

Our Performance

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



Our Performance

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

Results Overview

Trade War Can Present an Opportunity for Our Large Global Network

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

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

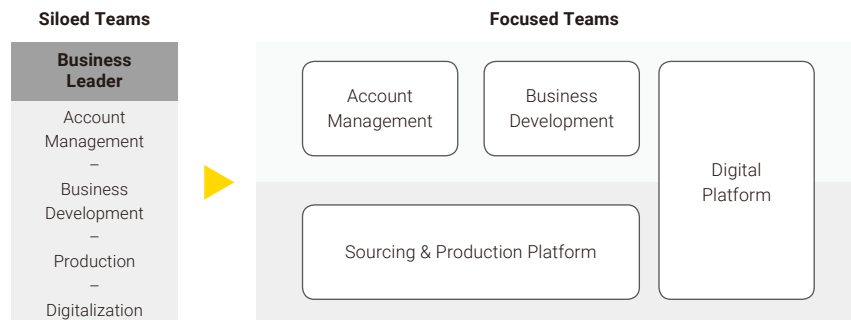
Besides helping our customers diversify their production, we are playing an active role in helping our vendor base adapt to the seismic shift in trade. First, many Chinese vendors experienced sudden declines in their capacity utilization rates as production of US-bound goods moved to other countries.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

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

New Management Team Spearheading Reorganization

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

Focused Reorganization



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

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

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

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

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

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

Digitalization

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

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

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



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

Temasek's US\$300 Million Investment in Logistics business

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

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



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

Results

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

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

(US\$ million)	Group Results ¹		
	1H 2019	1H 2018 (Restated) ³	Change %
Turnover	5,356	5,850	-8.4%
Total Margin	583	614	-5.0%
As % of Turnover	10.9%	10.5%	
Operating Costs	478	485	-1.4%
As % of Turnover	8.9%	8.3%	
Core Operating Profit	105	129	-18.6%
As % of Turnover	2.0%	2.2%	

Profit for the Period

– Continuing Operations	37	77
– Discontinued Operations	–	(137)
– Total	37	(60)

Profit Attributable to Shareholders²

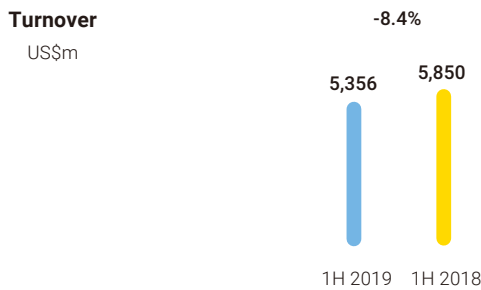
– Continuing Operations	21	48
– Discontinued Operations ¹	–	(134)
– Total	21	(86)

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

TURNOVER

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

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

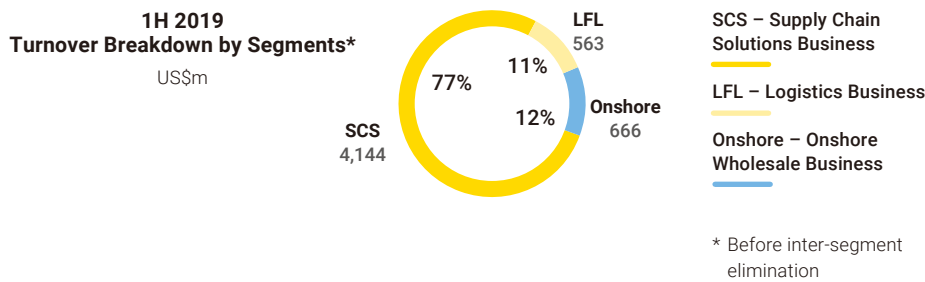


Our Supply Chain Solutions, Logistics and Onshore Wholesale businesses, accounted for 77%, 11% and 12% of Group turnover, respectively.

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

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

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

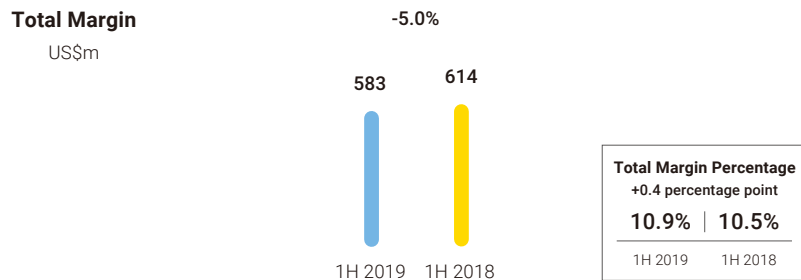


Excluding the Logistics business, the Group derived 74% and 26% of 2019 first half turnover from soft goods and hard goods respectively. Compared to the first half of 2018, the contribution from soft goods decreased by two percentage points.

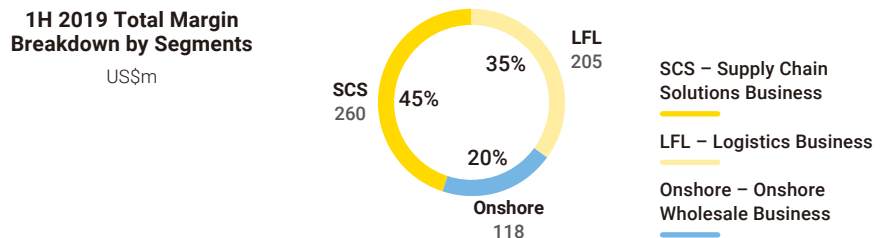


TOTAL MARGIN

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

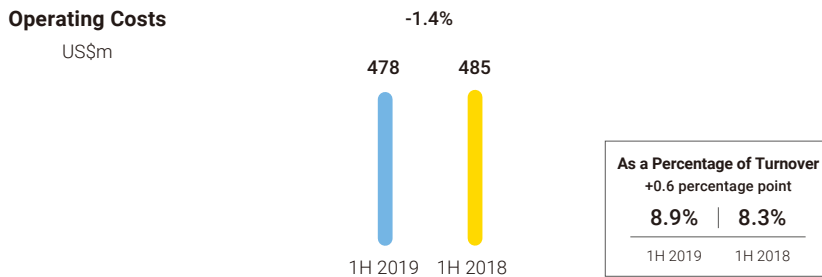


The Supply Chain Solutions, Logistics and Onshore Wholesale businesses accounted for 45%, 35% and 20% of total margin respectively. Total margin for the Logistics business saw a year-on-year increase of 7.9%. This was offset by reductions in total margin for the Supply Chain Solutions business and Onshore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

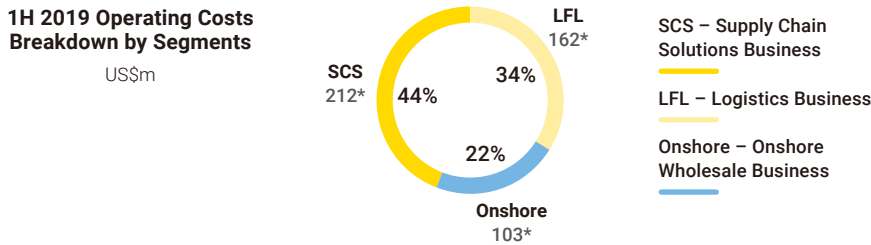


OPERATING COSTS

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



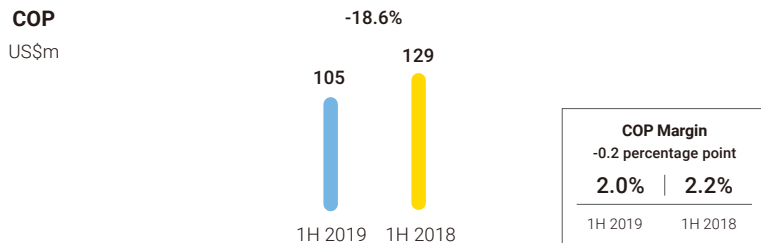
The Supply Chain Solutions, Logistics and Onshore Wholesale businesses accounted for 44%, 34% and 22% of operating costs respectively. Operating costs for the Supply Chain Solutions business decreased by 4.0% through rightsizing, on-going productivity improvements and process streamlining, though this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



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

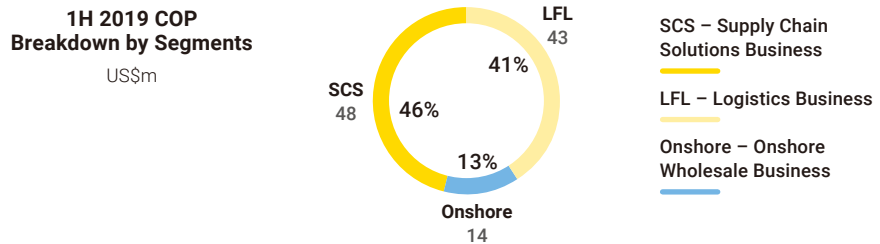
CORE OPERATING PROFIT

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



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

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



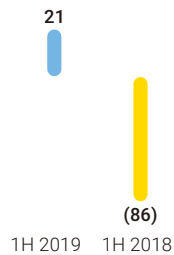
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

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

Net Profit Attributable to Shareholders

US\$m

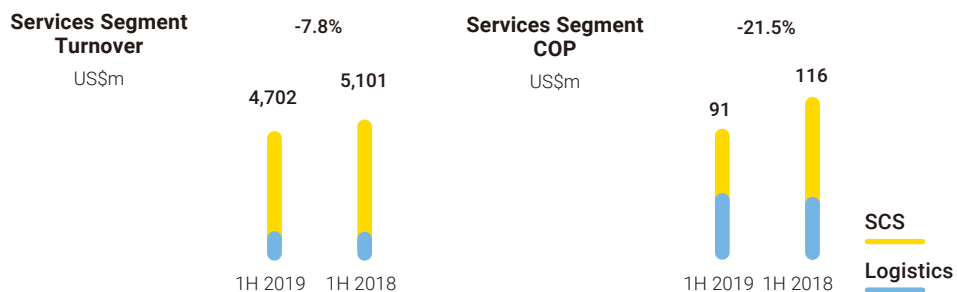


Services Segment

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



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



Services – Supply Chain Solutions

Our Supply Chain Solutions business, which accounted for 77% of turnover, is the largest revenue generator for the Group. It offers strategic supply chain services, from product design and development to raw material and factory sourcing as well as manufacturing control for brands and retailers. The business has a diversified customer base that includes brands, specialty stores, department stores, big box retailers, e-commerce players, hypermarkets, off-price retailers and clubs. We have also converted our vendor base to a new customer base for services that improve the operational efficiencies and compliance levels of their factories.

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



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

Supply Chain Solutions Business Results

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

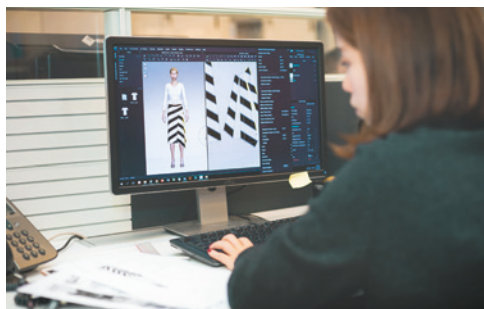
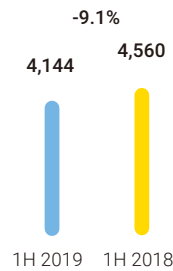
* The total margin, operating costs and COP of 1H 2018 were US\$296.6 million, US\$221.2 million and US\$75.3 million respectively.

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

TURNOVER

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

Supply Chain Solutions Business Turnover
US\$m



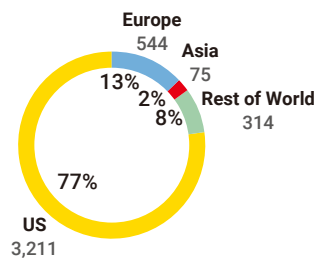
Many of our customers have embraced our new value proposition: a speed and digital supply chain model, realizing tangible improvements with increased sell-through, reduced mark-downs and improved inventory levels.

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

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

1H 2019 Geographical Market Turnover

US\$m



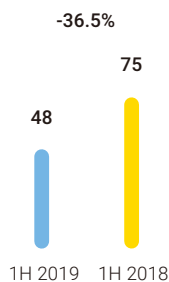
CORE OPERATING PROFIT

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

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

COP

US\$m



COP Margin	
-0.5 percentage point	
1.2%	1.7%
1H 2019	1H 2018

Services – Logistics Business

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

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

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

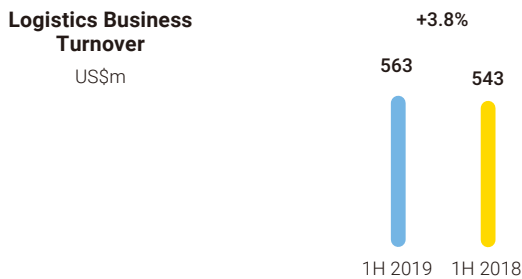
By cultivating strong partnerships with an extraordinary list of strategic customers, we have retained and grown with our existing customers. By continuing our investment in our overall value proposition, we have wooed and won new customers across all four verticals.

Logistics Business Results

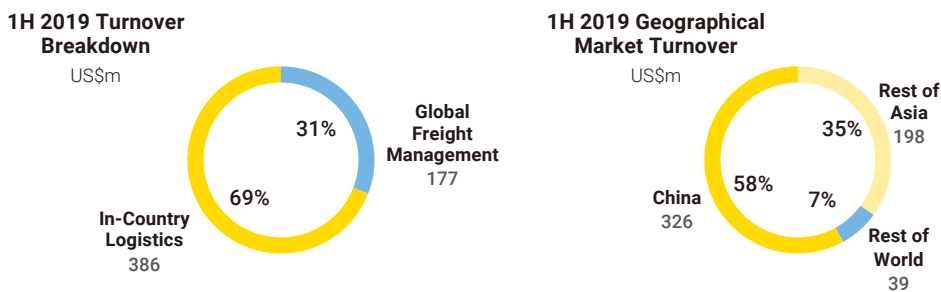
	1H 2019	1H 2018	Change
	US\$m	US\$m	%
Turnover	563	543	+3.8%
Total Margin	205	190	+7.9%
<i>As % of Turnover</i>	36.4%	35.0%	
Operating Costs	162	150	+8.4%
<i>As % of Turnover</i>	28.8%	27.6%	
Core Operating Profit	43	40	+6.4%
<i>As % of Turnover</i>	7.6%	7.4%	

TURNOVER

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



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



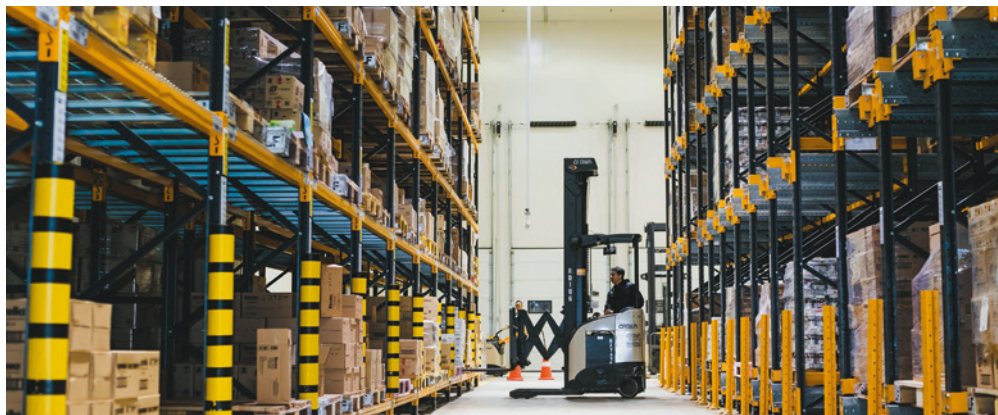
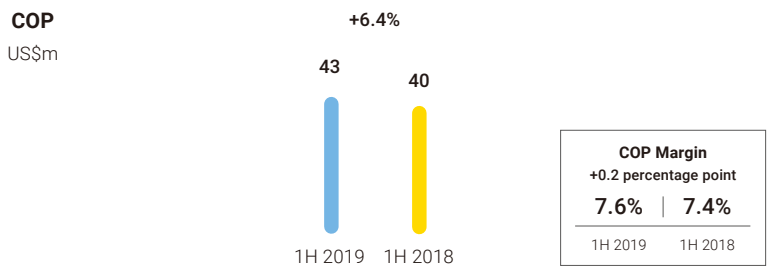
China is our key market for the Logistics business accounting for 58% of turnover. The rest of Asia, including Singapore, the Philippines, Malaysia, Thailand, Indonesia, India, Japan and Korea accounted for 35% of turnover, while Rest of World accounted for 7%.

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

CORE OPERATING PROFIT

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

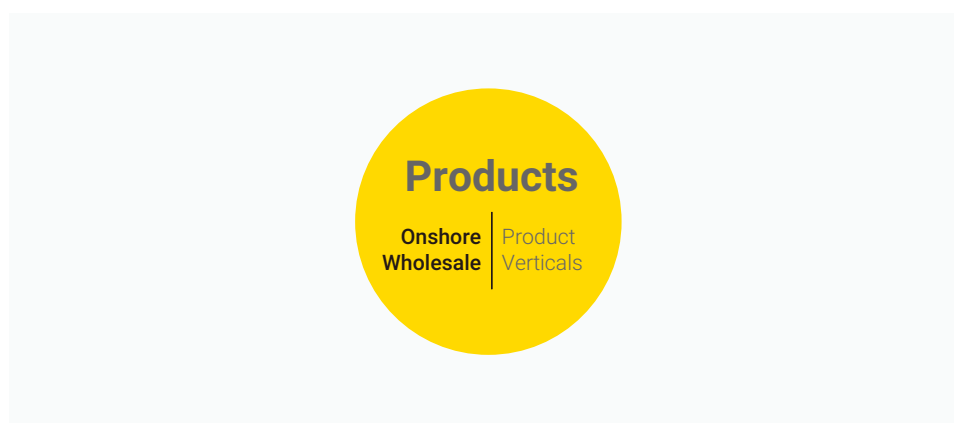
COP margin expanded by 0.2 percentage point to 7.6% due to customer mix optimization, productivity gains and increased penetration of higher-margin value-added services.



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

Products Segment

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



Onshore Wholesale Business

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

Onshore Wholesale Business Results

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

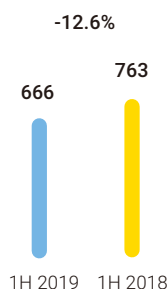
* The total margin, operating costs and COP of 1H 2019 were US\$117.5 million, US\$103.3 million and US\$14.2 million respectively.

TURNOVER

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

Onshore Wholesale Business Turnover

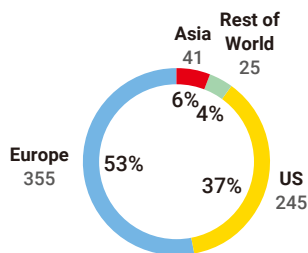
US\$m



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

1H 2019 Geographical Market Turnover

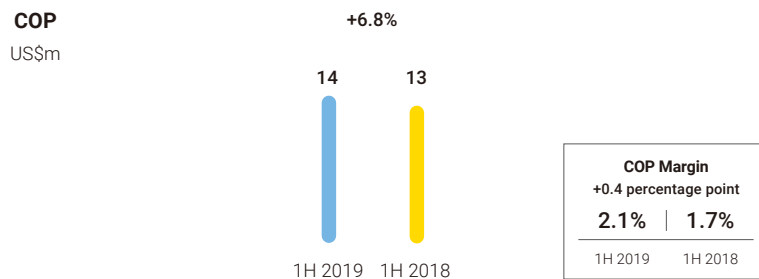
US\$m



CORE OPERATING PROFIT

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

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

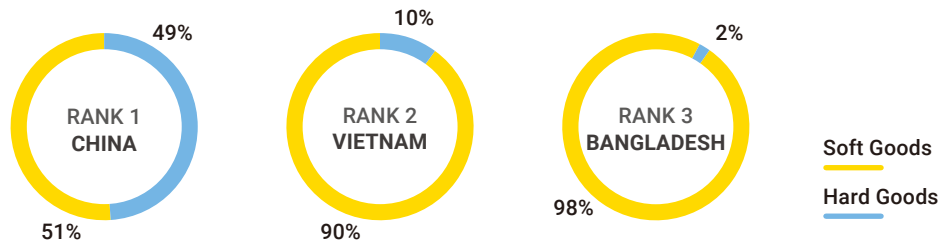


One of our showrooms displaying a collection of homewares and apparel.

Top Sourcing Countries

Our global network of factories, which spans more than 50 economies, allows for flexibility when moving orders from one production country to another to better manage manufacturing constraints and optimize our customers' margins. In the first half of 2019, our top three sourcing countries were China, Vietnam and Bangladesh. We also have sizeable sourcing operations in other countries such as India, Cambodia and Indonesia. We are among the largest exporters in our product categories in our major sourcing countries. This comprehensive global network, combined with strong local presence, a long operating history and critical mass, is one of Li & Fung's unique competitive strengths. As the sourcing landscape continues to evolve with changes in trade policies and sourcing requirements, we are very well positioned to scale our existing operations to source in the most efficient way possible for our customers.

Top Sourcing Countries



People

Our people are our most valuable assets. As at 30 June 2019, we had a total workforce of 16,121. The 16,121 workforce includes 8,541 warehouse-related employees primarily for our Logistics business. Total manpower costs for the first half of 2019 were US\$323 million compared with US\$355 million in the same period of 2018. We continue to enhance the productivity of our workforce and equip our people for the new digital world. We are grateful for our colleagues' commitment to build the supply chain of the future.

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



Balance Sheet and Capital Structure

Strong Cash Position

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

- Over the first six months of 2019, cash flow from operating activities was US\$126 million compared to US\$57 million during the same period last year. This was mainly due to an improvement in working capital. Our management team and operations have a strong focus on effective working capital management and are constantly monitoring and improving our working capital position
- Lease payments amounted to US\$83 million compared to US\$78 million during the same period last year. The increase was due to the organic growth of the Logistics business
- Capital expenditures were US\$34 million while tax paid was US\$21 million
- Net interest expenses increased to US\$30 million as in the first half of 2018 the Group benefited from interest income on the cash proceeds of the Product Verticals divestment before the payout of the special dividend and redemption of perpetual capital securities
- Distribution to perpetual capital securities holders was US\$17 million compared to US\$32 million during the same period last year. The reduction was due to the redemption of US\$500 million in perpetual capital securities in May 2018
- Final 2018 dividend payment of US\$44 million which was supported by carried forward cash balance in 2018

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

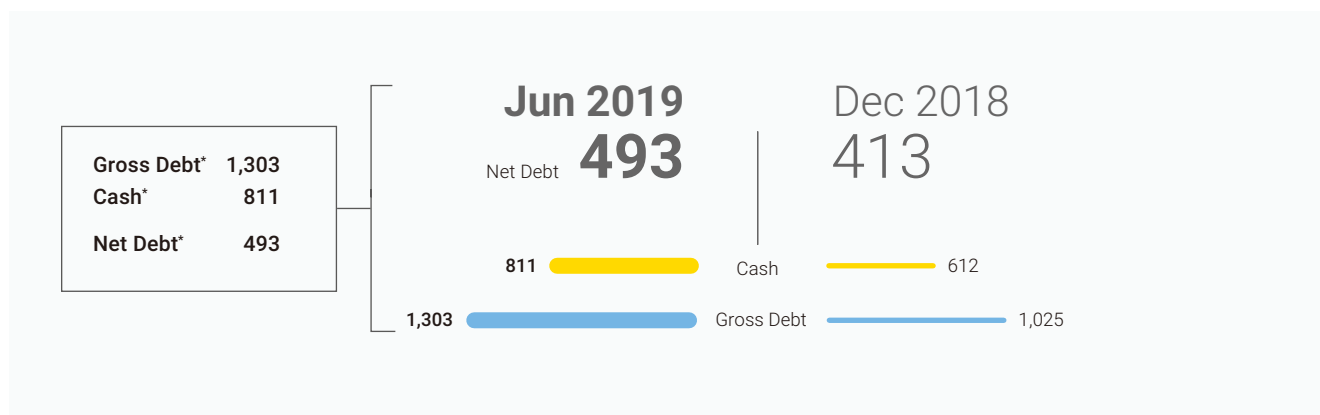
Strong Balance Sheet

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

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

Cash and Gross Debt

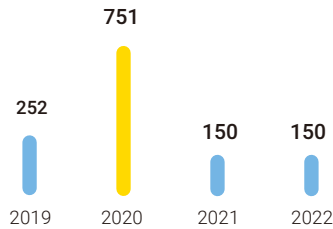
US\$m



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

Debt Maturity Schedule

US\$m



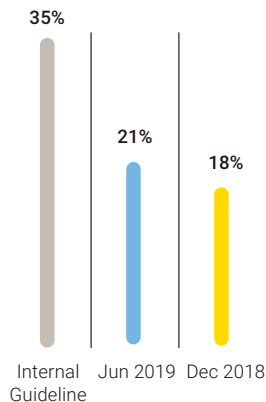
	2019	2020	2021	2022
Bank Loans	252	-	150	150
Bonds	-	751	-	-

Gearing Ratio and Current Ratio

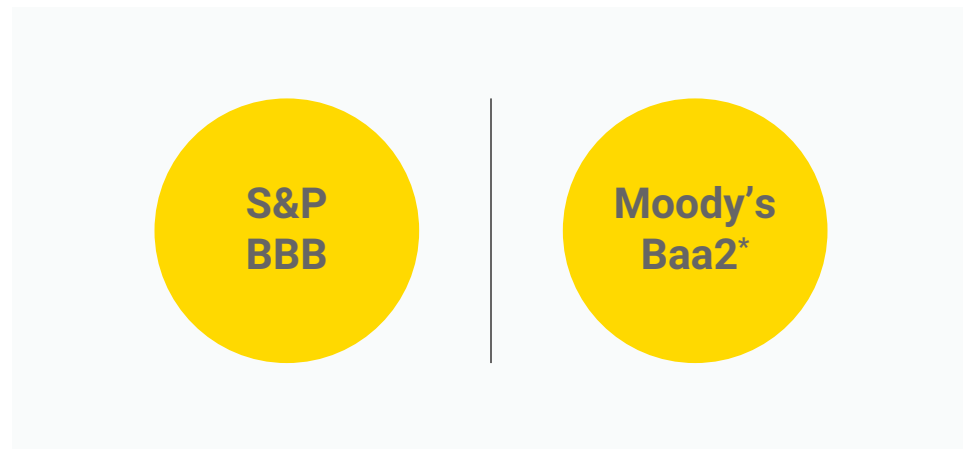
After adopting the new accounting standard HKFRS 16, our gearing ratio and current ratio were 21% and 0.8 respectively as at 30 June 2019 (18% and 1.0 respectively and restated for the Group as at 31 December 2018). The gearing ratio remained stable and is calculated as net debt divided by total capital.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

We continued to take a conservative approach in managing our balance sheet and capital structure. As at 30 June 2019, our credit rating was Baa2 according to Moody's and BBB according to Standard & Poor's. We are committed to maintaining a strong balance sheet, healthy cash flow and strong credit ratios, with the long-term target of retaining an investment-grade rating.

Gearing Ratio



Credit Rating



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

Banking Facilities

Bank Loans and Overdrafts

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

Trade Finance

The Group's normal trading operations are well supported by US\$1.3 billion in bank trading facilities that mainly include letters of credit issued to suppliers and bills discounting. A letter of credit is a common means of payment to suppliers to support cross-border trades. The Group's payment obligations on letters of credit issued to suppliers will only be crystallized when our suppliers have shipped the merchandise to our customers or to the Group in accordance with all the terms and conditions specified in the related contractual documents. As at 30 June 2019, only approximately 16% of the trade finance facilities was used.

Bank Loans and Overdraft Facilities

US\$m



Contingent Liabilities and Goodwill

Adjustments to Purchase Consideration Payables

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

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

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

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

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

Goodwill Impairment Tests

We perform goodwill impairment tests based on the cash-generating units (CGU) that manage acquired businesses in accordance with HKAS 36, Impairment of Assets. Based on our assessment of all of the CGUs under the current operating structure of the Group, we have determined that there was no goodwill impairment as at 30 June 2019, as the recoverable amount of each CGU was in excess of its respective carrying value of the goodwill. We will continue to perform goodwill impairment tests on an on-going basis.

Adoption of New Accounting Standard, HKFRS 16, Leases

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

Risk Management

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

Credit Risk Management

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

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

- We select customers in a cautious manner. Our credit control team uses a risk assessment system to evaluate the financial strength of individual customers prior to agreeing on trade terms. It is not uncommon for us to require securities (such as standby or commercial letters of credit, or bank guarantees) from customers who fall short of the required minimum score under our risk assessment system
- A significant portion of trade receivable balances is covered by trade credit insurance or factored to external financial institutions on a non-recourse basis
- We have established a credit risk system with a dedicated team, and tightened policies to ensure on-time recoveries from trade debtors
- We have put in place rigid internal policies that govern provisions made for both inventories and receivables to motivate business managers to step up their efforts in these two areas, and to avoid any significant impact on their financial performance

Foreign Exchange Risk Management

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

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

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

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

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

Outlook

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

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

Firstly, the business development team has been steadily converting customers from a promising pipeline and their efforts will be further enhanced by our increasingly rich digital capabilities. Onboarding new customers and ramping up orders to full potential takes time, which means contributions from new customers over the next 12 months

may not fully counter the headwinds facing our existing customer base. Nonetheless, continued customer wins and the conversion of strategically significant accounts reinforce our confidence in our solution-based business development approach and set a solid foundation for our future growth. As a result of improvement in operations and customer engagement, turnover is stabilizing and beginning to bottom out.

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

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

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

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

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



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