# LI & FUNG LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 494)**

## ANNOUNCEMENT OF RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2006

### HIGHLIGHTS

| (HK$ millions) | **2006** | 2005 | Change |
|---|---|---|---|
| Turnover | **27,970** | 23,466 | +19% |
| Core Operating Profit | **836** | 619 | +35% |
| *As % of Turnover* | ***2.99%*** | *2.64%* | |
| Profit attributable to shareholders of the Company | **764** | 618 | +24% |
| Earnings per Share | **23.6 HK cents** | 19.2 HK cents* | +23% |
| Dividend per Share | **16.0 HK cents** | 13.2 HK cents* | +21% |

* *Adjusted for the effect of 1-for-10 Bonus Share issued during the period*

- Strong results in line with Three-Year Plan 2005-2007 target
- Changes in trade arena proved positive for our business
- New acquisition strategy continues to yield fruitful results with abundant opportunities on the horizon
- Positive outlook for the remainder of the year

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 2006 and the consolidated balance sheet of the Group as at 30 June 2006 together with the comparative figures in 2005. The interim financial report has been reviewed by the Company's audit committee and the Company's auditors, PricewaterhouseCoopers, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The auditors, on the basis of their review, concluded that they are not aware of any material modifications that should be made to the interim financial report. The auditors' independent review report will be included in the interim report to shareholders.

## Consolidated Profit and Loss Account

| | | Unaudited Six months ended 30 June | |
|---|---|---|---|
| | | 2006 | 2005 |
| | *Note* | *HK$'000* | *HK$'000* |
| Turnover | *2* | 27,970,274 | 23,466,448 |
| Cost of sales | | (25,152,988) | (21,238,163) |
| Gross profit | | 2,817,286 | 2,228,285 |
| Other income | | 134,927 | 114,969 |
| Total margin | | 2,952,213 | 2,343,254 |
| Selling expenses | | (447,287) | (338,979) |
| Merchandising expenses | | (1,417,384) | (1,194,683) |
| Administrative expenses | | (251,340) | (190,462) |
| Core operating profit | | 836,202 | 619,130 |
| Gain on disposal of properties | | 3,268 | 27,332 |
| Operating profit | *2 & 3* | 839,470 | 646,462 |
| Interest income | | 23,056 | 36,753 |
| Interest expenses | | (43,050) | (6,490) |
| Share of profits less losses of associated companies | | 11,507 | 8,404 |
| Profit before taxation | | 830,983 | 685,129 |
| Taxation | *4* | (66,702) | (67,209) |
| Profit after taxation | | 764,281 | 617,920 |
| Attributable to: | | | |
| Shareholders of the Company | | 764,105 | 618,468 |
| Minority interests | | 176 | (548) |
| | | 764,281 | 617,920 |
| Interim dividend | | 518,742 | 425,095 |
| Earnings per share for profit attributable to the shareholders of the Company during the period | *5* | | |
| – basic | | 23.6 HK cents | 19.2 HK cents |
| – diluted | | 23.5 HK cents | 19.1 HK cents |

## Consolidated Balance Sheet

| | Note | Unaudited 30 June 2006 HK$'000 | Audited 31 December 2005 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | | 3,020,990 | 2,809,380 |
| Fixed assets | | 980,838 | 947,608 |
| Prepaid premium for land leases | | 748,111 | 765,771 |
| Associated companies | | 18,342 | 7,102 |
| Available-for-sale financial assets | | 90,268 | 91,721 |
| Deferred tax assets | | 126,229 | 118,419 |
| | | 4,984,778 | 4,740,001 |
| **Current assets** | | | |
| Inventories | | 874,665 | 628,121 |
| Due from related companies | | 12,451 | 24,982 |
| Derivative financial instruments | | 965 | 3,769 |
| Trade and bills receivable | 6 | 7,380,186 | 7,738,518 |
| Other receivables, prepayments and deposits | | 1,200,753 | 884,704 |
| Cash and bank balances | | 913,600 | 1,247,920 |
| | | 10,382,620 | 10,528,014 |
| **Current liabilities** | | | |
| Due to related companies | | – | 98 |
| Derivative financial instruments | | 17,354 | – |
| Trade and bills payable | 7 | 6,433,937 | 6,058,717 |
| Balance of purchase consideration payable for acquisitions | | 412,167 | 647,492 |
| Accrued charges and sundry payables | | 957,135 | 1,006,181 |
| Taxation | | 359,533 | 391,415 |
| Bank advances for discounted bills | | 1,452,383 | 1,554,367 |
| Short term bank loan – unsecured | | 370,800 | – |
| Bank overdrafts | | | |
| Secured | | – | 154,476 |
| Unsecured | | 321,039 | 49,531 |
| | | 10,324,348 | 9,862,277 |
| Net current assets | | 58,272 | 665,737 |
| Total assets less current liabilities | | 5,043,050 | 5,405,738 |

| | | |
|---|---|---|
| Financed by: | | |
| Share capital | 81,001 | 73,414 |
| Reserves | 3,906,258 | 3,540,450 |
| Proposed dividend | 518,742 | 1,042,995 |
| | 4,425,000 | 4,583,445 |
| Shareholders' funds | 4,506,001 | 4,656,859 |
| Minority interests | (31,896) | (32,058) |
| Total equity | 4,474,105 | 4,624,801 |
| Non-current liabilities | | |
| Long-term liabilities | 540,146 | 753,192 |
| Post-employment benefit obligations | 20,821 | 19,821 |
| Deferred taxation | 7,978 | 7,924 |
| | 5,043,050 | 5,405,738 |

## Consolidated Statement of Changes in Equity

| | Unaudited Six months ended 30 June 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Total equity at 1 January | | |
| Attributable to: | | |
| Shareholders of the Company | 4,656,859 | 4,816,905 |
| Minority interests | (32,058) | (32,389) |
| | 4,624,801 | 4,784,516 |
| Currency translation differences | | |
| Attributable to: | | |
| Shareholders of the Company | 32,390 | (18,188) |
| Minority interests | (14) | 60 |
| | 32,376 | (18,128) |
| Fair value losses of available-for-sale financial assets | (1,453) | (1,252) |
| Fair value (losses)/gains on cash flow hedges | (13,031) | 1,687 |
| Net income/(expenses) recognized directly in equity | 17,892 | (17,693) |
| Profit for the period | | |
| Attributable to: | | |
| Shareholders of the Company | 764,105 | 618,468 |
| Minority interests | 176 | (548) |
| | 764,281 | 617,920 |
| Total recognized income for the period | 782,173 | 600,227 |
| Final dividends paid | (1,044,290) | (1,608,530) |
| Employee share option scheme: | | |
| – value of employee services | 29,233 | 23,044 |
| – shares issued | 233 | 275 |
| – share premium on issue of new shares | 81,955 | 97,959 |
| Total equity as at 30 June | | |
| Attributable to: | | |
| Shareholders of the Company | 4,506,001 | 3,930,368 |
| Minority interests | (31,896) | (32,877) |
| | 4,474,105 | 3,897,491 |

## 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 2005 annual accounts.

The accounting policies and methods of computation used in the preparation of this interim financial report are consistent with those used in the 2005 annual accounts, except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRS") and HKAS (collectively referred to as the "New HKFRSs"), which have become effective for accounting periods beginning on or after 1 January 2006. The applicable New HKFRSs adopted in this interim financial report are set out below.

| | |
|---|---|
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 21 (Amendment) | Net Investment in a Foreign Operation |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 (Amendment) | The Fair Value Option |
| HKAS 39 and HKFRS 4 (Amendment) | Financial Guarantee Contracts |
| HKFRS-Int 4 | Determining whether an Arrangement contains a Lease |

The adoption of the above HKAS did not result in substantial changes to the Group's balance sheet and profit and loss account. The changes in the Group's accounting policies are summarized as below:

– HKAS 19 (Amendment) introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. The Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses.

– HKAS 21 (Amendment) changes the net investment definition to include loans between fellow subsidiaries. It permits inter-company loans denominated in any currency to be part of a net investment in a foreign operation and to recognize foreign exchange volatility on such loans funding foreign operations in exchange reserve in the consolidated financial statements.

- HKAS 39 (Amendment) allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss.
- HKAS 39 (Amendment) changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. This amendment has no impact as the Group has no financial instruments at fair value through profit and loss.
- HKAS 39 and HKFRS 4 (Amendment) requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognized at their fair value, and subsequently measured at the higher of (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date.
- HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

No early adoption of the following new standard, interpretations or amendment that have been issued but are not yet effective. The adoption of such new standard, interpretations or amendment will have no material impact on the accounts of the Group and will not result in substantial changes to the Group's accounting policies.

| | |
|---|---|
| HKAS 1 (Amendment) | Presentation of Financial Statements: Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |

## 2. Segment information

The principal activity of the Group is export trading of consumer products.

*(a) Geographical segments*

An analysis of the Group's segment turnover and contribution to operating profit for the period by geographical segment is as follows:

| | Turnover Six months ended 30 June | | Operating profit Six months ended 30 June | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Principal markets: | | | | |
| United States of America | **19,942,596** | 16,098,138 | **566,476** | 382,799 |
| Europe | **5,027,811** | 4,412,449 | **175,058** | 147,896 |
| Canada | **1,375,392** | 1,244,160 | **41,319** | 31,375 |
| Australasia | **761,758** | 926,526 | **29,329** | 32,827 |
| Central and Latin America | **440,784** | 382,581 | **12,762** | 12,994 |
| Rest of the world | **421,933** | 402,594 | **11,258** | 11,239 |
| | **27,970,274** | 23,466,448 | **836,202** | 619,130 |
| Gain on disposal of properties | | | **3,268** | 27,332 |
| | | | **839,470** | 646,462 |

*(b) Business segments*

An analysis of the Group's segment turnover and contribution to operating profit for the period by business segment is as follows:

| | Turnover Six months ended 30 June | | Operating profit Six months ended 30 June | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Softgoods | **19,371,138** | 16,616,230 | **720,490** | 522,641 |
| Hardgoods | **8,599,136** | 6,850,218 | **115,712** | 96,489 |
| | **27,970,274** | 23,466,448 | **836,202** | 619,130 |
| Gain on disposal of properties | | | **3,268** | 27,332 |
| | | | **839,470** | 646,462 |

## 3. Operating profit

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

| | Six months ended 30 June | |
|---|---|---|
| | 2006 | 2005 |
| | *HK$'000* | *HK$'000* |
| Amortization of development costs | **3,901** | 3,773 |
| Employee share option expenses | **29,233** | 23,044 |
| Depreciation of fixed assets | **84,144** | 62,796 |
| Gain on disposal of properties | **(3,268)** | (27,332) |
| Loss on disposal of other fixed assets | **420** | 591 |

## 4. Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2005: 17.5%) 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:

| | Six months ended 30 June | |
|---|---|---|
| | 2006 | 2005 |
| | *HK$'000* | *HK$'000* |
| Current taxation | | |
| – Hong Kong profits tax | **59,745** | 52,277 |
| – Overseas taxation | **14,713** | 13,329 |
| Deferred taxation | **(7,756)** | 1,603 |
| | **66,702** | 67,209 |

## 5. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$764,105,000 (2005: HK$618,468,000) and on the weighted average number of 3,233,557,000 (2005: 3,213,251,000) shares in issue during the period, after taking into account the effect of the bonus share issued during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of 3,233,557,000 (2005: 3,213,251,000) ordinary shares in issue by 21,153,000 (2005: 17,161,000) 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.

## 6. Trade and bills receivable

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

| | Current to 90 days | 91 to 180 days | 181 to 360 days | Over 360 days | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Balance at 30 June 2006** | **6,936,151** | **309,411** | **120,435** | **14,189** | **7,380,186** |
| Balance at 31 December 2005 | 7,300,091 | 371,674 | 54,639 | 12,114 | 7,738,518 |

All trade and bills receivable are either repayable within one year or on demand. Accordingly, the fair value of the Group's and the Company'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 payable against deliveries of shipments which are often covered by customers' standby letters of credit, bank guarantees or credit insurance.

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

The Group transferred certain bills of exchange and trade receivable amounting to HK$1,452,383,000 to banks with recourse in exchange for cash as at 30 June 2006. The transaction has been accounted for as collateralized banks advances.

## 7. Trade and bills payable

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

| | Current to 90 days | 91 to 180 days | 181 to 360 days | Over 360 days | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Balance at 30 June 2006** | **6,204,647** | **130,527** | **44,627** | **54,136** | **6,433,937** |
| Balance at 31 December 2005 | 5,849,410 | 121,289 | 43,007 | 45,011 | 6,058,717 |

## 8. Event after balance sheet date

On 7 July 2006, the Group entered into an asset purchase agreement to acquire from Rosetti Handbags and Accessories, Ltd., a New York corporation, its business as conducted by its Rosetti Handbag Division and Franco Sarto Division and substantially all their assets (collectively referred to as the "Handbag Divisions") for a cash consideration of approximately US$162 million. The acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Group will be verifying the fair value of assets, liabilities and contingent liabilities of the Handbag Divisions as at the acquisition date and it is impracticable to disclose their respective amounts together with the goodwill so arising at the current stage. Further details of the transaction are set out in the Group's circular dated 27 July 2006.

## Management Discussion and Analysis

### Results Review

2006 is the second year of the Group's Three-Year Plan 2005-2007. The Group is pleased to report strong growth in line with the plan. For the first half of 2006, profit attributable to shareholders reached HK$764 million, an increase of 24% over the same period in 2005.

The Group's turnover increased by 19% to HK$28 billion. This increase is above the targeted annual growth rate outlined in the Three-Year Plan. The strength and resilience of our flexible business model enabled the Group to continue to flourish despite uncertain market conditions. During the period under review, consumer markets were faced with rising interest and energy costs. There were also significant changes in the global trade regulatory environment for textile products in general, with the implications for China having particular significance for the Group's business. Also of concern was the impact of the recently announced movement of the renminbi to the US dollar. These changes proved positive to the Group's business as our wide network enabled our customers to retain global sourcing flexibility in this environment.

The Total Margin rate increased from 10% to 10.6% of turnover during the first half of 2006, a consequence of the Group's strategy to create more added-value for our customers along the supply chain, as well as the development of our onshore US business.

The Group's buying power fueled by its extensive sourcing network led to lower prices to our customers. Both gross and net margins continued to get stronger, in spite of a generally deflationary environment.

Core operating profits increased 35% due to strong organic growth augmented by successful acquisitions. The Group is also continuing to invest in additional staff and systems to strengthen our back office infrastructure to cater for this expected growth in the current Three-Year Plan.

### Segmental Analysis

The softgoods business accounted for 69% of turnover in the first half of 2006, with turnover and operating profit increasing by 17% and 38% respectively. The proliferation of bilateral agreements with the United States and Europe continues and the Group is in a good position to capitalize on this trend given our wide sourcing coverage in over 40 countries. Growth in the softgoods business was also boosted by contributions from acquisitions made in 2005.

Turnover from the hardgoods business grew by 26% for the first half of 2006 and accounted for 31% of the Group's turnover. Operating profit increased by 20% over last year. The lower rate of growth of operating profit compared to turnover can be primarily attributed to the seasonal skew of hardgoods towards the second half of the year, making the first half comparison for this segment less important as a measure of profitability for the full year.

Geographically, the United States continued to be the Group's major export market, accounting for 71% of turnover for the first half of 2006. Other important markets were Europe, Canada and Australasia, accounting for 18%, 5% and 3% of turnover respectively. These proportions were relatively unchanged from the same period last year, indicating steady business growth in all its key markets.

Finally, the rest of the world remained at a turnover share of 2%. The Group continues to focus on developing Japan where we have good relationships with several large retailers which could help to grow our business there in due course.

Due to International Sources, a very successful acquisition in 2004, our business in Mexico, Central and Latin America doubled from a small base on the back of this business.

**New Business Ventures**

The Group continues to look for strategic acquisitions and to seek outsourcing deals with major retails and brands globally.

**Acquisitions**

A key component of the Group's current Three-Year Plan is our two-pronged approach to acquisitions. Apart from seeking larger acquisitions, which can materially accelerate business growth, the Group has put in place efforts to systematically seek and acquire small-to-medium sized companies as a means to strategically strengthen very specific areas of the Group's business. In a market with a very large proportion of smaller players, this will enable us to make acquisitions a regular part of our growth. This strategy is mainly funded internally by our net cash balance, as well as our strong cash flow from operations. In the arena of large acquisitions, the Group is open to raising funds externally from banking, bond and equity markets to capture large valuable acquisition opportunities and to optimize the Group's capital structure.

In the first half of the year, the Group acquired Oxford Womenswear Group, a design intensive producer of budget and moderately priced, private-label women's apparel collections. This acquisition is in the private label area and is in line with the Group's strategy of accelerating growth through opportunities that complement the Group's core sourcing business including development and marketing in the United States.

The Group completed the formal acquisition procedures for Rosetti Handbag and Accessories Ltd. on 31 July 2006. The total cash consideration for the purchase was approximately US$162 million and was financed by Li & Fung's internal cash reserves and bank borrowings. The Rosetti handbag business comprises the design, arrangement for the manufacture of, import, marketing and sale of women's handbags, purses and related accessories for its own brand, as well as licensed and private labels for United States retailers including department stores, mass-merchants and specialty stores.

Finally, the Group completed the integration of five acquisitions made in 2005. PromOcean, a corporate premium and promotional productions supply company based in Europe; Comet Feuerwerk GmbH, a fireworks company in Germany; Briefly Stated, an apparel company in the United States; Young Stuff, a US-based fashion items wholesaler; and Tropicanusa, a furniture sourcing agent based in Indonesia, all enjoyed a smooth and successful integration.

**Financial Position and Liquidity**

The Group's strong financial position continued during the period under review with cash and cash equivalents amounting to HK$593 million as at 30 June 2006.

Normal trading operations are well supported by over HK$14,653 million in bank trading facilities, out of which only HK$1,452 million had been utilized at end of June 2006. In addition, the Group has available bank loans and overdraft facilities of HK$1,804 million, out of which only HK$692 million was utilized.

The Group has no long-term borrowings; therefore the gearing ratio is not applicable. The current ratio was 1, based on current assets of HK$10,383 million and current liabilities of HK$10,324 million.

**Impact of Changes in Accounting Standards**

The Group adopted certain new or revised HKAS/HKFRS during the period. However, the adoption did not result in any substantial changes to the Group's balance sheet and profit and loss account.

**Foreign Exchange Risk Management**

The bulk of the Group's cash balances is deposited in HK$ or US$ with major banks in Hong Kong, and most of the Group's assets, liabilities, revenues and payments are either in HK$ or US$. Therefore, our 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.

**Capital Commitments and Contingent Liabilities**

At the date of this announcement, the Group has a long-running dispute with the Hong Kong Inland Revenue Department related to non-taxable claims of certain non Hong Kong sourced income and deduction of certain marketing expenses of approximately HK$757 million for the years of assessment from 1992/1993 to 2004/2005. The disputes were initiated in 1999 and have been disclosed in our annual reports since that year. The Group has been working with its accounting and legal advisors in respect of its dealings with the Hong Kong Inland Revenue Department in relation to these matters. A hearing of the disputes was held before the Board of Review in January 2006 and the results are yet to be announced.

The structure of the Group's offshore sourcing and marketing activities was established at the time of the Group's re-listing on the Hong Kong Stock Exchange in 1992, at which time the Group had sought advice from its external professional advisors. The directors consider that sufficient tax provision has been made in the accounts in this regard and no additional material tax liabilities are expected to finally crystallize.

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

**Human Resources**

As of the end of June 2006, the Group had a total workforce of 8,334, of whom 2,692 were based in our Hong Kong headquarters and 5,642 were located overseas. The Group offers its staff competitive remuneration schemes. In addition, discretionary 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 training and development, as the Group's success is dependent on the efforts of a skilled and motivated work force. Training and development initiatives undertaken by the Group include the Management Trainee Programme and the Merchandising Development Programme. The Management Trainee Programme, first launched in 2003, is a global corporate management programme, with the aim to attract and develop high potential university graduates to become our future leaders through accelerated career development opportunities. 2006 is the fourth year since its launch, and so far, 60 trainees have been recruited around the world. The Merchandising Development Programme, first launched in February this year, is a corporate resourcing programme, with the aim to build up a merchandising frontline resource pool through structured training. A customized Diploma programme for the trainees has been developed in collaboration with the Hong Kong Polytechnic University, to obtain industry recognition of the development programme and to establish industry standards for merchandising skill sets.

The Group invested in sophisticated human resource software during the period under review. Total staff costs for the first half of 2006 were HK$1,217 million, compared with HK$1,019 million for the same period last year.

**Prospects and Progress on Three-Year Plan 2005-2007**

During the period under review, the Group has achieved strong growth in line with the current Three-Year Plan and anticipates similar momentum for the remainder of 2006.

Our core sourcing business should continue to do well, especially in the context of continuing complexity in the trade arena. In particular, many retailers who had traditionally relied on their in-house buying organizations are rethinking their strategy at this juncture, and the Group's knowledge, expertise and network render it well positioned to capitalize on this trend to gain new customers. Growth will also be aided by our two-pronged acquisition strategy, as well as the development of the licensed brand business. The creation of a Middle Office aims to further increase the efficiency and leveraging in the area of shipping, compliance, and quality assurance. The Group's strategic investment in new information technology, human resource and financial systems will continue to support the growth of our business. Management remains confident in achieving the Plan Target of reaching a turnover of US$10 billion by 2007, of which US$1 billion will be from the United States onshore business.

## Interim Dividend

The Board of Directors has resolved to declare an interim dividend of 16.0 HK cents (2005: 13.2 HK cents) per Share for the six months ended 30 June 2006 absorbing a total of HK$519 million (2005: HK$425 million). Interim dividend per share of 2005 has been adjusted for the effect of 1-for-10 Bonus Share issued during the period.

## Closure of Register of Members

The Register of Members will be closed from 11 September 2006 to 15 September 2006, 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, Abacus Share Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 8 September 2006. Dividend warrants will be despatched on 19 September 2006.

## Publication of Results Announcement & Interim Report

This results announcement is published on the websites of the Company *(www.lifung.com)* and The Stock Exchange of Hong Kong Limited *(www.hkex.com.hk)*. The interim report will be dispatched to the shareholders and available on the same websites on or about 7 September 2006.

## Corporate Governance

The Board of Directors and Management are committed to principles of 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 non-executive directors) 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. To further reinforce independence, the Nomination, Audit and Compensation Committees have been structured to include a majority of independent non-executive directors since 2003.

Corporate governance practices adopted by the Company during the six-month period to 30 June 2006 are in line with those practices set out in the Company's 2005 Annual Report.

## Audit Committee

The Audit Committee met three times to date in 2006 (with an average attendance rate of 93%) 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 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, listing rules and statutory compliance, internal controls, risk management and financial reporting matters (including the interim accounts for the six months ended 30 June 2006).

## Internal Control and Risk Management

Based on the assessment made by senior management and the Group's Internal Audit team for the six months ended 30 June 2006, the Audit Committee is satisfied that the internal controls and accounting systems of the Group have been in place and function effectively and are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorization and the accounts are reliable for publication; and that there is 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 all directors to confirm compliance with the Model Code throughout the six months ended 30 June 2006. No incident of non-compliance was noted by the Company to date in 2006. 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 during the six-month period to 30 June 2006.

## 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 all applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six-month period to 30 June 2006.

## 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.

## 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*
Lau Butt Farn

*Executive Directors:–*
William Fung Kwok Lun
*(Managing Director)*
Bruce Philip Rockowitz
Henry Chan
Danny Lau Sai Wing
Annabella Leung Wai Ping

* *Independent Non-executive Directors*

By Order of the Board
Victor Fung Kwok King
*Chairman*

Hong Kong, 10 August 2006

Website: *www.lifung.com*
*www.irasia.com/listco/hk/lifung*

**Member of Li & Fung Group**

"Please also refer to the published version of this announcement in South China Morning Post."