Notes to the Accounts

As at 31 December 2005

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, which are carried at fair value.

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

The adoption of new/revised HKFRSs

In 2005, the Group adopted the new/revised Hong Kong Accounting Standards ("HKASs") and interpretations of HKFRSs below, which have not been early adopted by the Group for the preparation of the 2004 consolidated accounts and are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Interpretation ("HKAS-Int") 15	Operating leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payment

1 Principal accounting policies (continued)

1.1 Basis of preparation (continued)

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 23, 24, 27, 28, 33 and HKAS-Int 15 and 21 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associated companies and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28 and 33 and HKAS-Int 15 and 21 had no material effect on the Group's policies.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from fixed assets to operating leases. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised HKAS 21. Goodwill arising on acquisitions of foreign operations after 1 January 2005 have been treated as assets of the foreign operations and expressed in their respective functional currencies. At the balance sheet date, goodwill was translated at closing exchange rate and difference of HK$14,959,000 so arising was charged to the exchange reserve.

The adoption of HKASs 32 and 39 has resulted in the change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Until 31 December 2004, listed and unlisted investments of the Group were classified as non-current investments and stated in the consolidated balance sheet at cost less any provision for impairment losses. In accordance with HKAS 39, these investments were re-classified as available-for-sale financial assets and stated in the consolidated balance sheet at fair value, with subsequent changes in value reflected as reserve movements. Balance of these investments at 1 January 2005 were re-measured at fair value with balance adjusted to the then retained earnings pursuant to the transitional provisions of HKAS 39.

In addition, the Group's discounted bills with recourse, which were previously treated as contingent liabilities, have been accounted for as collateralised bank advances prospectively on or after 1 January 2005, as the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled.

It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the consolidated profit and loss account. Effective on 1 January 2005, the Group expenses the cost of share options in the consolidated profit and loss account. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the consolidated profit and loss account of the respective years *(Note 1.15)*.

1 Principal accounting policies (continued)

1.1 Basis of preparation (continued)

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of fixed assets acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Hong Kong Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognized at 1 January 2005;

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2005; and

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005.

The adoption of revised HKAS 17 resulted in a decrease in opening retained earnings at 1 January 2004 by HK$105,269,000.

	2005 HK$'000	2004 HK$'000
Decrease in fixed assets	**866,200**	868,021
Increase in prepaid premium for land leases	**765,771**	765,172
Decrease in retained earnings	**100,429**	102,849
Decrease in merchandising expenses	**2,420**	2,420
Increase in basic earnings per share	**0.08 HK cents**	0.08 HK cents
Increase in diluted earnings per share	**0.08 HK cents**	0.08 HK cents

The adoption of HKAS 21 resulted in:

	2005 HK$'000
Decrease in intangible assets	**14,959**
Decrease in exchange reserve	**14,959**

1 Principal accounting policies (continued)

1.1 Basis of preparation (continued)

There was no impact on basic and diluted earnings per share and opening retained earnings at 1 January 2004 from the adoption of HKAS 21.

The adoption of HKASs 32 and 39 resulted in decreases in opening hedging reserve and retained earnings at 1 January 2005 by HK$897,000 and HK$26,871,000 respectively and the details of the adjustments to the balance sheet at 31 December 2005 and for the year then ended are as follows:

	2005 HK$'000
Increase in available-for-sale financial assets	**95,621**
Decrease in investments	**110,289**
Increase in trade and bills receivable	**1,554,367**
Increase in bank advances for discounted bills	**1,554,367**
Increase in derivative financial instruments (assets)	**3,769**
Decrease in retained earnings	**19,877**
Increase in hedging reserve	**2,609**
Increase in revaluation reserve	**6,369**
Decrease in cost of good sold	**6,994**
Increase in basic earnings per share	**0.24 HK cents**
Increase in diluted earnings per share	**0.24 HK cents**

The adoption of HKFRS 2 resulted in a decrease in opening retained earnings as at 1 January 2004 by HK$36,386,000.

	2005 HK$'000	2004 HK$'000
Increase in employee share-based compensation reserve	**107,122**	77,811
Increase in share premium	**18,067**	–
Decrease in retained earnings	**125,189**	77,811
Increase in merchandising expenses	**47,378**	41,425
Decrease in basic earnings per share	**1.62 HK cents**	1.42 HK cents
Decrease in diluted earnings per share	**1.61 HK cents**	1.41 HK cents

1 Principal accounting policies (continued)

1.1 Basis of preparation (continued)

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

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

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.

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. 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 *(Note 1.6)*.

1 Principal accounting policies (continued)

1.2 Consolidation (continued)

(a) Subsidiaries (continued)

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. 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 by 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.

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 leasehold land *(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 Principal accounting policies (continued)

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.

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

(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 accounts 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 entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences 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 Principal accounting policies (continued)

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, computer and other equipment, plant and machinery, motor vehicles and company boats are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

(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, computer and other equipment	10% – 33 1/3%
Plant and machinery	10% – 15%
Motor vehicles and company boats	15% – 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An assets' 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 assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated profit and loss account during the financial period in which they are incurred.

(d) *Gains or losses on disposals*

Gains and losses on are determined by comparing proceeds with carrying amount. These are included 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/associate 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. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

1 Principal accounting policies (continued)

1.6 Intangible assets (continued)

(b) Computer software

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the production 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 software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized over their estimated useful lives of 3-5 years.

1.7 Impairment of assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment and at least are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 immediately 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).

1.8 Investments

From 1 January 2004 to 31 December 2004:

Investments are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The impairment loss is recognized as an expense in the consolidated profit and loss account. This impairment loss is written back to the consolidated profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

1 Principal accounting policies (continued)

1.8 Investments (continued)

From 1 January 2005 onwards:

The Group classifies its investments as loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(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 arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. 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 included in 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.

Purchases and sales of investments are recognized on 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. Investments 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. Unrealised gains and losses arising from changes in the fair value of 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 are included in the consolidated profit and loss account as gains or losses from investment securities.

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 establishes 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 refined to reflect the issuer's specific circumstances.

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 in determining whether 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 the consolidated profit and loss account – 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.

1 Principal accounting policies (continued)

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 receivables. 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 effective interest rate. The amount of the provision is recognized in the consolidated profit and loss account.

1.11 Export quota entitlements

Purchased permanent export quota entitlements are charged to the consolidated profit and loss account immediately upon acquisition.

Export quota entitlements allocated by the authorities in Hong Kong are not capitalized and are not included as assets in the balance sheet.

Temporary export quota entitlements acquired are charged to the consolidated profit and loss account in the year in which such quota entitlements are utilized.

1.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts.

1.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. 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 Principal accounting policies (continued)

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, if the deferred taxation 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, it is not accounted for. 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 realised 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 account of the recommendations of independent qualified actuaries.

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.

1 Principal accounting policies (continued)

1.15 Employee benefits (continued)

(c) Post employment benefit obligations (continued)

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 SSAP 34, which from 1 January 2005 onward was superseded by 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 2005, the transitional pension and long service payment liabilities of approximately HK$3,208,000 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 2005, transitional pension and long service payment liabilities of approximately HK$3,216,000 and HK$2,400,000 respectively remained unrecognized.

1 Principal accounting policies (continued)

1.15 Employee benefits (continued)

(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 accounts and a corresponding adjustment to employee share-based compensation reserve over the remaining vesting period.

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.

1.16 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not 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.

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 comprises 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 Principal accounting policies (continued)

1.19 Total margin

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

1.20 Revenue recognition

Revenue from 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 expensed in the consolidated profit and loss account on a straight-line basis over the lease periods.

1.23 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated profit and loss account.

Amounts accumulated in hedging reserve are recycled in the consolidated profit and loss account in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in hedging reserve are transferred from hedging reserve and included in the initial measurement of the cost of the asset or liability.

1 Principal accounting policies (continued)

1.23 Cash flow hedges (continued)

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 hedging reserve at that time remains in hedging reserve 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 hedging reserve is immediately transferred to the consolidated profit and loss account.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the consolidated profit and loss account.

1.24 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives 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 appropriate quoted market price for financial liabilities is the current ask 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 nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate 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.

1.25 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.

1.26 Comparatives

As further explained above, due to the adoption of the new/revised HKFRSs during the current year, the accounting treatment and presentation of certain items in the consolidated accounts have been revised to comply with the new requirements. Accordingly, certain comparatives have been restated to conform with the current year presentation.

2 Critical accounting estimates and judgements

Estimates and judgements 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) 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 judgement. In making this judgement, 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$3,900,000 has been made on certain unlisted available-for-sale financial assets *(Note 17)*.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement 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:

	2005 HK$'000	2004 HK$'000
Turnover		
Sales at invoiced value	**55,612,852**	47,163,107
Rental income	**4,522**	7,494
	55,617,374	47,170,601
Other revenues		
Value added services income	**252,483**	215,894
Commission income	**879**	1,596
Others	**11,022**	5,954
	264,384	223,444
Interest income	**69,539**	43,163
Total revenues	**55,951,297**	47,437,208

3 Turnover, revenues and segment information (continued)

(b) Primary reporting format – geographical segments

	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)

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

	United States of America 2004 HK$'000 (As restated)	Europe 2004 HK$'000 (As restated)	Canada 2004 HK$'000 (As restated)	Australasia 2004 HK$'000 (As restated)	Central and Latin America 2004 HK$'000 (As restated)	Rest of The World 2004 HK$'000 (As restated)	Group 2004 HK$'000 (As restated)
Turnover	32,102,262	9,253,030	2,089,679	1,715,444	658,044	1,352,142	47,170,601
Segment results	1,041,892	357,610	52,004	52,501	21,553	30,476	1,556,036
Gain on disposal of properties							–
Net investment loss							–
Interest income							43,163
Interest expenses							(11,466)
Share of profits less losses of associated companies							32,801
Profit before taxation							1,620,534
Taxation							(130,250)
Profit for the year							1,490,284
Segment assets	5,699,101	1,958,320	308,858	257,026	128,635	154,338	8,506,278
Unallocated assets							2,764,029
Total assets							11,270,307
Segment liabilities	4,135,739	1,282,417	241,911	199,550	99,347	108,789	6,067,753
Unallocated liabilities							493,119
Total liabilities							6,560,872
Capital expenditure	139,169	45,152	8,341	6,861	3,196	5,046	207,765
Depreciation	77,725	27,390	4,847	4,623	2,152	3,320	120,057
Amortization of prepaid premium for land leases	11,844	3,414	771	633	304	437	17,403

3 Turnover, revenues and segment information (continued)

(c) Secondary reporting format – business segments

	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**	

	Turnover 2004 HK$'000	Segment results 2004 HK$'000 (As restated)	Total assets 2004 HK$'000 (As restated)	Capital expenditure 2004 HK$'000
Softgoods	31,461,244	1,163,212	6,609,973	134,679
Hardgoods	15,709,357	392,824	1,896,305	73,086
	47,170,601	1,556,036	8,506,278	207,765
Gain on disposal of properties		–		
Net investment loss		–		
Operating profit		1,556,036		
Unallocated assets			2,764,029	
Total assets			11,270,307	

4 Operating profit

Operating profit is stated after crediting and charging the following:

	2005 HK$'000	2004 HK$'000
Crediting		
Gain on disposal of properties	**27,832**	–
Gain on disposal of fixed assets	**1,002**	–
Net exchange gains	**12,835**	20,936
Net rental income from land and buildings	**4,077**	6,194
Charging		
Amortization of system development costs	**7,675**	7,668
Employee share option expenses	**47,378**	41,425
Net investment loss	**3,900**	–
Depreciation of fixed assets	**121,693**	120,057
Amortization of prepaid premium for land leases	**17,647**	17,403
Loss on disposal of fixed assets	**–**	1,540
Operating leases rental in respect of land and buildings	**132,022**	93,717
Provision for impairment of receivables	**27,771**	21,436
Staff costs including directors' emoluments *(Note 10)*	**2,211,078**	1,726,169

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

	2005 HK$'000	2004 HK$'000
Audit services	**9,889**	6,386
Non-audit services		
– financial due diligence review on acquisitions	**5,140**	2,045
– taxation services	**3,794**	3,366
– others	**1,045**	184
Total remuneration to auditors	**19,868**	11,981
Less: non-audit service fee capitalized	**(5,140)**	(2,045)
Net remuneration to auditors charged to consolidated profit and loss account	**14,728**	9,936

Note: Of the above audit and non-audit services fee HK$8,464,000 (2004: HK$5,553,000) and HK$9,403,000 (2004: HK$5,168,000) respectively are payable to the Company's auditors.

5 Interest expenses

	2005 HK$'000	2004 HK$'000
Interest on financial liabilities carried at amortized costs	**7,285**	–
Interest on bank loans and overdrafts	**14,091**	11,466
	21,376	11,466

6 Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2004: 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:

	2005 HK$'000	2004 HK$'000
Current taxation		
– Hong Kong profits tax	**154,545**	147,921
– Overseas taxation	**41,407**	47,779
Overprovision in prior years	**(534)**	(3,882)
Deferred taxation	**(44,170)**	(61,568)
	151,248	130,250

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:

	2005 %	2004 %
Calculated at a taxation rate of	**17.5**	17.5
Effect of different taxation rates in other countries	**0.7**	0.2
Income net of expenses not subject to taxation	**(10.9)**	(11.6)
Utilization of previously unrecognized tax losses	**(0.5)**	(0.3)
Unrecognized tax losses	**1.0**	2.2
Effective tax rate	**7.8**	8.0

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$757 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 2004/2005.

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$424 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$1,793,234,000 (2004: HK$1,754,019,000).

8 Earnings per share

(a) The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$1,790,279,000 (2004 (restated): HK$1,491,223,000) and on the weighted average number of 2,927,533,000 (2004: 2,911,938,000) shares in issue during the year.

(b) The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK$1,790,279,000 (2004 (restated): HK$1,491,223,000). The weighted average number of ordinary shares used in the calculation is 2,927,533,000 (2004: 2,911,938,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 20,476,000 (2004: 15,757,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

9 Dividends

	2005 HK$'000	2004 HK$'000
Interim, paid, of HK$0.145 (2004: HK$0.12) per ordinary share	**425,437**	349,856
Final, proposed, of HK$0.355 (2004: HK$0.30) per ordinary share	**1,042,995**	875,594
Special, proposed, Nil (2004: HK$0.25) per ordinary share	**–**	729,661
	1,468,432	1,955,111

At a meeting held on 22 March 2006, the Directors proposed a final dividend of HK$0.355 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 2006 *(Note 27)*.

10 Staff costs including directors' emoluments

	2005 HK$'000	2004 HK$'000
Salaries and bonuses	**1,993,935**	1,542,236
Other staff-related expenses	**128,376**	107,079
Pension costs of defined contribution plans	**70,885**	60,772
Pension costs of defined benefits plans *(Note 29)*	**16,879**	14,466
Long service payments	**1,003**	1,616
	2,211,078	1,726,169

Forfeited contributions totaling HK$2,904,000 (2004: HK$1,717,000) were utilized during the year and no remaining amount was available at the year-end to reduce further contributions.

11 Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2005 is set out below:

	2005						2004
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	Total HK$'000
Executive directors							
William Fung Kwok Lun	**89**	**2,287**	**12,458**	**–**	**12**	**14,846**	12,265
Bruce Philip Rockowitz	**83**	**4,035**	**4,280**	**668**	**12**	**9,078**	7,883
Henry Chan	**83**	**3,507**	**5,978**	**120**	**12**	**9,700**	7,526
Danny Lau Sai Wing	**83**	**3,507**	**6,359**	**–**	**12**	**9,961**	8,437
Annabella Leung Wai Ping	**83**	**3,507**	**4,019**	**150**	**12**	**7,771**	5,532
Non-executive directors							
Victor Fung Kwok King	**379**	**–**	**–**	**–**	**–**	**379**	139
Paul Edward Selway-Swift	**250**	**–**	**–**	**–**	**–**	**250**	130
Allan Wong Chi Yun	**220**	**–**	**–**	**–**	**–**	**220**	130
Franklin Warren McFarlan	**170**	**–**	**–**	**–**	**–**	**170**	130
Makoto Yasuda	**170**	**–**	**–**	**–**	**–**	**170**	130
Lau Butt Farn	**80**	**–**	**–**	**–**	**–**	**80**	94
Leslie Boyd	**140**	**–**	**–**	**–**	**–**	**140**	130
(Steven Murray Small – alternate to Mr Leslie Boyd)	**–**	**–**	**–**	**–**	**–**	**–**	–

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

Pursuant to an agreement made between King Lun Holdings Limited ("King Lun") and Hurricane Millennium Holdings Limited ("HMHL"), Mr Bruce Philip Rockowitz has a deemed interest in 49,950,800 underlying shares in the Company in respect of options granted by King Lun to HMHL. Details are stated in the Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures section.

As at 31 December 2005, certain directors held options to acquire 400,000 (2004: 1,600,000), 1,600,000 (2004: 2,400,000), 2,400,000 (2004: 2,400,000), 2,400,000 (2004: Nil), 2,400,000 (2004: Nil) and 2,400,000 (2004: Nil) Shares of the Company at an exercise price of HK$9.2, HK$9.2, HK$9.2, HK$14.8, HK$14.8 and HK$14.8 per Share respectively. The closing market price of the Shares as at 30 December 2005 was HK$14.95.

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

(a) Directors' emoluments (continued)

During the year, a total of 480,000 (2004: 480,000), 1,200,000 (2004: 800,000) and 800,000 (2004: Nil) Shares were issued to certain directors of the Company at an exercise price of HK$7.98, HK$9.2 and HK$9.2 respectively under the Old Scheme and New Scheme. The weighted average closing market price per share immediately before the dates on which the share options were exercised was HK$15.29.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2004: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual (2004: one) during the year are as follows:

	2005 HK$'000	2004 HK$'000 (As restated)
Basic salaries, housing allowances, other allowances and benefits-in-kind	**3,639**	3,557
Discretionary bonuses	**4,281**	3,134
Contributions to pension scheme	**12**	12
	7,932	6,703

Emolument bands	**Number of individuals 2005**	2004
HK$6,500,001 – HK$7,000,000	**–**	1
HK$7,500,001 – HK$8,000,000	**1**	–

12 Intangible assets

	The Group		
	Goodwill HK$'000	System development costs HK$'000	Total HK$'000
At 1 January 2004			
Cost	629,996	42,615	672,611
Accumulated amortization	(41,700)	(18,062)	(59,762)
Net book amount	588,296	24,553	612,849
Year ended 31 December 2004			
Opening net book amount	588,296	24,553	612,849
Acquisition of subsidiaries/businesses	694,923	–	694,923
Additions	–	4,229	4,229
Amortization	–	(7,668)	(7,668)
Closing net book amount	1,283,219	21,114	1,304,333
At 31 December 2004			
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 *(Note 32)*	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**

12 Intangible assets (continued)

Impairment test for goodwill

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

	Group	
	2005 **HK$'000**	2004 HK$'000
Softgoods	**2,318,611**	1,161,890
Hardgoods	**476,283**	121,329
	2,794,894	1,283,219

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 projections based on one-year financial budgets approved by management and extrapolated to cover a period of not less than ten years with an estimated general annual growth of approximately 5%. The discount rates used of approximately 10% are after 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 boats** HK$'000	**Total** HK$'000
At 1 January 2004						
Cost	469,530	196,915	385,565	17,310	34,573	1,103,893
Accumulated depreciation	(78,907)	(100,719)	(266,427)	(9,077)	(22,961)	(478,091)
Net book amount	390,623	96,196	119,138	8,233	11,612	625,802
Year ended 31 December 2004						
Opening net book amount	390,623	96,196	119,138	8,233	11,612	625,802
Exchange differences	3,463	1,082	427	636	80	5,688
Acquisition of subsidiaries/businesses	2,493	–	447	450	–	3,390
Additions	1,367	106,806	90,598	5,955	3,039	207,765
Disposals	–	(2,742)	(3,795)	–	(1,049)	(7,586)
Depreciation	(15,719)	(39,163)	(56,635)	(3,854)	(4,686)	(120,057)
Closing net book amount	382,227	162,179	150,180	11,420	8,996	715,002
At 31 December 2004						
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 *(Note 32)*	–	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**

At 31 December 2005, the net book value of fixed assets pledged as security for the Group's bank loans amounted to HK$8,642,000 (2004: HK$11,523,000).

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 analysed as follows:

	The Group	
	2005	2004
	HK$'000	HK$'000
		(As restated)
In Hong Kong, held on:		
Leases of between 10 to 50 years	**763,388**	762,764
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**2,383**	2,408
	765,771	765,172

	The Group	
	2005	2004
	HK$'000	HK$'000
		(As restated)
Opening	**765,172**	780,826
Additions	**82,549**	–
Acquisition of subsidiaries	**–**	1,750
Disposals	**(64,344)**	–
Amortization of prepaid operating lease payments	**(17,647)**	(17,403)
Exchange differences	**41**	(1)
	765,771	765,172

15 Interests in subsidiaries

	The Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**283,276**	235,898
Loan to a subsidiary	**1,952,493**	1,952,493
	2,235,769	2,188,391

The loan to a subsidiary is interest free, unsecured and has no fixed terms of repayment.

Details of principal subsidiaries are set out on pages 114 to 118.

16 Associated companies

	The Group 2005 HK$'000	2004 HK$'000
Beginning of the year	**22,763**	(4,467)
Share of associated companies'		
Profit before taxation	**11,587**	35,528
Taxation	**(2,525)**	(2,727)
Dividend received	**(13,706)**	(16,198)
Exchange differences	**(1,164)**	80
Acquisition of associated companies	**–**	10,547
Transfer to subsidiary	**(13,762)**	–
End of the year	**3,193**	22,763
Loans to associated companies	**3,909**	33,204
Total interest in associated companies	**7,102**	55,967

The loans to associated companies are interest free and unsecured, except for amounts of HK$2,209,000 as at 31 December 2004 which are secured and interest bearing.

Details of principal associated companies are set out on page 119.

17 Available-for-sale financial assets

	The Group 2005 HK$'000	2004 HK$'000
Beginning of the year, as previously reported	**–**	–
Effect of changes in accounting policy *(Note 1)*	**89,252**	–
Beginning of the year, as restated	**89,252**	–
Revaluation surplus transferred to equity *(Note 27)*	**6,369**	–
Impairment provision	**(3,900)**	–
End of the year	**91,721**	–

There were no disposals of available-for-sale financial assets in 2005.

17 Available-for-sale financial assets (continued)

Available-for-sale financial assets include the following:

	The Group 2005 HK$'000	2004 HK$'000
Listed securities:		
– Equity securities – overseas	**28,886**	–
Unlisted securities:		
– Equity securities	**56,235**	–
– Club debentures	**6,600**	–
	91,721	–
Market value of listed securities	**28,886**	–

18 Investments

	The Group 2005 HK$'000	2004 HK$'000
Shares listed overseas, at cost	**–**	43,554
Unlisted shares, at cost	**–**	80,362
Less: provision for impairment losses	**–**	(20,227)
	–	103,689
Club debentures, at cost	**–**	6,600
	–	110,289
Market value of listed shares	**–**	22,517

19 Inventories

	The Group	
	2005	2004
	HK$'000	HK$'000
Finished goods	**599,413**	413,754
Raw materials	**28,708**	44,699
	628,121	458,453

At 31 December 2005, inventories pledged as securities for bank facilities amounted to HK$50,074,000 (2004: HK$70,500,000).

20 Due from related companies

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due from:				
Subsidiaries	**–**	–	**11,638,798**	9,669,581
Associated companies	**24,982**	29,094	**–**	–
	24,982	29,094	**11,638,798**	9,669,581

The amounts are unsecured, interest free and repayable on demand, except for amounts due from associated companies amounting to HK$2,598,000 (2004: HK$2,411,000) which are secured and interest bearing. Fair value of amounts due from related companies is approximately the same as the carrying value.

21 Derivative financial instruments

	The Group	
	2005	2004
	HK$'000	HK$'000
Forward foreign exchange contracts – assets	**3,769**	–

Gains and losses in equity on forward foreign exchange contracts as of 31 December 2005 will be released to the consolidated profit and loss account at various dates between one month to one year from the balance sheet date.

22 Trade and other receivables

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills receivable – net	**7,738,518**	4,642,221	**–**	–
Other receivables, prepayments and deposits	**884,704**	766,702	**851**	472
	8,623,222	5,408,923	**851**	472

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.

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	
	2005	2004
	HK$'000	HK$'000
Current to 90 days	**7,300,091**	4,400,587
91 to 180 days	**371,674**	189,017
181 to 360 days	**54,639**	52,001
Over 360 days	**12,114**	616
	7,738,518	4,642,221

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 receivable balances amounting to HK$1,554,367,000 to banks in exchange for cash as at 31 December 2005. The transaction has been accounted for as collateralized bank advances.

23 Cash and cash equivalents

	The Group 2005 HK$'000	The Group 2004 HK$'000	The Company 2005 HK$'000	The Company 2004 HK$'000
Cash and bank balances	**1,247,920**	2,350,035	**433**	424
Short-term bank loans and overdrafts	**(204,007)**	(202,828)	**–**	–
	1,043,913	2,147,207	**433**	424

The effective interest rate at the balance sheet date on short-term bank deposits was 3.9% (2004: 2.2%); these deposits have an average maturity of 4 days.

The effective interest rate at the balance sheet date on short-term bank loans and overdrafts were 7.2% (2004: 7.4%) and 5.5% (2004: 5.8%) respectively.

24 Due to related companies

	The Group 2005 HK$'000	The Group 2004 HK$'000	The Company 2005 HK$'000	The Company 2004 HK$'000
Due to:				
A subsidiary	**–**	–	**6,858,347**	4,823,359
Associated companies	**98**	106	**–**	–
	98	106	**6,858,347**	4,823,359

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

25 Trade and other payables

	The Group 2005 HK$'000	The Group 2004 HK$'000	The Company 2005 HK$'000	The Company 2004 HK$'000
Trade and bills payable	**6,058,717**	4,625,199	**–**	–
Accrued charges and sundry payables	**1,006,181**	741,409	**3,061**	2,686
	7,064,898	5,366,608	**3,061**	2,686

25 Trade and other payables (continued)

At 31 December 2005, the ageing analysis of trade and bills payable is as follows:

	The Group	
	2005 **HK$'000**	2004 HK$'000
Current to 90 days	**5,849,410**	4,423,133
91 to 180 days	**121,289**	118,157
181 to 360 days	**43,007**	54,180
Over 360 days	**45,011**	29,729
	6,058,717	4,625,199

26 Share capital and options

	2005		2004	
	Number of shares (in thousands)	**HK$'000**	Number of shares (in thousands)	HK$'000
Authorized				
At 1 January and 31 December, ordinary HK$0.025 each	**3,200,000**	**80,000**	3,200,000	80,000
Issued and fully paid				
At 1 January, ordinary HK$0.025 each	**2,917,107**	**72,928**	2,902,038	72,551
Exercise of share options *(Note (a))*	**19,463**	**486**	12,822	321
Issue of shares for acquisitions of FGL and IPI *(Note (b))*	**–**	**–**	2,247	56
At 31 December, ordinary of HK$0.025 each	**2,936,570**	**73,414**	2,917,107	72,928

26 Share capital and options (continued)

Notes:

(a) Details of share options granted by the Company pursuant to the Old and New Schemes and the share options outstanding at 31 December 2005 are as follows:

			Number of Share Options					
Grant Date	Exercise Price HK$	Exercisable Period	As at 1/1/2005	Granted	Exercised	Lapsed	Cancelled	As at 31/12/2005
28/8/2001	7.98	28/8/2003–27/8/2005	3,589,000	–	(3,439,000)	(150,000)	–	–
23/5/2003	9.20	23/5/2004–22/5/2007	11,713,000	–	(8,505,000)	–	–	3,208,000
23/5/2003	9.20	23/5/2005–22/5/2008	15,745,000	–	(7,373,000)	–	–	8,372,000
23/5/2003	9.20	23/5/2006–22/5/2009	16,270,000	–	–	(560,000)	(679,000)	15,031,000
20/8/2004	9.90	20/8/2005–19/8/2008	474,000	–	(146,000)	(28,000)	–	300,000
20/8/2004	9.90	20/8/2006–19/8/2009	2,387,000	–	–	(137,000)	(20,000)	2,230,000
20/6/2005	14.80	20/6/2007–19/6/2010	–	23,945,000	–	(492,000)	–	23,453,000
20/6/2005	14.80	20/6/2008–19/6/2011	–	23,950,000	–	(510,000)	–	23,440,000
20/6/2005	14.80	20/6/2009–19/6/2012	–	24,060,000	–	(510,000)	–	23,550,000

Subsequent to 31 December 2005, 1,443,000 Shares have been allotted and issued under the Old Scheme and New Scheme.

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

Grant Date	Exercise Price HK$	Exercisable period	Number of Share Options granted
23/1/2006	15.09	20/6/2007 – 19/6/2010	730,000
23/1/2006	15.09	20/6/2008 – 19/6/2011	1,470,000
23/1/2006	15.09	20/6/2009 – 19/6/2012	1,470,000

26 Share capital and options (continued)

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 May 2003	20 August 2004	20 June 2005	23 January 2006
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
Share price at date of grant	HK$9.0	HK$9.9	HK$14.8	HK$14.75
Exercisable price	HK$9.2	HK$9.9	HK$14.8	HK$15.09
Standard deviation	44%	41%	24%	27%
Annual risk-free interest rate	1.39% – 3.31%	1.36% – 3.41%	2.79% – 3.54%	3.90% – 4.26%
Life of options	4 – 6 years	4 – 5 years	5 – 7 years	4 – 6 years
Dividend yield	3.89%	4.24%	3.45%	3.45%

(b) On 2 December 2003, the Company entered into an agreement to acquire certain assets and business of Firstworld Garments Limited, a Hong Kong corporation, and International Porcelain, Inc., an US corporation, at a consideration of HK$210,600,000. The purchase consideration is satisfied by cash of HK$180,960,000 (the "Cash consideration") and an issue of 2,246,660 Shares (the "Consideration shares") at an issue price of HK$13.13 each amounting to HK$29,640,000.

As at 31 December 2003, HK$40,560,000 of the Cash consideration was paid. The remaining balance of the Cash consideration amounting to HK$140,400,000 was paid and the Consideration shares were issued in 2004.

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 2004, as previously reported as equity	2,993,865	5,862	–	–	–	(46,433)	1,196,057	4,149,351	–	4,149,351
Balance at 1 January 2004, as previously separately reported as minority interests *(Note 1)*	–	–	–	–	–	–	–	–	(31,428)	(31,428)
Opening adjustments for the adoption of HKAS 17 *(Note 1)*	–	–	–	–	–	–	(105,269)	(105,269)	–	(105,269)
Employee share option scheme:										
– value of employee services *(Note 1)*	–	–	36,386	–	–	–	(36,386)	–	–	–
Balance at 1 January 2004, as restated	2,993,865	5,862	36,386	–	–	(46,433)	1,054,402	4,044,082	(31,428)	4,012,654
2003 final dividend paid	–	–	–	–	–	–	(727,784)	(727,784)	–	(727,784)
Currency translation differences	–	–	–	–	–	19,404	–	19,404	(22)	19,382
Transfer to capital reserve	–	1,472	–	–	–	–	(1,472)	–	–	–
Profit/(loss) for the year (Restated)	–	–	–	–	–	–	1,491,223	1,491,223	(939)	1,490,284
Employee share option scheme:										
– value of employee services *(Note 1)*	–	–	41,425	–	–	–	–	41,425	–	41,425
– proceeds from shares issued	151,173	–	–	–	–	–	–	151,173	–	151,173
Exchange reserve realized upon closure/disposal of subsidiaries	–	–	–	–	–	(771)	–	(771)	–	(771)
2004 interim dividend paid	–	–	–	–	–	–	(349,856)	(349,856)	–	(349,856)
Reserves	3,145,038	7,334	77,811	–	–	(27,800)	(138,742)	3,063,641	(32,389)	3,031,252
Proposed dividend	–	–	–	–	–	–	1,605,255	1,605,255	–	1,605,255
At 31 December 2004	3,145,038	7,334	77,811	–	–	(27,800)	1,466,513	4,668,896	(32,389)	4,636,507

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 2005, as per above	3,145,038	7,334	77,811	–	–	(27,800)	1,466,513	4,668,896	(32,389)	4,636,507
Opening adjustments for the adoption of HKASs 32 and 39 *(Note 1)*	–	–	–	–	(897)	–	(26,871)	(27,768)	–	(27,768)
Balance at 1 January 2005, as restated	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)
Fair value gains of available-for-sale financial assets *(Note 1)*	–	–	–	6,369	–	–	–	6,369	–	6,369
Fair value gains on cash flow hedges *(Note 1)*	–	–	–	–	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 *(Note 1)*	–	–	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 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 2005, as per below	3,145,038	2,060,673	77,811	1,676,373	6,959,895
Share premium on issue of new shares	174,480	–	–	–	174,480
Profit for the year	–	–	–	1,793,234	1,793,234
Employee share option scheme:					
– value of employee services	–	–	47,378	–	47,378
– 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**
Balance at 1 January 2004, as previously reported as equity	2,993,865	2,060,673	–	999,994	6,054,532
Employee share option scheme:					
– value of employee services	–	–	36,386	–	36,386
Balance at 1 January 2004, restated	2,993,865	2,060,673	36,386	999,994	6,090,918
Share premium on issue of new shares	151,173	–	–	–	151,173
Profit for the year	–	–	–	1,754,019	1,754,019
Employee share option scheme:					
– value of employee services	–	–	41,425	–	41,425
2003 final dividend paid	–	–	–	(727,784)	(727,784)
2004 interim dividend paid	–	–	–	(349,856)	(349,856)
Reserves	3,145,038	2,060,673	77,811	71,118	5,354,640
Proposed dividend	–	–	–	1,605,255	1,605,255
At 31 December 2004	3,145,038	2,060,673	77,811	1,676,373	6,959,895

27 Reserves (continued)

(a) Capital reserve represents amount set aside from the profit of an overseas subsidiary 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	
	2005 HK$'000	2004 HK$'000
Long-term bank loans, unsecured	**–**	40,652
Long-term loans from minority shareholders	**38,867**	38,782
Balance of purchase consideration payable for acquisitions	**1,361,817**	595,852
	1,400,684	675,286
Current portion of long-term liabilities	**–**	(40,652)
Current portion of balance of purchase consideration payable for acquisitions	**(647,492)**	(125,147)
	753,192	509,487

At 31 December 2004, the Group's unsecured long-term bank loans denominated in Japanese Yen were wholly repayable within one year. Fair value of the long-term bank loans equal to its carrying value as at 31 December 2004 as the rate for discounted cash flow is same as the effective interest rate.

Balance of purchase consideration for acquisitions and long term loans from minority shareholders are unsecured, interest-free and repayable in one to three years.

28 Long-term liabilities (continued)

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

	The Group 2005 HK$'000	The Group 2004 HK$'000
Within one year	**647,492**	165,799
Between 1 and 2 years	**358,641**	249,099
Between 2 and 5 years	**335,000**	196,666
Wholly repayable within 5 years	**1,341,133**	611,564
Over 5 years	**59,551**	63,722
	1,400,684	675,286

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

	The Group 2005 HK$'000	The Group 2004 HK$'000
Loans from minority shareholders	**38,867**	38,782
Balance of purchase consideration payable for acquisitions	**714,325**	470,705
	753,192	509,487

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

The carrying amount of long-term liabilities are denominated in the following currencies:

	The Group 2005 HK$'000	The Group 2004 HK$'000
Hong Kong dollar	**140,956**	218,879
US dollar	**1,056,224**	242,580
Pound sterling	**173,175**	173,175
Euro dollar	**30,329**	–
Other currencies	**–**	40,652
	1,400,684	675,286

29 Post-employment benefit obligations

	The Group 2005 HK$'000	2004 HK$'000
Pension obligations *(Note (a))*	**17,672**	15,073
Long service payment liabilities *(Note (b))*	**2,149**	2,816
	19,821	17,889

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 2005 HK$'000	2004 HK$'000
Present value of funded obligations	**172,319**	163,511
Fair value of plan assets	**(136,059)**	(118,444)
	36,260	45,067
Unrecognized actuarial losses	**(14,978)**	(22,430)
Unrecognized liability on initial adoption of SSAP34	**(3,216)**	(6,424)
Exchange difference on unrecognized liability	**(394)**	(1,140)
Pension obligations	**17,672**	15,073

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

	The Group 2005 HK$'000	2004 HK$'000
Current service cost	**11,252**	9,534
Interest cost	**8,328**	7,216
Expected return on plan assets	**(6,898)**	(6,498)
Net actuarial gain recognized during the year	**444**	447
Amortization of unrecognized liability on initial adoption of SSAP34	**3,208**	3,208
Exchange difference on amortization of unrecognized liability	**545**	559
Total, included in staff costs *(Note 10)*	**16,879**	14,466

29 Post-employment benefit obligations (continued)

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

	The Group	
	2005 HK$'000	2004 HK$'000
At 1 January	**15,073**	9,627
Total expense – as shown above	**16,879**	14,466
Contributions paid	**(12,349)**	(9,950)
Exchange difference	**(1,931)**	930
At 31 December	**17,672**	15,073

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

	2005 %	2004 %
Discount rate	**3.75 – 12**	3.75 – 5.6
Expected rate of return on plan assets	**1.5 – 11**	1.5 – 7.5
Expected rate of future salary increases	**3 – 10**	2.5 – 4.75
Expected rate of future pension increases	**2.75**	2.75

(b) Actuarial valuation is performed on the Group's long service payment liability. At 31 December 2005, the Group has transitional liabilities of approximately HK$2,400,000 (2004: HK$3,600,000) to be recognized in the next two years.

30 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement on the deferred tax liabilities/(assets) account is as follows:

	The Group	
	2005 HK$'000	2004 HK$'000
At 1 January	**(65,740)**	(869)
Credited to profit and loss account	**(44,170)**	(61,568)
Acquisition of subsidiaries *(Note 32)*	**(1,026)**	(2,873)
Exchange differences	**441**	(430)
At 31 December	**(110,495)**	(65,740)

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$53,039,000 (2004: HK$205,354,000) to carry forward against future taxable income; of which the amounts of tax losses HK$16,629,000 will expire during 2006-2024. 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.

30 Deferred taxation (continued)

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:

Deferred tax assets	The Group									
	Provisions		Decelerated tax depreciation allowances		Tax losses		Others		Total	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
As at 1 January	**8,934**	6,608	**3,943**	1,029	**57,881**	9,920	**2,281**	1,593	**73,039**	19,150
(Charged)/credited to profit and loss account	**(2,460)**	2,186	**7,425**	2,876	**41,304**	44,982	**(1,089)**	538	**45,180**	50,582
Acquisition of subsidiaries *(Note 32)*	**–**	–	**1,026**	–	**–**	2,873	**–**	–	**1,026**	2,873
Exchange differences	**(260)**	140	**(330)**	38	**(108)**	106	**(128)**	150	**(826)**	434
As at 31 December	**6,214**	8,934	**12,064**	3,943	**99,077**	57,881	**1,064**	2,281	**118,419**	73,039

Deferred tax liabilities	The Group					
	Accelerated tax depreciation allowances		Others		Total	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
At 1st January	**5,994**	16,973	**1,305**	1,308	**7,299**	18,281
Charged/(credited) to profit and loss account	**2,214**	(10,979)	**(1,204)**	(7)	**1,010**	(10,986)
Acquisition of subsidiaries *(Note 32)*	**–**	–	**–**	–	**–**	–
Exchange differences	**(284)**	–	**(101)**	4	**(385)**	4
As at 31 December	**7,924**	5,994	**–**	1,305	**7,924**	7,299

	The Group	
	2005 HK$'000	2004 HK$'000
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	**55,253**	25,428
Deferred tax liabilities to be settled after more than 12 months	**6,020**	7,023

31 Notes to the consolidated cash flow statement

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

	2005 HK$'000	2004 HK$'000 (As restated)
Profit before taxation	**1,941,825**	1,620,534
Interest income	**(69,539)**	(43,163)
Interest expenses	**21,376**	11,466
Share of profits less losses of associated companies	**(9,062)**	(32,801)
Depreciation	**121,693**	120,057
Amortization of prepaid premium for land leases	**17,647**	17,403
Amortization of development costs	**7,675**	7,668
Employee share option expenses	**47,378**	41,425
Gain on disposal of properties	**(27,832)**	–
Net investments loss	**3,900**	–
(Gain)/loss on disposal of fixed assets	**(1,002)**	1,540
Operating profit before working capital changes	**2,054,059**	1,744,129
Decrease/(increase) in inventories	**9,871**	(240,178)
Increase in trade and bills receivable, other receivables, prepayments and deposits including amounts due from associated companies	**(1,818,585)**	(1,237,981)
Increase in trade and bills payable, bank advances for discounted bills, accrued charges and sundry payables, and post-employment benefit obligations including amounts due to associated companies	**1,982,709**	954,625
Net cash inflow generated from operations	**2,228,054**	1,220,595

31 Notes to the consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	2005			2004		
	Share capital including share premium HK$'000	**Long-term bank loans HK$'000**	**Other loans and minority interests HK$'000**	Share capital including share premium HK$'000	Long-term bank loans HK$'000	Other loans and minority interests HK$'000
At 1 January	**3,217,966**	**40,652**	**31,333**	3,066,416	39,008	38,325
Non cash movement						
Share of profit less losses	**–**	**–**	**298**	–	–	(939)
Acquisition of subsidiaries	**–**	**4,095**	**186,438**			
Consideration shares issued *(Note 26 (b))*	**–**	**–**	**–**	29,499	–	–
Transfer from employee share-based compensation reserve	**18,067**	**–**	**–**	–	–	–
Exchange differences	**–**	**(494)**	**34**	–	1,644	167
	3,236,033	**44,253**	**218,103**	3,095,915	40,652	37,553
Proceeds from issue of shares	**174,966**	**–**	**–**	122,051	–	–
Repayment of bank loans	**–**	**(44,253)**	**–**	–	–	–
Repayment of other loans	**–**	**–**	**(190,694)**	–	–	(5,460)
Loans from/(repayment to) minority shareholders	**–**	**–**	**85**	–	–	(760)
At 31 December	**3,410,999**	**–**	**27,494**	3,217,966	40,652	31,333

32 Business combinations

During the year, the Group completed five acquisitions. In January, the Group acquired the remaining 55% of equity interest of Comet Feuerwerk GmbH (“Comet”). This is a fireworks company in Germany in which the Group already held 45%. Another acquisition completed on April 2005 was PromOcean The Netherlands BV (“PromOcean”), a corporate premium and promotional products supply company based in Europe. In August 2005, the Group announced its acquisition of Briefly Stated Holding Inc. (“Briefly Stated”), an apparel company in the US with a portfolio of more than 40 character brand licenses. In December 2005, the Group acquired the assets, businesses and personnel of Young Stuff Apparel Group Inc. (“Young Stuff”), a US apparel company focused on supplying private label products to mass-market retailers, and a furniture sourcing business based in Indonesia. Individual acquisitions of Comet, PromOcean, Briefly Stated, Young Stuff and the furniture sourcing 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 2005, had their acquisitions occurred on 1 January 2005. Further analysis for these acquisitions are set out below:

Details of net assets and goodwill are as follows:

	2005 HK$'000
Purchase consideration:	
Cash consideration	**1,552,330**
Expenses incurred in respect of acquisition of subsidiaries	**38,820**
Transfer from interest in associated companies	**13,762**
Total purchase consideration	**1,604,912**
Fair value of net assets acquired	**(78,278)**
Goodwill on consolidation	**1,526,634**

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

32 Business combinations (continued)

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

	2005 HK$'000
Net assets acquired:	
Fixed assets	**31,144**
Deferred taxation *(Note 30)*	**1,026**
Trade and other receivables	**498,175**
Inventories	**179,539**
Cash and bank balances	**17,269**
Bank loans and overdraft	**(29,807)**
Bank borrowings	**(4,095)**
Trade and other payables	**(595,762)**
Taxation	**(19,211)**
Fair value of net assets acquired	**78,278**

At the date of acquisition, the fair value of net assets acquired was close to the carrying amount.

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

	2005 HK$'000
Purchase consideration	**1,552,330**
Expenses incurred in respect of acquisition of subsidiaries	**38,820**
Purchase consideration payable	**(895,588)**
Cash and cash equivalents acquired	**12,538**
Net outflow of cash and cash equivalents in respect of acquisition of subsidiaries	**708,100**

33 Contingent liabilities

	The Group 2005 HK$'000	The Group 2004 HK$'000	The Company 2005 HK$'000	The Company 2004 HK$'000
Bills of exchange discounted to banks with recourse *(Note)*	**–**	891,510	**–**	–
Guarantees in respect of banking facilities granted to:				
Subsidiaries	**–**	–	**15,816,475**	15,845,200
Associated companies	**98,870**	99,159	**46,527**	46,663
Other guarantees	**9,600**	9,600	**–**	–
	108,470	1,000,269	**15,863,002**	15,891,863

Note : Bills of exchange discounted to banks with recourse are accounted for as collateralized bank advances for discounted bills in the current year pursuant to HKAS 39. Further details are set out in *Note 1* to the consolidated accounts.

34 Commitments

(a) Operating lease commitments

At 31 December 2005, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group 2005 HK$'000	The Group 2004 HK$'000
Within one year	**94,030**	55,513
In the second to fifth year inclusive	**202,425**	97,706
After the fifth year	**283,601**	69,465
	580,056	222,684

(b) Capital commitments

	The Group 2005 HK$'000	The Group 2004 HK$'000
Contracted but not provided for:		
Property, plant and equipment	**3,120**	5,620

35 Charge of assets

At 31 December 2005 there were charges on the assets and undertakings of one (2004: one) overseas subsidiary with net book value amounting to HK$74,181,000 (2004: HK$124,329,000) in favour of banks to cover banking facilities granted to the subsidiary.

36 Related party transactions

Other than those key management compensation as set out in *Note 11* to the account, 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 Approval of accounts

The accounts were approved by the Board of Directors on 22 March 2006.