Notes to the Accounts

As at 31 December 2006

1 Principal accounting policies

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

1.1 Basis of preparation

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

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

(a) Amendments to published standards effective in 2006

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

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

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

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

1.2 Consolidation

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

(a) Subsidiaries

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

1 Principal accounting policies (continued)

1.2 Consolidation (continued)

(a) Subsidiaries (continued)

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

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

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

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

(b) Associated companies

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

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

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

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

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

1 Principal accounting policies (continued)

1.3 Segment reporting

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

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

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

1.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

1 Principal accounting policies (continued)

1.4 Foreign currency translation (continued)

(c) Group companies

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

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

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

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

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

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

1.5 Fixed assets

(a) Land and buildings

Freehold land is stated at cost.

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

(b) Other fixed assets

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

(c) Depreciation and impairment

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

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

1 Principal accounting policies (continued)

1.5 Fixed assets (continued)

(c) Depreciation and impairment (continued)

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

(d) Gain or loss on sale

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

1.6 Intangible assets

(a) Goodwill

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

(b) Computer software

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

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

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

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

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

1 Principal accounting policies (continued)

1.8 Financial assets

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

(a) *Loans and receivables*

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

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

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

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

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

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

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

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

1 Principal accounting policies (continued)

1.8 Financial assets (continued)

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

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

1.9 Inventories

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

1.10 Trade and other receivables

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

1.11 Share capital

Ordinary shares are classified as equity.

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

1.12 Cash and cash equivalents

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

1 Principal accounting policies (continued)

1.13 Borrowings

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

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

1.14 Deferred taxation

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

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

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

1.15 Employee benefits

(a) Employee leave entitlements

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

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

(b) Discretionary bonus

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

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

(c) Post employment benefit obligations

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

1 Principal accounting policies (continued)

1.15 Employee benefits (continued)

(c) Post employment benefit obligations (continued)

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

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

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

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

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

(d) Share-based compensation

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

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

1 Principal accounting policies (continued)

1.16 Provisions

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

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

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

1.17 Contingent liabilities and contingent assets

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

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

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

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

1.18 Core operating profit

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

1.19 Total margin

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

1.20 Revenue recognition

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

1 Principal accounting policies (continued)

1.20 Revenue recognition (continued)

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

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

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

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

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

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

1.21 Borrowing costs

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

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

1.22 Operating leases

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

1.23 Derivative financial instruments and hedging activities

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

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

1 Principal accounting policies (continued)

1.23 Derivative financial instruments and hedging activities (continued)

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

(a) Cash flow hedge

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

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

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

(b) Derivatives that do not qualify for hedge accounting

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

1.24 Fair value estimation

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

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

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

1 Principal accounting policies (continued)

1.25 Trade payables

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

1.26 Dividend distribution

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

2 Critical accounting estimates and judgments

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

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

(a) Estimated impairment of goodwill

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

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

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

(c) Income taxes

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

3 Turnover, revenues and segment information

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

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

3 Turnover, revenues and segment information (continued)

(b) Primary reporting format – geographical segments

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

3 Turnover, revenues and segment information (continued)

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

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

3 Turnover, revenues and segment information (continued)

(c) Secondary reporting format – business segments

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

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

4 Operating profit

Operating profit is stated after crediting and charging the following:

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

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

	2006 HK$'000	2005 HK$'000
Audit services	**10,986**	9,889
Non-audit services		
– financial due diligence review on acquisitions	**10,700**	5,140
– taxation services	**5,367**	3,794
– others	**3,023**	1,045
Total remuneration to auditors	**30,076**	19,868
Less: non-audit service fee capitalized	**(10,700)**	(5,140)
Net remuneration to auditors charged to consolidated profit and loss account	**19,376**	14,728

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

5 Interest expenses

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

6 Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

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

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

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

6 Taxation (continued)

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

The Commissioner of the Hong Kong Inland Revenue issued a determination dated 14 June 2004 with disagreement to the Group's objection against the additional tax assessments of HK$333 million. Under further legal advice from the Group's counsel, the directors believe that the Group has meritorious defence to the additional tax assessments and the Group proceeded to appeal to Board of Review against the Commissioner's determination and served a notice of appeal to the Board of Review on 13 July 2004. The appeal was heard before the Board of Review in January 2006 but, as at the date of these accounts, the result is not yet known.

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

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

7 Profit attributable to shareholders of the Company

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

8 Earnings per share

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

Diluted earnings per share is calculated by adjusting the weighted average number of 3,282,619,000 (2005: 3,220,286,000) ordinary shares in issue by 29,606,000 (2005: 22,524,000) to assume conversion or all dilutive potential ordinary shares granted under the Company's Option Scheme. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

9 Dividends

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

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

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

10 Staff costs including directors' emoluments

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

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

11 Directors' and senior management's emoluments

(a) Directors' and senior management emoluments

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

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

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

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

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

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

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

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

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

(b) Five highest paid individuals

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

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

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

12 Intangible assets

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

12 Intangible assets (continued)

Impairment test for goodwill

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

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

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

13 Fixed assets

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

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

14 Prepaid premium for land leases

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

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

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

15 Interests in subsidiaries

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

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

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

16 Associated companies

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

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

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

17 Available-for-sale financial assets

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

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

17 Available-for-sale financial assets (continued)

Available-for-sale financial assets include the following:

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

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

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

18 Inventories

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

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

19 Due from related companies

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

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

20 Derivative financial instruments

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

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

21 Trade and other receivables

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

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

21 Trade and other receivables (continued)

A significant portion of the Group's business are on sight letter of credit, usance letter of credit up to a tenor of 120 days, documents against payment or customers' letter of credit to suppliers. The balance of the business are on open account terms payable against deliveries of shipments which are often covered by customers' standby letters of credit, bank guarantees or credit insurance. The ageing analysis of trade and bills receivable is as follows:

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

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

Certain subsidiaries of the Group transferred bills receivable balances amounting to HK$123,282,000 to banks in exchange for cash as at 31 December 2006. The transaction has been accounted for as collateralized bank advances.

22 Cash and cash equivalents

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

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

23 Due to related companies

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

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

24 Trade and other payables

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

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

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

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

25 Borrowings

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

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

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

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

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

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

26 Share capital and options

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

Notes:

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

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

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

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

26 Share capital and options (continued)

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

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

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

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

26 Share capital and options (continued)

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

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

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

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

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

27 Reserves

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

27 Reserves (continued)

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

27 Reserves (continued)

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

27 Reserves (continued)

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

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

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

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

28 Long-term liabilities

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

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

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

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

28 Long-term liabilities (continued)

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

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

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

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

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

29 Post-employment benefit obligations

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

29 Post-employment benefit obligations (continued)

Notes:

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

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

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

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

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

29 Post-employment benefit obligations (continued)

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

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

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

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

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

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

(vi) Experience adjustment gain/(loss):

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

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

30 Deferred taxation

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

The movement on the deferred tax account is as follows:

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

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

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

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

30 Deferred taxation (continued)

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

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

31 Notes to the consolidated cash flow statement

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

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

31 Notes to the consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

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

(c) Disposal of property holding subsidiaries

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

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

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

31 Notes to the consolidated cash flow statement (continued)

(c) Disposal of property holding subsidiaries (continued)

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

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

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

32 Business combinations

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

In July 2006, the Group acquired the business of Rosetti Handbags and Accessories, Ltd. ("Rosetti"), based in New York. Business of Rosetti comprises the design, arrangement for the manufacture of import, marketing and sale of women's handbags, purses and related accessories for its own brand, as well as licensed and private labels for United States retailers including department stores, mass-merchants and specialty stores. Rosetti designs its hand bag lines internally and outsources the production of finished goods to a network of manufacturers, particularly in Southern China.

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

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

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

32 Business combinations (continued)

Details of net assets and goodwill are as follows:

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

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

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

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

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

32 Business combinations (continued)

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

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

33 Contingent liabilities

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

34 Commitments

(a) Operating lease commitments

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

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

(b) Capital commitments

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

35 Charge of assets

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

36 Related party transactions

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

37 Financial risk management

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

(a) Foreign exchange risk

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

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

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

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

(b) Credit risk

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

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

(c) Liquidity risk

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

(d) Cash flow and fair value interest rate risk

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

38 Event after balance sheet date

On 10 February 2007, the Group entered into an Assets Purchase Agreement to acquire the global sourcing operations of designer Tommy Hilfiger. The acquisition was completed on 9 March 2007 and a total cash consideration of approximately HK$1,932,840,000 was paid. The acquisition constituted to a discloseable transaction of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Further details of the transaction are set out in an announcement dated 2 March 2007.

Details of net assets acquired and goodwill are as follows:

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

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

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

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

39 Approval of accounts

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