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LI & FUNG LIMITED

Incorporated in Bermuda with limited liability
Stock Code: 494

Announcement of Results for the Half Year Ended 30 June 2017

- Li & Fung's new supply chain model gains traction
- Customers embrace new supply chain solutions
- Core operating profit increases by 12% in 1H 2017 like-for-like
- Logistics continues double-digit growth driven by e-logistics, geographic expansion and new verticals
- Strong balance sheet supports future growth, including US\$150 million for digitalization over the next three years

HIGHLIGHTS (US\$ million)	Like-for-like <i>Excluding the Asia consumer and healthcare distribution business¹</i>			Reported		
	1H17	1H16 (Restated) ²	Change	1H17	1H16 (Restated) ²	Change
Turnover	7,264	7,418	(2.1%)	7,264	7,984	(9.0%)
Total Margin	835	848	(1.6%)	835	935	(10.7%)
As % of Turnover	11.5%	11.4%		11.5%	11.7%	
Core Operating Profit	170	152	+11.9%	170	156	+8.7%
As % of Turnover	2.3%	2.0%		2.3%	2.0%	
Write-back of Acquisition Payable	30	-		30	-	
Profit Attributable to Shareholders	101	67	+51.3%	101	72	+39.6%
Earnings per Share – Basic (HK cents)	9.4	6.2		9.4	6.7	
(equivalent to) (US cents)	1.21	0.80		1.21	0.87	
Adjusted Profit Attributable to Shareholders ³	91	86	+6.1%	91	92	(0.7%)
Adjusted Earnings Per Share – Basic ³ (HK cents)	8.5	8.0		8.5	8.5	
(equivalent to) (US cents)	1.09	1.03		1.09	1.10	
Dividend per Share (HK cents)				11	11	

1. Excluding the Asia consumer and healthcare distribution business, which was strategically divested in June 2016

2. 2016 comparatives restated with adoption of New Accounting Standard HKFRS 15 (Note 1 of the condensed interim financial information)

3. Excluding non-cash M&A items (write-back of acquisition payable, amortization of other intangible assets and non-cash interest expenses)

MANAGEMENT DISCUSSION AND ANALYSIS

Results Overview

First-half 2017 Performance

The first half of 2017 was the first execution period of our new Three-Year Plan (2017-2019). At the core of this plan is our goal to build the supply chain of the future, and we are pleased with the progress we have made. As the retail industry continues to transform at unprecedented speed, our customers require shorter lead time, smaller order quantities and greater flexibility in procuring their products. We are embracing these changes with a better speed-to-market business model, innovative products and digitalized services that help our customers stay competitive and successfully navigate the digital economy.

Group Business Structure



Our newly organized Services segment, comprising the Supply Chain Solutions and Logistics businesses, offers customers end-to-end supply chain services. During the first half of 2017, the segment generated encouraging results. While our turnover faces pressure from the ongoing destocking trend and promotional activities among our brand and retail customers, we have seen early signs of stabilization due to our enhanced service offerings. Our new supply chain model has gained traction with customers who are embracing our transformational supply chain solutions featuring speed, innovation, and digitalization. Our Logistics business continued to maintain strong momentum in organic growth, largely driven by e-logistics services and deeper penetration of our core customers.

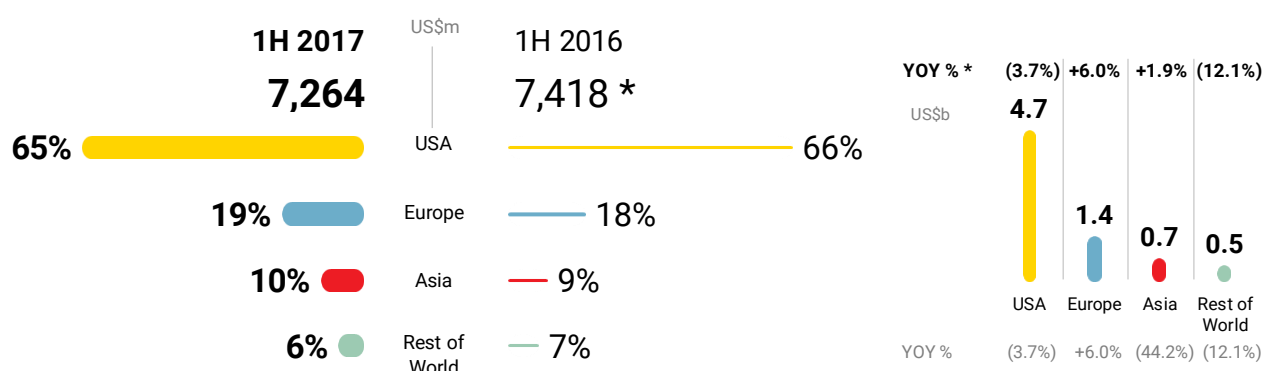
Each of our product verticals, grouped under our new Products segment, was operated by a distinct management team with greater autonomy to facilitate quicker decisions. Despite customers' more conservative buying programs in this uncertain retail environment, we continued to expand our product portfolios with innovative products to capture higher market share and enhance margins. In particular, our furniture vertical enjoyed continued solid margin improvement during the first half of 2017. Our sweater vertical also

announced a joint venture with South Ocean Knitters Holdings Limited, combining the resources of both entities to become one of the largest, and most innovative knitwear suppliers globally.

Operating with higher productivity, better efficiency and strategic cost control, we managed to grow our profit margin percentage and profitability in a tough operating environment. We will continue to drive productivity with process improvements under a digitalized sourcing platform. In addition to our operational efforts, we also made good progress on our new strategic initiatives. Our global business development team has been formed to accelerate the pace of new customer wins, our data analytics team is generating valuable strategic insights from our proprietary data, and our corporate development team is leveraging our convening power to bring together diverse players from across the supply chain to create an ecosystem that benefits all stakeholders. Meanwhile, our strong balance sheet including the US\$1.0 billion raised in 2016 via the strategic divestment of our Asia consumer healthcare and distribution business as well as the issuance of fixed-for-life perpetual bonds has provided us with maximum flexibility in our capital structure to fund future growth, including the US\$150 million for digitalization over the next three years.

Effective execution is our principal focus. Between now and the end of our Three-Year Plan we will diligently execute our priorities under core themes of speed, innovation and digitalization to create the supply chain of the future.

Group Geographical Market Turnover



* Excluding the Asia consumer and healthcare distribution business, which was strategically divested in June 2016

Results

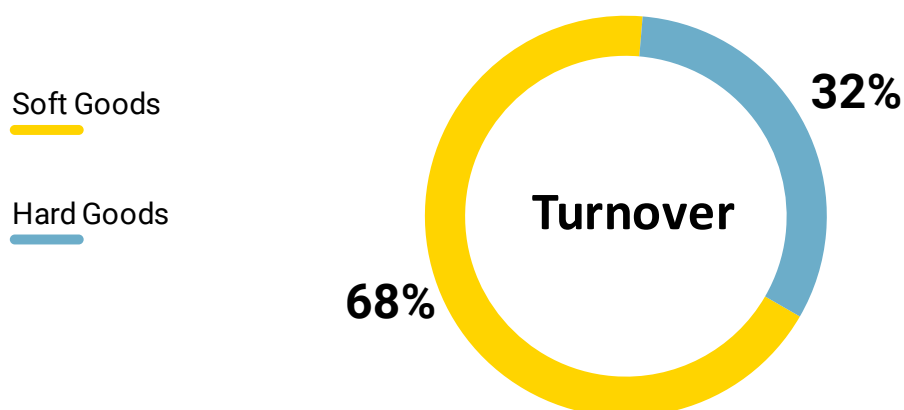
	Like-for-like <i>Excluding the Asia consumer and healthcare distribution business¹</i>			Reported		
	1H17 US\$m	1H16 US\$m (Restated) ²	Change %	1H17 US\$m	1H16 US\$m (Restated) ²	Change %
Turnover	7,264	7,418	(2.1%)	7,264	7,984	(9.0%)
Total Margin	835	848	(1.6%)	835	935	(10.7%)
As % of Turnover	11.5%	11.4%		11.5%	11.7%	
Operating Costs	665	696	(4.5%)	665	779	(14.7%)
As % of Turnover	9.2%	9.4%		9.2%	9.8%	
Core Operating Profit	170	152	+11.9%	170	156	+8.7%
As % of Turnover	2.3%	2.0%		2.3%	2.0%	
Profit Attributable to Shareholders	101	67	+51.3%	101	72	+39.6%
Adjusted Profit Attributable to Shareholders ³	91	86	+6.1%	91	92	(0.7%)

1. Excluding the Asia consumer and healthcare distribution business, which was strategically divested in June 2016

2. 2016 comparatives restated with adoption of New Accounting Standard HKFRS 15 (Note 1 of the condensed interim financial information)

3. Excluding non-cash M&A items (write-back of acquisition payable, amortization of other intangible assets and non-cash interest expenses)

Group Product Mix (Excluding Logistics)



TURNOVER

On a like-for-like basis, excluding the impact of the strategic divestment of the Asia consumer and healthcare distribution business, turnover in the first half of 2017 decreased by 2.1% to US\$7.3 billion. On a reported basis, turnover decreased by 9.0%, due primarily to the strategic divestment of the Asia consumer and healthcare distribution business. Subdued retail sentiment resulting from economic and geopolitical uncertainties continued to weigh on our brand and retail customers, who continued to tighten their inventory control through more conservative buying patterns.

Turnover for the Services segment remained flat, as turnover for the Supply Chain Solutions business largely stabilized with a slight decrease of 1.7%, while turnover for the Logistics business increased by 15.2%. Turnover for the Products segment decreased by 8.1%. The Products segment, which saw 46% of turnover come from Europe, was mainly affected by weak consumer sentiment in the region, which faced heightened geopolitical and economic uncertainties. Deflationary pressure has eased for both soft goods and hard goods as most of the input prices have generally begun to stabilize.

The US remained the largest contributor to the business, accounting for 65% of total turnover. Europe and Asia accounted for 19% and 10%, respectively. Turnover from the US decreased by 3.7% mainly due to customers destocking and adopting more conservative buying programs. Turnover from Europe increased 6.0% mainly due to new customer wins by the Supply Chain Solutions business in the region. The contribution from Asia decreased on a reported basis, largely due to the divestment of the Asia consumer and healthcare distribution business in June 2016. On a like-for-like basis, our turnover in Asia generated a slight increase of 1.9%. The weakness of Asian and European currencies - particularly the British pound - against the US dollar contributed to lower translated turnover.

TOTAL MARGIN

On a like-for-like basis, excluding the impact of the strategic divestment of the Asia consumer and healthcare distribution business, total margin decreased by 1.6% to US\$835 million. On a reported basis, total margin decreased by 10.7% without the contribution from the divested Asia consumer and healthcare distribution in the first half of 2017. Total margin percentage increased by 0.1 percentage point on a like-for-like basis to 11.5%, due to margin increases in both the Services and Products segments. The margin expansion in the Services segment was supported by a stable margin in the Supply Chain Solutions business and the expansion of our higher-margin Logistics business. The Products segment achieved margin improvement due to increased offerings of value-added services as well as product innovation.

OPERATING COSTS

Operating costs decreased by 14.7% to US\$665 million. On a like-for-like basis, operating costs decreased by 4.5%. The decrease largely resulted from our sustained efforts to enhance operating efficiency and productivity with the use of technology and process improvement. On a like-for-like basis, operating costs in the Services and Products segments decreased by 5.2% and 3.6% respectively, with those of the Supply Chain Solutions business under the Services segment decreasing the most, by 12.3%.

CORE OPERATING PROFIT

On a like-for-like basis, excluding the impact of the strategic divestment of the Asia consumer and healthcare distribution business, core operating profit increased by 11.9% to US\$170 million. On a reported basis, core operating profit increased by 8.7%. Core operating profit increased largely due to higher total margin percentage and lower operating costs. Both the Services and Products segments achieved higher total margin percentage and reduction in operating costs through productivity gains and strategic cost control.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

On a like-for-like basis, excluding the impact of the strategic divestment of the Asia consumer and healthcare distribution business, profit attributable to shareholders increased by 51.3% to US\$101 million. This was mainly due to the increase in core operating profit and a US\$30 million increase in the write-back of consideration payable that was partially offset by a US\$17 million increase in distribution to perpetual securities holders. On a like-for-like basis – excluding the impact of the strategic divestment of the Asia consumer and healthcare distribution business, write-back of consideration payable, as well as other non-cash merger and acquisition items – adjusted profit attributable to shareholders increased by 6.1% to US\$91 million.

Segment Analysis

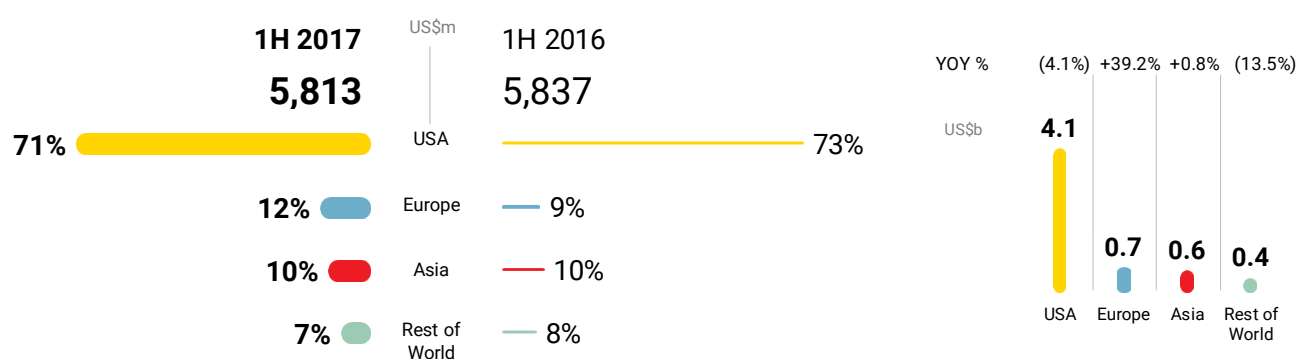
Services

Under our new structure, the Services segment includes our Supply Chain Solutions business and Logistics business. It represented 80% of total turnover in first half of 2017. We provide end-to-end supply chain solutions, from product design, raw materials procurement, production and quality control, to warehouse management and last-mile delivery to retail stores or end-consumers. Cross-selling between the Supply Chain Solutions and the Logistics businesses has brought more revenue opportunities and further solidified our relationships with customers. During the first half of 2017, the Services segment delivered a 29.7% increase in core operating profit that was largely due to a 2.0% increase in total margin which resulted from continued business wins in the Logistics business as well as a strategic cost reduction of 5.2%. Within the segment, the Supply Chain Solutions business and the Logistics business respectively contributed 92% and 8% of turnover and 76% and 24% of core operating profit. Both businesses delivered higher core operating profit during the first half of 2017 than in the corresponding period in 2016.

Services Segment Results

	1H17 US\$m	1H16 US\$m	Change %
Turnover	5,813	5,837	(0.4%)
Total Margin	517	507	+2.0%
As % of Turnover	8.9%	8.7%	
Operating Costs	380	402	(5.2%)
As % of Turnover	6.5%	6.9%	
Core Operating Profit	137	106	+29.7%
As % of Turnover	2.4%	1.8%	

Services Segment Geographical Market Turnover



Services – Supply Chain Solutions

Our Supply Chain Solutions business, which accounted for 73% of total Group turnover, is the largest revenue generator for the Group. It offers end-to-end supply chain services, from product design and development to raw material and factory sourcing as well as manufacturing control. These services are all under the Li & Fung platform through which customers and vendors can access our suite of value-added services. 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 also converted our vendor base of more than 15,000 to a new customer base for services that can improve their operational efficiencies and compliance levels.

In the first half of 2017, the Supply Chain Solutions business saw a stabilization of turnover as pressure on input price eased while unit volume declined slightly. Soft goods remained the largest contributor, accounting for 75% of turnover for the Supply Chain Solutions business. Deflationary pressure on soft goods input prices has diminished, leading to the stabilization of unit cost. We maintained our wallet share among core customers and continued to expand our customer base. New customer growth was particularly strong in Europe, as evidenced by the 38.5% increase in Europe turnover despite weak consumer sentiment in the region. The strength of Europe largely offset pressure from retail store closures in the US. Overall, profitability improved through effective cost control and a continued focused on enhanced productivity.

Supply Chain Solutions Business

Results

	1H17 US\$m	1H16 US\$m	Change %
Turnover	5,326	5,416	(1.7%)
Total Margin	351	360	(2.4%)
<i>As % of Turnover</i>	6.6%	6.6%	
Operating Costs	247	281	(12.3%)
<i>As % of Turnover</i>	4.6%	5.2%	
Core Operating Profit	104	78	+33.1%
<i>As % of Turnover</i>	2.0%	1.4%	

TURNOVER

Turnover decreased by 1.7% to US\$5.3 billion. Faced with a weak consumer market and a volatile retail environment, customers of the Supply Chain Solutions business remained conservative in their buying programs. In the US, the situation was exacerbated by a high number of store closures which led to even more cautious buying patterns. As a result, unit volume in the US decreased by a single-digit percentage.

In Europe, we achieved a 38.5% increase in turnover despite the tough macro environment through higher customer conversion from a strong pipeline. Europe accounted for 14% of the Supply Chain Solutions business' turnover in the first half of 2017 compared with 10% in the same period last year. We continued to experience mild deflationary pressure on soft goods, but input prices have largely stabilized.

Although the high rate of destocking has moderated, the trend toward tighter inventory control intensified as brands and retailers showed caution in the face of ever-changing consumer buying patterns. Our customers have been placing smaller orders, replenishing more often but with very short lead times. As the leader in global supply chain management with decades of experience through many business cycles, we are well equipped to meet customers' evolving requirements.

TOTAL MARGIN

Total margin decreased by 2.4% to US\$351 million due to reduced turnover, while total margin percentage remained stable at 6.6%.

OPERATING COSTS

Operating costs decreased by 12.3% to US\$247 million. Cost savings largely resulted from productivity enhancement initiatives such as greater use of technology, process reengineering and digitalization. In addition, effective credit risk management led to reduced provision in accounts receivable during the first half of 2017.

CORE OPERATING PROFIT

Core operating profit increased by 33.1% to US\$104 million while core operating profit margin increased by 0.6 percentage point to 2.0% due to productivity gains and strategic cost control.

Services – Logistics

The Logistics business is composed of Asia-focused in-country logistics and global freight management. In-country logistics includes warehousing and transportation services, e-logistics, regional and global hub management, reverse logistics and other value-added services. In e-logistics, our proven ability to execute omni-channel strategy for our customers is a key competitive advantage. Global freight management offers cargo consolidation and deconsolidation, freight forwarding and customs clearance. With more than 600,000 TEUs of shipping volume, we are one of the leading freight forwarders in China. Through operational excellence, best-in-class IT systems and data analytics, we leverage our experience, expertise and supply chain insights to provide maximum value to our customers, making us the preferred partner of choice. The consistent delivery of exemplary performance has earned us numerous industry accolades, including Best End-to-End SCM Company – Hong Kong in Industry Insight Monthly's 2017 Transport and Logistics Awards, and Best Supply Chain Provider in the Asian Manufacturing Awards 2017. Recognitions such as these speak volumes about the contribution and dedication of our more than 7,000 colleagues, who always go the extra mile to get things done and make things happen for our customers.

Our Logistics business focuses on four core industry verticals: footwear & apparel, fast-moving consumer goods, food & beverage and healthcare. Despite market challenges, our businesses along these verticals have experienced healthy growth rates over the last few years owing to geographical expansion and sustained penetration in existing markets. Our ability to seamlessly service both online and offline orders is a critical success factor. Going forward, we will further expand our leadership position in e-logistics as well as aggressively grow our transportation business across all markets.

In April 2016, we opened our one-million-square-foot, state-of-the-art distribution hub in Singapore. The hub is now the largest bonded warehouse in Asia. We operate 212 distribution centers around the world and have 21.5 million square feet of warehouse space. The recent additions of Korea, Japan, Vietnam and India have increased our network reach to 17 markets.

Riding on Asia's strong consumption theme, our Logistics business is poised for strong profitable growth for years to come.

Logistics Business Results

	1H17 US\$m	1H16 US\$m	Change %
Turnover	490	425	+15.2%
Total Margin	166	148	+12.8%
<i>As % of Turnover</i>	34.0%	34.7%	
Operating Costs	134	120	+11.2%
<i>As % of Turnover</i>	27.3%	28.3%	
Core Operating Profit	33	27	+19.7%
<i>As % of Turnover</i>	6.7%	6.4%	

TURNOVER

Turnover increased by 15.2% to US\$490 million. Our in-country logistics business continued its strong organic growth momentum, driven by new customer wins and new services to existing customers. Turnover from e-logistics continued to experience solid growth due to our leadership position in this fast-growing segment in Asia. The global freight management business expanded due to freight rate recovery and increased value-added services.

CORE OPERATING PROFIT

Core operating profit increased by 19.7% to US\$33 million, while core operating profit margin increased by 0.3 percentage point to 6.7%. We expanded our core operating profit margin through productivity improvement, continued focus on customer portfolio optimization, higher penetration of value-added services and efficient procurement.

Products

Our Products segment, which was previously our principal-to-principal business under our Trading Network, became an independent business segment under our new structure. The Products segment mainly consists of sweaters, furniture, and beauty verticals as well as onshore wholesale businesses, each with a distinct management team. The setup gives our business units higher autonomy and flexibility in pursuing their product strategies. We are also incubating additional product verticals as future growth drivers.

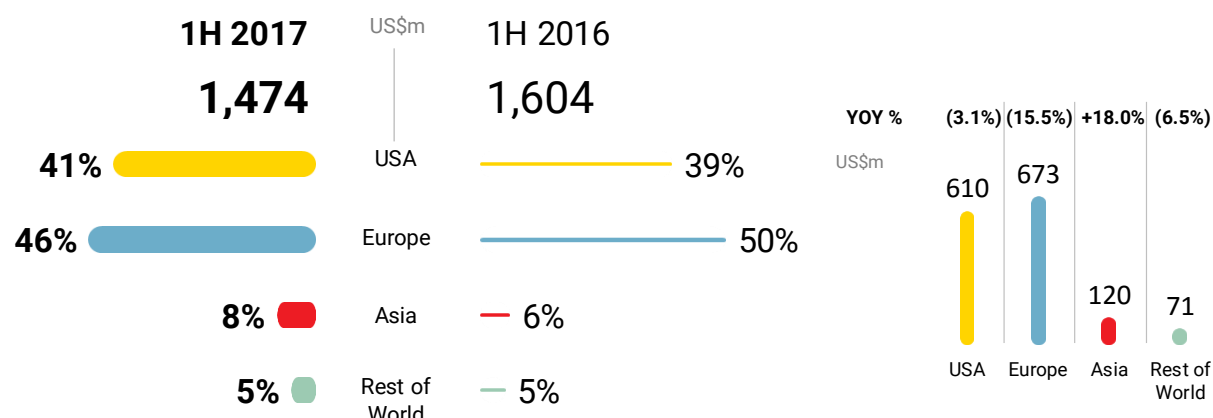
Our product verticals in this segment are primarily principal trading-based, in which we act as an onshore importer for our customers. As a principal trader, we sell to our customers' in-house buying offices and are responsible for services ranging from product design and development to production, quality control and local logistics. Although the terms of each order are agreed on a per-program basis, our relationships with customers are typically very long-term and strategic in nature.

Our European business, which accounted for 46% of turnover, was adversely affected by weak consumer sentiment resulting from geopolitical uncertainties and a series of terrorist attacks in the region, leading to more conservative buying programs from existing customers. The weakness of the British pound and Euro against the US dollar in the first half of the year also had a negative currency translation impact on reported turnover for this period. However, there are signs that this situation will be more favorable in the second half.

Products Segment Results

	1H17 US\$m	1H16 US\$m	Change %
Turnover	1,474	1,604	(8.1%)
Total Margin	318	341	(7.0%)
<i>As % of Turnover</i>	21.5%	21.3%	
Operating Costs	284	295	(3.6%)
<i>As % of Turnover</i>	19.3%	18.4%	
Core Operating Profit	33	46	(28.6%)
<i>As % of Turnover</i>	2.2%	2.9%	

Products Segment Geographical Market Turnover



TURNOVER

Turnover decreased by 8.1% year on year to US\$1.5 billion, which was largely due to anemic consumer sentiment and an unstable economic environment, particularly in Europe. The weakness of the British pound and Euro against the US dollar also had a negative currency translation impact on our turnover. Despite the tough operating environment, turnover for the furniture and beauty verticals was stable. Furniture continued to demonstrate strong growth momentum as we introduced more differentiated products to diversified retail channels.

TOTAL MARGIN

Total margin decreased by 7.0% to US\$318 million. A highly promotional retail environment continued to affect our customers' profitability, which in turn led to pressure on our product margin. In response, we continued to offer our customers differentiated products that they can sell at higher margins. Through product and design innovation, we increased total margin percentage by 0.2 percentage point to 21.5% despite the challenging environment. The furniture vertical achieved particularly solid margin expansion.

OPERATING COSTS

Operating costs decreased by 3.6% to US\$284 million. The rate of decrease was not proportional to total margin because of our continued investment in selected product verticals, where we are building out our expertise and scale.

CORE OPERATING PROFIT

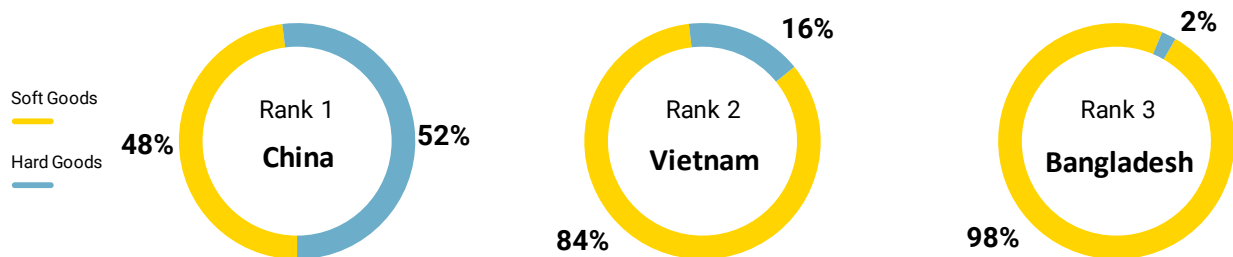
Core operating profit decreased by 28.6% to US\$33 million. Core operating profit margin decreased by 0.7 percentage point to 2.2%, which was largely the result of the decrease in turnover, pressure on total margin and an incommensurate reduction in operating costs.

Top Sourcing Countries

Our global network of more than 15,000 vendors, spanning more than 40 economies, allows for flexibility when moving orders from one production country to another to manage production constraints and changes in customer requirements. In the first half of 2017, our top three sourcing countries continued to be China, Vietnam and Bangladesh.

While China accounted for more than 50% of our sourcing unit volume, we have sizable sourcing operations in Vietnam, Bangladesh, Indonesia, India, Cambodia and other countries. In most of our sourcing countries, we are among the largest exporters in our product categories. This comprehensive global network, combined with strong local presence, long operating history and critical mass, is one of our unique competitive strengths.

As the sourcing landscape continues to evolve with changes in trading 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.



Balance Sheet and Capital Structure

Strong Cash Position

Li & Fung has a strong and stable cash flow conversion business that, together with cash on hand carried forward from the previous year, more than adequately funded our working capital, interest expenses, capital expenditure, distribution, dividends and redemption of bonds in the first half of 2017. To summarize key cashflow statement items:

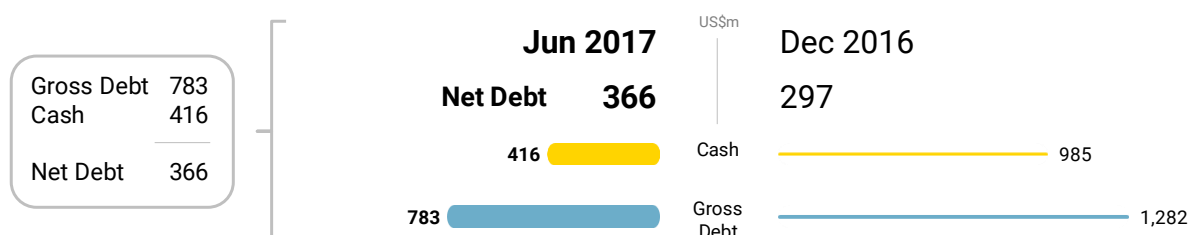
- Operating cash flow: US\$160 million, in line with core operating profit after working capital, depreciation and tax payments
- Capital expenditures: US\$36 million
- Payments for consideration payable for previous acquisitions: US\$6 million
- Dividend payment: US\$130 million
- Net interest expenses: US\$28 million
- Distribution to perpetual capital securities holders: US\$32 million
- Redemption of bonds: US\$500 million

In terms of future commitments, the remaining balance of total purchase consideration payable for acquisitions was reduced to US\$129 million by the end of June 2017, of which US\$108 million is earn-out payments to be substantially paid over the course of the next two years. We continue to be asset-light, and our on-going total capital expenditures mainly comprise digitalization investments, Logistics business expansion and capital expenditures for continuing maintenance.

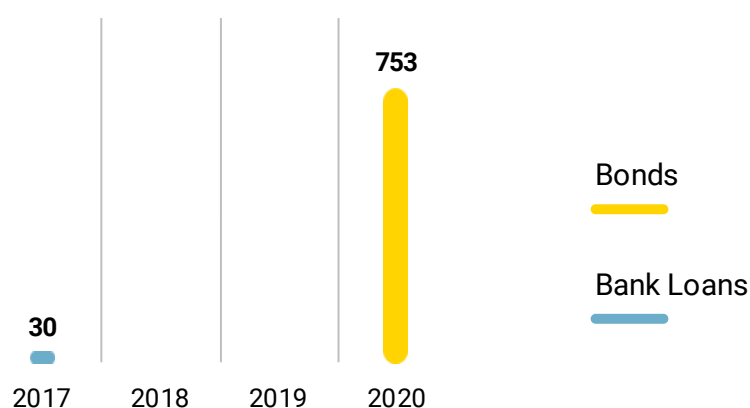
Strong Balance Sheet

As at 30 June 2017, our cash position was US\$416 million after the redemption of US\$500 million in bonds and payment of the final dividends for 2016. Our total borrowings of US\$783 million represented a decrease of US\$500 million following the redemption of the bonds in May, using proceeds from the issuance of perpetual securities in 2016. Our net debt (total borrowings minus cash) was US\$366 million as at 30 June 2017. Our weighted average tenure of total borrowing is over two years. We have US\$726 million in committed bank loan facilities with tenure up to 2019. The majority of our debt is at a fixed rate and denominated in US dollars. Given the uncertainties in the global macroeconomic and geopolitical environments, we remain cautious in how we manage our balance sheet and maintain maximum financial flexibility to provide assurance to our customers and vendors.

Cash and Gross Debt US\$m



Debt Maturity Schedule US\$m

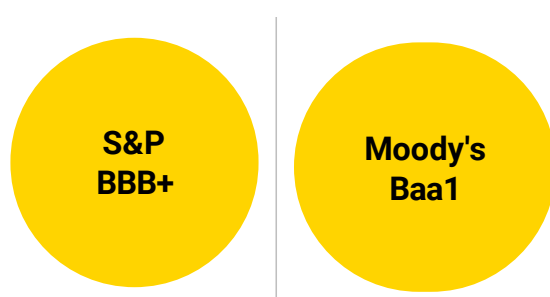


Net Gearing and Net Current Assets

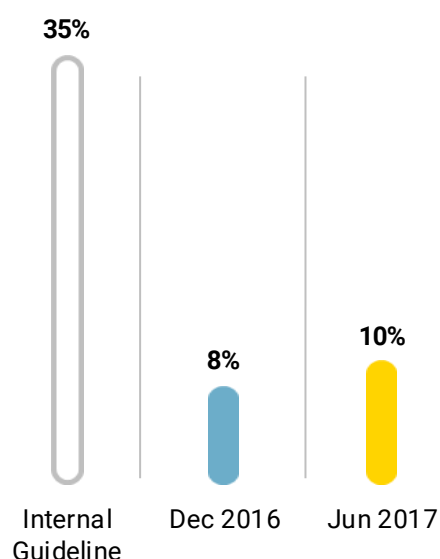
With the redemption of US\$500 million in bonds in May 2017, our gearing ratio was 10% as at 30 June 2017. Our current ratio was 1.1 as at 30 June 2017 (31 December 2016: 1.1).

We continued to take a conservative approach to managing our balance sheet and capital structure. As at 30 June 2017, our credit rating was Baa1 according to Moody's and BBB+ according to Standard & Poor's. We are committed to maintaining a strong balance sheet, healthy cash flow and strong credit ratios, with the long-term target of retaining an investment-grade rating.

Credit Rating



Net Gearing Ratio

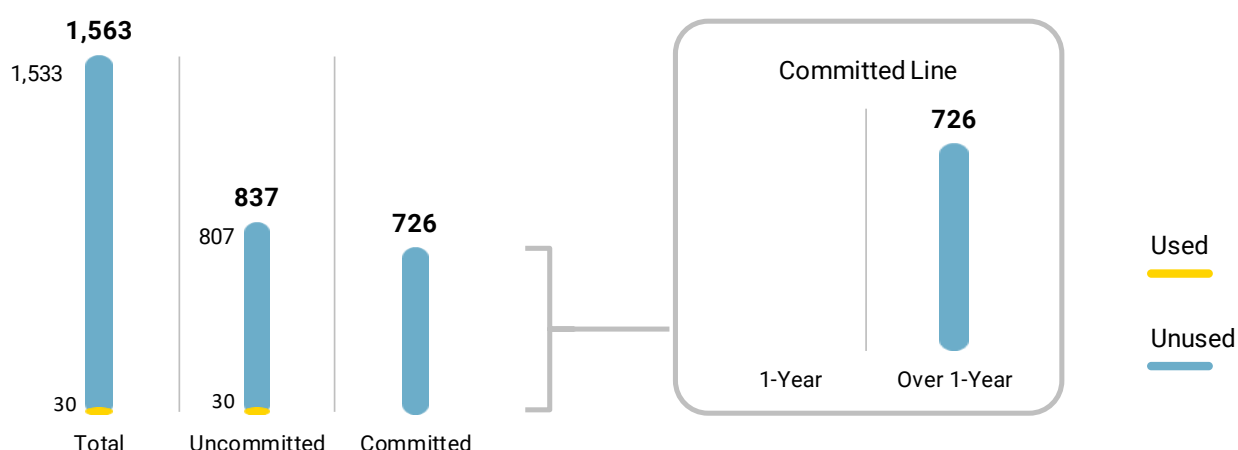


Banking Facilities

Bank Loans and Overdrafts

As at 30 June 2017, we had available bank loans and overdraft facilities of US\$1,563 million, of which US\$726 million was committed facilities with tenure up to 2019. Only US\$30 million of the Group's bank loans and overdraft facilities was utilized. Unused limits for bank loans and overdraft facilities amounted to US\$1,533 million, with US\$726 million being unused committed facilities.

Unused Bank Loans US\$m



Trade Finance

The Group's normal trading operations are well supported by US\$2.4 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 2017, only approximately 18% of the trade finance facilities was used.

Contingent Liabilities and Goodwill

Adjustments to Purchase Consideration Payables

Given the unique nature of our acquired businesses, which are private enterprises that rely on their respective entrepreneurs' commercial skills to drive their success, we generally structure our acquisitions with incentive schemes and contingent payments on purchase consideration payables linked to the future performance of the acquired businesses.

We follow a stringent internal financial and accounting policy in evaluating potential adjustment to the estimated fair value of purchase consideration payable in accordance with the accounting standard HKFRS 3 (Revised) "Business Combinations".

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

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

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

While many of our acquired businesses remain profitable and are growing, we may still be required to make a downward fair value adjustment to certain purchase consideration payables should the acquired businesses be unable to achieve the predetermined performance threshold within the specific timeframe as stipulated in the sale and purchase agreement. Given that the contingent consideration entitlement is usually contractual in nature and based on a specific formula linking to a particular threshold, the underlying performance of the acquired businesses could continue to grow, yet we may still be required to adjust the purchase consideration payable, especially if the high performance thresholds of earn-ups are not reached. In first half of 2017, there was a US\$30 million write-back of acquisitions payable.

Goodwill Impairment Tests

We perform goodwill impairment tests based on the cash-generating units (CGU) that manage acquired businesses in accordance with HKAS 36. Based on our assessment of all the CGUs under the current operating structure, we have determined that there was no goodwill impairment as at 30 June 2017, 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 15, Revenue from Contracts with Customers

2017 is the first year of our new Three-Year Plan (2017-2019). To augment the consistency of our financial information throughout the period, we have elected to apply HKFRS 15 Revenue from Contracts with Customers during the first half of 2017. This new accounting standard provides clear guidance on the timing and basis of recognition for revenue. Timing of recognition is based on the transfer of control of goods or services rather than transfer of risks and rewards. Basis of recognition is determined based on the assumption of primary responsibility to the customers, risk associated with inventories and control of price determination. Prior period comparatives have been retrospectively restated. Applying this new accounting standard resulted in net decreases in turnover and costs of goods sold by approximately US\$87 million, but had no material impact on net profit and loss, for the first half of 2016. Further information about the application has been set out in *Note 1* 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 given that we are acting as a supplier and therefore take full counterparty risk for our customers in terms of accounts receivable and inventory. In addition, as we provide working capital solutions to our vendors via LF Credit by selectively settling accounts payable earlier at a discount, we also assume direct counterparty risk for our customers for such receivables. With the increased insolvency risk among global brands and retail customers, we have deployed a global credit risk management framework with a tightened risk profile, and applied prudent policies to manage our credit risk with such receivables that include, but are not limited to, the measures set out below:

- We select customers in a cautious manner. Our credit control team has implemented 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 are 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 fully 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.

People

As an asset-light business, our success is highly dependent on our people. We are very proud of and grateful for their expertise, dedication and hard work. As at 30 June 2017, we had a total workforce of 21,047, of which 6,645 were warehouse-related employees primarily for our Logistics business and various product verticals.

Total manpower costs for the first half of 2017 were US\$455 million compared with US\$504 million for the first half of 2016.

NEW THREE-YEAR PLAN (2017-2019)

Our goal is to create the supply chain of the future to help our customers navigate the digital economy. The global retail industry is challenged by weak consumer demand, economic and geopolitical uncertainties and disruption by e-commerce. Together with our customers, we aim to evolve quickly to compete more effectively in this rapidly changing environment. We are stripping out inefficiencies in the production cycle, adopting automation, tracking data to streamline processes, layering decision-making, improving traceability, and developing new business models to improve margins and productivity along the supply chain. By adopting new technologies, embracing new ways of doing things and leveraging our rich experience in supply chain management, we are confident that we can help our customers thrive in the new retail industry landscape and create the supply chain of the future.

Speed

Speed to market has a new standard as consumer preferences change ever more quickly in the digital age. In response, our customers are shortening their order cycles, placing smaller orders and demanding greater flexibility in inventory replenishment. We are focusing on speed to help our customers gain a new competitive advantage. For example, the pre-production processes of today's supply chain involve many manual processes and relatively time-consuming steps such as costing and sampling. To speed up the process, we are introducing digital sampling and virtual fitting to enhance decision-making efficiencies. Other new tools include value stream mapping and customer dashboards. Value stream mapping tracks critical paths in the design and production processes. It also identifies overlaps and duplications among the parties involved. Our customer dashboard is another tool that can better track our customers' businesses for valuable insights with greater transparency. This not only shortens pre-production processes and improves design conversion rates, but also redirects resources to higher-value-added activities and further solidifies our partnerships. Internally, we seek to be agile and fast-paced like a start-up, as we firmly believe that the key to success is the ability to adapt quickly to change. Speed with precision creates a unique competitive advantage, and we are excited about bringing greater speed into every aspect of our business.

Innovation

In this age of exponential change, innovation is more essential than ever. We are embedding innovation into the core of our business and the culture of our people. Accelerated changes in technology have fundamentally changed consumer behaviors and expectations, which in turn requires new ways of fulfilling demand. By offering innovative product designs and working creatively, we help our customers create differentiated products efficiently to attain higher margins and sell-through rates.

We are also creating a culture that empowers people to experiment with new ideas, collaborate with uncommon partners and work with speed. We are in a unique position in

the industry, with a holistic view of the supply chain that cuts across various brands and retail channels. We are leveraging our position to bring customers, suppliers, technology solution providers and uncommon partners together to create an active innovation ecosystem in and around the company. In this ecosystem, we share ideas, we rapid-prototype and we lead change. Innovation will be at the core of how we keep reinventing products and ways of working, to ensure that we remain a crucial strategic partner for our customers.

Digitalization

Technologies are disrupting and transforming traditional supply chain management. From weaving raw material at the fabric mill to tracking end-consumer behavior at retail, each step of the value chain is being increasingly shaped by digitalization. We are building a platform that digitalizes the entire global supply chain and allows data and information to flow seamlessly from end to end. With the help of data analytics, we can generate valuable business insights, make better-informed decisions and, most importantly, deliver more targeted services to our customers so that they can outperform their peers.

We accumulate vast amounts of information on our sourcing platform every day as we orchestrate activities between thousands of brand and retail customers and our global suppliers. Our newly developed digitalized platform has made it possible to extract valuable insights from the big data embedded in our supply chain. If we leverage digitalization to harness the power of the information we accumulate through the normal course of business, we can further solidify our leading position in the global supply chain.

As the convergence of technologies fundamentally changes how consumers interact with brands, the idea to disrupt or be disrupted has never been more real for retail. We are very excited about our journey to create the supply chain of the future. Armed with our existing cash and strong operating cashflow, we will continue to invest in the infrastructure and systems needed for this transformation.

Outlook

For the rest of 2017, we expect the macro environment to remain volatile as economic and political uncertainties continue to weigh on consumer sentiment. The global retail industry will keep experiencing disruptions from e-commerce and changing consumption patterns. Headwinds from store closures will continue in the second half of the year as retailers adjust their sales strategies. We expect on-going promotional activities to continue putting pressure on margin. In response to the structural changes in retail, brands and retailers will continue to transform, presenting both new opportunities and challenges for the supply chain. As the trend of tighter inventory management persists, our customers will continue to order in smaller batches, demanding shorter turnaround time and more frequent replenishments. Our range of value-added services and digital tools enable our customers to react more quickly in the new environment.

Our new supply chain model continues to gain traction with customers embracing our new supply chain solutions. By incorporating speed, innovation and digitalization into our service offerings, we optimize our customers' supply chain with tangible economic benefits by minimizing markdowns and increasing inventory turns. We aim to continue converting new business relationships from our strong customer pipeline, including e-commerce retailers, and increasing our wallet share among existing customers. With momentum from new customer wins and the easing of deflationary pressure on input, we expect topline turnover for the Supply Chain Solutions business to continue its trend of stabilization, despite on-going inventory destocking by customers. In Logistics, we anticipate that strong growth will continue as a result of robust consumption growth in Asia, our expanding customer base, and further geographic expansion. We expect global freight management to continue benefiting from gradual rate recovery. We will continue to invest in our Logistics business to capture rapidly rising demand across Asia. While more verticals will be incubated in the future, the near-term focus for the Products segment is to continue developing deep product expertise and leveraging design innovation to drive sales and margin enhancement.

We anticipate that exchange rate volatilities will continue, and our total reported turnover will remain susceptible to translation impact from the potential weakness of the Euro, British pound and Asian currencies against the US dollar. We expect to sustain improvement in core operating profit margin as margin enhancement initiatives and productivity gains continue to bear fruit. Considering the volatilities in the retail market, we will monitor our customer base even more closely and remain prudent toward counterparty risks.

The rise of trade protectionism and geopolitical instability will heighten complexity in the global sourcing landscape and offer us added business opportunities. Our deep-rooted relationships with a wide network of vendors continue to provide a unique sourcing of strength. This deep network gives us the flexibility to quickly adjust sourcing strategies when external factors present new production requirements or constraints. With support from our end-to-end supply chain solutions services, our customers can rise above the current challenges and outperform the industry.

We announce the unaudited consolidated profit and loss account, unaudited consolidated statement of comprehensive income, unaudited condensed consolidated cash flow statement and unaudited consolidated statement of changes in equity of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017 and the unaudited consolidated balance sheet of the Group as at 30 June 2017 together with the comparative figures for 2016. 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. The auditor, based on their review, concluded that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". The auditor's independent review report will be included in the interim financial report.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited	
		Six months ended 30 June	
		2017	2016
	<i>Note</i>	US\$'000	US\$'000
			(Restated)
Turnover	2&3	7,263,594	7,983,503
Cost of sales		(6,441,043)	(7,062,803)
Gross profit		822,551	920,700
Other income		12,440	14,776
Total margin		834,991	935,476
Selling and distribution expenses		(229,208)	(290,945)
Merchandising and administrative expenses		(435,668)	(488,093)
Core operating profit	3	170,115	156,438
Gain on remeasurement of contingent consideration payable	4	29,645	-
Amortization of other intangible assets	4	(17,513)	(17,337)
Gain on disposal of business	4	-	7,871
One-off reorganization costs	4	-	(5,863)
Operating profit	3&4	182,247	141,109
Interest income		6,898	5,611
Interest expenses			
Non-cash interest expenses		(2,451)	(2,247)
Cash interest expenses		(34,586)	(44,732)
		(37,037)	(46,979)
Share of profits less losses of associated companies and joint venture		1,174	1,582
Profit before taxation		153,282	101,323
Taxation	5	(20,766)	(14,595)
Net profit for the period		132,516	86,728
Attributable to:			
Shareholders of the Company		100,955	72,315
Holders of perpetual capital securities		32,063	15,000
Non-controlling interests		(502)	(587)
		132,516	86,728

CONSOLIDATED PROFIT AND LOSS ACCOUNT (CONTINUED)

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2017	2016
		US\$'000	US\$'000
			(Restated)
Earnings per share for profit attributable to the Shareholders of the Company during the period	7		
- Basic (equivalent to)		9.4 HK cents 1.21 US cents	6.7 HK cents 0.87 US cents
- Diluted (equivalent to)		9.3 HK cents 1.20 US cents	6.7 HK cents 0.86 US cents
Interim dividend	6	120,064	119,291

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
		(Restated)
Net profit for the period	132,516	86,728
Other comprehensive income/(expense):		
<i>Items that will not be reclassified to profit or loss</i>		
Remeasurements from post-employment benefits recognized in reserve, net of tax	-	1
Total items that will not be reclassified to profit or loss	-	1
<i>Items that may be reclassified subsequently to profit or loss</i>		
Currency translation differences *	40,383	(56,287)
Net fair value (losses)/gains on cash flow hedges, net of tax	(13,511)	2,066
Net fair value gains on available-for-sale financial assets, net of tax	89	86
Total items that may be reclassified subsequently to profit or loss	26,961	(54,135)
Total other comprehensive income/(expense) for the period, net of tax	26,961	(54,134)
Total comprehensive income for the period	159,477	32,594
Attributable to:		
Shareholders of the Company	127,904	18,676
Holders of perpetual capital securities	32,063	15,000
Non-controlling interests	(490)	(1,082)
Total comprehensive income for the period	159,477	32,594

* 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.

CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2017 US\$'000	Audited 31 December 2016 US\$'000 (Restated)
	Note		
Non-current assets			
Intangible assets		3,924,313	3,896,973
Property, plant and equipment		222,425	221,550
Prepaid premium for land leases		124	127
Associated companies		12,117	11,005
Joint venture		667	760
Available-for-sale financial assets		4,253	4,164
Other receivables, prepayments and deposits		26,049	27,458
Deferred tax assets		25,019	16,419
		4,214,967	4,178,456
Current assets			
Inventories		302,246	277,841
Due from related companies		522,478	487,033
Trade and bills receivable	8	1,492,330	1,547,208
Other receivables, prepayments and deposits		226,371	218,197
Derivative financial instruments		-	10,697
Cash and bank balances		416,267	985,039
		2,959,692	3,526,015
Current liabilities			
Due to related companies		2,199	2,093
Trade and bills payable	9	2,223,626	2,083,875
Accrued charges and sundry payables		428,123	549,592
Purchase consideration payable for acquisitions	10	68,590	67,794
Taxation		49,435	55,711
Derivative financial instruments		10,834	-
Bank advances for discounted bills	8	6,090	22,773
Short-term bank loans		29,624	29,180
Current portion of long-term notes	10	-	499,819
		2,818,521	3,310,837
Net current assets		141,171	215,178
Total assets less current liabilities		4,356,138	4,393,634

CONSOLIDATED BALANCE SHEET (CONTINUED)

		Unaudited 30 June 2017 US\$'000	Audited 31 December 2016 US\$'000 (Restated)
	<i>Note</i>		
Financed by:			
Share capital		13,487	13,487
Reserves		2,295,227	2,291,286
Shareholders' funds attributable to the Company's shareholders			
		2,308,714	2,304,773
Holders of perpetual capital securities		1,158,687	1,158,687
Non-controlling interests		(1,573)	(1,083)
Total equity		3,465,828	3,462,377
Non-current liabilities			
Long-term notes	10	752,945	753,458
Purchase consideration payable for acquisitions	10	60,744	93,742
Other long-term liabilities	10	28,921	32,589
Post-employment benefit obligations		20,027	22,517
Deferred tax liabilities		27,673	28,951
		890,310	931,257
		4,356,138	4,393,634

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 June	
	2017 US\$'000	2016 US\$'000
Operating activities		
Operating profit before working capital changes	209,297	204,868
Changes in working capital	(16,804)	(24,076)
Net cash inflow generated from operations	192,493	180,792
Profits tax paid	(32,953)	(29,174)
Net cash inflow from operating activities	159,540	151,618
Investing activities		
Settlement of consideration payable for prior years acquisitions of businesses	(6,025)	(13,607)
Disposal of business	-	301,169
Capital expenditure	(35,761)	(43,865)
Other investing activities	7,542	5,255
Net cash (outflow)/inflow from investing activities	(34,244)	248,952
Net cash inflow before financing activities	125,296	400,570
Financing activities		
Interest paid	(34,586)	(44,732)
Distribution to holders of perpetual capital securities	(32,063)	(15,000)
Repayment of long-term notes	(500,000)	-
Dividends paid	(130,136)	(162,670)
Purchase of shares for Share Award Scheme	-	(12)
Other financing activities	444	11,274
Net cash outflow from financing activities	(696,341)	(211,140)
(Decrease)/increase in cash and cash equivalents	(571,045)	189,430
Cash and cash equivalents at 1 January	985,039	342,243
Effect of foreign exchange rate changes	2,273	(715)
Cash and cash equivalents at 30 June	416,267	530,958
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	416,267	530,958

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited							
	Attributable to Shareholders of the Company							
	Share capital US\$'000	Share premium US\$'000	Other reserves US\$'000	Retained earnings US\$'000	Total US\$'000	Holders of perpetual capital securities US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
Balance at 1 January 2017, as previously reported	13,487	714,536	431,450	1,166,071	2,325,544	1,158,687	(1,083)	3,483,148
Impact of adoption of HKFRS 15	-	-	(3,314)	(17,457)	(20,771)	-	-	(20,771)
Balance at 1 January 2017, as restated	13,487	714,536	428,136	1,148,614	2,304,773	1,158,687	(1,083)	3,462,377
Comprehensive income/(expense)								
Profit or loss	-	-	-	100,955	100,955	32,063	(502)	132,516
Other comprehensive income/(expense)								
Currency translation differences	-	-	40,371	-	40,371	-	12	40,383
Net fair value gains on available-for-sale financial assets, net of tax	-	-	89	-	89	-	-	89
Net fair value losses on cash flow hedges, net of tax	-	-	(13,511)	-	(13,511)	-	-	(13,511)
Total other comprehensive income, net of tax	-	-	26,949	-	26,949	-	12	26,961
Total comprehensive income/(expense)	-	-	26,949	100,955	127,904	32,063	(490)	159,477
Transactions with owners in their capacity as owners								
Employee Share Option and Share Award scheme:								
- value of employee services	-	-	6,173	-	6,173	-	-	6,173
Distribution to holders of perpetual capital securities	-	-	-	-	-	(32,063)	-	(32,063)
Transfer to capital reserve	-	-	130	(130)	-	-	-	-
2016 final dividends paid	-	-	-	(130,136)	(130,136)	-	-	(130,136)
Total transactions with owners in their capacity as owners	-	-	6,303	(130,266)	(123,963)	(32,063)	-	(156,026)
Balance at 30 June 2017	13,487	714,536	461,388	1,119,303	2,308,714	1,158,687	(1,573)	3,465,828

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Unaudited					Holders of perpetual capital securities US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
	Attributable to Shareholders of the Company							
	Share capital US\$'000	Share premium US\$'000	Other reserves US\$'000	Retained earnings US\$'000	Total US\$'000			
Balance at 1 January 2016, as previously reported	13,487	704,618	554,903	1,229,865	2,502,873	503,000	4,293	3,010,166
Impact of adoption of HKFRS 15	-	-	(3,170)	(17,457)	(20,627)	-	-	(20,627)
Balance at 1 January 2016, as restated	13,487	704,618	551,733	1,212,408	2,482,246	503,000	4,293	2,989,539
Comprehensive income/(expense)								
Profit or loss	-	-	-	72,315	72,315	15,000	(587)	86,728
Other comprehensive (expense)/income								
Currency translation differences	-	-	(55,792)	-	(55,792)	-	(495)	(56,287)
Net fair value gains on available-for-sale financial assets, net of tax	-	-	86	-	86	-	-	86
Net fair value gains on cash flow hedges, net of tax	-	-	2,066	-	2,066	-	-	2,066
Remeasurements from post-employment benefits recognized in reserve, net of tax	-	-	1	-	1	-	-	1
Total other comprehensive expense, net of tax	-	-	(53,639)	-	(53,639)	-	(495)	(54,134)
Total comprehensive (expense)/income	-	-	(53,639)	72,315	18,676	15,000	(1,082)	32,594
Transactions with owners in their capacity as owners								
Purchase of shares for Share Award Scheme	-	-	(12)	-	(12)	-	-	(12)
Employee Share Option and Share Award scheme:								
- value of employee services	-	-	11,590	-	11,590	-	-	11,590
Distribution to holders of perpetual capital securities	-	-	-	-	-	(15,000)	-	(15,000)
Transfer to capital reserve	-	-	61	(61)	-	-	-	-
2015 final dividends paid	-	-	-	(162,670)	(162,670)	-	-	(162,670)
Disposal of business	-	-	-	-	-	-	(4,255)	(4,255)
Total transactions with owners in their capacity as owners	-	-	11,639	(162,731)	(151,092)	(15,000)	(4,255)	(170,347)
Balance at 30 June 2016, as restated	13,487	704,618	509,733	1,121,992	2,349,830	503,000	(1,044)	2,851,786

Selected Notes to the Condensed Interim Financial Information**1 Basis of preparation and accounting policies**

This unaudited condensed interim financial information (the “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 Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited. This interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

Management of the Company has considered internally generated funds and financial resources available to the Group in adoption of going concern basis in the preparation of the interim financial information.

Except as described in (a) and (b) below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, 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.

(a) Amendments to existing standards adopted by the Group

The following amendments to existing standards are mandatory for accounting periods beginning on or after 1 January 2017:

HKAS 7 Amendment	Disclosure Initiative
HKAS 12 Amendment	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 12 Amendment	Disclosure of Interest in Other Entities

The application of the above amendments to existing standards 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.

Selected Notes to the Condensed Interim Financial Information (Continued)**1 Basis of preparation and accounting policies (Continued)****(b) New standard that is early adopted by the Group****Early adoption of HKFRS 15, Revenue from Contracts with Customers**

The Group has elected to apply HKFRS 15 Revenue from Contracts with Customers as issued in July 2014. In accordance with the transition provisions in HKFRS 15, the new rules have been adopted retrospectively and comparative figures have been restated. HKFRS 15 replaces the previous revenue standards.

The accounting policies for the Group's main types of revenue are explained in Note 2.

The impact of the adoption of HKFRS 15 on the Group are as follows:

- (i) HKFRS 15 provides clear guidance to determine the timing of control of goods transferred to customers. This change has resulted in decrease in retained earnings as at 1 January 2016 and 31 December 2016 by US\$17,457,000, increase in other receivables as at 1 January 2016 and 31 December 2016 by US\$11,176,000 and US\$11,587,000 respectively, increase in sundry payables as at 1 January 2016 and 31 December 2016 by US\$31,803,000 and US\$32,358,000 respectively and decrease in exchange reserve as at 1 January 2016 and 31 December 2016 by US\$3,170,000 and US\$3,314,000 respectively.
- (ii) HKFRS 15 provides guidance on determining whether the nature of the promise in the contract is a performance obligation to provide the specified goods or services itself or to arrange for those goods or services to be provided by the other party. This change has resulted in decrease in turnover and cost of sales for the six months period ended 30 June 2016 by US\$87,230,000.

Selected Notes to the Condensed Interim Financial Information (Continued)

1 Basis of preparation and accounting policies (Continued)

- (c) The following new standards, new interpretations and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2018 or later periods, but the Group has not early adopted them:

HKAS 40 Amendment	Transfer of Investment Property ¹
HKFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions ¹
HKFRS 9	Financial Instruments ¹
HKFRS 10 and HKAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
HKFRS 16	Leases ²
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments ²
Annual Improvement Project	Annual Improvements 2014-2016 Cycle ¹

Notes:

- 1 Effective for financial periods beginning on or after 1 January 2018
- 2 Effective for financial periods beginning on or after 1 January 2019
- 3 Effective date to be determined

2 Revenue recognition

- (a) Turnover from sales of goods

Turnover from sales of goods are primarily generated by the Supply Chain Solutions of the Services segment and the Products segment. Supply Chain Solutions provides end-to-end sourcing solutions of goods through the global network to a diverse portfolio of global brands and retail customers, while Products segment focuses on Sweaters, Furniture and Beauty product verticals and onshore wholesale businesses.

Revenue are recognized when control of the goods has transferred, being when the goods are delivered to the customers, the customers has full discretion over the channel and price to sell the goods, and there is no unfulfilled obligation that could affect the customers' acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. Revenue is shown net of value-added tax, returns, claims and discounts and after eliminating sales within the Group.

Selected Notes to the Condensed Interim Financial Information (Continued)**2 Revenue recognition (Continued)****(a) Turnover from sales of goods (Continued)**

The goods are often sold with volume rebate based on aggregate sales over a specific period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume rebate. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognized for expected volume rebate payable to customers in relation to sales made until the end of the reporting period.

A contract liability is also recognized when the customers pay deposits before the Group transfers control of the goods to the customers.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) Services fee from Logistics business

Logistics business of the Services segment includes in-country logistics and global freight management. In-country logistics offers logistics services including distribution center management, order management and local transportation. Global freight management offers full services international freight solutions. Service income is recognized in the accounting period in which the provision of services occurs. Customers are invoiced upon the completion of services or on a regular basis.

Some contracts include multiple performance obligations and do not include any integration services. They are therefore accounted for as separate performance obligation. Revenue from each of the performance obligations is recognised at the stand-alone service price.

No element of financing is deemed present as the sales are made with a credit term up to 120 days, which is consistent with market practice.

Selected Notes to the Condensed Interim Financial Information (Continued)**3 Segment information**

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

The Company is domiciled in Bermuda. The Group is principally engaged in managing the supply chain for retailers and brands worldwide with around 250 offices across more than 40 economies spanning across the Americas, Europe, Africa and Asia Pacific. Turnover represents revenue generated from sales and services rendered at invoiced value to customers outside the Group less discounts and returns.

In 2016, the Group divested the Asia consumer and healthcare distribution business from the Trading Network Segment to refocus resources on core businesses.

During the period, the Group has reorganized the business and its reporting structure into two new segments, namely Services and Products. The Services segment focuses on provision of the Supply Chain Solutions and Logistics Services. The Products segment focuses on Sweaters, Furniture and Beauty product verticals and on-shore wholesale businesses. The Group's management (Chief Operating Decision-Maker) considers the business principally from the perspective of these two new segments. Prior year/period comparative segment information has been restated to conform with the current period presentation accordingly.

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.

Selected Notes to the Condensed Interim Financial Information (Continued)

3 Segment information (Continued)

	Services US\$'000	Products US\$'000	Elimination US\$'000	Total US\$'000
Six months ended 30 June 2017 (Unaudited)				
Turnover	5,812,935	1,473,757	(23,098)	7,263,594
Total margin	517,491	317,500		834,991
Operating costs	(380,476)	(284,400)		(664,876)
Core operating profit	<u>137,015</u>	<u>33,100</u>		170,115
Gain on remeasurement of contingent consideration payable				29,645
Amortization of other intangible assets				(17,513)
Operating profit				182,247
Interest income				6,898
Interest expenses				
Non-cash interest expenses				(2,451)
Cash interest expenses				(34,586)
				(37,037)
Share of profits less losses of associated companies and joint venture				1,174
Profit before taxation				153,282
Taxation				(20,766)
Net profit for the period				<u>132,516</u>
Depreciation and amortization	<u>25,141</u>	<u>25,467</u>		<u>50,608</u>
30 June 2017 (Unaudited)				
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	<u>1,837,877</u>	<u>2,347,818</u>		<u>4,185,695</u>

Selected Notes to the Condensed Interim Financial Information (Continued)

3 Segment information (Continued)

	Services US\$'000 (Restated)	Products US\$'000 (Restated)	Divested Asia consumer and healthcare distribution business US\$'000 (Restated)	Elimination US\$'000 (Restated)	Total US\$'000 (Restated)
Six months ended 30 June 2016 (Unaudited)					
Turnover	5,837,393	1,603,838	565,920	(23,648)	7,983,503
Total margin	507,199	341,220	87,057		935,476
Operating costs	(401,519)	(294,872)	(82,647)		(779,038)
Core operating profit	<u>105,680</u>	<u>46,348</u>	<u>4,410</u>		156,438
Amortization of other intangible assets					(17,337)
Gain on disposal of business					7,871
One-off reorganization costs					(5,863)
Operating profit					141,109
Interest income					5,611
Interest expenses					
Non-cash interest expenses					(2,247)
Cash interest expenses					(44,732)
					(46,979)
Share of profits less losses of associated companies					1,582
Profit before taxation					101,323
Taxation					(14,595)
Net profit for the period					<u>86,728</u>
Depreciation and amortization	<u>23,188</u>	<u>26,240</u>	<u>4,568</u>		<u>53,996</u>
31 December 2016 (Audited)					
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	<u>1,823,726</u>	<u>2,334,147</u>	<u>N/A</u>		<u>4,157,873</u>

Selected Notes to the Condensed Interim Financial Information (Continued)

3 Segment information (Continued)

During the period, the Group has Services and Products as its new segments. Supplementary analysis for the Services segment by Supply Chain Solutions and Logistics Services is as follows:

	Unaudited	
	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
<u>Turnover</u>		
Supply Chain Solutions	5,325,596	5,416,408
Logistics Services	489,728	425,073
Elimination	(2,389)	(4,088)
	5,812,935	5,837,393
	Unaudited	
	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
<u>Core operating profit</u>		
Supply Chain Solutions	104,359	78,396
Logistics Services	32,656	27,284
	137,015	105,680

The geographical analysis of turnover to external customers and non-current assets (other than available-for-sale financial assets and deferred tax assets) is as follows:

	Turnover		Non-current assets	
	Unaudited		(other than available-for-sale financial assets and deferred tax assets)	
	Six months ended 30 June		Unaudited	Audited
	2017	2016	30 June	31 December
	US\$'000	US\$'000	2017	2016
		(Restated)	US\$'000	US\$'000
United States of America	4,710,228	4,892,308	1,968,431	1,985,433
Europe	1,397,635	1,319,022	1,130,235	1,066,770
Asia	696,953	1,249,945	893,283	907,012
Rest of the world	458,778	522,228	193,746	198,658
	7,263,594	7,983,503	4,185,695	4,157,873

Selected Notes to the Condensed Interim Financial Information (Continued)

3 Segment information (Continued)

Turnover to external customers consists of sales of goods of Supply Chain Solutions business, Logistics services income, sales of goods of Products Segment, and sales of goods of the divested Asia consumer and healthcare distribution business as follows:

	Unaudited	
	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
Sales of goods of Supply Chain Solutions business	5,316,924	5,391,904
Logistics services income	481,112	425,744
Sales of goods of Products Segment	1,465,558	1,599,935
Sales of goods of divested Asia consumer and healthcare distribution business	-	565,920
	<u>7,263,594</u>	<u>7,983,503</u>

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

	Unaudited	
	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
		(Restated)
Sales of soft goods	4,645,818	4,774,621
Sales of hard goods	2,136,664	2,783,138
Logistics services income	481,112	425,744
	<u>7,263,594</u>	<u>7,983,503</u>

For the six months ended 30 June 2017, approximately 13% (2016: 12%) of the Group's total turnover is derived from a single external customer, of which 13% (2016: 12%) and less than 1% (2016: less than 1%) are attributable to the Services segment and Products segment respectively.

Selected Notes to the Condensed Interim Financial Information (Continued)

4 Operating profit

Operating profit is stated after crediting and charging the following:

	Unaudited	
	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
<u>Crediting</u>		
Gain on remeasurement of contingent consideration payable*	29,645	-
Gain on disposal of business* (Note)	-	7,871
<u>Charging</u>		
Staff costs including directors' emoluments	455,041	504,189
One-off reorganization costs*	-	5,863
Amortization of system development, software and other license costs	5,614	6,515
Amortization of other intangible assets*	17,513	17,337
Amortization of prepaid premium for land leases	4	57
Depreciation of property, plant and equipment	27,477	30,087
Net (gain)/loss on disposal of property, plant and equipment	(86)	4,553

**Excluded from the core operating profit*

Note: Details of financial information of the disposal of business for the six months ended 30 June 2016 were set out in 2016 Annual Report.

Selected Notes to the Condensed Interim Financial Information (Continued)

5 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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	
	2017	2016
	US\$'000	US\$'000
Current taxation		
- Hong Kong profits tax	4,949	1,275
- Overseas taxation	20,879	16,085
Deferred taxation	(5,062)	(2,765)
	20,766	14,595

6 Interim dividend

	Unaudited	
	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
Proposed, of HK\$0.11 (equivalent to US\$0.014) (2016: HK\$0.11 (equivalent to US\$0.014)) per ordinary share (Note)	120,064	119,291

Note: Final dividends of US\$130,136,000 proposed for the year ended 31 December 2016 were paid in June 2017 (2016: final dividend of US\$162,670,000).

Selected Notes to the Condensed Interim Financial Information (Continued)**7 Earnings per share**

The calculation of basic earnings per share is based on the Group's profit attributable to Shareholders of US\$100,955,000 (2016: US\$72,315,000) and on the weighted average number of 8,366,875,000 (2016: 8,354,869,000) shares in issue during the period.

The diluted earnings per share for the six months ended 30 June 2017 was calculated by adjusting the weighted average number of 8,366,875,000 (2016: 8,354,869,000) ordinary shares in issue by 48,572,000 (2016: 56,502,000) 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.

Selected Notes to the Condensed Interim Financial Information (Continued)

8 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 2017 (unaudited)	<u>1,421,527</u>	<u>44,314</u>	<u>15,686</u>	<u>10,803</u>	<u>1,492,330</u>
Balance at 31 December 2016 (audited)	<u>1,442,127</u>	<u>87,280</u>	<u>15,154</u>	<u>2,647</u>	<u>1,547,208</u>

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 2017.

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

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

Certain subsidiaries of the Group transferred bills receivable balances amounting to US\$6,090,000 (31 December 2016: US\$22,773,000) to banks in exchange for cash as at 30 June 2017. The transactions have been accounted for as collateralized bank advances.

Selected Notes to the Condensed Interim Financial Information (Continued)
9 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 2017 (unaudited)	<u>2,147,616</u>	<u>44,143</u>	<u>19,559</u>	<u>12,308</u>	<u>2,223,626</u>
Balance at 31 December 2016 (audited)	<u>2,003,134</u>	<u>60,532</u>	<u>10,814</u>	<u>9,395</u>	<u>2,083,875</u>

The fair values of the Group's trade and bills payable were approximately the same as their carrying values as at 30 June 2017.

10 Long-term liabilities

	Unaudited 30 June 2017 US\$'000	Audited 31 December 2016 US\$'000
Long-term notes – unsecured	752,945	1,253,277
Purchase consideration payable for acquisitions (Note)	129,334	161,536
Other long-term liabilities	<u>28,921</u>	<u>32,589</u>
	911,200	1,447,402
Current portion of long-term notes – unsecured	-	(499,819)
Current portion of purchase consideration payable for acquisitions	<u>(68,590)</u>	<u>(67,794)</u>
	<u>842,610</u>	<u>879,789</u>

Note: Balance of purchase consideration payable for acquisitions as at 30 June 2017 included performance-based earn-out and earn-up contingent considerations of US\$107,829,000 and US\$21,505,000 respectively (31 December 2016: US\$105,598,000 and US\$55,938,000).

CORPORATE 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 followed during the first six months of 2017 are in line with the practices set out in our 2016 Annual Report and on our corporate website (www.lifung.com).

REVIEW OF INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the interim financial information for the six months ended 30 June 2017 for the Board's approval.

RISK MANAGEMENT AND INTERNAL CONTROL

Based on the respective assessments made by management and the Corporate Governance team responsible for internal audit activities, the Audit Committee considered that for the first six months of 2017:

- The risk management and internal controls and accounting systems of the Group remain in place and functioning effectively, and were designed to provide reasonable but not absolute assurance that material assets are protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with management's authorization and the interim financial information was reliable for publication
- An on-going process is in place for identifying, evaluating and managing the significant risks faced by the Group

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board reviewed the Company's corporate governance practices for the first six months of 2017 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 contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 have extended such procedures to cover relevant employees who are likely to be in possession of unpublished, price-sensitive information ("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 Securities and Futures Ordinance and Listing Rules.

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 2017.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 11 HK cents (2016: 11 HK cents) per share for the six months ended 30 June 2017, absorbing a total of US\$120 million (2016: US\$119 million).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 8 September 2017 to Monday, 11 September 2017, both days inclusive, during which period no transfer of shares will be effected. To qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 pm on Thursday, 7 September 2017. Dividend warrants will be dispatched on Tuesday, 19 September 2017. Shares of the Company will be traded ex-dividend from Wednesday, 6 September 2017.

PUBLICATION OF INTERIM REPORT

The 2017 interim report will be dispatched to the shareholders and available on the Company's website at www.lifung.com and HKEXnews website at www.hkexnews.hk on or about 12 September 2017.

By Order of the Board
William FUNG Kwok Lun
Group Chairman, Li & Fung Limited

Hong Kong, 24 August 2017

As at the date of this announcement, Executive Directors of the Company are William Fung Kwok Lun (Group Chairman), Spencer Theodore Fung (Group Chief Executive Officer) and Marc Robert Compagnon; Non-executive Director is Victor Fung Kwok King (Honorary Chairman); Independent Non-executive Directors are Allan Wong Chi Yun, Martin Tang Yue Nien, Margaret Leung Ko May Yee and Chih Tin Cheung.