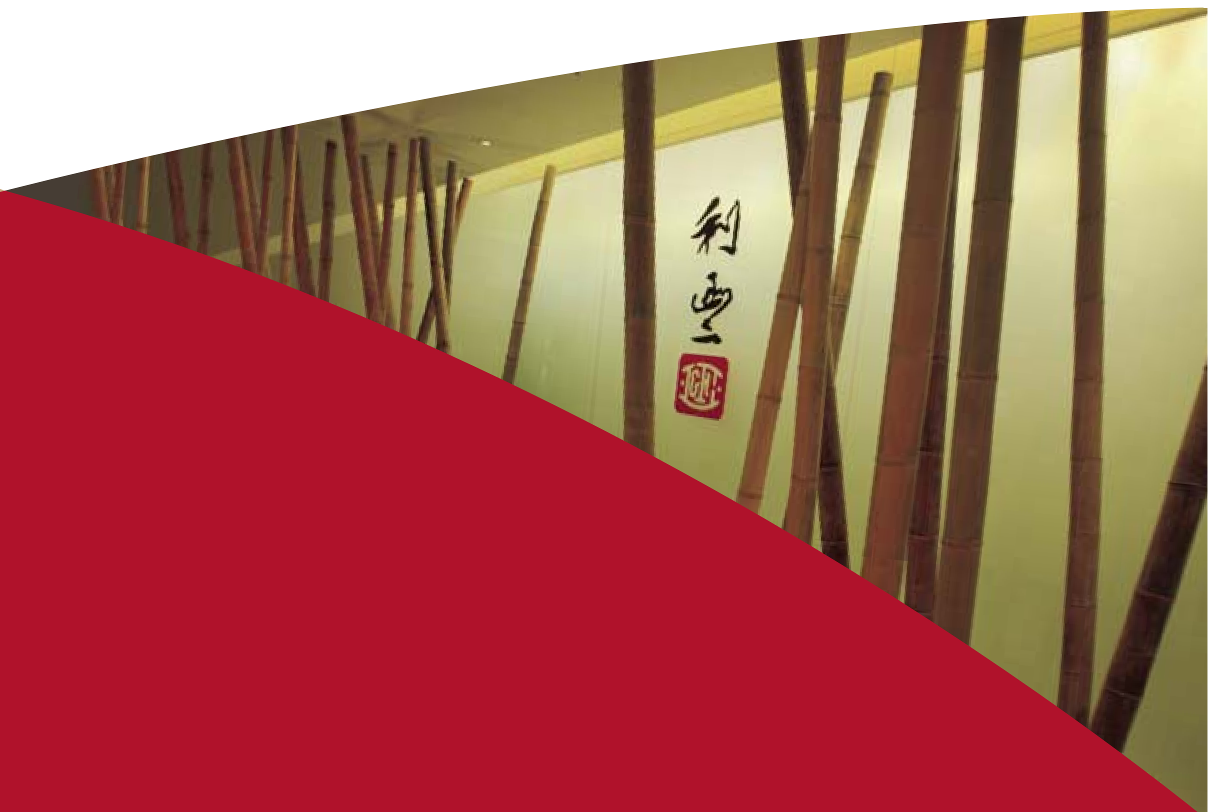
LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 494

06 Annual Report



Contents

Corporate Information

Non-Executive Directors

Victor FUNG Kwok King, *Chairman*
Paul Edward SELWAY-SWIFT*
Allan WONG Chi Yun*
Franklin Warren McFARLAN*
Makoto YASUDA*
LAU Butt Farn

** Independent Non-executive Directors*

Executive Directors

William FUNG Kwok Lun, *Managing Director*
Bruce Philip ROCKOWITZ
Henry CHAN
Danny LAU Sai Wing
Annabella LEUNG Wai Ping

Group Chief Compliance Officer

James SIU Kai Lau

Company Secretary

Terry WAN Mei Chow

Legal Advisors

Johnson Stokes & Master
17th Floor, Prince's Building
10 Chater Road, Hong Kong

Registered Office

Canon's Court, 22 Victoria Street
Hamilton HM 12, Bermuda

Hong Kong Office

11th Floor, LiFung Tower
888 Cheung Sha Wan Road
Kowloon, Hong Kong

Qualified Accountant

Edward YIM Kam Chuen

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited

Citibank

JPMorgan Chase Bank, N.A.

Standard Chartered Bank (Hong Kong) Limited

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building, Central
Hong Kong

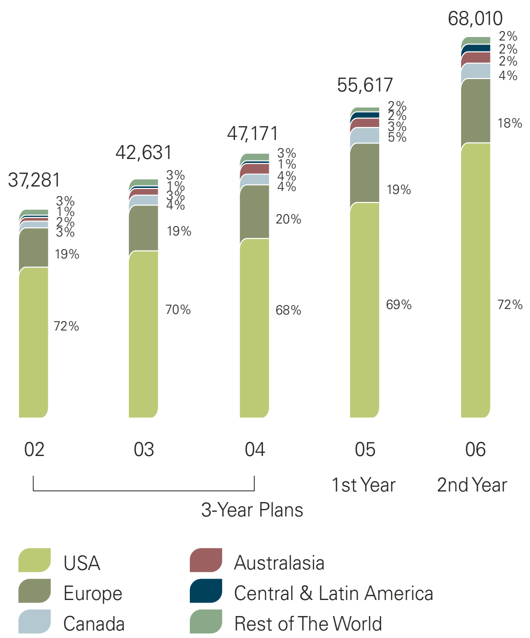
Key Financial Highlights

	2006 HK$'000	2005 HK$'000	Change
Turnover	**68,010,257**	55,617,374	**+22%**
Total Margin	**7,647,003**	5,925,325	**+29%**
As percentage of Turnover	**11.24%**	10.65%	
Core Operating Profit	**2,344,226**	1,860,668	**+26%**
As percentage of Turnover	**3.45%**	3.35%	
Profit attributable to shareholders of the Company	**2,201,819**	1,790,279	**+23%**
As percentage of Turnover	**3.24%**	3.22%	
Earnings per Share	**67.1 HK cents**	55.6 HK cents*	**+21%**
Dividend per Share			
– Final	**39.0 HK cents**	32.3 HK cents*	**+21%**
– Full year	**55.0 HK cents**	45.5 HK cents*	**+21%**
Shareholders' Funds	**8,299,208**	4,656,859	
Net Assets per Share	**HK$2.43**	HK$1.44*	

* *Adjusted for the effect of a 1-for-10 Bonus Issue in May 2006*

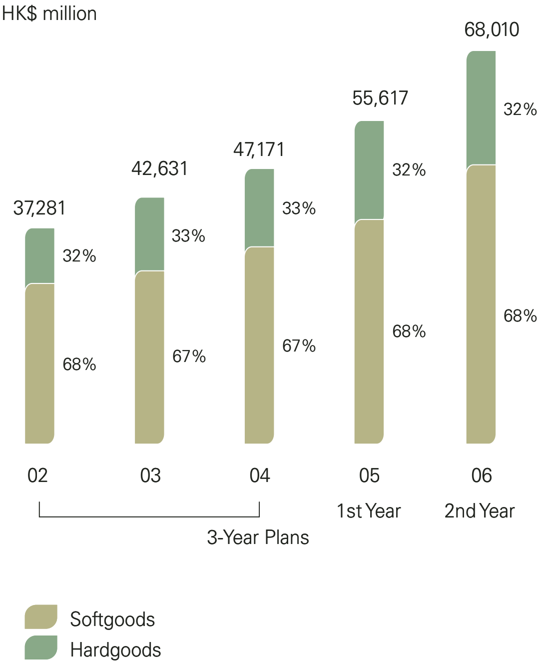
Turnover by Export Markets

HK$ million



Turnover by Product

HK$ million



We have more than 100 years of history and our unique "One Group, One Family" corporate culture enables us to work in harmony with people from over 40 economies.


LI & FUNG GROUP
Building for the next
100 Years

"Building for the Next 100 Years of Li & Fung"

In 1906, when our grandfather, Fung Pak-liu, founded Li & Fung in Canton (now Guangzhou), it was one of the first companies set up by Chinese merchants to engage directly in foreign trade with foreign countries. Li & Fung's principal line of business in those days was exporting handicraft products made in China to the West. At that time, no one could have predicted the historical events that would transform the Chinese mainland and Hong Kong several times over the next 100 years. The first big change came with the Sino-Japanese war in the 1930s, when our grandfather moved company headquarters to Hong Kong. It was not easy to set down new roots, but Hong Kong, with its deep sea port, was the entreport to Southern China. In establishing Li & Fung so early in what was to become one of the great trading cities of the world, he built a solid legacy of experience and values for succeeding generations. We are deeply grateful for his energetic and abiding entrepreneurial spirit, openness to new ideas, and courage to reinvent the company in the face of change.

In 1949, just as Fung Pak-liu passed the reins of management to the second generation, Li & Fung's business environment suffered a devastating external shock. For thirty years, from 1949 to 1979, the Chinese mainland was basically isolated from the world, implying that Hong Kong lost its hinterland, and Li & Fung lost its production base. The second generation of Li & Fung management – our father Fung Hon-chu, his brother Fung Mo-ying, and his sister Fung Lai-wah, would have to once again reinvent the company. Luckily the wave of industrialists arriving in Hong Kong from Shanghai and other places in China after the change of government in 1949 established the British colony as a base for light manufacturing for export. It was in fact the beginning of the process of the globalization of labour intensive manufacturing. Instead of trading in Chinese handicraft products, Li & Fung set to work with these new business partners to export consumer goods like garments, toys and household products made in Hong Kong to Western markets. The business model tirelessly implemented by Fung Hon-chu and his siblings was highly successful and, during the period 1949 to 1972, brought great prosperity to Li & Fung.

In the early 1970s, when we two brothers returned from studies abroad and entered management as the third generation, Hong Kong and Li & Fung were facing a crisis. Competing Asian Tiger economies were rising fast as lower-cost production locations, and major Western retailers were engaging increasingly in direct trade with their Asian suppliers. In this new environment, the model of exporting goods made in Hong Kong had run its course. In the business school sense, it was time for Li & Fung to reinvent itself. We decided to seek out new opportunities and to offer new kinds of value-added services to major US retailers, identifying the best production bases in Asia and assisting with their overall Asian

sourcing activities. First, we went regional, opening operations in Taiwan, Korea, and many other countries in Southeast Asia, taking care to organize the company's operations around the needs of our customers. In the late 1970s, with the advent of the economic reform and opening up of the Chinese mainland by Deng Xiaoping and the creation of special economic zones, a big part of our factory base moved into the Mainland of China.

We were heavily involved in developing the concept of global supply chain management in its early days. Over the next several decades, we would develop capabilities upstream, mid-stream, and downstream across the supply chain. We separated the sourcing of raw material and components from finding the right locations for the labour intensive assembly, and developed practical solutions for quick response manufacturing, making products shop ready at the factory level. All in all, a comprehensive strategy for global supply chain management was developed. During the 15 years from 1992 to 2006, the turnover of Li & Fung Limited, our export company and our core business, grew at a compound annual growth rate of over 22 percent. Today, the Li & Fung Group, which in addition to Li & Fung Limited includes Integrated Distribution Services, Circle K convenience stores under Convenience Retail Asia, and other private entities, has embarked on a whole new era of globalization. This globalization will take Li & Fung into a world where the supply chain extends outwards toward the developed markets of the world and also connects back into the markets of China and Southeast Asia.

As we look forward to the future, we will be drawing on this rich heritage. We see ourselves very much as a global multinational that has its home and its base in Hong Kong. We want to grow along with Hong Kong as a top listed company guided by our commitment to effective corporate governance. We have a very proud Chinese heritage and we treasure talent, as reflected in our personnel management system. At the same time, we also have a very open architecture in terms of our corporate culture that gives us the ability to work with people from different parts of the world. In fact, we now have in Li & Fung a global staff of about 25,000, comprising people from more than 40 economies around the world. As part of the global community, and with great confidence and excitement, we look forward to building for the next one hundred years.

Victor Fung Kwok King
Group Chairman
The Li & Fung Group

William Fung Kwok Lun
Group Managing Director
The Li & Fung Group

Hong Kong, March 2007

Chairman's Statement

Victor FUNG Kwok King

A buoyant global economy which has persisted despite some significant geopolitical instability has contributed to a good reporting period for Li & Fung. During 2006, the Group recorded turnover of HK$68.0 billion (US$8.7 billion). This is in line with the Three-Year Plan 2005-2007 turnover target of US$10 billion.

In today's environment, we are called upon to be faster and more responsive to rapidly changing consumer desires and to deliver higher quality goods and services to diverse markets worldwide in a shorter time frame. Li & Fung's global supply chain strategy has responded to this need by continuing to develop sophisticated outsourcing solutions. Our ability to respond quickly to consumer preferences and to deliver against narrower schedules has strengthened Li & Fung's position as a time sensitive supply chain manager of a wider range of consumer goods for new and existing customers.

We continue to actively foster a corporate culture of versatility, opportunity and adaptability which reflects the marketplace in which we operate.

Performance

In 2006, Group turnover increased by 22% to HK$68.0 billion. Profit attributable to shareholders was HK$2.2 billion, representing a 23% increase over the HK$1.8 billion of 2005. This result is also reflected in the earnings per share which were 67.1 HK cents compared with 55.6 HK cents in 2005 (adjusted for the effect of a 1-for-10 Bonus Issue in May 2006).

The Group Board of Directors has proposed a final dividend of 39.0 HK cents per share which, together with an interim dividend of 16.0 HK cents per share, will give a total dividend of 55.0 HK cents per share for 2006 (2005: 45.5 HK cents, adjusted for effect of the Bonus Issue).

Market and Business

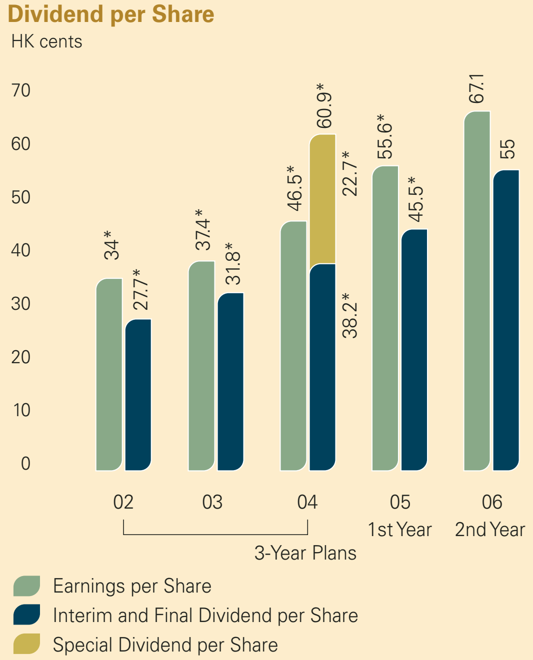
Despite an uncertain geopolitical backdrop, the global economy continued to experience strong growth during the past year. The increasingly inter-linked world economy has proven to be robust and shown signs of resilience. This period of broadly shared high profits and high growth worldwide has brought significant gains for the Group.

The US economy remained a strong story for Li & Fung in 2006. Consumers responded positively to stable oil prices in latter half of the year.

In Europe, an increasingly important Group market, labour markets have improved and are expected to further bolster consumer spending.

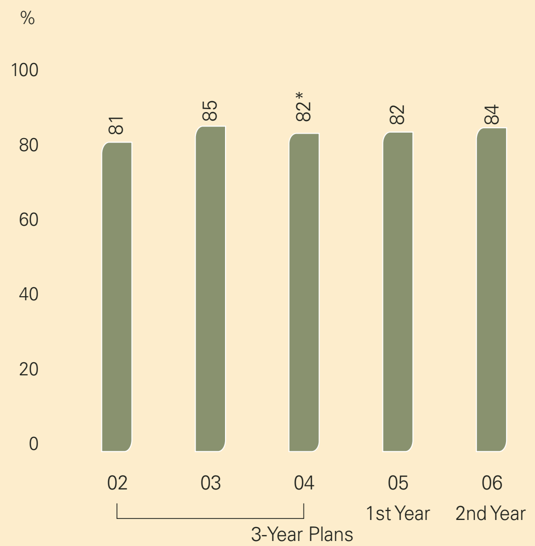
The Group continued to meet the complex outsourcing needs of existing and new customers worldwide while at the same time increasing its value-added capability. Overall, corporations have continued to consolidate with a trend to get back to core competencies. This has created opportunities for the Group to meet increasing demand to supply external outsourcing expertise.

Earnings per Share
Dividend per Share



* As adjusted for the effect of a 1-for-10 Bonus Issue

Dividend Payout



* Excluding Special Dividend

The Group's global diversification strategy remains a core plank of the Three-Year Plan 2005-2007 and saw a number of major acquisitions during the past year. The Group's capacity to undertake an aggressive acquisition strategy enabled it to broaden its sourcing capabilities and enter new geographic markets while at the same time, extending the customer base.

Industry Trends

While the Group is looking to expand in key markets, diversification globally will remain a core foundation. This will ensure that the Group can continue to accommodate any fluctuations across the globe and that flexibility across those source markets can be maintained.

While diversification is the focus, China will remain an important component of the mix of source markets meeting global demands of the Group. In 2006, about one-half of the sourcing business was done in the Chinese Mainland.

China's capacity to become fully integrated with the global supply chain continues to strengthen as ongoing infrastructure and telecommunications development, especially in the interior region, presents new opportunities for the Group. With the opening of manufacturing in areas such as Chengdu and Chongqing, the sourcing mix has become increasingly competitive – generating better value and higher margins through providing even lower cost but higher quality products.

India remains a key market for the Group and is extremely important to the Group overall. The increasing integration of the Indian economy into the global marketplace has a direct impact on business opportunities for the Group.

The fragmented nature of the sub-continent's thriving outsourcing market offers significant opportunities for the Group. India is particularly strong in high value fashion apparel, footwear and home textiles including bedding and towels.

In this context, the Group's worldwide network and supply chain management expertise offers significant value-added opportunities in navigating this disjointed marketplace for its clients.

A strong, versatile and adaptable presence in both India and China which is founded on local market knowledge places the Group at a significant advantage in terms of offering the best supply chain solution worldwide for its growing customer base. In addition, new sourcing markets such as Vietnam, Turkey and Eastern bloc countries offer increased capacity to diversify and reduce supply risks. Vietnam, in particular, boasts a young, educated workforce with the capacity for significantly high-volume production. As well, it is a market renowned for good workmanship, particularly in the production of quality embroidery and elaborate ornaments, for example.

The world's consumer markets are driving demand for higher efficiency, better quality and importantly, goods which consumers will embrace. The marketplace of today is one which empowers consumers like never before and the Group is well placed to respond.

In turn, the global supply chain is truly international with inputs and resources across multiple economies being brought together through the "knowledge economy". A key strength for the Group has been to anticipate and even pre-empt those changes.

New opportunities are being identified as the Group's model of high value-added supply chain management becomes increasingly sought-after. A trend to specialisation is expected to continue to reap benefits for the Group as it brings its expertise to bear on a growing network of businesses globally.

Dispersed manufacturing and increasing complex trade flows are the way of the future. Multilateralism will deliver the best outcomes in order to facilitate complex cross-border flows generated by dispersed manufacturing. It is the multilateral system that enables each market around the world to contribute according to its skills and capabilities, and to develop its own competitive advantages.

I am encouraged by the steps taken to move forward the Doha round of multilateral trade negotiations. We must all devote the energy, support and engagement necessary to ensure a successful conclusion. The further strengthening of the global trading system will provide sizeable economic opportunities to emerging economies and lift business and consumer confidence around the world.

Prospects

Diversification both geographically and vertically will continue to underpin the Group's expansion plans. This will further strengthen the Group's overall business against minor fluctuations or volatility and position the Group for continued growth.

The Group has ambitious plans to grow the onshore business in the US both organically and by acquisitions. At the same time, plans are underway to pursue a similar strategy in Europe.

Corporate Governance

The Group is in full compliance with the Code on Corporate Governance Practices (Appendix 14 of the Listing Rules) as implemented by The Stock Exchange of Hong Kong Limited.

The Group remains firmly committed to maintaining high standards of corporate governance. It will continue to uphold a strong compliance culture by upholding the principles of transparency, accountability and independence.

The Group's culture emphasises harmony among its employees from more than 40 economies. It will continue to strive to uphold its values as a Hong Kong-based multinational, to develop human capital and to contribute to the communities in which it operates worldwide.

The Group has instilled a culture which embraces change — a culture which encourages the pursuit of new ideas and new ways of doing things. This spirit of entrepreneurship is at the core of how we operate globally and equips the Group for success in this changing marketplace.

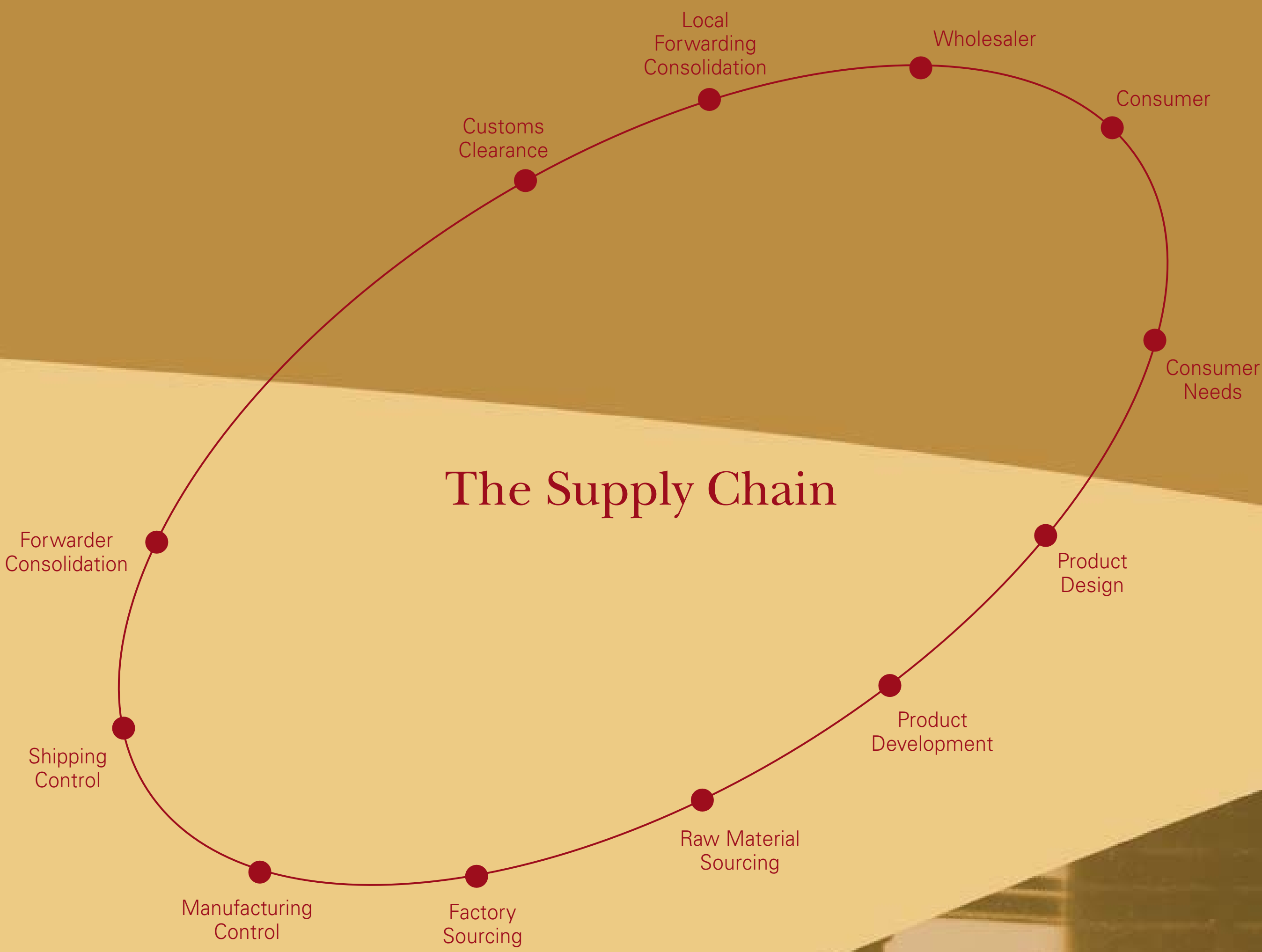
Conclusion

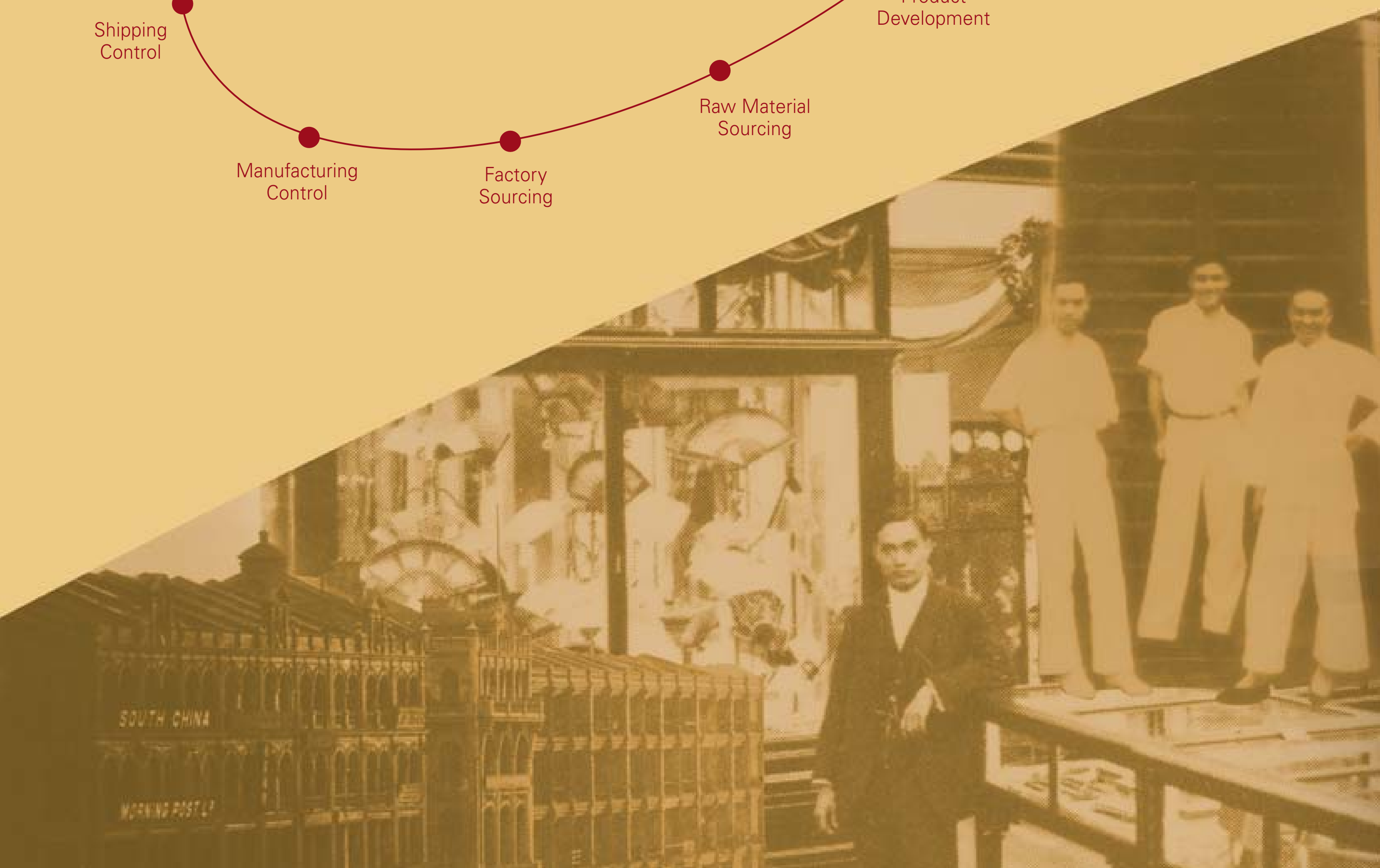
I would like to express my gratitude to the members of the Board for their constant guidance and support. I am indebted to the Group's management team and our staff around the world who contributed to Li & Fung's success during the past year.

Victor Fung Kwok King
Chairman

Hong Kong, 21 March 2007

The Supply Chain





We manage all aspects of the global supply chain with our extensive network covering over 70 offices worldwide.

Management Discussion & Analysis

William Fung,
Managing Director

Overview

2006 was a solid year of growth for Li & Fung. The Group has continued to grow organically and gain market share in the markets in which it operates. We made a strategic move to acquire the sourcing arm of one of Germany's largest retailers, KarstadtQuelle, in addition to several other acquisitions during the year that have either served to broaden our overall sourcing capabilities or have further diversified our geographic customer base.

This is the second year of the Group's current Three-Year Plan 2005-2007. The Group has made good progress in line with the Plan's target to achieve a turnover of US$10 billion by 2007. It has also invested heavily in corporate infrastructure during the year to support the anticipated business growth.

The Group's turnover was HK$68,010 million, 22% higher than 2005. Profit attributable to shareholders increased by 23% to HK$2,202 million. Earnings per share were 67.1 HK cents, compared to 55.6 HK cents in 2005 (adjusted for the effect of a 1-for-10 Bonus Issue in May 2006).

We are pleased to report that the Board of Directors has proposed a final dividend of 39.0 HK cents per share. Together with an interim dividend of 16.0 HK cents, total dividend per share for the year 2006 was 55.0 HK cents (2005: 45.5 HK cents, adjusted for effect of the Bonus Issue).

Bruce Rockowitz,
President

Results Review

The strong increase in turnover reflects the Group's success in growing organically and through new acquisitions. In 2006, the Group benefited from a resilient consumer market in the US resulting from stabilized interest rates and lower oil prices. The Group has continued to expand its position amongst existing customers and developed new businesses. The strong results also demonstrated the Group has a very scalable business with an increasing number of retailers worldwide recognizing the strategic value of partnering with Li & Fung in its supply chain.

The Group's total margin increased by 29% and as a percentage of sales, saw an improvement from 10.65% in 2005 to 11.24% in 2006. This is the result of the increasing proportion of higher-margin businesses, particularly in the hardgoods area and the US onshore business. The Group's core operating profit rose by 26% to HK$2,344 million during 2006. The increase in profit was attributed to a continued gain in market share across various markets in which the Group operates. Despite the Group's investment spending in corporate infrastructure, the core operating profit margin improved to 3.45% in 2006 from 3.35% in 2005.

It has always been a Group policy to pursue an asset-light strategy which includes, if possible, not owning factories or properties. However, in years past, because of the growth of the Group, the resultant need for constant expansion and change of office layout and re-decoration, it was necessary for us to control the offices we operate from in some of our major sourcing hubs, especially in Hong Kong. We have also acquired property along with some of our business acquisitions.

Whenever possible, the intention of management is to dispose of the Group's property if suitable "Sale and Lease Back" arrangements can be negotiated with a suitable landlord at favourable rental rates and tenure of occupancy at arm's length and supported by proper independent valuations.

Pursuant to a Connected Transaction announcement on 22 December 2006, the Group disposed of some Hong Kong property holding subsidiaries to LF Investment Properties Limited and recognized a non recurrent profit of HK$69 million.

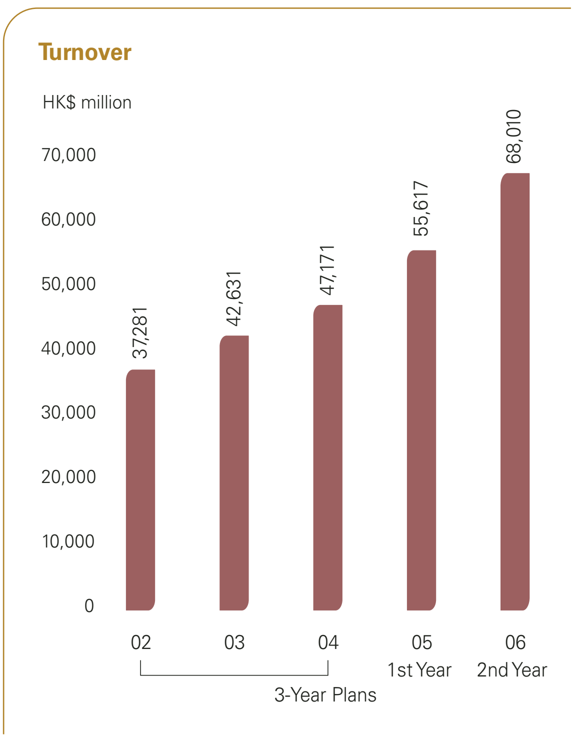
Segmental Analysis

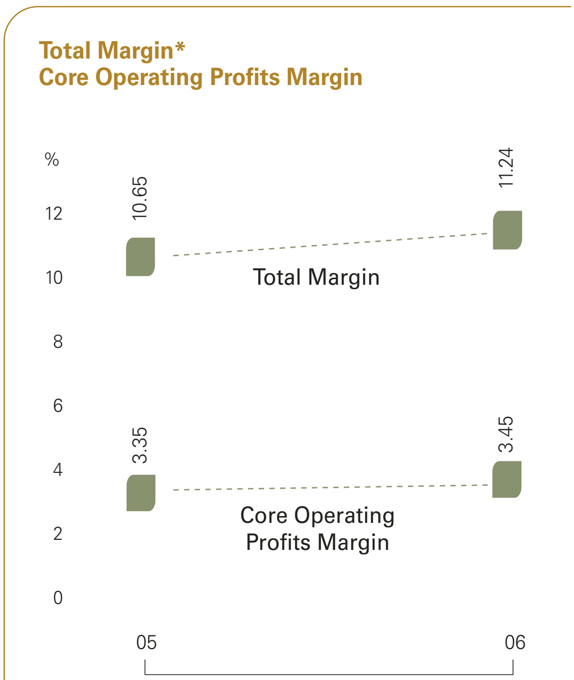
Soft and hardgoods accounted for 68% and 32% of turnover respectively in 2006. **Softgoods** turnover and operating profit increased by 21% and 22% respectively. The increase reflected expansion among the Group's existing and new customers, demand for more value-added services along the supply chain, particularly in design and product development services division of the core sourcing business as well as our increasing involvement in replenishment orders. We are also benefiting from the growth and success of some of our key customers who have consolidated their buying and are outsourcing more to the Group.

Hardgoods enjoyed a year of strong growth. Turnover and operating profit increased by 24% and 43% respectively in 2006. The significant improvement in hardgoods resulted from strong organic growth in the home product area including the home textile and furniture businesses, as well as synergies realized through recent acquisitions of, for example, the Indonesian furniture business Tropicanusa. In addition, the business also benefited from cost synergies resulting from economies of scale.

From a geographical perspective, the **US** market remains a key export market, representing 72% of the Group's turnover. In 2006 the Group operated in a resilient consumer market in the US and achieved turnover and operating profit growth of 28% and 35% respectively. The solid increase in turnover and operating profit was driven by better business growth within the existing customer base in the US including the expansion of business lines as well as business growth through new customers.

In addition, the steady progress of the US onshore business strategy followed a restructuring of the branded and wholesale business into one business unit that resulted in a more cohesive management and gave the Group operating leverage. During 2006, the Group acquired Oxford Womenswear Group, the Rosetti handbag business, and Homestead, which complemented and enhanced the existing range of brands and products in the US onshore business. Smooth integration of these newly acquired companies began during the year and has resulted in significant business synergies.





* Gross Profit plus other revenues, as percentage of turnover

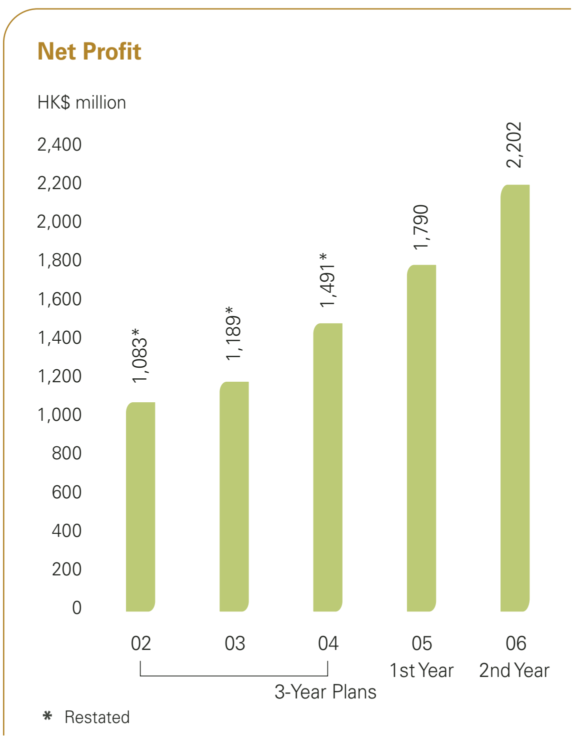
Europe accounted for 18% of the Group's turnover in 2006, with turnover and operating profit growing by 15% and 8% respectively. Growth was primarily in the hardgoods business with significant contribution from previous acquisitions such as PromOcean. We expect that the acquisition of the sourcing arm of German department store and mail order business KarstadtQuelle to significantly bolster Europe's share of the Group's total business in 2007.

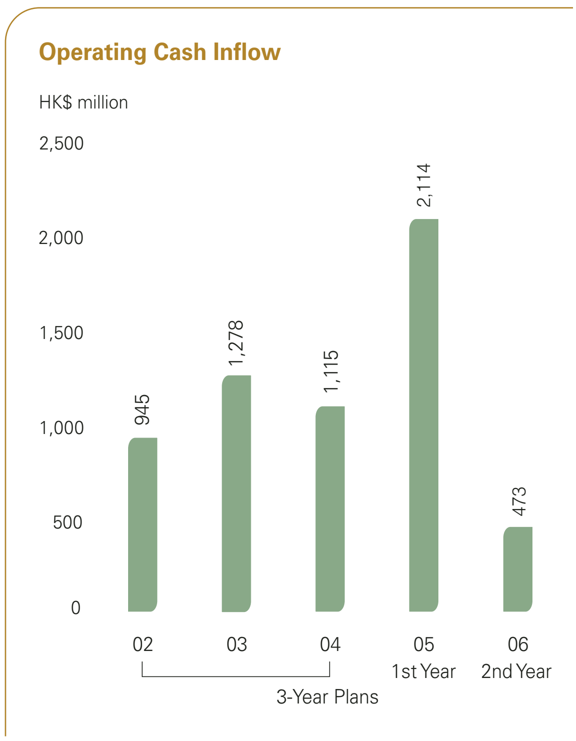
Turnover in **Canada** accounted for 4% of the Group's turnover. Turnover and operating profit experienced growth of 10% and 33% in 2006. The Group was encouraged to see solid business penetration of some existing key accounts in Canada and will continue to further enhance these relationships.

The Group's turnover and operating profit in **Central and Latin America** grew by 10% and 4.8% respectively. This business represented about 2% of the Group's total turnover. While this business was relatively small, the Group was very pleased to see significant growth in its business in Mexico, and momentum is expected to continue.

Business in **Australasia** accounted for 2% of the Group's turnover. Both turnover and operating profit declined by 13%. We expect our business to improve after the finalization of the outsourcing deal with large department retailer Myer in 2007.

The remaining 2% of Group turnover is primarily generated in **Japan**. Although small, the Group is committed to continuing to explore ways to develop a meaningful presence in the Japanese market.





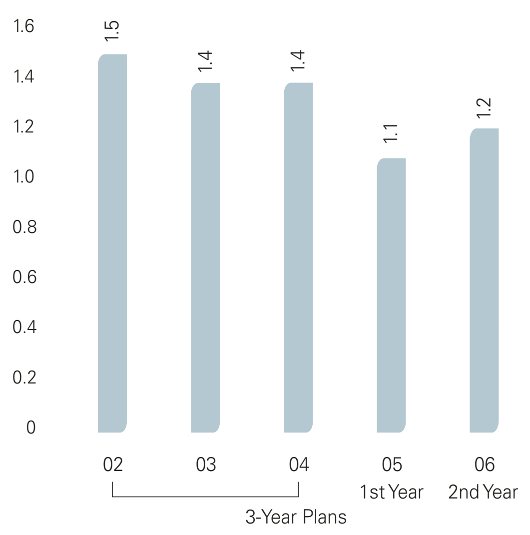
New Business Ventures

The acquisition of Homestead significantly enhances our product design, merchandising and marketing capabilities in the home textile area. As a leading innovator in the market, Homestead's micro branding strategy has resonated across distribution channels and it has placed brands in many of the leading home textile retailers in the U.S. and Canada. These micro brands form the foundation for a new approach to private labeling and augment the positioning of Royal Velvet and Cannon as the leading national consumer brands in the market.

Acquisitions

While the Group remains committed to growing its business organically, Li & Fung has also continued to pursue its two-pronged acquisition strategy which has yielded fruitful results. On one hand, the Group acquired smaller companies like Homestead in the US to further enhance the existing product range within the home textiles businesses. On the other, the Group continued to pursue larger acquisitions including Oxford Womenswear Group and the Rosetti handbag business to further augment the onshore business in the US. In the last quarter of 2006, the Group completed its acquisition of the sourcing arm of KarstadtQuelle in Germany. This acquisition will help to rebalance the Group's geographical mix of business and provide us with further access to production capabilities in the Eastern bloc and Italy. We expect that the European share of our Group's turnover will increase considerably in 2007.

Current Ratio



In early 2007, the Group acquired the global sourcing operations of Tommy Hilfiger. The Group is excited to embark on this partnership with Tommy Hilfiger as it sees excellent global growth potential for the brand. The acquisition will bring to the Group substantial additional sourcing volume and reinforce diversification into branded apparel in the Group's sourcing portfolio.

All in all, we see acquisitions as complementary to the Group's organic business growth as they broaden our sourcing power on a global scale, provide the means to expand the customer base and further enhance our geographical diversification.

Integration of these newly acquired companies is well underway and they have already started to contribute to our bottom line.

The Group has funded these acquisitions through a combination of internal cash flow and funds raised through a share placement last year. The Group raised HK$2,723 million through a share placement in September 2006.

Outlook and Progress on Three-Year Plan 2005-2007

We are very pleased to report that the Group is well on track to meet its US$10 billion turnover target by the end of 2007. The Group made a good start to realizing the Plan's objectives in 2005, and 2006 proved to be another solid year. We expect the good momentum to continue in 2007 with strong orders placed to date.

Our consistently strong growth and the scale of our operations have provided us with the capability to provide such large businesses such as KarstadtQuelle and Tommy Hilfiger with outsourcing solutions. We expect this outsourcing business growth to continue and together with our organic business growth will continue to further strengthen our leadership position in the market.

In 2006 the Group also reinvested in its infrastructure, including investment in information technology, human resources and financial systems. The review of our major processes led to the creation of a middle office by centralizing various business streams' shipping and vendor compliance operations in order to create economies of scale and to enhance further cost savings.

The growth of the sourcing network of the Group to over 70 offices in more than 40 economies necessitates the creation of a hub corporate office structure to better manage and operate this large network. We expect the hub structure will help to further facilitate coordination amongst offices within various regions. The Group expects that such investments will provide sufficient support for our longer term growth.

Financial Position and Liquidity

The Group continued to be in a strong financial position for the year under review with cash and cash equivalents amounting to HK$3,302 million at the end of 2006.

Normal trading operations were well supported by more than HK$14,611 million in bank trading facilities. In addition, the Group had available bank loans and overdraft facilities of HK$4,287 million, out of which only HK$2,869 million was utilized.

The Group had no long-term borrowings; therefore the gearing ratio is not applicable. The current ratio was 1.2, based on current assets of HK$15,335 million and current liabilities of HK$12,937 million.

Impact of Changes in Accounting Standards

Hong Kong Accounting Standard 19 (Amendment) Employee Benefits, introduced the option of an alternative recognition approach for actuarial gains and losses. It imposed additional recognition requirements for multi-employer plans where insufficient information was available to apply defined benefit accounting. It also added new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacted the format and extent of disclosures presented in the accounts.

Foreign Exchange Risk Management

Most of the Group's cash balances were deposits in HK$ or US$ with major banks in Hong Kong, 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 is 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 the non-taxable claims of certain non-Hong Kong sourced income and the deduction of certain marketing expenses of approximately HK$1,015 million for the years of assessment from 1992/1993 to 2005/2006. 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 but as at the date of this announcement, the result is not yet known.

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, when the Group 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 eventuate.

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

Human Resources

At the end of 2006, the Group had a total workforce of 9,705, of whom 2,961 were based in our Hong Kong headquarters and 6,744 were located overseas throughout our sourcing network of over 70 offices in over 40 economies. 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. Heavy emphasis is placed on training and development as the Group's success is dependent on the efforts of a skilled, motivated workforce. Total staff costs for the current year amounted to HK$2,964 million, compared to HK$2,258 million in 2005.

Corporate Governance

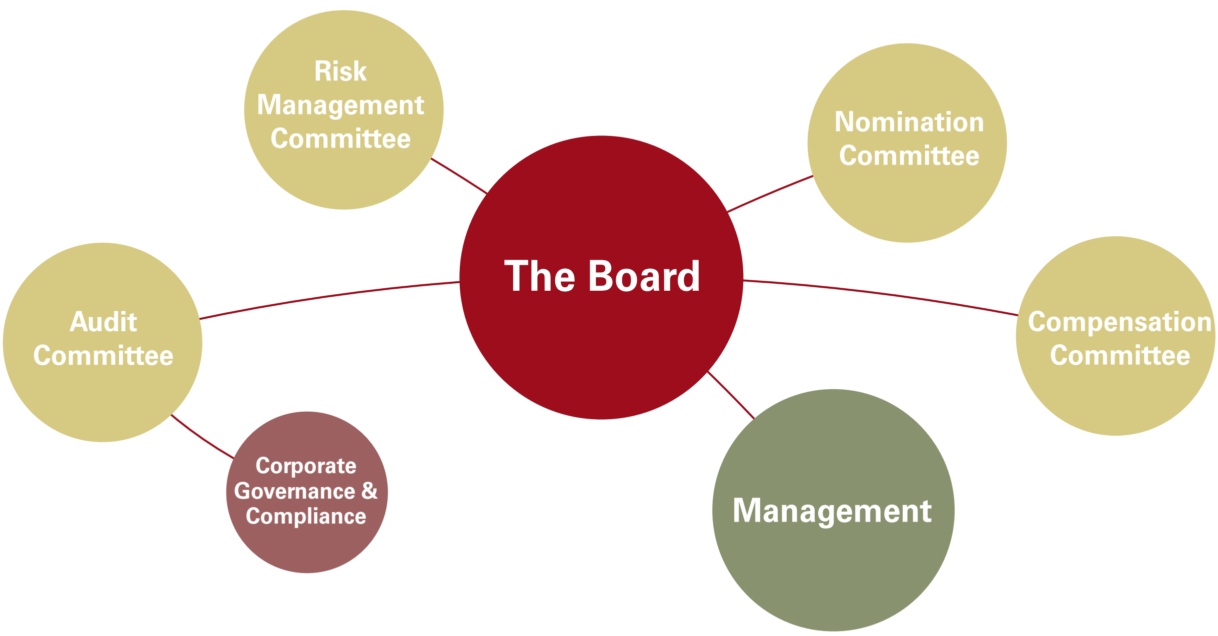
The Board of Directors and management are committed to principles of good corporate governance consistent with prudent enhancement and management of **shareholder value**. These principles emphasize transparency, accountability and independence. Set out below are those principles of corporate governance as adopted by the Company.

The Board

The Board is composed of the Group Non-Executive Chairman, the Group Executive Managing Director, four Executive Directors and five Non-executive Directors (of whom four are independent), whose biographical details and relevant relationships are set out in the Directors and Senior Management section on pages 38 to 41.

In order to reinforce their respective 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 Group Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures, whilst the Group Managing Director, supported by the Executive Directors, is responsible for managing the Group's business, including the implementation of major strategies and initiatives adopted by the Board.

The Non-executive Directors (the majority of whom are independent), who combine to offer diverse industry expertise, serve the important function of advising the management on strategy and ensuring that the Board maintains high standards of financial and other mandatory reporting requirements as well as providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole. The Board has received from each independent Non-executive Director written annual confirmation of their independence and satisfied that independence up to the approval date of this report in accordance with the Listing Rules of The Stock Exchange of Hong Kong Limited.



The Board held **seven** meetings in 2006 (with an **average attendance rate of 87%**) to discuss the overall strategy as well as the operation and financial performance of the Group. The Board reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointment or reappointment, approval of major capital transactions and other significant operational and financial matters. Board meetings are scheduled one year in advance to facilitate maximum attendance of Directors. The meeting agenda is set by the Group Non-Executive Chairman in consultation with members of the Board.

All Directors were kept informed on a timely basis of major changes that may have affected the Group's businesses, including relevant rules and regulations. In 2006, a Directors' briefing session by PricewaterhouseCoopers on the latest accounting standards impacting the Group was conducted. In addition, forming part of the Group's continuing programme since 2003 of updating Directors (in particular independent Non-executive Directors) on the macro economic and sourcing environment relevant to the Group's major overseas operations, a Board Meeting coupled with office briefings and a tour by our Thailand colleagues was conducted in Thailand. A similar session was at our New Delhi office last year.

To maximize the contribution from non-management Directors, a separate meeting was held in December 2006 between the Group Chairman and Non-executive Directors to address business and related issues. Written procedures are also in place for Directors to seek independent professional advice in performing their Directors' duties at the Company's expense. No request was made by any Director for such independent professional advice during the year.

The Board has established four committees with specific responsibilities as described later in this report. Major matters that are specifically delegated by the Board to management include the preparation of annual and interim accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, monitoring of operating budgets, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

The Board also recognizes the importance of the independent reporting of the corporate governance function. The Group's Chief Compliance Officer, as appointed by the Board, attends all Board and committee meetings to advise on corporate governance matters covering risk management and relevant compliance issues relating to mergers and acquisitions, accounting and financial reporting.

Under the Company's bye-laws, one-third of the Directors, who have served longest on the Board, must retire, thus becoming eligible for re-election at each Annual General Meeting. As such, no Director has a term of appointment longer than three years. To further reinforce accountability, any further reappointment of an independent Non-executive Director who has served the Company's Board for more than nine years will be subject to separate resolution to be approved by shareholders.

The Company has arranged for appropriate liability insurance since 2002 to indemnify its Directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

A summary of attendance of Board and Committee meetings in 2006 are detailed in the following table:

Board and Committee meetings for Year 2006

No. of meetings ● attended/ ○ held

	Board	Nomination Committee	Audit Committee	Risk Management Committee	Compensation Committee
Non-executive Directors					
Dr Victor FUNG Kwok King[1]	●●●●●●●	●●	○●●●	●	●
Mr LAU Butt Farn	●●●●●●●				
Mr Leslie BOYD – retired on 18 May 2006	●●		●●		
Independent Non-executive Directors					
Mr Paul Edward SELWAY-SWIFT[2]	●●●●●●●	●●	●●●●		
Mr Allan WONG Chi Yun[3]	○●●●●●●		●●●●		●
Professor Franklin Warren McFARLAN	○○●●●●●		○●●●		○
Mr Makoto YASUDA	○●●●●●●	●●	●●●●		
Executive Directors					
Dr William FUNG Kwok Lun	●●●●●●●			●	
Mr Bruce Philip ROCKOWITZ	○●●●●●●			●	
Mr Henry CHAN	○○●●●●●				
Mr Danny LAU Sai Wing	○●●●●●●				
Ms Annabella LEUNG Wai Ping	○○●●●●●				
Group Chief Compliance Officer					
Mr James SIU Kai Lau	●●●●●●●[4]	●●[4]	●●●●[4]	●	●[4]
Chief Operating Officer and Chief Financial Officer					
Mr Robert Ernest ADAMS – retired on 30 June 2006	●●[4]		●●[4]	●	
Dates of meeting	22/03/2006 18/05/2006 05/07/2006 10/08/2006 10/09/2006 29/09/2006 12/12/2006	18/05/2006 10/08/2006	21/03/2006 18/05/2006 10/08/2006 12/12/2006	17/03/2006	12/12/2006

1: Chairman of Nomination Committee and Risk Management Committee
2: Chairman of Audit Committee
3: Chairman of Compensation Committee
4: Attended Board and Committee meetings as a non-member
Note: All Committee chairmen attended the Annual General Meeting held on 18 May 2006.

In 2006, the Group's commitment to excellence and **high standards in corporate governance practices continued to earn market recognition from stakeholders** including bankers, analysts and institutional investors such as:

- The Gold Award in the Hang Seng Index Category of the Best Corporate Governance Disclosure Awards 2006 for **the fifth consecutive year** organized by the Hong Kong Institute of Certified Public Accountants;
- Corporate Governance Asia Recognition Awards 2006 by *Corporate Governance Asia* Journal;
- Ranking among the top of Hong Kong public companies with the highest corporate governance score surveyed by the City University of Hong Kong (sponsored by the Hong Kong Institute of Directors);
- "Hong Kong Best Managed Company – No.1" and "Best Corporate Governance – No.2" by *FinanceAsia* magazine;
- One of "Asia's Best Managed Companies in Hong Kong 2006" by *Asiamoney* magazine.

Board Committees

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 Listing Rules: the Nomination Committee, the Audit Committee, the Risk Management Committee and the Compensation Committee. Minutes of all committees meetings are circulated to all Board members. 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 Asia Recognition Awards 2006

Best Corporate Governance Disclosure Awards 2006 (Gold Award since 2002)

Nomination Committee

The Nomination Committee was established in August 2001 and is chaired by the Group Non-Executive Chairman. Its written terms of reference cover recommendations to the Board on the appointment of Directors, evaluation of board composition and the management of board succession with reference to certain guidelines as endorsed by the Committee. These guidelines include appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills, and time commitments of members. The Nomination Committee carries out the process of selecting and recommending candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary. There was no nomination of Directors to fill board vacancies in 2006.

The Committee met **twice** in 2006 (with a **100% attendance rate**) to review and recommend the reappointment of retiring Directors for shareholders' approval at the Annual General Meeting and to discuss potential candidates for nomination as new board member as part of succession planning for the Board.

Audit Committee

The Audit Committee was established in 1998 to review the Group's financial reporting, internal controls and corporate governance issues and make relevant recommendations to the Board. The Audit Committee has been chaired by an independent Non-executive Director since 2003 and the majority of the Committee members are independent Non-executive Directors. All Committee members possess appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules.

The Audit Committee met **four** times in 2006 (with an **average attendance rate of 90%**) 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, listing rules and statutory compliance, internal controls, risk management and financial reporting matters (including the interim and annual accounts for the Board's approval).

Following international best practices, the Committee had conducted a self-review of its effectiveness for 2005 by completing a detailed questionnaire on the effective running of an audit committee. The self-assessment indicated a good rating was achieved in 2005. A similar exercise will be conducted for 2007.

Under the Group's Policy on Reporting of Concerns, employees can report any concerns, including misconduct, impropriety or fraud in financial reporting matters and accounting practices, to either senior management or the Audit Committee through the Group Chief Compliance Officer in confidence and without fear of recrimination. Any shareholders or stakeholders can also report similar concerns by writing in confidence to our Group Chief Compliance Officer at the Company's business address in Hong Kong. In 2006, no incident of fraud or misconduct was reported from employees, shareholders or stakeholders that have material effect on the Company's accounts and overall operations.

External Auditors' Independence

In order to further enhance **independent reporting** by external auditors, part of our Audit Committee meetings were attended only by independent Non-executive Directors and external auditors. In addition, the external audit engagement partner is subject to periodical rotation, and the nature and ratio of annual fees to external auditors for non-audit services and for audit services are subject to scrutiny by the Audit Committee (refer to details of fees to auditors on page 82 of the accounts). A policy on provision of non-audit services by the external auditors has been established since 2004. Under this policy, certain specified non-audit services are prohibited. Other non-audit services (with a fee above a threshold) require prior approval of the Audit Committee. In addition, a policy restricting the employment of employees or former employees of external auditors at senior executive and financial positions with the Group has also been in place. Prior to the commencement of the audit of 2006 accounts of the Company, the **Committee received written confirmation from the external auditors on their independence and objectivity** as required by the Hong Kong Institute of Certified Public Accountants.

Members of the Committee are satisfied with the findings of their review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers (PwC), and the Committee has recommended to the Board the reappointment of PwC in 2007 as the Company's external auditors at the forthcoming Annual General Meeting.

Risk Management Committee

The Risk Management Committee was established in August 2001 and is chaired by the Group's Non-Executive Chairman. Its written terms of reference include offering recommendations to the Board on the Group's risk management and internal control systems. The Committee reports to the Board in conjunction with the Audit Committee. The Risk Management Committee met **twice** from January 1, 2006 to the date of this report (with a **100% attendance rate**) to review risk management procedures pertinent to the Group's significant investments and operations.

Compensation Committee

The Compensation Committee was formed in 1993 and is chaired by an independent Non-executive Director. The Committee's responsibilities as set out in its written terms of reference include approving the remuneration policy for all Directors and senior executives, and the annual allocation of share options to employees under the Company's Employee Share Option Scheme. It annually reviews the Group's remuneration policy. The Committee met **once** in 2006 (with an **attendance rate of 67%**) to review and approve all Executive Directors' (including the Group Managing Director) remuneration packages for 2007 including the granting of share options.

Remuneration Policy for Executive Directors

The primary goal of the remuneration policy on executive remuneration packages is to enable Li & Fung to retain and motivate Executive Directors by linking their compensation with performance as measured against corporate objectives. Under the policy, a Director is not allowed to approve his own remuneration.

The principal elements of Li & Fung's executive remuneration package includes basic salary, discretionary bonus without capping and a share option scheme. In determining guidelines for each compensation element, Li & Fung refers to remuneration surveys conducted by independent external consultants on companies operating in similar businesses.

Basic Salary

The Group Managing Director annually reviews and approves the basic salary of each Executive Director in accordance with the Group's remuneration policy. Under the service contracts between the Group and the Group Managing Director as disclosed under Directors' Service Contracts section on page 51, the Group Managing Director is entitled to an aggregate fixed basic salary which is subject to annual review by the Committee without his attendance.

Discretionary Bonus

Li & Fung implements a **performance-based discretionary bonus scheme** for each Executive Director (excluding the Group Managing Director). Under this scheme, the computation of discretionary bonus (without capping) is based on measurable performance contributions of business units headed by the respective Executive Directors. The Group Managing Director is entitled to a profit share of the Company's consolidated results after adjustment of interest, tax and minority interests under the above service contracts between the Group and the Group Managing Director.

Share Option

The Committee approves all grants of share options under the Company's approved share option scheme to Executive Directors, with regard to their individual performances and achievement of business targets in accordance with the Company's objectives of **maximizing long-term shareholder value**.

Remuneration Policy for Non-Executive Directors

The remuneration, comprising Directors' fees, of Non-executive Directors is subject to annual assessment with reference to remuneration surveys conducted by independent external consultants and a recommendation by the Committee for shareholders' approval at the Annual General Meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at Company meetings.

Details of Directors' emoluments of the Company are set out in Note 11 to the accounts on pages 86 to 88.

Code of Conduct and Business Ethics

The Group's **reputation capital** is built on its long-established standards of ethics in conducting business. Guidelines of the Group's core business ethical practices as endorsed by the Board are set out in the **Company's Code of Conduct and Business Ethics for all Directors and staff**. For ease of reference and as a constant reminder, a copy of the latest guidelines is posted in the Company's internal electronic Bulletin Board and is available to all staff.

Directors' Securities Transactions

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 2006. No incident of non-compliance was noted by the Company 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.

Directors' and Senior Management Interests

Details of Directors' interests in the shares of the Company are set out in the Report of the Directors section on pages 51 to 53. The shares held by each member of senior management are less than 2% of the issued share capital of the Company for the year ended 31 December 2006.

Directors' and Auditors' Responsibilities for Accounts

The Directors' responsibilities for the accounts are set out on page 55, and the responsibilities of the external auditors to the shareholders are set out on page 56.

Internal Control and Risk Management

The Board is responsible for maintaining a sound and effective system of internal controls in Li & Fung and for reviewing its effectiveness through the Audit Committee. Such system is designed to manage the risk of failure to achieve corporate objectives. It aims to provide reasonable but not absolute assurance against material misstatement, loss or fraud. The Board has delegated to executive management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures. Qualified personnel throughout the Group maintain and monitor these systems of controls on an ongoing basis. Set out below are the main characteristics of our internal control framework.

Li & Fung's internal control framework is designed to achieving:

Control Environment

The Group operates within an established control environment, which is consistent with the principles outlined in *Internal Control and Risk Management – A Basic Framework* issued by the Hong Kong Institute of Certified Public Accountants. The scope of internal control for the Group relates to three major areas: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

The Group maintains a tailored governance structure with defined lines of responsibility and appropriate delegation of authority. This is characterized by the establishment of an Operation Support Group centralizing the function and control exercised over global treasury activities, financial and management reporting, and human resources functions and computer systems, and is supplemented by written policies and guidelines tailored to the need of respective business units in the countries where the Group operates.

Financial Control Management

The Board approves the Group's Three-Year financial budgets and reviews the Group's operating and financial performance and key performance indicators against the budget on a semi-annual basis. Executive management closely monitors actual financial performance at the Group and business stream levels on a monthly basis.

The Group adopts a principle of minimizing financial risks. Details of the Group's financial risk management covering foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk respectively are set out in Note 37 to the accounts on page 116.

Operational Control Management

The Group establishes and implements written Key Operating Guidelines (KOG) and corporate policies encompassing key risk and control standards for the Group's operations worldwide. Control procedures are in place to approve our major investment and acquisition activities by our Investment Committee and global property renovation and leasing arrangement by the Global Properties Committee.

Management also monitors the integration process of the newly acquired companies through a post-acquisition integration programme focusing on the alignment of operational and financial controls with the Group's standards and practices.

Regulatory Compliance Control Management

The Corporate Compliance Group (comprising Corporate Governance Division and Corporate Secretarial Division), under the supervision of the Group Chief Compliance Officer, in conjunction with our designated internal and external legal advisors regularly reviews the adherence to relevant laws and regulations, listing rules compliance, public disclosure requirements and our standards of compliance practices.

Risk Management Functions

The Risk Management Committee in conjunction with the Audit Committee monitors and updates the Group's risk profile and exposure on a regular basis and reviews the effectiveness of the Group's system of internal control in mitigating risk. Key risk areas identified by the Committee include reputation, business credit and foreign exchange risks of our supply chain operations, investment and acquisitions, taxation, inventory and receivable management, Group-wide insurance, human resources and IT governance structure.

Internal and External Audit

The Group's Internal Audit team within the **Corporate Governance Division** independently reviews these controls and evaluates their adequacy, effectiveness and compliance. Our Group Chief Compliance Officer **reports major findings and recommendations to the Audit Committee** on a regular basis. The Audit Committee endorses the current Three-Year Internal Audit Plan (2005-2007) of Corporate Governance Division that is strategically linked to the Group's Three-Year Plan. The Audit Plan is prepared under a risk based assessment methodology and covers the Group's significant operations over a three-year cycle period. The scope of the work performed covers all material controls including financial, operational and compliance controls, and risk management policies and procedures. Major audit findings and recommendations are presented at the Audit Committee meetings. The implementation of all agreed recommendations is being followed up on a three-month basis.

In 2006, as part of the annual review of the effectiveness of the Group's internal control and risk management systems, the Group's Corporate Governance Division independently performs post-assessment review on the findings noted on the Control Self-Assessment Programmes for the trading operation and relevant accounting functions conducted by the Management.

Our external auditors, PricewaterhouseCoopers, perform independent statutory audits on the Group's financial statements. As part of their audit engagement, our external auditors also report to the Audit Committee in addition to the Management any significant weaknesses in the Group's internal control system which might come to their notice during the course of audit. PricewaterhouseCoopers noted no significant internal control weaknesses in their audit for 2006.

Overall Assessment

Based on the assessments made by senior management, the Group's Internal Audit team and the external auditors in 2006, and up to the approval date of the Company's 2006 Annual Report and accounts, the Audit Committee was satisfied that:

- the internal controls and accounting systems of the Group have been 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.
- there was an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

Compliance with the Code on Corporate Governance Practices

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 year ended 31 December 2006.

Corporate Social Responsibility and Sustainability

Li & Fung has developed a Supplier Code of Conduct to be observed by its approved suppliers around the globe. The Code is a set of standards based on local and national laws and regulations, and International Labor Organization core conventions. These standards include underage labor, forced/prison labor, wages and compensation, working hours, discrimination, disciplinary practices, freedom of association, health and safety, environment, and the right of access. A copy of the Code is available at our corporate website (*www.lifung.com*).

In 2006, the Group employed more than 100 in-house dedicated compliance staff worldwide to conduct supplier evaluations and monitor compliance to the Code among the suppliers that produce our customers' merchandise. The vendor compliance division is organized independently of our sourcing/merchandising divisions and focuses on improving suppliers' labor conditions and working standards.

The vendor compliance division aims to conduct evaluations of those approved suppliers at least once every 12 months. In 2006, approximately 8,000 facility inspections and verification audits were performed around the globe.

Aside from conducting supplier inspections and ongoing supplier verification audits, Li & Fung also provides systematic training both internally to its employees and externally to its suppliers to equip them with awareness, knowledge and the necessary skills and tools they need to meet compliance requirements.

Li & Fung is a member of Business for Social Responsibility (BSR), an international US-based non-profit organization whose mission is to promote socially responsible business practices, innovation and collaboration that demonstrate respect for ethical values, people, community and the environment. Li & Fung is also an active member of BSR's Labor Standards Working Group, a sector-specific working group that focuses on supply chain labor standards issues. The working group meets periodically to address common industry challenges and work on collaborative projects.

Li & Fung also enforces its customers' environmental purchasing policies with respect to recycling, package waste minimization and sustainable development initiatives. By adopting environmental considerations as an integral part of our business activities, the Group equates the environment to our other critical business considerations such as compliance, quality and value.

In 2006, the Group's Hong Kong and overseas offices in Taiwan and Vietnam renewed its "Chain of Custody" certification in trading of indoor and outdoor home-used wood products certified by The Forest Stewardship Council (FSC), an international non-profit organization based in Germany whose mission is to promote environmentally and socially responsible forest management worldwide. FSC Chain of Custody certification is independently verified and provides assurance to our committed customers that the forest products bearing the FSC trademark label were produced from certified well-managed forests in all stages of processing, manufacturing and distribution.

Li & Fung is also a participant in the United Nation's Global Compact initiative, which embraces and supports a set of core values in the areas of human rights, labor standards, the environment and anti-corruption. The initiative achieves this through the dissemination of good practices based on certain universal principles derived from international conventions and declarations – the Ten Principles. These cover the respect of and support for the protection of human rights, abstinence from human rights abuses, freedom of association, elimination of all forms of forced and child labor, elimination of discrimination in employment, promotion of environmental responsibility, and the elimination of corruption.

During 2001-06, Li & Fung was included as a component of the Dow Jones Sustainability World Indexes, the world's first global indexes tracking the performance of companies worldwide in three main dimensions of corporate sustainability: social, economic and environmental responsibilities. Since 2005, Li & Fung has also been included as a constituent member of the FTSE4Good Index Series from FTSE Group (UK) recognizing Li & Fung's commitment to high corporate social responsibility standards.

Investor Relations and Communications

The Company continues to pursue a proactive policy of promoting investor relations and communications by maintaining regular meetings with institutional shareholders and analysts. Webcasts of results presentations given to analysts have also been made available on our corporate website (*www.lifung.com*). All shareholders have 21 days' notice of the Annual General Meeting at which Directors and Committee Chairmen or members are available to answer questions on the business. The results of the voting by poll are declared at the meeting and are published on the Company's website together with details of the meeting, including the time and venue and major resolutions.

As a channel to further promote effective communication, the Company has launched a newly designed corporate website in 2006 with a fresh look. The website continues to disseminate shareholder information and other relevant financial and non-financial information electronically on a timely basis.

During 2006, the Board confirmed that there were no significant changes made in the Company's bye-laws affecting Li & Fung's operation and reporting practices. Details of the last shareholders' meeting, key calendar events for shareholders' attention and share information including market capitalization as of 31 December 2006 are set out in Information for Investors section on page 44 and on our corporate website.

In 2006, Li & Fung's continuing commitment to enhancing investor relations and communications gained further recognition from the wider business community when the Company was awarded "Best Investor Relations in Hong Kong" by *FinanceAsia* magazine and Dr William Fung, the Company's Group Managing Director, was awarded "Best Investor Relations by a CEO or Chairman at a Hong Kong Company" by *IR magazine*.

Shareholders' Rights

Under the Company's bye-laws, in addition to regular Board meetings, Directors of a company, on the requisition of shareholders of the Company holding not less than 10% of the paid-up capital of the Company, can convene a special general meeting to address specific issues of the Company upon the passing of a special resolution by at least 21 days' written notice deposited to the registered office of the Company. The same procedure also applies to any proposal to be tabled at shareholders' meetings for adoption. To further enhance minority shareholders' rights, the Company has since 2003 adopted the policy of voting by poll for all resolutions put forward at Annual General Meeting and Special General Meeting.

Specific enquiries by shareholders requiring the Board's attention can be sent in writing to our Group Company Secretary at the Company's business address in Hong Kong. Other general enquiries can be directed to the Company through our Group's Vice President – Investor Relations, whose contact information is detailed on page 44.

Corporate Communications

In 2006, the Company held quarterly Policy Committee Meetings for senior executives to formulate company-wide policies and practices, and to report and discuss significant issues affecting the Group.

As part of Li & Fung's entrepreneurial corporate culture and business policy, semi-annual retreats, with active participation of the Group Chairman, the Group Managing Director, Executive Directors and senior managers of all business streams worldwide as well as guest speakers, are held in Hong Kong to create a sense of staff ownership of the Company's strategic objectives and to foster effective communications across the Group.

Senior executives also travel frequently to different country offices to reinforce staff commitment to Li & Fung's business culture and the Group's established corporate initiatives. Under the supervision of our Group Chief Compliance Officer, members of the Corporate Compliance Group conduct regular interactive forums with staff members in Hong Kong and overseas to ensure that good corporate governance and company practices are reinforced and embedded in the Group's operations.

With an objective to further reinforce staff awareness of risk management, relevant KOG or corporate policies are posted on the Company's Intranet to be easily accessed by all staff.

In 2006, the Group published a centennial newsletter to commemorate our Group's special celebration activities. The "Staff Communications" e-mail box was established on our intranet to disseminate Li & Fung Group news and announcements for staff globally. The Company also published a regular newsletter to provide staff with reports on the Group's latest directives and initiatives and staff recreational activities.

Information Technology

To support the continuous growth of the Company, Li & Fung adopts the latest information technology for enhancing efficiency and effectiveness of the business processes and activities of the Company.

Network and Infrastructure Expansion

Li & Fung's global sourcing network is **interlinked electronically through the intranet for prompt sharing of information among employees worldwide**. The Company has also established direct electronic linkage with regulatory bodies through the internet to disseminate corporate information in a timely manner. The internet was fully utilized for communication of electronic documents and information.

In 2006, the Company has further strengthened the security measures across the worldwide offices in order to protect company information.

Electronically Linkages with Supply Chain Partners

Besides of providing an efficient and stable network for its external and internal communications, Li & Fung's IT infrastructure focuses on improving our global infrastructure including shared applications, platforms and extranet for connecting our supply chain partners more efficiently and closely.

The IT infrastructure established by the Company enables the **sharing of dedicated extranet sites with technologically advanced customers and other key partners** of the supply chain network, such as vendors and freight forwarders, to facilitate speedy dissemination of business information and better management of supply chain activities.

Global System Upgrade and Implementation

In 2006, our intranet connecting all worldwide offices was further upgraded to meet increasing data transfer requirements and communications needs of the implementation of global systems within Finance and Accounting, Human Resources and Quality Assurance functions. These global systems are implemented to support the business growth and acquisition of the Company. The systems provide the central platform for improving the efficiency and productivity of the Company's Finance and Accounting services, Human Resources processes and manpower planning, quality control and factory compliance processes. Not only these systems can help connect Li & Fung staff in global offices to save processing time, co-ordination and documentation efforts, it also helps standardize and streamline the processes and activities which enable the management to acquire accurate reports for decision-making anytime when needed.

Service Improvements

The IT Division of Li & Fung (Trading) Limited has been certified in ISO 9001:2000 quality management system standards applicable to the provision of in-house IT products and services since the end of 2001. With the ISO quality management system in place, the performance of IT services is measured regularly for achieving the target service levels and continuous improvement.

Staff and Community

As a global Supply Chain Management service provider, Li & Fung recognizes that human capital is a key asset to the sustained growth and profitability of the Company. The Group therefore places due emphasis on resourcing, development and retention of our staff.

Talent Resourcing

Li & Fung launched its annual Management Trainee Programme in 2003 with an aim of nurturing young talented professionals to accommodate business growth of the Group. The programme is a structured career development and intensive training programme which consists of classroom training, job attachments, corporate projects and overseas exposure covering a wide range of management competencies and functional skills. The trainees are expected to assume managerial roles within the Company after successful completion of the programme.

In 2006, Li & Fung had two intakes of more than 50 trainees in its Merchandising Development Programme which aimed to attract new recruits to the Company and build its merchandising resource pool. The programme was tailor-made for the Company's new merchandising staff and covered a mix of in-house and external training programmes. These included practical skills-based, structured on-the-job training, factory attachments and e-learning modules. As part of the programme, the Company collaborated with the School of Professional Education and Executive Development at The Hong Kong Polytechnic University to offer a customized and recognized Professional and Continuing Education (PCE) Diploma in Merchandising for our trainees who will be awarded the PCE Diploma after completion of the two-year traineeship.

Li & Fung adopts an equal opportunity policy in connection with human resource matters from selection and recruitment, through training and development, appraisal and promotion, compensation and benefits, redundancy and dismissal, and retirement without any form of discrimination on grounds such as race, marital status, sex, age and disability.

People Development and Retention

Li & Fung places due emphasis and investment on providing learning and development opportunities to our staff such that they are equipped with expected competencies and skills to effectively perform their roles and responsibilities. In this respect, the Group implements a policy of sponsoring staff to attend job-related training and self-improvement programmes. Management development programmes are also in place for senior employees. Contents of the Group's in-house programmes cover management skills, technical competencies, compliance and social ethics, business etiquette, language skills, occupational health and safety, and industry-related seminars for all levels of staff in our Group's Hong Kong and overseas offices.

In 2006, the Company conducted a comprehensive analysis of the core leadership competencies of our senior management team following the completion of a thorough global review of key strategic job profiles. Based on the review results and analysis, the Company can further develop more tailor-made and effective tools applicable to recruitment, training and development, performance management, leadership development and succession planning purposes.

In addition to these development initiatives, Li & Fung has focused on providing adequate incentives and rewards to retain staff based on the evaluation of their performance and contributions. Following our comprehensive compensation and benefits review conducted for Hong Kong head office in 2005, the Group conducted a similar review for our China offices and made further upgrades and adjustments of local staff benefits in 2006. Ongoing review is also planned for other overseas offices in the coming years.

Office Environment, Health and Safety

Li & Fung strives to be environmentally responsible by adopting good environmental practices in respect of office premises, equipment and consumption of resources, and by supporting practical measures and policies aiming at protecting and preserving the environment of the countries in which it operates. As an example, Li & Fung has been committed to ensuring a healthy and clean working environment for employees by declaring its headquarters in Hong Kong a non-smoking office since 1998. In 2006, Li & Fung participated in the Clean Air Charter – Greater Pearl River Delta initiative launched by the Hong Kong General Chamber of Commerce and the Business Coalition on the Environment. It seeks support and endorsement from the business community, on a voluntary basis, to reduce emissions and implement air quality management. In support of the Charter, the Group has taken a proactive role in promoting the initiative to our vendors towards combating air pollution on both sides of the border and beyond.

The Group's Global Property Committee comprising senior executives was established in 2005 to oversee the effective planning and management of the Group's global offices and warehousing facilities. The Committee also supervises the renovation of offices in order to maintain a consistent office environment, health and safety standards, and corporate identity of the Group.

Community Involvement

Li & Fung and its offices, as an integral part of various communities in which it operates, contribute to the well-being of these communities and provide support to people in need. The Group endorses senior executives accepting public office roles which currently include various government and non-government advisory boards and professional associations promoting Hong Kong's exports, the advancement of international trade, community quality-housing solutions and best corporate governance practices. Executives' participation includes serving on the Committee of the Hong Kong Exporters' Association, Hong Kong Trade Development Council, Hong Kong Export Credit Insurance Corporation and Hong Kong Housing Society, on the Corporate Governance Committee of the Hong Kong Institute of Certified Public Accountants, and as member on the Dual Filing Advisory Group of the Hong Kong Securities and Futures Commission.

Li & Fung further provides institutional support in the form of sponsorships for universities and charitable support by direct donation or direct employee involvement in fundraising activities organized by leading charitable organizations. Activities in year 2006 included the Standard Chartered Hong Kong Marathon in which the Group was presented the "Most Supportive Group Award", blood donations for Hong Kong Red Cross, Walk for Nature in Sai Kung organized by World Wide Fund for Nature Hong Kong, and World Vision – Skip-A-Meal event. The Group also registered its volunteer work team comprising the employees and their family members as a Volunteer Movement Participating Organization certified by the Hong Kong Social Welfare Department. In 2006, for the fifth consecutive year, these efforts and contributions toward a better society were recognized by the "Caring Company Award" presented by The Hong Kong Council of Social Service for the Group's caring culture and good corporate citizenship.

In 2006, Li & Fung (1906) Foundation was established by the Company's controlling shareholders to commemorate the centenary of the Li & Fung Group of companies including the Company and publicly listed Integrated Distribution Services Group and Convenience Retail Asia Group. This is a Hong Kong registered charity whose purpose is to support the staff of the Li & Fung Group of companies around the world to engage in and contribute to the communities in which they live and work. The principles for the Foundation follow our longstanding commitment to building human capital, strengthening local communities and caring for the environment. Significant community contributions by the Foundation in 2006 included the creation of the Li & Fung Scholarships Programme (with endowment grant of HK$100 million) for eligible undergraduates in Hong Kong and China, and monetary assistance to support the Indonesian Earthquake Emergency Project in which the Group collaborated with Yayasan Nurani Dunia, a reputable local non-governmental organization, to build multi-purpose shelters for the earthquake victims of Yogyakarta and Central Java in Indonesia.

Directors and Senior Management

Victor Fung | William Fung | Bruce Rockowitz | Paul Selway-Swift | Allan Wong | Warren McFarlan | Makoto Yasuda | Butt Lau | Henry Chan

Victor FUNG Kwok King

Group Non-Executive Chairman
Chairman of Nomination Committee
and Risk Management Committee

Aged 61. Brother of Dr William Fung Kwok Lun. Group Chairman of the Li & Fung Group of companies including the Company and the publicly listed Integrated Distribution Services Group Limited and Convenience Retail Asia Limited. A director of King Lun Holdings Limited and its wholly owned subsidiary, Li & Fung (1937) Limited, a substantial shareholder of the Company. Joined the Group in 1973 as Manager and became Managing Director of the Group's export trading business in 1977. Became Group Managing Director in 1981 and Group Chairman in 1989. Holds Bachelor and Master Degrees in Electrical Engineering from the Massachusetts Institute of Technology, and a Doctorate in Business Economics from Harvard University. An independent non-executive director of Bank of China (Hong Kong) Limited, PCCW Limited, Sun Hung Kai Properties Limited, Orient Overseas (International) Limited, CapitaLand Limited in Singapore and Baosteel Group Corporation in the People's Republic of China. Vice-Chairman of International Chamber of Commerce. Chairman of the Hong Kong Airport Authority, the Hong Kong University Council, the Greater Pearl River Delta Business Council and the Hong Kong-Japan Business Co-operation Committee. A member of Chinese People's Political Consultative Conference and the Executive Committee of the Commission on Strategic Development of the Hong Kong Government. From 1991 to 2000, Chairman of the Hong Kong Trade Development Council. From 1996 to 2003, the Hong Kong representative on the APEC Business Advisory Council. Awarded the Gold Bauhinia Star in 2003 for distinguished service to the community.

William FUNG Kwok Lun

Group Managing Director

Aged 58. Brother of Dr Victor Fung Kwok King. Group Managing Director since 1986. Joined the Group in 1972 and became a Director of the Group's export trading business in 1976. Graduated from Princeton University with a Bachelor of Science degree in Engineering. Holds an MBA degree from the Harvard Graduate School of Business. Degree of Doctor of Business Administration, *honoris causa*, was conferred by the Hong Kong University of Science & Technology. An independent non-executive director of HSBC Holdings PLC, CLP Holdings Limited, VTech Holdings Limited and Shui On Land Limited. A non-executive director of various companies within the Li & Fung Group including Convenience Retail Asia Limited and Integrated Distribution Services Group Limited. A director of King Lun Holdings Limited and its wholly owned subsidiary, Li & Fung (1937) Limited, a substantial shareholder of the Company. A member of the Hong Kong Trade Development Council. Past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Pacific Economic Cooperation Committee.

Bruce Philip ROCKOWITZ

President

Aged 48. An Executive Director since 2001 and President of the Group since 2004 when he took over day to day oversight of the Group's operations. Co-founded Colby International Limited in 1981 and was the President and Chief Executive Officer until 2000 when Colby was acquired by Li & Fung. Member of the Advisory Board for the Wharton Business School's Jay H Baker Retailing Initiative, an industry center at University of Pennsylvania focused on retail business. Non-Executive Chairman of the Pure Group, a lifestyle, fitness and yoga group operating throughout Asia.

Paul Edward SELWAY-SWIFT

Independent Non-Executive Director
Chairman of Audit Committee

Aged 62. An independent non-Executive Director since 1992. Chairman of Novae Group PLC, a specialist insurance group quoted on the London Stock Exchange. Chairman of Atlantis China Fund PLC. A director of several other companies including Alba PLC. Formerly, Deputy Chairman of HSBC Investment Bank PLC, a director of The Hong Kong and Shanghai Banking Corporation Limited in Hong Kong and Chairman of Singer & Friedlander Group PLC, a banking and investment management group.

Allan WONG Chi Yun

Independent Non-Executive Director
Chairman of Compensation Committee

Aged 56. An independent non-Executive Director since 1999. Chairman and Group Chief Executive Officer of VTech Holdings Limited. Co-founded VTech Group in 1976. Holds a Bachelor of Science degree in Electrical Engineering from the University of Hong Kong, a Master of Science degree in Electrical and Computer Engineering from the University of Wisconsin and an honorary degree of Doctor of Technology from the Hong Kong Polytechnic University. Chairman of Hong Kong Applied Science & Technology Research Institute Company Limited and a member of the Council of Advisors on Innovation and Technology. A council member of the University of Hong Kong, an independent non-executive director of both the Bank of East Asia Limited and China-Hongkong Photo Products Holdings Limited.

Franklin Warren McFARLAN

Independent Non-Executive Director

Aged 69. An independent non-Executive Director since 1999. Baker Foundation Professor at Harvard University. A Professor at the Harvard Graduate School of Business Administration since 1973. Formerly, Faculty Chairman of Advanced Management Program and Chairman of Executive Education Programs. Graduated from the Harvard Business School with a doctorate. Senior Associate Dean from 1990-2004. A non-executive director of Computer Sciences Corporation and INVESTools.

Makoto YASUDA

Independent Non-Executive Director

Aged 69. An independent non-Executive Director since 2001. Chairman and Chief Executive of international advisory firm Yasuda EMP Limited, a joint venture of EMP-PAMA Group. Engaged in private equity investment and management activities in Asia for more than 35 years. Well experienced in cross-border corporate advisory, merger & acquisition, project development, and other merchant banking activities. A non-executive Chairman of Atlas Copco KK and a non-executive director of Yamatake Corporation. Senior advisor to EMP-DAIWA Capital Asia Limited.

LAU Butt Farn

Non-Executive Director

Aged 59. A non-Executive Director since 1995. Joined the Li & Fung Group in 1981 as financial controller. Operations Director for Li & Fung (Retailing) Limited with operation in Circle K Convenience Stores (HK) Limited and Toys LiFung (Hong Kong) Limited between 1985 and 1998. Responsible for merger and acquisition and other corporate finance activities of Li & Fung Group. A director of Li & Fung (1937) Limited, the controlling shareholder of Li & Fung Group of companies including publicly listed Integrated Distribution Services Group Limited of which he is also a non-executive director. Graduated from the University of London with a Bachelor of Science degree in Physics. A Fellow of the Institute of Chartered Accountants in England and Wales.

Henry CHAN

Executive Director

Aged 56. An Executive Director since 1992. In charge of the LF One business stream focusing on hardlines world-wide. Joined the Group in 1972. Solid experience in the hardgoods area. Graduated from the University of Hong Kong with a Bachelor of Social Science degree. Holds an MBA degree from the Chinese University of Hong Kong. A member of The Hong Kong Institute of Directors.

Danny LAU Sai Wing

Executive Director

Aged 55. An Executive Director since 1992. In charge of the LF Ten business stream and responsible for US apparel, brands and specialty stores. Graduated from the University of Kansas with a Bachelor of Science Degree in Business and Accounting. First job in garment manufacturing before joining Li & Fung in 1981. Solid experience in the textile and clothing Supply Chain Management business. A director of the Clothing Technology Demonstration Centre Co Ltd. from 1995 to 2003. Past community work includes having served as a committee member of the Government's Workplace English Campaign, the Hong Kong Exporters' Association and Clothing Industry Training Authority.

Annabella LEUNG Wai Ping

Executive Director

Aged 54. An Executive Director since 2000. In charge of the LF Seven business stream for European apparel accounts. Formerly, the Regional Director of North Asia Apparel for Inchcape, a global sourcing network acquired by the Company in 1995. Holds a Master of Science degree in Biology from Northeastern University. Solid experience in the textile industry which covers all categories of apparel. Vice Chairman of the General Committee and Chairman of the Softgoods Sub-committee of the Hong Kong Exporters' Association since 2002. Serving on the Garment Advisory Committee of the Hong Kong Trade Development Council and Advisory Board of the Hong Kong Export Credit Insurance Corporation. Member of the Vetting Committee for the Professional Services Development Assistance Scheme of Commerce, Industry And Technology Bureau since 1 April 2006.

James SIU Kai Lau

Group Chief Compliance Officer

Aged 62. Joined the Group in 1993 as Chief Financial Officer and as the Chief Compliance Officer since 1996. An executive director of Li & Fung (1937) Limited, the controlling shareholder of the Li & Fung Group of companies including publicly listed Integrated Distribution Services Group and Convenience Retail Asia Group of which he is also their Group Chief Compliance Officer. Formerly, partner-in-charge (1981-1989) of the Hong Kong audit practice of Coopers & Lybrand (currently PricewaterhouseCoopers) specializing in advising corporate clients on mergers, acquisitions, finance and on public listings. Community work included having served as member of the Supervisory Board of the Hong Kong Housing Society and Chairman of its Audit Committee (2001 to 2006) and a member of the Professional Accountants in Business Committee of the Hong Kong Institute of Certified Public Accountants (2002 - 2006). A member of the Securities and Futures Commission Dual Filing Advisory Group and the Deputy Chairman of the Corporate Governance Committee of the Hong Kong Institute of Certified Public Accountants. A Fellow of the Institute of Chartered Accountants in Australia and the Hong Kong Institute of Certified Public Accountants. A Fellow member of the Hong Kong Institute of Directors. Holds a Bachelor of Economics degree from Australia.

SENIOR MANAGEMENT

Thomas Morton HAUGEN

Aged 65. President of LFUSA business stream and responsible for the Group's U.S. wholesale business which holds a portfolio of well known brand licenses as well as a number of private label brands for U.S. retailers. Formerly, the President of Dodwell Apparel North America for Inchcape, a global sourcing network acquired by the Company in 1995. Solid experience in retail buying and merchandising, product development and sourcing based both in the US and in Hong Kong. Actively involved in expanding the Group's U.S. wholesale business by identifying target companies, directing the acquisition process and overseeing the acquired company's integration into LFUSA.

Richard Nixon DARLING

Aged 54. President of LFUSA business stream and responsible for the Group's U.S. wholesale and global brand business which holds a portfolio of well known brand licenses as well as a number of private label brands for U.S. retailers. The founder of The Millwork Trading Co., Ltd, a joint venture with Li & Fung that became a wholly owned subsidiary since 1999. Solid retail and wholesale experience in merchandising. Serves on the Board of Directors of "Fashion Delivers", a charitable organization that assists children and families in distressed situations, and the Board of Directors of the American Apparel and Footwear Association, the leading industry trade group.

Marc Robert COMPAGNON

Aged 48. In charge of the LF Eight business stream and responsible for the U.S. department store business, US wholesale apparel sourcing as well as the Group's branded apparel business. Joined the Group in 2000 at the time of the acquisition of Colby International Limited where he was Chief Merchandising Officer for 17 years and was responsible for establishing Colby's global sourcing network and sales and marketing strategies. Holds a Bachelor of Science degree from the University of Vermont.

Dow Peter FAMULAK

Aged 46. In charge of the LF Nine business stream and responsible for the Group's department store, mass market, supermarket and drug store hardlines and home business in North and Central America and the Southern Hemisphere. Joined the Group in 2000 at the time of the acquisition of Colby International Limited where he was an Executive Vice President. Former partner in the law firm of Baker & Mckenzie, Hong Kong office where he worked from 1992 until he joined Colby. Graduated from the University of British Columbia with a BA Economics (Honours) and law school at the University of Saskatchewan. A member of the Hong Kong Law Society, the Law Society of England and Wales and the British Columbia (Canada) Law Society.

Emily MAK MOK Oi Wai

Aged 46. In charge of the LF Three business stream and responsible for the Group's department store, mass market and supermarket apparel business in North and Central America, the Southern Hemisphere and Japan. Joined the Group in 2000 at the time of acquisition of Colby International Limited where she was the Chief Operating Officer and directly responsible for the operational and merchandising matters for Colby's apparel business worldwide. Joined Colby in 1987 and has solid experience in the apparel industry. Graduated from the University of Hong Kong with a Bachelor of Social Sciences degree.

Edward YIM Kam Chuen

Aged 50. Joined the Group in 1995 as Financial Controller. Formerly, Financial Controller of Dodwell buying office, a global sourcing network acquired by the Company in 1995. A fellow member of the Hong Kong Institute of Certified Public Accountants. Designated as the qualified accountant of the Company pursuant to Rule 3.24 of the Listing Rules. Holds a Bachelor of Business and Administration from Chinese University of Hong Kong and a Master of Commerce degree from the University of New South Wales in Sydney.

Global Reach,
Local Presence

Europe & The Mediterranean
Amersfoort
Amsterdam
Barcelona
Bremerhaven
Bucharest
Cairo
Denizli
Düsseldorf
Huddersfield
Istanbul
Izmir
Leeds
London
Madrid
Milan
Oporto
Paris
Sofia
St. Gallen
Vienna
Vilnius
Warsaw

South Africa
Antananarivo
Durban
Moka

North Asia
Beijing
Chengdu
Dalian
Dongguan
Guangzhou
Hangzhou
Hepu
Hong Kong
Liuyang
Longhua
Macau
Nanjing
Ningbo
Qingdao
Seoul
Shanghai
Shantou
Shenzhen
Suzhou
Taipei
Tokyo
Zhanjiang

Southeast Asia
Bangkok
Hanoi
Ho Chi Minh City
Jakarta
Johor
Makati
Phnom Penh
Saipan
Shah Alam
Singapore

South Asia
Amman
Bangalore
Chennai
Colombo
Delhi
Dhaka
Faisalabad
Karachi
Lahore
Mumbai
Sharjah
Tirupur

The Americas
Boston
Gaffney
Guadalajara
Guatemala City
Managua
Mexico City
New York City
San Francisco
San Pedro Sula
Santo Domingo

Headquartered in Hong Kong, the company's extensive global sourcing network covers over 70 offices in more than 40 economies around the world.

With a growing network of nearly 10,000 international suppliers, Li & Fung explores the world to find quality-conscious, cost-effective manufacturers in order to provide the highest-quality goods, exceptional value and reliable, on-time delivery.

Committed to the highest standards, our 9,700 staff around the world give Li & Fung the global reach and local presence to conduct strict quality assurance testing through factory evaluations, lab testing, on-site production monitoring and multiple inspections. The professionals at Li & Fung act as an extension of customers' own businesses to manage all aspects of the global supply chain.

Information for Investors

Listing Information

Listing: Hong Kong Exchange
Stock code: 494
Ticker Symbol
Reuters: 0494.HK
Bloomberg: 494 HK Equity

Index Constituent

Hang Seng Index
MSCI Index Series
FTSE4Good Global Index

Key Dates

10 August 2006
Announcement of 2006 Interim Results

19 September 2006
Payment of 2006 Interim Dividend

21 March 2007
Announcement of 2006 Final Results

8 May 2007 to 15 May 2007
(both days inclusive)
Closure of Register of Shareholders

15 May 2007
Proposed Payment of 2006 Final Dividend

15 May 2007
Annual General Meeting

Registrar & Transfer Offices

Principal:
The Bank of Bermuda Limited
6 Front Street, Hamilton HM11, Bermuda

Hong Kong Branch:
Abacus Share Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

Share Information

Board lot size: 2,000 shares

Shares outstanding as at 31 December 2006:
3,409,576,986 shares

Market capitalization as at 31 December 2006:
HK$82,511,763,061

Earnings per share for 2006

Interim	23.6 HK cents
Full year	67.1 HK cents

Dividend per share for 2006

Interim	16.0 HK cents
Full year	55.0 HK cents

Enquiries Contact

Ms Mable Chan
Vice President – Investor Relations

Telephone: (852) 2300 2300
Fax: (852) 2300 2020
e-mail: *ir@lifung.com.hk*

Li & Fung Limited
11th Floor, LiFung Tower
888 Cheung Sha Wan Road
Kowloon, Hong Kong

Website

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

A Chinese version of this Annual Report is available from the Company upon request.
本年報中文版可向本公司索取。

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 December 2006.

Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in the Principal Subsidiaries and Associated Companies section on pages 118 to 123.

Details of the analysis of the Group's turnover and contribution to operating profit for the year by geographical segments and business segments are set out in *Note 3* to the accounts.

Share Capital

Details of the movements in share capital of the Company are set out in *Note 26* to the accounts.

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 59.

The directors declared an interim dividend of HK$0.160 per ordinary share, totalling HK$519,252,000, which was paid on 19 September 2006.

The directors recommend the payment of a final dividend of HK$0.39 per ordinary share, totalling HK$1,330,754,000.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in *Note 27* to the accounts.

Distributable Reserves

At 31 December 2006, the distributable reserves of the Company available for distribution as dividends amounted to HK$4,123,996,000, comprising retained earnings of HK$2,063,323,000 and contributed surplus arising from the exchange of shares for the acquisition of Li & Fung (B.V.I.) Limited and the issuance of shares for the acquisition of Colby Group Holdings Limited, as set out in *Note 27* to the accounts, amounting to HK$2,060,673,000.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus shall not be distributed to the shareholders if there are reasonable grounds for believing that:

(i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realizable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

Donations

Charitable and other donations made by the Group during the year amounted to HK$503,000.

Fixed Assets

Details of the movements in fixed assets of the Group are set out in *Note 13* to the accounts.

Ten-year Financial Summary

A summary of the results for the year ended and of the assets and liabilities of the Group as at 31 December 2006 and for the previous nine financial years are set out in the Ten-Year Financial Summary section on page 124.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws though there are no restrictions against such rights under the laws of Bermuda.

Purchase, Sale or Redemption of the Company's Listed Securities

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

Share Options

At the 2003 Annual General Meeting of the Company held on 12 May 2003, a share option scheme (the "Option Scheme") of the Company was adopted by the shareholders of the Company. As at 31 December 2006, there are options ("Share Options") relating to 93,249,000 shares granted by the Company pursuant to the Option Scheme which are valid and outstanding.

Details of the Share Options granted under the Option Scheme and remain outstanding as at 31 December 2006 are as follows:

	Number of Share Options											
	As at 1/1/2006	Granted	Exercised Before Bonus Issue	Lapsed Before Bonus Issue	Adjustment For Bonus Issue[1]	Exercised After Bonus Issue	Cancelled After Bonus Issue	Lapsed After Bonus Issue	As At 31/12/2006	Exercise Price HK$	Grant Date	Exercisable Period
William Fung Kwok Lun	800,000	–	–	–	80,000	880,000	–	–	–	8.36[1]	23/5/2003	23/5/2006 – 22/5/2009
	800,000	–	–	–	80,000	–	–	–	880,000	13.45[1]	20/6/2005	20/6/2007 – 19/6/2010
	800,000	–	–	–	80,000	–	–	–	880,000	13.45[1]	20/6/2005	20/6/2008 – 19/6/2011
	800,000	–	–	–	80,000	–	–	–	880,000	13.45[1]	20/6/2005	20/6/2009 – 19/6/2012
Bruce Philip Rockowitz	400,000	–	–	–	40,000	–	–	–	440,000	8.36[1]	23/5/2003	23/5/2005 – 22/5/2008
	400,000	–	–	–	40,000	–	–	–	440,000	8.36[1]	23/5/2003	23/5/2006 – 22/5/2009
	400,000	–	–	–	40,000	–	–	–	440,000	13.45[1]	20/6/2005	20/6/2007 – 19/6/2010
	400,000	–	–	–	40,000	–	–	–	440,000	13.45[1]	20/6/2005	20/6/2008 – 19/6/2011
	400,000	–	–	–	40,000	–	–	–	440,000	13.45[1]	20/6/2005	20/6/2009 – 19/6/2012
Henry Chan	400,000	–	400,000[2]	–	–	–	–	–	–	8.36[1]	23/5/2003	23/5/2004 – 22/5/2007
	400,000	–	400,000[2]	–	–	–	–	–	–	8.36[1]	23/5/2003	23/5/2005 – 22/5/2008
	400,000	–	–	–	40,000	–	–	–	440,000	8.36[1]	23/5/2003	23/5/2006 – 22/5/2009
	400,000	–	–	–	40,000	–	–	–	440,000	13.45[1]	20/6/2005	20/6/2007 – 19/6/2010
	400,000	–	–	–	40,000	–	–	–	440,000	13.45[1]	20/6/2005	20/6/2008 – 19/6/2011
	400,000	–	–	–	40,000	–	–	–	440,000	13.45[1]	20/6/2005	20/6/2009 – 19/6/2012
Danny Lau Sai Wing	400,000	–	400,000[2]	–	–	–	–	–	–	8.36[1]	23/5/2003	23/5/2005 – 22/5/2008
	400,000	–	–	–	40,000	–	–	–	440,000	8.36[1]	23/5/2003	23/5/2006 – 22/5/2009
	400,000	–	–	–	40,000	–	–	–	440,000	13.45[1]	20/6/2005	20/6/2007 – 19/6/2010
	400,000	–	–	–	40,000	–	–	–	440,000	13.45[1]	20/6/2005	20/6/2008 – 19/6/2011
	400,000	–	–	–	40,000	–	–	–	440,000	13.45[1]	20/6/2005	20/6/2009 – 19/6/2012
Annabella Leung Wai Ping	400,000	–	400,000[2]	–	–	–	–	–	–	8.36[1]	23/5/2003	23/5/2005 – 22/5/2008
	400,000	–	–	–	40,000	–	–	–	440,000	8.36[1]	23/5/2003	23/5/2006 – 22/5/2009
	400,000	–	–	–	40,000	–	–	–	440,000	13.45[1]	20/6/2005	20/6/2007 – 19/6/2010
	400,000	–	–	–	40,000	–	–	–	440,000	13.45[1]	20/6/2005	20/6/2008 – 19/6/2011
	400,000	–	–	–	40,000	–	–	–	440,000	13.45[1]	20/6/2005	20/6/2009 – 19/6/2012

	Number of Share Options											
	As at 1/1/2006	Granted	Exercised Before Bonus Issue	Lapsed Before Bonus Issue	Adjustment For Bonus Issue[1]	Exercised After Bonus Issue	Cancelled After Bonus Issue	Lapsed After Bonus Issue	As At 31/12/2006	Exercise Price HK$	Grant Date	Exercisable Period
Continuous Contract Employees	2,808,000	–	1,018,000 [2]	–	179,000	982,800 [2]	–	–	986,200	8.36 [1]	23/5/2003	23/5/2004 – 22/5/2007
	6,772,000	–	2,369,000 [2]	–	440,300	1,905,100 [2]	–	–	2,938,200	8.36 [1]	23/5/2003	23/5/2005 – 22/5/2008
	12,631,000	–	–	–	1,263,100	8,182,800 [2]	–	–	5,711,300	8.36 [1]	23/5/2003	23/5/2006 – 22/5/2009
	300,000	–	106,000 [2]	–	19,400	175,600 [2]	–	–	37,800	9.00 [1]	20/8/2004	20/8/2005 – 19/8/2008
	2,230,000	–	–	–	223,000	1,621,000 [2]	–	–	832,000	9.00 [1]	20/8/2004	20/8/2006 – 19/8/2009
	21,053,000	–	–	230,000	2,082,300	–	188,600	442,200	22,274,500	13.45 [1]	20/6/2005	20/6/2007 – 19/6/2010
	21,040,000	–	–	610,000	2,043,000	–	–	1,133,000	21,340,000	13.45 [1]	20/6/2005	20/6/2008 – 19/6/2011
	21,150,000	–	–	610,000	2,054,000	–	–	1,804,000	20,790,000	13.45 [1]	20/6/2005	20/6/2009 – 19/6/2012
	–	730,000 [3]	–	24,000	70,600	–	8,800	74,800	693,000	13.72 [1]	23/1/2006	20/6/2007 – 19/6/2010
	–	1,470,000 [3]	–	50,000	142,000	–	–	165,000	1,397,000	13.72 [1]	23/1/2006	20/6/2008 – 19/6/2011
	–	1,470,000 [3]	–	50,000	142,000	–	–	165,000	1,397,000	13.72 [1]	23/1/2006	20/6/2009 – 19/6/2012
	–	212,000 [4]	–	–	–	–	–	–	212,000	15.65	19/6/2006	20/6/2007 – 19/6/2010
	–	2,270,000 [4]	–	–	–	–	–	50,000	2,220,000	15.65	19/6/2006	20/6/2008 – 19/6/2011
	–	2,350,000 [4]	–	–	–	–	–	50,000	2,300,000	15.65	19/6/2006	20/6/2009 – 19/6/2012

Notes:

(1) At the annual general meeting of the Company held on 18 May 2006, a bonus issue of one new Share for every ten Shares ("Bonus Issue") held as of that date was approved by the shareholders. All the Share Options which were granted and remained outstanding as of 18 May 2006 were adjusted with the Bonus Issue and accordingly, the number of Share Options increased by one Share for every ten Shares in the Share Options, and the exercise price per Share was adjusted from (i) HK$9.20 to HK$8.36, (ii) HK$9.90 to HK$9.00, (iii) HK$14.80 to HK$13.45 and (iv) HK$15.09 to HK$13.72 respectively.

(2) The weighted average closing market price per Share immediately before the dates on which the Share Options were exercised was HK$17.32.

(3) The closing market price per Share as at the date preceding the date on which the Share Options were granted was HK$13.773, as adjusted for the effect of the Bonus Issue.

(4) The closing market price per Share as at the date preceding the date on which the Share Options were granted was HK$15.65.

(5) The above options granted are recognized as expenses in the accounts in accordance with the Company's accounting policy as set out in *Note 1.15* to the accounts. Other details of Share Options granted by the Company are set out in *Note 26* to the accounts.

Subsequent to 31 December 2006, the following Share Options were granted by the Company pursuant to the Option Scheme:

	Number of Share Options Granted	Exercise Price HK$	Grant Date	Exercisable Period
Continuous Contract Employees	2,127,000[1]	25.50	2/2/2007	20/6/2008 – 19/6/2011
	7,425,000[1]	25.50	2/2/2007	20/6/2009 – 19/6/2012

Notes:

(1) The closing market price per Share as at the date preceding the date on which the Share Options were granted was HK$25.50.

(2) The above options granted are recognized as expenses in the accounts in accordance with the Company's accounting policy as set out in *Note 1.15(c)* to the accounts. Other details of Share Options granted by the Company are set out in *Note 26* to the accounts.

Details of the Option Scheme are as follows:

(i) Purpose

The purpose of the Option Scheme is to attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentive to the employees including any executive or non-executive director and officer of the Company or any affiliate, consultants, agents, representatives, advisers, customers, contractors, business allies and joint venture partners; and to promote the long term financial success of the Company by aligning the interests of the option holders to the shareholders of the Company.

(ii) Qualifying participants

Any employee including any executive or non-executive director of the Company or any affiliate, any consultant, agent, representative, adviser, customer, contractor, business ally or joint venture partner of the Company or any affiliate.

(iii) Maximum number of shares

The total number of shares which may be issued upon exercise of all options to be granted under the Option Scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Option Scheme or 30% of the issued share capital of the Company from time to time. No options may be granted under the Option Scheme if this will result in such limit exceeded. As at 31 December 2006, the number of Shares available for issue in respect thereof is 154,344,500 Shares.

(iv) Limit for each participant

The total number of Shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the Shares of the Company in issue.

(v) Option period

The period within which the Shares must be taken up an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

The Board has the authority to determine the minimum period for which an option must be held before it can vest. The Option Scheme itself does not specify any minimum holding period.

(vi) Acceptance and payment on acceptance

An offer of the grant of an option shall remain open for acceptance for a period of 28 days from the date of offer (or such longer period as the Board may specify in writing).

HK$1.00 is payable by the grantee to the Company on acceptance of the offer.

(vii) Subscription price

The exercise price must be at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of grant; (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

(viii) Remaining life of the Option Scheme

The Board is entitled at any time within 10 years between 12 May 2003 and 11 May 2013 to offer the grant of an option to any qualifying participants.

Subsidiaries

Details of the Company's principal subsidiaries at 31 December 2006 are set out in the Principal Subsidiaries and Associated Companies section on pages 118 to 122.

Associated Companies

Details of the Company's principal associated companies at 31 December 2006 are set out in the Principal Subsidiaries and Associated Companies section on page 123.

Major Customers and Suppliers

During 2006, the Group purchased less than 30% of its goods and services from its five largest suppliers. The percentage of sales attributable to the Group's largest customer and the five largest customers combined were 14.6% and 30.6% respectively. None of the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had an interest in the customers noted.

During 2005, the Group purchased less than 30% of its goods and services from its five largest suppliers. The percentage of sales attributable to the Group's largest customer and the five largest customers combined were 14.8% and 30.9% respectively.

Pension Scheme Arrangements

With effect from 1 December 2000, the mandatory provident fund (the "MPF Scheme") was set up by the Mandatory Provident Fund Authority of Hong Kong. The MPF Scheme is a defined contribution retirement benefit scheme and administered by independent trustees. Both the employer and the employees have to contribute an amount equal to 5% of the relevant income of such employee to the MPF Scheme. Contributions from the employer are 100% vested in the employees as soon as they are paid to the MPF Scheme and subject to certain conditions being met, all benefits derived from the mandatory contributions must be preserved until the employee either reaches the normal retirement age of 65 or meets certain specified conditions whichever is the earlier.

In Taiwan, the Group operates a defined contribution provident scheme for its employees with the contribution set at 6% of the employees' basic salaries. In addition, the Group also participates in a retirement benefit plan in accordance with local statutory requirements. Under this plan, the Group recognised pension cost monthly at 6% of the employees' salaries, which is contributed monthly to an independent fund.

In the United Kingdom, the Group participates in a defined benefit scheme for its employees. Under which, the Group and its employees make monthly contributions to the scheme based on 15.7% and 5% of the employees' salary respectively.

In Korea, the Group and each of its employees are required to contribute 4.5% of the employee's monthly salary to a government established pension corporation pursuant to the statutory requirement. Upon retirement, an employee is entitled to receive a lump sum payment.

The provident fund schemes for staff of the Group in other regions follow the local requirements.

The Group's pension scheme contributions charged to the consolidated profit and loss account for the year are as follows:

	HK$'000
Contributions to the MPF Scheme	30,299
Contributions forfeited by employees	(2,354)
Contributions to the defined contribution provident scheme and defined benefit plan in Taiwan	8,665
Contributions to the defined benefit scheme in the United Kingdom	3,973
Contributions pursuant to the statutory requirements in Korea	13,867
Contributions pursuant to local requirements in other overseas regions	47,506
	101,956

Directors

The directors during the year were:

Non-Executive Directors:
Victor Fung Kwok King, *Chairman*
Paul Edward Selway-Swift *
Allan Wong Chi Yun *
Franklin Warren McFarlan *
Makoto Yasuda *
Lau Butt Farn
Leslie Boyd
(retired on 18 May 2006)
(Steven Murray Small
– *alternate to Leslie Boyd)*
(ceased to act on 18 May 2006)

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*

In accordance with bye-law 110(A) of the Company's bye-laws, Dr Victor Fung Kwok King, Mr Paul Edward Selway-Swift, Mr Bruce Philip Rockowitz and Ms Annabella Leung Wai Ping will retire by rotation at the forthcoming Annual General Meeting.

Independent non-executive directors are subject to retirement by rotation in Annual General Meetings in accordance with bye-law 110(A) of the Company's bye-laws.

The biographical details of the directors as at the date of this Report are set out in the Directors and Senior Management section on pages 38 to 41.

Directors' Service Contracts

Under a service contract dated 2 June 1992 between the Company and Dr William Fung Kwok Lun and a service contract dated 2 June 1992 between Li & Fung (B.V.I.) Limited and Dr William Fung Kwok Lun, Dr William Fung Kwok Lun has been appointed to act as Managing Director of the Company, Li & Fung (Trading) Limited, Li & Fung (Properties) Limited and Li & Fung (B.V.I.) Limited, in each case for an initial period of five years from 1 April 1992 and thereafter unless terminated by not less than 12 calendar months' notice in writing expiring at the end of such initial period or any subsequent month.

Apart from the above, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable within one year without payment of compensation other than statutory compensation.

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

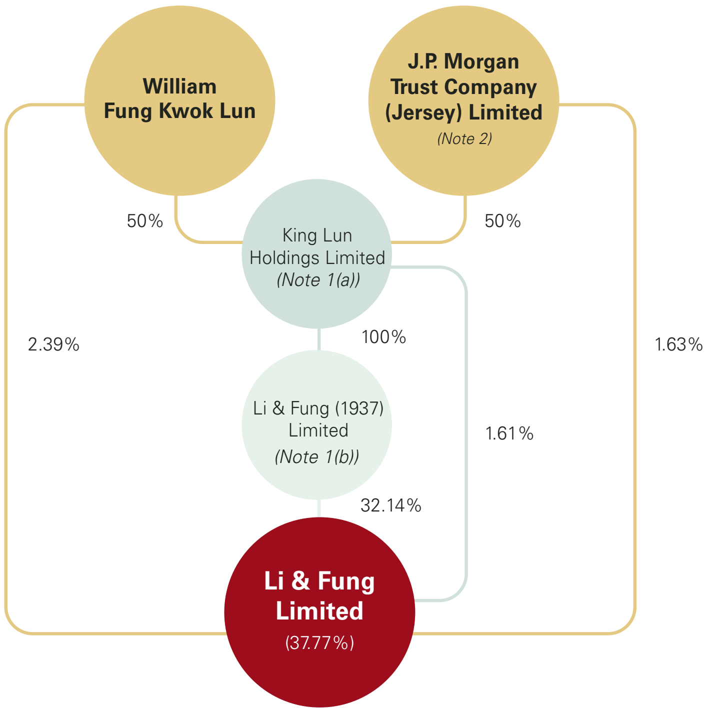
Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2006, the directors and chief executives of the Company and their associates had the following interests in the Shares and underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("the Model Code"):

(A) Long Positions in Shares and underlying shares of the Company

	Number of Shares						
	Personal interest	Corporate interest	Family interest	Trust/ Similar interest	Equity derivatives (share options)	Total	Percentage of issued share capital
Victor Fung Kwok King	–	1,150,545,880[1]	–	55,825,000[2]	–	1,206,370,880	35.38%
William Fung Kwok Lun	79,048,530	1,150,545,880[1]	4,400	–	2,640,000[3]	1,232,238,810	36.14%
Bruce Philip Rockowitz	712,800	–	–	11,411,510[4]	57,145,880[5]	69,270,190	2.03%
Henry Chan	3,514,000	–	–	–	1,760,000[3]	5,274,000	0.15%
Danny Lau Sai Wing	8,068,000	–	–	–	1,760,000[3]	9,828,000	0.28%
Annabella Leung Wai Ping	3,128,000	–	–	–	1,760,000[3]	4,888,000	0.14%
Lau Butt Farn	2,420,000	–	–	–	–	2,420,000	0.07%
Franklin Warren McFarlan	–	–	–	57,200[6]	–	57,200	0.00%

The interests of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun in Shares of the Company are summarized in the following chart:



Notes:

(1) As at 31 December 2006,

(a) King Lun Holdings Limited ("King Lun"), a private company incorporated in the British Virgin Islands, held 54,945,880 Shares.

(b) King Lun through its wholly-owned Hong Kong incorporated subsidiary, Li & Fung (1937) Limited, held 1,095,600,000 Shares.

Dr Victor Fung Kwok King and Dr William Fung Kwok Lun are deemed to have interests in the 1,150,545,880 Shares, i.e. the total number of Shares mentioned in *Notes (1)(a) and (b)* above, through their personal or other interests in King Lun as set out below:–

(i) 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family of Dr Victor Fung Kwok King.

(ii) 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by Dr William Fung Kwok Lun.

(2) 55,825,000 Shares in the Company are held by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family of Dr Victor Fung Kwok King.

(3) These interests represent the interests in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, the details of which are set out in the Share Options section stated above.

(4) 11,411,510 Shares in the Company are held by Hurricane Millennium Holdings Limited ("HMHL"), a company beneficially owned by a trust which has been set up for the benefit of family members of Mr Bruce Philip Rockowitz.

(5) These interests represent:–

(a) the beneficial interest of Mr Bruce Philip Rockowitz in 2,200,000 underlying shares in respect of share options granted by the Company to Mr Bruce Philip Rockowitz, the details of which are set out in the Share Options section stated above; and

(b) the deemed interest of Mr Bruce Philip Rockowitz in 54,945,880 underlying shares in the Company in respect of options granted by King Lun to HMHL to purchase such shares in the Company in ten tranches during the period from 25 December 2004 to 24 December 2019 with each tranche having an exercisable period of six years pursuant to an agreement made between King Lun and HMHL.

(6) 57,200 Shares in the Company are held by a trust established for the benefit of Professor Franklin Warren McFarlan.

(B) Short positions in Shares and underlying shares of the Company

By virtue of the SFO, each of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun was taken as at 31 December 2006 to have short position through King Lun, in which both of them are deemed to have interests as disclosed above, in respect of an aggregate of 54,945,880 underlying shares in the Company, representing 1.61 percent of the total issued share capital of the Company. Such interest constitutes, for the purposes of the SFO, a short position of King Lun under unlisted physically settled equity derivative which arise under an agreement made between King Lun and HMHL pursuant to which options were granted by King Lun to HMHL to purchase such shares in the Company in ten tranches during the period from 25 December 2004 to 24 December 2019, with each tranche having an exercisable period of six years.

Save as disclosed above, as at 31 December 2006, none of the directors and chief executive of the Company or their associates had any short position in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Mode.

(C) Share Options

The interests of the directors and chief executives in the share options (being regarded as unlisted physically settled equity derivatives) of the Company are detailed in the Share Options section stated above.

Save as disclosed above, at no time during the year, the directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company or its associated corporations required to be disclosed pursuant to the SFO.

Interests and Short Positions of Substantial Shareholders

At 31 December 2006, other than the interests of the directors or chief executive of the Company as disclosed above, the following persons had interests in the Shares of the Company which fall to be disclosed to the Company under Section 336 of the SFO:–

Name of Shareholder	Capacity	Number of Shares	Percentage of issued share capital
Long Positions			
King Lun Holdings Limited	Beneficial owner (54,945,880) Interest of controlled corporation (1,095,600,000)[1]	1,150,545,880[2]	33.75%
J.P. Morgan Trust Company (Jersey) Limited	Trustee (55,825,000) Interest of controlled corporation (1,150,545,880)[2]	1,206,370,880[3]	35.38%
Janus Capital Management LLC	Investment manager	166,039,600	4.86%
Short Positions			
King Lun Holdings Limited	Beneficial owner	54,945,880[4]	1.61%
J.P. Morgan Trust Company (Jersey) Limited	Interest of controlled corporation	54,945,880[5]	1.61%
Lending Pool			
State Street Corporation	Interest of controlled corporation	265,269,264	7.78%

Notes:

(1) 1,095,600,000 Shares are held by Li & Fung (1937) Limited which is a wholly owned subsidiary of King Lun.

(2) (a) 50% of issued share capital of King Lun is owned by J.P. Morgan Trust Company (Jersey) Limited and its interests in 1,150,545,880 Shares of the Company is duplicated in the interests of J.P. Morgan Trust Company (Jersey) Limited.

(b) By virtue of the SFO, each of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun is deemed to be interested in 1,150,545,880 Shares of the Company held by King Lun Holdings Limited as described in *Note (1)* under the above section of Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures.

(3) By virtue of the SFO, Dr Victor Fung Kwok King is deemed to be interested in 1,206,370,880 Shares held by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family of Dr Victor Fung Kwok King.

(4) This short position represents King Lun's short position in 54,945,880 underlying shares which constitutes unlisted physically settled equity derivatives pursuant to arrangement as described in the Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures section stated above.

(5) J.P. Morgan Trust Company (Jersey) Limited is taken to have short position in the same underlying shares held by its controlled corporation, King Lun.

Save as disclosed above, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying shares of the Company as at 31 December 2006.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

Senior Management

The biographical details of the senior management as at the date of this Report are set out in the Directors and Senior Management section on pages 38 to 41.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Corporate Governance

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance section on pages 22 to 37.

Directors' Responsibilities for the Accounts

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 31 December 2006 the Directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Victor Fung Kwok King
Chairman

Hong Kong, 21 March 2007

Auditors' Report

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LI & FUNG LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated accounts of Li & Fung Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 59 to 123, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Accounts

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Acts 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2007

Statement of Accounts

Consolidated Profit and Loss Account

For the year ended 31 December 2006

	Note	**2006** **HK$'000**	2005 HK$'000
Turnover	*3*	**68,010,257**	55,617,374
Cost of sales		**(60,674,807)**	(49,956,433)
Gross profit		**7,335,450**	5,660,941
Other revenues	*3*	**311,553**	264,384
Total margin		**7,647,003**	5,925,325
Selling expenses		**(1,234,610)**	(973,874)
Merchandising expenses		**(3,564,277)**	(2,666,214)
Administrative expenses		**(503,890)**	(424,569)
Core operating profit	*3*	**2,344,226**	1,860,668
Gain on disposal of properties and property holding subsidiaries	*4*	**71,794**	27,832
Net investment loss	*4*	**(3,700)**	(3,900)
Operating profit	*4*	**2,412,320**	1,884,600
Interest income	*3*	**98,491**	69,539
Interest expenses	*5*	**(148,070)**	(21,376)
Share of profits less losses of associated companies		**10,603**	9,062
Profit before taxation		**2,373,344**	1,941,825
Taxation	*6*	**(171,682)**	(151,248)
Profit for the year		**2,201,662**	1,790,577
Attributable to:			
Shareholders of the Company	*7 & 27*	**2,201,819**	1,790,279
Minority interest		**(157)**	298
		2,201,662	1,790,577
Earnings per share for profit attributable to the shareholders of the Company during the year	*8*		
– basic		**67.1 HK cents**	55.6 HK cents
– diluted		**66.5 HK cents**	55.2 HK cents
Dividends	*9*	**1,850,006**	1,468,432

The notes on pages 65 to 117 are an integral part of these consolidated accounts.

Consolidated Balance Sheet

As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Intangible assets	*12*	**4,713,163**	2,809,380
Fixed assets	*13*	**1,114,368**	947,608
Prepaid premium for land leases	*14*	**681,179**	765,771
Associated companies	*16*	**13,930**	7,102
Available-for-sale financial assets	*17*	**81,605**	91,721
Deferred tax assets	*30*	**105,982**	118,419
		6,710,227	4,740,001
Current assets			
Inventories	*18*	**1,331,258**	628,121
Due from related companies	*19*	**61,977**	24,982
Derivative financial instruments	*20*	**–**	3,769
Trade and bills receivable	*21*	**9,231,482**	7,738,518
Other receivables, prepayments and deposits	*21*	**1,316,053**	884,704
Cash and bank balances	*22*	**3,394,085**	1,247,920
		15,334,855	10,528,014
Current liabilities			
Due to related companies	*23*	**–**	98
Derivative financial instruments	*20*	**4,413**	–
Trade and bills payable	*24*	**7,544,176**	6,058,717
Accrued charges and sundry payables	*24*	**1,315,691**	1,006,181
Balance of purchase consideration payable for acquisitions	*28*	**760,221**	647,492
Taxation		**320,632**	391,415
Bank advances for discounted bills	*21*	**123,282**	1,554,367
Short term bank loans	*25*	**2,776,968**	–
Bank overdrafts	*22, 35*	**91,744**	204,007
		12,937,127	9,862,277
Net current assets		**2,397,728**	665,737
Total assets less current liabilities		**9,107,955**	5,405,738

	Note	2006 HK$'000	2005 HK$'000
Financed by:			
Share capital	*26*	**85,239**	73,414
Reserves	*27*	**6,883,215**	3,540,450
Proposed dividend	*27*	**1,330,754**	1,042,995
		8,213,969	4,583,445
Shareholders' funds		**8,299,208**	4,656,859
Minority interest	*27*	**(32,363)**	(32,058)
Total equity		**8,266,845**	4,624,801
Non-current liabilities			
Long-term liabilities	*28*	**797,487**	753,192
Post-employment benefit obligations	*29*	**25,464**	19,821
Deferred taxation	*30*	**18,159**	7,924
		9,107,955	5,405,738

Victor Fung Kwok King
Director

William Fung Kwok Lun
Director

The notes on pages 65 to 117 are an integral part of these consolidated accounts.

Balance Sheet

As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Interests in subsidiaries	*15*	**2,294,624**	2,235,769
Current assets			
Due from related companies	*19*	**17,167,419**	11,638,789
Other receivables, prepayments and deposits	*21*	**1,078**	851
Cash and bank balances	*22*	**704**	433
		17,169,201	11,640,073
Current liabilities			
Due to related companies	*23*	**8,872,841**	6,858,347
Accrued charges and sundry payables	*24*	**3,959**	3,061
		8,876,800	6,861,408
Net current assets		**8,292,401**	4,778,665
Total assets less current liabilities		**10,587,025**	7,014,434
Financed by:			
Share capital	*26*	**85,239**	73,414
Reserves	*27*	**9,171,032**	5,898,025
Proposed dividend	*27*	**1,330,754**	1,042,995
		10,501,786	6,941,020
Shareholders' funds		**10,587,025**	7,014,434

Victor Fung Kwok King
Director

William Fung Kwok Lun
Director

The notes on pages 65 to 117 are an integral part of these consolidated accounts.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Total equity at 1 January		**4,624,801**	4,681,667
Currency translation differences	*27*	**73,042**	(45,695)
Net fair value (losses)/gains of available-for-sale financial assets	*27*	**(7,496)**	6,369
Net fair value (losses)/gains on cash flow hedges	*27*	**(6,530)**	3,506
Net income/(expenses) recognized directly in equity		**59,016**	(35,820)
Profit for the year	*27*	**2,201,662**	1,790,577
Total recognized income for the year		**2,260,678**	1,754,757
Dividends paid	*27*	**(1,563,542)**	(2,033,967)
Issue of shares upon a private placing	*26, 27*	**2,723,435**	–
Employee share option scheme:			
– value of employee services	*27*	**58,465**	47,378
– shares issued	*26*	**471**	486
– share premium on issue of new shares	*27*	**162,537**	174,480
Total equity as at 31 December		**8,266,845**	4,624,801

The notes on pages 65 to 117 are an integral part of these consolidated accounts.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Operating activities			
Net cash inflow generated from operations	*31(a)*	**695,013**	2,228,054
Hong Kong profits tax paid		**(149,142)**	(60,395)
Overseas taxation paid		**(73,042)**	(54,147)
Net cash inflow from operating activities		**472,829**	2,113,512
Investing activities			
Purchase of fixed assets		**(302,333)**	(368,586)
Disposal of fixed assets		**22,208**	9,182
Disposal of properties		**11,100**	118,800
Disposal of property holding subsidiaries	*31(c)*	**66,185**	–
Repayment from related companies	*31(c)*	**96,878**	–
Addition of prepaid premium for land leases		**–**	(82,549)
Payment for development costs		**(20,941)**	(1,047)
Acquisitions of subsidiaries/businesses	*32*	**(1,263,881)**	(708,100)
Settlement of consideration payable for acquisitions of subsidiaries/businesses		**(685,497)**	(132,652)
(Advance to)/repayment from associated companies		**(37,093)**	2,209
Interest received		**98,491**	69,539
Dividends received from associated companies		**1,185**	13,706
Net cash outflow from investing activities		**(2,013,698)**	(1,079,498)
Net cash (outflow)/inflow before financing		**(1,540,869)**	1,034,014
Financing activities			
Net proceeds from issue of shares	*31(b)*	**2,886,443**	174,966
Drawndown/(repayment) of bank loans	*31(b)*	**2,593,668**	(44,253)
Repayment of other loans		**–**	(190,694)
Loans from minority shareholders		**–**	85
Interest paid		**(148,070)**	(14,091)
Dividends paid		**(1,563,542)**	(2,033,967)
Net cash inflow/(outflow) from financing		**3,768,499**	(2,107,954)
Increase/(decrease) in cash and cash equivalents		**2,227,630**	(1,073,940)
Cash and cash equivalents at 1 January		**1,043,913**	2,147,207
Effect of foreign exchange rate changes		**30,798**	(29,354)
Cash and cash equivalents at 31 December		**3,302,341**	1,043,913
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	*22*	**3,394,085**	1,247,920
Bank overdrafts	*22*	**(91,744)**	(204,007)
		3,302,341	1,043,913

The notes on pages 65 to 117 are an integral part of these consolidated accounts.

Notes to the Accounts

As at 31 December 2006

1 Principal accounting policies

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The consolidated accounts of Li & Fung Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated accounts have been prepared under the historical cost convention, as modified by the available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of accounts in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in *Note 2*.

(a) *Amendments to published standards effective in 2006*

Hong Kong Accounting Standard ("HKAS") 19 (Amendment), Employee Benefits, 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. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

(b) *Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures, have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods that the Group has not early adopted. HKFRS 7 will introduce new disclosures relating to financial instruments. This standard will not have any impact on the classification and valuation of the Group's financial instruments.

HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006) has not been early adopted by the Group. HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated accounts.

1.2 Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

1 Principal accounting policies (continued)

1.2 Consolidation (continued)

(a) Subsidiaries (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill *(Note 1.6)*. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated profit and loss account.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses *(Note 1.7)*. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition *(Note 1.6)*.

The Group's share of its associated companies' post-acquisition profits or losses is recognized in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealized gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognized in the consolidated profit and loss account.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses *(Note 1.7)*. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

1 Principal accounting policies (continued)

1.3 Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that geographical segments be presented as the primary reporting format and business as the secondary reporting format.

Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets *(Note 13)* and prepaid premium for land leases *(Note 14)*.

In respect of geographical segment reporting, sales, total assets and capital expenditure are based on the destination country to which goods are shipped.

1.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts are presented in HK dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

1 Principal accounting policies (continued)

1.4 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

1.5 Fixed assets

(a) Land and buildings

Freehold land is stated at cost.

Buildings are stated at cost less accumulated depreciation and accumulated impairment losses.

(b) Other fixed assets

Other fixed assets, comprising leasehold improvements, furniture, fixtures and other equipment, plant and machinery, motor vehicles and company boat are stated at cost less accumulated depreciation and accumulated impairment losses.

(c) Depreciation and impairment

Freehold land is not amortized. Other fixed assets are depreciated at rates sufficient to allocate their cost less accumulated impairment losses to their residual value over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings and leasehold improvements	2% – 20%
Furniture, fixtures and equipment	10% – $33^1/_3$%
Plant and machinery	10% – 15%
Motor vehicles and company boat	15% – 20%

1 Principal accounting policies (continued)

1.5 Fixed assets (continued)

(c) Depreciation and impairment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount *(Note 1.7)*. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated profit and loss account during the financial period in which they are incurred.

(d) Gain or loss on sale

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in the consolidated profit and loss account. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

1.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated company at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies is included in interests in associated companies and is tested annually for impairment as part of the overall balance. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Computer software

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful lives of 3 – 10 years.

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized over their estimated useful lives of 3 – 10 years.

1.7 Impairment of investments in subsidiaries, associated companies and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

1 Principal accounting policies (continued)

1.8 Financial assets

The Group classifies its financial assets as loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet *(Note 1.10)*.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated profit and loss account as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the consolidated profit and loss account as part of other income. Dividends on available-for-sale equity instruments are recognized in the consolidated profit and loss account as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

1 Principal accounting policies (continued)

1.8 Financial assets (continued)

(b) Available-for-sale financial assets (continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the consolidated profit and loss account. Impairment losses recognized in the consolidated profit and loss account on equity instruments are not reversed through the consolidated profit and loss account. Impairment testing of trade receivables is described in *Note 1.10*.

1.9 Inventories

Inventories comprise merchandise, raw materials and finished goods and are stated at the lower of cost and net realizable value. Cost, calculated on the first-in, first-out basis, comprises purchase prices of inventories and direct expenses. Net realizable value is determined on the basis of anticipated sales proceeds in the ordinary course of business less applicable variable selling expenses.

1.10 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated profit and loss account within selling expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling expenses in the profit and loss account.

1.11 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

1.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

1 Principal accounting policies (continued)

1.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

1.14 Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, the deferred taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

1.15 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(b) Discretionary bonus

The expected cost of discretionary bonus payments are recognized as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for discretionary bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(c) Post employment benefit obligations

The Group participates in a number of defined contribution plans and defined benefit plans throughout the world, the assets of which are generally held in separate trustee – administrated funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking into account of the recommendations of independent qualified actuaries.

1 Principal accounting policies (continued)

1.15 Employee benefits (continued)

(c) *Post employment benefit obligations (continued)*

The Group's contributions to the defined contribution retirement scheme are charged to the consolidated profit and loss account in the year to which the contributions relate.

For defined benefit plans, pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans on an annual basis. The pension obligation is measured as the present value of the estimated future cash outflows, discounted by reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities. Actuarial gains and losses are recognized over the average remaining service lives of employees. Past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested.

The Group's contributions to defined benefit plans are charged to the consolidated profit and loss account in the year to which the contributions relate.

The Group's net obligation in respect of long service payments on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The obligation is calculated using the projected unit credit method by a qualified actuary. The discount rate is determined by reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities.

Pursuant to the requirements of HKAS 19, the Group has transitional pension and long service payment liabilities on initial adoption of the standard of approximately HK$16,048,000 and HK$6,000,000 respectively. The Group chose to recognize the transitional pension and long service payment liabilities on a straight-line basis over five years. For the year ended 31 December 2006, the transitional pension and long service payment liabilities of approximately HK$3,216,000 and HK$1,200,000 respectively were charged to the consolidated profit and loss account *(Note 29(a)(ii) and 29(b))*. As at 31 December 2006, long service payment liabilities of approximately HK$1,200,000 remained unrecognized.

(d) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as employee share option expenses in the consolidated profit and loss account. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the consolidated profit and loss account, with a corresponding adjustment to employee share-based compensation reserve.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

1 Principal accounting policies (continued)

1.16 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

1.17 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

1.18 Core operating profit

Core operating profit is the recurring profit generated from the Group's trading business which includes profit before share of results of associated companies, interest income, finance costs and tax, and excludes material gain or loss which are of capital nature or non-recurring nature (such as gain or loss on disposal or impairment provision of fixed assets, investments, goodwill or other assets).

1.19 Total margin

Total margin includes trading gross profits, commission income and other recurring revenues relating to the trading business.

1.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

1 Principal accounting policies (continued)

1.20 Revenue recognition (continued)

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue on the sale of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has been passed.

Operating lease rental income is recognized on a straight-line basis.

Interest income is recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognized when the right to receive payment is established.

Commission and value added services income are recognized when the services are rendered.

1.21 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset.

All other borrowing costs are charged to the consolidated profit and loss account in the year in which they are incurred.

1.22 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated profit and loss account on a straight-line basis over the period of the lease.

1.23 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognized liability or a highly probable forecast transaction (cash flow hedge).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

1 Principal accounting policies (continued)

1.23 Derivative financial instruments and hedging activities (continued)

Movements on the hedging reserve in shareholders' equity are shown in *Note 27*. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedge item is more than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated profit and loss account within other gains/(losses) – net.

Amounts accumulated in equity are recycled in the consolidated profit and loss account in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognized in the consolidated profit and loss account within sales. The gain or loss relating to the ineffective portion is recognized in the consolidated profit and loss account within other gains/(losses) – net. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in case of inventory, or in depreciation in case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated profit and loss account within other gains/(losses) – net.

(b) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognized immediately in the consolidated profit and loss account within other gains/(losses) – net.

1.24 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Techniques, such as estimated discounted cash flows, are used to determine fair value for the financial instruments with no market quote. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

1 Principal accounting policies (continued)

1.25 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

1.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

2 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in *Note 1.6*. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The calculations require the use of estimates and judgment by the Directors *(Note 12)*.

(b) Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 when determining whether an investment in available-for-sale financial assets is other than temporarily impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the expected time span the Group will hold on to this investment. Based on the Group's estimation, an impairment provision of approximately HK$3,700,000 has been made on certain unlisted available-for-sale financial assets *(Note 17)* during the current year.

(c) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

3 Turnover, revenues and segment information

(a) The Group is principally engaged in export trading of consumer products. Turnover comprises sales at invoiced value to customers outside the Group less discounts and returns, and gross rental revenue derived from properties in and outside Hong Kong. Revenues recognized during the year are as follows:

	2006 HK$'000	2005 HK$'000
Turnover		
Sales at invoiced value	**68,006,580**	55,612,852
Rental income	**3,677**	4,522
	68,010,257	55,617,374
Other revenues		
Value added services income	**288,792**	252,483
Others	**22,761**	11,901
	311,553	264,384
Interest income	**98,491**	69,539
Total revenues	**68,420,301**	55,951,297

3 Turnover, revenues and segment information (continued)

(b) Primary reporting format – geographical segments

	United States of America 2006 HK$'000	Europe 2006 HK$'000	Canada 2006 HK$'000	Australasia 2006 HK$'000	Central and Latin America 2006 HK$'000	Rest of The World 2006 HK$'000	Group 2006 HK$'000
Turnover	**49,039,250**	**11,903,083**	**2,861,617**	**1,645,539**	**1,099,010**	**1,461,758**	**68,010,257**
Segment results	**1,639,304**	**434,621**	**108,957**	**66,866**	**39,649**	**54,829**	**2,344,226**
Gain on disposal of properties and property holding subsidiaries							**71,794**
Net investment loss							**(3,700)**
Interest income							**98,491**
Interest expenses							**(148,070)**
Share of profits less losses of associated companies							**10,603**
Profit before taxation							**2,373,344**
Taxation							**(171,682)**
Profit for the year							**2,201,662**
Segment assets	**10,514,411**	**2,673,303**	**654,356**	**313,915**	**243,065**	**233,212**	**14,632,262**
Unallocated assets							**7,412,820**
Total assets							**22,045,082**
Segment liabilities	**10,018,899**	**2,165,438**	**476,355**	**309,545**	**194,455**	**215,683**	**13,380,375**
Unallocated liabilities							**397,862**
Total liabilities							**13,778,237**
Capital expenditure	**226,080**	**52,378**	**8,678**	**5,779**	**3,602**	**5,816**	**302,333**
Depreciation	**133,583**	**40,170**	**6,222**	**4,268**	**2,731**	**3,686**	**190,660**
Amortization of prepaid premium for land leases	**13,237**	**3,213**	**772**	**444**	**296**	**396**	**18,358**

3 Turnover, revenues and segment information (continued)

(b) Primary reporting format – geographical segments (continued)

	United States of America 2005 HK$'000	Europe 2005 HK$'000	Canada 2005 HK$'000	Australasia 2005 HK$'000	Central and Latin America 2005 HK$'000	Rest of The World 2005 HK$'000	Group 2005 HK$'000
Turnover	38,450,852	10,307,087	2,602,404	1,882,466	997,446	1,377,119	55,617,374
Segment results	1,210,231	403,522	81,880	76,575	37,840	50,620	1,860,668
Gain on disposal of properties							27,832
Net investment loss							(3,900)
Interest income							69,539
Interest expenses							(21,376)
Share of profits less losses of associated companies							9,062
Profit before taxation							1,941,825
Taxation							(151,248)
Profit for the year							1,790,577
Segment assets	7,381,397	2,172,991	698,803	402,397	227,132	234,739	11,117,459
Unallocated assets							4,150,556
Total assets							15,268,015
Segment liabilities	6,991,447	1,737,924	491,936	385,418	196,046	217,091	10,019,862
Unallocated liabilities							623,352
Total liabilities							10,643,214
Capital expenditure	329,590	76,608	15,183	13,065	6,921	9,768	451,135
Depreciation	82,646	26,415	3,648	4,221	2,174	2,589	121,693
Amortization of prepaid premium for land leases	12,207	3,266	825	597	316	436	17,647

3 Turnover, revenues and segment information (continued)

(c) Secondary reporting format – business segments

	Turnover 2006 HK$'000	Segment results 2006 HK$'000	Total assets 2006 HK$'000	Capital expenditure 2006 HK$'000
Softgoods	**46,215,649**	**1,798,941**	**10,494,627**	**212,387**
Hardgoods	**21,794,608**	**545,285**	**4,137,635**	**89,946**
	68,010,257	**2,344,226**	**14,632,262**	**302,333**
Gain on disposal of properties and property holding subsidiaries		**71,794**		
Net investment loss		**(3,700)**		
Operating profit		**2,412,320**		
Unallocated assets			**7,412,820**	
Total assets			**22,045,082**	

	Turnover 2005 HK$'000	Segment results 2005 HK$'000	Total assets 2005 HK$'000	Capital expenditure 2005 HK$'000
Softgoods	38,080,180	1,480,582	7,858,285	285,595
Hardgoods	17,537,194	380,086	3,259,174	165,540
	55,617,374	1,860,668	11,117,459	451,135
Gain on disposal of properties		27,832		
Net investment loss		(3,900)		
Operating profit		1,884,600		
Unallocated assets			4,150,556	
Total assets			15,268,015	

4 Operating profit

Operating profit is stated after crediting and charging the following:

	2006 HK$'000	2005 HK$'000
Crediting		
Gain on disposal of properties	**3,268**	27,832
Gain on disposal of property holding subsidiaries	**68,526**	–
Gain on disposal of fixed assets	**–**	1,002
Net exchange gains	**51,585**	12,835
Charging		
Cost of inventories sold	**60,674,807**	49,956,433
Amortization of prepaid premium for land leases	**18,358**	17,647
Amortization of system development costs	**7,797**	7,675
Depreciation of fixed assets	**190,660**	121,693
Loss on disposal of fixed assets	**5,931**	–
Net investment loss	**3,700**	3,900
Operating leases rental in respect of land and buildings	**202,616**	132,022
Bad debt written off/provision for impairment of receivables	**26,756**	27,771
Staff costs including directors' emoluments *(Note 10)*	**2,964,487**	2,258,456

The remuneration to the auditors for audit and non-audit services is as follows:

Audit services	**10,986**	9,889
Non-audit services		
– financial due diligence review on acquisitions	**10,700**	5,140
– taxation services	**5,367**	3,794
– others	**3,023**	1,045
Total remuneration to auditors	**30,076**	19,868
Less: non-audit service fee capitalized	**(10,700)**	(5,140)
Net remuneration to auditors charged to consolidated profit and loss account	**19,376**	14,728

Note: Of the above audit and non-audit services fee HK$9,969,000 (2005: HK$8,464,000) and HK$19,014,000 (2005: HK$9,403,000) respectively are payable to the Company's auditors.

5 Interest expenses

	2006 HK$'000	2005 HK$'000
Interest on financial liabilities carried at amortized costs	**41,935**	7,285
Interest on bank loans and overdrafts	**106,135**	14,091
	148,070	21,376

6 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 year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year 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:

	2006 HK$'000	2005 HK$'000
Current taxation		
– Hong Kong profits tax	**134,157**	154,545
– Overseas taxation	**36,678**	41,407
Overprovision in prior years	**(22,772)**	(534)
Deferred taxation	**23,619**	(44,170)
	171,682	151,248

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2006 %	2005 %
Calculated at a taxation rate of	**17.5**	17.5
Effect of different taxation rates in other countries	**(0.3)**	0.7
Income net of expenses not subject to taxation	**(9.8)**	(10.9)
Utilization of previously unrecognized tax losses	**(0.5)**	(0.5)
Unrecognized tax losses	**0.3**	1.0
Effective tax rate	**7.2**	7.8

6 Taxation (continued)

At the date of approval of the accounts, certain subsidiaries of the Group have disputes with the Hong Kong Inland Revenue involving additional assessments of tax of approximately HK$1,015 million on the non-taxable claim of certain non-Hong Kong sourced income and the deduction claim of marketing expenses for the years of assessment from 1992/1993 to 2005/2006.

The Commissioner of the Hong Kong Inland Revenue issued a determination dated 14 June 2004 with disagreement to the Group's objection against the additional tax assessments of HK$333 million. Under further legal advice from the Group's counsel, the directors believe that the Group has meritorious defence to the additional tax assessments and the Group proceeded to appeal to Board of Review against the Commissioner's determination and 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 but, as at the date of these accounts, the result is not yet known.

The Group has also filed objections to the Hong Kong Inland Revenue against the remaining additional tax assessments of HK$682 million issued to the subsidiaries.

The directors consider that no material tax liabilities will finally crystallize and sufficient tax provision has been made in the accounts in this regard.

7 Profit attributable to shareholders of the Company

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK$2,191,225,000 (2005: HK$1,793,234,000).

8 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$2,201,819,000 (2005: HK$1,790,279,000) and on the weighted average number of 3,282,619,000 (2005: 3,220,286,000) shares in issue during the year after taking into account the effect of a Bonus Issue *(Note 26)* in May 2006.

Diluted earnings per share is calculated by adjusting the weighted average number of 3,282,619,000 (2005: 3,220,286,000) ordinary shares in issue by 29,606,000 (2005: 22,524,000) to assume conversion or 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.

9 Dividends

	2006 HK$'000	2005 HK$'000
Interim, paid, of HK$0.160 (2005: HK$0.132) per ordinary share *(Note)*	**519,252**	425,437
Final, proposed, of HK$0.390 (2005: HK$0.323) per ordinary share *(Note)*	**1,330,754**	1,042,995
	1,850,006	1,468,432

At a meeting held on 21 March 2007, the Directors proposed a final dividend of HK$0.390 per share. The proposed dividends are not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007 *(Note 27)*.

Note: Interim and final dividend per share of 2005 have been adjusted for the effect of a 1-for-10 Bonus Issue in May 2006.

10 Staff costs including directors' emoluments

	2006 HK$'000	2005 HK$'000
Salaries and bonuses	**2,643,218**	1,993,935
Other staff-related expenses	**158,876**	128,376
Pension costs of defined contribution plans	**86,864**	70,885
Employee share option expenses	**58,465**	47,378
Pension costs of defined benefits plans *(Note 29)*	**15,092**	16,879
Long service payments	**1,972**	1,003
	2,964,487	2,258,456

Forfeited contributions totalling HK$2,354,000 (2005: HK$2,904,000) were utilized during the year and no remaining amount was available at the year-end to reduce future contributions.

11 Directors' and senior management's emoluments

(a) Directors' and senior management emoluments

The remuneration of every Director for the year ended 31 December 2006 is set out below:

	2006					
Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other benefits (Note) HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Executive directors						
William Fung Kwok Lun	**89**	**2,289**	**14,017**	**–**	**12**	**16,407**
Bruce Philip Rockowitz	**83**	**4,040**	**12,873**	**681**	**12**	**17,689**
Henry Chan	**83**	**3,510**	**6,296**	**106**	**12**	**10,007**
Danny Lau Sai Wing	**83**	**3,510**	**7,736**	**–**	**12**	**11,341**
Annabella Leung Wai Ping	**83**	**3,510**	**4,743**	**108**	**12**	**8,456**
Non-executive directors						
Victor Fung Kwok King	**379**	**–**	**–**	**–**	**–**	**379**
Paul Edward Selway-Swift	**250**	**–**	**–**	**–**	**–**	**250**
Allan Wong Chi Yun	**220**	**–**	**–**	**–**	**–**	**220**
Franklin Warren McFarlan	**170**	**–**	**–**	**–**	**–**	**170**
Makoto Yasuda	**170**	**–**	**–**	**–**	**–**	**170**
Lau Butt Farn	**80**	**–**	**–**	**–**	**–**	**80**
Leslie Boyd (retired on 18 May 2006)	**58**	**–**	**–**	**–**	**–**	**58**
(Steven Murray Small – alternate to Mr Leslie Boyd) (ceased to act on 18 May 2006)	**–**	**–**	**–**	**–**	**–**	**–**

11 Directors' and senior management's emoluments (continued)

(a) Directors' and senior management emoluments (continued)

	2005					
Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other benefits (Note) HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Executive directors						
William Fung Kwok Lun	89	2,287	12,458	–	12	14,846
Bruce Philip Rockowitz	83	4,035	4,280	668	12	9,078
Henry Chan	83	3,507	5,978	120	12	9,700
Danny Lau Sai Wing	83	3,507	6,359	–	12	9,961
Annabella Leung Wai Ping	83	3,507	4,019	150	12	7,771
Non-executive directors						
Victor Fung Kwok King	379	–	–	–	–	379
Paul Edward Selway-Swift	250	–	–	–	–	250
Allan Wong Chi Yun	220	–	–	–	–	220
Franklin Warren McFarlan	170	–	–	–	–	170
Makoto Yasuda	170	–	–	–	–	170
Lau Butt Farn	80	–	–	–	–	80
Leslie Boyd	140	–	–	–	–	140
(Steven Murray Small – alternate to Mr Leslie Boyd)	–	–	–	–	–	–

Note: Other benefits include leave pay, insurance premium and club membership.

As at 31 December 2006, certain directors held options to acquire 440,000 (2005: 1,760,000), 1,760,000 (2005: 2,640,000), 2,640,000 (2005: 2,640,000), 2,640,000 (2005: 2,640,000) and 2,640,000 (2005: 2,640,000) Shares of the Company at an exercise price of HK$8.36 (with exercisable period from 23 May 2005 to 22 May 2008), HK$8.36 (with exercisable period from 23 May 2006 to 22 May 2009), HK$13.45 (with exercisable period from 20 June 2007 to 19 June 2010), HK$13.45 (with exercisable period from 20 June 2008 to 19 June 2011) and HK$13.45 (with exercisable period from 20 June 2009 to 19 June 2012) per share respectively, as adjusted for the effect of Bonus Issue. The closing market price of the Shares as at 29 December 2006 was HK$24.2.

During the year, a total of 440,000 (2005: 1,320,000), 1,320,000 (2005: 880,000) and 880,000 (2005: Nil) Shares were issued to certain directors of the Company at an exercise price of HK$8.36 (with exercisable period from 23 May 2004 to 22 May 2007), HK$8.36 (with exercisable period from 23 May 2005 to 22 May 2008) and HK$8.36 (with exercisable period from 23 May 2006 to 22 May 2009) respectively, as adjusted for the effect of Bonus Issue, under the Option Scheme. The weighted average closing market price per Share immediately before the dates on which the share options were exercised was HK$17.32.

11 Directors' and senior management's emoluments (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2005: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual (2005: one) during the year are as follows:

	2006 HK$'000	2005 HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits-in-kind	**4,019**	3,639
Discretionary bonuses	**7,282**	4,281
Contributions to pension scheme	**12**	12
	11,313	7,932

	Number of individuals	
Emolument bands	**2006**	2005
HK$7,500,001 – HK$8,000,000	**–**	1
HK$11,000,001 – HK$11,500,000	**1**	–

12 Intangible assets

	Goodwill HK$'000	The Group System development costs HK$'000	Total HK$'000
At 1 January 2005			
Cost	1,283,219	46,844	1,330,063
Accumulated amortization	–	(25,730)	(25,730)
Net book amount	1,283,219	21,114	1,304,333
Year ended 31 December 2005			
Opening net book amount	1,283,219	21,114	1,304,333
Exchange differences	(14,959)	–	(14,959)
Acquisition of subsidiaries/businesses	1,526,634	–	1,526,634
Additions	–	1,047	1,047
Amortization	–	(7,675)	(7,675)
Closing net book amount	2,794,894	14,486	2,809,380
At 31 December 2005			
Cost	2,794,894	47,891	2,842,785
Accumulated amortization	–	(33,405)	(33,405)
Net book amount	2,794,894	14,486	2,809,380
Year ended 31 December 2006			
Opening net book amount	2,794,894	14,486	2,809,380
Exchange differences	33,049	–	33,049
Acquisition of subsidiaries/businesses *(Note 32)*	1,824,680	–	1,824,680
Adjustments to purchase consideration and net assets value	32,910	–	32,910
Additions	–	20,941	20,941
Amortization	–	(7,797)	(7,797)
Closing net book amount	**4,685,533**	**27,630**	**4,713,163**
At 31 December 2006			
Cost	4,685,533	68,832	4,754,365
Accumulated amortization	–	(41,202)	(41,202)
Net book amount	**4,685,533**	**27,630**	**4,713,163**

12 Intangible assets (continued)

Impairment test for goodwill

A segment-level summary of the goodwill allocation is presented below.

	The Group	
	2006	2005
	HK$'000	HK$'000
Softgoods	**3,051,448**	2,318,611
Hardgoods	**1,634,085**	476,283
	4,685,533	2,794,894

In accordance with HKAS 36 "Impairment of Assets" the Group completed its annual impairment test for goodwill allocated to the Group's various cash generating units ("CGUs") by comparing their recoverable amount to their carrying amount as at the balance sheet date. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projection based on one-year financial budgets approved by management and extrapolated perpetually with an estimated general annual growth of not more than 5%. The discount rates used of approximately 10% are pre-tax and reflect specific risk related to the relevant segments. The budgeted gross margin and net profit margin were determined by the management for each individual CGU based on past performance and its expectations for market development. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

13 Fixed assets

	The Group					
	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles and company boat HK$'000	Total HK$'000
At 1 January 2005						
Cost	477,020	297,211	460,121	25,523	32,916	1,292,791
Accumulated depreciation	(94,793)	(135,032)	(309,941)	(14,103)	(23,920)	(577,789)
Net book amount	382,227	162,179	150,180	11,420	8,996	715,002
Year ended 31 December 2005						
Opening net book amount	382,227	162,179	150,180	11,420	8,996	715,002
Exchange differences	(3,561)	(63)	(5,131)	(1,049)	(823)	(10,627)
Acquisition of subsidiaries/ businesses	–	9,915	18,134	3,062	33	31,144
Additions	10,124	230,838	121,133	2,526	3,965	368,586
Disposals	(26,624)	(2,689)	(4,996)	(3)	(492)	(34,804)
Depreciation	(15,124)	(41,241)	(60,225)	(4,486)	(617)	(121,693)
Closing net book amount	347,042	358,939	219,095	11,470	11,062	947,608
At 31 December 2005						
Cost	452,679	534,958	588,227	28,977	30,810	1,635,651
Accumulated depreciation	(105,637)	(176,019)	(369,132)	(17,507)	(19,748)	(688,043)
Net book amount	347,042	358,939	219,095	11,470	11,062	947,608
Year ended 31 December 2006						
Opening net book amount	347,042	358,939	219,095	11,470	11,062	947,608
Exchange differences	4,245	4,253	6,220	1,140	364	16,222
Disposal of subsidiaries *(Note 31(c))*	(34,843)	–	(1)	(1,443)	–	(36,287)
Acquisition of subsidiaries/ businesses *(Note 32)*	74,580	368	25,667	1,011	1,665	103,291
Additions	33,314	154,104	104,902	5,184	4,829	302,333
Disposals	–	(18,987)	(8,545)	(397)	(210)	(28,139)
Depreciation	(19,807)	(71,843)	(90,143)	(4,646)	(4,221)	(190,660)
Closing net book amount	**404,531**	**426,834**	**257,195**	**12,319**	**13,489**	**1,114,368**
At 31 December 2006						
Cost	544,164	575,768	625,828	28,667	41,973	1,816,400
Accumulated depreciation	(139,633)	(148,934)	(368,633)	(16,348)	(28,484)	(702,032)
Net book amount	**404,531**	**426,834**	**257,195**	**12,319**	**13,489**	**1,114,368**

At 31 December 2006, no fixed assets were pledged as security for the Group's bank loans (2005: net book value of HK$8,642,000).

14 Prepaid premium for land leases

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analyzed as follows:

	The Group	
	2006 HK$'000	2005 HK$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	**678,634**	763,388
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**2,545**	2,383
	681,179	765,771

	The Group	
	2006 HK$'000	2005 HK$'000
Opening	**765,771**	765,172
Additions	**–**	82,549
Acquisition of subsidiaries/businesses *(Note 32)*	**216**	–
Disposal of subsidiaries *(Note 31(c))*	**(58,679)**	–
Disposals	**(7,832)**	(64,344)
Amortization of prepaid operating lease payment	**(18,358)**	(17,647)
Exchange differences	**61**	41
	681,179	765,771

15 Interests in subsidiaries

	The Company	
	2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	**342,131**	283,276
Loan to a subsidiary	**1,952,493**	1,952,493
	2,294,624	2,235,769

The loan to a subsidiary is interest free and unsecured. The Company does not have an intention to seek repayment from the subsidiary.

Details of principal subsidiaries are set out on pages 118 to 123.

16 Associated companies

	The Group 2006 HK$'000	2005 HK$'000
Beginning of the year	**3,193**	22,763
Share of associated companies'		
Profit before taxation	**11,635**	11,587
Taxation	**(1,032)**	(2,525)
Dividend received	**(1,185)**	(13,706)
Exchange differences	**32**	(1,164)
Transfer to subsidiary due to increase in shareholding interest *(Note 32)*	**(2,622)**	(13,762)
End of the year	**10,021**	3,193
Loans to associated companies	**3,909**	3,909
Total interest in associated companies	**13,930**	7,102

The carrying value of the loans to associated companies approximate their fair value and are interest free and unsecured.

Details of principal associated companies are set out on page 123.

17 Available-for-sale financial assets

	The Group 2006 HK$'000	2005 HK$'000
Beginning of the year	**91,721**	89,252
Acquisition of subsidiaries/businesses *(Note 32)*	**1,080**	–
Revaluation (deficit)/surplus transfer to equity *(Note 27)*	**(7,496)**	6,369
Impairment provision	**(3,700)**	(3,900)
End of the year	**81,605**	91,721

There were no disposals of available-for-sale financial assets in 2006.

17 Available-for-sale financial assets (continued)

Available-for-sale financial assets include the following:

	The Group	
	2006 HK$'000	2005 HK$'000
Listed securities:		
– Equity securities – overseas	**34,145**	28,886
Unlisted securities:		
– Equity securities	**39,430**	56,235
– Club debentures	**8,030**	6,600
	81,605	91,721
Market value of listed securities	**34,145**	28,886

Available-for-sale financial assets are denominated in the following currencies:

	The Group	
	2006 HK$'000	2005 HK$'000
Hong Kong dollar	**8,137**	7,057
US dollar	**39,532**	39,715
Japanese Yen	**14,586**	28,494
Euro dollar	**17,173**	10,578
Pound Sterling	**2,177**	5,877
	81,605	91,721

18 Inventories

	The Group	
	2006 HK$'000	2005 HK$'000
Finished goods	**1,303,431**	599,413
Raw materials	**27,827**	28,708
	1,331,258	628,121

At 31 December 2006, no inventories were pledged as securities for bank facilities (2005: HK$50,074,000).

19 Due from related companies

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due from:				
Subsidiaries	**–**	–	**17,167,419**	11,638,789
Associated companies	**61,977**	24,982	**–**	–
	61,977	24,982	**17,167,419**	11,638,789

The amounts are unsecured, interest free and repayable on demand, except for amounts due from associated companies amounting to HK$556,000 (2005: HK$2,598,000) which are secured and interest bearing. Fair value of amounts due from related companies is approximately the same as the carrying value.

20 Derivative financial instruments

	The Group	
	2006	2005
	HK$'000	HK$'000
Forward foreign exchange contracts – (liabilities)/assets	**(4,413)**	3,769

Gains and losses in equity on forward foreign exchange contracts as of 31 December 2006 will be released to the consolidated profit and loss account at various dates between one month to one year from the balance sheet date.

21 Trade and other receivables

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills receivable – net	**9,231,482**	7,738,518	**–**	–
Other receivables, prepayments and deposits	**1,316,053**	884,704	**1,078**	851
	10,547,535	8,623,222	**1,078**	851

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

21 Trade and other receivables (continued)

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

	The Group	
	2006	2005
	HK$'000	HK$'000
Current to 90 days	**8,541,183**	7,300,091
91 to 180 days	**581,852**	371,674
181 to 360 days	**91,267**	54,639
Over 360 days	**17,180**	12,114
	9,231,482	7,738,518

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$123,282,000 to banks in exchange for cash as at 31 December 2006. The transaction has been accounted for as collateralized bank advances.

22 Cash and cash equivalents

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**3,394,085**	1,247,920	**704**	433
Bank overdrafts *(Note 25)*	**(91,744)**	(204,007)	**–**	–
	3,302,341	1,043,913	**704**	433

The effective interest rate at the balance sheet date on short-term bank deposits was 5.1% (2005: 3.9%); these deposits have an average maturity period of 7 days.

23 Due to related companies

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due to:				
A subsidiary	**–**	–	**8,872,841**	6,858,347
Associated companies	**–**	98	**–**	–
	–	98	**8,872,841**	6,858,347

The amounts are unsecured, interest free and repayable on demand. Fair value of the amounts are approximately the same as their carrying value.

24 Trade and other payables

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills payable	**7,544,176**	6,058,717	**–**	–
Accrued charges and sundry payables	**1,315,691**	1,006,181	**3,959**	3,061
	8,859,867	7,064,898	**3,959**	3,061

The fair value of the Group's and Company's trade and other payables are approximately the same as the carrying value.

At 31 December 2006, the ageing analysis of trade and bills payable is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Current to 90 days	**7,203,198**	5,849,410
91 to 180 days	**245,151**	121,289
181 to 360 days	**52,929**	43,007
Over 360 days	**42,898**	45,011
	7,544,176	6,058,717

25 Borrowings

	The Group	
	2006 **HK$'000**	2005 HK$'000
Short term bank loans – unsecured	**2,776,968**	–
Bank overdrafts *(Note 22)*		
– Secured	**–**	154,476
– Unsecured	**91,744**	49,531
Total borrowings	**2,868,712**	204,007

As at 31 December 2006, the Group's borrowing were fully repayable within one year and the carrying amounts of the Group's borrowings approximate their fair value.

The effective interest rates at balance sheet date were as follows:

		2006			2005	
	US$	**Euro**	**GBP**	US$	Euro	GBP
Short term bank loans	**5.6%**	**–**	**5.8%**	–	–	–
Bank overdrafts	**–**	**4.8%**	**–**	–	5.5%	7.2%

The carrying amounts of the borrowings are denominated in the following currencies:

	The Group	
	2006 **HK$'000**	2005 HK$'000
US dollar	**2,517,900**	–
Euro dollar	**89,438**	16,934
Pound Sterling	**259,220**	187,073
HK dollar	**2,154**	–
	2,868,712	204,007

26 Share capital and options

	2006 Number of shares (in thousand)	2006 HK$'000	2005 Number of shares (in thousand)	2005 HK$'000
Authorized				
At 1 January ordinary shares of HK$0.025 each	**3,200,000**	**80,000**	3,200,000	80,000
At 31 December ordinary shares of HK$0.025 each *(Note (a))*	**4,000,000**	**100,000**	3,200,000	80,000
Issued and fully paid				
At 1 January, ordinary HK$0.025 each	**2,936,570**	**73,414**	2,917,107	72,928
Exercise of share options before Bonus Issue *(Note (b))*	**5,093**	**127**	19,463	486
Bonus Issue *(Note (c))*	**294,166**	**7,354**	–	–
Issue of shares upon a private placing *(Note (d))*	**160,000**	**4,000**	–	–
Exercise of share options after Bonus Issue *(Note (e))*	**13,747**	**344**	–	–
At 31 December, ordinary of HK$0.025 each	3,409,576	85,239	2,936,570	73,414

Notes:

(a) Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 18 May 2006 ("2006 AGM"), the Company's authorized share capital was increased from HK$80,000,000 to HK$100,000,000 by the creation of an additional 800,000,000 new shares of HK$0.025 each in the capital of the Company.

(b) During the period from 1 January 2006 to 17 May 2006, 1,418,000 Shares, 3,569,000 Shares and 106,000 Shares were issued at a price of HK$9.20, HK$9.20 and HK$9.90 per Share respectively to the share option holders who exercised their subscription rights.

(c) Pursuant to an ordinary resolution passed at 2006 AGM, 294,166,000 Shares were issued on 18 May 2006 as fully paid up by way of a one for ten bonus issue ("Bonus Issue") in respect of which an amount of HK$7,354,000 standing to the credit of the share premium account was applied.

(d) Pursuant to a placing agreement dated 13 September 2006, Li & Fung (1937) Limited, a substantial shareholder of the Company, placed 160,000,000 existing shares of HK$0.025 each in the share capital of the Company to not less than six independent professional, institutional and/or individual investors at a price of HK$17.30 per share and to subscribe from the Company for the same number of shares at the same price before taking into account the placing commission and other expenses borne or incurred by Li & Fung (1937) Limited in relation to the placing and/or the subscription. The net proceeds of the subscription amounted to approximately HK$2,723,435,000 was used by the Company primarily for future business developments and acquisitions.

26 Share capital and options (continued)

(e) During the period from 19 May 2006 to 31 December 2006, 982,800 Shares, 1,905,100 Shares, 9,062,800 Shares, 175,600 Shares and 1,621,000 Shares were issued at a price of HK$8.36, HK$8.36, HK$8.36, HK$9.00 and HK$9.00 per Share, as adjusted for the effect of the Bonus Issue, respectively to the share option holders who exercised their subscription rights.

(f) Details of share options granted by the Company pursuant to the Option Scheme and the share options outstanding at 31 December 2006, as adjusted for the effect of the Bonus Issue, are as follows:

			Number of Share Options								
Grant Date	Exercise Price HK$	Exercisable period	As at 1/1/2006	Granted	Exercised before Bonus Issue	Lapsed before Bonus Issue	Adjustment for Bonus Issue	Exercised after Bonus Issue	Lapsed after Bonus Issue	Cancelled after Bonus Issue	As at 31/12/2006
23/5/2003	8.36	23/5/2004 – 22/5/2007	3,208,000	–	(1,418,000)	–	179,000	(982,800)	–	–	986,200
23/5/2003	8.36	23/5/2005 – 22/5/2008	8,372,000	–	(3,569,000)	–	480,300	(1,905,100)	–	–	3,378,200
23/5/2003	8.36	23/5/2006 – 22/5/2009	15,031,000	–	–	–	1,503,100	(9,062,800)	–	–	7,471,300
20/8/2004	9.00	20/8/2005 – 19/8/2008	300,000	–	(106,000)	–	19,400	(175,600)	–	–	37,800
20/8/2004	9.00	20/8/2006 – 19/8/2009	2,230,000	–	–	–	223,000	(1,621,000)	–	–	832,000
20/6/2005	13.45	20/6/2007 – 19/6/2010	23,453,000	–	–	(230,000)	2,322,300	–	(442,200)	(188,600)	24,914,500
20/6/2005	13.45	20/6/2008 – 19/6/2011	23,440,000	–	–	(610,000)	2,283,000	–	(1,133,000)	–	23,980,000
20/6/2005	13.45	20/6/2009 – 19/6/2012	23,550,000	–	–	(610,000)	2,294,000	–	(1,804,000)	–	23,430,000
23/1/2006	13.72	20/6/2007 – 19/6/2010	–	730,000	–	(24,000)	70,600	–	(74,800)	(8,800)	693,000
23/1/2006	13.72	20/6/2008 – 19/6/2011	–	1,470,000	–	(50,000)	142,000	–	(165,000)	–	1,397,000
23/1/2006	13.72	20/6/2009 – 19/6/2012	–	1,470,000	–	(50,000)	142,000	–	(165,000)	–	1,397,000
19/6/2006	15.65	20/6/2007 – 19/6/2010	–	212,000	–	–	–	–	–	–	212,000
19/6/2006	15.65	20/6/2008 – 19/6/2011	–	2,270,000	–	–	–	–	(50,000)	–	2,220,000
19/6/2006	15.65	20/6/2009 – 19/6/2012	–	2,350,000	–	–	–	–	(50,000)	–	2,300,000

Subsequent to 31 December 2006, 2,612,600 shares have been allotted and issued under the Option Scheme.

26 Share capital and options (continued)

Details of share options granted by the Company pursuant to the Option Scheme subsequent to the balance sheet date are set out as follows:

Grant Date	Exercise Price HK$	Exercisable period	Number of Share Options granted
2/2/2007	25.50	20/6/2008 – 19/6/2011	2,127,000
2/2/2007	25.50	20/6/2009 – 19/6/2012	7,425,000

Employee share option expenses charged to the consolidated profit and loss accounts are determined with the Black-Scholes valuation model based on the following assumptions:

Grant Date	23/5/2003	20/8/2004	20/6/2005	23/1/2006	19/6/2006	2/2/2007
Option value	HK$2.41 – HK$2.65	HK$2.04 – HK$2.36	HK$2.23 – HK$2.68	HK$2.13 – HK$2.82	HK$2.85 – HK$3.78	HK$4.84 – HK$5.67
Share price at date of grant	HK$9.0	HK$9.9	HK$14.8	HK$14.75	HK$15.65	HK$25.50
Exercisable price	HK$8.36*	HK$9.00*	HK$13.45*	HK$13.72*	HK$15.65	HK$25.50
Standard deviation	44%	41%	24%	27%	31%	33%
Annual risk-free interest rate	1.39% – 3.31%	1.36% – 3.41%	2.79% – 3.54%	3.90% – 4.26%	4.09% – 4.79%	3.77% – 3.88%
Life of options	4 – 6 years	4 – 5 years	5 – 7 years	4 – 6 years	4 – 6 years	4 – 5 years
Dividend yield	3.89%	4.24%	3.45%	3.45%	3.04%	3.01%

* *Exercisable prices of the share options have been adjusted to take into account the effect of 1-for-10 Bonus Issue.*

27 Reserves

The Group	Share premium HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Revaluation reserve HK$'000	Hedging reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
	Attributable to shareholders of the Company									
Balance at 1 January 2005	3,145,038	7,334	77,811	–	(897)	(27,800)	1,439,642	4,641,128	(32,389)	4,608,739
2004 final and special dividend paid	–	–	–	–	–	–	(1,608,530)	(1,608,530)	–	(1,608,530)
Currency translation differences	–	–	–	–	–	(45,728)	–	(45,728)	33	(45,695)
Net fair value gains of available-for-sale financial assets	–	–	–	6,369	–	–	–	6,369	–	6,369
Net fair value gains on cash flow hedges	–	–	–	–	3,506	–	–	3,506	–	3,506
Profit for the year	–	–	–	–	–	–	1,790,279	1,790,279	298	1,790,577
Employee share option scheme:										
– value of employee services	–	–	47,378	–	–	–	–	47,378	–	47,378
– proceeds from shares issued	174,480	–	–	–	–	–	–	174,480	–	174,480
– transfer to share premium	18,067	–	(18,067)	–	–	–	–	–	–	–
2005 Interim dividend paid	–	–	–	–	–	–	(425,437)	(425,437)	–	(425,437)
Reserves	3,337,585	7,334	107,122	6,369	2,609	(73,528)	152,959	3,540,450	(32,058)	3,508,392
Proposed dividend	–	–	–	–	–	–	1,042,995	1,042,995	–	1,042,995
At 31 December 2005	3,337,585	7,334	107,122	6,369	2,609	(73,528)	1,195,954	4,583,445	(32,058)	4,551,387

27 Reserves (continued)

The Group	Share premium HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Revaluation reserve HK$'000	Hedging reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
	Attributable to shareholders of the Company									
Balance at 1 January 2006	3,337,585	7,334	107,122	6,369	2,609	(73,528)	1,195,954	4,583,445	(32,058)	4,551,387
2005 final dividend paid	–	–	–	–	–	–	(1,044,290)	(1,044,290)	–	(1,044,290)
Currency translation differences	–	–	–	–	–	73,190	–	73,190	(148)	73,042
Transfer to capital reserve	–	15,257	–	–	–	–	(15,257)	–	–	–
Transfer to share capital on Bonus Issue *(Note 26(c))*	(7,354)	–	–	–	–	–	–	(7,354)	–	(7,354)
Share premium on private placing *(Note 26(d))*	2,719,435	–	–	–	–	–	–	2,719,435	–	2,719,435
Net fair value losses of available-for-sale financial assets	–	–	–	(7,496)	–	–	–	(7,496)	–	(7,496)
Net fair value losses on cash flow hedges	–	–	–	–	(6,530)	–	–	(6,530)	–	(6,530)
Profit/(loss) for the year	–	–	–	–	–	–	2,201,819	2,201,819	(157)	2,201,662
Employee share option scheme:										
– value of employee services	–	–	58,465	–	–	–	–	58,465	–	58,465
– proceeds from shares issued	162,537	–	–	–	–	–	–	162,537	–	162,537
– transfer to share premium	35,559	–	(35,559)	–	–	–	–	–	–	–
2006 interim dividend paid	–	–	–	–	–	–	(519,252)	(519,252)	–	(519,252)
Reserves	6,247,762	22,591	130,028	(1,127)	(3,921)	(338)	488,220	6,883,215	(32,363)	6,850,852
Proposed dividend	–	–	–	–	–	–	1,330,754	1,330,754	–	1,330,754
At 31 December 2006	**6,247,762**	**22,591**	**130,028**	**(1,127)**	**(3,921)**	**(338)**	**1,818,974**	**8,213,969**	**(32,363)**	**8,181,606**

27 Reserves (continued)

The Company	Share premium HK$'000	Contributed surplus account HK$'000	Employee share-based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2006	3,337,585	2,060,673	107,122	1,435,640	6,941,020
Share premium on private placing *(Note 26(d))*	2,719,435	–	–	–	2,719,435
Transfer to share capital on Bonus Issue *(Note 26(c))*	(7,354)	–	–	–	(7,354)
Profit for the year	–	–	–	2,191,225	2,191,225
Employee share option scheme:					
– value of employee services	–	–	58,465	–	58,465
– proceeds from shares issued	162,537	–	–	–	162,537
– transfer to share premium	35,559	–	(35,559)	–	–
2005 final dividend paid	–	–	–	(1,044,290)	(1,044,290)
2006 interim dividend paid	–	–	–	(519,252)	(519,252)
Reserves	6,247,762	2,060,673	130,028	732,569	9,171,032
Proposed dividend	–	–	–	1,330,754	1,330,754
At 31 December 2006	**6,247,762**	**2,060,673**	**130,028**	**2,063,323**	**10,501,786**
Balance at 1 January 2005	3,145,038	2,060,673	77,811	1,676,373	6,959,895
Profit for the year	–	–	–	1,793,234	1,793,234
Employee share option scheme:					
– value of employee services	–	–	47,378	–	47,378
– proceeds from shares issued	174,480	–	–	–	174,480
– transfer to share premium	18,067	–	(18,067)	–	–
2004 final and special dividend paid	–	–	–	(1,608,530)	(1,608,530)
2005 interim dividend paid	–	–	–	(425,437)	(425,437)
Reserves	3,337,585	2,060,673	107,122	392,645	5,898,025
Proposed dividend	–	–	–	1,042,995	1,042,995
At 31 December 2005	3,337,585	2,060,673	107,122	1,435,640	6,941,020

27 Reserves (continued)

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

(b) The contributed surplus account of the Company represents:

(i) the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Li & Fung (B.V.I.) Limited and the value of net assets of the underlying subsidiaries acquired as at 2 June 1992 amounting to HK$111,010,000. At Group level, the amount is reclassified into its components of reserves of the underlying subsidiaries.

(ii) the difference between the issue price and the nominal value of the Company's shares issued in connection with the acquisition of Colby in 2000 amounting to HK$1,949,663,000. At Group level, the amount is set off against goodwill arising from the acquisition.

28 Long-term liabilities

	The Group	
	2006 HK$'000	2005 HK$'000
Long-term loans from minority shareholders	**38,867**	38,867
Balance of purchase consideration payable for acquisitions	**1,518,841**	1,361,817
	1,557,708	1,400,684
Current portion of balance of purchase consideration payable for acquisitions	**(760,221)**	(647,492)
	797,487	753,192

Balance of purchase consideration for acquisitions and long term loans from minority shareholders are unsecured and interest-free.

The maturity of the long-term liabilities is as follows:

	The Group	
	2006 HK$'000	2005 HK$'000
Within one year	**760,221**	647,492
Between 1 and 2 years	**556,294**	358,641
Between 2 and 5 years	**202,326**	335,000
Wholly repayable within 5 years	**1,518,841**	1,341,133
Over 5 years	**38,867**	59,551
	1,557,708	1,400,684

28 Long-term liabilities (continued)

The carrying amounts and fair value of the long-term liabilities are as follows:

	The Group 2006 HK$'000	2005 HK$'000
Loans from minority shareholders	**38,867**	38,867
Balance of purchase consideration payable for acquisitions	**758,620**	714,325
	797,487	753,192

The carrying amount of long-term liabilities are approximately the same as their fair values.

The carrying amount of long-term liabilities and purchase consideration payable for acquisitions are denominated in the following currencies:

	The Group 2006 HK$'000	2005 HK$'000
Hong Kong dollar	**58,404**	140,956
US dollar	**1,256,057**	1,056,224
Pound sterling	**59,954**	173,175
Euro dollar	**183,293**	30,329
	1,557,708	1,400,684

29 Post-employment benefit obligations

	The Group 2006 HK$'000	2005 HK$'000
Pension obligations *(Note (a))*	**22,890**	17,672
Long service payment liabilities *(Note (b))*	**2,574**	2,149
	25,464	19,821

29 Post-employment benefit obligations (continued)

Notes:

(a) The Group participates in a number of defined benefit plans in certain countries. Most of the pension plans are final salary defined benefit plans. The assets of the funded plans are held independently of the Group's assets in separate trustee-administered funds. The Group's defined benefit plans are valued by qualified actuaries annually using the projected unit credit method.

(i) The amount recognized in the consolidated balance sheet is determined as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Present value of funded obligations	**198,119**	172,319
Fair value of plan assets	**(161,238)**	(136,059)
	36,881	36,260
Unrecognized actuarial losses	**(13,991)**	(14,978)
Unrecognized liability on initial adoption of SSAP34	**–**	(3,216)
Exchange difference on unrecognized liability	**–**	(394)
Pension obligations	**22,890**	17,672

(ii) The amount recognized in the consolidated profit and loss account is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Current service cost	**10,527**	11,252
Interest cost	**8,547**	8,328
Expected return on plan assets	**(7,821)**	(6,898)
Net actuarial gain recognized during the year	**–**	444
Amortization of unrecognized liability on initial adoption of SSAP34	**3,216**	3,208
Exchange difference on amortization of unrecognized liability	**623**	545
Total, included in staff costs *(Note 10)*	**15,092**	16,879

29 Post-employment benefit obligations (continued)

(iii) The movement in the fair value of plan assets of the year is as follows:

	The Group	
	2006 HK$'000	2005 HK$'000
At 1 January	**136,059**	123,736
Expected return on plan assets	**7,821**	6,898
Actuarial (losses)/gains	**(1,340)**	5,094
Exchange differences	**12,015**	(9,497)
Employer contributions	**12,269**	12,349
Benefits paid	**(5,586)**	(2,521)
At 31 December	**161,238**	136,059

(iv) Movement in the pension obligations recognized in the consolidated balance sheet:

	The Group	
	2006 HK$'000	2005 HK$'000
At 1 January	**17,672**	15,073
Total expense – as shown above	**15,092**	16,879
Contributions paid	**(12,269)**	(12,349)
Exchange difference	**2,395**	(1,931)
At 31 December	**22,890**	17,672

(v) The principal actuarial assumptions used are as follows:

	2006 %	2005 %
Discount rate	**3.75 – 5.8**	3.75 – 12
Expected rate of return on plan assets	**2.75 – 11**	1.5 – 11
Expected rate of future salary increases	**3 – 10**	3 – 10
Expected rate of future pension increases	**2.9**	2.75

(vi) Experience adjustment gain/(loss):

	The Group 2006 HK$
Experience adjustments on plan liabilities	**858**
Experience adjustments on plan assets	**(1,340)**

(b) Actuarial valuation is performed on the Group's long service payment liability. At 31 December 2006, the Group has transitional liabilities of approximately HK$1,200,000 (2005: HK$2,400,000) to be recognized in the next year.

30 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

The movement on the deferred tax account is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
At 1 January	**(110,495)**	(65,740)
Charged/(credited) to profit and loss account	**23,619**	(44,170)
Acquisition of subsidiaries/businesses *(Note 32)*	**(367)**	(1,026)
Exchange differences	**(580)**	441
At 31 December	**(87,823)**	(110,495)

Deferred tax assets are recognized for tax losses as carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The Company has unrecognized tax losses of HK$43,391,000 (2005: HK$53,039,000) to carry forward against future taxable income; of which the amounts of tax losses HK$38,323,000 will expire during 2007 – 2025. Deferred tax assets for these tax losses are not recognized as it is not probable that related tax assets will be utilized in the foreseeable future.

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	The Group									
	Provisions		Decelerated tax depreciation allowances		Tax losses		Others		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Deferred tax assets	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
As at 1 January	**6,214**	8,934	**12,064**	3,943	**99,077**	57,881	**1,064**	2,281	**118,419**	73,039
(Charged)/credited to profit and loss account	**712**	(2,460)	**1,903**	7,425	**(16,708)**	41,304	**820**	(1,089)	**(13,273)**	45,180
Acquisition of subsidiaries/ businesses *(Note 32)*	**–**	–	**367**	1,026	**–**	–	**–**	–	**367**	1,026
Exchange differences	**84**	(260)	**(58)**	(330)	**392**	(108)	**51**	(128)	**469**	(826)
As at 31 December	**7,010**	6,214	**14,276**	12,064	**82,761**	99,077	**1,935**	1,064	**105,982**	118,419

30 Deferred taxation (continued)

Deferred tax liabilities	The Group — Accelerated tax depreciation allowances 2006 HK$'000	2005 HK$'000	Others 2006 HK$'000	2005 HK$'000	Total 2006 HK$'000	2005 HK$'000
As at 1 January	**7,924**	5,994	**–**	1,305	**7,924**	7,299
Charged/(credited) to profit and loss account	**10,262**	2,214	**84**	(1,204)	**10,346**	1,010
Exchange differences	**(69)**	(284)	**(42)**	(101)	**(111)**	(385)
As at 31 December	**18,117**	7,924	**42**	–	**18,159**	7,924

	The Group 2006 HK$'000	2005 HK$'000
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	**83,875**	55,253
Deferred tax assets to be recovered within 12 months	**22,107**	63,166
Deferred tax liabilities to be settled after more than 12 months	**14,536**	6,020
Deferred tax liabilities to be settled within 12 months	**3,623**	1,904

31 Notes to the consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash inflow generated from operations

	2006 HK$'000	2005 HK$'000
Profit before taxation	**2,373,344**	1,941,825
Interest income	**(98,491)**	(69,539)
Interest expenses	**148,070**	21,376
Share of profits less losses of associated companies	**(10,603)**	(9,062)
Depreciation	**190,660**	121,693
Amortization of prepaid premium for land leases	**18,358**	17,647
Amortization of development costs	**7,797**	7,675
Employee share option expenses	**58,465**	47,378
Gain on disposal of properties *(Note 4)*	**(3,268)**	(27,832)
Gain on disposal of property holding subsidiaries *(Note 4)*	**(68,526)**	–
Net investments loss	**3,700**	3,900
Loss/(gain) on disposal of fixed assets	**5,931**	(1,002)
Operating profit before working capital changes	**2,625,437**	2,054,059
(Increase)/decrease in inventories	**(419,696)**	9,871
Increase in trade and bills receivable and other receivables	**(1,565,054)**	(1,818,585)
Increase in trade and bills payable and other payables	**54,326**	1,982,709
Net cash inflow generated from operations	**695,013**	2,228,054

31 Notes to the consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	2006 Share capital including share premium HK$'000 *(Note 26 & 27)*	2006 Bank loans HK$'000	2005 Share capital including share premium HK$'000	2005 Bank loans HK$'000
At 1 January	**3,410,999**	**–**	3,217,966	40,652
Non cash movement				
Acquisition of subsidiaries/businesses *(Note 32)*	**–**	**183,300**	–	4,095
Transfer from employee share-based compensation reserve	**35,559**	**–**	18,067	–
Exchange differences	**–**	**–**	–	(494)
	3,446,558	**183,300**	3,236,033	44,253
Proceeds from issue of shares	**2,886,443**	**–**	174,966	–
Drawndown/(repayment) of bank loans	**–**	**2,593,668**	–	(44,253)
At 31 December	**6,333,001**	**2,776,968**	3,410,999	–

(c) Disposal of property holding subsidiaries

On 22 December 2006, the Group entered into certain sale and lease back agreements with LF Investment Properties Limited, which is an entity indirectly wholly owned by Dr William Fung Kwok Lun and a trust established for the family of Dr Victor Fung Kwok King, to dispose of certain property holding subsidiaries. These disposals, together with the properties lease back arrangement, constituted connected transactions according to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Further details of these transactions have been set out in an announcement of the Company dated 22 December 2006.

Details of net liabilities of the disposed subsidiaries at date of disposal are set out below:

	2006 HK$'000
Net liabilities disposed	
Fixed assets *(Note 13)*	**36,287**
Prepaid premium for land leases *(Note 14)*	**58,679**
Other receivables, prepayments and deposits	**939**
Cash and bank balances	**130**
Inter-company loans *(Note)*	**(96,878)**
Accrued charges and sundry payables	**(1,579)**
Tax recoverable	**211**
Book value of net liabilities disposed	**(2,211)**

31 Notes to the consolidated cash flow statement (continued)

(c) Disposal of property holding subsidiaries (continued)

Analysis of net inflow of cash and cash equivalents in respect of the disposals:

	2006 HK$'000
Consideration received	**67,973**
Expenses incurred in respect of the disposal	**(1,658)**
Cash and cash equivalents disposed	**(130)**
Net inflow of cash and cash equivalents in respect of disposal of the property holding subsidiaries	**66,185**

Note: The inter-company loans of HK$96,878,000 were fully repaid upon completion of the disposals.

32 Business combinations

During the year, the Group completed three major acquisitions. In June 2006, the Group acquired the Oxford Womenswear Group of Oxford Industries, Inc., a United States-based company listed in the New York Stock Exchange. Oxford Womenswear Group is a design intensive producer of budget and moderately priced, private-label women's apparel collections.

In July 2006, the Group acquired the business of Rosetti Handbags and Accessories, Ltd. ("Rosetti"), based in New York. Business of Rosetti 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. Rosetti designs its hand bag lines internally and outsources the production of finished goods to a network of manufacturers, particularly in Southern China.

In September 2006, the Group acquired the sourcing arm of German-listed KarstadtQuelle AG, the market leader of department store and mail order business in Germany. In addition to serving KarstadtQuelle AG, the sourcing arm business also sources for independent customers.

Other than these major acquisitions, the Group also completed another minor acquisition towards the end of 2006. In October 2006, the Group purchased certain assets of the home textiles business of Homestead Holdings, Inc. out of an auction proceeded in accordance with a Chapter 11 liquidation plan in the United States.

Individual acquisitions of Oxford Womenswear Group, Rosetti handbag businesses, sourcing arm of KarstadtQuelle and Homestead home textiles business, and their aggregate, have/would have no significant contribution to the revenue and profit of the Group from both their date of acquisition and for the year ended 31 December 2006, had their acquisitions occurred on 1 January 2006.

32 Business combinations (continued)

Details of net assets and goodwill are as follows:

	Rosetti HK$'000	**Others** HK$'000	**Total** HK$'000
Purchase consideration:			
Cash consideration	1,209,084	994,280	2,203,364
Expenses incurred in respect of acquisition of subsidiaries/ businesses	15,996	52,690	68,686
Transfer from interest in associated companies *(Note 16)*	–	2,622	2,622
Total purchase consideration	1,225,080	1,049,592	2,274,672
Fair value of net assets acquired	(91,443)	(358,549)	(449,992)
Goodwill on consolidation *(Note 12)*	1,133,637	691,043	1,824,680

The goodwill is attributable to the high profitability and synergies expected to arise from the acquired subsidiaries and businesses.

The assets and liabilities arising from the acquisitions are as follows:

	2006 **HK$'000**
Net assets acquired:	
Fixed assets *(Note 13)*	**103,291**
Prepaid premium for land leases *(Note 14)*	**216**
Available-for-sale financial assets *(Note 17)*	**1,080**
Deferred tax assets *(Note 30)*	**367**
Trade and bills receivable	**325,722**
Other receivables, prepayments and deposits	**32,824**
Inventories	**283,441**
Cash and bank balances	**177,874**
Short term bank loans *(Note 31)*	**(183,300)**
Trade and bills payable	**(79,399)**
Accrued charges and sundry payables	**(214,476)**
Tax recoverable	**2,352**
Fair value of net assets acquired	**449,992**

At the date of acquisition, the fair value of net assets acquired was close to the carrying amount. In addition, the acquisitions did not individually constitute material amounts to consolidated asset and liability balances.

32 Business combinations (continued)

Analysis of the net outflow of cash and cash equivalents in respect of the acquisitions:

	2006 HK$'000
Purchase consideration	**2,203,364**
Expenses incurred in respect of acquisition of subsidiaries/businesses	**68,686**
Purchase consideration payable	**(830,295)**
Cash and cash equivalents acquired	**(177,874)**
Net outflow of cash and cash equivalents in respect of acquisition of subsidiaries/businesses	**1,263,881**

33 Contingent liabilities

	The Group		The Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Guarantees in respect of banking facilities granted to:				
Subsidiaries	**–**	–	**18,607,564**	15,816,475
Associated companies	**5,850**	98,870	**–**	46,527
Other guarantees	**9,600**	9,600	**–**	–
	15,450	108,470	**18,607,564**	15,863,002

34 Commitments

(a) Operating lease commitments

At 31 December 2006, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group	
	2006 HK$'000	2005 HK$'000
Within one year	**155,397**	94,030
In the second to fifth year inclusive	**347,351**	202,425
After the fifth year	**389,451**	283,601
	892,199	580,056

(b) Capital commitments

	The Group	
	2006 HK$'000	2005 HK$'000
Contracted but not provided for:		
Property, plant and equipment	**3,050**	3,120

35 Charge of assets

At 31 December 2006, there were no charges on the assets and undertaking of the Company and the Group. At 31 December 2005, there were charges on the assets and undertakings of one overseas subsidiary with net book value amounting to HK$74,181,000 in favour of banks to cover banking facilities granted to the subsidiary.

36 Related party transactions

Other than those key management compensation, the disposal of property holding subsidiaries of the Group and the properties lease back arrangement as set out in *Note 11* and *Note 31(c)* to the accounts, the Group had no material related party transactions during the year.

37 Financial risk management

The Group's overall risk management policy focuses on minimizing all potential financial risks of the Group

(a) Foreign exchange risk

The Group operates globally with almost all of its sales and purchases traded in foreign currencies, mostly in US dollar. HK dollar is pegged to US dollar at a range between 7.75 to 7.85, the foreign exchange exposure between US dollar and HK dollar is therefore limited.

The Group is exposed to foreign exchange risk arising from various currency exposures mainly to the extent of its receivables and payables in currencies other than US dollar, such as Euro and Sterling Pound. To minimize such risks, sales and purchases are generally transacted in same currency.

Foreign exchange risk arising from sales and purchases transacted in different currencies are managed by the Group treasury with the use of foreign exchange forward contracts.

The Group's cash is mainly kept in either HK dollar or US dollar to minimize the foreign exchange risk.

(b) Credit risk

The Group has stringent policies in place to manage its credit risk.

The Group's business is mainly on sight letter of credit, usance letter of credit up to tenor of 120 days, documents against payment or customers' letter of credit to supplier. The remaining balances of the business are on open account terms payable against deliveries of shipments which are mostly covered by customers' standby letters of credit, bank guarantees or credit insurance.

(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.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets/liabilities, other than its HK dollar and US dollar bank deposits, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

38 Event after balance sheet date

On 10 February 2007, the Group entered into an Assets Purchase Agreement to acquire the global sourcing operations of designer Tommy Hilfiger. The acquisition was completed on 9 March 2007 and a total cash consideration of approximately HK$1,932,840,000 was paid. The acquisition constituted to 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. Further details of the transaction are set out in an announcement dated 2 March 2007.

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration	
– Cash consideration	**1,932,840**
– Provisional direct costs relating to the acquisition	**12,500**
Total purchase consideration	**1,945,340**
Less: Fair value of net assets acquired (see below)	**(468,780)**
Goodwill	**1,476,560**

The above goodwill is attributable to the acquired business's profitability.

The assets arising from the acquisition, provisionally determined, are as follows:

	At acquisition date	
	Fair value HK$'000	Acquiree's carrying amount HK$'000
Fixed assets	780	780
Intangible assets	468,000	–
Net assets acquired	468,780	780

39 Approval of accounts

The accounts were approved by the Board of Directors on 21 March 2007.

Principal Subsidiaries and Associated Companies

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Held directly				
	LF Centennial Limited	British Virgin Islands	Ordinary US$50,000	100	Investment holding
(1)	Li & Fung (B.V.I.) Limited	British Virgin Islands	Ordinary US$400,010	100	Marketing services and investment holding
(2)	Li & Fung Trading (Shanghai) Limited	The People's Republic of China	RMB50,000,000	100 foreign-owned enterprise	Export trading
	Held indirectly				
(2)	Alka Ic ve Dis Ticaret Limited Sirketi	Turkey	TRY14,844,650	100	Export trading
(2)	Alka Italiana S.r.l.	Italy	Euro 100,000	100	Export trading
	Albinina Limited	Hong Kong	Ordinary HK$20	100	Property investment
(2)	Appleton Holdings Ltd.	British Virgin Islands	Ordinary US$1	100	Investment holding
	Basic & More Fashion Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading
(2)	Black Cat Fireworks Limited	England	Ordinary GBP1,200,000	100	Wholesaling
	BMB Apparel (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Importer
(2)	BMB Apparel Limited	England	Ordinary GBP1	100	Importer
(2)	Briefly Stated Holdings, Inc.	U.S.A.	Common stock US$1,000	100	Investment holding
(2)	Briefly Stated Inc.	U.S.A.	Common stock US$3,000	100	Wholesaling
	Brilliant Textile Far East Limited	Hong Kong	Ordinary HK$1	100	Export trading
	BS Direct Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Camberley Enterprises Limited	Hong Kong	Ordinary HK$250,000	100	Apparel exporting
(2)	Camberley Tekstil ve Dis Ticaret Limited Sirketi	Turkey	TRY50,000	100	Export trading
(2)	Camberley Trading Service (Shenzhen) Limited	The People's Republic of China	RMB1,500,000	100 foreign-owned enterprise	Provision of inspection services
(2)	Centennial (Luxembourg) S.a.r.l.	Luxembourg	Euro 12,500	100	Investment holding
	Character Direct Limited	Hong Kong	Ordinary HK$2	100	Design and marketing
	Civati Limited	Hong Kong	Ordinary US$450,000	100	Export trading
	Clear Lake Group Limited	Hong Kong	Ordinary HK$2	100	Property investment
(2)	Colby Group Holdings Limited	British Virgin Islands	Ordinary US$45,000	100	Investment holding
(2)	Colby Property Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(2)	Comet Feuerwerk GmbH	Germany	Euro 1,000,000	100	Fireworks wholesaling
	Costume Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Craftworks Limited	Hong Kong	Ordinary HK$1	100	Export trading
	Dodwell (Mauritius) Limited	Hong Kong	Ordinary "A" HK$300,000 Ordinary "B" HK$200,000	60	Export trading
	Eaglefame Investments Limited	Hong Kong	Ordinary HK$1	100	Property Investment
(2)	Eclat Properties Inc.	British Virgin Islands	Ordinary US$100	100	Property investment

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
(2)	Empire Knight Group Limited	British Virgin Islands	Ordinary US$1	100	Property investment
	Eurosports Trading Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Forrestgrove Limited	Hong Kong	Ordinary HK$20	100	Export trading
(2)	GB Apparel Limited	England	Ordinary GBP1,000	100	Investment holding
(2)	Golden Gate Fireworks Inc .	U.S.A.	Common stock US$600,000	100	Commission agent and investment holding
(2)	Golden Horn (III) L. P.	Cayman Islands	Capital contribution US$100	66	Investment holding
	Golden Horn N.V.	Netherlands Antilles	US$6,100	100	Investment holding
	Good Basis Limited	Hong Kong	Ordinary HK$2	100	Export trading
	GSCM (HK) Limited	Hong Kong	Ordinary HK$140,000	100	Export trading
	Hillung Enterprises Limited	Hong Kong	Ordinary HK$300,000	100	Export trading
(2)	Homestead International Group Ltd.	U.S.A.	Voting Common Stock US$901 Non-Voting Common Stock US$99	100 Voting	Importer
	Homeworks Asia Limited	Hong Kong	Ordinary HK$2	100	Export trading
(2)	Homeworks (Europe) B.V.	The Netherlands	Ordinary Euro 18,000	100	Export trading
(2)	IFW Shenzhen Testing Service Limited	The People's Republic of China	USD660,000	100 foreign-owned enterprise	Testing and technology consultation
(2)	International Sources, Inc.	U.S.A.	Common Stock US$1	100	Trading of apparel
	International Sources Trading Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Janco Overseas Limited	Hong Kong	Ordinary HK$760,000	100	Buying agent
	Kariya Industries Limited	Hong Kong	Ordinary HK$1,000,000	100	Manufacturing and trading
	Karstadt Quelle (Far East) (1972) Limited	Hong Kong	Ordinary HK$20	100	Investment holding
	Karstadt Quelle (Far East) & Co.	Hong Kong	Capital contribution HK$17,000,000	100	Merchandising agent
(2)	KarstadtQuelle International Services AG	Switzerland	CHF3,400,000	100	Export trading
(2)	Karstadt Quelle (Thailand) Limited	Thailand	Ordinary Baht 15,500,000	100	Export trading
	Kingsbury International Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Kwok Yue Limited	Hong Kong	Ordinary HK$10,000	100	Export trading
	La Villa Development Limited	Hong Kong	Ordinary HK$1	100	Export trading
(2)	LDL (Korea) Limited	Korea	Common stock Won 50,000,000	100	Export trading
	LF Basic Limited	Hong Kong	Ordinary HK$1,560,000	100	Export trading
(2)	LF Capital (II) Limited	British Virgin Islands	Class "A" US$185 Class "B" US$115	75	Investment holding
(2)	LF Capital Management Limited	British Virgin Islands	Ordinary US$1	100	Investment management
(2)	LF Centennial Pte. Ltd.	Singapore	Ordinary S$1	100	Export trading
(2)	LF Corporate Capital (I) Limited	British Virgin Islands	Ordinary US$1	100	Investment holding

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
(2)	LF Europe Investment Services Limited	British Virgin Islands	Ordinary US$1	100	Investment management
(2)	LF European Capital Limited	British Virgin Islands	Ordinary US$1	75	Investment holding
(2)	LF International Inc.	U.S.A.	Common stock US$30,002	100	Investment management
(2)	LFCF Investment I (Europe) Limited	British Virgin Islands	Ordinary US$1	100	Investment management
(2)	LFCF Investment I (USA) Limited	British Virgin Islands	Ordinary US$1	100	Investment management
(2)	Li & Fung Agencia de Compras em Portugal, Limitada	Portugal	Euro 99,760	100	Export trading
	Li & Fung Development Limited	Hong Kong	Ordinary HK$20	100	Property investment
(2)	Li & Fung Enterprise Development (Shenzhen) Company Limited	The People's Republic of China	HK$10,000,000	100 foreign-owned enterprise	Provision of inspection services
	Li & Fung (Europe) Holding Limited	England	Ordinary GBP100	100	Investment holding
	Li & Fung (Exports) Limited	Hong Kong	Ordinary HK$10,000 Non-voting deferred HK$8,600,000	100	Export trading
	Li & Fung (Fashion Accessories) Limited	Hong Kong	Ordinary "A" HK$300,000 Ordinary "B" HK$300,000	100	Export trading
(2)	Li & Fung (Guatemala) S.A.	Guatemala	Common shares Q5,000	100	Export trading
(2)	Li & Fung (Honduras) Limited	Honduras	Nominative common shares Lps25,000	100	Export trading
(2)	Li & Fung (India) Private Limited	India	Equity shares Rupee 64,000,200	100	Export trading
(2)	Li & Fung (Korea) Limited	Korea	Common stock Won 200,000,000	100	Export trading
(2)	Li & Fung (Mauritius) Limited	Mauritius	"A" Shares Rupees 750,000 "B" Shares Rupees 500,000	60	Export trading
(2)	Li & Fung Mumessillik Pazarlama Limited Sirketi	Turkey	TRY745,000	100	Export trading
(2)	Li & Fung (Nicaragua), Sociedad Anonima	Nicaragua	Nominative shares C$50,000	100	Export trading
(2)	Li & Fung (Philippines) Inc.	The Philippines	Peso 500,000	100	Export trading
(2)	Li & Fung (Portugal) Limited	England	Ordinary GBP100	100	Investment holding
	Li & Fung (Properties) Limited	Hong Kong	Ordinary HK$1,000,000	100	Property investment
(2)	Li & Fung (Singapore) Pte Limited	Singapore	Ordinary S$25,000	100	Export trading
(2)	Li & Fung South Africa (Proprietary) Limited	South Africa	Ordinary Rand 100	100	Export trading
(2)	Li & Fung Taiwan Holdings Limited	Taiwan	NT$287,996,000	100	Investment holding
	Li & Fung Taiwan Investments Limited	British Virgin Islands	Ordinary US$4,912,180	100	Investment holding
(2)	Li & Fung (Taiwan) Limited	Taiwan	NT$63,000,000	100	Export trading
(2)	Li & Fung (Thailand) Limited	Thailand	Baht 8,000,000	100	Export trading
	Li & Fung (Trading) Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$10,000,000	100	Export trading and investment holding

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
(2)	Li & Fung Trading Service (Shanghai) Company Limited (formerly:- Li & Fung Trading Consulting (Shanghai) Company Limited)	The People's Republic of China	US$6,000,000	100 foreign-owned enterprise	Export trading
(2)	Li & Fung Trading Service (Shenzhen) Limited	The People's Repulic of China	RMB1,500,000	100 foreign-owned enterprise	Provision of inspection services
(2)	Li & Fung (Zhanjiang) Limited	The People's Republic of China	US$1,999,055	100 foreign-owned enterprise	Packaging
	Lifung Express Limited	Hong Kong	Ordinary "A" HK$10 Ordinary "B" HK$10	100	Export trading
(2)	Livring Limited	Mauritius	Ordinary Rs250,000	60	Export trading
	Lloyd Textile Trading Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading
	Luma Trading Limited	Hong Kong	Ordinary HK$100	60	Export trading
	Lux Plush Enterprises Limited	Hong Kong	Ordinary HK$250,000	100	Export trading
	Maclaine Limited	Hong Kong	Ordinary HK$5,570,150	100	Export trading
(2)	Mercury (BVI) Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(2)	Mighty Hurricane Holdings Inc.	U.S.A.	Common shares of US$100	100	Importer
	Momentum Clothing (HK) Limited	Hong Kong	Ordinary HK$2	100	Export trading
(2)	Momentum Clothing Limited	England	Ordinary GBP100	100	Export trading
	Noris International Trading & Co.	Hong Kong	Capital contribution HK$3,000,000	100	Merchandising agent, freight forwarding and logistic services
(2)	Noris International Trading GmbH	Switzerland	CHF50,000	100	Export trading
	Noris Trading Limited	Hong Kong	Ordinary HK$10,000	100	Investment holding
	Paco Trading (International) Limited	Hong Kong	Ordinary HK$2	100	Export trading
(2)	Perfect Trading Inc.	Egypt	LE2,480,000	60	Export trading
(2)	Prodimpor SAS	France	Euro 3,030,303	100	Wholesaling
	Product Development Partners Limited	Hong Kong	Ordinary HK$2	100	Export trading
(2)	PromOcean GmbH	Germany	Euro 25,570	100	Wholesaling
	PromOcean No 1 Limited	England	Ordinary GBP1	100	Investment holding
(2)	PromOcean Polska SP. Z O.O.	Poland	50,000 zl	100	Wholesaling
(2)	PromOcean Spain SL	Spain	Euro 3,005.06	100	Wholesaling
(2)	PromOcean The Netherlands B.V.	The Netherlands	Ordinary Euro 39,379.5	100	Wholesaling
(2)	PromOcean UK Limited	England	Ordinary GBP1	100	Wholesaling
(2)	PromOcean Werbeartikel GmbH	Austria	Euro 70,000	100	Wholesaling
(2)	P.T. Lifung Indonesia	Indonesia	US$500,000	100	Export trading
	Ralsey Group Limited	Hong Kong	Ordinary HK$2	100	Export trading

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
(2)	Ralsey Group Limited	U.S.A.	Common stock US$100	100	Importer
(2)	Ratners Enterprises Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(2)	Rosetti Handbags and Accessories, Ltd.	U.S.A.	Common stock US$1	100	Importer
	Shiu Fung Fireworks Company Limited	Hong Kong	Ordinary "A" HK$1,100,000 Ordinary "B" HK$1,100,000	100	Export trading
	Sky Million International Limited	Hong Kong	Ordinary HK$2	100	Property investment
	South China Industrial Group Limited	Hong Kong	Ordinary HK$1	100	Export trading
(2)	Tantallon Enterprises Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(2)	Texnorte II-Industrias Texteis, Limitada	Portugal	Quotas Euro 5,000	100	Export trading
	Texnorte Industrial Limited	Hong Kong	Ordinary HK$2	100	Export trading
(2)	The Millwork Trading Co., Ltd	U.S.A.	Common stock US$1,331,000 9.5% Preferred Stock US$0.17	100	Distribution and wholesaling
	Toy Island Manufacturing Company Limited	Hong Kong	Ordinary HK$62,000,000	100	Design and marketing
(2)	Toy Island (U.S.A.) Inc.	U.S.A.	Common stock US$100	100	Marketing
	Ultimate Quest Limited	Hong Kong	Ordinary HK$2	100	Property Investment
	Verity Enterprises Limited	Hong Kong	Ordinary HK$2,000,000	100	Export trading
	W S Trading Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading

Notes:

(1) Li & Fung (B.V.I.) Limited provides the subsidiaries with promotional and marketing services outside Hong Kong.

(2) Subsidiaries not audited by PricewaterhouseCoopers, Hong Kong. The aggregate net assets of subsidiaries not audited by PricewaterhouseCoopers, Hong Kong amounted to approximately 5% of the Group's total net assets.

The above table lists out the principal subsidiaries of the Company as at 31 December 2006 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Principal associated companies				
#	Asia Direct Corporation	U.S.A.	Common stock US$1,000,000	40	Distribution and wholesaling
	Asia Direct Trading Limited	Hong Kong	Ordinary HK$1,000	40	Export trading
#	Asia Directo Limited	British Virgin Islands	Ordinary US$50,000	40	Investment holding
	Blue Work Trading Company Limited	Hong Kong	Ordinary HK$4,000,000	50	Export trading
#	Fireworks Management, Inc.	U.S.A.	Common stock US$60,000	25	Investment holding
#	Gulf Coast Fireworks Sales, L.L.C.	U.S.A	Capital contribution US$2,691,970	30	Fireworks distribution
#	Kosiuko International Limited	British Virgin Islands	Ordinary US$50,000	30	Investment holding
#	MBC Enterprises, Inc.	U.S.A.	Common stock US$1,500	25	Retailing
#	Winco Fireworks International, L.L.C.	U.S.A.	Capital contribution US$5,687,067	30	Wholesaling

The associated companies are not audited by PricewaterhouseCoopers, Hong Kong.

The above table lists out the principal associated companies of the Company as at 31 December 2006 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other associated companies would, in the opinion of the directors, result in particulars of excessive length.

Ten-Year Financial Summary

CONSOLIDATED PROFIT & LOSS ACCOUNT

	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000	2002 HK$'000	2001 HK$'000	2000 HK$'000	1999 HK$'000	1998 HK$'000	1997 HK$'000
Turnover										
Continuing operations	**68,010,257**	55,617,374	47,170,601	42,630,510	37,281,360	32,941,392	24,992,227	16,297,501	14,312,618	13,345,722
Discontinued operations	**–**	–	–	–	–	87,183	791	–	–	–
	68,010,257	55,617,374	47,170,601	42,630,510	37,281,360	33,028,575	24,993,018	16,297,501	14,312,618	13,345,722
Operating profit										
Continuing operations	**2,412,320**	1,884,600	1,556,036	1,251,986	1,137,025	906,940	832,643	595,305	471,921	361,490
Discontinued operations	**–**	–	–	–	–	(237,955)	(39,375)	–	–	–
	2,412,320	1,884,600	1,556,036	1,251,986	1,137,025	668,985	793,268	595,305	471,921	361,490
Interest income	**98,491**	69,539	43,163	38,373	49,581	112,837	140,330	43,830	56,093	37,772
Interest expenses	**(148,070)**	(21,376)	(11,466)	(9,813)	(8,987)	(12,464)	(20,585)	(32,243)	(61,346)	(6,270)
Share of profit less losses of associated companies	**10,603**	9,062	32,801	431	(1,638)	(345)	10,295	8,534	4,383	3,549
Profit before taxation	**2,373,344**	1,941,825	1,620,534	1,280,977	1,175,981	769,013	923,308	615,426	471,051	396,541
Taxation	**(171,682)**	(151,248)	(130,250)	(103,929)	(92,865)	(53,849)	(60,796)	(35,783)	(13,958)	(22,209)
Profit for the year	**2,201,662**	1,790,577	1,490,284	1,177,048	1,083,116	715,164	862,512	579,643	457,093	374,332
Attributable to:										
Continuing operations	**2,201,819**	1,790,279	1,491,223	1,189,152	1,082,888	953,727	895,538	577,058	457,588	375,306
Discontinued operations	**–**	–	–	–	–	(168,996)	(22,730)	–	–	–
Shareholders of the Company	**2,201,819**	1,790,279	1,491,223	1,189,152	1,082,888	784,731	872,808	577,058	457,588	375,306
Minority interests	**(157)**	298	(939)	(12,104)	228	(69,567)	(10,296)	2,585	(495)	(974)
	2,201,662	1,790,577	1,490,284	1,177,048	1,083,116	715,164	862,512	579,643	457,093	374,332
Earnings per share (HK cents) *(Note)*										
Basic	**67.1**	55.6	46.5	37.4	34.1	24.8	29.3	20.5	16.5	13.6
Continuing operations	**67.1**	55.6	46.5	37.4	34.1	30.2	30.1	20.5	16.5	13.6
Dividend per share (HK cents) *(Note)*	**55.0**	45.5	38.2	31.8	27.7	24.1	22.7	15.5	13.0	10.0
Special dividend per share (HK cents) *(Note)*	**–**	–	22.7	–	–	–	–	–	–	–

CONSOLIDATED BALANCE SHEET

	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000	2002 HK$'000	2001 HK$'000	2000 HK$'000	1999 HK$'000	1998 HK$'000	1997 HK$'000
Intangible assets	**4,713,163**	2,809,380	1,304,333	612,849	326,696	79,585	79,625	6,274	6,228	–
Fixed assets	**1,114,368**	947,608	715,002	731,071	658,346	669,173	785,380	648,439	626,896	591,009
Prepaid premium for land leases	**681,179**	765,771	765,172	780,826	605,492	555,181	496,430	507,095	511,932	522,421
Associated companies	**13,930**	7,102	55,967	4,223	22,255	34,288	28,564	1,242	12,790	83,441
Available-for-sale financial assets	**81,605**	91,721	–	–	–	–	–	–	–	–
Investments	**–**	–	110,289	115,183	139,932	71,348	53,807	86,484	51,389	16,748
Deferred tax assets	**105,982**	118,419	73,039	19,150	–	–	–	–	–	–
Current assets	**15,334,855**	10,528,014	8,246,505	6,981,269	6,271,450	5,619,991	5,853,106	2,961,634	2,234,490	1,971,270
Current liabilities	**12,937,127**	9,862,277	6,026,197	4,960,896	4,159,463	3,528,862	3,790,138	2,652,179	1,708,934	1,619,437
Net current assets	**2,397,728**	665,737	2,220,308	2,020,373	2,111,987	2,091,129	2,062,968	309,455	525,556	351,833
	9,107,955	5,405,738	5,244,110	4,283,675	3,864,708	3,500,704	3,506,774	1,558,989	1,734,791	1,565,452
Financed by:										
Share capital	**85,239**	73,414	72,928	72,551	72,250	71,974	71,605	64,765	63,761	62,759
Reserves	**8,181,606**	4,551,387	4,636,507	4,117,922	3,714,219	3,358,807	3,290,311	1,078,456	1,273,724	1,100,885
Shareholders' funds	**8,266,845**	4,624,801	4,709,435	4,190,473	3,786,469	3,430,781	3,361,916	1,143,221	1,337,485	1,163,644
Long-term liabilities	**797,487**	753,192	509,487	64,094	69,199	65,955	137,642	414,868	397,058	400,000
Post-employment benefits obligations	**25,464**	19,821	17,889	10,827	4,029	–	–	–	–	–
Deferred taxation	**18,159**	7,924	7,299	18,281	5,011	3,968	7,216	900	248	1,808
	9,107,955	5,405,738	5,244,110	4,283,675	3,864,708	3,500,704	3,506,774	1,558,989	1,734,791	1,565,452

Note: Prior years comparatives have been adjusted for the effect of a 1-for-10 Bonus Issue in May 2006.

LiFung Tower
888 Cheung Sha Wan Road
Kowloon
Hong Kong

Tel: (852) 2300 2300
www.lifung.com