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 reported positive first half results highlighting continued business progress despite challenges in the retail industry and a volatile macroeconomic environment.

Turnover
US$7,264 million

Total margin
US$835 million

Core operating profit
US$170 million

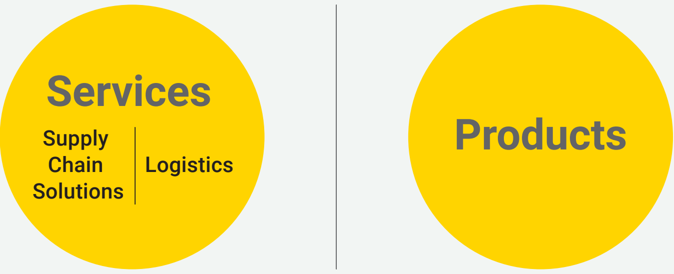
Results Overview

First-half 2017 Performance

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

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

Group Business Structure



Each of our product verticals, grouped under our new Products segment, was operated by a distinct management team with greater autonomy to facilitate quicker decisions. Despite customers' more conservative buying programs in this uncertain retail environment, we continued to expand our product portfolios with innovative products to capture higher market share and enhance margins. In particular, our furniture vertical enjoyed continued solid margin improvement during the first half of 2017. Our sweater vertical also announced a joint venture with South Ocean Knitters Holdings Limited, combining the resources of both entities to become one of the largest, and most innovative knitwear suppliers globally.

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

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

Results

	Like-for-like *Excluding the Asia consumer and healthcare distribution business*[1]			Reported		
	1H 2017 US$m	1H 2016 US$m (Restated)[2]	Change %	**1H 2017 US$m**	1H 2016 US$m (Restated)[2]	Change %
Turnover	**7,264**	7,418	(2.1%)	**7,264**	7,984	(9.0%)
Total Margin	**835**	848	(1.6%)	**835**	935	(10.7%)
As % of Turnover	***11.5%***	*11.4%*		***11.5%***	*11.7%*	
Operating Costs	**665**	696	(4.5%)	**665**	779	(14.7%)
As % of Turnover	***9.2%***	*9.4%*		***9.2%***	*9.8%*	
Core Operating Profit	**170**	152	+11.9%	**170**	156	+8.7%
As % of Turnover	***2.3%***	*2.0%*		***2.3%***	*2.0%*	
Profit Attributable to Shareholders	**101**	67	+51.3%	**101**	72	+39.6%
Adjusted Profit Attributable to Shareholders[3]	**91**	86	+6.1%	**91**	92	(0.7%)

1. Excluding the Asia consumer and healthcare distribution business, which was strategically divested in June 2016
2. 2016 comparatives restated with adoption of New Accounting Standard HKFRS 15 (Note 1 of the condensed interim financial information)
3. Excluding non-cash M&A items (write-back of acquisition payable, amortization of other intangible assets and non-cash interest expenses)

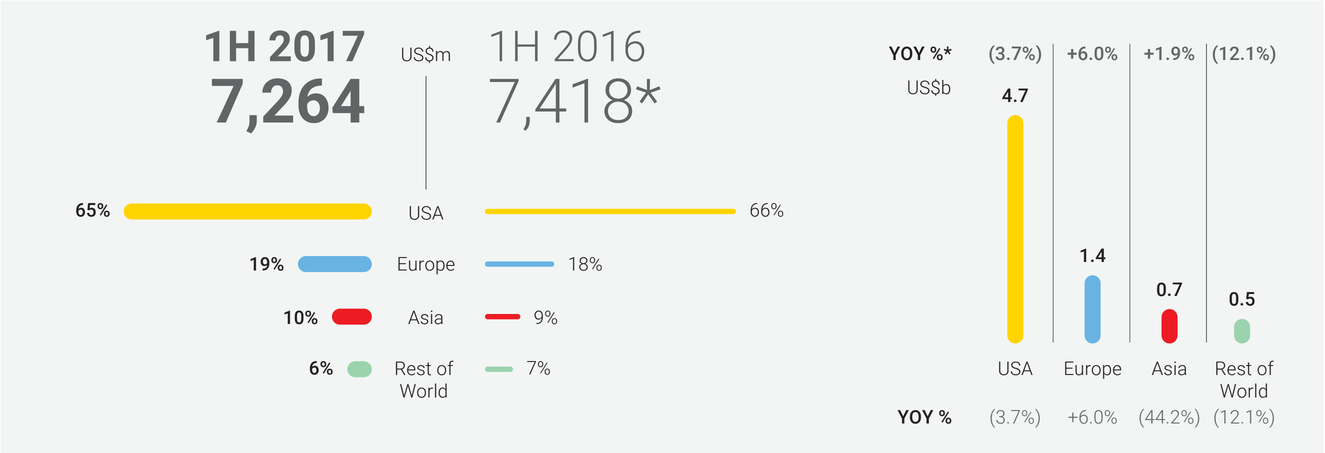
TURNOVER

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

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

The US remained the largest contributor to the business, accounting for 65% of total turnover. Europe and Asia accounted for 19% and 10%, respectively. Turnover from the US decreased by 3.7% mainly due to customers destocking and adopting more conservative buying

Group Geographical Market Turnover



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

programs. Turnover from Europe increased 6.0% mainly due to new customer wins by the Supply Chain Solutions business in the region. The contribution from Asia decreased on a reported basis, largely due to the divestment of the Asia consumer and healthcare distribution business in June 2016. On a like-for-like basis, our turnover in Asia generated a slight increase of 1.9%. The weakness of Asian and European currencies – particularly the British pound – against the US dollar contributed to lower translated turnover.

TOTAL MARGIN

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

OPERATING COSTS

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

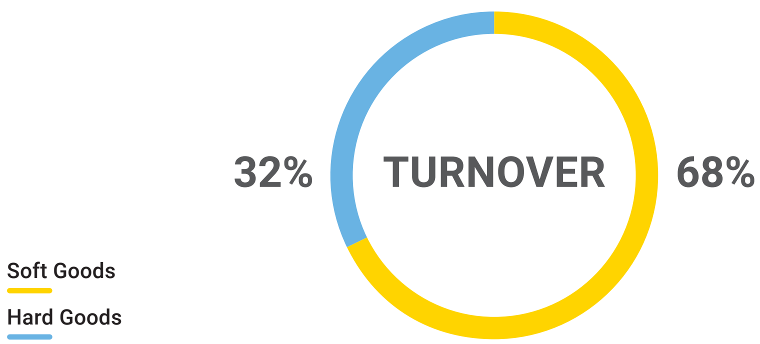
CORE OPERATING PROFIT

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

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

Group Product Mix (Excluding Logistics)



Segment Analysis

Services

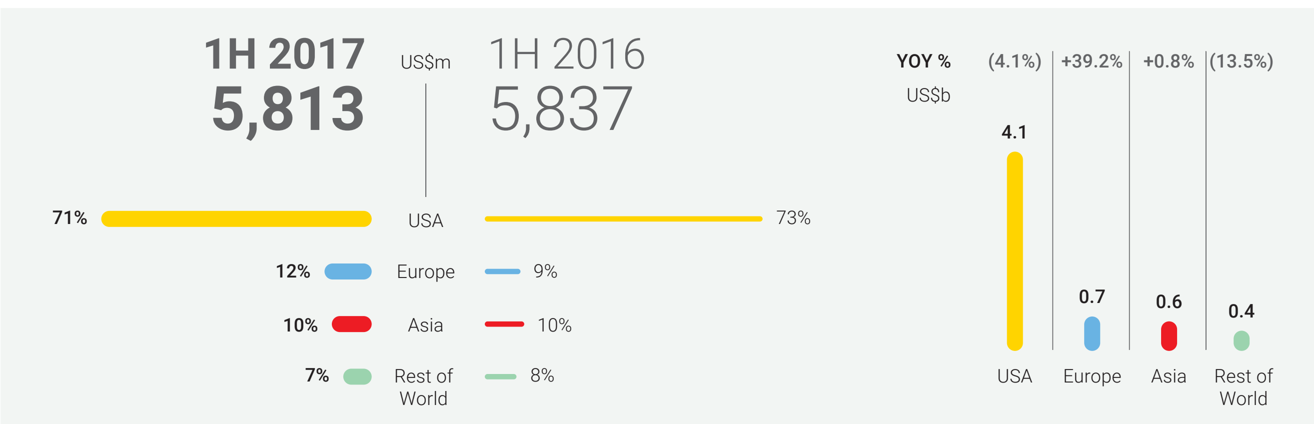
Under our new structure, the Services segment includes our Supply Chain Solutions business and Logistics business. It represented 80% of total turnover in first half of 2017. We provide end-to-end supply chain solutions, from product design, raw materials procurement, production and quality control,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

Services Segment

Results

	1H 2017 US$m	1H 2016 US$m	Change %
Turnover	**5,813**	5,837	(0.4%)
Total Margin	**517**	507	+2.0%
As % of Turnover	***8.9%***	*8.7%*	
Operating Costs	**380**	402	(5.2%)
As % of Turnover	***6.5%***	*6.9%*	
Core Operating Profit	**137**	106	+29.7%
As % of Turnover	***2.4%***	*1.8%*	

Services Segment Geographical Market Turnover



Services – Supply Chain Solutions

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

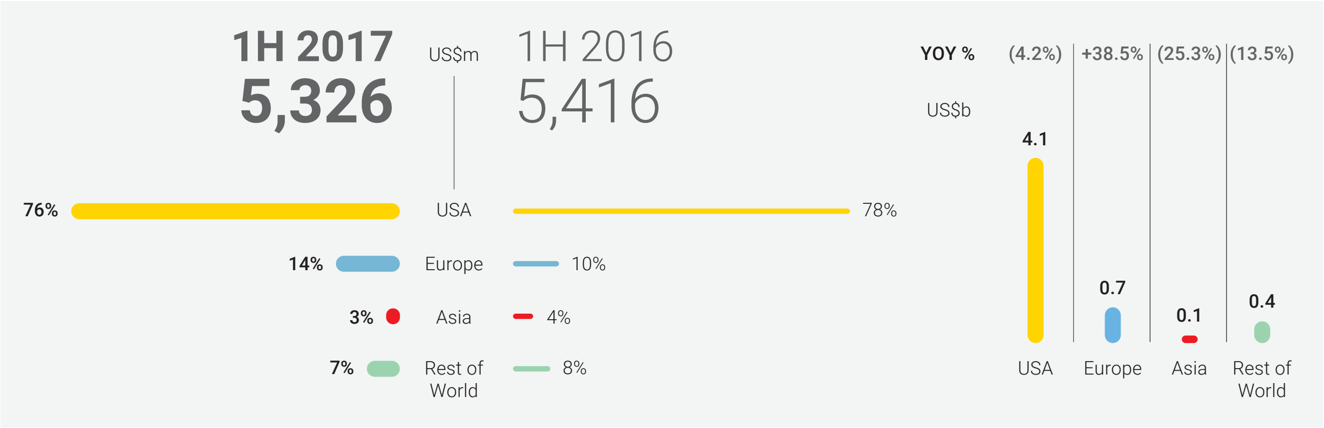
In the first half of 2017, the Supply Chain Solutions business saw a stabilization of turnover as pressure on input price eased while unit volume declined slightly. Soft goods remained the largest contributor, accounting for 75% of turnover for the Supply Chain Solutions business. Deflationary pressure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

Supply Chain Solutions Business

Results

	1H 2017 US$m	1H 2016 US$m	Change %
Turnover	**5,326**	5,416	(1.7%)
Total Margin	**351**	360	(2.4%)
As % of Turnover	***6.6%***	*6.6%*	
Operating Costs	**247**	281	(12.3%)
As % of Turnover	***4.6%***	*5.2%*	
Core Operating Profit	**104**	78	+33.1%
As % of Turnover	***2.0%***	*1.4%*	

Supply Chain Solutions Business Geographical Market Turnover



TURNOVER

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

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

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

TOTAL MARGIN

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

OPERATING COSTS

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

CORE OPERATING PROFIT

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

Services – Logistics

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

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

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

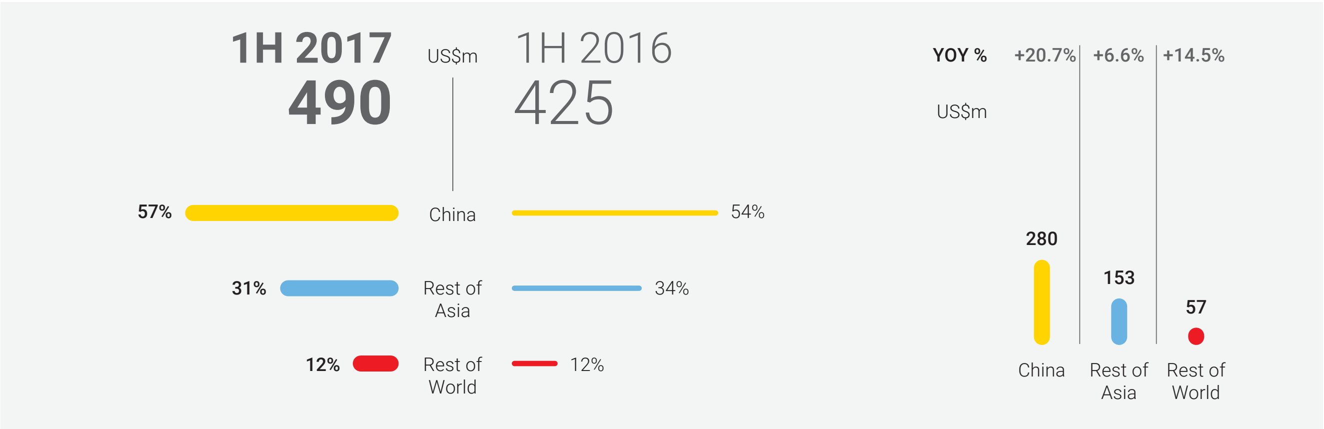
Riding on Asia's strong consumption theme, our Logistics business is poised for strong profitable growth for years to come.

Logistics Business

Results

	1H 2017 US$m	1H 2016 US$m	Change %
Turnover	**490**	425	+15.2%
Total Margin	**166**	148	+12.8%
As % of Turnover	***34.0%***	*34.7%*	
Operating Costs	**134**	120	+11.2%
As % of Turnover	***27.3%***	*28.3%*	
Core Operating Profit	**33**	27	+19.7%
As % of Turnover	***6.7%***	*6.4%*	

Logistics Business Geographical Market Turnover



TURNOVER

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

CORE OPERATING PROFIT

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

Products

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

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

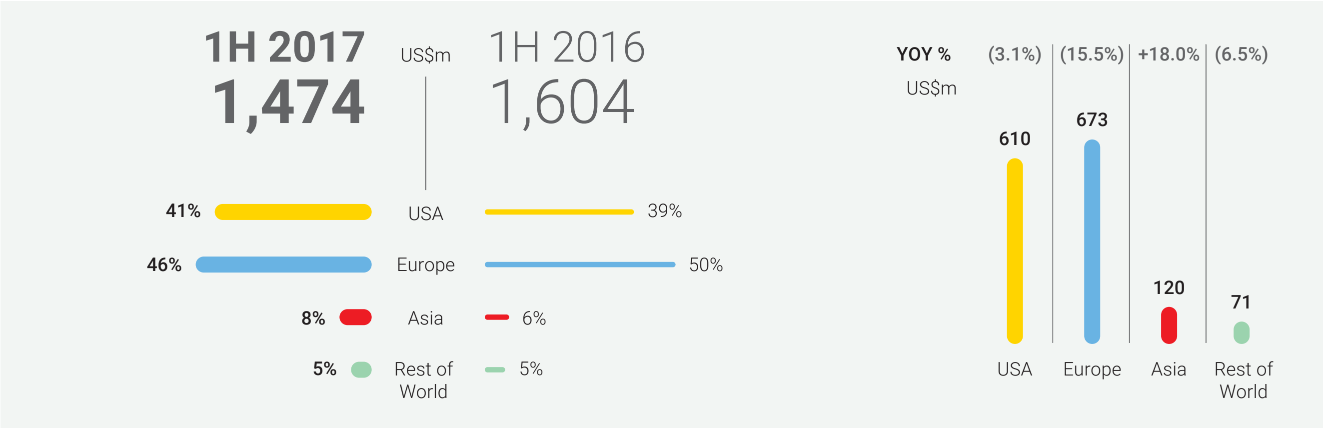
Our European business, which accounted for 46% of turnover, was adversely affected by weak consumer sentiment resulting from geopolitical uncertainties and a series of terrorist attacks in the region, leading to more conservative buying programs from existing customers. The weakness of the British pound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

Products Segment

Results

	1H 2017 US$m	1H 2016 US$m	Change %
Turnover	**1,474**	1,604	(8.1%)
Total Margin	**318**	341	(7.0%)
As % of Turnover	***21.5%***	*21.3%*	
Operating Costs	**284**	295	(3.6%)
As % of Turnover	***19.3%***	*18.4%*	
Core Operating Profit	**33**	46	(28.6%)
As % of Turnover	***2.2%***	*2.9%*	

Products Segment Geographical Market Turnover



TURNOVER

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

TOTAL MARGIN

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

OPERATING COSTS

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

CORE OPERATING PROFIT

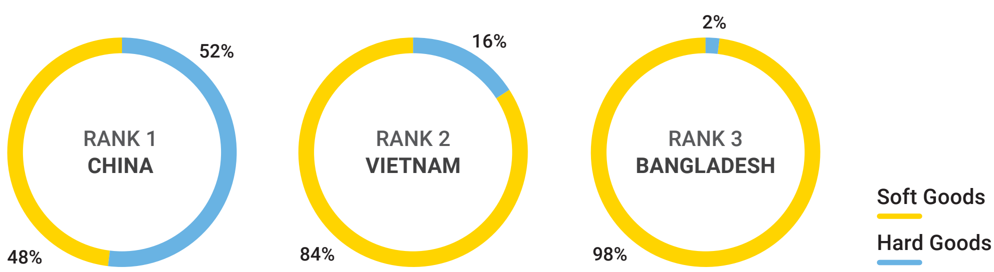
Core operating profit decreased by 28.6% to US$33 million. Core operating profit margin decreased by 0.7 percentage point to 2.2%, which was largely the result of the decrease in turnover, pressure on total margin and an incommensurate reduction in operating costs.

Top Sourcing Countries

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

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

As the sourcing landscape continues to evolve with changes in trading policies and sourcing requirements, we are very well positioned to scale our existing operations to source in the most efficient way possible for our customers.



Balance Sheet and Capital Structure

Strong Cash Position

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

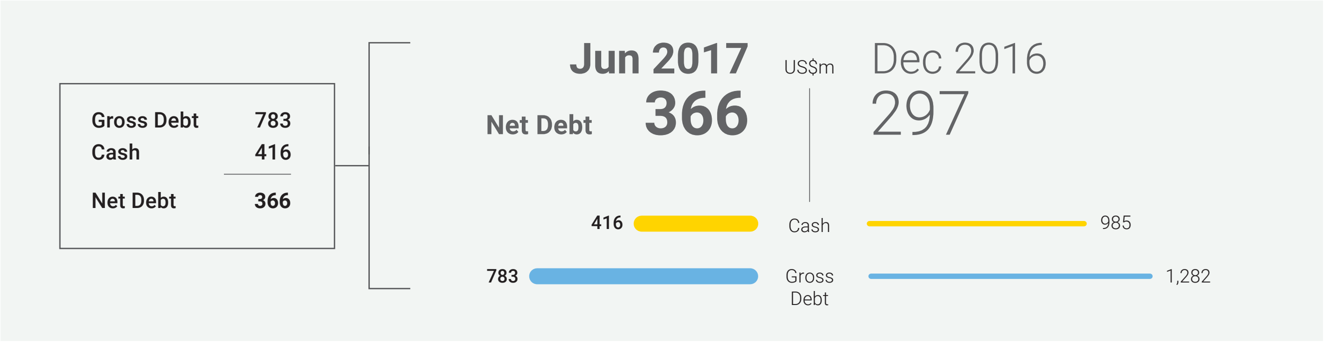
- Operating cash flow: US$160 million, in line with core operating profit after working capital, depreciation and tax payments
- Capital expenditures: US$36 million
- Payments for consideration payable for previous acquisitions: US$6 million
- Dividend payment: US$130 million
- Net interest expenses: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

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

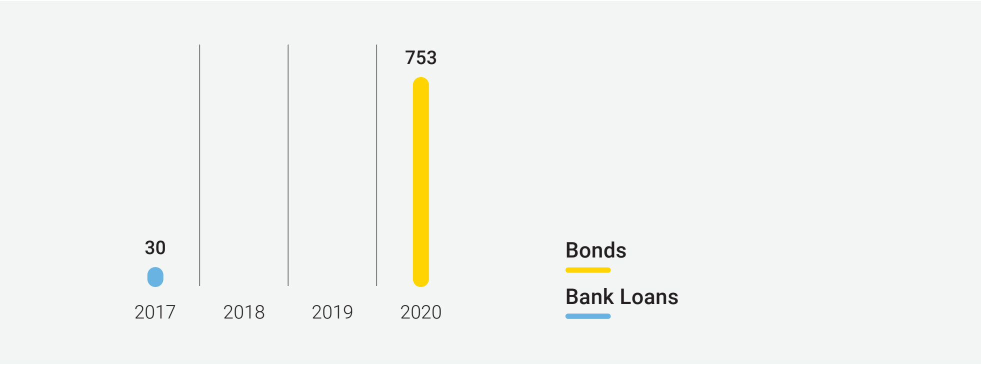
Strong Balance Sheet

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

Cash and Gross Debt
US$m



Debt Maturity Schedule
US$m



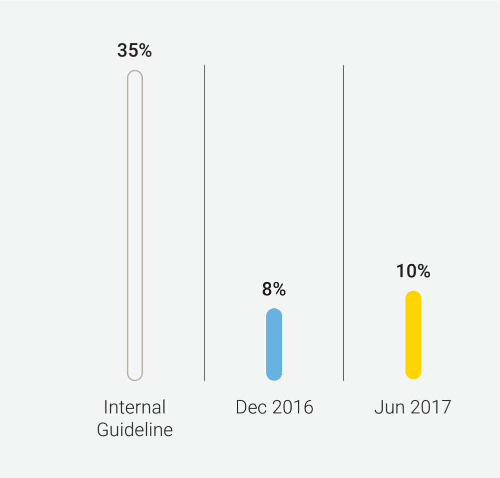
Net Gearing and Net Current Assets

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

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

Credit Rating

Net Gearing Ratio



Banking Facilities

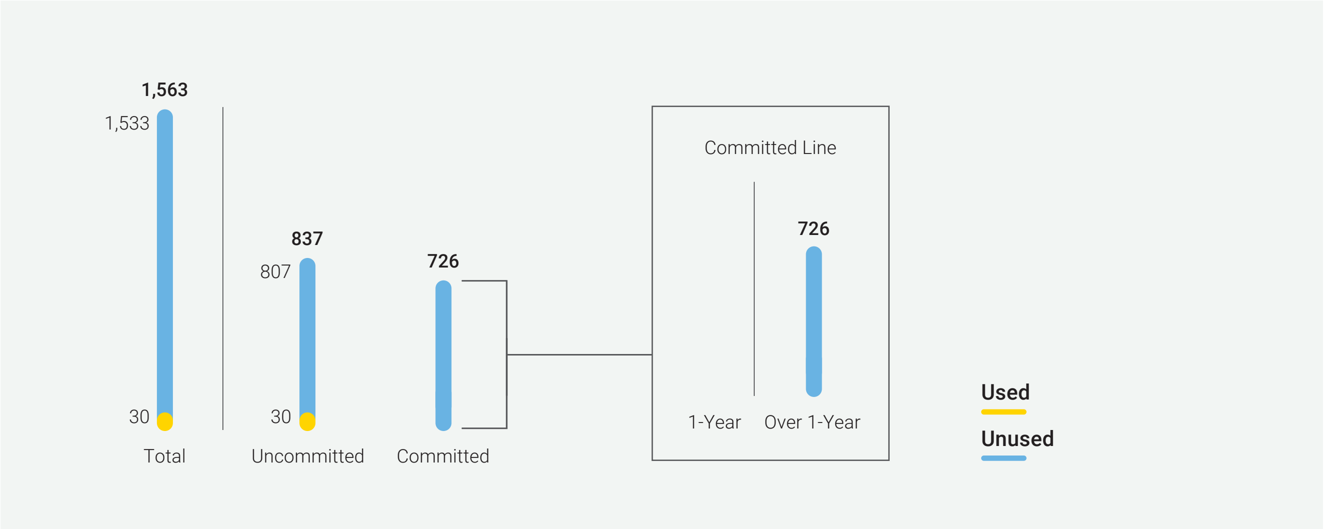
Bank Loans and Overdrafts

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

Trade Finance

The Group's normal trading operations are well supported by US$2.4 billion in bank trading facilities that mainly include letters of credit issued to suppliers and bills discounting. A letter of credit is a common means of payment to suppliers to support cross-border trades. The Group's payment obligations on letters of credit issued to suppliers will only be crystallized when our suppliers have shipped the merchandise to our customers or to the Group in accordance with all the terms and conditions specified in the related contractual documents. As at 30 June 2017, only approximately 18% of the trade finance facilities was used.

Unused Bank Loans
US$m



Contingent Liabilities and Goodwill

Adjustments to Purchase Consideration Payables

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

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

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

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

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

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

Goodwill Impairment Tests

We perform goodwill impairment tests based on the cash-generating units (CGU) that manage acquired businesses in accordance with HKAS 36. Based on our assessment of all the CGUs under the current operating structure, we have determined that there was no goodwill impairment as at 30 June 2017, as the recoverable amount of each CGU was in excess of its respective carrying value of the goodwill. We will continue to perform goodwill impairment tests on an on-going basis.

Adoption of New Accounting Standard, HKFRS 15, Revenue from Contracts with Customers

2017 is the first year of our new Three-Year Plan (2017-2019). To augment the consistency of our financial information throughout the period, we have elected to apply HKFRS 15 Revenue from Contracts with Customers during the first half of 2017. This new accounting standard provides clear guidance on the timing and basis of recognition for revenue. Timing of recognition is based on the transfer of control of goods or services rather than transfer of risks and rewards. Basis of recognition is determined based on the assumption of primary responsibility to the customers, risk associated with inventories and control of price determination. Prior period comparatives have been retrospectively restated. Applying this new accounting standard resulted in net decreases in turnover and costs of goods sold by approximately US$87 million, but had no material impact on net profit and loss, for the first half of 2016. Further information about the application has been set out in Note 1 to the condensed interim financial information.

Risk Management

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

Credit Risk Management

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

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

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

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

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

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

Foreign Exchange Risk Management

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

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

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

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

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

People

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

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

New Three-Year Plan (2017-2019)

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

Speed

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

Innovation

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

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

Digitalization

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

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

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

Outlook

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

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

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

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

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