turnover for the Supply Chain Solutions business in first half of 2019, respectively.

Turnover for the Supply Chain Solutions business in the US, Asia and Rest of World decreased by 10.3%, 29.6% and 15.2%, respectively. Turnover in these regions was primarily impacted by bankruptcies, reduced exposure to higher-risk customers, and wallet share loss in our US customer base, who ships globally. Turnover in Europe increased by 8.3% due to growth in the off-price channel.

1H 2019 Geographical Market Turnover
US$m

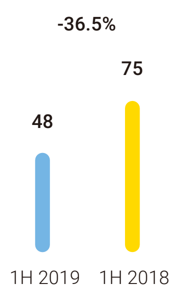


CORE OPERATING PROFIT

COP decreased by 36.5% to US$48 million while COP margin dropped 0.5 percentage point to 1.2% due to an 12.3% decline in total margin. The 4.0% decrease in operating costs to US$212 million was not enough to offset this decline. Apart from the general margin pressure, the reduction in total margin was primarily due to decreases in higher-margin accounts across our portfolio, largely from reduced exposure to customers with higher credit risk as well as small-scale customers, both of whom typically bring higher-margin percentage. While showing promises, our new digital value-added services have yet to command enough higher total margin to offset the decline.

We continued to focus on operational excellence through productivity enhancement initiatives such as greater use of technology, process reengineering and digitalization. We are also moving merchandiser roles closer to production, which will improve speed and delivery quality and ultimately reduce costs. The resulting cost savings from our productivity initiatives amounted to US$27 million in the first half which represented a 12% reduction on a year-on-year basis. However, these cost savings were offset by additional costs relating to investment in our digitalization strategy, which includes 3D design and product development, data analytics, and our raw materials platform. Furthermore, certain overhead costs such as rentals are fixed in the medium term and we also increased our investment in the vendor compliance area for our sustainability efforts. Our effort to leverage resources across the sourcing and production platform will streamline the management of vendor compliance, improve quality control and assurance, and set the standard for the industry. This will also result in a gradual adjustment in the overhead cost over the next couple of years.

COP
US$m



COP Margin
-0.5 percentage point

1.2%	1.7%
1H 2019	1H 2018

Services – Logistics Business

Our Logistics business continues its profitable growth momentum. Despite challenging and highly competitive market conditions, in-country logistics services achieved another stellar first-half performance, with strong top-line and bottom-line growth. As in years past, China continued to lead the way as it benefited from an upsurge in 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 that are well ahead of plan.

We currently operate nearly 26 million square feet of warehouse space that serves customers across our four core verticals of footwear & apparel, fast-moving consumer goods, food & beverage and healthcare. Apart from providing storage and pick/pack service for domestic markets, 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 our new transport management system and digital control tower, our transport business has grown 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.

The global freight management business was negatively impacted by the slowdown in global trade. 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.

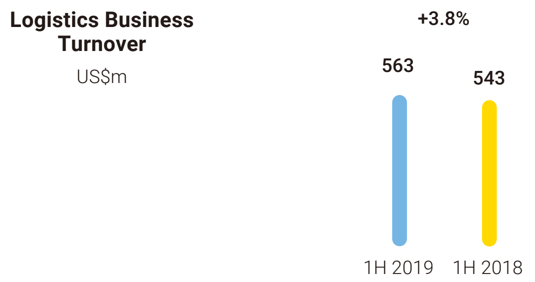
By cultivating strong partnerships with an extraordinary list of strategic customers, we have retained and grown with our existing customers. By continuing our investment in our overall value proposition, we have wooed and won new customers across all four verticals.

Logistics Business Results

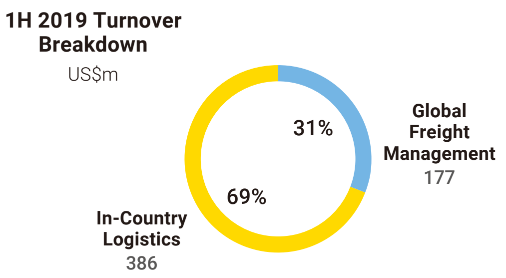
	1H 2019 US$m	1H 2018 US$m	Change %
Turnover	**563**	543	+3.8%
Total Margin	**205**	190	+7.9%
As % of Turnover	***36.4%***	*35.0%*	
Operating Costs	**162**	150	+8.4%
As % of Turnover	***28.8%***	*27.6%*	
Core Operating Profit	**43**	40	+6.4%
As % of Turnover	***7.6%***	*7.4%*	

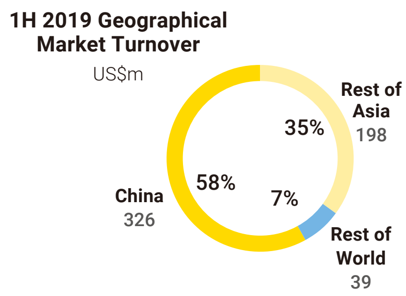
TURNOVER

Turnover for our Logistics business increased by 3.8% to US$563 million, which was driven entirely by organic growth. Our reported turnover growth was impacted by currency translations from Asian currencies to the US dollar; on a constant currency basis, turnover for the Logistics business increased by 7.9%. While turnover in the in-country logistics business registered double-digit growth, turnover in our global freight management business was affected by the weak freight environment and a decrease in volume particularly on the China-US route. Our new business wins together with robust consumption growth in Asia across all channels, particularly e-commerce, have provided strong growth impetus for our in-country logistics business. Furthermore, we have made significant inroads into the new markets of Japan, Korea, and India and have newly expanded into the electronics vertical.



In-country logistics and global freight management accounted for 69% and 31% of turnover for the Logistics business, respectively.





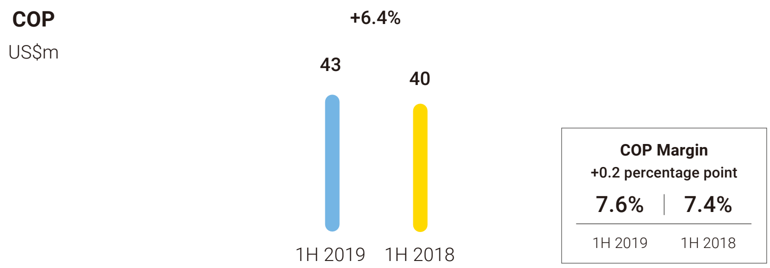
China is our key market for the Logistics business accounting for 58% of turnover. The rest of Asia, including Singapore, the Philippines, Malaysia, Thailand, Indonesia, India, Japan and Korea accounted for 35% of turnover, while Rest of World accounted for 7%.

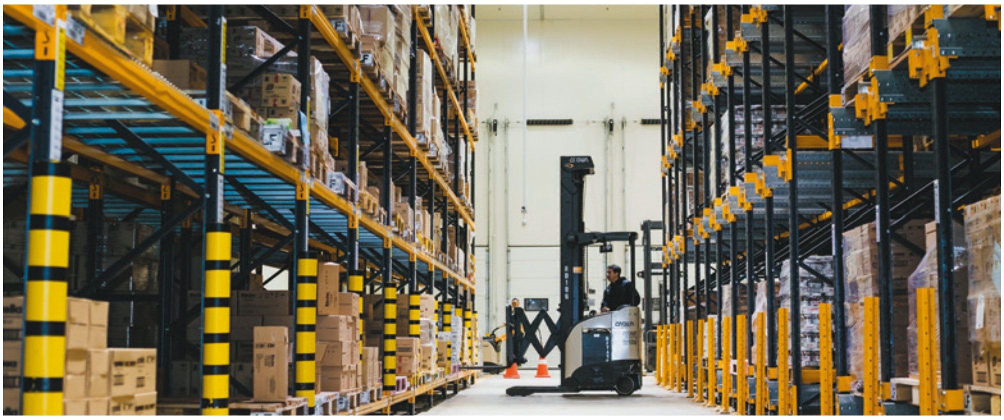
China turnover increased by 5.3% due to strong growth momentum in the in-country logistics business, though this was offset by weakness in the Chinese currency against the US dollar and drops in freight rates and volume, which affected the global freight management business. Rest of Asia showed strong growth, registering 9.7% in first half 2019 as we ramped up the new markets of Japan and Korea. Rest of World turnover decreased by 25.6% as it is purely a freight management business and was thus impacted by market weakness.

CORE OPERATING PROFIT

COP increased by 6.4% to US$43 million, This was driven by new customer wins, geographical expansion and our continued focus on productivity improvement, offset by weakness in the global freight management business due to drops in freight rates and volume. On a constant currency basis, COP for the Logistics business increased by 10.8%.

COP margin expanded by 0.2 percentage point to 7.6% due to customer mix optimization, productivity gains and increased penetration of higher-margin value-added services.





LF Logistics recorded impressive results in new markets of Korea, Japan and India.

Products Segment

The Products segment comprises our Onshore Wholesale business in three markets: the Americas, Europe and Asia. The three Product Verticals that were part of this segment exited the Group in the first half 2018.

Onshore Wholesale Business

The Products segment consists of our Onshore Wholesale business operating as an onshore supplier in the Americas, Europe and Asia, supplying apparel and hard goods to largely the same customer base as our Supply Chain Solutions business. The Onshore Wholesale business also acts as an onshore importer for customers, where the terms of each order are agreed on a per-program basis, and our customer relationships are typically longer term and strategic in nature. The business accounted for 12% of Group turnover in the first half of 2019. In 2018 we made progress on the strategic development and repositioning of our Onshore Wholesale business to adopt a leaner, more agile structure, which has allowed us to have an improved cost structure in 2019.

Onshore Wholesale Business Results

	1H 2019*	1H 2018	Change
	US$m	US$m	%
Turnover	**666**	763	-12.6%
Total Margin	**118**	127	-7.3%
As % of Turnover	***17.6%***	*16.6%*	
Operating Costs	**103**	114	-9.0%
As % of Turnover	***15.5%***	*14.9%*	
Core Operating Profit	**14**	13	+6.8%
As % of Turnover	***2.1%***	*1.7%*	

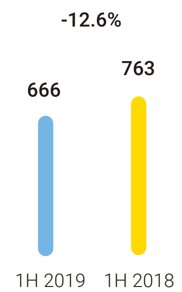
* The total margin, operating costs and COP of 1H 2019 were US$117.5 million, US$103.3 million and US$14.2 million respectively.

TURNOVER

Turnover for the Onshore Wholesale business decreased year on year by 12.6% to US$666 million. While we continued to grow with key customers in the US, European markets have been under pressure. The uncertainty concerning Brexit continued to weaken our business in the United Kingdom and key customers in Europe have shown conservative buying patterns in our product areas, leading to reduced order volumes. As part of our risk management, we have proactively reduced turnover with customers showing higher credit risk.

Onshore Wholesale Business Turnover

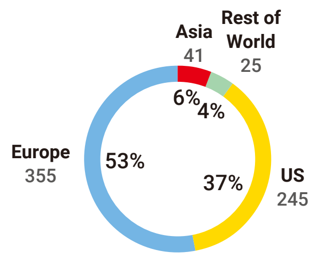
US$m



The US, Europe and Asia accounted for 37%, 53%, and 6% of segment turnover, respectively. Turnover in the US increased by 3.3%, driven by our successful focus on key accounts and continued product innovation. Turnover in Europe dropped by 18.9% due to economic uncertainties particularly in the United Kingdom and France. Turnover in Asia decreased by 37.9% after tripled in 2018 as we continued to optimize our customer base in Asia with focus on high quality customers both from a total margin and credit risk perspective. Nevertheless, we continued to see signs of growth with a number of key customers in Asia.

1H 2019 Geographical Market Turnover

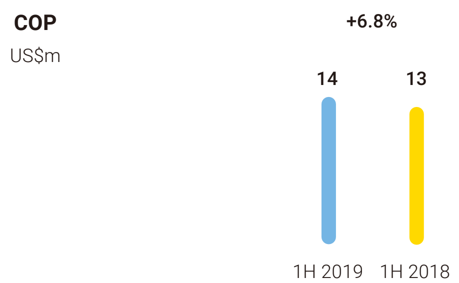
US$m



CORE OPERATING PROFIT

COP for Onshore Wholesale business increased from US$13 million to US$14 million as the business' decline in turnover was offset by operating costs savings. Total margin percentage increased from 16.6% to 17.6%.

COP margin increased by 0.4 percentage point to 2.1%, which was largely driven by a 1.0 percentage point increase in total margin percentage, as we realigned our Onshore Wholesale business, particularly in Europe. Furthermore, we remained focused on restructuring the business to adopt a leaner, more agile structure, which lowered operating costs year-on-year.



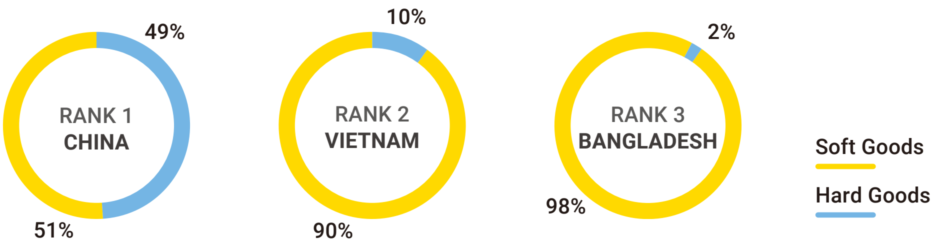
COP Margin +0.4 percentage point	
2.1%	1.7%
1H 2019	1H 2018

One of our showrooms displaying a collection of homewares and apparel.

Top Sourcing Countries

Our global network of factories, which spans more than 50 economies, allows for flexibility when moving orders from one production country to another to better manage manufacturing constraints and optimize our customers' margins. In the first half of 2019, our top three sourcing countries were China, Vietnam and Bangladesh. We also have sizeable sourcing operations in other countries such as India, Cambodia and Indonesia. We are among the largest exporters in our product categories in our major sourcing countries. This comprehensive global network, combined with strong local presence, a 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 2019, we had a total workforce of 16,121. The 16,121 workforce includes 8,541 warehouse-related employees primarily for our Logistics business. Total manpower costs for the first half of 2019 were US$323 million compared with US$355 million in the same period of 2018. 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.

We continue to enhance the productivity of our workforce and equip our people for the new digital world.

Balance Sheet and Capital Structure

Strong Cash Position

Li & Fung continues to have solid recurring cash flow and cash position. At the end of the first half of 2019, we maintained a cash position of US$811 million. Our cash position will be further strengthened by the US$300 million investment in LF Logistics by Temasek. The transaction was completed on 8 August 2019, which is a subsequent event to our 30 June 2019 interim balance sheet date. Our operating cashflow funded the majority of our working capital, lease payments, capital expenditure, interest expenses, perpetual capital securities distribution, and final dividend payments. To summarize key cashflow statement items:

- Over the first six months of 2019, cash flow from operating activities was US$126 million compared to US$57 million during the same period last year. This was mainly due to an improvement in working capital. Our management team and operations have a strong focus on effective working capital management and are constantly monitoring and improving our working capital position

- Lease payments amounted to US$83 million compared to US$78 million during the same period last year. The increase was due to the organic growth of the Logistics business

- Capital expenditures were US$34 million while tax paid was US$21 million

- Net interest expenses increased to US$30 million as in the first half of 2018 the Group benefited from interest income on the cash proceeds of the Product Verticals divestment before the payout of the special dividend and redemption of perpetual capital securities

- Distribution to perpetual capital securities holders was US$17 million compared to US$32 million during the same period last year. The reduction was due to the redemption of US$500 million in perpetual capital securities in May 2018

- Final 2018 dividend payment of US$44 million which was supported by carried forward cash balance in 2018

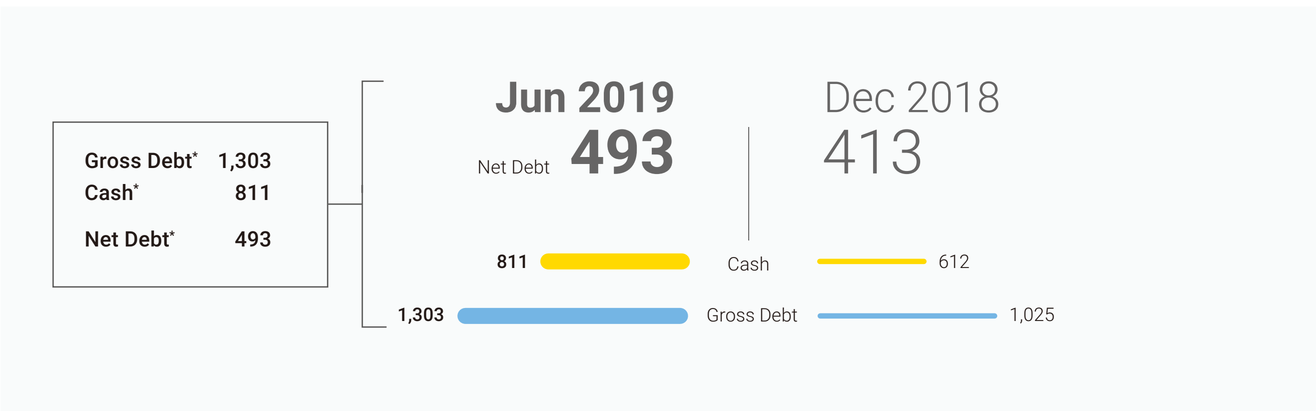
In terms of future commitments, the remaining balance of total purchase consideration payable for acquisitions was US$8 million as at the end of June 2019, of which US$6 million is earn-out payments. We continue to be asset-light, and our on-going total capital expenditures mainly include investments in digitalization and Logistics business expansion, as well as capital expenditures for continuing maintenance.

Strong Balance Sheet

As at 30 June 2019, our cash position was US$811 million after payments of the 2018 final dividend. We have also reduced the acquisition tail payments of our remaining consideration payable, further improving our balance sheet. Prior to the Temasek's US$300 million in LF Logistics, our net debt (total borrowings minus cash) was US$493 million and our gross total borrowings were US$1,303 million as at 30 June 2019. Given the uncertainties in the global macroeconomic and geopolitical environments, we remain prudent and conservative in managing our balance sheet to maintain maximum financial flexibility. During the first half of 2019, we had long-term committed bank loan facilities totaling US$857 million with an average tenure of two years. Such ample liquidity is meant to allow us to have maximum flexibility in managing our near-term debt maturity profile. In June 2019, we took an early draw-down of US$300 million from these long-term committed bank loan facilities and our resulting cash position of US$811 million will prevent any market-driven risk that could impact the repayment of our US$751 million bond due in May 2020 and allow us to maintain maximum flexibility in terms of any refinancing plan of our bond.

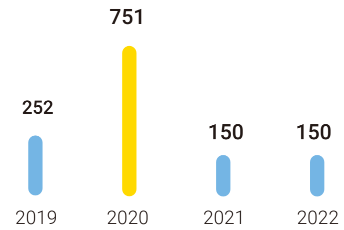
Our weighted average tenure of total borrowing is around two years. The majority of our debt is at a fixed rate and denominated in US dollars. Subsequent to the interim balance sheet date, we have completed the US$300 million investment in LF Logistics by Temasek and used part of the proceeds to reduce bank loans by US$250 million. As a result of the Temasek's investment, our net debt on a pro forma basis decreased further from US$493 million to US$193 million.

Cash and Gross Debt
US$m



* The gross debt, cash and net debt for June 2019 were US$1,303.3 million, US$810.5 million and 492.8 million respectively .

Debt Maturity Schedule
US$m



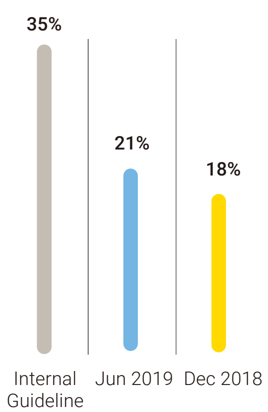
	2019	2020	2021	2022
Bank Loans	252	–	150	150
Bonds	–	751	–	–

Gearing Ratio and Current Ratio

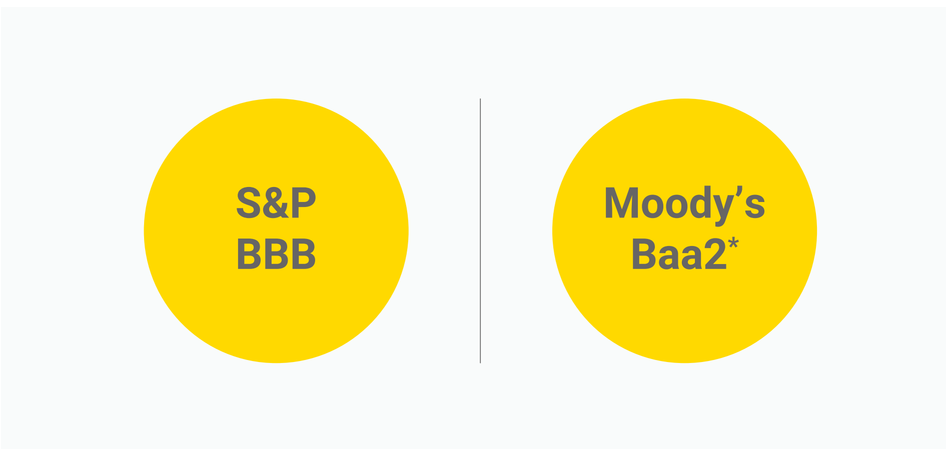
After adopting the new accounting standard HKFRS 16, our gearing ratio and current ratio were 21% and 0.8 respectively as at 30 June 2019 (18% and 1.0 respectively and restated for the Group as at 31 December 2018). The gearing ratio remained stable and is calculated as net debt divided by total capital. 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. The decrease in current ratio is due to the US$751 million bond due in May 2020 becoming a current liability as well as the recognition of the current lease liabilities of US$132 million upon the adoption of HKFRS 16, Leases, which we have anticipated and prepared our balance sheet by drawing down excess cash for the repayment of the bond from our long-term committed facilities of US$857 million.

We continued to take a conservative approach in managing our balance sheet and capital structure. As at 30 June 2019, our credit rating was Baa2 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.

Gearing Ratio



Credit Rating



* On 23 August 2019, Moody's Investors Service has downgraded the Company's credit rating from Baa2 to Baa3.

Banking Facilities

Bank Loans and Overdrafts

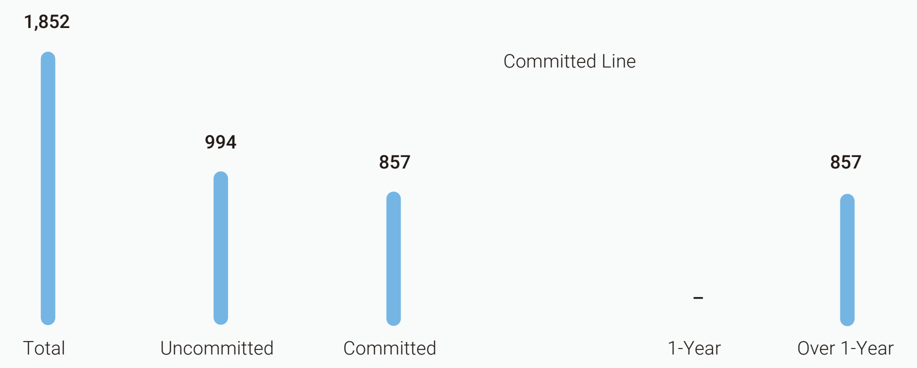
As at 30 June 2019, we had available bank loans and overdraft facilities of US$1,852 million, of which US$857 million were committed facilities. The committed facilities have a tenor of two years with maturities in 2021 and 2022, with US$300 million being drawn and US$557 million undrawn. On both a committed and uncommitted basis, only US$552 million of the Group's bank loans and overdraft facilities was utilized. Unused limits for bank loans and overdraft facilities amounted to US$1,299 million, with US$557 million being unused committed facilities.

Trade Finance

The Group's normal trading operations are well supported by US$1.3 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 2019, only approximately 16% of the trade finance facilities was used.

Bank Loans and Overdraft Facilities

US$m



	Total	Uncommitted	Committed
Used	552.5	252.5	300.0
Unused	1,299.1	741.7	557.4

Contingent Liabilities and Goodwill

Adjustments to Purchase Consideration Payables

Given the unique natures of our acquired businesses, which are private enterprises that rely on their respective entrepreneurs' commercial skills to drive 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 2019, 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.

Adoption of New Accounting Standard, HKFRS 16, Leases

HKFRS 16, which specifies how a company should recognize, measure, present and disclose leases, became effective in 2019. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for short-term or low value leases that the lessee chooses to exclude from the requirements. Specifically, all leases must be recognized in the balance sheet as a right-of-use asset and a lease liability. The liability and the right-of-use asset are unwound over the term of the lease giving rise to interest expenses and amortization charges, respectively. To maintain the consistency of our financial information throughout the period, we have elected to apply the standard retrospectively with prior period comparatives restated. Applying this new accounting standard resulted in increase in right-of-use assets and lease liabilities of US$392 million and US$421 million, respectively, as at 31 December 2018 and a decrease in net profit of US$1 million for the six months ended 30 June 2018. Further information about the application has been set out in Note 2 to the condensed interim financial information.

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 as we act 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 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

Uncertainties in the global trade landscape will continue to affect the supply chain over the next few years. The migration of production out of China is not only driven by tariff increases but also the country's push to transform from a manufacturing exporter into a high-tech service provider. While trade talks are ongoing, we believe the production migration out of China will continue regardless of any deal, as retailers want a more diversified supply chain network. Despite continuing macroeconomic and geopolitical challenges, we will continue to help our customers optimize their sourcing and production through our strong network of more than 50 economies.

We expect the multi-year destocking trend in retail to continue throughout the remainder of 2019. This is reducing customers' merchandizing budgets – despite improved retail sales – and translating into headwinds for our Supply Chain Solutions business. With continued disruption in the retail landscape, we expect more store closures and bankruptcies. We will continuously review the risk profile of our customer portfolio and reduce credit risk as needed, which will negatively impact turnover. To alleviate this short-term pressure, we have undertaken certain initiatives.

Firstly, the business development team has been steadily converting customers from a promising pipeline and their efforts will be further enhanced by our increasingly rich digital capabilities. Onboarding new customers and ramping up orders to full potential takes time, which means contributions from new customers over the next 12 months may not fully counter the headwinds facing our existing customer base. Nonetheless, continued customer wins and the conversion of strategically significant accounts reinforce our confidence in our solution-based business development approach and set a solid foundation for our future growth. As a result of improvement in operations and customer engagement, turnover is stabilizing and beginning to bottom out.

Secondly, under the new organizational structure and leadership, our account management function is now singularly focused on growing our market share with key customers. We are also reviewing our overall customer portfolio and optimizing resource allocation to better serve customers. We will continue to pursue both market share gain and pipeline conversion as drivers of growth and as countermeasures to industry destocking and store closures.

Thirdly, the appointments of the COO and regional production hub leaders are expected to enhance operational excellence and improve service delivery to our customers and vendors. The current redesign of our sourcing and production platform will achieve better operating leverage and faster response times for our customers. We are modelling these structural changes on our India business, which enjoyed substantial improvement in operational performance. We are confident that these changes will lead to higher levels of customer satisfaction and business opportunities. Furthermore, the savings from the restructuring of our sourcing and production platform in 2019 will be annualized next year.

We expect the Onshore Wholesale business to continue its recovery journey and productivity drive. Nevertheless, Brexit may negatively impact consumer sentiment in the United Kingdom and across Europe, potentially impacting the top line.

The strong organic growth momentum of the in-country logistics business is expected to continue. While the strength of the US dollar in the first half of 2019 was a negative headwind from a currency translation perspective, we continue to believe in the long-term prospects of the business and expect the double-digit growth trend of the past several years to continue. The Temasek investment of US$300 million is a positive sign of the long-term value of the Logistics business. This investment will provide Logistics business with ample capital to accelerate its growth and capture the consumption growth of the rising middle-income class in Asia.

In 2019, we will focus on completing our mission of building a comprehensive digitalized end-to-end supply chain. We will accelerate our investments in digitalization based on the prudent US$150 million figure set for this Three-year Plan. This spending will put pressure on our operating margin, nonetheless, we believe that digitalization is necessary for the long-term business strategy of Li & Fung. Digitalization initiatives have already started to deliver results and we expect more tangible returns once our full-service offering is in place.

Under the new organizational structure and leadership, our account management function is now singularly focused on growing our market share with key customers.

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 2019 are in line with the practices set out in our 2018 Annual Report and on our corporate website.

The Board

The Board is currently composed of three Executive Directors, two Non-executive Directors 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 2019, the following changes to the Board and Board committees have occurred:

- Marc Robert Compagnon has been re-designated from Executive Director to Non-executive Director of the Company and stepped down as Group President with effect from 28 January 2019.
- Joseph C. Phi, Executive Director of the Company, has been appointed as Group President with effect from 28 January 2019, and as a member of Risk Management and Sustainability Committee of the Company with effect from 22 March 2019.
- Victor Fung Kwok King, Honorary Chairman and Non-executive Director of the Company, and John G. Rice, an Independent Non-executive Director of the Company, have been appointed as members of Nomination Committee of the Company with effect from 22 March 2019.

Further details of changes in the information of our Directors are set out in the "Other Information" section on page 52.

Board and Committee Meetings to Date in 2019

	Number of Meetings	Average Attendance Rate
Board	3	100%
Nomination Committee	1	100%
Audit Committee	3	100%
Risk Management and Sustainability Committee	3	95%
Remuneration Committee	1	67%

Review of Interim Financial Information

The Audit Committee has reviewed the interim financial information for the six months ended 30 June 2019 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 60 to 71 of our 2018 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, the Audit Committee considered that for the first six months of 2019:

- 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 2019 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 2019 annual general meeting.

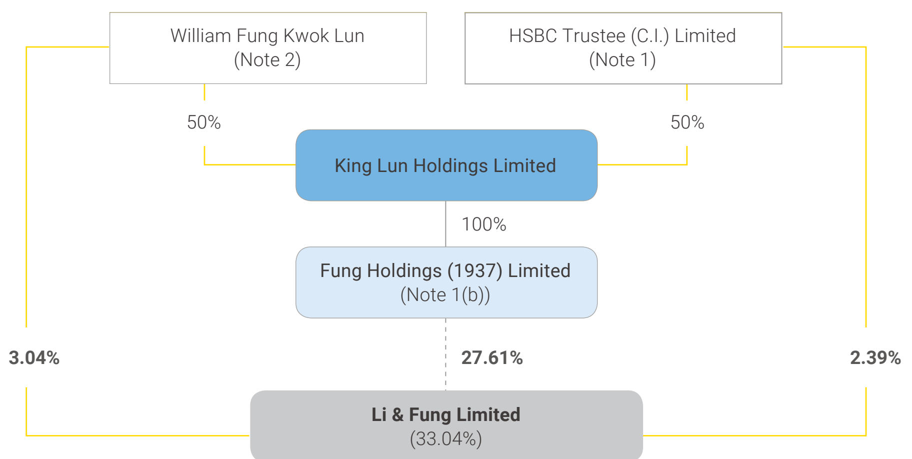
Directors' Interests

As at 30 June 2019, 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	30.03%
William Fung Kwok Lun	177,501,260	108,800	2,427,305,472[2]	2,503,000[7]	2,607,418,532	30.65%
Spencer Theodore Fung	3,002,000	–	2,556,954,180[1&3]	5,523,000[7]	2,565,479,180	30.16%
Marc Robert Compagnon	2,325,400	14,000	16,939,380[4]	5,315,000[7]	24,593,780	0.29%
Joseph C. Phi	4,629,078	38,000	4,314,600[5]	1,106,000[7]	10,087,678	0.12%
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 2019,

(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. 1,943,000 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 2,556,954,180 Shares, 4,988,000 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 16,939,380 Shares, 4,649,600 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) 4,314,600 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 8,506,586,006 shares in issue as at 30 June 2019.

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

As at 30 June 2019, 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 Awards Shares are detailed in the "Long-term Incentive Schemes" section stated below.

Save as disclosed above, at no time during the year 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 2019, there were Share Options relating to 8,000,000 Shares granted by the Company representing 0.09% 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 2019, there were Share Options relating to 27,973,000 Shares granted by the Company representing 0.33% 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 2019 are as follows:

			Number of Share Options			
Grant Date	Exercise Price HK$	Grantees	As at 1/1/2019	Lapsed	As at 30/6/2019	Exercisable period
2003 Option Scheme						
22/12/2011	12.12[1]	Spencer Theodore Fung	5,000,000	(1,000,000)	4,000,000	Exercisable in five equal tranches during the period from 1/5/2017 to 30/4/2023 with each tranche having an exercisable period of two years
		Marc Robert Compagnon	5,000,000	(1,000,000)	4,000,000	
2014 Option Scheme						
21/5/2015	7.49[2]	William Fung Kwok Lun	5,006,000	(2,503,000)	2,503,000	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
		Spencer Theodore Fung	3,046,000	(1,523,000)	1,523,000	
		Marc Robert Compagnon	2,630,000	(1,315,000)	1,315,000	
		Joseph C. Phi	2,212,000	(1,106,000)	1,106,000	
		Continuous Contract Employees	41,443,000	(21,250,000)	20,193,000	
16/11/2015	5.81[3]	Continuous Contract Employees	889,000	(285,000)	604,000	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	65,955,000	(29,982,000)	35,973,000	

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, no Award Shares were awarded to eligible persons pursuant to the Share Award Scheme.

As at 30 June 2019, the trustee of the Share Award Scheme held a total of 9,472,700 Shares which can be applied to satisfy awards to non-connected persons.

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 1/1/2019	Granted	Unvested/ Forfeited*	As at 30/6/2019	Vesting Date
21/5/2015	Spencer Theodore Fung	90,000	–	–	90,000	To be vested on 31 December 2019
	Marc Robert Compagnon	76,600	–	–	76,600	
	Joseph C. Phi	64,600	–	–	64,600	
	Connected Persons other than Directors	600,300	–	–	600,300	
	Non-connected Persons	4,220,700	–	(296,500)	3,924,200	
16/11/2015	Non-connected Persons	165,200	–	(3,300)	161,900	To be vested on 31 December 2019
19/5/2016	Connected Persons other than Directors	7,300	–	–	7,300	To be vested on 31 December 2019
	Non-connected Persons	266,400	–	(7,800)	258,600	
14/11/2016	Non-connected Persons	53,700	–	(2,300)	51,400	To be vested on 31 December 2019
13/7/2017	William Fung Kwok Lun	762,000	–	–	762,000	To be vested in two tranches with the vesting date on 31 December of each year from 2019 to 2020
	Spencer Theodore Fung	762,000	–	–	762,000	
	Marc Robert Compagnon	634,000	–	–	634,000	
	Joseph C. Phi	508,000	–	–	508,000	
	Connected Persons other than Directors	2,984,000	–	–	2,984,000	
	Non-connected Persons	32,862,800	–	(1,692,000)	31,170,800	
23/3/2018	Spencer Theodore Fung	986,000	–	–	986,000	To be vested in two tranches with the vesting date on 31 December of each year from 2019 to 2020
	Marc Robert Compagnon	986,000	–	–	986,000	
	Joseph C. Phi	986,000	–	–	986,000	
	Connected Persons other than Directors	1,096,000	–	–	1,096,000	
	Non-connected Persons	958,000	–	(18,000)	940,000	
23/8/2018	William Fung Kwok Lun	1,181,000	–	–	1,181,000	To be vested in three tranches with the vesting date on 31 December of each year from 2019 to 2021
	Spencer Theodore Fung	3,150,000	–	–	3,150,000	
	Marc Robert Compagnon	2,953,000	–	–	2,953,000	
	Joseph C. Phi	2,756,000	–	–	2,756,000	
	Connected Persons other than Directors	5,459,000	–	–	5,459,000	
	Non-connected Persons	46,074,400	–	(2,834,000)	43,240,400	
	Total	110,643,000	–	(4,853,900)	105,789,100	

* 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 2019, 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]	29.99%
King Lun Holdings Limited	Interest of controlled corporation	2,348,953,872[2]	27.61%
Silchester International Investors LLP	Interest of controlled corporation	857,252,000	10.08%

NOTES:
As at 30 June 2019,

(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 8,506,586,006 Shares in issue as at 30 June 2019.

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 2019.

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 2018 Annual Report and up to the date of this Report are set out below:

- Margaret Leung Ko May Yee retired as an independent non-executive director of Hong Kong Exchanges and Clearing Limited on 24 April 2019.

- Victor Fung Kwok King has become a member of the Council of the Hong Kong Laureate Forum since May 2019 and was conferred Fellow of the Hong Kong Academy of Finance in June 2019.

- William Fung Kwok Lun retired as an independent non-executive director of Shui On Land Limited on 31 May 2019.

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:

- Marc Robert Compagnon has been re-designated from Executive Director to Non-executive Director of the Company and stepped down as Group President with effect from 28 January 2019.

- Joseph C. Phi, Executive Director, has been appointed as Group President with effect from 28 January 2019, and as a member of Risk Management and Sustainability Committee of the Company with effect from 22 March 2019.

- Victor Fung Kwok King, Honorary Chairman and Non-executive Director of the Company, and John G. Rice, an Independent Non-executive Director of the Company, have been appointed as members of Nomination Committee of the Company with effect from 22 March 2019.

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 2019.

Interim Dividend

The Board has resolved to declare an interim dividend of 1 HK cent (2018: 3 HK cents) per Share for the six months ended 30 June 2019, absorbing a total of US$11 million (2018: US$33 million).

In the current Three-Year Plan (2017–2019), the Company's dividend distribution is benchmarked against the Group's profit attributable to the Shareholders. We expect to distribute 50% to 70% of our Group's annual profit to the 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 Monday, 9 September 2019 to Tuesday, 10 September 2019, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Friday, 6 September 2019. Dividend warrants will be despatched on Thursday, 19 September 2019. Shares of the Company will be traded ex-dividend from Thursday, 5 September 2019.

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
MSCI Global Sustainability Indexes
Hang Seng Corporate Sustainability Index Series

Key Dates

22 Aug 2019 Announcement of the 2019 Interim Results

5 Sep 2019 Dividend Ex-entitlement for Shares

9–10 Sep 2019 (both days inclusive) Closure of the Register of Shareholders

19 Sep 2019 Payment of 2019 Interim Dividend

Registrar & Transfer Offices

Principal
Estera Management (Bermuda) Limited
Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10, Bermuda

Hong Kong Branch
Tricor Abacus Limited
Level 54, 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 2019
8,506,586,006 Shares

Market capitalization as at 30 June 2019
HK$11,568,956,968

Basic earnings per Share for 2019
Interim 0.25 US cents

Dividend per Share for 2019
Interim 1 HK cent

Enquiries

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Media and potential business partners:
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Shareholders addressed to the Board:
Company Secretariat | secretariat@lifung.com

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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分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 56 to 94, which comprises the consolidated balance sheet of Li & Fung Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2019 and the 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 of the Group 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 2019

Condensed Interim Financial Information

Consolidated Profit and Loss Account

	Note	Unaudited Six months ended 30 June 2019 US$'000	2018 US$'000 (Restated)
Continuing Operations			
Turnover	3	**5,356,192**	5,850,340
Cost of sales		**(4,793,909)**	(5,257,349)
Gross profit		**562,283**	592,991
Other income		**20,599**	20,537
Total margin		**582,882**	613,528
Selling and distribution expenses		**(174,263)**	(172,369)
Merchandising and administrative expenses		**(303,644)**	(312,164)
Core operating profit	3	**104,975**	128,995
Gain on remeasurement of contingent consideration payable	4	**621**	–
One-off reorganization costs	4	**(7,884)**	–
Amortization of other intangible assets	4	**(14,527)**	(14,777)
Operating profit	3&4	**83,185**	114,218
Interest income		**3,305**	7,571
Interest expenses			
Non-cash interest expenses		**(7,391)**	(7,503)
Cash interest expenses		**(33,003)**	(25,155)
		(40,394)	(32,658)
Share of net (losses)/profits of associated companies and joint venture		**(5)**	843
Profit before taxation		**46,091**	89,974
Taxation	5	**(8,989)**	(13,150)
Profit for the period from Continuing Operations		**37,102**	76,824
Discontinued Operations			
Loss for the period from Discontinued Operations	15(a)	**–**	(137,316)
Net profit/(loss) for the period		**37,102**	(60,492)

	Note	Unaudited Six months ended 30 June 2019 US$'000	2018 US$'000 (Restated)
Attributable to:			
Shareholders of the Company		**20,532**	(86,094)
Holders of perpetual capital securities		**17,063**	29,063
Non-controlling interests		**(493)**	(3,461)
		37,102	(60,492)
Attributable to Shareholders of the Company arising from:			
Continuing Operations		**20,532**	48,224
Discontinued Operations	15(a)	**–**	(134,318)
		20,532	(86,094)
Earnings/(losses) per share for profit/(losses) attributable to the Shareholders of the Company during the period	7		
– Basic from Continuing Operations		**1.9 HK cents**	4.5 HK cents
(equivalent to)		**0.25 US cents**	0.58 US cents
– Basic from Discontinued Operations		**N/A**	(12.4) HK cents
(equivalent to)		**N/A**	(1.60) US cents
– Diluted from Continuing Operations		**1.9 HK cents**	4.4 HK cents
(equivalent to)		**0.24 US cents**	0.57 US cents
– Diluted from Discontinued Operations		**N/A**	(12.3) HK cents
(equivalent to)		**N/A**	(1.59) US cents

Details of dividends to Shareholders of the Company are set out in Note 6. The notes on pages 65 to 94 form an integral part of this interim financial information.

Consolidated Statement of Comprehensive Income

	Note	Unaudited Six months ended 30 June **2019** **US$'000**	 2018 US$'000 (Restated)
Net profit/(loss) for the period		**37,102**	(60,492)
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		**93**	250
Items that may be reclassified subsequently to profit or loss			
Currency translation differences*		**(8,010)**	(1,772)
Realization of currency translation differences upon disposal of business		**–**	62,685
Net fair value (losses)/gains on cash flow hedges, net of tax		**(169)**	4,407
Total items that may be reclassified subsequently to profit or loss		**(8,179)**	65,320
Total other comprehensive (expense)/income for the period, net of tax		**(8,086)**	65,570
Total comprehensive income for the period		**29,016**	5,078
Attributable to:			
Shareholders of the Company		**12,448**	(20,520)
Holders of perpetual capital securities		**17,063**	29,063
Non-controlling interests		**(495)**	(3,465)
Total comprehensive income for the period		**29,016**	5,078
Attributable to the Shareholders of the Company arising from:			
Continuing Operations		**12,448**	98,389
Discontinued Operations	15(a)	**–**	(118,909)
		12,448	(20,520)

* 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 65 to 94 form an integral part of this interim financial information.

Consolidated Balance Sheet

	Note	Unaudited 30 June 2019 US$'000	Audited 31 December 2018 US$'000 (Restated)
Non-current assets			
Intangible assets	8	**2,314,051**	2,321,294
Property, plant and equipment	8	**196,018**	201,973
Prepaid premium for land leases		**16**	16
Right-of-use assets	8	**395,436**	391,970
Associated companies		**5,558**	5,268
Joint venture		**107**	374
Financial assets at fair value through other comprehensive income		**4,694**	4,601
Other receivables, prepayments and deposits		**24,319**	26,663
Deferred tax assets		**23,071**	15,644
		2,963,270	2,967,803
Current assets			
Inventories		**217,806**	205,877
Due from related companies		**544,360**	708,862
Trade and bills receivable	9	**798,544**	1,040,236
Other receivables, prepayments and deposits		**165,259**	177,436
Derivative financial instruments		**789**	3,985
Cash and bank balances		**810,532**	612,391
		2,537,290	2,748,787
Current liabilities			
Due to related companies		**32,709**	37,809
Trade and bills payable	10	**1,513,453**	1,736,817
Accrued charges and sundry payables		**347,640**	585,897
Purchase consideration payable for acquisitions	11	**3,646**	819
Lease liabilities	11	**131,645**	129,464
Taxation		**23,406**	30,267
Short-term bank loans		**252,450**	272,951
Current portion of long-term notes	11	**750,891**	–
		3,055,840	2,794,024
Net current liabilities		**(518,550)**	(45,237)
Total assets less current liabilities		**2,444,720**	2,922,566

	Note	Unaudited 30 June 2019 US$'000	Audited 31 December 2018 US$'000 (Restated)
Financed by:			
Share capital	12	**13,633**	13,633
Reserves		**1,161,357**	1,188,662
Shareholders' funds attributable to the Company's Shareholders		**1,174,990**	1,202,295
Holders of perpetual capital securities	13	**655,687**	655,687
Non-controlling interests		**(2,982)**	(3,150)
Total equity		**1,827,695**	1,854,832
Non-current liabilities			
Long-term notes	11	**–**	751,405
Purchase consideration payable for acquisitions	11	**4,679**	8,141
Lease liabilities	11	**294,698**	291,164
Long-term bank loans	11	**300,000**	1,034
Other long-term liabilities	11	**2,096**	2,705
Post-employment benefit obligations		**12,375**	11,592
Deferred tax liabilities		**3,177**	1,693
		617,025	1,067,734
		2,444,720	2,922,566

The notes on pages 65 to 94 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)	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2019, as previously reported	13,633	744,325	53,544	405,390	1,216,892	655,687	(3,150)	1,869,429
Impact of adoption of HKFRS 16	–	–	(198)	(14,399)	(14,597)	–	–	(14,597)
Balance at 1 January 2019, as restated	13,633	744,325	53,346	390,991	1,202,295	655,687	(3,150)	1,854,832
Comprehensive income/(expense)								
Profit or loss	–	–	–	20,532	20,532	17,063	(493)	37,102
Other comprehensive (expense)/income								
Currency translation differences	–	–	(8,008)	–	(8,008)	–	(2)	(8,010)
Net fair value gains on financial assets at fair value through other comprehensive income, net of tax	–	–	93	–	93	–	–	93
Net fair value losses on cash flow hedges, net of tax	–	–	(169)	–	(169)	–	–	(169)
Total other comprehensive expense, net of tax	–	–	(8,084)	–	(8,084)	–	(2)	(8,086)
Total comprehensive (expense)/income	–	–	(8,084)	20,532	12,448	17,063	(495)	29,016
Transactions with owners in their capacity as owners								
Employee Share Option and Share Award Scheme:								
– value of employee services	–	–	6,608	–	6,608	–	–	6,608
Distribution to holders of perpetual capital securities	–	–	–	–	–	(17,063)	–	(17,063)
Transfer to capital reserve	–	–	663	(663)	–	–	–	–
2018 final dividend paid	–	–	–	(43,848)	(43,848)	–	–	(43,848)
Acquisitions of non-controlling interests	–	–	–	(2,513)	(2,513)	–	663	(1,850)
Total transactions with owners in their capacity as owners	–	–	7,271	(47,024)	(39,753)	(17,063)	663	(56,153)
Balance at 30 June 2019	13,633	744,325	52,533	364,499	1,174,990	655,687	(2,982)	1,827,695

The notes on pages 65 to 94 form an integral part of this interim financial information.

	Unaudited								
	Attributable to Shareholders of the Company								
	Share capital US$'000	Share premium US$'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, as previously reported	13,574	728,527	509,577	496,068	1,747,746	1,158,687	(67,000)	74,262	2,913,695
Impact of adoption of HKFRS 16	–	–	(994)	(12,072)	(13,066)	–	–	–	(13,066)
Balance at 1 January 2018, as restated	13,574	728,527	508,583	483,996	1,734,680	1,158,687	(67,000)	74,262	2,900,629
Comprehensive (expense)/income									
Profit or loss	–	–	–	(86,094)	(86,094)	29,063	–	(3,461)	(60,492)
Other comprehensive (expense)/ income									
Currency translation differences	–	–	(1,768)	–	(1,768)	–	–	(4)	(1,772)
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/ (expense), net of tax	–	–	65,574	–	65,574	–	–	(4)	65,570
Total comprehensive income/(expense)	–	–	65,574	(86,094)	(20,520)	29,063	–	(3,465)	5,078
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 dividend paid	–	–	–	(21,830)	(21,830)	–	–	–	(21,830)
2017 special dividend 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	57,689	376,072	1,175,862	655,687	–	(2,429)	1,829,120

The notes on pages 65 to 94 form an integral part of this interim financial information.

Condensed Consolidated Cash Flow Statement

	Note	Unaudited Six months ended 30 June 2019 US$'000	 2018 US$'000 (Restated)
Continuing Operations			
Operating activities			
Operating profit adjusted for non-cash items before working capital changes		**213,960**	237,662
Changes in working capital		**(67,733)**	(160,953)
Net cash generated from operations		**146,227**	76,709
Profits tax paid		**(20,672)**	(19,577)
Net cash inflow from operating activities		**125,555**	57,132
Investing activities			
Settlement of consideration payable for prior years' acquisitions of businesses		**–**	(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		**(33,559)**	(40,473)
Other investing activities		**6,852**	9,731
Net cash (outflow)/inflow from investing activities		**(26,707)**	968,160
Net cash inflow before financing activities		**98,848**	1,025,292
Financing activities			
Interest paid		**(33,003)**	(25,155)
Distributions made to holders of perpetual capital securities		**(17,063)**	(32,063)
Net drawdown of bank loans		**278,465**	4,450
Dividend paid		**(43,848)**	(541,379)
Payment of lease liabilities		**(82,918)**	(78,475)
Purchase of shares for Share Award Scheme		**–**	(2,927)
Redemption of perpetual capital securities		**–**	(500,000)
Other financing activities		**(1,850)**	–
Net cash inflow/(outflow) from financing activities		**99,783**	(1,175,549)
Increase/(decrease) in cash and cash equivalents from Continuing Operations		**198,631**	(150,257)

	Note	Unaudited Six months ended 30 June 2019 US$'000	2018 US$'000 (Restated)
Discontinued Operations			
Decrease in cash and cash equivalents from Discontinued Operations	15(f)	**–**	(71,978)
Increase/(decrease) in cash and cash equivalents		**198,631**	(222,235)
Cash and cash equivalents at 1 January			
Continuing Operations		**612,391**	348,940
Discontinued Operations		**–**	192,578
		612,391	541,518
Increase/(decrease) in cash and cash equivalents		**198,631**	(222,235)
Effect of foreign exchange rate changes		**(490)**	(108)
Cash and cash equivalents of Continuing Operations at 30 June		**810,532**	319,175
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**810,532**	319,175

* 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 65 to 94 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 key production countries globally.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, 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 2019.

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 2018, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

As at 30 June 2019, the Group recorded net current liabilities of US$519 million (31 December 2018 (restated): US$45 million) which was primarily due to the long-term notes of US$751 million which will become due in May 2020 and the recognition of current lease liabilities of US$132 million (31 December 2018 (restated): US$129 million) upon the adoption of HKFRS 16 Leases (Note 2(a)).

In August 2019, the Group received US$300 million cash from bringing in Temasek Holdings (Private) Limited ("Temasek") as our strategic investor of LF Logistics Holdings Limited ("LF Logistics") (Note 21). In addition, the Group has secured approximately US$857 million in committed bank facilities with tenure up to 2022, of which US$557 million are still unused as at 30 June 2019.

With the US$300 million receipt from Temasek, the Group's cash balance of US$811 million and unused committed bank facilities of US$557 million, the directors consider the Group has adequate resources to meet its liabilities as and when they fall due and continue its operations for the foreseeable future. Accordingly, the directors have prepared the condensed interim financial information on a going concern basis.

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 2018, 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 2019:

HKAS 19 Amendment	Plan amendment, curtailment or settlement
HKAS 28 Amendment	Long-term Interests in Associates and Joint Ventures
HKFRS 9 Amendment	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK(IFRIS) — Int 23	Uncertainty over Income Tax Treatments
Annual Improvement Project	Annual Improvements 2015–2017 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 16 “Leases” as set out below.

HKFRS 16 Leases

HKFRS 16 Leases addresses the classification, measurement and derecognition of right-of-use assets and lease liabilities related to leases which had previously been classified as “operating leases” under the principle of HKAS 17 Leases. These liabilities are measured at the present value of the remaining lease payments, discounted using lessee’s incremental borrowing rate.

In accordance with the transition provisions in HKFRS 16, the new rule has been adopted retrospectively and comparative figures have been restated and the impact of the adoption is disclosed in Note 2(a)(ii).

(I) CHANGES IN ACCOUNTING POLICIES

Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

- *Assets leased to the Group*

  Leases are initially recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is amortized on a straight-line basis over the shorter of the asset’s useful life and the lease term.

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)

Leased assets (continued)

- *Assets leased to the Group (continued)*

  Assets leased to the Group and the corresponding liabilities are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

  – fixed payments (including in-substance fixed payments), less any lease incentives receivable;

  – variable lease payments that are based on an index or a rate; and

  – payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

  The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the incremental borrowing rate of respective entities. Right-of-use assets are measured at cost comprising the following:

  – the amount of the initial measurement of lease liabilities;

  – any lease payments made at or before the commencement date, less any lease incentive received;

  – any initial direct costs; and

  – restoration costs.

  Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated profit and loss account. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

- *Assets leased out by the Group*

  A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

  Where the Group leases out assets under operating leases, the assets are included in the consolidated balance sheet according to their nature and, where applicable, are amortized in accordance with the Group's amortization policies.

2 Basis of Preparation and Accounting Policies (continued)

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

(II) IMPACT OF ADOPTION OF HKFRS 16

The impact of the adoption of HKFRS 16 are as follows:

Consolidated Profit and Loss Account

	Six months ended 30 June 2018		
	As previously reported US$'000	HKFRS 16 US$'000	Restated US$'000
Continuing Operations			
Operating profit	109,326	4,892	114,218
Non-cash interest expenses	329	7,174	7,503
Discontinued Operations			
Loss for the period from Discontinued Operations	(137,971)	655	(137,316)

Consolidated Balance Sheet

	As at 31 December 2018		
	As previously reported US$'000	HKFRS 16 US$'000	Restated US$'000
Assets			
Property, plant and equipment	220,264	(18,291)	201,973
Right-of-use assets	–	391,970	391,970
Other receivables, prepayments and deposits	179,549	(2,113)	177,436
Deferred tax assets	11,711	3,933	15,644
Liabilities			
Accrued charges and sundry payables	592,868	(6,971)	585,897
Other long-term liabilities	25,861	(23,156)	2,705
Deferred tax liabilities	2,098	(405)	1,693
Lease liabilities			
– Non-current portion	–	291,164	291,164
– Current portion	–	129,464	129,464
Equity			
Reserves	1,203,259	(14,597)	1,188,662

2 Basis of Preparation and Accounting Policies (continued)

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

(II) IMPACT OF ADOPTION OF HKFRS 16 (continued)

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June 2018		
	As previously reported	HKFRS 16	Restated
	US$'000	US$'000	US$'000
Continuing Operations			
Net cash (outflow)/inflow from operating activities	(21,343)	78,475	57,132
Net cash outflow from financing activities	(1,097,074)	(78,475)	(1,175,549)

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

The following new standards and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2020 or later periods, but the Group has not early adopted them:

HKAS 1 and HKAS 8 Amendment	Definition of Material[1]
HKFRS 3 Amendment	Definition of Business[1]
HKFRS 10 and HKAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 17	Insurance Contracts[2]

NOTES:

1 Effective for annual periods beginning on or after 1 January 2020
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 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 Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda and its Hong Kong office is at 11/F, LiFung 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 key production markets globally. Turnover represents revenue generated from sales and services rendered at invoiced value to customers outside the Group less discounts and returns.

In 2018, the Group divested the three Product Verticals to further simplify our business and facilitate sharper focus on the core sourcing business. The three Product Verticals are classified as Discontinued Operations and their net results for the period are excluded from the Products segments 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 condensed interim 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 2019 (Unaudited)				
Turnover	**4,701,976**	**666,226**	**(12,010)**	**5,356,192**
Total margin	**465,382**	**117,500**		**582,882**
Operating costs	**(374,600)**	**(103,307)**		**(477,907)**
Core operating profit	**90,782**	**14,193**		**104,975**
Gain on remeasurement of contingent consideration payable				**621**
One-off reorganization costs				**(7,884)**
Amortization of other intangible assets				**(14,527)**
Operating profit				**83,185**
Interest income				**3,305**
Interest expenses				
Non-cash interest expenses				**(7,391)**
Cash interest expenses				**(33,003)**
				(40,394)
Share of net losses of associated companies and joint venture				**(5)**
Profit before taxation				**46,091**
Taxation				**(8,989)**
Net profit for the period				**37,102**
Depreciation and amortization	**107,445**	**16,726**		**124,171**
30 June 2019 (Unaudited)				
Non-current assets (other than financial assets at fair value through other comprehensive income and deferred tax assets)	**2,226,686**	**708,819**		**2,935,505**

3 Segment Information (continued)

	Services US$'000 (Restated)	Products US$'000 (Restated)	Elimination US$'000	Total US$'000 (Restated)
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	(371,002)	(113,531)		(484,533)
Core operating profit	115,705	13,290		128,995
Amortization of other intangible assets				(14,777)
Operating profit				114,218
Interest income				7,571
Interest expenses				
Non-cash interest expenses				(7,503)
Cash interest expenses				(25,155)
				(32,658)
Share of net profits of associated companies and joint venture				843
Profit before taxation				89,974
Taxation				(13,150)
Profit for the period from Continuing Operations				76,824
Discontinued Operations				
Loss for the period from Discontinued Operations				(137,316)
Net loss for the period				(60,492)
Depreciation and amortization (Continuing Operations)	101,787	15,413		117,200
31 December 2018 (Audited and restated)				
Non-current assets (other than financial assets at fair value through other comprehensive income and deferred tax assets)	2,234,467	713,091		2,947,558

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	
	2019	2018
	US$'000	US$'000
Turnover		
Supply Chain Solutions	**4,143,585**	4,559,933
Logistics Services	**563,451**	542,905
Elimination	**(5,060)**	(2,324)
	4,701,976	5,100,514

	Unaudited Six months ended 30 June	
	2019	2018
	US$'000	US$'000
		(Restated)
Core operating profit		
Supply Chain Solutions	**47,804**	75,305
Logistics Services	**42,978**	40,400
	90,782	115,705

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 and deferred tax assets) is as follows:

	Turnover		Non-current assets (other than financial assets at fair value through other comprehensive income and deferred tax assets)	
	Unaudited		**Unaudited**	Audited
	Six months ended 30 June		**30 June**	31 December
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
				(Restated)
United States of America	**3,481,595**	3,860,235	**1,056,522**	1,064,356
Europe	**900,953**	938,669	**669,295**	664,664
Asia	**634,693**	659,935	**1,108,492**	1,117,447
Rest of the world	**338,951**	391,501	**101,196**	101,091
	5,356,192	5,850,340	**2,935,505**	2,947,558

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	
	2019	2018
	US$'000	US$'000
Sales of goods of Supply Chain Solutions business	**4,137,834**	4,551,077
Logistics services income	**552,451**	537,336
Sales of goods of Products Segment	**665,907**	761,927
	5,356,192	5,850,340

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

	Unaudited Six months ended 30 June	
	2019	2018
	US$'000	US$'000
Sales of soft goods	**3,574,475**	4,051,855
Sales of hard goods	**1,229,266**	1,261,149
Logistics services income	**552,451**	537,336
	5,356,192	5,850,340

For the six months ended 30 June 2019, approximately 16% of the total turnover of the Group was derived from one external customer, of which approximately 16% and less than 1% were attributable to the Services segment and Products segment respectively. For the six months ended 30 June 2018, approximately 16% and 11% of the total turnover of the Group's Continuing Operations was derived from two external customers, of which approximately 16% and 11% and less than 1% were 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	
	2019	2018
	US$'000	US$'000 (Restated)
Crediting		
Gain on remeasurement of contingent consideration payable*	**621**	–
Charging		
Staff costs including directors' emoluments	**323,027**	354,792
Amortization of system development, software and other license costs	**6,713**	4,551
Amortization of other intangible assets*	**14,527**	14,777
Amortization of prepaid premium for land leases	**1**	1
Amortization of right-of-use assets	**77,479**	75,265
Depreciation of property, plant and equipment	**25,451**	22,606
Net loss on disposal of property, plant and equipment	**926**	183
One-off reorganization costs*	**7,884**	–

* Excluded from the core operating profit

5 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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	
	2019	2018
	US$'000	US$'000 (Restated)
Current taxation		
– Hong Kong profits tax	**2,670**	2,686
– Overseas taxation	**11,289**	15,730
Deferred taxation	**(4,970)**	(5,266)
	8,989	13,150

6 Interim Dividend

	Unaudited Six months ended 30 June	
	2019 **US$'000**	2018 US$'000
Proposed, of HK$0.01 (equivalent to US$0.001) (2018: HK$0.03 (equivalent to US$0.004)) per ordinary share (Note)	**10,962**	32,745

Note:
Final dividend of US$43,848,000 for the year ended 31 December 2018 were paid in June 2019 (2018: final dividend of US$21,830,000 for the year ended 31 December 2017 and a special dividend of US$519,549,000 were paid in May 2018).

7 Earnings/(Losses) per Share

The calculation of basic earnings/(losses) per share is based on the Group's profit attributable to Shareholders of US$20,532,000 (2018 (Restated): based on the Group's profit attributable to Shareholders arising from the Continuing Operations of US$48,224,000 and the Group's losses attributable to Shareholders arising from the Discontinued Operations of US$134,318,000) and on the weighted average number of 8,391,324,000 (2018: 8,376,564,000) shares in issue during the period.

The diluted earnings per share for the six months ended 30 June 2019 was calculated by adjusting the weighted average number of 8,391,324,000 (2018: 8,376,564,000) ordinary shares in issue by 115,262,000 (2018: 93,414,000) to assume conversion of all dilutive potential ordinary shares granted under the Company's Share Option and Share Award Scheme. For the determination of dilutive potential ordinary share granted under the Company, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding Share Options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the Share Options and vesting Award Shares.

8 Capital Expenditure

	Intangible assets US$'000	Property, plant and equipment US$'000 (Restated)	Right-of-use assets US$'000 (Restated)
Six months ended 30 June 2019			
Net book amount as at 1 January 2019 (Audited)	**2,321,294**	**201,973**	**391,970**
Additions	**13,970**	**23,658**	**83,177**
Disposals	**(28)**	**(4,473)**	**(4,679)**
Amortization(Note)/depreciation charge	**(21,240)**	**(25,451)**	**(77,479)**
Exchange differences	**55**	**311**	**2,447**
Net book amount as at 30 June 2019 (Unaudited)	**2,314,051**	**196,018**	**395,436**
Six months ended 30 June 2018			
Net book amount as at 1 January 2018 (Audited)	2,347,011	187,943	421,026
Additions	9,987	30,496	98,261
Disposals	(69)	(2,343)	(2,282)
Amortization (Note)/depreciation charge	(19,328)	(22,606)	(75,265)
Exchange differences	(7,899)	(2,476)	(6,045)
Net book amount as at 30 June 2018 (Unaudited)	2,329,702	191,014	435,695

NOTE:
Amortization of intangible assets included amortization of system development, software and other license costs of US$6,713,000 (2018: US$4,551,000) and amortization of other intangible assets arising from business combinations of US$14,527,000 (2018: US$14,777,000).

9 Trade and Bills Receivable

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

	Current to 90 days US$'000	91 to 180 days US$'000	181 to 360 days US$'000	Over 360 days US$'000	Total US$'000
Balance at 30 June 2019 (Unaudited)	**746,331**	**30,106**	**15,269**	**6,838**	**798,544**
Balance at 31 December 2018 (Audited)	905,138	97,862	18,625	18,611	1,040,236

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 2019.

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.

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 2019 (Unaudited)	**1,430,555**	**65,969**	**3,734**	**13,195**	**1,513,453**
Balance at 31 December 2018 (Audited)	1,592,934	109,264	18,072	16,547	1,736,817

The fair values of the Group's trade and bills payable were approximately the same as their carrying values as at 30 June 2019.

11 Long-term Liabilities

	Unaudited 30 June 2019 US$'000	Audited 31 December 2018 US$'000 (Restated)
Long-term bank loan — unsecured	**300,000**	1,034
Long-term notes — unsecured	**750,891**	751,405
Purchase consideration payable for acquisitions	**8,325**	8,960
Lease liabilities	**426,343**	420,628
Other long-term liabilities	**2,096**	2,705
	1,487,655	1,184,732
Current portion of purchase consideration payable for acquisitions	**(3,646)**	(819)
Current portion of lease liabilities	**(131,645)**	(129,464)
Current portion of long-term notes	**(750,891)**	–
	601,473	1,054,449

Balance of purchase consideration payable for acquisitions as at 30 June 2019 included performance-based earn-out and earn-up contingent considerations of US$6,120,000 and US$2,205,000 respectively (31 December 2018: US$6,758,000 and US$2,202,000 respectively). 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 loss or gain on remeasurement of contingent consideration payables recognized to the profit and loss account would be US$833,000.

12 Share Capital, Share Options and Award Shares

	Number of shares (in thousand)	HK$'000	Equivalent to US$'000
Authorized			
At 1 January 2019, ordinary shares of HK$0.0125 each	**12,000,000**	**150,000**	**19,231**
At 30 June 2019, ordinary shares of HK$0.0125 each	**12,000,000**	**150,000**	**19,231**
Issued and fully paid			
At 1 January 2019, ordinary shares of HK$0.0125 each	**8,506,586**	**106,332**	**13,633**
At 30 June 2019, ordinary shares of HK$0.0125 each	**8,506,586**	**106,332**	**13,633**

Details of Share Options granted by the Company pursuant to the 2003 Option Scheme and 2014 Option Scheme and outstanding at 30 June 2019 are as follows:

			Number of Share Options			
Grant Date	Exercise Price HK$	Exercisable period	As at 1/1/2019	Granted	Lapsed	As at 30/06/2019
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	1/1/2017 – 31/12/2018	27,093,000	–	(27,093,000)	**–**
21/5/2015	7.49	1/1/2018 – 31/12/2019	27,244,000	–	(604,000)	**26,640,000**
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	65,955,000	–	(29,982,000)	**35,973,000**

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 2019, no Shares have been allotted and issued under the 2003 Option Scheme and 2014 Option Scheme.

The Share Options outstanding at 30 June 2019 had a weighted average remaining contractual life of 0.91 years (31 December 2018: 0.79 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 2019 are as follows:

			Number of Award Shares				
Grant Date	**Fair Value per Share HK$**	**Vesting Date**	**As at 1/1/2019**	**Granted**	**Vested**	**Unvested/ Forfeited**	**As at 30/06/2019**
21/5/2015	7.49	31/12/2019	5,052,200	–	–	(296,500)	**4,755,700**
16/11/2015	5.33	31/12/2019	165,200	–	–	(3,300)	**161,900**
19/5/2016	4.27	31/12/2019	273,700	–	–	(7,800)	**265,900**
14/11/2016	3.53	31/12/2019	53,700	–	–	(2,300)	**51,400**
13/7/2017	2.83	31/12/2019	19,261,800	–	–	(846,000)	**18,415,800**
13/7/2017	2.83	31/12/2020	19,251,000	–	–	(846,000)	**18,405,800**
23/3/2018	3.87	31/12/2019	2,506,000	–	–	(9,000)	**2,497,000**
23/3/2018	3.87	31/12/2020	2,506,000	–	–	(9,000)	**2,497,000**
23/8/2018	2.51	31/12/2019	20,581,600	–	–	(948,800)	**19,632,800**
23/8/2018	2.51	31/12/2020	20,501,500	–	–	(942,600)	**19,558,900**
23/8/2018	2.51	31/12/2021	20,490,300	–	–	(942,600)	**19,547,700**
		Total	110,643,000	–	–	(4,853,900)	**105,789,100**

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

No Award Shares were awarded by the Company to eligible persons pursuant to the Share Award Scheme during the period.

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 2019 and 31 December 2018 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 2019, as previously reported	(15,749)	31,175	190,451	64,121	3,463	4,631	(16,727)	(207,821)	53,544
Impact of adoption of HKFRS 16	–	–	–	–	–	–	–	(198)	(198)
Balance at 1 January 2019, as restated	(15,749)	31,175	190,451	64,121	3,463	4,631	(16,727)	(208,019)	53,346
Other comprehensive (expense)/income									
Currency translation differences	–	–	–	–	–	–	–	(8,008)	(8,008)
Net fair value gains on financial assets at FVOCI, net of tax	–	–	–	–	93	–	–	–	93
Net fair value losses on cash flow hedges, net of tax	–	–	–	–	–	(169)	–	–	(169)
Transactions with owners in their capacity as owners									
Employee Share Option and Share Award Scheme:									
– value of employee services	–	–	–	6,608	–	–	–	–	6,608
Transfer to capital reserve	–	663	–	–	–	–	–	–	663
Balance at 30 June 2019	(15,749)	31,838	190,451	70,729	3,556	4,462	(16,727)	(216,027)	52,533

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 2018, as previously reported	(10,996)	7,646	710,000	66,043	3,329	226	(14,114)	(252,557)	509,577
Impact of adoption of HKFRS 16	–	–	–	–	–	–	–	(994)	(994)
Balance at 1 January 2018, as restated	(10,996)	7,646	710,000	66,043	3,329	226	(14,114)	(253,551)	508,583
Other comprehensive (expense)/income									
Currency translation differences	–	–	–	–	–	–	–	(1,768)	(1,768)
Realization 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 dividend paid	–	–	(519,549)	–	–	–	–	–	(519,549)
Balance at 30 June 2018	(13,923)	7,646	190,451	72,051	3,579	4,633	(14,114)	(192,634)	57,689

NOTES:

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

(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 condensed 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:

	For the six months ended 30 June 2018 US$'000 (Restated)
Turnover	382,235
Cost of sales	(298,146)
Gross Profit	84,089
Selling and distribution expenses	(27,294)
Merchandising and administrative expenses	(76,565)
Core operating loss	(19,770)
Amortization of other intangible assets	(3,682)
Operating loss	(23,452)
Interest income	157
Interest expenses	(1,068)
Loss before taxation	(24,363)
Taxation	825
Loss after taxation	(23,538)
Loss on disposal of business and others (Note 15(e))	(113,778)
Loss for the period from Discontinued Operations	(137,316)
Attributable to:	
Shareholders of the three Product Verticals	(134,318)
Non-controlling interest	(2,998)
	(137,316)

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

	For the six months ended 30 June 2018 US$'000 (Restated)
Loss for the period	(137,316)
Other comprehensive income:	
Items that may be reclassified subsequently to profit or loss	
Currency translation differences	15,409
Total items that may be reclassified subsequently to profit or loss	15,409
Total other comprehensive income for the period, net of tax	15,409
Total comprehensive expense for the period	(121,907)
Attributable to:	
Shareholders of the three Product Verticals	(118,909)
Non-controlling interest	(2,998)
	(121,907)

(b) Geographical analysis of turnover of the Discontinued Operations

For the period ended 30 June 2018, the turnover consists of sales to United States of America of US$186,326,000, Europe of US$105,993,000, Asia of US$65,608,000 and Rest of the world of US$24,308,000.

15 Discontinued Operations (continued)

(c) Operating profit of the Discontinued Operations

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

	For the six months ended 30 June 2018 US$'000 (Restated)
Charging:	
Cost of inventories sold	298,146
Amortization of system development, software and other license costs	515
Amortization of other intangible assets (excluded from the core operating profit)	3,682
Amortization of right-of-use assets	2,366
Depreciation of property, plant and equipment	3,251
Staff costs including directors' emoluments	36,906

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

	US$'000 (Restated)
Intangible assets	1,632,176
Property, plant and equipment	40,394
Right-of-use assets	12,455
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)
Lease liabilities	(13,110)
Other current liabilities	(16,112)
Other non-current liabilities	(92,410)
	1,765,714
Remeasurement loss recognized in previous year	(592,363)
	1,173,351
Less: Non-controlling interest	(6,226)
Net assets disposed	1,167,125

15 Discontinued Operations (continued)

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

	US$'000 (Restated)
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	(1,167,125)
Exchange reserve and others	(80,406)
Loss on disposal of business and others	(113,778)

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

	For the six months ended 30 June 2018 US$'000 (Restated)
Net cash outflow from operating activities	(62,229)
Net cash outflow from investing activities	(3,981)
Net cash outflow from financing activities*	(5,768)
Total cash flow	(71,978)

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

(g) Related Party Transactions

	For the six months ended 30 June 2018 US$'000
Distribution and sales of goods	16

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

	Unaudited 30 June 2019 US$'000	Audited 31 December 2018 US$'000
Guarantees in respect of banking facilities granted to: Associated company	–	750

17 Capital Commitments

	Unaudited 30 June 2019 US$'000	Audited 31 December 2018 US$'000
Contracted but not provided for:		
Property, plant and equipment	6,433	14,248
System development, software and other license costs	1,354	2,756
	7,787	17,004

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 2019 and 2018:

		Unaudited Six months ended 30 June	
	Note	2019 US$'000	2018 US$'000 (Restated)
Distribution and sales of goods	(i)	6,897	9,231
Operating leases rental and license fee received	(ii)	2,218	2,226
Sourcing and supply chain management services income	(iii)	471,515	636,331
Logistics related services income	(iv)	4,422	9,286
Sourcing and supply chain management services income	(v)	–	13,692
Service fee income	(vi)	12,304	6,295
Rental income	(vii)	1,645	880
Ancillary sourcing and logistics income	(viii)	1,376	1,481
Underlying FOB value of ordered products	(viii)	15,084	4,460
Office administrative expenses reimbursement	(ix)	–	14,253
Office administrative expenses paid	(x)	27,500	–

18 Related Party Transactions from Continuing Operations (continued)

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 2019, aggregate operating lease rental and license fee received approximated to US$2,218,000 (2018:US$2,226,000).

(iii) Pursuant to the buying agency agreement entered into with Global Brands Group on 14 November 2016, the Group provided sourcing and supply chain management services to Global Brands Group and its associates for a term of three years, commencing on 9 July 2017 and ending on 31 March 2020. For the six months ended 30 June 2019, the Group provided sourcing and supply chain management services to Global Brands Group with an aggregate income, consisting of commission and FOB of all products and components sourced, of approximately US$471,515,000 (2018: US$636,331,000).

(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 2019, the aggregate service income, excluding the passed-through costs for direct freight forwarding, approximated to US$4,422,000 (2018: US$9,286,000).

(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. Trinity ceased to be a related party to the Group from 18 April 2018 and the commission received for sourcing and supply chain management services provided to Trinity for the period from 1 January 2018 to 17 April 2018 was US$1,522,000 and the underlying FOB value of the ordered products was US$12,170,000.

(vi) Pursuant to services agreement entered into with LH Pegasus Holding Limited ("LH Pegasus"), an indirect subsidiary of FH (1937) 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 2019, aggregate services fee received was US$12,304,000 (2018: US$6,295,000).

(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 2019, aggregate rental and license fee received approximated to US$1,645,000 (2018: US$880,000).

(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 2019, aggregate amount of the Group's ancillary sourcing income, logistics service income excluding the pass-through costs for direct freight forwarding and trading services expenses including the underlying FOB value of the ordered products was approximated to US$16,460,000 (2018: US$5,941,000).

(ix) For the period from 1 January 2018 to 31 October 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 an actual recovery basis, amounting to US$14,253,000 for the six-months ended 30 June 2018.

(x) Pursuant to a services agreement entered into with Fung Corporate Services Group Limited ("FCSG") in November 2018 ("Service Agreement"), certain employees of the Group who provide centralized office support functions were transferred to FCSG to consolidate centralized offices support functions among different Fung Group companies. Based on the specific services provided under the Services Agreement, FSCG charged the Group on an actual costs recovery basis, amounting to US$27,500,000 for the six months ended 30 June 2019 (2018: Nil).

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 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 2019 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 2019, fair value of foreign exchange forward contracts entered into by the Group amounted to US$789,000 (31 December 2018: US$3,985,000), 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 used 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 2019.

	Level 1	**Level 2**	**Level 3**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Asset				
Financial assets at FVOCI				
— Club debentures	**–**	**–**	**4,694**	**4,694**
Derivative financial instrument used for hedging	**–**	**789**	**–**	**789**
Total assets	**–**	**789**	**4,694**	**5,483**
Liabilities				
Purchase consideration payable for acquisitions	**–**	**–**	**8,325**	**8,325**
Total liabilities	**–**	**–**	**8,325**	**8,325**

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2018.

	Level 1	Level 2	Level 3	Total
	US$'000	US$'000	US$'000	US$'000
Assets				
Financial assets at FVOCI				
– Club debentures	–	–	4,601	4,601
Derivative financial instrument used for hedging	–	3,985	–	3,985
Total assets	–	3,985	4,601	8,586
Liabilities				
Purchase consideration payable for acquisitions	–	–	8,960	8,960
Total liabilities	–	–	8,960	8,960

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 2019 and 2018.

	2019		2018	
	Purchase Consideration Payable for Acquisitions	**Others**	Purchase Consideration Payable for Acquisitions	Others
	US$'000	**US$'000**	US$'000	US$'000
Opening balance as at 1 January (Audited)	**8,960**	**4,601**	61,583	4,338
Fair value gains	**–**	**93**	–	250
Settlement	**–**	**–**	(6,025)	–
Remeasurement of purchase consideration payable for acquisitions	**(621)**	**–**	–	–
Others	**(14)**	**–**	(396)	–
Closing balance as at 30 June (Unaudited)	**8,325**	**4,694**	55,162	4,588

21 Subsequent Event

On 28 June 2019, the Group entered into a subscription agreement with an indirect wholly-owned subsidiary of Temasek, pursuant to which Temasek has agreed to acquire approximately 21.7% interest of LF Logistics, a wholly-owned subsidiary of the Company at the balance sheet date, for a cash consideration of US$300 million through subscription of new shares issued by LF Logistics. This transaction was completed on 8 August 2019.

22 Approval of Interim Financial Information

The interim financial information was approved by the Board of Directors on 22 August 2019.

Glossary

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

2003 Option Scheme	the share option scheme of the Company adopted by the Shareholders at the annual general meeting of the Company held on 12 May 2003, which expired on 11 May 2013
2014 Option Scheme	the share option scheme of the Company adopted by the Shareholders at the annual general meeting of the Company held on 15 May 2014
associate(s), chief executive(s), connected person(s), substantial shareholder(s)	each has the meaning as described in the Listing Rules
Award Shares	the Shares granted under the Share Award Scheme to an eligible person(s) approved for participation in the Share Award Scheme
Board	the board of Directors of the Company
Company, Li & Fung	Li & Fung Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
Continuing Operations	Service segment and Onshore Wholesale business
Director(s)	a director(s) of the Company
Discontinued Operations	the three Product Verticals divested in April 2018
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 PRC
HSBC Trustee	HSBC Trustee (C.I.) Limited, acting in its capacity as the trustee of a trust established for the benefit of the family members of Victor Fung Kwok King
King Lun	King Lun Holdings Limited, a company incorporated in the British Virgin Islands owned 50% by HSBC Trustee and 50% by William Fung Kwok Lun
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules
PRC	the People's Republic of China
Product Verticals	the furniture, beauty and sweaters product verticals the Group divested in April 2018
Report	the interim report of the Company for the half year ended 30 June 2019
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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