# Notes to condensed interim financial information

## 1 General information

Li & Fung Limited ("the Company") and its subsidiaries (together, "the Group") are principally engaged in managing the supply chain for retailers and brands worldwide from over 300 offices and distribution centers in more than 40 economies.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

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

On 8 July 2014, the Group spin-off its licensed brands and controlled brands businesses, named as the Global Brands Group, via a distribution in specie. The financial results of the Global Brands Group was presented as Discontinued Operations and prior period comparatives have been restated accordingly.

This condensed interim financial information is presented in US dollars, unless otherwise stated. This condensed interim financial information was approved for issue on 21 August 2014.

## 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 accounts for the year ended 31 December 2013, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

Except as described in (a) below, the accounting policies applied are consistent with those of the annual accounts for the year ended 31 December 2013, as described in those annual accounts.

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

### (a) New standards, new interpretations and amendments to existing standards adopted by the Group

The following new standards, new interpretations and amendments to existing standards are mandatory for accounting periods beginning on or after 1 January 2014:

| | |
|---|---|
| HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendment | Investment Entities |
| HKAS 32 Amendment | Offsetting Financial Assets and Financial Liabilities |
| HKAS 36 Amendment | Recoverable Amount Disclosures for Non-Financial Assets |
| HKAS 39 Amendment | Novation of Derivatives and Continuation of Hedge Accounting |
| HK(IFRIC) – Int 21 | Levies |

The application of the above new or revised HKFRSs 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.

## 2 Basis of preparation and accounting policies (continued)

### (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 relevant to the Group have been issued but are not effective for the accounting periods beginning 1 January 2014 and have not been early adopted:

| | |
|---|---|
| HKAS 16 and HKAS 38 Amendment | Clarification of Acceptable Methods of Depreciation and Amortization[2] |
| HKAS 19 (2011) Amendment | Defined Benefit Plans: Employee Contributions[1] |
| HKFRS 9 | Financial Instruments[4] |
| HKFRS 11 Amendment | Accounting for Acquisitions of Interests in Joint Operations[2] |
| HKFRS 14 | Regulatory Deferral Accounts[2] |
| HKFRS 15 | Revenue from Contracts with Customers[3] |
| Annual Improvements Project | Annual Improvements 2010-2012 Cycle[1] |
| Annual Improvements Project | Annual Improvements 2011-2013 Cycle[1] |

***NOTES:***

*(1) Effective for financial periods beginning on or after 1 January 2015*
*(2) Effective for financial periods beginning on or after 1 January 2016*
*(3) Effective for financial periods beginning on or after 1 January 2017*
*(4) Effective date to be determined*

## 3 Segment information

The Company is domiciled in Bermuda. The Group is principally engaged in managing the supply chain for retailers and brands worldwide with over 300 offices and distribution centers in more than 40 economies spanning across the Americas, Europe, Africa and Asia. Turnover represents revenue generated from sales and services rendered at invoiced value to customers outside the Continuing Operations less discounts and returns.

During the period, the Group has accomplished a major restructuring of its operations. After the restructuring, the Group spin-off its licensed brands and controlled brands businesses, named as the Global Brands Group, via a distribution in specie on 8 July 2014. The Group after the Spin-off will continue to operate under two segments, namely the Trading Segment and the Logistics Segment. The Trading Segment focuses on provision of the global sourcing services via multiple channels, either as buying agent or trading-as-principal for private label merchandise. The Logistics Segment focuses on provision of logistics solutions and freight forwarding services. The Group's Management (Chief Operating Decision-Maker) considers the business principally from the perspective of the two segments. Prior 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 ventures, interest income, interest expenses and tax, but excludes material gains or losses which are of capital nature or non operational related, 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 accounts.

## 3 Segment information (continued)

| | Trading Network US$'000 | Logistics Network US$'000 | Elimination US$'000 | Total US$'000 |
|---|---|---|---|---|
| **Six months ended 30 June 2014 (Unaudited)** | | | | |
| Turnover | **8,368,938** | **348,530** | **(7,868)** | **8,709,600** |
| Total margin | **892,958** | **102,169** | | **995,127** |
| Operating costs | **(684,584)** | **(83,524)** | | **(768,108)** |
| Core operating profit | **208,374** | **18,645** | | **227,019** |
| Gain on remeasurement of contingent consideration payable | | | | **98,162** |
| Amortization of other intangible assets | | | | **(16,632)** |
| One-off reorganization costs | | | | **(13,363)** |
| Other non-core operating expenses | | | | **(532)** |
| Operating profit | | | | **294,654** |
| Interest income | | | | **4,345** |
| Interest expenses | | | | |
| Non-cash interest expenses | | | | **(5,791)** |
| Cash interest expenses | | | | **(51,085)** |
| | | | | **(56,876)** |
| Share of profits less losses of associated companies | | | | **675** |
| Profit before taxation | | | | **242,798** |
| Taxation | | | | **(18,904)** |
| Net profit for the period from Continuing Operations | | | | **223,894** |
| Loss for the period from Discontinued Operations | | | | **(98,138)** |
| Net profit for the period | | | | **125,756** |
| Depreciation and amortization | **51,958** | **1,274** | | **53,232** |
| **30 June 2014 (Unaudited)** | | | | |
| Non-current assets (other than available-for-sale financial assets and deferred tax assets) | **4,091,055** | **624,015** | | **4,715,070** |

## 3 Segment information (continued)

| | Trading Network US$'000 (Restated) | Logistics Network US$'000 (Restated) | Elimination US$'000 (Restated) | Total US$'000 (Restated) |
|---|---|---|---|---|
| **Six months ended 30 June 2013 (Unaudited)** | | | | |
| Turnover | 8,231,516 | 242,719 | (7,418) | 8,466,817 |
| Total margin | 894,417 | 90,401 | | 984,818 |
| Operating costs | (660,130) | (76,178) | | (736,308) |
| Core operating profit | 234,287 | 14,223 | | 248,510 |
| Amortization of other intangible assets | | | | (14,995) |
| Other non-core operating expenses | | | | (998) |
| Operating profit | | | | 232,517 |
| Interest income | | | | 9,218 |
| Interest expenses | | | | |
| Non-cash interest expenses | | | | (5,224) |
| Cash interest expenses | | | | (50,307) |
| | | | | (55,531) |
| Share of profits less losses of associated companies | | | | 815 |
| Profit before taxation | | | | 187,019 |
| Taxation | | | | (27,091) |
| Net profit for the period from Continuing Operations | | | | 159,928 |
| Loss for the period from Discontinued Operations | | | | (48,524) |
| Net profit for the period | | | | 111,404 |
| Depreciation and amortization | 45,077 | 4,807 | | 49,884 |
| **31 December 2013 (Audited)** | | | | |
| Non-current assets (other than available-for-sale financial assets and deferred tax assets) | N/A | N/A | | 8,088,680 |

## 3 Segment information (continued)

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

| | Turnover | | Non-current assets (other than available-for-sale financial assets and deferred tax assets) | |
|---|---|---|---|---|
| | Unaudited | | Unaudited | Audited |
| | Six months ended 30 June | | 30 June | 31 December |
| | **2014** | 2013 | **2014** | 2013 |
| | **US$'000** | US$'000 (Restated) | **US$'000** | US$'000 |
| United States of America | **5,223,830** | 5,048,400 | **2,052,310** | 4,944,414 |
| Europe | **1,587,430** | 1,523,602 | **1,344,254** | 1,591,060 |
| China | **677,909** | 691,226 | **542,005** | 610,412 |
| Rest of Asia | **507,581** | 518,715 | **495,021** | 608,445 |
| Canada | **278,561** | 274,806 | **110,017** | 137,699 |
| Australasia | **214,343** | 200,303 | **84,595** | 88,845 |
| Central and Latin America | **171,236** | 154,366 | **67,630** | 84,554 |
| South Africa and Middle East | **48,710** | 55,399 | **19,238** | 23,251 |
| | **8,709,600** | 8,466,817 | **4,715,070** | 8,088,680 |

Turnover of the Continuing Operations consists of sales of softgoods, hardgoods and logistics income are as follows:

| | Unaudited | |
|---|---|---|
| | Six months ended 30 June | |
| | **2014** | 2013 |
| | **US$'000** | US$'000 (Restated) |
| Softgoods | **5,358,126** | 5,217,492 |
| Hardgoods | **2,989,268** | 2,993,074 |
| Logistics | **362,206** | 256,251 |
| | **8,709,600** | 8,466,817 |

For the six months ended 30 June 2014, approximately 13.0% (2013 (restated): 14.0%) of the Continuing Operations' turnover is derived from a single external customer, which was wholly attributable to the Trading Network.

Financial information for the Discontinued Operations is set out in *Note 15*.

## 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 | |
|---|---|---|
| | **2014** | 2013 |
| | **US$'000** | US$'000 (Restated) |
| **Crediting:** | | |
| Gain on remeasurement of contingent consideration payable* | **98,162** | – |
| **Charging:** | | |
| Staff costs including directors' emoluments | **479,140** | 434,820 |
| Amortization of brand licenses | **4,965** | 3,759 |
| Depreciation of property, plant and equipment | **29,069** | 28,975 |
| Amortization of other intangible assets* | **16,632** | 14,995 |
| Amortization of computer software and system development costs | **2,495** | 2,081 |
| Loss/(gain) on disposal of property, plant and equipment | **8,547** | (123) |
| Amortization of prepaid premium for land leases | **71** | 74 |

* *Included below the core operating profit*

## 5 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profit 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 | |
|---|---|---|
| | **2014** | 2013 |
| | **US$'000** | US$'000 (Restated) |
| Current taxation | | |
| – Hong Kong profits tax | **7,404** | 8,574 |
| – Overseas taxation | **5,080** | 6,663 |
| Deferred taxation | **6,420** | 11,854 |
| | **18,904** | 27,091 |

## 5 Taxation (continued)

As at the date of this Report, the Group has disputes with the Hong Kong Inland Revenue Department ("HKIR") involving additional tax assessments amounting to approximately US$251 million on both the non-taxable claim of certain non-Hong Kong sourced income ("Offshore Claim") and the deduction claim of marketing expenses ("Deduction Claim") for the years of assessment from 1992/93 to 2012/13.

The Commissioner of the HKIR issued a determination on 14 June 2004 to one of our subsidiaries, Li & Fung (Trading) Limited ("LFT"), confirming additional tax assessments totaling US$43 million relating to the years of assessment from 1992/93 to 2001/02. Based upon professional advice then obtained, the directors believed that the Group had meritorious reasons to justify appealing against the Commissioner's determination. Accordingly, LFT lodged a notice of appeal to the Board of Review on 13 July 2004. The appeal was heard before the Board of Review in January 2006.

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

The Group considered the reasoning of the Board of Review Decision and, having obtained professional advice, decided to lodge an appeal against the Board of Review Decision in respect of the Deduction Claim.

On the other hand, the HKIR also lodged an appeal against the Board of Review Decision in respect of the Offshore Claim.

On 19 March 2010, the Board of Review stated a case on questions of law in respect of both LFT's appeal on the Deduction Claim, and the HKIR's appeal on the Offshore Claim. On 1 April 2010, both LFT and the HKIR transmitted the stated case to the High Court for determination.

The appeal by the HKIR in respect of the Board of Review Decision on the Offshore Claim was dismissed by the Court of First Instance on 18 April 2011, which upheld the Board of Review Decision. LFT was also awarded costs of the appeal by the Court of First Instance.

On 16 May 2011, the HKIR lodged an appeal against the judgment of the Court of First Instance to the Court of Appeal, which appeal was heard by the Court of Appeal on 14 and 15 February 2012. On 19 March 2012, the Court of Appeal delivered its judgment. It upheld the judgment of the Court of First Instance, dismissed the HKIR's appeal and awarded costs of the appeal of LFT. Any appeal against the judgment of the Court of Appeal to the Court of Final Appeal requires permission of the Court of Appeal or the Court of Final Appeal. As no application for such permission was submitted by the HKIR within the prescribed time limit, the Court of Appeal judgment on the Offshore Claim is considered as final.

As regards LFT's appeal on the Deduction Claim, upon the consent of the parties, the Court of First Instance has remitted the case stated to the Board of Review and directed it to make further findings of fact and to determine certain issues. As at the date of this Report, further directions/decisions from the Board of Review are awaited.

The Group has also filed objections with the HKIR against the remaining additional tax assessments of US$208 million. The case before the Board of Review and eventually the Court of Appeal only applies to the additional tax assessments in respect of LFT for the years of assessment from 1992/93 to 2001/02. The Group's dispute with the HKIR regarding the remaining additional tax assessments in respect of certain other subsidiaries for the years of assessment from 1992/93 to 2001/02, and in respect of the Group for the period after the 2001/02 assessment years, is ongoing and has not yet been determined. Such dispute is therefore not yet before the Board of Review, and no hearing is currently scheduled.

## 5 Taxation (continued)

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

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

## 6 Distribution in specie and interim dividend

| | **Unaudited Six months ended 30 June** | |
|---|---|---|
| | **2014** | 2013 |
| | **US$'000** | US$'000 |
| Proposed, distribution in specie *(Note (a))* | **2,308,188** | – |
| Proposed, of HK$0.13 (equivalent to US$0.017) (2013: HK$0.15 (equivalent to US$0.019)) per ordinary share *(Note (b))* | **139,340** | 160,777 |

***NOTES:***

*(a) On 20 March 2014, the Company submitted a proposal to the Stock Exchange in accordance with Practice Note 15 of Listing Rules for the spin-off of the Discontinued Operations by way of introduction achieved by distribution in specie of the entire shares of Global Brands.*

*On 15 May 2014, the Company submitted the listing application form (Form A1) to the Stock Exchange to apply for the listing of, and permission to deal in, the shares of Global Brands on the Main Board of the Stock Exchange.*

*On 1 July 2014, the Board of the Company declared a conditional distribution in specie of all of the issued share capital of Global Brands. The net assets value attributable to the Discontinued Operations subject to the distribution in specie, amounted to approximately US$2,308,188,000 as of 30 June 2014.*

*(b) A dividend of US$366,779,000 proposed for the year ended 31 December 2013 was paid in May 2014 (2013: US$171,495,000).*

## 7 Earnings/(losses) per share

The calculation of basic earnings/(losses) per share is based on the Group's profit attributable to Shareholders arising from the Continuing Operations of US$209,559,000 (2013 (restated): US$144,894,000) and the Group's losses attributable to Shareholders arising from the Discontinued Operations of US$98,138,000 (2013 (restated): US$48,524,000) and on the weighted average number of 8,356,317,000 (2013: 8,356,156,000) shares in issue during the period.

The diluted earnings/(losses) per share is the same as the basic earnings/(losses) per share for the six months ended 30 June 2014 as the potential ordinary shares in respect of outstanding share options are anti-dilutive. Diluted earnings/(losses) per share for the six months ended 30 June 2013 was calculated by adjusting the weighted average number of 8,356,156,000 ordinary shares in issue by 70,000 to assume conversion of all dilutive potential ordinary shares granted under the Company's Option Scheme. For the calculation 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.

## 8 Capital expenditure

| | Intangible assets US$'000 | Property, plant and equipment US$'000 |
|---|---|---|
| **Six months ended 30 June 2014** | | |
| Net book amount as at 1 January 2014 (audited) | 7,608,556 | 439,599 |
| | | |
| Continuing Operations | | |
| Acquisitions of businesses | 97,491 | – |
| Adjustments to purchase consideration and net asset value *(Note (a))* | 13,258 | – |
| Additions | 14,667 | 28,772 |
| Disposals | (1,135) | (8,547) |
| Amortization *(Note (b))*/depreciation charge | (24,092) | (29,069) |
| Exchange differences | 17,953 | 6,497 |
| | | |
| Discontinued Operations | | |
| Acquisitions of businesses | 75,235 | 454 |
| Adjustments to purchase consideration and net asset value | 14,581 | – |
| Additions | 142,210 | 24,085 |
| Disposals | – | (1,734) |
| Amortization/depreciation charge | (100,260) | (21,361) |
| Exchange differences | 9,710 | 335 |
| | | |
| Transferred to assets held for distribution | (3,417,476) | (194,950) |
| **Net book amount as at 30 June 2014 (unaudited)** | 4,450,698 | 244,081 |

## 8 Capital expenditure (continued)

| | Intangible assets US$'000 (Restated) | Property, plant and equipment US$'000 (Restated) |
|---|---|---|
| **Six months ended 30 June 2013** | | |
| Net book amount as at 1 January 2013 (audited) | 7,058,406 | 418,624 |
| Continuing Operations | | |
| Acquisitions of businesses | 362,365 | 4,796 |
| Adjustments to purchase consideration and net asset value *(Note (a))* | 32,884 | (727) |
| Additions | 5,735 | 25,860 |
| Disposals | (4,922) | (1,927) |
| Amortization *(Note (b))*/depreciation charge | (20,835) | (28,975) |
| Exchange differences | (39,885) | (8,913) |
| Discontinued Operations | | |
| Acquisitions of businesses | 7,753 | – |
| Adjustments to purchase consideration and net asset value | 1,206 | – |
| Additions | 53,409 | 36,799 |
| Disposals | – | (4,529) |
| Amortization/depreciation charge | (76,136) | (15,123) |
| Exchange differences | (12,489) | 7 |
| **Net book amount as at 30 June 2013 (unaudited)** | 7,367,491 | 425,892 |

***NOTES:***

*(a) These are adjustments to purchase considerations and net asset values related to certain acquisitions of businesses in the prior year, which were previously determined on a provisional basis. During the measurement period, the Group recognized adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Save as adjustments to intangible assets stated above, there was a corresponding net increase in purchase consideration of US$13,258,000. During the six months ended 30 June 2013, save as adjustments to intangible assets and property, plant and equipment stated above, there were a corresponding net increase in purchase consideration of US$10,432,000 and a net decrease in other net assets/liabilities of approximately US$21,725,000.*

*(b) Amortization of intangible assets included amortization of computer software and system development costs of US$2,495,000 (2013 (restated): US$2,081,000), amortization of brand licenses of US$4,965,000 (2013 (restated): US$3,759,000) and amortization of other intangible assets arising from business combination of US$16,632,000 (2013 (restated): US$14,995,000).*

At 30 June 2014, land and buildings of US$3,598,000 (31 December 2013: US$3,589,000) were pledged as security for the Group's short-term bank loans.

## 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 2014 (unaudited)** | **1,498,442** | **63,703** | **10,915** | **1,619** | **1,574,679** |
| Balance at 31 December 2013 (audited) | 2,112,726 | 93,213 | 9,569 | 5,333 | 2,220,841 |

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 2014.

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

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

Certain subsidiaries of the Group transferred bills receivable balances amounting to US$37,547,000 (31 December 2013: US$38,190,000) to banks in exchange for cash as at 30 June 2014. The transactions have been accounted for as collateralized bank advances.

## 10 Trade and bills payable

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

| | Current to 90 days US$'000 | 91 to 180 days US$'000 | 181 to 360 days US$'000 | Over 360 days US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| **Balance at 30 June 2014 (unaudited)** | **2,439,698** | **37,388** | **9,049** | **7,095** | **2,493,230** |
| Balance at 31 December 2013 (audited) | 2,452,932 | 66,220 | 6,725 | 26,618 | 2,552,495 |

The fair values of the Group's trade and bills payable were approximately the same as their carrying values as at 30 June 2014.

## 11 Long-term liabilities

| | **Unaudited 30 June 2014 US$'000** | Audited 31 December 2013 US$'000 |
|---|---|---|
| Long-term bank loans – unsecured | **17,000** | 116,640 |
| Long-term notes – unsecured | **1,254,642** | 1,254,915 |
| Purchase consideration payable for acquisitions | **683,136** | 1,397,999 |
| Brand license payable | **21,410** | 307,380 |
| Other non-current liability (non-financial liability) | **332** | 88,598 |
| | **1,976,520** | 3,165,532 |
| Current portion of purchase consideration payable for acquisitions | **(237,711)** | (409,512) |
| Current portion of brand license payable | **(7,720)** | (40,839) |
| | **1,731,089** | 2,715,181 |

Purchase consideration payable for acquisitions as at 30 June 2014 included performance-based earn-out and earn-up contingent considerations of US$491,595,000 and US$191,541,000 respectively (31 December 2013: US$693,549,000 and US$704,450,000). Earn-out is contingent consideration that would be payable 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 payable 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 however the contingent consideration reflects a specified multiple of the post-acquisition financial profitability of the acquired business. Consequently, the actual additional consideration payable will vary according to the future performance of each individual acquired business, and the liabilities provided reflect estimates of such future performances.

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

However, if the total actual contingent consideration payables are 10% higher or lower than the total contingent consideration payables estimated by management, the resulting aggregate impact to the gain or loss on remeasurement of contingent consideration payables recognized to the profit and loss account would be US$68,186,000, and the resulting aggregate impact to the goodwill would be US$128,000.

## 12 Share capital and options

| | No. of shares (in thousand) | HK$'000 | Equivalent to US$'000 |
|---|---|---|---|
| **Authorized** | | | |
| At 1 January 2014, ordinary shares of HK$0.0125 each | **12,000,000** | **150,000** | **19,231** |
| At 30 June 2014, ordinary shares of HK$0.0125 each | **12,000,000** | **150,000** | **19,231** |
| **Issued and fully paid** | | | |
| At 1 January 2014, ordinary shares of HK$0.0125 each | **8,360,398** | **104,505** | **13,398** |
| Exercise of share options | **–** | **–** | **–** |
| At 30 June 2014, ordinary shares of HK$0.0125 each | **8,360,398** | **104,505** | **13,398** |

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

| | | | Number of Share Options | | |
|---|---|---|---|---|---|
| **Grant Date** | **Exercise Price HK$** | **Exercisable period** | **As at 1/1/2014** | **Cancelled** | **As at 30/6/2014** |
| 11/4/2011 | 20.21 | 1/5/2012–30/4/2015 | 32,860,000 | (10,268,000) | 22,592,000 |
| 11/4/2011 | 20.21 | 1/5/2013–30/4/2015 | 33,404,000 | (33,404,000) | – |
| 11/4/2011 | 20.21 | 1/5/2014–30/4/2016 | 83,226,000 | (83,226,000) | – |
| 21/11/2011 | 15.20 | 1/5/2012–30/4/2015 | 2,033,000 | (653,000) | 1,380,000 |
| 21/11/2011 | 15.20 | 1/5/2013–30/4/2015 | 4,228,000 | (4,228,000) | – |
| 21/11/2011 | 15.20 | 1/5/2014–30/4/2016 | 9,457,000 | (9,457,000) | – |
| 22/12/2011 | 14.50 | 1/5/2013–30/4/2015 | 3,000,000 | – | 3,000,000 |
| 22/12/2011 | 14.50 | 1/5/2014–30/4/2016 | 3,000,000 | – | 3,000,000 |
| 22/12/2011 | 14.50 | 1/5/2015–30/4/2017 | 3,000,000 | – | 3,000,000 |
| 22/12/2011 | 14.50 | 1/5/2016–30/4/2018 | 3,000,000 | – | 3,000,000 |
| 22/12/2011 | 14.50 | 1/5/2017–30/4/2019 | 3,000,000 | – | 3,000,000 |
| 22/12/2011 | 14.50 | 1/5/2018–30/4/2020 | 3,000,000 | – | 3,000,000 |
| 22/12/2011 | 14.50 | 1/5/2019–30/4/2021 | 3,000,000 | – | 3,000,000 |
| 22/12/2011 | 14.50 | 1/5/2020–30/4/2022 | 3,000,000 | – | 3,000,000 |
| 22/12/2011 | 14.50 | 1/5/2021–30/4/2023 | 3,000,000 | – | 3,000,000 |
| 26/6/2012 | 15.09 | 1/5/2013–30/4/2015 | 3,742,000 | (3,742,000) | – |
| 26/6/2012 | 15.09 | 1/5/2014–30/4/2016 | 8,357,000 | (8,357,000) | – |
| 12/11/2012 | 13.04 | 1/5/2013–30/4/2015 | 813,000 | (813,000) | – |
| 12/11/2012 | 13.04 | 1/5/2014–30/4/2016 | 3,014,000 | (3,014,000) | – |
| | | Total | 208,134,000 | (157,162,000) | 50,972,000 |

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

## 13 Perpetual capital securities

On 8 November 2012, the Company issued perpetual subordinated capital securities (the "Perpetual Capital Securities") with an aggregate principal amount of US$500 million. 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 amount as at 30 June 2014 included the accrued distribution payments net of the actual distribution to holders during the period. For the period ended 30 June 2014, the accrued distribution payment was US$3,000,000 (31 December 2013: US$3,000,000) and the actual distribution to holders was US$15,000,000 (31 December 2013: US$31,415,000).

## 14 Other reserves

| | Unaudited | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Treasury share US$'000 *(Note (a))* | Capital reserve US$'000 | Contributed surplus US$'000 *(Note (b))* | Employee share-based compensation reserve US$'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 2014 | (6,739) | 3,835 | – | 36,821 | 2,679 | (1,413) | (10,338) | (18,342) | 6,503 |
| **Comprehensive income** | | | | | | | | | |
| Currency translation differences | – | – | – | – | – | – | – | 18,902 | 18,902 |
| Net fair value gain on available-for-sale financial assets, net of tax | – | – | – | – | 7 | – | – | – | 7 |
| Net fair value loss on cash flow hedges, net of tax | – | – | – | – | – | (1,693) | – | – | (1,693) |
| Remeasurements from post-employment benefits recognized in reserve, net of tax | – | – | – | – | – | – | (13) | – | (13) |
| **Transactions with owners** | | | | | | | | | |
| Employee share option scheme: | | | | | | | | | |
| – value of employee services | – | – | – | 1,477 | – | – | – | – | 1,477 |
| Share premium reduction | – | – | 3,000,000 | – | – | – | – | – | 3,000,000 |
| Transfer to capital reserve | – | 87 | – | – | – | – | – | – | 87 |
| **Balance at 30 June 2014** | (6,739) | 3,922 | 3,000,000 | 38,298 | 2,686 | (3,106) | (10,351) | 560 | 3,025,270 |

## 14 Other reserves (continued)

| | Unaudited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Treasury share US$'000 *(Note (a))* | Capital reserve US$'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 2013 | (6,739) | 3,742 | 33,830 | 2,608 | (1,015) | (14,778) | (30,152) | (12,504) |
| **Comprehensive income** | | | | | | | | |
| Currency translation differences | – | – | – | – | – | – | (59,277) | (59,277) |
| Net fair value gain on available-for-sale financial assets, net of tax | – | – | – | 193 | – | – | – | 193 |
| Net fair value gain on cash flow hedges, net of tax | – | – | – | – | 3,979 | – | – | 3,979 |
| Remeasurements from post-employment benefits recognized in reserve, net of tax | – | – | – | – | – | 432 | – | 432 |
| **Transactions with owners** | | | | | | | | |
| Employee share option scheme: | | | | | | | | |
| – value of employee services | – | – | 1,937 | – | – | – | – | 1,937 |
| – transfer to share premium | – | – | (531) | – | – | – | – | (531) |
| **Balance at 30 June 2013** | (6,739) | 3,742 | 35,236 | 2,801 | 2,964 | (14,346) | (89,429) | (65,771) |

***NOTES:***

*(a) Treasury share represents the excess share issued for settlement of consideration for certain prior year acquisitions held by the escrow agent.*

*(b) During the period, US$3,000,000,000 contributed surplus was created by reduction of the share premium of the Company.*

## 15 Discontinued Operations and assets/liabilities held for distribution

The consolidated assets and liabilities related to Global Brands Group have been presented as held for distribution. Approval of the Stock Exchange was obtained on 8 July 2014 for the spin-off and separate listing for Global Brands Group.

The consolidated results of Global Brands Group are presented in the consolidated profit and loss account as Discontinued Operations 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. Comparative figures have been restated.

### (a) Results of the Discontinued Operations have been included in the consolidated income statement as follows:

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **US$'000** | US$'000 |
| Turnover | **1,348,883** | 1,330,008 |
| Cost of sales* | **(948,548)** | (940,481) |
| Gross profit | **400,335** | 389,527 |
| Other income | **32** | – |
| Total margin | **400,367** | 389,527 |
| Selling and distribution expenses | **(228,254)** | (179,119) |
| Merchandising and administrative expenses | **(235,391)** | (235,764) |
| Core operating loss | **(63,278)** | (25,356) |
| Gain on remeasurement of contingent consideration payable | **19,667** | – |
| Amortization of other intangible assets | **(24,650)** | (21,691) |
| Professional fee for Spin-off | **(11,860)** | – |
| One-off reorganization costs for Spin-off | **(16,880)** | – |
| Other non-core operating expenses | **(2,001)** | – |
| Operating loss | **(99,002)** | (47,047) |
| Interest income | **29** | 227 |
| Interest expenses | | |
| Non-cash interest expenses | **(9,465)** | (7,886) |
| Cash interest expenses | **(7,007)** | (4,412) |
| | **(16,472)** | (12,298) |
| Share of profits of joint ventures | **324** | – |
| Loss before taxation | **(115,121)** | (59,118) |
| Taxation | **16,983** | 10,594 |
| Net loss attributable to shareholders of the Company | **(98,138)** | (48,524) |

* *Amounts before elimination of transactions between Continuing Operations and Discontinued Operations of US$741,248,000 (2013: US$668,078,000).*

## 15 Discontinued Operations and assets/liabilities held for distribution (continued)

### (a) Results of the Discontinued Operations have been included in the consolidated income statement as follows: (continued)

Operating loss is stated after charging the following:

| | Unaudited Six months ended 30 June 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| Staff costs including directors' emoluments | **178,904** | 190,065 |
| Amortization of brand licenses | **73,252** | 51,902 |

### (b) Segment information

Turnover of the Discontinued Operations consisting of sales of Licensed Brands and Controlled Brands are as follows:

| | Unaudited Six months ended 30 June 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| Controlled Brands | **196,400** | 200,279 |
| Licensed Brands | **1,152,483** | 1,129,729 |
| | **1,348,883** | 1,330,008 |

The geographical analysis of turnover and non-current assets (other than deferred tax assets) of the Discontinued Operations are as follows:

| | Turnover Unaudited Six months ended 30 June | | Non-current assets (other than deferred tax assets) | |
|---|---|---|---|---|
| | | | Unaudited 30 June | Audited 31 December |
| | **2014 US$'000** | 2013 US$'000 | **2014 US$'000** | 2013 US$'000 |
| United States of America | **1,089,313** | 1,175,009 | **3,048,649** | – |
| Europe | **190,327** | 105,649 | **349,096** | – |
| Asia | **69,243** | 49,350 | **248,626** | – |
| | **1,348,883** | 1,330,008 | **3,646,371** | – |

## 15 Discontinued Operations and assets/liabilities held for distribution (continued)

### (c) Assets and liabilities of the Discontinued Operations

The consolidated assets and liabilities related to the Discontinued Operations have been presented as held for distribution, following the Spin-off and separate listing. The Discontinued Operations' assets and liabilities were measured at the lower of carrying amount and fair value less cost to sell at the date of held for sale classification. The major classes of assets and liabilities of the Discontinued Operations are as follows:

| | | | Unaudited 30 June 2014 US$'000 |
|---|---|---|---|
| **i)** | **Assets held for distribution** | | |
| | Intangible assets | | **3,417,476** |
| | Property, plant and equipment | | **194,950** |
| | Other non-current assets | | **39,723** |
| | Trade and other receivables | | **394,715** |
| | Other current assets* | | **748,226** |
| | Total | | **4,795,090** |
| **ii)** | **Liabilities held for distribution** | | |
| | Trade and other payables | **758,027** | |
| | Less: Intragroup trade and other payables with Continuing Operations | **(478,065)** | |
| | Trade and other payables, net* | | **279,962** |
| | Other current liabilities | | **238,509** |
| | Other non-current liabilities | | **881,521** |
| | Purchase consideration payable for acquisitions | | **628,845** |
| | Total | | **2,028,837** |

* *Amounts adjusted to eliminate impact of transactions between the Continuing Operations and the Discontinued Operations.*

### (d) Cumulative expense recognized in other comprehensive income relating to the Discontinued Operations

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **US$'000** | US$'000 |
| Currency translation differences | **1,100** | 2,539 |

## 15 Discontinued Operations and assets/liabilities held for distribution (continued)

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

| | Unaudited Six months ended 30 June 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| Net cash generated from/(used in) operating activities | **23,395** | (121,531) |
| Net cash used in investing activities | **(114,576)** | (156,388) |
| Net cash generated from/(used in) financing activities* | **718,106** | (4,412) |
| Total cash flow | **626,925** | (282,331) |

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

### (f) Commitments

*(i) Operating lease commitments*

As at 30 June 2014, the Discontinued Operations had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | Unaudited 30 June 2014 US$'000 | Audited 31 December 2013 US$'000 |
|---|---|---|
| Within one year | **56,270** | 49,101 |
| In the second to fifth year inclusive | **198,219** | 185,416 |
| After the fifth year | **355,434** | 347,978 |
| | **609,923** | 582,495 |

*(ii) Capital commitments*

| | Unaudited 30 June 2014 US$'000 | Audited 31 December 2013 US$'000 |
|---|---|---|
| Contracted but not provided for: | | |
| Property, plant and equipment | **7,543** | 14,166 |
| Computer software and system development costs | **8,505** | 9,066 |
| Authorised but not contracted for: | | |
| Property, plant and equipment | **4,113** | 8,254 |
| Computer software and system development costs | **4,639** | 21,034 |
| | **24,800** | 52,520 |

## 15 Discontinued Operations and assets/liabilities held for distribution (continued)

### (g) Related party transactions

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **US$'000** | US$'000 |
| Distribution and sales of goods *(Note 20(ii))* | **12,480** | 20,199 |
| Convertible promissory notes *(Note)* | **14,000** | – |

***NOTE:***

*On 21 August 2013, the Group via GBG USA Inc. (formerly known as LF USA Inc, which is now part of the Global Brands Group) formed a business co-operation arrangement based on mutually agreed terms with Heritage Global Partners, LLC ("Heritage") and Trinity International Brands Limited, an associate of FH (1937), for launching Kent & Curwen brand in the United States, which is conducted under BHB, a wholly-owned subsidiary of Heritage. Pursuant to the arrangement, GBG USA Inc. entered into a convertible promissory note purchase agreement (the "Note Purchase Agreement") with BHB to contribute a maximum aggregate amount of US$32,000,000 in six tranches over three years with the first, second and third tranches of US$6,750,000, US$3,250,000 and US$4,000,000 were already paid as at 30 June 2014.*

*For the remaining US$18,000,000, GBG USA Inc. is required to pay BHB by 31 August 2015, subject to satisfaction of the relevant benchmarks as prescribed under the Note Purchase Agreement. The convertible promissory note (the "Note") carries interest at 5% per annum maturing on 31 December 2027 with a right of conversion up to 51.06% equity interest of BHB during the period commencing on the earlier of either (i) the date on which sum of all payments made by GBG USA Inc. equals the maximum aggregate amount of the Note; or (ii) 1 January 2016, and ending on the date occurring 90 days following the date of delivery to GBG USA Inc. of the annual audited financial statements of BHB for the fiscal year 2018.*

## 16 Business combinations

During the period, the Group completed a series of acquisitions to expand the Group's existing scale of operation and enlarge the Group's market presence.

In January 2014, the Group acquired The Licensing Company Limited, a global licensing agent based in UK.

In April 2014, the Group acquired China Container Line Limited, a global sea freight forwarders based in China.

In June 2014, the Group acquired the business and assets of Cocaban Co. Ltd., a licensing brand management specialist in Korea.

The Group was not required to make any announcement in accordance with Chapter 14 of the Listing Rules for any individual acquisition completed during the period since none of the acquisitions, on a standalone basis, would be of sufficient material to be recognized as a notifiable transaction, and, accordingly no disclosure is provided for the details and impact of any individual acquisition.

## 17 Contingent liabilities

| | Unaudited 30 June 2014 US$'000 | Audited 31 December 2013 US$'000 |
|---|---|---|
| Guarantees in respect of banking facilities granted to associated companies | **750** | 750 |

## 18 Commitments

### (a) Operating lease commitments

As at 30 June 2014, the Continuing Operations had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | Unaudited 30 June 2014 US$'000 | Audited 31 December 2013 US$'000 (Restated) |
|---|---|---|
| Within one year | **139,784** | 115,186 |
| In the second to fifth year inclusive | **250,250** | 238,809 |
| After the fifth year | **81,026** | 89,482 |
| | **471,060** | 443,477 |

### (b) Capital commitments

| | Unaudited 30 June 2014 US$'000 | Audited 31 December 2013 US$'000 (Restated) |
|---|---|---|
| Contracted but not provided for: | | |
| Property, plant and equipment | **3,096** | 5,445 |
| Computer software and system development costs | **–** | 102 |
| Authorized but not contracted for: | | |
| Property, plant and equipment | **16,617** | 4,640 |
| | **19,713** | 10,187 |

## 19 Charges on assets

Save as disclosed in *Note 8*, there were no charges on the Continuing Operation's assets as at 30 June 2014 and 31 December 2013.

## 20 Related party transactions

The Continuing Operations had the following material transactions with its related parties during the period ended 30 June 2014 and 2013:

| | | Unaudited Six months ended 30 June | |
|---|---|---|---|
| | | **2014** | 2013 |
| | *Notes* | **US$'000** | US$'000 (Restated) |
| Operating leases rental paid | *(i)* | **13,149** | 13,071 |
| Distribution and sales of goods | *(ii)* | **1,699** | 1,710 |

(i) Pursuant to the renewal of the master agreement for leasing of properties on 6 December 2013 with FH (1937) for a term of three years ending 31 December 2016, the Group had rental charge for certain properties leased from FH (1937) and its associates during the period based on mutually agreed terms.

(ii) Pursuant to the master distribution and sales of goods agreement entered into on 19 January 2012 with FH (1937) for a term of three years ending 31 December 2014, certain distribution and sales of goods was made on normal commercial terms and conditions with FH (1937) and its associates based on mutually agreed terms.

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

## 21 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 were deposits in HK$ and US$ with major global financial institutions, and most of the Group's borrowings were denominated in US$.

The Group's revenues and related payments are transacted mainly in the same currency, predominantly in US$. 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 by means of foreign exchange forward contracts.

While the Group's net revenue is substantially in US$, we are exposed to currency fluctuation on operating costs in sourcing countries such as China, Bangladesh, Vietnam, Korea and India to a certain extent. We manage such foreign currency risks through the following measures:

(1) From a short-term perspective, we arrange foreign exchange forward contracts for hedging on operating costs in individual countries as and when appropriate; and

(2) From a medium-to-long-term perspective, we manage our sourcing operations in the most cost-effective way within our global network.

## 21 Financial risk management (continued)

### (a) Market risk (continued)

#### *(i) Foreign exchange risk* (continued)

The Group in general does not enter into foreign currency hedges in respect of its long-term equity investment. In particular, the Group's net equity investments in non-US dollar-denominated on-shore wholesale businesses are 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.

The Group strictly prohibits any financial derivative arrangement merely for speculation.

#### *(ii) Price risk*

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

At 30 June 2014 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 (*(i)* above). At 30 June 2014, the fair value of foreign exchange forward contracts entered into by the Group amounted to US$5,425,000 (31 December 2013: US$8,275,000), which has been reflected in full in the Group's consolidated balance sheet as derivative financial instruments liabilities.

#### *(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. The Group has stringent policies in place to manage its credit risk with such receivables, which include but are not limited to the measures set out below:

(i) The Group selects customers in a cautious manner. Its credit control team has implemented a risk assessment system to evaluate its customers' financial strengths prior to agreeing on the trade terms with individual customers. It is not uncommon for the Group to require securities (such as standby or commercial letter of credit, or bank guarantee) from a small number of its customers who 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 in place a new system with a dedicated team and tighten policies to ensure on-time recoveries from its trade debtors; and

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

## 21 Financial risk management (continued)

### (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.

## 22 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 2014.

| | Level 1 US$'000 | Level 2 US$'000 | Level 3 US$'000 | Total US$'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Available-for-sale financial assets | | | | |
| – Club debentures | – | – | 3,676 | 3,676 |
| **Total assets** | – | – | 3,676 | 3,676 |
| **Liabilities** | | | | |
| Derivative financial instruments used for hedging | – | 5,425 | – | 5,425 |
| Purchase consideration payable for acquisitions | – | – | 683,136 | 683,136 |
| **Total liabilities** | – | 5,425 | 683,136 | 688,561 |

## 22 Fair value estimation (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2013.

| | Level 1<br>US$'000 | Level 2<br>US$'000 | Level 3<br>US$'000 | Total<br>US$'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Available-for-sale financial assets | | | | |
| – Club debentures | – | – | 3,669 | 3,669 |
| – Derivative financial instrument | – | – | 2,664 | 2,664 |
| **Total assets** | – | – | 6,333 | 6,333 |
| **Liabilities** | | | | |
| Derivative financial instruments used for hedging | – | 8,275 | – | 8,275 |
| Purchase consideration payable for acquisitions | – | – | 1,397,999 | 1,397,999 |
| **Total liabilities** | – | 8,275 | 1,397,999 | 1,406,274 |

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.

## 22 Fair value estimation (continued)

The following table presents the changes in level 3 instruments for the six months ended 30 June 2014.

| | Purchase consideration payable for acquisitions US$'000 | Others US$'000 |
|---|---|---|
| Opening balance | **1,397,999** | **6,333** |
| Continuing Operations | | |
| Fair value gains | **–** | **7** |
| Additions | **76,487** | **–** |
| Settlement | **(69,313)** | **–** |
| Remeasurement of purchase consideration payable for acquisitions | **(98,162)** | **–** |
| Others | **15,252** | **–** |
| Discontinued Operations | | |
| Additions | **60,227** | **–** |
| Settlement | **(69,306)** | **–** |
| Remeasurement of purchase consideration payable for acquisitions | **(19,667)** | **–** |
| Others | **18,464** | **–** |
| Transferred to assets/liabilities held for distribution | **(628,845)** | **(2,664)** |
| Closing balance | **683,136** | **3,676** |

The discount rate used to compute the fair value is based on the then prevailing incremental cost of borrowings of the Group from time to time ranging from 1.0% to 2.5%.

The group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no other changes in valuation techniques during the period.

## 23 Event after balance sheet date

The spin-off of the Discontinued Operations achieved through a distribution in specie of the entire issued share capital of Global Brands was completed by the Group on 8 July 2014 which then became a separate listing company on the Stock Exchange. The transaction is expected to give rise to no substantial gain or loss to the Group's financial results.

## 24 Approval of interim financial information

The interim financial information was approved by the Board on 21 August 2014.