

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 494)

ANNOUNCEMENT OF RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2009

HIGHLIGHTS			
(HK\$ millions)	2009	2008	Change
Turnover	46,292	47,393	-2%
Core Operating Profit	1,697	1,532	+11%
<i>As % of Turnover</i>	3.67%	3.23%	
Profit attributable to shareholders of the Company	1,397	1,238	+13%
Earnings per Share - Basic	38.3 HK cents	36.0 HK cents	+6%
Dividend per Share	26 HK cents	24 HK cents	+8%
<ul style="list-style-type: none"> ● Solid net profit growth for 1H 2009 in a challenging environment ● Achieved significant operating cost savings and delivered solid operating leverage in the first six months ● Core operating margin and net margin improved from last year ● Turnover affected by customer insolvencies in 2008 and 1H 2009 ● Overall financial strength remains very strong ● We see many acquisition and outsourcing opportunities 			

We are pleased to announce the unaudited consolidated profit and loss account of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009 and the consolidated balance sheet of the Group as at 30 June 2009 together with the comparative figures for 2008. The interim financial report has been reviewed by the Company's audit committee and the Company's auditor, PricewaterhouseCoopers, 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"). The auditor based on their review, concluded that nothing has come to their attention that causes them to believe that the interim financial report is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". The auditor's independent review report will be included in the interim financial report.

Consolidated Profit and Loss Account

	Note	Unaudited Six months ended 30 June	
		2009 HK\$'000	2008 HK\$'000
Turnover	2	46,292,167	47,393,271
Cost of sales		(41,109,934)	(42,106,599)
Gross profit		5,182,233	5,286,672
Other income		213,088	165,435
Total margin		5,395,321	5,452,107
Selling expenses		(707,508)	(942,538)
Merchandising expenses		(2,654,853)	(2,636,235)
Administrative expenses		(336,101)	(341,123)
Core operating profit		1,696,859	1,532,211
Other non-core operating (expenses)/income		(47,929)	5,777
Operating profit	2 & 3	1,648,930	1,537,988
Interest income		35,620	42,026
Interest expenses		(211,651)	(236,577)
Share of profits less losses of associated companies		11,276	10,608
Profit before taxation		1,484,175	1,354,045
Taxation	4	(88,202)	(116,008)
Profit after taxation		1,395,973	1,238,037
Attributable to:			
Shareholders of the Company		1,396,641	1,237,951
Minority interest		(668)	86
		1,395,973	1,238,037
Interim dividend		978,494	831,664
Earnings per share for profit attributable to the shareholders of the Company during the period	5		
- basic		38.3 HK cents	36.0 HK cents
- diluted		38.1 HK cents	35.6 HK cents

Consolidated Statement of Comprehensive Income

	Unaudited	
	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Profit for the period	1,395,973	1,238,037
Other comprehensive income		
Disposal of available-for-sale financial assets	-	(32,077)
Net fair value gains/(losses) of available-for-sale financial assets, net of tax	2,909	(1,163)
Net fair value (losses)/gains on cash flow hedges, net of tax	(43,434)	2,119
Currency translation differences	65,706	59,348
Total comprehensive income for the period	1,421,154	1,266,264
Total comprehensive income attributable to:		
Shareholders of the Company	1,421,892	1,266,025
Minority interest	(738)	239
	1,421,154	1,266,264

Consolidated Balance Sheet

	Note	Unaudited 30 June 2009 HK\$'000	Audited 31 December 2008 HK\$'000
Non-current assets			
Intangible assets		15,509,609	14,602,129
Property, plant and equipment		1,198,299	1,283,063
Prepaid premium for land leases		2,496	2,548
Associated companies		34,377	23,740
Available-for-sale financial assets		22,765	20,189
Deferred tax assets		107,274	111,441
		16,874,820	16,043,110
Current assets			
Inventories		2,172,976	2,328,948
Due from related companies		102,639	83,954
Trade and bills receivable	6	13,826,175	14,715,430
Other receivables, prepayments and deposits		1,938,884	2,027,576
Derivative financial instruments		-	34,814
Cash and bank balances		3,158,686	2,275,272
		21,199,360	21,465,994
Current liabilities			
Derivative financial instruments		69,914	-
Trade and bills payable	7	11,724,495	12,666,975
Accrued charges and sundry payables		1,953,460	2,771,908
Balance of purchase consideration payable for acquisitions to be settled by cash		1,147,992	1,178,118
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent		116,174	81,278
Taxation		465,909	465,727
Bank advances for discounted bills	6	300,901	312,693
Short-term bank loans		222,847	278,217
Bank overdrafts		130,457	93,307
		16,132,149	17,848,223
Net current assets		5,067,211	3,617,771
Total assets less current liabilities		21,942,031	19,660,881
Financed by:			
Share capital		94,034	90,853
Reserves		15,364,592	12,121,852
Proposed dividend		978,494	1,199,369
		16,343,086	13,321,221
Shareholders' funds attributable to the			
Company's shareholders		16,437,120	13,412,074
Minority interest		(30,899)	(29,720)
Total equity		16,406,221	13,382,354
Non-current liabilities			
Long-term liabilities		5,062,702	5,760,075
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent		347,876	382,772
Post-employment benefit obligations		24,766	23,766
Deferred tax liabilities		100,466	111,914
		21,942,031	19,660,881

Consolidated Statement of Changes in Equity

	Unaudited	
	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Total equity as at 1 January	13,382,354	9,864,264
Total comprehensive income for the period	1,421,154	1,266,264
Issue of shares upon a private placing	2,681,667	-
Final dividends paid	(1,200,280)	(1,727,959)
Employee share option scheme:		
- value of employee services	31,960	75,923
- shares issued	174	282
- share premium on issue of new shares	89,192	138,326
Total equity as at 30 June	16,406,221	9,617,100

Selected Notes to the Condensed Interim Financial Report

1. Basis of preparation and accounting policies

This interim financial report has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA. This interim financial report should be read in conjunction with the annual accounts for the year ended 31 December 2008, which had been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

Except as described below, the accounting policies applied are consistent with those of the annual accounts for the year ended 31 December 2008, as described in those annual accounts.

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

- HKAS 1 (revised), “Presentation of financial statements”. The revised standard prohibits the presentation of items of income and expenses (that is “non-owner changes in equity”) in the statement of changes in equity, requiring “non-owner changes in equity” to be presented separately from owner changes in equity. All “non-owner changes in equity” are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated profit and loss account and consolidated statement of comprehensive income).

The Group has elected to present two statements: a consolidated profit and loss account and a consolidated statement of comprehensive income. The interim financial report has been prepared under the revised disclosure requirements.

- HKFRS 8, “Operating segments”. HKFRS 8 replaces HKAS 14, “Segment reporting”. It requires a “management approach” under which segment information is presented on the same basis as that used for internal reporting purposes.

Operating segments are reported in a manner consistent with the internal reporting provided to management.

Goodwill is allocated by management to groups of cash-generating units on a segment level. The adoption of HKFRS 8 has not resulted in any changes in reportable segment or additional goodwill impairment. There has been no further impact on the measurement of the Group’s assets and liabilities. Comparatives for 2008 have been restated.

- Amendment to HKFRS 7, “Financial instruments: disclosures”. The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. The Group will make additional relevant disclosures in its accounts ending 31 December 2009.

Selected Notes to the Condensed Interim Financial Report (Continued)

1. Basis of preparation and accounting policies (Continued)

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant for the Group.

- HKAS 23 (amendment), "Borrowing costs".
- HKFRS 2 (amendment), "Share-based payment".
- HKAS 32 (amendment), "Financial instruments: Presentation".
- HK(IFRIC) 9 (amendment), "Reassessment of embedded derivatives" and HKAS 39 (amendment), "Financial instruments: Recognition and measurement".
- HK(IFRIC) 13, "Customer loyalty programmes".
- HK(IFRIC) 15, "Agreements for the construction of real estate".
- HK(IFRIC) 16, "Hedges of a net investment in a foreign operation".
- HKAS 39 (amendment), "Financial instruments: Recognition and measurement".

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

- Amendment to HKAS 39, "Financial instruments: Recognition and measurement" on eligible hedged items, effective for annual periods beginning on or after 1 July 2009. The Group will apply HKAS 39 (Amendment) from 1 January 2010.
- HKFRS 3 (revised), "Business combinations" and consequential amendments to HKAS 27, "Consolidated and separate financial statements", HKAS 28, "Investments in associates" and HKAS 31, "Interests in joint ventures", effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group. The Group does not have any joint ventures.

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (revised) to all business combinations from 1 January 2010.

- HK(IFRIC) 17, "Distributions of non-cash assets to owners", effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.
- HK(IFRIC) 18, "Transfers of assets from customers", effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Group, as it has not received any assets from customers.

Selected Notes to the Condensed Interim Financial Report (Continued)

1. Basis of preparation and accounting policies (Continued)

HKICPA's improvements to HKFRS have been published in May 2009, which have introduced certain amendments to those standards set out below. These amendments are not effective for the financial year beginning 1 January 2009 and have not been early adopted. The Group is assessing the impact of these amendments and will apply these amendments from 1 January 2010.

- HKFRS 2 "Share-based payments"
- HKFRS 5 "Non-current assets held for sale and discontinued operations"
- HKFRS 8 "Operating segments"
- HKAS 1 "Presentation of financial statements"
- HKAS 7 "Statement of cash flows"
- HKAS 17 "Leases"
- HKAS 36 "Impairment of assets"
- HKAS 38 "Intangible assets"
- HKAS 39 "Financial instruments: Recognition and measurement"
- HK(IFRIC) 9 "Reassessment of embedded derivatives"
- HK(IFRIC) 16 "Hedges of a net investment in a foreign operation"

2. Segment information

The Group's management considers the business principally from a geographic perspective. Business reportable operating segments identified are United States of America, Europe, Canada, Australasia, Central and Latin America and Rest of the world.

The Group's management assesses the performance of the operating segments based on a measure of adjusted operating profit. This measurement basis includes profit of the operating segments before share of results of associated companies, interest income, interest expenses and tax, but excludes material gain or loss which is of capital nature or non recurring nature such as gain or loss on disposal or impairment provision on property, plant and equipment, investments, goodwill or other assets. Other information provided to the Group's management is measured in a manner consistent with that in the accounts.

Total assets exclude deferred tax and available-for-sale financial assets, both of which are managed on a central basis. These are part of the reconciliation to total balance sheet assets.

Selected Notes to the Condensed Interim Financial Report (Continued)

2. Segment information (Continued)

	Turnover		Operating profit		Depreciation & amortization		Additions to non-current assets (other than financial instruments and deferred tax assets)	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal markets:								
United States of America	28,385,749	28,554,456	1,251,518	1,031,583	188,458	127,001	659,890	342,492
Europe	13,678,224	14,438,657	304,418	349,954	45,280	46,446	373,909	139,968
Canada	1,484,453	1,540,704	53,844	56,625	3,381	3,149	31,303	14,936
Australasia	1,236,828	1,218,292	42,537	42,697	2,799	2,490	26,073	11,810
Central and Latin America	609,506	670,334	22,017	23,609	1,395	1,370	12,856	6,498
Rest of the world	897,407	970,828	22,525	27,743	1,953	1,984	18,884	9,412
	46,292,167	47,393,271	1,696,859	1,532,211	243,266	182,440	1,122,915	525,116
Other non-core operating (expenses)/income			(47,929)	5,777				
			1,648,930	1,537,988				
Interest income			35,620	42,026				
Interest expenses			(211,651)	(236,577)				
Share of profits less losses of associated companies			11,276	10,608				
Profit before taxation			1,484,175	1,354,045				
Taxation			(88,202)	(116,008)				
Profit for the period			1,395,973	1,238,037				

Selected Notes to the Condensed Interim Financial Report (Continued)

2. Segment information (Continued)

	Segment assets		Interest in associated companies (included in segment assets)	
	30 June	31 December	30 June	31 December
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal markets:				
United States of America	24,603,337	25,292,589	28,787	17,897
Europe	10,698,205	9,392,146	5,590	5,843
Canada	881,425	887,261	-	-
Australasia	758,986	639,498	-	-
Central and Latin America	375,354	446,760	-	-
Rest of the world	626,834	719,220	-	-
	<u>37,944,141</u>	<u>37,377,474</u>	<u>34,377</u>	<u>23,740</u>
Available-for-sale financial assets	22,765	20,189		
Deferred tax assets	107,274	111,441		
Total assets per balance sheet	<u>38,074,180</u>	<u>37,509,104</u>		

The Company is domiciled in Bermuda. The result of its turnover from external customers for the six months ended 30 June 2009 and 30 June 2008 and the total of non-current assets other than financial instruments and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) as at 30 June 2009 and 30 June 2008 were wholly located in other countries.

Turnover consists of sales of softgoods and hardgoods as follows:

	Unaudited	
	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Softgoods	32,835,790	32,983,015
Hardgoods	13,456,377	14,410,256
	<u>46,292,167</u>	<u>47,393,271</u>

For the six months ended 30 June 2009, approximately 12% (2008: 12%) of the Group's turnover is derived from a single external customer. This turnover is attributable to United States of America segment.

Selected Notes to the Condensed Interim Financial Report (Continued)

3. Operating profit

Operating profit is stated after charging/(crediting) the following:

	Unaudited	
	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Gain on disposal of available-for-sale financial assets	-	(31,022)
Amortization of computer software and system development costs	4,715	6,094
Amortization of intangible assets arising from business combination	47,929	25,245
Amortization of brand licenses	56,476	40,019
Depreciation of property, plant and equipment	134,146	111,082
Loss on disposal of property, plant and equipment	6,035	2,133
Employee share option expenses	31,960	75,923

4. Taxation

Hong Kong profits tax has been provided for at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	Unaudited	
	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Current taxation		
- Hong Kong profits tax	33,784	55,487
- Overseas taxation	61,792	57,656
Deferred taxation	(7,374)	2,865
	88,202	116,008

5. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$1,396,641,000 (2008: HK\$1,237,951,000) and on the weighted average number of 3,650,964,000 (2008: 3,436,596,000) shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of 3,650,964,000 (2008: 3,436,596,000) ordinary shares in issue by 12,983,000 (2008: 42,121,000) to assume conversion of all dilutive potential ordinary shares granted under the Company's Option Scheme. 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.

Selected Notes to the Condensed Interim Financial Report (Continued)

6. Trade and bills receivable

The ageing analysis of trade and bills receivable is as follows:

	Current to 90 days HK\$'000	91 to 180 days HK\$'000	181 to 360 days HK\$'000	Over 360 days HK\$'000	Total HK\$'000
Balance at 30 June 2009	<u>11,366,052</u>	<u>1,315,812</u>	<u>941,488</u>	<u>202,823</u>	<u>13,826,175</u>
Balance at 31 December 2008	<u>12,928,272</u>	<u>1,704,988</u>	<u>75,776</u>	<u>6,394</u>	<u>14,715,430</u>

All trade and bills receivable are either repayable within one year or on demand. Accordingly, the fair value of the Group's trade and bills receivables are approximately the same as the carrying value.

A significant portion of the Group's business are 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 are on open account terms which is often covered by customers' standby letters of credit, bank guarantees, credit insurance or under a back-to-back payment arrangement with suppliers.

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

Certain subsidiaries of the Group transferred bills receivable balances amounting to HK\$300,901,000 (31 December 2008: HK\$312,693,000) to banks in exchange for cash as at 30 June 2009. The transactions have been accounted for as collateralized bank advances.

As at 30 June 2009, trade receivables of HK\$117,662,000 (31 December 2008: HK\$87,063,000) were pledged as security for the Group's borrowings.

7. Trade and bills payable

The ageing analysis of trade and bills payable is as follows:

	Current to 90 days HK\$'000	91 to 180 days HK\$'000	181 to 360 days HK\$'000	Over 360 days HK\$'000	Total HK\$'000
Balance at 30 June 2009	<u>10,260,649</u>	<u>875,723</u>	<u>321,009</u>	<u>267,114</u>	<u>11,724,495</u>
Balance at 31 December 2008	<u>12,161,586</u>	<u>361,607</u>	<u>41,221</u>	<u>102,561</u>	<u>12,666,975</u>

The fair value of the Group's trade and bills payable are approximately the same as the carrying value.

MANAGEMENT DISCUSSION AND ANALYSIS

Results Review

Due to a continuing soft consumer market, Group turnover decreased by 2% to US\$5,935 million (approximately HK\$46 billion), which reflects the weakness in consumer markets and some customer insolvencies announced earlier.

Core operating profit increased by 11% from the previous year and core operating profit margin increased to 3.67% from 3.23%. This can be attributed to our success in reducing operating costs in line with the target we set at the start of 2009. Overall operating costs have declined in the first six months, including selling expenses and travelling costs.

Profit attributable to shareholders reached HK\$1,397 million for the first half of 2009, an increase of 13% over 2008.

We are very pleased to have delivered solid operating leverage in the first six months through our persistent cost control initiative, and we are committed to continue doing so for the rest of the year.

Total margin decreased by 1%, but as a percentage of turnover it increased from 11.50% in 2008 to 11.65% in 2009. This reflects better margin contribution from the US onshore business.

In May 2009, the Group placed 120.29 million shares at a price of HK\$22.55 per share. The placing raised approximately HK\$2,682 million, and the proceeds will primarily be used for general working capital purposes and to support the Group's continued business expansion.

Segmental Analysis

For the first half of 2009, softgoods and hardgoods accounted for 71% and 29% of turnover respectively. **Softgoods** turnover was flat, reflecting the weak business sentiment of some of our existing customers as well as the loss in turnover from a few customers who earlier filed for bankruptcy or insolvency. At the same time, it also reflected positive contributions from Liz Claiborne.

Turnover from the **hardgoods** business fell by 7%, reflecting loss in revenue from customers like KB Toys, who filed for bankruptcy last year, price deflation, as well as overall weak market sentiment.

Geographically, the **US** remains the Group's key export market, representing 61% of total turnover during the period under review. Turnover fell slightly by 1%, but operating profit increased by 21%, which can be attributed to new contributions from Van Zeeland and Liz Claiborne that helped offset the soft market sentiment overall.

Europe accounted for 30% of turnover, reflecting a decline of 5%. Operating profit declined by 13%, which was mainly due to the decline in turnover from Arcandor, who filed for insolvency during the first half of this year.

Turnover in other markets such as **Canada, Central and Latin America, and Australasia** accounted for 3%, 1% and 3% respectively. Turnover growth for these markets was at -4%, -9%, and 2%, and operating profit was -5%, -7% and -0.4% respectively. **Japan** and the rest of the world, which represented turnover share of 2%, experienced a fall of 8% in turnover and a fall of 19% in operating profit.

Acquisitions

We are committed to continue our acquisition strategy. So far this year, we have completed three small roll-up acquisitions.

In March 2009, the Group acquired JMI, based in Shanghai China. JMI specializes in high-end technical products such as gloves, outerwear, knitwear and accessories. This transaction will provide attractive synergies and will enable us to provide product extension possibilities for our existing customers.

In the same month, the Group acquired Shubiz in the UK. Shubiz is a long-established and leading designer and supplier of ladies' fashion footwear to leading retailers, principally in the UK. This deal has helped grow our footwear presence in Europe and will facilitate our building of an integrated Pan European footwear business.

In June 2009, the Group further acquired Clearskies Ltd., the sourcing operation of Shubiz based in China.

Outsourcing Deals

In February 2009, Li & Fung announced it had agreed to enter into a long-term, exclusive Buying Agency Agreement whereby the Group would act as the primary global apparel and accessories sourcing agent for all brands in the Liz Claiborne Inc. portfolio, including Lucky Brand, Juicy Couture, Kate Spade and Isaac Mizrahi-designed Liz Claiborne New York with the exception of the jewelry product lines. Li & Fung is also Mexx's exclusive sourcing agent. The Group took over the sourcing operations of Liz Claiborne and paid Liz Claiborne an amount equal to US\$83 million. This was a very strategic deal that would enhance the overall sourcing platform in Li & Fung's brands business. It also represents one of the best portfolios of high-profile brands in the world and is a great addition to Li & Fung's existing customer base.

In addition, we have also completed an outsourcing deal with Wolverine/Merrell in the US in April this year, with respect to their apparel sourcing worldwide.

Progress on the Three-Year Plan 2008-2010

Although the external operating environment is undoubtedly challenging, we remain committed to our current Three-Year Plan 2008-2010 targets, i.e. a turnover target of US\$20 billion, a core operating profit target of US\$1 billion, and an operating leverage target of doubling core operating profit percentage growth over turnover percentage growth (i.e. 2x).

We are also pleased to report that our effort in driving operating leverage has started to bear fruit as we saw solid positive operating leverage in the first six months this year, which was largely the result of our cost control initiatives.

We expect that the strong pipeline of outsourcing deals and acquisitions will continue to provide new sources of growth in the coming years.

The Group's financial strength continues to be highly resilient. We have maintained our strong credit ratings from Moody's and Standard & Poor's at A3 (stable) and A- (stable) respectively. Li & Fung continues to enjoy healthy cash flow and has strong credit ratios. For details, please refer to the following "Financial Position and Liquidity" section.

Financial Position and Liquidity

The Group continued to be in a strong financial position for the period under review with cash and cash equivalents amounting to HK\$3,028 million at the end of June 2009.

Normal trading operations were well supported by more than HK\$19 billion in bank trading facilities. In addition, the Group had available bank loans and overdraft facilities of HK\$4,268 million, out of which HK\$1,480 million were committed facilities. At 30 June 2009, only HK\$353 million of the Group's bank loans and overdraft facilities was utilized, and no drawdown was made out of the committed facilities.

At balance sheet date, the Group's gearing ratio was about 6%, calculated as net debt divided by total capital. The Group's gearing ratio decreased from December 2008 of 14% as the Group's total equity was further strengthened by a private placing completed during the period with net proceeds of approximately HK\$2,682 million. Net debt of HK\$1,065 million is calculated as total borrowings (including short-term bank loans of HK\$223 million and long term notes of HK\$3,870 million) less cash and cash equivalents of HK\$3,028 million. Total capital is calculated as total equity of HK\$16,406 million plus net debt. The current ratio was 1.3, based on current assets of HK\$21,199 million and current liabilities of HK\$16,132 million.

Impact of Changes in Accounting Standards

New standards and amendments to standards with significant impact to information disclosure of the interim financial report are set out below. These new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

- HKAS 1 (revised), "Presentation of financial statements". The revised standard prohibits the presentation of items of income and expenses (that is "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement. The interim financial report has been prepared under the revised disclosure requirements and a consolidated profit and loss account and a consolidated statement of comprehensive income have been presented.
- HKFRS 8, "Operating segments". HKFRS 8 replaces HKAS 14, "Segment reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes.

Credit Risk Management

Credit risk mainly arises from trade and other receivables and cash and bank balances of the Group.

Most of the Group's cash and cash equivalents are held in major global financial institutions.

The Group has stringent policies in place to manage its credit risk with trade and other receivables, which include but are not limited to the measures set out below:

- (i) A significant portion of business is secured by back-to-back payment arrangement or covered by letters of credit, customers' standby letters of credit, bank guarantees or credit insurance;
- (ii) Certain trade receivable balances on open account term are factored to external financial institutions without recourse;
- (iii) The Group's credit control team makes ongoing assessment of each individual customer and vendor and determines the credit limits based on, among other factors, their trading and settlement history and their respective financial background.

Foreign Exchange Risk Management

Most of the Group's cash balances were deposits in HK\$ and US\$ with major global financial institutions, and most of the Group's assets, liabilities, revenues and payments were held in either HK\$ or US\$. Therefore, we consider that the risk exposure to foreign exchange rate fluctuations is minimal.

Foreign exchange risks arising from sales and purchases transacted in different currencies are managed by the Group treasury, with the use of foreign exchange forward contracts. Pursuant to the Group policy in place, foreign exchange forward contracts, or any other financial derivatives, are entered into by the Group for hedging purposes. The Group has not entered into any financial derivatives for speculation.

Capital Commitments and Contingent Liabilities

At the date of this announcement, the Group has disputes with the Hong Kong Inland Revenue ("HKIR") involving additional tax assessments amounting to approximately HK\$1,599 million on both the non-taxable claim of certain non-Hong Kong sourced income ("Offshore Claim") and the deduction claim of marketing expenses ("Deduction Claim") for the years of assessment from 1992/1993 to 2007/2008.

The Commissioner of the HKIR issued a determination on 14 June 2004 to one of its subsidiaries, Li & Fung (Trading) Limited ("LFT"), confirming additional tax assessments totaling HK\$333 million relating to the years of assessment from 1992/93 to 2001/02. Under further legal advice from the Group's counsel, the directors believe that the Group has meritorious defence to appeal against the Commissioner's determination. Accordingly, LFT served a notice of appeal to the Board of Review on 13 July 2004. The appeal was heard before the Board of Review in January 2006.

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

The Group has considered the reasoning of the Board of Review Decision and, having obtained professional advice, decided to lodge an appeal against the Board of Review Decision in respect of the Deduction Claim. An application requiring the Board of Review to state a case on questions of law for the opinion of the High Court was made by LFT on 10 July 2009.

On the other hand, the HKIR also lodged an appeal against the Board of Review Decision in respect of the Offshore Claim. An application requiring the Board of Review to state a case on questions of law for the opinion of the High Court was made by the HKIR on 10 July 2009.

Based on the assessment from the Group's legal counsel on the merit of LFT's further appeal in respect of the Deduction Claim and the HKIR's further appeal in respect of the Offshore Claim, the directors consider that no material tax liabilities will finally crystallise and sufficient tax provision has been made in the accounts in this regard.

Other than the above, there are no material contingent liabilities or off-balance sheet obligations.

Human Resources

At the end of June 2009, the Group had a total workforce of 13,905, of whom 3,336 were based in Hong Kong and 10,569 were located overseas. The Group offers its staff competitive remuneration schemes. In addition, bonuses and share options are also granted to eligible staff based on individual and Group performance.

The Group is committed to nurturing a learning culture in the organization. Emphasis is placed on learning and development as the Group's success is dependent upon the efforts of a skilled and motivated workforce. Training programs have been developed to align with the profiles of different job levels and functions. In particular, there are two key resourcing programs, the Management Trainee Program and the Merchandising Development Program. The Management Trainee Program, first launched in 2003, is a global corporate management program aimed at attracting and developing high-potential university graduates to become our future leaders through accelerated career development opportunities. The program is now six years old, and over 143 trainees recruited from around the world are participating in the program. The Merchandising Development Program, first launched in February 2006, is a corporate resourcing program developed in collaboration with Hong Kong Polytechnic University (HKPU) to obtain industry recognition and establish industry standards for merchandising skill sets. This program has expanded to also cover the Shanghai office. As of July 2009, 56 trainees in Hong Kong graduated from the program and received their diplomas from HKPU.

In 2009 the Group successfully launched a new key corporate initiative called "Building Skills for Growth" that aims to build new skills or upgrade the existing skills of our people in order to sustain personal and organization growth. Currently at the pioneer phase, a 9-month, full-time design support training program has been developed in partnership with Hong Kong Polytechnic University, the New York Fashion Institute of Technology and Paris Institut Français De La Mode. This design support training program commenced in June 2009, and 56 staff members are participating in the program.

Another arm of “Building Skills for Growth” is the Merchandising Skills Program. The first in-house, tailor-made merchandising program under this initiative was launched in the Shenzhen office in June 2009. This is a 'core skill' merchandising program to equip merchandisers with practical, job-related skills that support business growth. The program will be launched in other high-growth locations in the near future.

Total staff costs for the first half of 2009 were HK\$2,165 million, compared with HK\$2,150 million for the same period of 2008.

CORPORATE GOVERNANCE

The Board of Directors and management are committed to principles of good corporate governance consistent with prudent enhancement and management of shareholder value. These principles emphasize transparency, accountability and independence.

In order to reinforce independence, accountability and responsibility, the role of the Group Chairman is separate from that of the Group Managing Director. Their respective responsibilities are clearly established and defined by the Board in writing.

The Board has established the following committees (all chaired by Independent Non-executive Director or Non-executive Director) with defined terms of reference (available to shareholders upon request), which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”): the Nomination Committee, the Audit Committee, the Risk Management Committee and the Compensation Committee.

Corporate governance practices adopted by the Company during the six-month period to 30 June 2009 are in line with those practices set out in the Company’s 2008 Annual Report.

AUDIT COMMITTEE

The Audit Committee met three times to date in 2009 (with a 94% attendance rate) to review with senior management and the Company’s internal and external auditors, the Group’s significant internal controls and financial matters as set out in the Committee’s written terms of reference. The Committee’s review covers the audit plans and findings of internal and external auditors, external auditor’s independence, the Group’s accounting principles and practices, goodwill assessment, listing rules and statutory compliance, connected transactions, internal controls, risk management and financial reporting matters (including the interim financial report for the six months ended 30 June 2009 for the Board’s approval).

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for maintaining a sound and effective system of internal controls in the Company and for reviewing its effectiveness.

Based on the assessments made by senior management and the Group's Corporate Governance Division (Internal Audit) for the six months ended 30 June 2009, the Audit Committee considered that the internal controls and accounting systems of the Group were in place and functioning effectively and were designed to provide reasonable assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with management's authorization and the accounts were reliable for publication; and that there was an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

The Group has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Specific confirmation has been obtained from each Director to confirm compliance with the Model Code for the six months ended 30 June 2009. No incident of non-compliance by Directors was noted by the Company for the six months ended 30 June 2009. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the period ended 30 June 2009.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its securities during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

INTERIM DIVIDEND

The Board of Directors has resolved to declare an interim dividend of 26 HK cents (2008: 24 HK cents) per Share for the six months ended 30 June 2009 absorbing a total of HK\$978 million (2008: HK\$832 million).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 10 September 2009 to 16 September 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrars, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 9 September 2009. Dividend warrants will be despatched on 17 September 2009.

PUBLICATION OF INTERIM REPORT

The 2009 interim report will be available on the Company's website at www.lifung.com and HKExnews website at www.hkexnews.hk and despatched to the shareholders on or about 8 September 2009.

BOARD OF DIRECTORS

As at the date hereof, the Board of Directors of the Company comprises the following Directors:-

Non-Executive Directors:-

Victor Fung Kwok King (*Chairman*)
Paul Edward Selway-Swift*
Allan Wong Chi Yun*
Franklin Warren McFarlan*
Makoto Yasuda*
Martin Tang Yue Nien*

Executive Directors:-

William Fung Kwok Lun (*Managing Director*)
Bruce Philip Rockowitz
Annabella Leung Wai Ping
Spencer Theodore Fung

**Independent Non-executive Directors*

By Order of the Board
Victor FUNG Kwok King
Chairman



Member of the Li & Fung Group

Hong Kong, 13 August 2009

Websites: www.lifung.com
www.irasia.com/listco/hk/lifung