Notes to Condensed Interim Financial Information

1 General Information

Li & Fung Limited and its subsidiaries are principally engaged in managing the supply chain for retailers and brands worldwide with over 230 offices across over 40 economies.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

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

This condensed interim financial information is presented in US dollars, unless otherwise stated. This condensed interim financial information was approved for issue on 22 August 2018.

2 Basis of Preparation and Accounting Policies

The unaudited condensed interim financial information ("the interim financial information") has been reviewed by the Company's audit committee and, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), by the Company's auditor, PricewaterhouseCoopers.

This interim financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the HKICPA and Appendix 16 of the Listing Rules. This interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

Except as described in (a) below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements.

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

2 Basis of Preparation and Accounting Policies (continued)

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

The following new standard, new interpretation and amendments to existing standards are mandatory for accounting periods beginning on or after 1 January 2018:

HKAS 40 Amendment	Transfer of Investment Property
HKFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 Amendment	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvement Project	Annual Improvements 2014–2016 Cycle

The application of the above new standard, new interpretation and amendments effective in the current interim period has had no material effect on the amounts reported in the interim financial information and/or disclosures set out in the interim financial information, except for HKFRS 9 “Financial Instruments” as set out below.

HKFRS 9, “Financial Instruments”

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

(I) CHANGES IN ACCOUNTING POLICIES

Available-for-Sale Financial Assets

Available-for-Sale Financial Assets (other than investments in subsidiary companies, associated companies or joint venture) are non-derivative equity financial investments which are measured at fair value. Management is eligible to make an irrevocable election, on an instrument-by-instrument basis, on equity investments other than those held for trading, to present changes in fair value through profit or loss or fair value through other comprehensive income (“FVOCI”). The Group has elected to measure as FVOCI, to which any fair value gains or losses accumulated in the revaluation reserve account will no longer be reclassified to profit or loss following the derecognition of such available-for-sale financial assets.

Loans and receivables

Loans and receivables are debt instruments that are within the Group’s business model to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. At the end of the reporting period subsequent to initial recognition, loans and receivables are subsequently measured at amortized cost less impairment. Interest income using the effective interest method is recognized in the consolidated profit and loss accounts.

2 Basis of Preparation and Accounting Policies (continued)

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

(I) CHANGES IN ACCOUNTING POLICIES (continued)

Impairment of financial assets

HKFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses ("ECL") model, which constitutes a change from the incurred loss model in HKAS 39 to with a forward-looking ECL model. HKFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires lifetime expected losses for amounts due from customers to be recognized from initial recognition of the trade receivables.

Impairment on other debt instruments at amortized cost are measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. As other debt instruments at amortized cost are considered to have low credit risk, the impairment provision applied is to recognize 12-month ECL.

Hedge accounting

HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of HKAS 39.

2 Basis of Preparation and Accounting Policies (continued)

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

(II) EFFECTS OF CHANGES IN ACCOUNTING POLICIES

In accordance with the transitional provisions in HKFRS 9 paragraph 7.2.15 and 7.2.26, comparative figures have not been restated, where the comparative information for prior periods with respect to classification and measurement (including impairment) changes is not restated and differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 will be recognized as an adjustment to the opening balance of equity at the date of adoption, i.e. as at 1 January 2018.

Classification of available-for-sale financial assets

The Group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale financial assets as they are long-term strategic investments that are not expected to be sold in the short to medium term. Available-for-sale financial assets as at 31 December 2017 will continue to be measured at FVOCI after adoption of HKFRS 9.

Classification of loans and receivables

The Group's existing loans and receivables are debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest and therefore will continue to be measured at amortized cost.

Impairment of financial assets

For trade receivables and other debt instruments, the Group applies the simplified approach to provide for ECL prescribed by HKFRS 9, which requires the use of the lifetime expected losses for all trade receivables. The adoption of the simplified expected loss approach under HKFRS 9 has not resulted in any material impact to the carrying value of trade receivables as at 1 January 2018.

Hedge accounting

The Group applies hedge accounting prospectively. All hedge accounting relationships designated under the previous HKAS 39 have continued to be valid hedge accounting relationships in accordance with HKFRS 9. Upon transition to HKFRS 9, the Group continues to recognize derivative financial instruments which are not under effective hedge relationships to be classified under fair value through profit or loss.

The Group's risk management strategies and hedge documentation are aligned with the requirements of HKFRS 9 and these relationships are therefore treated as continuing hedges. The foreign currency forwards in place as at 31 December 2017 qualified as cash flow hedges under HKFRS 9. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of HKFRS 9 had no significant impact on the Group's financial information.

2 Basis of Preparation and Accounting Policies (continued)

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

The following new standards, new interpretation and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2019 or later periods, but the Group has not early adopted them:

HKAS 19 Amendment	Plan amendment, curtailment or settlement[1]
HKAS 28 Amendment	Long-term Interests in Associates and Joint Venture[1]
HKFRS 9 Amendment	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Annual Improvement Project	Annual Improvements 2015–2017 Cycle[1]

NOTES:

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective date to be determined

3 Segment Information

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

The Company is domiciled in Bermuda. The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its Hong Kong office is at 11/F, Li Fung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong. The Group is principally engaged in managing the supply chain for retailers and brands worldwide with over 230 offices across more than 40 economies spanning across the Americas, Europe, Africa and Asia. Turnover represents revenue generated from sales and services rendered at invoiced value to customers outside the Group less discounts and returns.

On 3 April 2018, the Group has completed the strategic divestment of three Product Verticals, having obtained necessary shareholders and regulatory approvals. The three Product Verticals are classified as Discontinued Operations and their results for the period and the comparatives are excluded from the Products segment and presented separately as one-line item below net profit of the Continuing Operations. Further details of financial information of the Discontinued Operations are set out in Note 15 to the financial information.

The Group's management assesses the performance of the operating segments based on a measure of operating profit, referred to as core operating profit. This measurement basis includes profit of the operating segments before share of results of associated companies and joint venture, interest income, interest expenses, taxation, material gains or losses, which are of capital nature, non-operational related or acquisition related cost. This also excludes any gain or loss on remeasurement of contingent consideration payable and amortization of other intangible assets which are non-cash items. Other information provided to the Group's management is measured in a manner consistent with that in the interim financial information.

3 Segment Information (continued)

	Services US$'000	Products US$'000	Elimination US$'000	Total US$'000
Six months ended 30 June 2018 (Unaudited)				
Continuing Operations				
Turnover	5,100,514	762,693	(12,867)	5,850,340
Total margin	486,707	126,821		613,528
Operating costs	(375,099)	(114,326)		(489,425)
Core operating profit	111,608	12,495		124,103
Amortization of other intangible assets				(14,777)
Operating profit				109,326
Interest income				7,571
Interest expenses				
Non-cash interest expenses				(329)
Cash interest expenses				(25,155)
				(25,484)
Share of profits less losses of associated companies and joint venture				843
Profit before taxation				92,256
Taxation				(13,710)
Net profit for the period from Continuing Operations				78,546
Discontinued Operations				
Net loss for the period from Discontinued Operations				(137,971)
Net loss for the period				(59,425)
Depreciation and amortization (Continuing Operations)	34,636	8,081		42,717
30 June 2018 (Unaudited)				
Non-current assets (other than financial assets at fair value through other comprehensive income and deferred tax assets)	1,816,366	762,759		2,579,125

3 Segment Information (continued)

	Services US$'000 (Restated)	Products US$'000 (Restated)	Elimination US$'000 (Restated)	Total US$'000 (Restated)
Six months ended 30 June 2017 (Unaudited)				
Continuing Operations				
Turnover	5,812,935	674,320	(15,998)	6,471,257
Total margin	517,491	124,387		641,878
Operating costs	(380,476)	(110,039)		(490,515)
Core operating profit	137,015	14,348		151,363
Gain on remeasurement of contingent consideration payable				29,645
Amortization of other intangible assets				(10,717)
Operating profit				170,291
Interest income				6,622
Interest expenses				
Non-cash interest expenses				(2,451)
Cash interest expenses				(34,420)
				(36,871)
Share of profits less losses of associated companies and joint venture				1,174
Profit before taxation				141,216
Taxation				(18,232)
Net profit for the period from Continuing Operations				122,984
Discontinued Operations				
Net profit for the period from Discontinued Operations				9,532
Net profit for the period				132,516
Depreciation and amortization (Continuing Operations)	27,923	8,517		36,440
31 December 2017 (Audited)				
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	1,821,217	775,209		2,596,426

3 Segment Information (continued)

Supplementary analysis for the Services segment by Supply Chain Solutions and Logistics Services is as follows:

	Unaudited Six months ended 30 June	
	2018 US$'000	2017 US$'000 (Restated)
Turnover		
Supply Chain Solutions	**4,559,933**	5,325,596
Logistics Services	**542,905**	489,728
Elimination	**(2,324)**	(2,389)
	5,100,514	5,812,935

	Unaudited Six months ended 30 June	
	2018 US$'000	2017 US$'000 (Restated)
Core operating profit		
Supply Chain Solutions	**74,009**	104,359
Logistics Services	**37,599**	32,656
	111,608	137,015

The geographical analysis of turnover to external customers and non-current assets of the Continuing Operations (other than financial assets at fair value through other comprehensive income, available-for-sale financial assets and deferred tax assets) is as follows:

	Turnover		Non-current assets (other than financial assets at fair value through other comprehensive income, available-for-sale financial assets and deferred tax assets)	
	Unaudited Six months ended 30 June		**Unaudited 30 June**	Audited 31 December
	2018 US$'000	2017 US$'000 (Restated)	**2018 US$'000**	2017 US$'000
United States of America	**3,860,235**	4,310,051	**1,443,521**	1,448,557
Europe	**938,669**	1,153,059	**742,346**	783,277
Asia	**659,935**	602,511	**246,857**	227,014
Rest of the world	**391,501**	405,636	**146,401**	137,578
	5,850,340	6,471,257	**2,579,125**	2,596,426

3 Segment Information (continued)

Turnover to external customers consists of sales of goods of Supply Chain Solutions business, logistics services income and sales of goods of Products Segment as follows:

	Unaudited Six months ended 30 June	
	2018 US$'000	2017 US$'000 (Restated)
Sales of goods of Supply Chain Solutions business	**4,551,077**	5,316,658
Logistics services income	**537,336**	483,622
Sales of goods of Products Segment	**761,927**	670,977
	5,850,340	6,471,257

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

	Unaudited Six months ended 30 June	
	2018 US$'000	2017 US$'000 (Restated)
Sales of soft goods	**4,051,855**	4,571,413
Sales of hard goods	**1,261,149**	1,416,222
Logistics services income	**537,336**	483,622
	5,850,340	6,471,257

For the six months ended 30 June 2018, approximately 16% and 11% (2017 (restated): 15% and 10%) of the total turnover of the Group's Continuing Operations is derived from two external customers, of which 16% and 11% (2017 (restated): 15% and 10%) and less than 1% and less than 1% (2017 (restated): less than 1% and less than 1%) are attributable to the Services segment and Products segment respectively.

Segment information for the Discontinued Operations is set out in Note 15(b).

4 Operating Profit from Continuing Operations

Operating profit from Continuing Operations is stated after crediting and charging the following:

	Unaudited Six months ended 30 June	
	2018 US$'000	2017 US$'000 (Restated)
Crediting		
Gain on remeasurement of contingent consideration payable*	**–**	29,645
Charging		
Staff costs including directors' emoluments	**354,792**	375,842
Amortization of system development, software and other license costs	**4,551**	4,490
Amortization of other intangible assets*	**14,777**	10,717
Amortization of prepaid premium for land leases	**1**	4
Depreciation of property, plant and equipment	**23,388**	21,229
Net loss/(gain) on disposal of property, plant and equipment	**183**	(417)

* Excluded from the core operating profit

5 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	Unaudited Six months ended 30 June	
	2018 US$'000	2017 US$'000 (Restated)
Current taxation		
– Hong Kong profits tax	**2,686**	4,692
– Overseas taxation	**15,730**	20,019
Deferred taxation	**(4,706)**	(6,479)
	13,710	18,232

6 Interim Dividend

	Unaudited Six months ended 30 June	
	2018	2017
	US$'000	US$'000
Proposed, of HK$0.03 (equivalent to US$0.004) (2017: HK$0.11 (equivalent to US$0.014)) per ordinary share (Note)	**32,745**	120,064

NOTE:
Final dividend of US$21,830,000 and the special dividend of US$519,549,000 for the year ended 31 December 2017 were paid in May 2018 (2017: final dividend of US$130,136,000).

7 Earnings/(Losses) per Share

The calculation of basic earnings per share is based on the Group's profit attributable to Shareholders arising from the Continuing Operations of US$49,946,000 (2017 (restated): US$91,423,000) and the Group's losses attributable to Shareholders arising from the Discontinued Operations of US$134,973,000 (2017 (restated): profit of US$9,532,000) and on the weighted average number of 8,376,564,000 (2017: 8,366,875,000) shares in issue during the period.

The diluted earnings per share for the six months ended 30 June 2018 was calculated by adjusting the weighted average number of 8,376,564,000 (2017: 8,366,875,000) ordinary shares in issue by 93,414,000 (2017: 48,572,000) to assume conversion of all dilutive potential ordinary shares granted under the Company's Share Option and Share Awards Scheme. For the determination of dilutive potential ordinary share granted under the Company, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding Share Options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the Share Options and vesting Award Shares.

8 Capital Expenditure

	Intangible assets US$'000	Property, plant and equipment US$'000
Six months ended 30 June 2018		
Net book amount as at 1 January 2018 (Audited)	**2,347,011**	**208,221**
Additions	**9,987**	**30,496**
Disposals	**(69)**	**(2,343)**
Amortization (Note)/depreciation charge	**(19,328)**	**(23,388)**
Exchange differences	**(7,899)**	**(2,789)**
Net book amount as at 30 June 2018 (Unaudited)	**2,329,702**	**210,197**
Six months ended 30 June 2017 (Restated)		
Net book amount as at 1 January 2017 (Audited)	3,896,973	221,550
Continuing Operations		
Additions	13,165	19,559
Disposals	–	(77)
Amortization/depreciation charge	(15,207)	(21,229)
Exchange differences	26,131	2,807
Discontinued Operations		
Additions	528	4,240
Disposals	–	(331)
Amortization/depreciation charge	(7,920)	(6,248)
Exchange differences	10,643	2,154
Net book amount as at 30 June 2017 (Unaudited)	3,924,313	222,425

NOTE:
Amortization of intangible assets included amortization of system development, software and other license costs of US$4,551,000 (2017: US$4,490,000) and amortization of other intangible assets arising from business combinations of US$14,777,000 (2017: US$10,717,000).

At 30 June 2018, no land and buildings were pledged as security for the Group's short-term bank loans (31 December 2017: Nil).

9 Trade and Bills Receivable

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

	Current to 90 days US$'000	91 to 180 days US$'000	181 to 360 days US$'000	Over 360 days US$'000	Total US$'000
Balance at 30 June 2018 (Unaudited)	**915,209**	**47,712**	**18,653**	**2,668**	**984,242**
Balance at 31 December 2017 (Audited)	1,058,741	72,515	11,115	6,189	1,148,560

All trade and bills receivable are either repayable within one year or on demand. Accordingly, the fair values of the Group's trade and bills receivable were approximately the same as their carrying values as at 30 June 2018.

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

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

Certain subsidiaries of the Group transferred bills receivable balances amounting to US$800,000 (31 December 2017: US$1,724,000) to banks in exchange for cash as at 30 June 2018. The transactions have been accounted for as collateralized bank advances.

10 Trade and Bills Payable

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

	Current to 90 days US$'000	91 to 180 days US$'000	181 to 360 days US$'000	Over 360 days US$'000	Total US$'000
Balance at 30 June 2018 (Unaudited)	**1,784,179**	**49,787**	**7,715**	**21,152**	**1,862,833**
Balance at 31 December 2017 (Audited)	1,645,884	66,176	9,552	12,049	1,733,661

The fair values of the Group's trade and bills payable were approximately the same as their carrying values as at 30 June 2018.

11 Long-term Liabilities

	Unaudited 30 June 2018 US$'000	Audited 31 December 2017 US$'000
Long-term notes – unsecured	**751,918**	752,432
Purchase consideration payable for acquisitions	**55,162**	61,583
Other long-term liabilities	**27,234**	29,034
	834,314	843,049
Current portion of purchase consideration payable for acquisitions	**(36,876)**	(42,166)
	797,438	800,883

Balance of purchase consideration payable for acquisitions as at 30 June 2018 included performance-based earn-out and earn-up contingent considerations of US$44,093,000 and US$11,069,000 respectively (31 December 2017: US$44,162,000 and US$17,421,000). Earn-out is contingent consideration that would be realized if the acquired businesses achieve their respective base year profit target, calculated on certain predetermined basis, during the designated periods of time. Earn-up is contingent consideration that would be realized if the acquired businesses achieve certain growth targets, calculated based on the base year profits, during the designated periods of time.

The basis of the contingent consideration differs for each acquisition; generally the contingent consideration reflects a specified multiple of the post-acquisition financial profitability of the acquired business. Consequently, the actual additional consideration payable will vary according to the future performance of each individual acquired business, and the liabilities provided reflect estimates of such future performances.

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

However, if the total actual contingent consideration payables are 10% higher or lower than the total contingent consideration payables estimated by management, the resulting aggregate impact to the gain or loss on remeasurement of contingent consideration payables recognized to the profit and loss account would be US$5,516,000.

12 Share Capital, Share Options and Award Shares

	Number of shares (in thousand)	HK$'000	Equivalent to US$'000
Authorized			
At 1 January 2018, ordinary shares of HK$0.0125 each	**12,000,000**	**150,000**	**19,231**
At 30 June 2018, ordinary shares of HK$0.0125 each	**12,000,000**	**150,000**	**19,231**
Issued and fully paid			
At 1 January 2018, ordinary shares of HK$0.0125 each	**8,469,956**	**105,874**	**13,574**
At 30 June 2018, ordinary shares of HK$0.0125 each	**8,469,956**	**105,874**	**13,574**

Details of Share Options granted by the Company pursuant to the 2003 Option Scheme and 2014 Option Scheme and outstanding at 30 June 2018 are as follows:

			Number of Share Options			
Grant Date	Exercise Price HK$	Exercisable period	As at 1/1/2018	Granted	Lapsed	As at 30/06/2018
22/12/2011	12.12[1]	1/5/2016–30/4/2018	2,000,000	–	(2,000,000)	**–**
22/12/2011	12.12[1]	1/5/2017–30/4/2019	2,000,000	–	–	**2,000,000**
22/12/2011	12.12[1]	1/5/2018–30/4/2020	2,000,000	–	–	**2,000,000**
22/12/2011	12.12[1]	1/5/2019–30/4/2021	2,000,000	–	–	**2,000,000**
22/12/2011	12.12[1]	1/5/2020–30/4/2022	2,000,000	–	–	**2,000,000**
22/12/2011	12.12[1]	1/5/2021–30/4/2023	2,000,000	–	–	**2,000,000**
21/5/2015	7.49	1/1/2016–31/12/2017	27,670,000	–	(27,670,000)	**–**
21/5/2015	7.49	1/1/2017–31/12/2018	28,727,000	–	(1,634,000)	**27,093,000**
21/5/2015	7.49	1/1/2018–31/12/2019	28,878,000	–	(1,634,000)	**27,244,000**
16/11/2015	5.81	1/1/2017–31/12/2018	285,000	–	–	**285,000**
16/11/2015	5.81	1/1/2018–31/12/2019	604,000	–	–	**604,000**
19/5/2016	4.27	1/1/2018–31/12/2019	604,000	–	–	**604,000**
13/7/2017	2.86	1/1/2018–31/12/2019	125,000	–	–	**125,000**
		Total	98,893,000	–	(32,938,000)	**65,955,000**

NOTE:

(1) Following the spin-off and separate listing of Global Brands, the exercise price applicable to the Share Options outstanding on the record date for the distribution in specie (i.e. 7 July 2014) was adjusted from HK$14.50 to HK$12.12 with effect from 31 August 2014.

Subsequent to 30 June 2018, no Shares have been allotted and issued under the 2003 Option Scheme and 2014 Option Scheme.

The Share Options outstanding at 30 June 2018 had a weighted average remaining contractual life of 1.29 years (31 December 2017: 1.25 years).

12 Share Capital, Share Options and Award Shares (continued)

Details of Award Shares granted by the Company pursuant to the Share Award Scheme and outstanding at 30 June 2018 are as follows:

			Number of Award Shares				
Grant Date	Fair Value per Share HK$	Vesting Date	As at 1/1/2018	Granted	Vested	Unvested/ Forfeited	As at 30/6/2018
21/5/2015	7.49	31/12/2018	11,461,100	–	–	(810,400)	**10,650,700**
21/5/2015	7.49	31/12/2019	5,758,300	–	–	(406,900)	**5,351,400**
16/11/2015	5.33	31/12/2018	260,800	–	–	(22,100)	**238,700**
16/11/2015	5.33	31/12/2019	189,000	–	–	(17,200)	**171,800**
19/5/2016	4.27	31/12/2018	323,000	–	–	(30,000)	**293,000**
19/5/2016	4.27	31/12/2019	316,500	–	–	(27,700)	**288,800**
14/11/2016	3.53	31/12/2018	61,100	–	–	(2,600)	**58,500**
14/11/2016	3.53	31/12/2019	61,100	–	–	(2,600)	**58,500**
13/7/2017	2.83	31/12/2018	22,361,400	–	–	(1,434,600)	**20,926,800**
13/7/2017	2.83	31/12/2019	21,574,400	–	–	(1,360,600)	**20,213,800**
13/7/2017	2.83	31/12/2020	21,563,000	–	–	(1,360,000)	**20,203,000**
23/3/2018	3.87	31/12/2018	–	2,576,000	–	(16,000)	**2,560,000**
23/3/2018	3.87	31/12/2019	–	2,523,000	–	(12,000)	**2,511,000**
23/3/2018	3.87	31/12/2020	–	2,523,000	–	(12,000)	**2,511,000**
		Total	83,929,700	7,622,000	–	(5,514,700)	**86,037,000**

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

During the period, a total of 7,622,000 Award Shares were awarded to eligible persons pursuant to the Share Award Scheme, and out of which 6,084,000 Award Shares were awarded to connected persons. A total of 1,838,900 Shares held by the trustee of the Share Award Scheme in two separate funds had been applied to satisfy 300,900 Award Shares to connected persons and 1,538,000 Award Shares to non-connected persons in accordance with the terms of the Share Award Scheme. The remaining 5,783,100 Award Shares were purchased from the open market to satisfy awards to connected persons and no new Shares were allotted and issued by the Company to satisfy awards to non-connected persons pursuant to the terms of the Share Award Scheme.

13 Perpetual Capital Securities

On 3 November 2016 and 8 November 2012, the Company issued perpetual subordinated capital securities (the "Perpetual Capital Securities") with an aggregate principal amount of US$650 million and US$500 million respectively. The Perpetual Capital Securities do not have maturity date and the distribution payments can be deferred at the discretion of the Company. Therefore, the Perpetual Capital Securities are classified as equity instruments and recorded in equity in the consolidated balance sheet. The Company redeemed US$500 million Perpetual Capital Securities issued on 8 November 2012 in full on 25 May 2018. The balances as at 30 June 2018 and 31 December 2017 included the accrued distribution payments.

14 Other Reserves

	Unaudited								
	Treasury shares US$'000 (Note (a))	Capital reserve US$'000 (Note (b))	Contributed surplus US$'000	Employee share-based compensation reserve US$'000	Revaluation reserve US$'000	Hedging reserve US$'000	Defined benefit obligation reserve US$'000	Exchange reserve US$'000	Total US$'000
Balance at 1 January 2018	(10,996)	7,646	710,000	66,043	3,329	226	(14,114)	(252,557)	509,577
Other comprehensive (expenses)/income									
Currency translation differences	–	–	–	–	–	–	–	(2,132)	(2,132)
Realisation of currency translation differences upon disposal of business	–	–	–	–	–	–	–	62,685	62,685
Net fair value gains on financial assets at FVOCI, net of tax	–	–	–	–	250	–	–	–	250
Net fair value gains on cash flow hedges, net of tax	–	–	–	–	–	4,407	–	–	4,407
Transactions with owners in their capacity as owners									
Purchase of shares for Share Award Scheme	(2,927)	–	–	–	–	–	–	–	(2,927)
Employee Share Option and Share Award Scheme:									
– value of employee services	–	–	–	6,008	–	–	–	–	6,008
2017 special dividends paid	–	–	(519,549)	–	–	–	–	–	(519,549)
Balance at 30 June 2018	(13,923)	7,646	190,451	72,051	3,579	4,633	(14,114)	(192,004)	58,319

14 Other Reserves (continued)

	Unaudited								
	Treasury shares US$'000 (Note (a))	Capital reserve US$'000 (Note (b))	Contributed surplus US$'000	Employee share-based compensation reserve US$'000	Revaluation reserve US$'000	Hedging reserve US$'000	Defined benefit obligation reserve US$'000	Exchange reserve US$'000	Total US$'000
Balance at 1 January 2017, as previously reported	(11,653)	2,785	710,000	65,749	3,155	7,185	(14,120)	(331,651)	431,450
Impact of adoption of HKFRS 15	–	–	–	–	–	–	–	(3,073)	(3,073)
Balance at 1 January 2017, as restated	(11,653)	2,785	710,000	65,749	3,155	7,185	(14,120)	(334,724)	428,377
Other comprehensive income/(expenses)									
Currency translation differences	–	–	–	–	–	–	–	40,371	40,371
Net fair value gains on available-for-sale financial assets, net of tax	–	–	–	–	89	–	–	–	89
Net fair value losses on cash flow hedges, net of tax	–	–	–	–	–	(13,511)	–	–	(13,511)
Transactions with owners in their capacity as owners									
Employee Share Option and Share Award Scheme:									
– value of employee services	–	–	–	6,173	–	–	–	–	6,173
Transfer to capital reserves	–	130	–	–	–	–	–	–	130
Balance at 30 June 2017	(11,653)	2,915	710,000	71,922	3,244	(6,326)	(14,120)	(294,353)	461,629

NOTES:

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

(b) Capital reserve represents amount set aside from the profit of certain overseas subsidiaries of the Group in accordance with local statutory requirements.

15 Discontinued Operations

The results of the Discontinued Operations are presented in the consolidated profit and loss account in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". The consolidated statement of comprehensive income and consolidated cash flow statement distinguish the Discontinued Operations from the Continuing Operations.

(a) Results of the Discontinued Operations have been included in the consolidated profit and loss accounts as follows:

	Unaudited	
	For the period from 1 January to 3 April 2018 US$'000	Six months ended 30 June 2017 US$'000
Turnover	**382,235**	803,448
Cost of sales	**(298,146)**	(610,335)
Gross Profit	**84,089**	193,113
Selling and distribution expenses	**(27,294)**	(55,732)
Merchandising and administrative expenses	**(76,565)**	(118,629)
Core operating (loss)/profit	**(19,770)**	18,752
Amortization of other intangible assets	**(3,682)**	(6,796)
Operating (loss)/profit	**(23,452)**	11,956
Interest income	**157**	276
Interest expenses	**(1,068)**	(166)
(Loss)/profit before taxation	**(24,363)**	12,066
Taxation	**825**	(2,534)
(Loss)/profit after taxation	**(23,538)**	9,532
Net loss on disposal of Businesses (Note 15(e))	**(114,433)**	–
Net (loss)/profit for the period from Discontinued Operations	**(137,971)**	9,532
Attributable to:		
Shareholders of the Business	**(134,973)**	9,532
Non-controlling interest	**(2,998)**	–
	(137,971)	9,532

15 Discontinued Operations (continued)

(a) Results of the Discontinued Operations have been included in the consolidated profit and loss accounts as follows: (continued)

STATEMENT OF COMPREHENSIVE INCOME OF THE DISCONTINUED OPERATIONS

	Unaudited	
	For the period from 1 January to 3 April 2018 US$'000	Six months ended 30 June 2017 US$'000
Net (loss)/profit for the period	**(137,971)**	9,532
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	**15,409**	16,875
Net fair value losses on cash flow hedges, net of tax	**–**	(142)
Total items that may be reclassified subsequently to profit or loss	**15,409**	16,733
Total other comprehensive income for the period, net of tax	**15,409**	16,733
Total comprehensive (expense)/income for the period	**(122,562)**	26,265
Attributable to:		
Shareholders of the Business	**(119,564)**	26,265
Non-controlling interest	**(2,998)**	–
	(122,562)	26,265

(b) Geographical analysis of turnover of the Discontinued Operations

The turnover consists of sales to United States of America of US$186,326,000 (2017: US$407,276,000), Europe of US$105,993,000 (2017: US$244,940,000), Asia of US$65,608,000 (2017: US$97,614,000) and Rest of the world of US$24,308,000 (2017: US$53,618,000).

15 Discontinued Operations (continued)

(c) Operating profit of the Discontinued Operations

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

	Unaudited	
	For the period from 1 January to 3 April 2018 US$'000	Six months ended 30 June 2017 US$'000
Charging		
Cost of inventories sold	**298,146**	610,335
Amortization of system development, software and other license costs	**515**	1,124
Amortization of other intangible assets (excluded from the core operating profit)	**3,682**	6,796
Depreciation of property, plant and equipment	**3,251**	6,248
Net loss on disposal of property, plant and equipment	**–**	331
Staff costs including directors' emoluments	**36,906**	79,199

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

	US$'000
Intangible assets	**1,632,176**
Property, plant and equipment	**40,394**
Other non-current assets	**9,556**
Trade and other receivables	**170,313**
Inventories	**130,268**
Cash and bank balances	**128,826**
Other current assets	**45**
Trade and other payables	**(236,687)**
Other current liabilities	**(16,112)**
Other non-current liabilities	**(92,410)**
	1,766,369
Remeasurement loss recognized in previous year	**(592,363)**
	1,174,006
Less: Non-controlling interest	**(6,226)**
Net assets disposed	**1,167,780**

15 Discontinued Operations (continued)

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

	US$'000
Considerations on disposal of business	**1,100,000**
Cash and cash equivalents adjustment for disposal of business	**128,826**
Debt released, transaction costs and other closing adjustments for disposal of business	**(95,073)**
Less: Net assets disposed	**(1,167,780)**
Exchange reserve and others	**(80,406)**
Net loss on disposal of business	**(114,433)**

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

	Unaudited	
	For the period from 1 January to 3 April 2018 US$'000	Six months ended 30 June 2017 US$'000
Net cash (outflow)/inflow from operating activities	**(67,872)**	26,112
Net cash outflow from investing activities	**(3,981)**	(4,173)
Net cash (outflow)/inflow from financing activities*	**(125)**	243
Total cash flow	**(71,978)**	22,182

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

(g) Related Party Transactions

	Unaudited	
	For the period from 1 January to 3 April 2018 US$'000	Six months ended 30 June 2017 US$'000
Distribution and sales of goods	**16**	772

Pursuant to the master distribution and sale of goods agreement entered into on 17 November 2017 with FH (1937) for a term of three years commencing from 1 January 2018 and ending on 31 December 2020, certain distribution and sales of goods was made on mutually agreed normal commercial terms with FH (1937) and its associates.

16 Contingent Liabilities from Continuing Operations

	Unaudited 30 June 2018 US$'000	Audited 31 December 2017 US$'000
Guarantees in respect of banking facilities granted to: Associated company	**750**	750

17 Commitments from Continuing Operations

(a) Operating lease commitments from Continuing Operations

As at 30 June 2018, the Continuing Operations of the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited 30 June 2018 US$'000	Audited 31 December 2017 US$'000
Within one year	**139,482**	145,887
In the second to fifth year inclusive	**239,662**	286,877
After the fifth year	**59,890**	83,291
	439,034	516,055

(b) Capital commitments from Continuing Operations

	Unaudited 30 June 2018 US$'000	Audited 31 December 2017 US$'000
Contracted but not provided for:		
Property, plant and equipment	**18,901**	4,510
System development, software and other license costs	**4,256**	5,030
	23,157	9,540

18 Related Party Transactions from Continuing Operations

The Continuing Operations of the Group had the following material transactions with its related parties during the six months ended 30 June 2018 and 2017:

		Unaudited Six months ended 30 June	
		2018	2017
	Note	**US$'000**	US$'000 (Restated)
Distribution and sales of goods	(i)	**9,231**	9,279
Operating leases rental and license fee paid	(ii)	**11,253**	12,868
Operating leases rental and license fee received	(ii)	**679**	502
Sourcing and supply chain management services income	(iii)	**636,331**	607,929
Logistics related services income	(iv)	**9,286**	7,495
Sourcing and supply chain management services income	(v)	**13,692**	10,977
Service fee income	(vi)	**6,295**	–
Rental and license fee paid	(vii)	**74**	–
Rental income	(vii)	**3,463**	–
Ancillary sourcing, logistics and trading services income	(viii)	**1,485**	–
Office administrative expenses reimbursement	(ix)	**14,253**	–

NOTES:

(i) Pursuant to the master distribution and sale of goods agreement entered into on 17 November 2017 with FH (1937) for a term of three years commencing from 1 January 2018 and ending on 31 December 2020, certain distribution and sales of goods was made on mutually agreed normal commercial terms with FH (1937) and its associates.

(ii) Pursuant to the master lease agreement for leasing of properties or sub-leasing and/or licensing arrangement dated 14 November 2016 entered into with FH (1937) and its associates for a term of three years ending 31 December 2019, the Group had rental charge for certain properties leased from FH (1937) and its associates during the period based on mutually agreed normal commercial terms. For the six months ended 30 June 2018, aggregate operating lease rental and license fee paid to and from one another approximated to US$11,932,000 (2017: US$13,370,000).

(iii) Pursuant to the buying agency agreement entered (the "Old Buying Agency Agreement") into with Global Brands Group on 24 June 2014, the Group provided sourcing and supply chain management services to Global Brands Group and its associates for a term of three years from the listing date of Global Brands Group. In view of the expiry of the Old Buying Agency Agreement, the Group has entered into the amended and restated buying agency agreement (the "Amended and Restated Buying Agency Agreement") on 14 November 2016 for a term commencing on 9 July 2017 and ending on 31 March 2020. For the six months ended 30 June 2018, the Group provided sourcing and supply chain management services to Global Brands Group with an aggregate income of approximately US$636,331,000 (2017: US$607,929,000).

18 Related Party Transactions from Continuing Operations (continued)

NOTES: (continued)

(iv) Pursuant to the master agreement for provision of logistics-related services entered into on 17 November 2017, the Group provided certain logistics-related services to FH (1937) and its associates for a term of three years ending 31 December 2020. For the six months ended 30 June 2018, the aggregate service income, excluding the passed-through costs for direct freight forwarding, approximated to US$9,286,000 (2017: US$7,495,000).

(v) Pursuant to the sourcing and supply chain management agreement entered into with Trinity on 7 June 2017, the Group provided sourcing and supply chain management services to Trinity and its associates for a term from 1 June 2017 to 31 December 2019. For the six months ended 30 June 2018, the commission received for sourcing and supply chain management services to Trinity was US$1,522,000 (2017: US$998,000) and the underlying FOB value of the ordered products was US$12,170,000 (2017: US$9,979,000).

(vi) Pursuant to services agreement entered into with LH Pegasus Holding Limited ("LH Pegasus") on 3 April 2018, the Group provided certain back office functions related to IT, human resources, finance and accounting, corporate services and global transaction services to LH Pegasus and its subsidiaries for a term from 3 April 2018 to 31 December 2019. For the six months ended 30 June 2018, aggregate services fee received was US$6,295,000 (2017: Nil).

(vii) Pursuant to master property agreement entered into with LH Pegasus on 3 April 2018, the Group and LH Pegasus had rental and license fee to and from one another for certain sub-lease and license office, showroom and warehouse premises for a term from 3 April 2018 to 31 December 2020. For the six months ended 30 June 2018, aggregate rental and license fee paid to and from one another approximated to US$3,537,000 (2017: Nil).

(viii) Pursuant to ancillary sourcing, logistics and trading services agreement entered into with LH Pegasus on 3 April 2018 for a term from 3 April 2018 to 31 December 2020. The Group provided agency-based sourcing and logistics services to LH Pegasus. LH Pegasus provide principal trading services to the Group. For the six months ended 30 June 2018, aggregate ancillary sourcing, logistics and trading services paid to and from one another approximated to US$1,485,000 (2017: Nil).

(ix) Commencing 1 January 2018, the Group charged FH (1937) for costs incurred on certain centralized office support functions (including corporate services, regional information technology support and human resources) on a recovery basis, amounting to US$14,253,000 for the six-month period.

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

19 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market Risk

(I) FOREIGN EXCHANGE RISK

Most of the Group's cash balances are HK dollar and US dollar deposits with major global financial institutions and most of the Group's borrowings are denominated in US dollars.

The Group's revenues and payments are predominantly transacted in US dollars. Therefore, it considers there is no significant risk exposure in relation to foreign exchange rate fluctuations. There are small portions of sales and purchases transacted in different currencies, for which the Group arranges hedging through foreign exchange forward contracts.

For transactions that are subject to foreign exchange risk, the Group hedges its foreign currency exposure once it receives confirmed orders or enters into customer transactions. To mitigate the impact from changes in foreign exchange rates, the Group regularly reviews its operations in these countries and makes necessary hedging arrangements in certain currencies against the US dollar.

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

From a medium-to long-term perspective, the Group manages the operations in the most cost-effective way possible within its global network. The Group strictly prohibits any financial derivative arrangement merely for speculation.

(II) PRICE RISK

The Group is exposed to price risk because of investments held by the Group and classified on the consolidated balance sheet as financial assets at FVOCI as at 30 June 2018 (31 December 2017: available-for-sale financial assets). The Group maintains these investments for long-term strategic purposes and the Group's overall exposure to price risk is not significant.

At 30 June 2018 and up to the date of the Group's interim financial information, the Group held no material financial derivative instruments except for certain foreign exchange forward contracts entered into for hedging of foreign exchange risk exposure on sales and purchases transacted in different currencies. At 30 June 2018, fair value of foreign exchange forward contracts entered into by the Group amounted to US$7,035,000 (31 December 2017: US$5,333,000 liabilities), which has been reflected in full in the Group's consolidated balance sheet as derivative financial instruments assets.

19 Financial Risk Management (continued)

(a) Market Risk (continued)

(III) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises mainly from US dollar denominated bank borrowings and the US dollar denominated long-term notes issued. Bank borrowings at variable rates expose the Group to cash flow interest rate risk. The Group's policy is to maintain a diversified mix of variable and fixed rate borrowings based on prevailing market conditions.

(b) Credit Risk

Credit risk mainly arises from trade and other receivables as well as cash and bank balances of the Group. The Group's principal trading business carries a higher credit risk profile given that it is acting as a supplier and therefore takes full counterparty risk of its customers in terms of accounts receivable and inventory.

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

(i) The Group selects customers in a cautious manner. Its credit control team uses a risk assessment system to evaluate the financial strength of individual customers prior to agreeing on the trade terms. It is not uncommon that the Group requires securities (such as standby or commercial letter of credit, or bank guarantee) from customers that fall short of the required minimum score under its risk assessment system;

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

(iii) It has established a credit risk system with a dedicated team, and tightened policies to ensure on-time recoveries from trade debtors; and

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

(c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash on hand and the availability of funding through an adequate amount of committed credit facilities from the Group's bankers.

Management monitors rolling forecasts of the Group's liquidity reserve (comprises undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flow.

20 Fair Value Estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2018.

	Level 1 US$'000	**Level 2 US$'000**	**Level 3 US$'000**	**Total US$'000**
Asset				
Financial assets at FVOCI				
– Club debentures	**–**	**–**	**4,588**	**4,588**
Derivative financial instrument used for hedging	**–**	**7,035**	**–**	**7,035**
Total assets	**–**	**7,035**	**4,588**	**11,623**
Liabilities				
Purchase consideration payable for acquisitions	**–**	**–**	**55,162**	**55,162**
Total liabilities	**–**	**–**	**55,162**	**55,162**

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2017.

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Available-for-sale financial assets				
– Club debentures	–	–	4,338	4,338
Total assets	–	–	4,338	4,338
Liabilities				
Derivative financial instrument used for hedging	–	5,355	–	5,355
Purchase consideration payable for acquisitions	–	–	61,583	61,583
Total liabilities	–	5,355	61,583	66,938

20 Fair Value Estimation (continued)

The fair values of financial instruments traded in active markets are based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no significant transfer of assets between level 1, level 2 and level 3 fair value hierarchy classifications during the period.

The following summarizes the major methods and assumptions used in estimating the fair values of the significant assets and liabilities classified as level 2 or 3 and the valuation process for assets and liabilities classified as level 3:

Derivative financial instruments used for hedging

The Group relies on bank valuations to determine the fair value of financial assets/liabilities which in turn are determined using discounted cash flow analysis. These valuations maximize the use of observable market data. Foreign currency exchange prices are the key observable inputs in the valuation.

Purchase consideration payable for acquisitions

The Group recognizes the fair value of those purchase considerations for acquisitions, as of their respective acquisition dates as part of the consideration transferred in exchange for the acquired businesses. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired businesses and significant judgment on time value of money. These calculations use cash flow projections for post-acquisition performance. The discount rate used is based on the prevailing incremental cost of borrowings of the Group at the time of acquisitions, which approximated to 2.5%.

20 Fair Value Estimation (continued)

The following table presents the changes in level 3 instruments for the six months ended 30 June 2018 and 2017.

	2018		2017	
	Purchase Consideration Payable for Acquisitions US$'000	**Others US$'000**	Purchase Consideration Payable for Acquisitions US$'000	Others US$'000
Opening balance as at 1 January (Audited)	**61,583**	**4,338**	161,536	4,164
Fair value gains	**–**	**250**	–	89
Settlement	**(6,025)**	**–**	(6,025)	–
Remeasurement of purchase consideration payable for acquisitions	**–**	**–**	(29,645)	–
Others	**(396)**	**–**	3,468	–
Closing balance as at 30 June (Unaudited)	**55,162**	**4,588**	129,334	4,253

21 Approval of Interim Financial Information

The interim financial information was approved by the Board of Directors on 22 August 2018.