LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 494

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07 Annual Report


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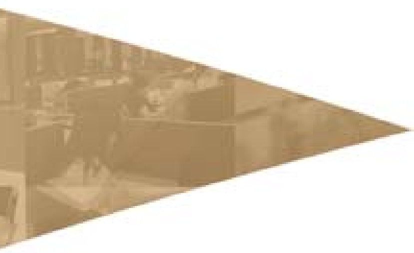
Contents



Corporate Information

Non-Executive Directors

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

** Independent Non-executive Directors*

Executive Directors

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

Group Chief Compliance Officer

James SIU Kai Lau

Company Secretary

Terry WAN Mei Chow

Legal Advisors

JSM
16th-19th Floors, Prince's Building
10 Chater Road, Central
Hong Kong

Registered Office

Canon's Court, 22 Victoria Street
Hamilton HM12, Bermuda

Hong Kong Office

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

Chief Operating Officer

Chen Kuan JEANG

Qualified Accountant

Edward YIM Kam Chuen

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited

Citibank, N. A.

JPMorgan Chase Bank, N.A.

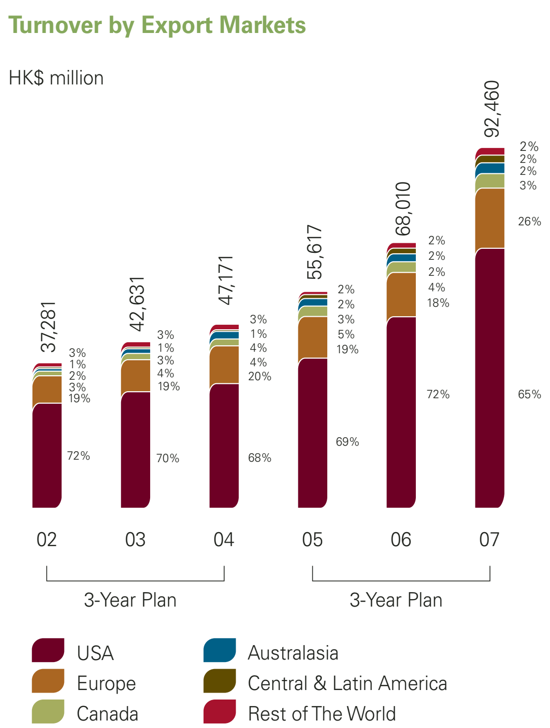
Standard Chartered Bank (Hong Kong) Limited

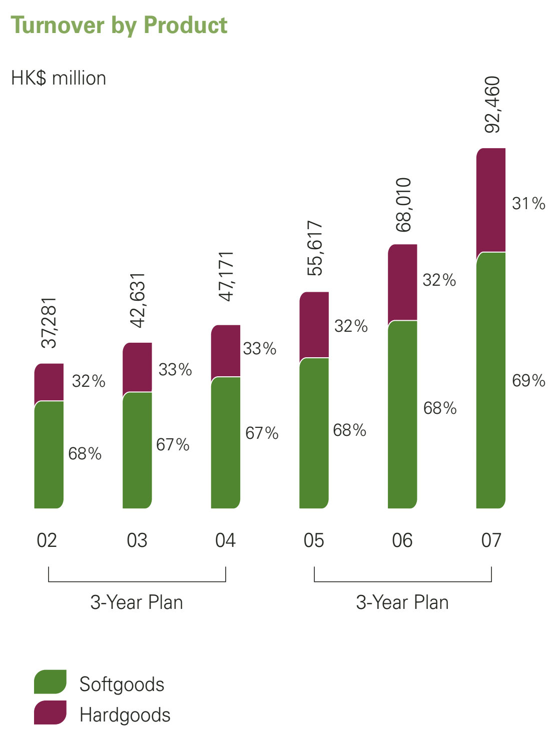
Auditor

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

Key Financial Highlights

	2007 HK$'000	2006 HK$'000	Change
Turnover	**92,459,949**	68,010,257	**+36%**
Total Margin	**10,285,728**	7,647,003	**+35%**
As percentage of Turnover	**11.12%**	11.24%	
Core Operating Profit	**3,186,601**	2,344,226	**+36%**
As percentage of Turnover	**3.45%**	3.45%	
Profit attributable to shareholders of the Company	**3,060,036**	2,201,819	**+39%**
As percentage of Turnover	**3.31%**	3.24%	
Earnings per Share – basic	**89.5 HK cents**	67.1 HK cents	**+33%**
Dividend per Share			
– Final	**50 HK cents**	39 HK cents	**+28%**
– Full year	**71 HK cents**	55 HK cents	**+29%**
Shareholders' Funds	**9,895,317**	8,299,208	
Net Assets per Share	**HK$2.88**	HK$2.43	





Global Reach,
Local Presence

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

South Africa
Antananarivo
Durban
Moka

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

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

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

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

Headquartered in Hong Kong, the Company's extensive global sourcing network covers over 80 offices in more than 40 economies around the world.

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

Committed to the highest standards, our 13,300 staff around the world give Li & Fung the global reach and local presence to conduct strict quality assurance testing through factory evaluations, lab testing, on-site production monitoring and multiple inspections. The professionals at Li & Fung act as an extension of customers' own businesses to manage all aspects of the global supply chain.

Chairman's Statement

Victor FUNG Kwok King

Li & Fung's strategic approach to growth through diversification has borne fruit with strong results for 2007 despite uncertain macroeconomic conditions.

These results have seen the Group exceed the ambitious targets laid out in the Three-Year Plan back in 2005. I am pleased to report that the target to grow turnover from US$6 billion in 2004 to US$10 billion by 2007, has been exceeded.

Indeed during 2007, the Group recorded turnover of US$11.85 billion (HK$92.46 billion), 19% or US$1.85 billion (HK$14.46 billion) higher than the goal set at the beginning of the last Three-Year Plan.

This result has been achieved against a backdrop of a global economic environment dominated by concerns about a slowing US economy, worldwide inflationary pressures, and the impact of the sub-prime market on consumer sentiment. As the Group's results have indicated, its turnover growth has proved to be resilient and we remain cautiously optimistic going forward.

Performance

In 2007, Group turnover increased 36% to US$11.85 billion (HK$92.46 billion). Profit attributable to shareholders was HK$3.06 billion, representing a 39% increase over the HK$2.20 billion for 2006. This result is reflected in the basic earnings per share which were 89.5 HK cents compared with 67.1 HK cents for 2006.

The Group Board of directors has proposed a final dividend of 50 HK cents per share which, together with an interim dividend of 21 HK cents per share, will give a total dividend of 71 HK cents per share for 2007.

Market and Business

While the full effects of the slowdown of the US economy remain uncertain, the Group remains cautiously optimistic about prospects for continued growth.

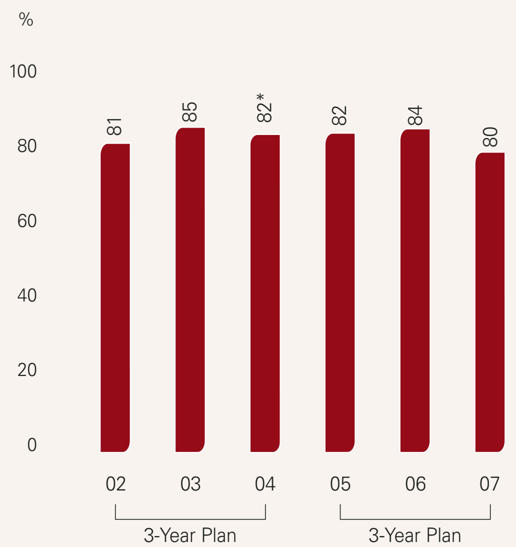
The global trend towards outsourcing has shown no signs of abating despite sluggish sentiment. Indeed, past trends indicate that customers turn to outsourcing in the face of increasing cost pressures in a weak economic environment in order to preserve profit margins.

Li & Fung's capacity to move swiftly and decisively as new, cost-efficient sourcing markets have emerged has placed the Group at the forefront of the sourcing business worldwide. This has brought additional benefits to a growing customer base worldwide for whom time and cost are critical.

Earnings per Share
Dividend per Share

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

Dividend Payout



* Excluding Special Dividend

Much of the Group's success during 2007 has been derived from the Group's continued adherence to its growth strategy, undertaking both organic business expansion and selective strategic acquisitions. This has underpinned our increased diversification plans which formed a key part of our Three-Year Plan 2005-2007.

This diversification has been undertaken across business lines and across geographies and will continue to form an important platform of our new Three-Year Plan. While the US market remains important to the Group, we expect to see continued growth in turnover from Europe as seen in the increase of share of turnover to 26% in 2007 from 18% in 2006 .

Expansion into new business lines opened new avenues for growth and new consumer markets for the Group. Specifically, Li & Fung expanded into Health, Beauty and Cosmetics for the first time through the acquisition of CGroup and, through the acquisition of Peter Black, broadened its Footwear line significantly, particularly in the UK. Such acquisitions are well positioned to complement the existing core sourcing business.

This expansion has increased the Group's overall offering to customers around the world which is now more comprehensive and efficient.

Growth has also been derived from the US onshore business through our active involvement in the proprietary brands business.

Industry Trends

The need for ever faster and more efficient ways to bring goods to market remains a hallmark of the global marketplace. The Group has continued to explore new opportunities to meet these needs and, in particular, to reduce the lead-time of product lines such as fashion, which are highly dependent upon quick responses to market trends.

Inflationary pressures are widespread and have impacted on some core source markets, such as China. The Group's ability to source across more than 40 economies has positioned us well. This has seen the continued growth of some important source markets during the year under review such as Vietnam and Turkey which have both grown by 69% and 59% respectively for Li & Fung. China, which continued to act as a key source country, grew during 2007 by 33%, the eighth ranked source market in terms of growth. Furthermore, in 2007, we have expanded our network further by opening office in Changsha, China; Lucca, Italy; Casablanca, Morocco; Moscow, Russia; Keighley, UK; and Trowbridge, UK.

While less than half of the Group's products were sourced from China (48%) in 2007, we expect China to remain an important market in global sourcing.

The spread of source markets across different geographies has reflected the increased segmentation of customer needs. Global supply chain management has called for a higher degree of specialisation and diversification in order to meet those increasingly disparate needs.

Recent product recalls from China and ongoing trade protectionism issues, particularly involving China and the US, have dominated the year under review. This sentiment is expected to continue for some time into the future.

We remain committed to a multilateral world trade system as the way to best meet the increasingly complex demands of supply chain management across diverse geographies and to a progressively more nimble and connected marketplace - and end-user. The opening of new source markets has provided important new opportunities for economic growth and improved living standards for new economies and new labour markets.

It is critical that the Doha round of multilateral trade negotiations reaches a successful conclusion. This is particularly important given the current sentiment and concerns about global macroeconomic conditions.

Prospects

The Group will continue to set ambitious targets on the back of this success as we enter into the next Three-Year Plan. Indeed, the Group's Three-Year Plan 2008-2010 sets a bold target of US$20 billion in turnover, of which US$16 billion in core business turnover and US$4 billion in onshore business turnover as well as US$1 billion in core operating profit. The Group is also targeting to achieve operating leverage by ensuring that income percentage growth is twice turnover percentage growth (i.e. 2x) by the end of this new Three-Year Plan.

Opportunities are expected to continue to arise as Li & Fung anticipates and responds to the ever-changing global marketplace. The Group's foray into new business lines such as Health, Beauty and Cosmetics, and Footwear have added strong expertise and capabilities in product design and development, significantly expanding capacity in these key areas.

The Group believes that an important stream of growth could derive from replicating its US onshore business model in other large consumer markets such as Europe and China.

Li & Fung's commitment to continual improvement and change has continued and is firmly ingrained in the Group's culture. It is this spirit of entrepreneurship which has continued to underpin our success. The Group's desire to continue to look at better and more efficient ways to meet the needs of our customer base continues to drive our business strategy into the future.

The Group's increased diversification, extensive global presence and reach, and spread of business lines has confirmed Li & Fung's strength worldwide and provide reason for cautious optimism despite global uncertainty.

Corporate Governance

The Group's commitment to maintaining the highest standards of corporate governance remains unwavering. It will continue to uphold a culture which fosters principles of transparency, accountability and independence.

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

With over 13,000 employees across more than 40 economies, Li & Fung continues to practice an internal culture which respects diversity. The Group strives to uphold its values as a Hong Kong-based multinational in order to develop our people and to contribute to the communities in which we operate.

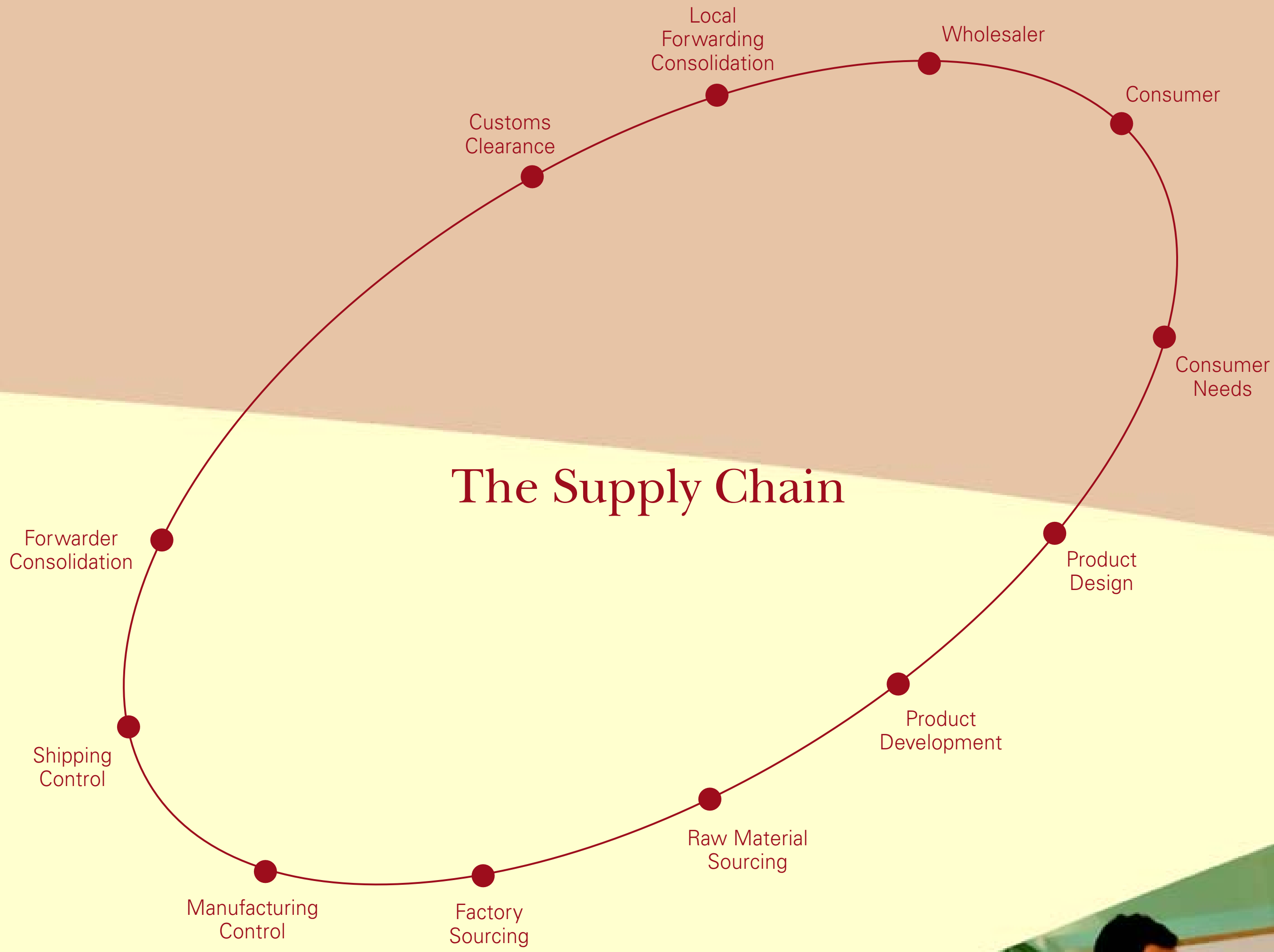
Conclusion

I would like to express my gratitude to the members of the Board for their continued support and guidance. I would like to thank the management team and our thousands of staff around the world to whom I remain indebted. Exceeding the goals we set ourselves three years ago would not have been possible without their efforts.

Victor Fung Kwok King
Chairman

Hong Kong, 27 March 2008

The Supply Chain



We manage all aspects of the global supply chain with our extensive network covering over 80 offices worldwide.

Management Discussion & Analysis

William Fung,
Managing Director

Results Review

The Group is extremely pleased to report that in this, the final year of our Three-Year Plan 2005–2007, we have experienced excellent growth – indeed, we have exceeded our original Three-Year Plan target of achieving US$10 billion turnover by the end of 2007.

Turnover increased by 36% to US$11,854 million, the strongest turnover growth since 2000, reflecting Li & Fung's solid organic growth coupled with a number of strategic acquisitions during the year.

Compared to the turnover in 2004 of US$6 billion, this represents almost a doubling of the turnover of the Group in this past three years for 2005–2007. Profit attributable to shareholders reached HK$3,060 million for 2007, an increase of 39% over 2006 and more than double that of 2004.

While consumer sentiment in the US and Europe started to soften midway through 2007, Li & Fung continued to perform well in view of its efficient global sourcing network and asset light strategy which enabled the Group to operate with substantial flexibility.

The Group continued with its two-pronged acquisition strategy throughout 2007. Acquisitions included the sourcing operation of global designer company Tommy Hilfiger, beauty and cosmetics company CGroup, shoes and accessories group Peter Black International Ltd, Regatta, four of Liz Claiborne's brands and American Marketing Enterprises. These acquisitions have further broadened the Group's product platforms and geographic reach, setting the stage for the next Three Year-Plan.

Bruce Rockowitz,
President

The Group's total margins increased by 35% and as a percentage of turnover, saw a slight decrease from 11.24% to 11.12% in 2007, reflecting margin dilution from KarstadtQuelle's lower margin business. The lower margins from KarstadtQuelle's businesses were partially offset by our higher margin US onshore business.

Core operating profits increased by 36% as a result of better market penetration and increasing contributions from earlier acquisitions like Tommy Hilfiger's sourcing operations. Core operating profit margin remained flat at 3.45%, mainly attributed to the lower margin business from KarstadtQuelle as well as continued investment in back office infrastructure.

In 2007, the Group successfully issued an inaugural bond of US$500 million, which was very well received by fixed income investors. The notes were issued at a coupon rate of 5.50% per annum for a ten-year term, due 2017. The net proceeds have applied towards business development, acquisitions and refinancing the Group's existing indebtedness.

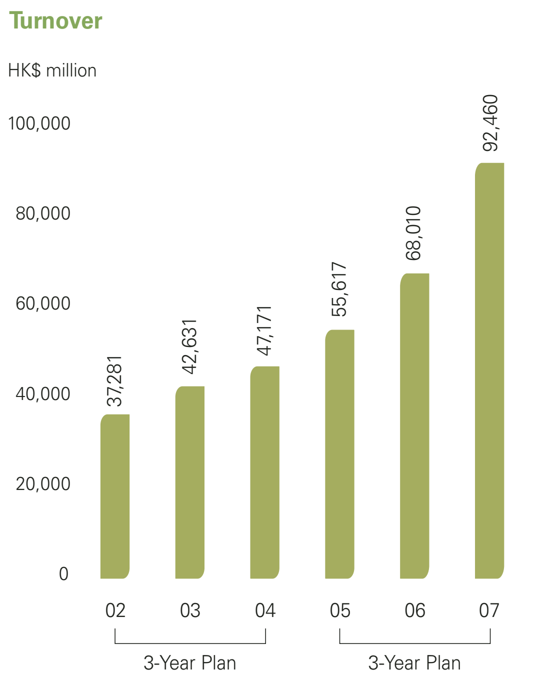
Segmental Analysis

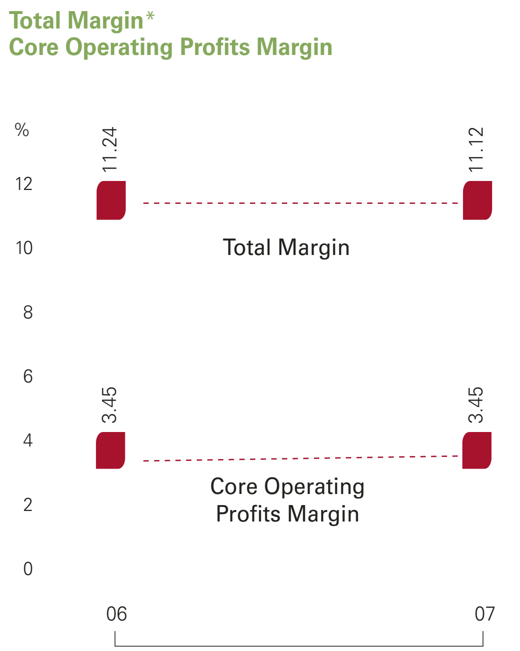
In 2007, soft and hardgoods accounted for 69% and 31% of turnover respectively. **Softgoods** turnover increased by 38% whereas operating profit increased by 31%. The improvement reflects positive contributions from acquisitions in 2007 such as Tommy Hilfiger's sourcing operations and Regatta. The acquisition of Regatta, for instance, has enabled us to increase our addressable market with increasing involvement in proprietary brand business.

Turnover and operating profit from the **hardgoods** business grew by 31% and 51% respectively. This reflects solid organic growth in the hardgoods segment as well as contributions from acquisitions such as Peter Black International Ltd and CGroup.

Geographically, while the **US** market continues to be the Group's key export market, representing 65% of the Group's total turnover during the period under review, this represents a fall from 72% in 2006 and reflects our success in diversifying geographically into Europe. Turnover and operating profit grew by 22% and 26% respectively, driven by our success in increasing our market through our active involvement in the proprietary brand business, in addition to our core private label business.

We have successfully achieved our 2005–2007 Three-Year Plan target for our US onshore business of US$1 billion turnover. Our US onshore business has grown tremendously since its inception in 2004. Apart from being a major private label company and a key player in the proprietary brands, we also have one of the largest licensed portfolios in the US.





* Gross Profit plus other revenues, as percentage of turnover

Europe accounted for 26% in turnover, reflecting a growth of 99% over the same period last year. Operating profits grew by 77%. This strong growth is attributable to our strategy to increase our share of the European market made possible through our acquisition of KarstadtQuelle International Services.

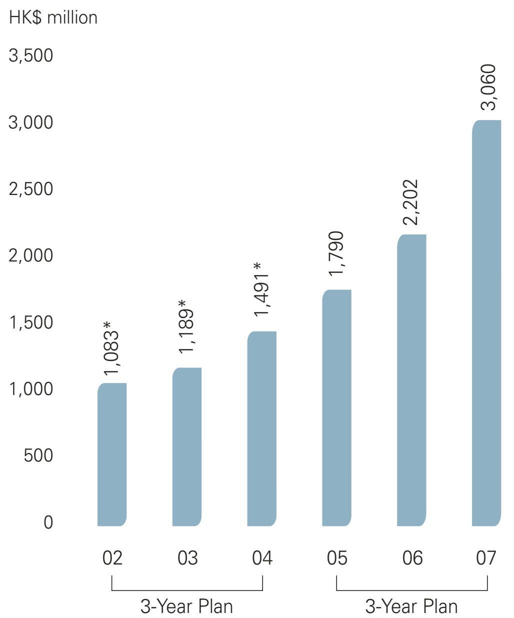
Turnover in other markets such as **Canada, Central and Latin America**, and **Australasia** accounted for 3%, 2%, and 2%. Turnover and operating profit growth were 9%, 29%, and 33% as well as 19%, 44% and 45% respectively. The Group will continue to grow in these smaller markets where we have dominant positions. **Japan** and the rest of the world represents a turnover share of 2%, and experienced growth of 40% in turnover and 24% in operating profit.

Acquisitions

2007 marked another year in which we saw a significant number of acquisition opportunities. We continued with our two-pronged acquisition strategy as the means to expand geographical diversification and our product offer. Key acquisitions include:

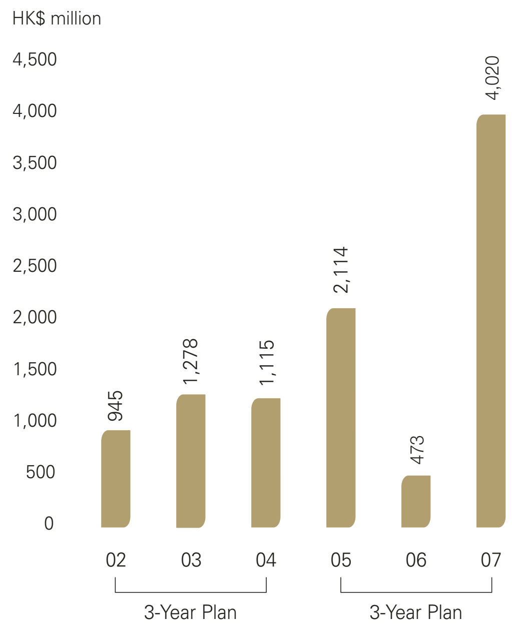
In February 2007, the Group acquired the global sourcing operations of Tommy Hilfiger. The cash consideration for the purchase was approximately US$248 million. While the transaction enables Tommy Hilfiger to access a broader buying office network, it also enhances the Group's ability to operate in the designer arena globally.

Net Profit



* Restated

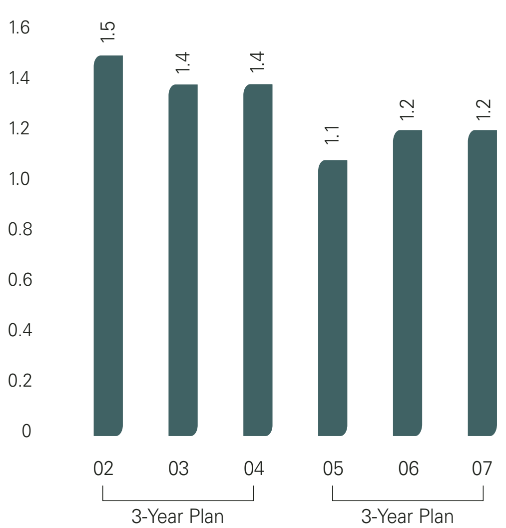
Operating Cash Inflow



In June, Li & Fung entered into an agreement to acquire the shares of CGroup, the Hong Kong-based international Health, Beauty and Cosmetics (HBC) supply chain company. The purchase consideration was approximately US$120 million, with two contingent amounts of up to a total of US$80 million payable if certain profit targets are met. The Group sees tremendous opportunities to leverage potential synergies with existing customers through this acquisition.

The Group announced in August, 2007 that it had entered into an agreement to acquire Peter Black International Limited. Peter Black is a long established, large supplier of footwear, accessories, gifts and personal care merchandise to leading UK and Continental European retailers. This transaction will provide a unique platform and infrastructure for the development of Li & Fung's UK and Continental European onshore business. The purchase consideration was approximately GBP48.14 million.

Current Ratio



In addition, the Group announced on that same day that it had entered into an agreement to acquire Regatta USA LLC, PA Group LLC and Donnkenny LLC (collectively "Regatta"). Regatta is a leading US apparel and brand management company offering proprietary brands and private label products. This transaction will help establish Li & Fung as the leader in design and marketing of proprietary brands. It will help further expand our in-house brand management and marketing capabilities to enhance proprietary brands and private label product offerings. The purchase consideration was approximately US$148 million.

In September, the Group also announced that it had reached an agreement to buy the assets of four of Liz Claiborne Inc.'s brands – Emma James, Intuitions, JH Collectibles and Tapemeasure. There is no initial cash consideration for this purchase. The Group will use these brands to expand our proprietary brand portfolio and looks forward to reinvigorating and growing these brands at retail.

In November, the Group agreed to acquire all of the outstanding shares of American Marketing Enterprises Inc. (AME), and its related companies. AME is the premier children's entertainment character licensed company in the US. The purchase consideration was about US$128 million.

The Group has also acquired Alliance in December 2007. Alliance is one of the largest buying agencies in India in hardgoods specializing in the home area. The purchase consideration was about US$13 million.

New Business Ventures

The acquisition of CGroup and PB Beauty marked the Group's first foray into the HBC business. Both businesses will provide a strategic platform for Li & Fung to develop a strong HBC business with both existing customers and new customers in the continually expanding health and beauty world.

The Group's expertise and capabilities in product design and development in footwear has been greatly enhanced through the acquisition of Peter Black Footwear & Accessories and Lenci (which is based in Italy and also deals in footwear). Significant synergies are expected with existing customers.

Review of Three-Year Plan 2005–2007

The Group has successfully exceeded our original 2005-2007 Three-year Plan target of US$10 billion turnover. Turnover was US$11.8 billion by end of 2007, an increase of 96% over 2004. Turnover in our US onshore business has also reached the US$1 billion sub goal by the end of 2007.

Also of significance was our successful move into new businesses like HBC as well as proprietary brands. We also achieved greater penetration in the European market through our acquisition of KarstadtQuelle International Services during this past Three-Year Plan.

At the same time, the Group has committed steadfastly to reinvest in our back office infrastructure including investment in information technology, human resources and financial accounting systems in order to provide a solid platform for our future growth. These initiatives have laid the cornerstone for a strong new Three-Year Plan.

Prospects and Progress on Three-Year Plan 2008–2010

The new Three-Year Plan is targeting to achieve a turnover of US$20 billion, of which US$16 billion will derive from core sourcing business and US$4 billion from the onshore businesses in the US, Europe and China. We have set ourselves a Core Operating Profit target of US$1 billion by the end of 2010. In addition, the Group is targeting to achieve operating leverage of doubling income percentage growth over turnover percentage growth (i.e. 2x) by the end of this new Three-Year Plan.

While the new Three-Year Plan begins against the backdrop of a soft consumer market and increasing tension between the US and China over product quality issues, the Group sees a positive start with a strong flow of orders to-date.

We foresee solid business growth in the core sourcing business driven by the increase in our market through new business ventures such as in the HBC area, footwear and proprietary brands. The Group plans to replicate the onshore business model into Europe and China in the next three years, which are expected to become another source of growth, and enhance the overall profitability of the Group. At the same time, the Group remains committed to strict and increased monitoring of social, environmental and health compliance of the factories used for our customers.

On the sourcing front, the Group will continue to expand our sourcing network relentlessly to meet the needs of customers. We opened six offices in 2007, including Changsha (China), Lucca (Italy), Casablanca (Morocco), Moscow (Russia), Keighley (the UK) and Trowbridge (the UK). We have a vast network of more than 80 offices in over 40 economies.

Last but not least, the Group will continue the two-pronged strategy of pursuing both large and small acquisitions in this Three-Year Plan to complement our organic business growth.

Financial Position and Liquidity

The Group continued to be in a strong financial position for the year under review with cash and cash equivalents amounting to HK$1,267 million at the end of December 2007.

Normal trading operations were well supported by more than HK$18,464 million in bank trading facilities. In addition, the Group had available bank loans and overdraft facilities of HK$2,566 million, out of which only HK$647 million was utilized.

At balance sheet date, the Group's gearing ratio was about 24%, calculated as net debt divided by total capital. Net debt of HK$3,040 million is calculated as total borrowings (including short-term bank loans of HK$442 million and long term notes of HK$3,865 million less cash and cash equivalents of HK$1,267 million). Total capital is calculated as total equity of HK$9,864 million plus net debt. The current ratio was 1.2, based on current assets of HK$19,067 million and current liabilities of HK$16,346 million.

Impact of Changes in Accounting Standards

The following new standards, amendments to standards and interpretations are relevant to the Group and are mandatory for the financial year ended 31 December 2007.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

Save as the adoption of HKAS 1 (Amendment) and HKFRS 7, which introduces new disclosures relating to financial instruments, adoption of these new standards, amendments to standards and interpretations does not have any significant impact on the Group's account.

Foreign Exchange Risk Management

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

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

Capital Commitments and Contingent Liabilities

At the date of this announcement, the Group has a long-running dispute with the Hong Kong Inland Revenue Department related to the non-taxable claims of certain non-Hong Kong sourced income and the deduction of certain marketing expenses of approximately HK$1,288 million for the years of assessment from 1992/1993 to 2006/2007. The disputes were initiated in 1999 and have been disclosed in our annual reports since that year. The Group has been working with its accounting and legal advisors in respect of its dealings with the Hong Kong Inland Revenue Department in relation to these matters. A hearing of the disputes was held before the Board of Review in January 2006 but as at the date of this announcement, the result is not yet known.

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

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

Human Resources

As of the end of 2007, the Group had a total workforce of 13,293 of whom 3,528 were based in Hong Kong and 9,765 were located overseas. The Group offers its staff competitive remuneration schemes. In addition, bonuses and share options are also granted to eligible staff based on individual and Group performance.

The Group is committed to nurturing a learning culture in the organization. Emphasis is placed on training and development, as the Group's success is dependent upon the efforts of a skilled and motivated work force. Training programs have been developed to align with the profiles of different job levels and functions. There are different series of training programs in place including: the Management Development Series, Professional Development Series and Supervisory Skills Series focusing on the management skills training for managerial and frontline staff; the Functional Competency Training Series focusing on the technical skills training for merchandising and quality assurance functions; and Language Training for all staff. During 2007, we also developed a new Global Induction Program across the whole group. Through this program, we aim to better integrate new staff and facilitate their development within the Company.

In addition, there are two key resourcing programs: the Management Trainee Program and the Merchandising Development Program. The Management Trainee Program, first launched in 2003, is a global corporate management program, aimed at attracting and developing high potential university graduates to become our future leaders through accelerated career development opportunities. The program is now five years old, and 85 trainees recruited from around the world are participating in the program. The Merchandising Development Program, first launched in February 2006, is a corporate resourcing program, with the aim of developing a merchandising frontline resource pool through structured training. A customized diploma program for trainees has been developed in collaboration with the Hong Kong Polytechnic University, to obtain industry recognition and to establish industry standards for merchandising skill sets, the program will be "rolled out" to offshore offices in 2008. This year, the Merchandising Development Program won two awards: Most innovative Award and Certificate of Excellence in the Award for Excellence in Training 2007, conferred by the Hong Kong Management Association.

The Group invested in sophisticated human resource software during the period under review. Total staff costs for 2007 were HK$3,952 million, compared with HK$2,964 million for 2006.

Committed to Transparency, Accountability and Independence

Corporate Governance

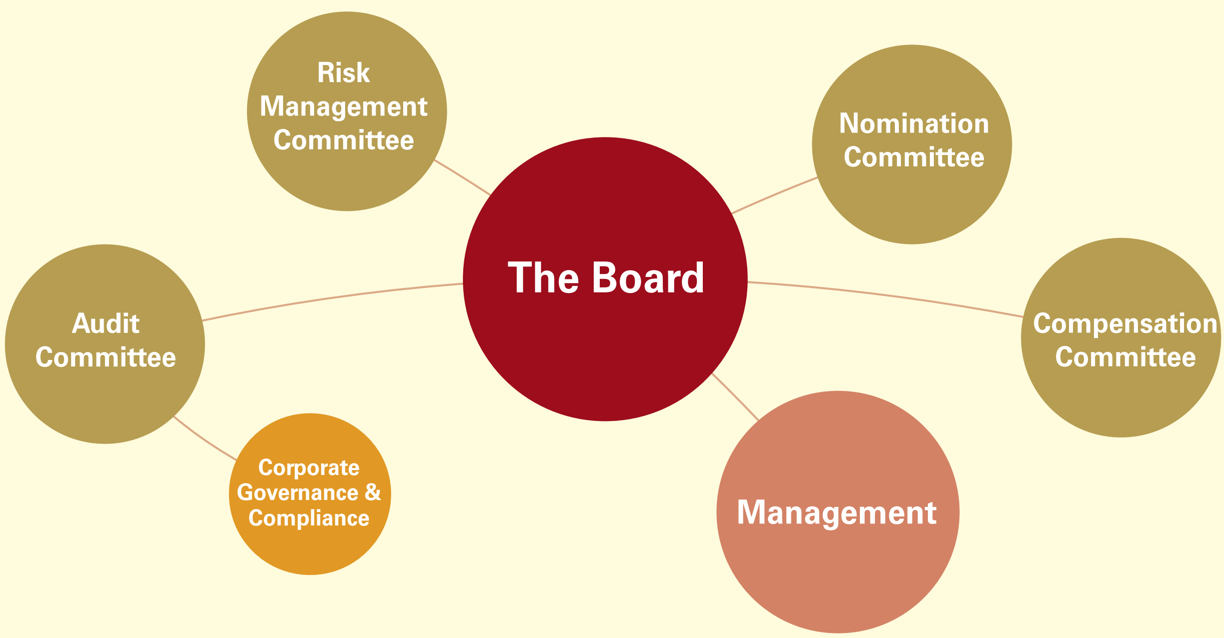
The Board of Directors and management are committed to principles of good corporate governance consistent with prudent enhancement and management of **shareholder value**. These principles emphasize transparency, accountability and independence. Set out below are those principles of corporate governance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

The Board

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

In order to reinforce their respective independence, accountability and responsibility, the role of the Group Chairman is separate from that of the Group Managing Director. Their respective responsibilities are clearly established and defined by the Board in writing. The Group Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures, whilst the Group Managing Director, supported by the Executive Directors, is responsible for managing the Group's business, including the implementation of major strategies and initiatives adopted by the Board.

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



The Board held **eight** meetings in 2007 (with an **average attendance rate of 90%**) to discuss the overall strategy as well as the operation and financial performance of the Group. The Board reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointment or reappointment, approval of major capital transactions and other significant operational and financial matters. Board meetings are scheduled one year in advance to facilitate maximum attendance of Directors. The meeting agenda is set by the Group Non-Executive Chairman in consultation with members of the Board.

All Directors were kept informed on a timely basis of major changes that may have affected the Group's businesses, including relevant rules and regulations. In addition, forming part of the Group's continuing programme since 2003 of updating Directors (in particular Independent Non-executive Directors) on the macro economic and sourcing environment relevant to the Group's major overseas operations, a Board Meeting coupled with office briefings and a tour by our Shanghai colleagues was conducted at Shanghai Hub Office in December 2007. A similar session was at our Thailand and New Delhi offices in 2006 and 2005 respectively.

To maximize the contribution from non-management Directors, a separate meeting was held in December 2007 between the Group Chairman and Non-executive Directors to address business and related issues. Written procedures are also in place for Directors to seek independent professional advice in performing their Directors' duties at the Company's expense. No request was made by any Director for such independent professional advice during the year.

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

The Board also recognizes the importance of the independent reporting of the corporate governance function. The Group's Chief Compliance Officer, as appointed by the Board, attended all Board and committee meetings in 2007 to advise on corporate governance matters covering risk management and relevant compliance issues relating to mergers and acquisitions, accounting and financial reporting.

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

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

A summary of attendance of Board and Committee meetings in 2007 are detailed in the following table:

Board and Committee meetings for Year 2007

No. of meetings ● attended/○ held

	Board	Nomination Committee	Audit Committee	Risk Management Committee	Compensation Committee
Non-executive Directors					
Dr Victor FUNG Kwok King[1]	●●●●●●●●	●●	●●●●	●	●●
Mr LAU Butt Farn	○○●●●●●●				
Independent Non-executive Directors					
Mr Paul Edward SELWAY-SWIFT[2]	●●●●●●●●	●●	●●●●		
Mr Allan WONG Chi Yun[3]	○○○●●●●●		●●●●		●●
Professor Franklin Warren McFARLAN	○●●●●●●●		●●●●		●●
Mr Makoto YASUDA	●●●●●●●●	●●	●●●●		
Executive Directors					
Dr William FUNG Kwok Lun	○●●●●●●●			●	
Mr Bruce Philip ROCKOWITZ	●●●●●●●●			●	
Mr Henry CHAN	○●●●●●●●				
Mr Danny LAU Sai Wing	●●●●●●●●				
Ms Annabella LEUNG Wai Ping	○●●●●●●●				
Group Chief Compliance Officer					
Mr James SIU Kai Lau	●●●●●●●●[4]	●●[4]	●●●●[4]	●	●●[4]
Chief Operating Officer					
Mr Chen Kuan JEANG – appointed on 3 July 2007	●●●[4]		●●[4]		
Dates of meeting	08/02/2007 21/03/2007 01/05/2007 15/05/2007 14/06/2007 15/08/2007 22/10/2007 10/12/2007	15/08/2007 10/12/2007	21/03/2007 15/05/2007 15/08/2007 10/12/2007	05/02/2007	15/08/2007 10/12/2007

1: Chairman of the Board, Nomination Committee and Risk Management Committee
2: Chairman of Audit Committee
3: Chairman of Compensation Committee
4: Attended Board and Committee meetings as a non-member
Note: All Committee chairmen attended the Annual General Meeting held on 15 May 2007.

Under the past Three-Year Plan (2005–2007), the Group's commitment to excellence and **high standards in corporate governance practices continued to earn market recognition from stakeholders** including bankers, analysts and institutional investors such as:

- Corporate Governance Asia Recognition Awards 2007 and 2006 by *Corporate Governance Asia* Journal;
- "The Best in Corporate Governance Awards 2007" by *The Asset* magazine;
- "Hong Kong Best Managed Company – No.1" and "Best Corporate Governance – No.2" by *FinanceAsia* magazine in 2007 and 2006;
- Ranking among the top 5 of Hong Kong large caps companies in corporate governance ranking surveyed by CLSA and ACGA survey in 2007;
- The Gold Award in the Hang Seng Index Category of the Best Corporate Governance Disclosure Awards for five consecutive years from 2002 to 2006 organized by the Hong Kong Institute of Certified Public Accountants;
- Ranking among the top of Hong Kong public companies with the highest corporate governance score surveyed by the City University of Hong Kong (sponsored by the Hong Kong Institute of Directors) in 2006;
- One of "Asia's Best Managed Companies in Hong Kong 2006" by *Asiamoney* magazine.

Board Committees

The Board has established the following committees (all chaired by Independent Non-executive Director or Non-executive Director) with defined terms of reference (available to shareholders upon request), which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the Listing Rules: the Nomination Committee, the Audit Committee, the Risk Management Committee and the Compensation Committee. Minutes of all committees meetings are circulated to all Board members. To further reinforce independence, the Nomination, Audit and Compensation Committees have been structured to include a majority of Independent Non-executive Directors since 2003. Reports from each of the Committees are set out below.

Corporate Governance Asia Recognition Awards 2007 & 2006

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

Nomination Committee

The Nomination Committee was established in August 2001 and is chaired by the Group Non-Executive Chairman. Its written terms of reference cover recommendations to the Board on the appointment of Directors, evaluation of board composition and the management of board succession with reference to certain guidelines as endorsed by the Committee. These guidelines include appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills, and time commitments of members. The Nomination Committee carries out the process of selecting and recommending candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary. There was no nomination of Directors to fill board vacancies in 2007.

The Committee met **twice** in 2007 (with a **100% attendance rate**) to review and recommend the reappointment of retiring Directors for shareholders' approval at the Annual General Meeting and to discuss the board composition for the next Three-Year Plan (2008–2010).

Audit Committee

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

The Audit Committee met **four** times in 2007 (with a **100% attendance rate**) to review with senior management and the Company's internal and external auditors, the Group's significant internal controls and financial matters as set out in the Committee's written terms of reference. The Committee's review covers the audit plans and findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, listing rules and statutory compliance, internal controls, risk management and financial reporting matters (including the interim and annual reports and accounts for the Board's approval).

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

Under the Group's Policy on Reporting of Concerns, employees can report any concerns, including misconduct, impropriety or fraud in financial reporting matters and accounting practices, to either senior management or the Audit Committee through the Group Chief Compliance Officer in confidence and without fear of recrimination. Any shareholders or stakeholders can also report similar concerns by writing in confidence to our Group Chief Compliance Officer at the Company's business address in Hong Kong. In 2007, no incident of fraud or misconduct was reported from employees, shareholders or stakeholders that have material effect on the Company's accounts and overall operations.

External Auditors' Independence

In order to further enhance **independent reporting** by external auditors, part of our Audit Committee meetings were attended only by Independent Non-executive Directors and external auditors.

A policy on provision of non-audit services by the external auditors has been established since 2004. Under this policy, certain specified non-audit services are prohibited. Other non-audit services (with a fee above a threshold) require prior approval of the Audit Committee. These permitted non-audit services may be engaged only if they are more effective or economical than those available from other service providers and will not constitute adverse impact on the independence of the external auditors. During the year, the external auditors provided permitted non-audit services mainly in due diligence review on acquisitions and tax compliance advisory services. The nature and ratio of annual fees to external auditors for non-audit services and for audit services are subject to scrutiny by the Audit Committee (refer to details of fees to auditors in Note 4 to the accounts on page 84).

In addition, the external audit engagement partner is subject to periodical rotation, and a policy restricting the employment of employees or former employees of external auditors at senior executive and financial positions with the Group has also been in place.

Prior to the commencement of the audit of 2007 accounts of the Company, the **Committee received written confirmation from the external auditors on their independence and objectivity** as required by the Hong Kong Institute of Certified Public Accountants.

Members of the Committee are satisfied with the findings of their review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers (PwC), and the Committee has recommended to the Board the reappointment of PwC in 2008 as the Company's external auditors at the forthcoming Annual General Meeting.

Risk Management Committee

The Risk Management Committee was established in August 2001 and is chaired by the Group's Non-Executive Chairman. Its written terms of reference include offering recommendations to the Board on the Group's risk management and internal control systems. The Committee reports to the Board in conjunction with the Audit Committee.

The Risk Management Committee met **once** in 2007 (with a **100% attendance rate**) to review risk management procedures pertinent to the Group's significant investments and operations. The scope of review covers trade receivables management, inventory management, goodwill assessment, tax compliance issues and other operational and financial risks.

Compensation Committee

The Compensation Committee was formed in 1993 and is chaired by an Independent Non-executive Director. The Committee's responsibilities as set out in its written terms of reference include approving the remuneration policy for all Directors and senior executives, and the annual allocation of share options to employees under the Company's Share Option Scheme. It annually reviews the Group's remuneration policy.

The Committee met **twice** in 2007 (with a **100% attendance rate**) to review and approve all Executive Directors' (including the Group Managing Director) remuneration packages for 2008 including the granting of share options, and to discuss Incentive Scheme for the next Three-Year Plan and service contract for Independent Non-executive Directors.

Remuneration Policy for Executive Directors

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

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

Basic Salary

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

Discretionary Bonus

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

Share Option

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

Remuneration Policy for Non-Executive Directors

The remuneration, comprising Directors' fees, of Non-executive Directors is subject to annual assessment with reference to remuneration surveys conducted by independent external consultants and a recommendation by the Committee for shareholders' approval at the Annual General Meeting.

Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at Company meetings.

Details of Directors' emoluments of the Company are set out in Note 11 to the accounts on pages 87 to 89.

Code of Conduct and Business Ethics

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

Directors' Securities Transactions

The Group has adopted stringent procedures governing directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code.

Specific confirmation has been obtained from directors and relevant employees to confirm compliance with the Model Code and the aforementioned guidelines respectively for 2007. No incident of non-compliance was noted by the Company in 2007.

Directors' and Senior Management Interests

Details of Directors' interests in the shares of the Company are set out in the Report of the Directors section on pages 51 to 53. The shares held by each member of senior management are less than 2% of the issued share capital of the Company for the year ended 31 December 2007.

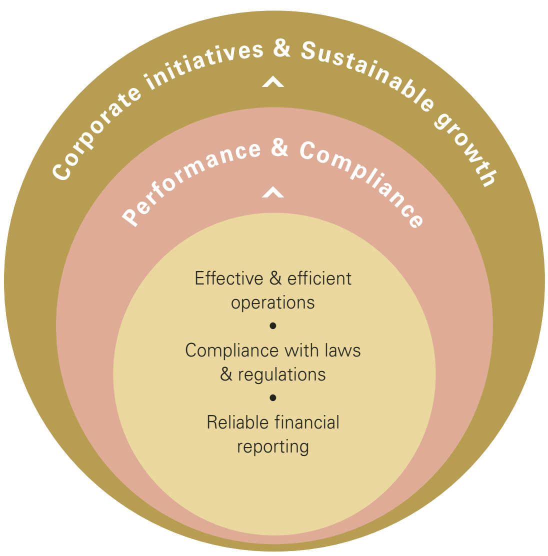
Directors' and Auditors' Responsibilities for Accounts

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

Internal Control and Risk Management

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

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



Control Environment

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

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

Financial and Capital Risk Management

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

The Group adopts a principle of minimizing financial and capital risks. Details of the Group's financial and capital risk management covering market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk are set out in Notes 37 and 38 to the accounts on pages 121 to 124.

Operational Control Management

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

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

Regulatory Compliance Control Management

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

Risk Management Functions

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

Internal and External Audit

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

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

Our external auditors, PricewaterhouseCoopers, perform independent statutory audits on the Group's accounts. As part of their audit engagement, our external auditors also report to the Audit Committee in addition to the Management any significant weaknesses in the Group's internal control system which might come to their notice during the course of audit. PricewaterhouseCoopers noted no significant internal control weaknesses in their audit for 2007.

Overall Assessment

Based on the assessments made by senior management, the Group's Internal Audit team and the external auditors in 2007, and up to the approval date of the Company's 2007 Annual Report and accounts, the Audit Committee was satisfied that:

- the internal controls and accounting systems of the Group have been in place and functioning effectively and were designed to provide reasonable assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with management's authorization and the accounts were reliable for publication.
- there was an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

Compliance with the Code on Corporate Governance Practices

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2007.

Corporate Social Responsibility and Sustainability

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

In 2007, the Group employed more than 100 in-house dedicated compliance staff worldwide to conduct supplier evaluations and monitor compliance to the Code among the suppliers that produce our customers' merchandise. The Group's Vendor Compliance (VC) division is organized independently of our sourcing/merchandising divisions and focuses on improving suppliers' labor, health and safety, environmental and security standards.

The VC division conducts evaluations of approved suppliers on a routine and systematic basis. Additionally, the Quality Assurance/Quality Control teams are also tasked with the responsibility of carrying out a short audit at the time of their factory visits. In 2007, approximately 8,500 facility inspections and verification audits were performed around the globe.

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

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

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

In 2007, Li & Fung developed and implemented a broad spectrum of environmental programmes and initiatives aiming to reduce the amount of office solid waste, manage carbon dioxide emissions, and conserve energy within our corporate operations.

During the year, Li & Fung participated in the Wastewise Scheme in collaboration with the Hong Kong Environmental Protection Department and the Hong Kong Productivity Council. The Scheme aims to promote a green office environment by focusing on solid waste reduction such as office paper, box files and carbon box consumption and recycling of printer toner cartridges, plastic bottles and aluminum cans.

Recognizing the growing importance of assessing the environmental impacts of our global supply chain operations, the Group's VC division also launched a pilot run of Li & Fung's Environmental Audit Programme at the end of 2007. The programme includes elements pertaining to environmental project management, wastewater, air, solid and hazardous waste, chemical handling and storage, noise, resource and energy saving, and control of restricted and hazardous substances. In addition to our existing supplier assessment programme, Li & Fung encourages suppliers to establish and maintain environmental protection and sustainable supply chain systems.

In terms of employing environmentally friendly product, Li & Fung is exploring new opportunities and expanding its sourcing of eco-friendly related products. The Group is working with manufacturers around the world to produce organic cotton products to our customers. Along the process, Li & Fung has been consolidating our internal knowledge and expertise to meet this new market demand and requirements driving for a more ecologically healthier and sustainable environment.

In 2007, the Group's Taiwan and Vietnam offices renewed its "Chain of Custody" certification in trading of indoor and outdoor home-used wood products certified by The Forest Stewardship Council (FSC), an international non-profit organization based in Germany whose mission is to promote environmentally and socially responsible forest management worldwide. FSC Chain of Custody certification is independently verified and provides assurance to our committed customers that the forest products bearing the FSC trademark label were produced from certified well-managed forests in all stages of processing, manufacturing and distribution.

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

As of October 2007, Li & Fung has been included as one of the five Sustainability Leaders 2007/2008 under Clothing, Accessories and Footwear category as published in Sustainable Asset Management (SAM)'s Sustainability Yearbook 2008, the world's most insightful publication on corporate sustainability by assessing the 2,500 largest companies (as reflected in the Dow Jones Global Index) based on a wide range of economic, environmental and social criteria. The inclusion in the Yearbook represents Li & Fung is ranked among the top-scoring 15% of the companies worldwide assessed by SAM. Since 2005, Li & Fung has also been included as a constituent member of the FTSE4Good Index Series from FTSE Group (UK) recognizing Li & Fung's commitment to high corporate social responsibility standards.

Investor Relations and Communications

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

Our corporate website continues to disseminate shareholder information and other relevant financial and non-financial information electronically on a timely basis.

During 2007, the Board confirmed that there were no significant changes made in the Company's bye-laws affecting Li & Fung's operation and reporting practices. Details of the last shareholders' meeting, key calendar events for shareholders' attention and share information including market capitalization as of 31 December 2007 are set out in Information for Investors section on page 42 and on our corporate website.

In 2007, Li & Fung's continuing commitment to enhancing investor relations and communications gained further recognition from the wider business community when the Company was selected as one of the "Fabulous 50" companies by *Forbes Asia* magazine. Li & Fung was awarded the third place in "Most shareholders-friendly companies in the consumer category" by *Institutional Investor* magazine and was highly commended in the "Grand Prix for best overall investor relations by a Hong Kong company – large cap" and "Best investment meetings" award categories by *IR* magazine.

Li & Fung was also awarded the "Best Bond/Best Corporate Bond/Best New Bond" Award by *The Asset* magazine for the Company's first issuance of its US$500 million 5-year bond.

Dr William Fung, the Company's Group Managing Director, was awarded "Best Investor Relations by a CEO at a Hong Kong Company" by *IR* magazine for the second consecutive year since 2006, and was ranked second place for the "Best CEOs in the consumer category" by *Institutional Investor* magazine.

Shareholders' Rights

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

Specific enquiries by shareholders requiring the Board's attention can be sent in writing to our Group Company Secretary at the Company's business address in Hong Kong. Other general enquiries can be directed to the Company through our Group's Vice President – Investor Relations, whose contact information is detailed on page 42.

Corporate Communications

In 2007, the Company held quarterly Policy Committee Meetings for senior executives to formulate company-wide policies and practices, and to report and discuss significant issues affecting the Group.

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

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

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

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

Information Technology

Li & Fung continues to invest in strengthening and growing its technology infrastructure and application systems to support our business growth, in terms of volume and geographical reach, and increased efficiency across all processes and business activities of the Company.

Continuing Network and Infrastructure Expansion

Following the network changes performed in 2006, the Company has further expanded both its Private Wide Area Network (WAN) and internet based Virtual Private Network (VPN) in 2007. All offices have since secured access via these networks to all business applications and messaging systems. In addition, four Internet Data Centers (IDC) were established in Hong Kong, New York, London and Singapore to provide enhanced security and performance in those regions and to accommodate the growing number of applications, transactions and users.

During the year, the Company has undertaken a global upgrade and migration of its messaging platform to the latest release of Microsoft Exchange and its associated messaging products. This has enabled the Company to further integrate messaging systems, phones, fax, email and instant messaging, and to consolidate physical servers and thereby increases capacity whilst containing or reducing maintenance costs.

Tighten Electronic Integration with Supply Chain Partners

In coping with the rapid growth of our business transactions and supply chain application functionalities, the Group has assigned priority in an extended initiative to increase its conversion to electronic integration with all major supply chain partners during 2007 and through to 2008. The results of conversion showed significant process improvements and reduction in overall cycle times.

Global System Upgrade and Implementation

In 2007, significant milestones achieved included the completion of major phases of implementation of our global Finance Accounting system, Human Resources system, email messaging platform, and technology and functional upgrades to our core Trading platform. These milestones included significant investment in process re-engineering, standardization and documentation with recorded improvement in processing time and effort of particular processes and reporting. All new and upgraded applications are web-based, enabling multi-party and geographic movements of process to any of our offices within Li & Fung network, and supporting the Company's "off-shoring" initiatives to expand in the low-cost countries.

The other supply chain extended applications completed in 2007 included Mobile Quality Control (MQC), Document Management, Data Warehouse Reporting and initial phase of Compliancy applications. More upgrade of these applications will be rolled out in 2008.

Service Improvements

In 2007, the IT Division of Li & Fung (Trading) Limited has continued to be certified since 2001 in ISO 9001: 2000 quality management system standards applicable to the provision of in-house IT products and services.

The IT Division also completed the first phase of our global service and help desk platform which is fully integrated into the Company's desktop management system. Upon completion on a global scale, it will enable remote support, training and issues management for all users via any offices within the Group.

Staff and Community

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

Talent Resourcing

Li & Fung launched its annual Management Trainee Programme in 2003 with an aim of nurturing young talented professionals to accommodate business growth of the Group. The programme is a structured career development and intensive training programme which consists of classroom training, job attachments, corporate projects and overseas exposure covering a wide range of management competencies and functional skills. The trainees are expected to assume managerial roles within the Company after successful completion of the programme. The Company currently has more than 80 trainees participating in the programme.

At the end of 2007, Li & Fung had more than 100 trainees participating in its Merchandising Development Programme which aimed to attract new recruits to the Company and build its merchandising resource pool. The programme was tailor-made for the Company's new merchandising staff and covered a mix of in-house and external training programmes. These included practical skills-based, structured on-the-job training, factory attachments and e-learning modules. As part of the programme, the Company collaborated with the School of Professional Education and Executive Development at The Hong Kong Polytechnic University to offer a customized and recognized Professional and Continuing Education (PCE) Diploma in Merchandising for our trainees who will be awarded the PCE Diploma after completion of the two-year traineeship. The programme will be rolled out to our overseas offices during 2008 and 2009.

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

People Development and Retention

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

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

In addition to these development initiatives, Li & Fung focuses on providing adequate incentives and rewards to retain staff based on the evaluation of their performance and contributions.

During 2007, Li & Fung implemented Phase I of our global HR information system. All employee data has been captured resulting in greater efficiencies in maintaining and reporting on key people data. In addition, our on-line recruitment module produced cost savings and improved response times in recruiting staff. Phase II of the project will be commenced in 2008 and includes the automation of the salary review and profit share processes and the implementation of an on-line performance appraisal system.

Office Environment, Health and Safety

Li & Fung strives to be environmentally responsible by adopting good environmental practices in respect of office premises, equipment and consumption of resources, and by supporting practical measures and policies aiming at protecting and preserving the environment of the countries in which it operates. As an example, Li & Fung has been committed to ensuring a healthy and clean working environment for employees by declaring its headquarters in Hong Kong a non-smoking office since 1998. Since 2006, Li & Fung has participated in the Clean Air Charter – Greater Pearl River Delta initiative launched by the Hong Kong General Chamber of Commerce and the Business Coalition on the Environment. It seeks support and endorsement from the business community, on a voluntary basis, to reduce emissions and implement air quality management. In support of the Charter, the Group has taken a proactive role in promoting the initiative to our vendors towards combating air pollution on both sides of the border and beyond. In 2007, Li & Fung Hong Kong headquarters enrolled in the Wastewise Scheme supported by the Environmental Protection Department and the Hong Kong Productivity Council. The Scheme recognizes businesses' efforts on reducing waste and creating a green environment.

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

Community Involvement

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

Li & Fung further provides institutional support in the form of sponsorships for universities and charitable support by direct donation or direct employee involvement in fundraising activities organized by leading charitable organizations. Activities in year 2007 included the Standard Chartered Hong Kong Marathon in which the Group was presented the "Most Supportive Group Award", blood donations for Hong Kong Red Cross, and "Job Shadowing Day" for secondary school students to simulate a work day in our Hong Kong offices with co-partnership with Junior Achievement Hong Kong. The Group also participated in volunteer services to select and visit less privileged junior secondary graduates in China for continued provisional education scholarships with Middle Class in Action (MCIA). The Company also joined the fund raising program – Stairathon organized by the publicly listed Integrated Distribution Services Group for Hong Chi Association. In 2007, for the sixth consecutive year, these efforts and contributions toward a better society were recognized by the "Caring Company Award" presented by The Hong Kong Council of Social Service for the Group's caring culture and good corporate citizenship.

In 2007, the Group continued to support community activities organized by Li & Fung (1906) Foundation, a Hong Kong registered charity whose purpose is to support the staff of the Li & Fung Group of companies around the world to engage in and contribute to the communities in which they live and work.

Directors and Senior Management

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

DIRECTORS

Victor FUNG Kwok King

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

Aged 62. Brother of Dr William Fung Kwok Lun. Group Chairman of the Li & Fung Group of companies including the Company and the publicly listed Integrated Distribution Services Group Limited and Convenience Retail Asia Limited. A director of King Lun Holdings Limited and its wholly owned subsidiary, Li & Fung (1937) Limited, a substantial shareholder of the Company. Joined the Group in 1973 as Manager and became Managing Director of the Group's export trading business in 1977. Became Group Managing Director in 1981 and Group Chairman in 1989. Holds Bachelor and Master Degrees in Electrical Engineering from the Massachusetts Institute of Technology, and a Doctorate in Business Economics from Harvard University. An independent non-executive director of Bank of China (Hong Kong) Limited, Orient Overseas (International) Limited, CapitaLand Limited in Singapore and Baosteel Group Corporation in the People's Republic of China. Vice-Chairman of International Chamber of Commerce. Chairman of the Hong Kong Airport Authority, the Hong Kong University Council, the Greater Pearl River Delta Business Council and the Hong Kong-Japan Business Co-operation Committee. A member of Chinese People's Political Consultative Conference and the Executive Committee of the Commission on Strategic Development. From 1991 to 2000, Chairman of the Hong Kong Trade Development Council. From 1996 to 2003, the Hong Kong representative on the APEC Business Advisory Council. Awarded the Gold Bauhinia Star in 2003 for distinguished service to the community.

William FUNG Kwok Lun

Group Managing Director

Aged 59. Brother of Dr Victor Fung Kwok King. Group Managing Director since 1986. Joined the Group in 1972 and became a Director of the Group's export trading business in 1976. Graduated from Princeton University with a Bachelor of Science degree in Engineering. Holds an MBA degree from the Harvard Graduate School of Business. Degree of Doctor of Business Administration, *honoris causa,* was conferred by the Hong Kong University of Science & Technology. A non-executive director of HSBC Holdings PLC. An independent non-executive director of CLP Holdings Limited, VTech Holdings Limited and Shui On Land Limited. A non-executive director of various companies within the Li & Fung Group including Convenience Retail Asia Limited and Integrated Distribution Services Group Limited. A director of King Lun Holdings Limited and its wholly owned subsidiary, Li & Fung (1937) Limited, a substantial shareholder of the Company. A member of the Hong Kong Trade Development Council. Past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Pacific Economic Cooperation Committee.

Bruce Philip ROCKOWITZ

President

Aged 49. An Executive Director since 2001 and President of the Group since 2004 when he took over day to day oversight of the Group's operations. Co-founded Colby International Limited in 1981 and was the President and Chief Executive Officer until 2000 when Colby was acquired by Li & Fung. Member of the Advisory Board for the Wharton Business School's Jay H Baker Retailing Initiative, an industry center at University of Pennsylvania focused on retail business. Non-Executive Chairman of the Pure Group, a lifestyle, fitness and yoga group operating throughout Asia.

Paul Edward SELWAY-SWIFT

Independent Non-Executive Director
Chairman of Audit Committee

Aged 63. An independent non-Executive Director since 1992. Chairman of Novae Group PLC, a specialist insurance group, and Pure Circle Ltd, a producer of natural food ingredients, both of which are quoted on the London Stock Exchange. Also, Chairman of Atlantis Investment Management (Ireland) Ltd. A director of several other companies including Alba PLC and Temenos Group AG. Formerly, Deputy Chairman of HSBC Investment Bank PLC, a director of The Hong Kong and Shanghai Banking Corporation Limited in Hong Kong and Chairman of Singer & Friedlander Group PLC, a banking and investment management group.

Allan WONG Chi Yun

Independent Non-Executive Director
Chairman of Compensation Committee

Aged 57. An independent non-Executive Director since 1999. Chairman and Group Chief Executive Officer of VTech Holdings Limited. Co-founded VTech Group in 1976. Holds a Bachelor of Science degree in Electrical Engineering from the University of Hong Kong, a Master of Science degree in Electrical and Computer Engineering from the University of Wisconsin and an honorary degree of Doctor of Technology from the Hong Kong Polytechnic University. A council member of the University of Hong Kong, an independent non-executive director of both the Bank of East Asia Limited and China-Hongkong Photo Products Holdings Limited.

Franklin Warren McFARLAN

Independent Non-Executive Director

Aged 70. An independent non-Executive Director since 1999. Baker Foundation Professor at Harvard University. A Professor at the Harvard Graduate School of Business Administration since 1973. Formerly, Faculty Chairman of Advanced Management Program and Chairman of Executive Education Programs. Graduated from the Harvard Business School with a doctorate. Senior Associate Dean from 1990-2004. An independent non-executive director of Computer Sciences Corporation and INVESTools.

Makoto YASUDA

Independent Non-Executive Director

Aged 70. An independent non-Executive Director since 2001. Chairman and Chief Executive of international advisory firm Yasuda EMP Limited, a joint venture of EMP-PAMA Group. Engaged in private equity investment and management activities in Asia for more than 35 years. Well experienced in cross-border corporate advisory, merger & acquisition, project development, and other merchant banking activities. A non-executive director of Yamatake Corporation. Senior advisor to EMP-DAIWA Capital Asia Limited.

LAU Butt Farn

Non-Executive Director

Aged 60. A non-Executive Director since 1995. Joined the Li & Fung Group in 1981 as financial controller. Operations Director for Li & Fung (Retailing) Limited with operation in Circle K Convenience Stores (HK) Limited and Toys LiFung (Hong Kong) Limited between 1985 and 1998. Responsible for merger and acquisition and other corporate finance activities of Li & Fung Group. A director of Li & Fung (1937) Limited, the controlling shareholder of Li & Fung Group of companies including publicly listed Integrated Distribution Services Group Limited of which he is also a non-executive director. Graduated from the University of London with a Bachelor of Science degree in Physics. A Fellow of the Institute of Chartered Accountants in England and Wales.

DIRECTORS (continued)

Henry CHAN

Executive Director

Aged 58. An Executive Director since 1992. In charge of the LF One business stream focusing on hardlines world-wide. Joined the Group in 1972. Solid experience in the hardgoods area. Graduated from the University of Hong Kong with a Bachelor of Social Sciences degree. Holds an MBA degree from the Chinese University of Hong Kong. A member of The Hong Kong Institute of Directors.

Danny LAU Sai Wing

Executive Director

Aged 56. An Executive Director since 1992. In charge of the LF Ten business stream and responsible for US apparel, brands and specialty stores. Graduated from the University of Kansas with a Bachelor of Science Degree in Business and Accounting. First job in garment manufacturing before joining Li & Fung in 1981. Solid experience in the textile and clothing Supply Chain Management business. A director of the Clothing Technology Demonstration Centre Co Ltd. from 1995 to 2003. Past community work includes having served as a committee member of the Government's Workplace English Campaign, the Hong Kong Exporters' Association and Clothing Industry Training Authority.

Annabella LEUNG Wai Ping

Executive Director

Aged 55. An Executive Director since 2000. In charge of the LF Seven business stream for European apparel accounts. Formerly, the Regional Director of North Asia Apparel for Inchcape, a global sourcing network acquired by the Company in 1995. Holds a Master of Science degree in Biology from Northeastern University. Solid experience in the textile industry which covers all categories of apparel. Vice Chairman of the General Committee and Chairman of the Softgoods Sub-committee of the Hong Kong Exporters' Association since 2002. Serving on the Garment Advisory Committee of the Hong Kong Trade Development Council and Advisory Board of the Hong Kong Export Credit Insurance Corporation. Member of the Vetting Committee for the Professional Services Development Assistance Scheme of Commerce, Industry And Technology Bureau since 1 April 2006.

GROUP CHIEF COMPLIANCE OFFICER

James SIU Kai Lau

Aged 63. Joined the Group in 1993 as Chief Financial Officer and as the Chief Compliance Officer since 1996. An executive director of Li & Fung (1937) Limited, the controlling shareholder of the Li & Fung Group of companies including publicly listed Integrated Distribution Services Group and Convenience Retail Asia Group of which he is also their respective Group Chief Compliance Officers. Formerly, partner-in-charge (1981–1989) of the Hong Kong audit practice of Coopers & Lybrand (currently PricewaterhouseCoopers) specializing in advising corporate clients on mergers, acquisitions, finance and on public listings. Community work included having served as member of the Supervisory Board of the Hong Kong Housing Society and Chairman of its Audit Committee (2001 to 2006) and a member of the Professional Accountants in Business Committee of the Hong Kong Institute of Certified Public Accountants (2002–2006). A member of the Securities and Futures Commission Dual Filing Advisory Group. The Deputy Chairman of the Corporate Governance Committee of the Hong Kong Institute of Certified Public Accountants (2007). A Fellow of both the Institute of Chartered Accountants in Australia and the Hong Kong Institute of Certified Public Accountants. A Fellow member of the Hong Kong Institute of Directors. Holds a Bachelor of Economics degree from University of Tasmania, Australia.

SENIOR MANAGEMENT

Richard Nixon DARLING

President of LF USA

Aged 55. President of LF USA business stream and responsible for the Group's U.S. Onshore business strategy which holds a portfolio of well known proprietary brands, entertainment and fashion licenses and private label brands for U.S. retailers. The founder of The Millwork Trading Co., Ltd, a joint venture with Li & Fung that became a wholly owned subsidiary in 1999. Solid retail and wholesale experience in merchandising. Serves on the Board of Directors of "Fashion Delivers", a charitable organization that assists children and families in distressed situations, and the Board of Directors of the American Apparel and Footwear Association, the leading industry trade group.

Marc Robert COMPAGNON

Executive Director of Li & Fung (Trading) Limited

Aged 49. In charge of the LF Eight business stream and responsible for the U.S. department store business, US wholesale apparel sourcing as well as the Group's branded apparel business. Joined the Group in 2000 at the time of the acquisition of Colby International Limited where he was Chief Merchandising Officer for 17 years and was responsible for establishing Colby's global sourcing network and sales and marketing strategies. Holds a Bachelor of Science degree from the University of Vermont.

Dow Peter FAMULAK

Chief Executive Officer of LF Europe/
Executive Director of Li & Fung (Trading) Limited

Aged 47. Chief Executive Officer of LF Europe and in charge of the Group's European onshore business. Also co-leading the Group's health, beauty and cosmetic initiative with Guy d'Auriol and Yan d'Auriol. Joined the Group in 2000 at the time of the acquisition of Colby International Limited where he was an Executive Vice President. Former partner in the law firm of Baker & McKenzie, Hong Kong office where he worked from 1992 until he joined Colby. Graduated from the University of British Columbia with a BA Economics (Honours) and from law school at the University of Saskatchewan. A member of the Hong Kong Law Society, the Law Society of England and Wales and the British Columbia (Canada) Law Society.

Emily MAK MOK Oi Wai

Executive Director of Li & Fung (Trading) Limited

Aged 47. In charge of the LF Three business stream and responsible for the Group's department store, mass market and supermarket apparel business in North and Central America, the Southern Hemisphere and Japan. Joined the Group in 2000 at the time of acquisition of Colby International Limited where she was the Chief Operating Officer and directly responsible for the operational and merchandising matters for Colby's apparel business worldwide. Joined Colby in 1987 and has solid experience in the apparel industry. Graduated from the University of Hong Kong with a Bachelor of Social Sciences degree.

Chen Kuan JEANG

Chief Operating Officer

Aged 53. Joined the Group as the Chief Operating Officer in 2007. Responsible for all back office functions – Finance, Human Resources, Information Technology, Corporate Services and the Middle Office operations. Worldwide responsibility for over 80 offices through eleven hub/regional offices. Over 25 years of senior financial, operational and management experience gained in blue chip, multinational companies in the U.S., Europe, Asia and the Middle East. Worked in the trading, real estate, securities, fast moving consumer goods and the oil and gas industries. A U.S. Certified Public Accountant, registered Professional Engineer and holds an MBA from the Wharton Graduate School. A member of the American Institute of Certified Public Accountants and Society for Professional Engineers of Texas.

Edward YIM Kam Chuen

Executive Vice President of Finance

Aged 52. Joined the Group in 1995 as Financial Controller. Formerly, Financial Controller of Dodwell buying office, a global sourcing network acquired by the Company in 1995. A Fellow of the Hong Kong Institute of Certified Public Accountants. Designated as the qualified accountant of the Company pursuant to Rule 3.24 of the Listing Rules. Holds a Bachelor of Business and Administration from Chinese University of Hong Kong and a Master of Commerce degree from the University of New South Wales in Sydney.

Information for Investors

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

Index Constituent
Hang Seng Index
MSCI Index Series
FTSE4Good Index Series

Key Dates
15 August 2007
Announcement of 2007 Interim Results

19 September 2007
Payment of 2007 Interim Dividend

27 March 2008
Announcement of 2007 Final Results

14 May 2008 to 21 May 2008
(both days inclusive)
Closure of Register of Shareholders

21 May 2008
Proposed Payment of 2007 Final Dividend

21 May 2008
Annual General Meeting

Registrar & Transfer Offices
Principal:
The Bank of Bermuda Limited
6 Front Street, Hamilton HM11, Bermuda

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

Share Information
Board lot size: 2,000 shares

Shares outstanding as at 31 December 2007:
3,450,706,086 shares

Market Capitalization as at 31 December 2007:
HK$108,697,241,709

Basic earnings per share for 2007

Interim	30.8 HK cents
Full year	89.5 HK cents

Dividend per share for 2007

Interim	21.0 HK cents
Final	50.0 HK cents
Full year	71.0 HK cents

Enquiries Contact
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Vice President – Investor Relations

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Kowloon, Hong Kong

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

A Chinese version of this Annual Report is available from the Company upon request and can also be downloaded from our website.
本年報中文版可向本公司索取及從本公司網址下載。

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 December 2007.

Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in *Note 41* to the accounts.

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

Share Capital

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

Results and Appropriations

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

The directors declared an interim dividend of HK$0.21 per ordinary share, totalling HK$719,847,000, which was paid on 19 September 2007.

The directors recommend the payment of a final dividend of HK$0.50 per ordinary share, totalling HK$1,726,678,000.

Reserves

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

Distributable Reserves

At 31 December 2007, the distributable reserves of the Company available for distribution as dividends amounted to HK$4,364,600,000, comprising retained earnings of HK$2,303,927,000 and contributed surplus arising from the exchange of shares for the acquisition of Li & Fung (B.V.I.) Limited and the issuance of shares for the acquisition of Colby Group Holdings Limited, as set out in *Note 27* to the accounts, amounting to HK$2,060,673,000.

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

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

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

Donations

Charitable and other donations made by the Group during the year amounted to HK$1,086,000.

Fixed Assets

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

Ten-year Financial Summary

A summary of the results for the year ended and of the assets and liabilities of the Group as at 31 December 2007 and for the previous nine financial years are set out in the Ten-Year Financial Summary section on page 132.

Pre-emptive Rights

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

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

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

Share Options

At the 2003 Annual General Meeting of the Company held on 12 May 2003, a share option scheme (the "Option Scheme") of the Company was adopted by the shareholders of the Company. As at 31 December 2007, there are options ("Share Options") relating to 77,132,900 shares granted by the Company pursuant to the Option Scheme which are valid and outstanding.

Details of the Share Options granted under the Option Scheme and remain outstanding as at 31 December 2007 are as follows:

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

	Number of Share Options						Exercise Price		
	As at 1/1/2007	Granted	Exercised	Cancelled	Lapsed	As at 31/12/2007	HK$	Grant Date	Exercisable Period
Continuous contract Employees	986,200	–	(854,200)[1]	–	(132,000)	–	8.36	23/5/2003	23/5/2004 – 22/5/2007
	2,938,200	–	(2,253,700)[1]	–	–	684,500	8.36	23/5/2003	23/5/2005 – 22/5/2008
	5,711,300	–	(3,652,300)[1]	–	–	2,059,000	8.36	23/5/2003	23/5/2006 – 22/5/2009
	37,800	–	(37,800)[1]	–	–	–	9.00	20/8/2004	20/8/2005 – 19/8/2008
	832,000	–	(683,600)[1]	–	–	148,400	9.00	20/8/2004	20/8/2006 – 19/8/2009
	22,274,500	–	(13,275,900)[1]	–	(418,000)	8,580,600	13.45	20/6/2005	20/6/2007 – 19/6/2010
	21,340,000	–	–	(676,000)	(550,000)	20,114,000	13.45	20/6/2005	20/6/2008 – 19/6/2011
	20,790,000	–	–	–	(880,000)	19,910,000	13.45	20/6/2005	20/6/2009 – 19/6/2012
	693,000	–	(441,600)[1]	–	–	251,400	13.72	23/1/2006	20/6/2007 – 19/6/2010
	1,397,000	–	–	(130,000)	(55,000)	1,212,000	13.72	23/1/2006	20/6/2008 – 19/6/2011
	1,397,000	–	–	–	(110,000)	1,287,000	13.72	23/1/2006	20/6/2009 – 19/6/2012
	212,000	–	(164,000)[1]	–	–	48,000	15.65	19/6/2006	20/6/2007 – 19/6/2010
	2,220,000	–	–	(168,000)	(50,000)	2,002,000	15.65	19/6/2006	20/6/2008 – 19/6/2011
	2,300,000	–	–	–	(210,000)	2,090,000	15.65	19/6/2006	20/6/2009 – 19/6/2012
	–	2,127,000[2]	–	(8,000)	(91,000)	2,028,000	25.50	02/2/2007	20/6/2008 – 19/6/2011
	–	7,425,000[2]	–	–	(220,000)	7,205,000	25.50	02/2/2007	20/6/2009 – 19/6/2012
	–	1,635,000[3]	–	–	(42,000)	1,593,000	29.93	13/7/2007	20/6/2009 – 19/6/2012

Notes:

(1) The weighted average closing market price per Share immediately before the dates on which the Share Options were exercised was HK$28.36.

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

(3) The closing market price per Share as at the date preceding the date on which the Share Options were granted was HK$29.35.

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

Subsequent to 31 December 2007, the following Share Options were granted by the Company pursuant to the Option Scheme:

	Number of Share Options Granted	Exercise Price HK$	Grant Date	Exercisable Period
William Fung Kwok Lun	880,000[1]	25.55	24/1/2008	1/3/2009 – 28/2/2011
	880,000[1]	25.55	24/1/2008	1/3/2010 – 29/2/2012
	880,000[1]	25.55	24/1/2008	1/3/2011 – 28/2/2013
Bruce Philip Rockowitz	450,000[1]	25.55	24/1/2008	1/3/2009 – 28/2/2011
	450,000[1]	25.55	24/1/2008	1/3/2010 – 29/2/2012
	450,000[1]	25.55	24/1/2008	1/3/2011 – 28/2/2013
Henry Chan	450,000[1]	25.55	24/1/2008	1/3/2009 – 28/2/2011
	450,000[1]	25.55	24/1/2008	1/3/2010 – 29/2/2012
	450,000[1]	25.55	24/1/2008	1/3/2011 – 28/2/2013
Danny Lau Sai Wing	450,000[1]	25.55	24/1/2008	1/3/2009 – 28/2/2011
	450,000[1]	25.55	24/1/2008	1/3/2010 – 29/2/2012
	450,000[1]	25.55	24/1/2008	1/3/2011 – 28/2/2013
Annabella Leung Wai Ping	450,000[1]	25.55	24/1/2008	1/3/2009 – 28/2/2011
	450,000[1]	25.55	24/1/2008	1/3/2010 – 29/2/2012
	450,000[1]	25.55	24/1/2008	1/3/2011 – 28/2/2013
Continuous Contract Employees	25,136,000[1]	25.55	24/1/2008	1/3/2009 – 28/2/2011
	25,136,000[1]	25.55	24/1/2008	1/3/2010 – 29/2/2012
	25,136,000[1]	25.55	24/1/2008	1/3/2011 – 28/2/2013

Notes:

(1) The closing market price per Share as at the date preceding the date on which the Share Options were granted was HK$24.95.

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

Details of the Option Scheme are as follows:

(i) Purpose

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

(ii) Qualifying participants

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

(iii) Maximum number of shares

The total number of shares which may be issued upon exercise of all options to be granted under the Option Scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Option Scheme or 30% of the issued share capital of the Company from time to time. No options may be granted under the Option Scheme if this will result in such limit exceeded. As at 31 December 2007, the number of Shares available for issue in respect thereof is 145,915,500 Shares.

(iv) Limit for each participant

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

(v) Option period

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

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

(vi) Acceptance and payment on acceptance

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

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

(vii) Subscription price

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

(viii) Remaining life of the Option Scheme

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

Subsidiaries

Details of the Company's principal subsidiaries at 31 December 2007 are set out in *Note 41* to the accounts.

Associated Companies

Details of the Company's principal associated companies at 31 December 2007 are set out in *Note 41* to the accounts.

Major Customers and Suppliers

During 2007, the Group purchased less than 30% of its goods and services from its five largest suppliers. The percentage of sales attributable to the Group's largest customer and the five largest customers combined were 13.6% and 33.8% respectively. None of the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had an interest in the customers noted.

During 2006, the Group purchased less than 30% of its goods and services from its five largest suppliers. The percentage of sales attributable to the Group's largest customer and the five largest customers combined were 14.6% and 30.6% respectively.

Connected Transactions

Details of the connected transactions and continuing connected transactions entered into by the Group during the year are set out below:

(i) Pursuant to certain sale and lease back agreements entered on 22 December 2006 by the Group and LF Investment properties Limited, an entity indirectly wholly owned by Dr William Fung Kwok Lun and a trust established for the family of Dr Victor Fung Kwok King, the Group disposed of certain property holding subsidiaries at cash consideration of HK$67,973,000 and agreed to lease back the relevant properties for an unexpired term of one year with options exercisable by the Tenant to renew the tenancies for two further terms of three years each. In such respect, the Group paid rental of HK$7,891,000 in 2007. The disposals and the subsequent lease back arrangements constituted connected transactions and continuing connected transactions respectively under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

(ii) On 5 November 2007, the Group entered into certain other sale and lease back agreements with LFC Holdings Limited and LFT (Holdings) Limited, which are entities indirectly owned by Dr William Fung Kwok Lun and a trust established for the family of Dr Victor Fung Kwok King. Pursuant to the sale and lease back agreements, the Group disposed of certain of its property holding subsidiaries at cash consideration of HK$452,008,000 and agreed to lease back the properties for an unexpired term of one month with three option exercisable by the Group to renew the tenancies for a further term of three years. For the year ended 31 December 2007, the Group paid rental of HK$2,612,000 in such respect. The disposals and the subsequent lease back arrangements constituted connected transactions and continuing connected transactions respectively under the Listing Rules.

(iii) In August 2007, the Group acquired the footwear, accessories, gifts and personal care merchandise business of Peter Black International Limited ("PB Group") in UK. At the same time, a subsidiary of Integrated Distribution Services Limited, which is a connected person of the Company by virtue of the existence of a common substantial shareholder, namely Li & Fung (1937) Limited, also acquired the logistics function of PB Group. Subsequent to the acquisition, the Group entered into a logistics service agreement with that subsidiary of Integrated Distribution Services Group Limited for the continuing provision of the original logistics service, which constituted continuing connected transactions under the Listing Rules. The Group paid logistics service charge of HK$21,976,000, in aggregate, for the year ended 31 December 2007.

The aforesaid continuing connected transactions have been reviewed by independent non-Executive Directors of the Company. The independent non-Executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the auditor of the Company to perform certain factual finding procedures on the continuing connected transactions recognized in 2007 set out above as item (i) and (iii) on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported their factual findings on the selected samples based on the agreed procedures to the Board of Directors.

Pension Scheme Arrangements

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

In Taiwan, the Group operates a defined contribution provident scheme for its employees with the contribution set at 6% of the employees' basic salaries. In addition, the Group also participates in a retirement benefit plan in accordance with local statutory requirements. Under this plan, the Group recognized pension cost monthly at 3% of the employees' salaries, which is contributed monthly to an independent fund.

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

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

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

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

	HK$'000
Contributions to the MPF Scheme	36,006
Contributions forfeited by employees	(1,701)
Contributions to the defined contribution provident scheme and defined benefits plan in Taiwan	9,444
Contributions to the defined benefits scheme in the United Kingdom	511
Contributions pursuant to the statutory requirements in Korea	15,167
Contributions pursuant to local requirements in other overseas regions	87,385
	146,812

Directors

The directors during the year were:

Non-Executive Directors:
Victor Fung Kwok King, *Chairman*
Paul Edward Selway-Swift *
Allan Wong Chi Yun *
Franklin Warren McFarlan *
Makoto Yasuda *
Lau Butt Farn

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

* *independent non-Executive Directors*

In accordance with bye-law 110(A) of the Company's bye-laws, Dr William Fung Kwok Lun, Mr Lau Butt Farn, Mr Allan Wong Chi Yun and Mr Makoto Yasuda will retire by rotation at the forthcoming Annual General Meeting. With the exception of Mr Lau Butt Farn, all the retiring directors, being eligible, will offer themselves for re-election.

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

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

Directors' Service Contracts

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

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

Directors' Interests in Contracts

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

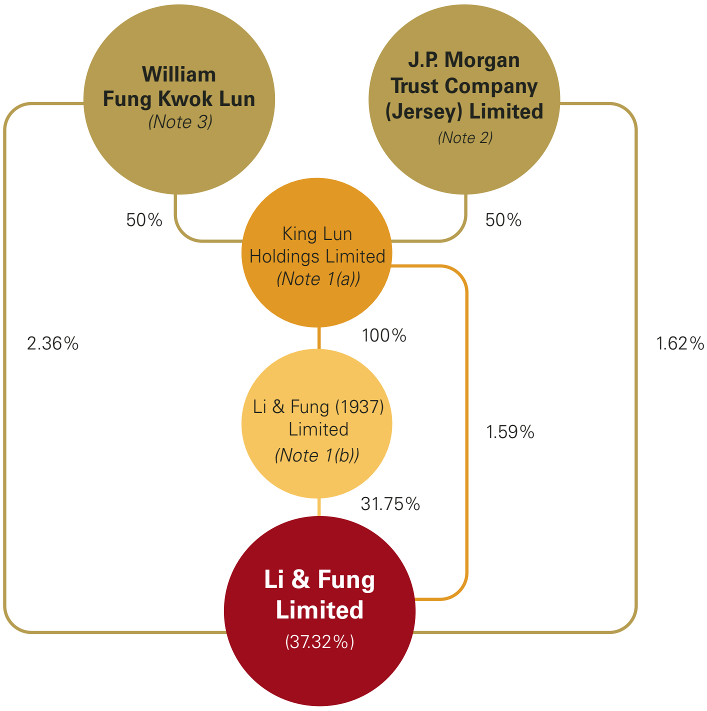
Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2007, the directors and chief executives of the Company and their associates had the following interests in the Shares and underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("the Model Code"):

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

	Number of Shares						
	Personal interest	Corporate interest	Family interest	Trust/ Similar interest	Equity derivatives (share options)	Total	Percentage of issued share capital
Victor Fung Kwok King	–	1,150,545,880[1]	–	55,825,000[2]	–	1,206,370,880	34.96%
William Fung Kwok Lun	67,771,330	1,162,703,080[3]	4,400	–	1,760,000[4]	1,232,238,810	35.70%
Bruce Philip Rockowitz	712,800	–	–	11,411,510[5]	57,145,880[6]	69,270,190	2.00%
Henry Chan	3,514,000	–	–	–	1,760,000[4]	5,274,000	0.15%
Danny Lau Sai Wing	7,824,000	–	–	–	1,320,000[4]	9,144,000	0.26%
Annabella Leung Wai Ping	4,008,000	–	–	–	880,000[4]	4,888,000	0.14%
Lau Butt Farn	2,420,000	–	–	–	–	2,420,000	0.07%
Franklin Warren McFarlan	–	–	–	57,200[7]	–	57,200	0.00%

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



Notes:

(1) As at 31 December 2007,

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

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

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

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

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

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

(3) 12,157,200 Shares of these 1,162,703,080 Shares are held by Golden Step Limited, a company beneficially owned by Dr William Fung Kwok Lun. The balance of 1,150,545,880 Shares are directly and indirectly held by King Lun as mentioned in *Note (1)* above.

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

(5) 11,411,510 Shares in the Company are held by Hurricane Millennium Holdings Limited ("HMHL"), a company beneficially owned by a trust which has been set up for the benefit of family members of Mr Bruce Philip Rockowitz.

(6) These interests represent:–

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

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

(7) 57,200 Shares in the Company are held by a trust established for the benefit of Professor Franklin Warren McFarlan.

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

By virtue of the SFO, each of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun was taken as at 31 December 2007 to have short position through King Lun, in which both of them are deemed to have interests as disclosed above, in respect of an aggregate of 54,945,880 underlying shares in the Company, representing 1.59 percent of the total issued share capital of the Company. Such interest constitutes, for the purposes of the SFO, a short position of King Lun under unlisted physically settled equity derivative which arise under an agreement made between King Lun and HMHL pursuant to which options were granted by King Lun to HMHL to purchase such shares in the Company in ten tranches during the period from 25 December 2004 to 24 December 2019, with each tranche having an exercisable period of six years.

Save as disclosed above, as at 31 December 2007, none of the directors and chief executive of the Company or their associates had any short position in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Mode.

(C) Share Options

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

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

Interests and Short Positions of Substantial Shareholders

At 31 December 2007, other than the interests of the directors or chief executive of the Company as disclosed above, the following persons had interests in the Shares of the Company which fall to be disclosed to the Company under Section 336 of the SFO:–

Name of Shareholder	Capacity	Number of Shares	Percentage of issued share capital
Long Positions			
King Lun Holdings Limited	Beneficial owner (54,945,880) Interest of controlled corporation (1,095,600,000)[1]	1,150,545,880[2]	33.34%
J.P. Morgan Trust Company (Jersey) Limited	Trustee (55,825,000) Interest of controlled corporation (1,150,545,880)[2]	1,206,370,880[3]	34.96%
Janus Capital Management LLC	Investment manager	241,662,660	7.00%
Allianz SE	Interest of controlled corporation	17,009,900	0.49%
Short Positions			
King Lun Holdings Limited	Beneficial owner	54,945,880[4]	1.59%
J.P. Morgan Trust Company (Jersey) Limited	Interest of controlled corporation	54,945,880[5]	1.59%
Lending Pool			
State Street Corporation	Interest of controlled corporation	265,269,264	7.68%
Allianz SE	Custodian corporation/approved lending agent	240,113,445	6.95%

Notes:

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

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

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

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

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

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

Save as disclosed above, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying shares of the Company as at 31 December 2007.

Public Float

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

Senior Management

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

Management Contracts

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

Corporate Governance

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

Directors' Responsibilities for the Accounts

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 31 December 2007 the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

Auditor

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

On behalf of the Board
Victor FUNG Kwok King
Chairman

Hong Kong, 27 March 2008

Independent Auditor's Report

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TO THE SHAREHOLDERS OF LI & FUNG LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated accounts of Li & Fung Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 59 to 131, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the accounts

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2008

Statement of Accounts

Consolidated Profit and Loss Account

For the year ended 31 December 2007

	Note	**2007 HK$'000**	2006 HK$'000
Turnover	*3*	**92,459,949**	68,010,257
Cost of sales		**(82,692,446)**	(60,674,807)
Gross profit		**9,767,503**	7,335,450
Other revenues	*3*	**518,225**	311,553
Total margin		**10,285,728**	7,647,003
Selling expenses		**(1,730,239)**	(1,234,610)
Merchandising expenses		**(4,755,175)**	(3,564,277)
Administrative expenses		**(613,713)**	(503,890)
Core operating profit	*3*	**3,186,601**	2,344,226
Gain on disposal of property holding subsidiaries and/or properties	*4*	**456,622**	71,794
Other non-core operating expenses	*4*	**(43,170)**	(3,700)
Operating profit	*4*	**3,600,053**	2,412,320
Interest income	*3*	**208,193**	98,491
Interest expenses	*5*	**(499,664)**	(148,070)
Share of profits less losses of associated companies		**4,948**	10,603
Profit before taxation		**3,313,530**	2,373,344
Taxation	*6*	**(252,554)**	(171,682)
Profit for the year		**3,060,976**	2,201,662
Attributable to:			
Shareholders of the Company	*7 & 27*	**3,060,036**	2,201,819
Minority interest		**940**	(157)
		3,060,976	2,201,662
Earnings per share for profit attributable to the shareholders of the Company during the year			
– basic	*8*	**89.5 HK cents**	67.1 HK cents
– diluted	*8*	**88.3 HK cents**	66.5 HK cents
Dividends	*9*	**2,446,525**	1,850,006

The notes on pages 65 to 131 are an integral part of these consolidated accounts.

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Intangible assets	12	**11,374,637**	4,713,163
Property, plant and equipment	13	**1,130,002**	1,114,368
Prepaid premium for land leases	14	**2,554**	681,179
Associated companies	16	**14,575**	13,930
Available-for-sale financial assets	17	**85,465**	81,605
Deferred tax assets	30	**115,604**	105,982
		12,722,837	6,710,227
Current assets			
Inventories	18	**2,059,618**	1,331,258
Due from related companies	19	**71,689**	61,977
Trade and bills receivable	21	**13,716,146**	9,231,482
Other receivables, prepayments and deposits	21	**1,746,722**	1,316,053
Cash and bank balances	22	**1,472,365**	3,394,085
		19,066,540	15,334,855
Current liabilities			
Derivative financial instruments	20	**21,809**	4,413
Trade and bills payable	24	**11,231,148**	7,544,176
Accrued charges and sundry payables	24	**2,394,858**	1,315,691
Balance of purchase consideration payable for acquisitions	28	**1,257,254**	760,221
Taxation		**465,765**	320,632
Bank advances for discounted bills	21	**328,175**	123,282
Short-term bank loans	25	**441,796**	2,776,968
Bank overdrafts	22, 25	**205,261**	91,744
		16,346,066	12,937,127
Net current assets		**2,720,474**	2,397,728
Total assets less current liabilities		**15,443,311**	9,107,955

	Note	2007 HK$'000	2006 HK$'000
Financed by:			
Share capital	*26*	**86,268**	85,239
Reserves	*27*	**8,082,371**	6,883,215
Proposed dividend	*27*	**1,726,678**	1,330,754
		9,809,049	8,213,969
Shareholders' funds attributable to the Company's shareholders		**9,895,317**	8,299,208
Minority interest	*27*	**(31,053)**	(32,363)
Total equity		**9,864,264**	8,266,845
Non-current liabilities			
Long-term liabilities	*28*	**5,063,586**	797,487
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	*27, 28*	**464,050**	–
Post-employment benefit obligations	*29*	**30,335**	25,464
Deferred tax liabilities	*30*	**21,076**	18,159
		5,579,047	841,110
		15,443,311	9,107,955

Victor Fung Kwok King
Director

William Fung Kwok Lun
Director

The notes on pages 65 to 131 are an integral part of these consolidated accounts.

Balance Sheet

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Interests in subsidiaries	*15*	**2,406,474**	2,294,624
Current assets			
Due from related companies	*19*	**12,706,454**	17,167,419
Other receivables, prepayments and deposits	*21*	**–**	1,078
Cash and bank balances	*22*	**1,128**	704
		12,707,582	17,169,201
Current liabilities			
Due to related companies	*23*	**–**	8,872,841
Accrued charges and sundry payables	*24*	**34,543**	3,959
		34,543	8,876,800
Net current assets		**12,673,039**	8,292,401
Total assets less current liabilities		**15,079,513**	10,587,025
Financed by:			
Share capital	*26*	**86,268**	85,239
Reserves	*27*	**9,401,745**	9,171,032
Proposed dividend	*27*	**1,726,678**	1,330,754
		11,128,423	10,501,786
Shareholders' funds		**11,214,691**	10,587,025
Non-current liabilities			
Long-term liabilities	*28*	**3,864,822**	–
		15,079,513	10,587,025

Victor Fung Kwok King
Director

William Fung Kwok Lun
Director

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Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Note	**2007 HK$'000**	2006 HK$'000
Total equity at 1 January		**8,266,845**	4,624,801
Currency translation differences	*27*	**176,114**	73,042
Net fair value gains/(losses) on available-for-sale financial assets	*27*	**28,262**	(7,496)
Net fair value losses on cash flow hedges	*27*	**(3,810)**	(6,530)
Net income recognized directly in equity		**200,566**	59,016
Profit for the year	*27*	**3,060,976**	2,201,662
Total recognized income for the year		**3,261,542**	2,260,678
Dividends paid	*27*	**(2,051,185)**	(1,563,542)
Issue of shares upon a private placing	*26, 27*	**–**	2,723,435
Issue of shares for the settlement of acquisition consideration	*26, 27*	**464,050**	–
Shares held by escrow agent	*27*	**(464,050)**	–
Employee share option scheme:			
– value of employee services	*27*	**111,756**	58,465
– shares issued	*26*	**590**	471
– share premium on issue of new shares	*27*	**274,716**	162,537
Total equity as at 31 December		**9,864,264**	8,266,845

The notes on pages 65 to 131 are an integral part of these consolidated accounts.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Operating activities			
Net cash inflow generated from operations	*31(a)*	**4,212,509**	695,013
Hong Kong profits tax paid		**(121,685)**	(149,142)
Overseas taxation paid		**(71,030)**	(73,042)
Net cash inflow from operating activities		**4,019,794**	472,829
Investing activities			
Purchase of property, plant and equipment		**(319,506)**	(302,333)
Disposal of property, plant and equipment		**44,970**	22,208
Disposal of properties		**–**	11,100
Disposal of property holding subsidiaries	*31(c)*	**446,046**	66,185
Repayment from related companies		**–**	96,878
Payment for computer software and system development costs		**(30,514)**	(20,941)
Acquisitions of subsidiaries/businesses	*32*	**(4,565,117)**	(1,263,881)
Settlement of consideration payable for acquisitions of subsidiaries/businesses		**(814,152)**	(685,497)
Advance to associated companies		**(9,712)**	(37,093)
Interest received		**208,193**	98,491
Dividends received from associated companies		**4,303**	1,185
Net cash outflow from investing activities		**(5,035,489)**	(2,013,698)
Net cash outflow before financing		**(1,015,695)**	(1,540,869)
Financing activities			
Net proceeds from issue of shares	*31(b)*	**275,306**	2,886,443
(Repayment)/drawdown of bank loans	*31(b)*	**(2,736,871)**	2,593,668
Issue of long-term notes payable		**3,862,482**	–
Interest paid		**(430,657)**	(148,070)
Dividends paid		**(2,051,185)**	(1,563,542)
Net cash (outflow)/inflow from financing		**(1,080,925)**	3,768,499
(Decrease)/increase in cash and cash equivalents		**(2,096,620)**	2,227,630
Cash and cash equivalents at 1 January		**3,302,341**	1,043,913
Effect of foreign exchange rate changes		**61,383**	30,798
Cash and cash equivalents at 31 December		**1,267,104**	3,302,341
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	*22*	**1,472,365**	3,394,085
Bank overdrafts	*22*	**(205,261)**	(91,744)
		1,267,104	3,302,341

The notes on pages 65 to 131 are an integral part of these consolidated accounts.

Notes to the Accounts

As at 31 December 2007

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 Group'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) Standards, amendment and interpretations effective in 2007

HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to Hong Kong Accounting Standard ("HKAS') 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

HK(IFRIC)-Int 8, 'Scope of HKFRS 2', 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 in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's accounts.

HK(IFRIC)-Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognized in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's accounts.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amended) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

1 Principal accounting policies (continued)

1.1 Basis of preparation (continued)

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

HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it is possible that the number of reportable segments, as well as the manner in which the segments are reported, may change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash-generating units based on segment level, the change may also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.

HK(IFRIC)-Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). HK(IFRIC)-Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC)-Int 14 from 1 January 2008, but it is not expected to have any impact on the Group's 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.

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 values 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.

1 Principal accounting policies (continued)

1.2 Consolidation (continued)

(a) *Subsidiaries (continued)*

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

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

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) *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.

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 segments as the secondary reporting format.

Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash, and mainly exclude investments. Segment liabilities comprise operating liabilities and exclude items such as taxation, unsecured long-term notes and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment *(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 Hong Kong 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 analyzed 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 differences 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 positions of all the Group companies (none of which has the currency of a hyper-inflationary 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 Property, plant and equipment

(a) Land and buildings

Freehold land is stated at cost.

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

(b) Other property, plant and equipment

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

1 Principal accounting policies (continued)

1.5 Property, plant and equipment (continued)

(c) Depreciation and impairment

Freehold land is not depreciated. Other property, plant and equipment are depreciated at rates sufficient to allocate their costs less accumulated impairment losses to their residual values 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%

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. The carrying amount of the replaced part is derecognized. All other repair 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 disposal

The gain or loss on disposal of a fixed asset is the difference between the net sales proceed and the carrying amount of the relevant item, 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.

1 Principal accounting policies (continued)

1.6 Intangible assets (continued)

(b) Computer software and system development costs

Acquired computer software licences are capitalised 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 to 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. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

System development costs recognized as assets are amortized over their estimated useful lives of 3 to 10 years.

(c) Other intangible assets arising from business combinations

Intangible assets, other than goodwill, identified on business combinations are capitalized on their fair values. They represent mainly buying agency agreement secured, relationship with customers and licensors. Intangible assets arising from business combinations with definite useful lives are amortized on a straight-line basis from the date of acquisition over their estimated useful lives ranging from 8 to 20 years.

(d) Brand licenses

Brand licenses are license contracts entered into with the brand-holders by the Group in the capacity as licensee. Brand licenses are capitalised based on the upfront costs incurred and the present value of guaranteed royalty payments to be made subsequent to the inception of the license contracts. Brand licenses are amortized based on expected usage from the date of first commercial usage over the remaining licence periods ranging from approximately 1 to 3 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). Non-financial 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 bills receivable, other receivable and deposits, cash and bank balances and amount due from related companies 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 consolidated profit or loss; translation differences on non-monetary securities are recognized in equity. Changes in the fair values 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 net investment loss.

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 revenues 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 raw materials and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on a first-in, first-out (FIFO) basis, comprises purchase prices of inventories and direct costs. Net realisable value is determined on the basis of estimated selling price 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 reorganisation, 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 consolidated 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

The Group's borrowings and debt instruments are recognized initially at fair value, net of transaction costs, and 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 Current and deferred tax

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax 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 tax 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 tax 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 tax is provided on temporary differences arising on investments in subsidiaries, associates, 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 entitlements 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 costs 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.

1 Principal accounting policies (continued)

1.15 Employee benefits (continued)

(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.

The Group's contributions to the defined contribution plans 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 2007, the transitional long service payment liabilities of approximately HK$1,200,000 was charged to the consolidated profit and loss account *(Note 29(b))*. As at 31 December 2007, all transitional pension and long service payment liabilities have been recognized.

1 Principal accounting policies (continued)

1.15 Employee benefits (continued)

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expenses. 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 vest. At each balance sheet date, the Company revises its estimates on the number of options that are expected to vest. 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.

1.16 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 Principal accounting policies (continued)

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, but 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 property, plant and equipment, investments, goodwill or other assets).

1.19 Total margin

Total margin includes trading gross profit, 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.

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.

Other incomes 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 capitalised 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 Principal accounting policies (continued)

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 recognising the resulting gain or loss depends on whether the derivative is designated 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.

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.

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 property, plant and equipment), 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 property, plant and equipment.

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.

(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.

1 Principal accounting policies (continued)

1.24 Fair value estimation

The fair value of financial instruments traded in active markets (such as 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 mainly 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.

1.25 Trade payables

Trade payables are recognized 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.

1.27 Shares held by escrow agent for settlement of acquisition consideration

The Company issues shares to escrow agents for the settlements of acquisition consideration payables to the vendors in future years. The shares, valued at the agreed upon issue price, including any directly attributable incremental costs, are presented as "Shares held by escrow agent for settlement of acquisition consideration" and deducted from total equity. The number of shares held by escrow agent for settlement of acquisition consideration would be eliminated against the corresponding number of share capital issued in the calculation of the earnings per share for profit attributable to the shareholders of the Company.

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. These calculations require the use of estimates *(Note 12)*.

2 Critical accounting estimates and judgments (continued)

(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$24,052,000 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, incomes 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 income derived from properties in and outside Hong Kong. Incomes recognized during the year are as follows:

	2007 HK$'000	2006 HK$'000
Turnover		
Sales	**92,456,988**	68,006,580
Rental income	**2,961**	3,677
	92,459,949	68,010,257
Other incomes	**518,225**	311,553
Interest income	**208,193**	98,491
Total	**93,186,367**	68,420,301

3 Turnover, incomes and segment information (continued)

(b) Primary reporting format – geographical segments

	United States of America 2007 HK$'000	Europe 2007 HK$'000	Canada 2007 HK$'000	Australasia 2007 HK$'000	Central and Latin America 2007 HK$'000	Rest of The World 2007 HK$'000	Group 2007 HK$'000
Turnover	**59,953,695**	**23,732,432**	**3,109,224**	**2,191,068**	**1,419,840**	**2,053,690**	**92,459,949**
Segment results	**2,067,025**	**767,289**	**129,801**	**97,204**	**57,095**	**68,187**	**3,186,601**
Gain on disposal of property holding subsidiaries							**456,622**
Other non-core operating expenses							**(43,170)**
Interest income							**208,193**
Interest expenses							**(499,664)**
Share of profits less losses of associated companies							**4,948**
Profit before taxation							**3,313,530**
Taxation							**(252,554)**
Profit for the year							**3,060,976**
Segment assets	**16,959,527**	**6,953,747**	**958,522**	**526,128**	**443,931**	**616,518**	**26,458,373**
Unallocated assets							**5,331,004**
Total assets							**31,789,377**
Segment liabilities	**11,056,148**	**4,510,722**	**555,568**	**366,126**	**260,954**	**360,080**	**17,109,598**
Unallocated liabilities							**4,815,515**
Total liabilities							**21,925,113**
Capital expenditure	**197,570**	**88,201**	**11,247**	**9,387**	**5,225**	**7,876**	**319,506**
Depreciation	**119,570**	**60,916**	**5,783**	**4,799**	**2,803**	**4,489**	**198,360**
Amortization of prepaid premium for land leases	**10,441**	**4,133**	**541**	**382**	**248**	**356**	**16,101**

3 Turnover, incomes and segment information (continued)

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

	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
Other non-core operating expenses							(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, incomes and segment information (continued)

(c) Secondary reporting format – business segments

	Turnover 2007 HK$'000	Segment results 2007 HK$'000	Total assets 2007 HK$'000	Capital expenditure 2007 HK$'000
Softgoods	**63,866,931**	**2,363,894**	**19,312,027**	**170,162**
Hardgoods	**28,593,018**	**822,707**	**7,146,346**	**149,344**
	92,459,949	**3,186,601**	**26,458,373**	**319,506**
Gain on disposal of property holding subsidiaries		**456,622**		
Other non-core operating expenses		**(43,170)**		
Operating profit		**3,600,053**		
Unallocated assets			**5,331,004**	
Total assets			**31,789,377**	

	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		
Other non-core operating expenses		(3,700)		
Operating profit		2,412,320		
Unallocated assets			7,412,820	
Total assets			22,045,082	

4 Operating profit

Operating profit is stated after crediting and charging the following:

	2007 HK$'000	2006 HK$'000
Crediting		
Gain on disposal of properties	**–**	3,268
Gain on disposal of property holding subsidiaries	**456,622**	68,526
Net exchange gains	**91,014**	51,585
Charging		
Cost of inventories sold	**82,692,446**	60,674,807
Amortization of intangible assets arising from business combinations	**19,118**	–
Amortization of prepaid premium for land leases	**16,101**	18,358
Amortization of computer software and system development costs	**10,346**	7,797
Amortization of brand licenses	**19,055**	–
Depreciation of property, plant and equipment	**198,360**	190,660
Loss on disposal of property, plant and equipment	**6,336**	5,931
Provision for impairment of available-for-sale financial assets	**24,052**	3,700
Operating leases rental in respect of land and buildings	**323,846**	202,616
Bad debt written off/provision for impairment of receivables	**38,056**	26,756
Staff costs including directors' emoluments *(Note 10)*	**3,951,964**	2,964,487

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

	2007 HK$'000	2006 HK$'000
Audit services	**18,460**	10,986
Non-audit services		
– due diligence review on acquisitions	**14,101**	10,700
– taxation services	**9,622**	5,367
– others	**2,937**	3,023
Total remuneration to auditors	**45,120**	30,076
Less: non-audit service fee capitalised as costs of business combinations	**(14,101)**	(10,700)
Net remuneration to auditors charged to consolidated profit and loss account	**31,019**	19,376

Note: Of the above audit and non-audit services fee, HK$18,125,000 (2006: HK$9,969,000) and HK$26,660,000 (2006: HK$19,014,000) respectively are payable to the Company's auditor.

5 Interest expenses

	2007 HK$'000	2006 HK$'000
Interest on financial liabilities carried at amortized costs		
– wholly repayable within five years	**66,667**	41,935
– not wholly repayable within five years	**2,340**	–
Interest on bank loans and overdrafts wholly repayable within five years	**430,657**	106,135
	499,664	148,070

6 Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2006: 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:

	2007 HK$'000	2006 HK$'000
Current taxation		
– Hong Kong profits tax	**168,386**	134,157
– Overseas taxation	**66,022**	36,678
Underprovision/(overprovision) in prior years	**20,181**	(22,772)
Deferred taxation *(Note 30)*	**(2,035)**	23,619
	252,554	171,682

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:

	2007 %	2006 %
Calculated at a taxation rate of	**17.5**	17.5
Effect of different taxation rates in other countries	**(0.2)**	(0.3)
Income net of expenses not subject to taxation	**(11.6)**	(9.8)
Utilization of previously unrecognized tax losses	**(0.3)**	(0.5)
Unrecognized tax losses	**2.2**	0.3
Effective tax rate	**7.6**	7.2

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$1,288 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 2006/2007.

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$955 million issued to the subsidiaries.

The directors consider that no material tax liabilities will finally crystallise 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$2,291,789,000 (2006: HK$2,191,225,000).

8 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$3,060,036,000 (2006: HK$2,201,819,000) and on the weighted average number of 3,420,475,000 (2006: 3,282,619,000) shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of 3,420,475,000 (2006: 3,282,619,000) ordinary shares in issue by 43,887,000 (2006: 29,606,000) 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

	2007 **HK$'000**	2006 HK$'000
Interim, paid, of HK$0.21 (2006: HK$0.16) per ordinary share	**719,847**	519,252
Final, proposed, of HK$0.50 (2006: HK$0.39) per ordinary share	**1,726,678**	1,330,754
	2,446,525	1,850,006

At a meeting held on 27 March 2008, the Directors proposed a final dividend of HK$0.50 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 2008 *(Note 27)*.

10 Staff costs including directors' emoluments

	2007 HK$'000	2006 HK$'000
Salaries and bonuses	**3,472,805**	2,643,218
Staff benefits	**219,314**	158,876
Pension costs of defined contribution plans	**133,592**	86,864
Employee share option expenses	**111,756**	58,465
Pension costs of defined benefits plans *(Note 29)*	**13,221**	15,092
Long service payments	**1,276**	1,972
	3,951,964	2,964,487

Forfeited contributions totalling HK$1,701,000 (2006: HK$2,354,000) 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 2007 is set out below:

	2007					
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**	**17,700**	**–**	**12**	**20,090**
Bruce Philip Rockowitz	**83**	**4,040**	**15,600**	**640**	**12**	**20,375**
Henry Chan	**83**	**3,510**	**8,437**	**81**	**12**	**12,123**
Danny Lau Sai Wing	**83**	**3,510**	**7,486**	**–**	**12**	**11,091**
Annabella Leung Wai Ping	**83**	**3,510**	**4,578**	**51**	**12**	**8,234**
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**

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

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

			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)	–	–	–	–	–	–

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

During the year, a total of 880,000 (2006: 880,000) and 1,320,000 (2006: Nil) Shares were issued to certain directors of the Company at an exercise price of HK$8.36 (with exercisable period from 23 May 2006 to 22 May 2009) and HK$13.45 (with exercisable period from 20 June 2007 to 19 June 2010) respectively. The weighted average closing market price per share immediately before the dates on which the share options were exercised was HK$28.36.

As at 31 December 2007, certain directors held options to acquire 440,000 (2006: 440,000), 880,000 (2006: 1,760,000), 1,320,000 (2006: 2,640,000), 2,640,000 (2006: 2,640,000) and 2,640,000 (2006: 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. The closing market price of the Shares as at 31 December 2007 was HK$31.50.

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 (2006: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual (2006: one) during the year are as follows:

	2007 HK$'000	2006 HK$'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	**4,202**	4,019
Discretionary bonuses	**9,362**	7,282
Contributions to pension scheme	**12**	12
	13,576	11,313

	Number of individuals	
Emolument bands	**2007**	2006
HK$11,000,001 – HK$11,500,000	**–**	1
HK$13,500,001 – HK$14,000,000	**1**	–

12 Intangible assets

	The Group							
	Goodwill HK$'000	Buying agency agreement HK$'000	Customer relationships HK$'000	Licensor relationships HK$'000	Intangible assets arising from business combinations *(Note 32)* HK$'000	Brand licenses HK$'000	Computer software and system development costs HK$'000	Total HK$'000
At 1 January 2007								
Cost	4,685,533	–	–	–	4,685,533	–	68,832	4,754,365
Accumulated amortization	–	–	–	–	–	–	(41,202)	(41,202)
Net book amount	4,685,533	–	–	–	4,685,533	–	27,630	4,713,163
Year ended 31 December 2007								
Opening net book amount	4,685,533	–	–	–	4,685,533	–	27,630	4,713,163
Exchange differences	75,865	–	–	–	75,865	–	–	75,865
Acquisition of subsidiaries/ businesses *(Note 32)*	5,708,586	255,060	283,395	226,200	6,473,241	73,530	312	6,547,083
Adjustments to purchase consideration and net assets value*	19,273	–	–	–	19,273	–	–	19,273
Additions	–	–	–	–	–	37,258	30,514	67,772
Amortization	–	(9,565)	(6,411)	(3,142)	(19,118)	(19,055)	(10,346)	(48,519)
Closing net book amount	**10,489,257**	**245,495**	**276,984**	**223,058**	**11,234,794**	**91,733**	**48,110**	**11,374,637**
At 31 December 2007								
Cost	10,489,257	255,060	283,395	226,200	11,253,912	110,788	99,658	11,464,358
Accumulated amortization	–	(9,565)	(6,411)	(3,142)	(19,118)	(19,055)	(51,548)	(89,721)
Net book amount	**10,489,257**	**245,495**	**276,984**	**223,058**	**11,234,794**	**91,733**	**48,110**	**11,374,637**

* *Adjustments to purchase consideration and net assets value of certain acquisitions of subsidiaries/business completed in prior year amount to HK$19,273,000 (2006: HK$32,910,000), which were then determined on provisional basis.*

12 Intangible assets (continued)

	Goodwill HK$'000	The Group Computer software and system development costs HK$'000	Total HK$'000
At 1 January 2006			
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	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	
	2007	2006
	HK$'000	HK$'000
Softgoods	**6,725,796**	3,051,448
Hardgoods	**3,763,461**	1,634,085
	10,489,257	4,685,533

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. Goodwill impairment review has been performed at the lowest level of CGU which generate cash flow independently. 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 budget approved by management and extrapolated perpetually with an estimated general annual growth of not more than 5%. The discount rate used of approximately 10% is 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 Property, plant and equipment

	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 2006						
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	(34,843)	–	(1)	(1,443)	–	(36,287)
Acquisition of subsidiaries/ businesses	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
Year ended 31 December 2007						
Opening net book amount	404,531	426,834	257,195	12,319	13,489	1,114,368
Exchange differences	23,022	6,730	9,308	273	495	39,828
Disposal of subsidiaries *(Note 31(c))*	(256,217)	–	–	(7,339)	–	(263,556)
Acquisition of subsidiaries/ businesses *(Note 32)*	11,768	33,595	63,266	57,731	3,162	169,522
Additions	3,510	136,767	149,127	21,335	8,767	319,506
Disposals	–	(10,196)	(31,155)	(8,393)	(1,562)	(51,306)
Depreciation	(16,319)	(76,333)	(98,695)	(1,254)	(5,759)	(198,360)
Closing net book amount	**170,295**	**517,397**	**349,046**	**74,672**	**18,592**	**1,130,002**
At 31 December 2007						
Cost	213,075	764,626	920,131	236,492	51,405	2,185,729
Accumulated depreciation	(42,780)	(247,229)	(571,085)	(161,820)	(32,813)	(1,055,727)
Net book amount	**170,295**	**517,397**	**349,046**	**74,672**	**18,592**	**1,130,002**

At 31 December 2007, certain property, plant and equipment of HK$98,946,000 were pledged as security for the Group's borrowings (2006: Nil).

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	
	2007	2006
	HK$'000	HK$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	**–**	678,634
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**2,554**	2,545
	2,554	681,179

	The Group	
	2007	2006
	HK$'000	HK$'000
Opening	**681,179**	765,771
Acquisition of subsidiaries/businesses *(Note 32)*	**–**	216
Disposal of subsidiaries *(Note 31(c))*	**(662,650)**	(58,679)
Disposals	**–**	(7,832)
Amortization of prepaid operating lease payment	**(16,101)**	(18,358)
Exchange differences	**126**	61
	2,554	681,179

15 Interests in subsidiaries

	The Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**453,981**	342,131
Loan to a subsidiary	**1,952,493**	1,952,493
	2,406,474	2,294,624

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 in *Note 41*.

16 Associated companies

	The Group 2007 HK$'000	2006 HK$'000
Beginning of the year	**10,021**	3,193
Share of associated companies'		
Profit before taxation	**5,052**	11,635
Taxation	**(104)**	(1,032)
Dividend received	**(4,303)**	(1,185)
Exchange differences	**–**	32
Transfer to subsidiary due to increase in shareholding interest	**–**	(2,622)
End of the year	**10,666**	10,021
Loans to associated companies	**3,909**	3,909
Total interest in associated companies	**14,575**	13,930

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 in *Note 41*.

17 Available-for-sale financial assets

	The Group 2007 HK$'000	2006 HK$'000
Beginning of the year	**81,605**	91,721
Acquisition of subsidiaries/businesses	**–**	1,080
Disposal of subsidiaries *(Note 31 (c))*	**(350)**	–
Revaluation surplus/(deficit) transfer to equity *(Note 27)*	**28,262**	(7,496)
Impairment provision	**(24,052)**	(3,700)
End of the year	**85,465**	81,605

There was no disposal of available-for-sale financial assets in 2007.

17 Available-for-sale financial assets (continued)

Available-for-sale financial assets include the following:

	The Group	
	2007 **HK$'000**	2006 HK$'000
Listed securities:		
– Equity securities – overseas	**60,230**	31,968
Unlisted securities:		
– Equity securities	**17,555**	41,607
– Club debentures	**7,680**	8,030
	85,465	81,605
Market value of listed securities	**60,230**	31,968

Movements on the provision for impairment of available-for-sale financial assets are as follows:

	The Group	
	2007 **HK$'000**	2006 HK$'000
At 1 January	**28,639**	24,939
Provision for impairment	**24,052**	3,700
At 31 December	**52,691**	28,639

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

	The Group	
	2007 **HK$'000**	2006 HK$'000
Hong Kong dollar	**7,788**	8,137
US dollar	**16,094**	39,532
Japanese Yen	**17,405**	14,586
Euro dollar	**42,655**	17,173
Pound Sterling	**1,523**	2,177
	85,465	81,605

18 Inventories

	The Group 2007 HK$'000	2006 HK$'000
Finished goods	**1,915,017**	1,303,431
Raw materials	**144,601**	27,827
	2,059,618	1,331,258

At 31 December 2007, inventories of HK$396,736,000 were pledged as security for the Group's borrowings (2006: Nil).

19 Due from related companies

	The Group		The Company	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Due from:				
Subsidiaries	**–**	–	**12,706,454**	17,167,419
Associated companies	**71,689**	61,977	**–**	–
	71,689	61,977	**12,706,454**	17,167,419

The amounts are unsecured, interest free and repayable on demand, except for amounts due from associated companies amounting to HK$57,570,000 (2006: HK$50,690,000) which are unsecured and interest bearing. Fair values of amounts due from related companies are approximately the same as the carrying value.

20 Derivative financial instruments

	The Group 2007 HK$'000	2006 HK$'000
Forward foreign exchange contracts – liabilities	**21,034**	4,413
Interest rate collar – liabilities	**775**	–
	21,809	4,413

Losses in equity of HK$7,731,000 (2006: HK$3,921,000) on forward foreign exchange contracts as of 31 December 2007 will be released to the consolidated profit and loss account at various dates between one month to one year from the balance sheet date *(Note 27)*.

The ineffective portion recognized in the profit or loss that arised from cash flow hedges amounts to a loss of HK$1,176,000 (2006: Nil).

21 Trade and other receivables

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills receivable – net	**13,716,146**	9,231,482	**–**	–
Other receivables, prepayments and deposits	**1,746,722**	1,316,053	**–**	1,078
	15,462,868	10,547,535	**–**	1,078

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

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

	The Group	
	2007	2006
	HK$'000	HK$'000
Current to 90 days	**12,509,235**	8,541,183
91 to 180 days	**980,865**	581,852
181 to 360 days	**192,938**	91,267
Over 360 days	**33,108**	17,180
	13,716,146	9,231,482

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

Trade receivables that are less than 90 days past due are not considered impaired. As of 31 December 2007, trade receivables of HK$277,005,000 (2006: HK$161,815,000) were past due over 90 days but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The past due ageing analysis of these trade receivables is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
91 to 180 days	**194,797**	119,544
Over 180 days	**82,208**	42,271
	277,005	161,815

As of 31 December 2007, trade receivables of HK$38,875,000 (2006: HK$27,304,000) were impaired and fully provided. The individually impaired receivables mainly relate to transactions in disputes.

21 Trade and other receivables (continued)

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	The Group	
	2007 **HK$'000**	2006 HK$'000
HK dollar	**1,163,696**	928,313
US dollar	**11,817,839**	8,475,936
Euro	**1,927,649**	920,915
UK pound	**407,967**	144,092
Other currencies	**145,717**	78,279
	15,462,868	10,547,535

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

Certain subsidiaries of the Group transferred bills receivable balances amounting to HK$328,175,000 (2006: HK$123,282,000) to banks in exchange for cash as at 31 December 2007. The transaction has been accounted for as collateralised bank advances.

At 31 December 2007, trade receivables of HK$372,280,000 were pledged as security for the Group's borrowings (2006: Nil).

22 Cash and cash equivalents

	The Group		The Company	
	2007 **HK$'000**	2006 HK$'000	**2007** **HK$'000**	2006 HK$'000
Cash and bank balances	**1,472,365**	3,394,085	**1,128**	704
Bank overdrafts *(Note 25)*				
– Secured	**(97,575)**	–	**–**	–
– Unsecured	**(107,686)**	(91,744)	**–**	–
	1,267,104	3,302,341	**1,128**	704

The effective interest rate at the balance sheet date on short-term bank deposits was 4.2% (2006: 5.1%); these deposits have an average maturity period of 20 days (2006: 7 days).

23 Due to related companies

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due to:				
A subsidiary	**–**	–	**–**	8,872,841
	–	–	**–**	8,872,841

The amount was unsecured, interest free and repayable on demand. Fair value of the amount was approximately the same as its carrying value.

24 Trade and other payables

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills payable	**11,231,148**	7,544,176	**–**	–
Accrued charges and sundry payables	**2,394,858**	1,315,691	**34,543**	3,959
	13,626,006	8,859,867	**34,543**	3,959

The fair values of the Group's and Company's trade and other payables were approximately the same as their carrying values.

At 31 December 2007, the ageing analysis of trade and bills payable is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Current to 90 days	**10,685,357**	7,203,198
91 to 180 days	**430,439**	245,151
181 to 360 days	**66,046**	52,929
Over 360 days	**49,306**	42,898
	11,231,148	7,544,176

25 Borrowings

	The Group 2007 HK$'000	The Group 2006 HK$'000
Short-term bank loans		
– Secured	**1,261**	–
– Unsecured	**440,535**	2,776,968
	441,796	2,776,968
Bank overdrafts *(Note 22)*		
– Secured	**97,575**	–
– Unsecured	**107,686**	91,744
	205,261	91,744
Total borrowings	**647,057**	2,868,712

As at 31 December 2007, the Group's borrowings were fully repayable within one year. The carrying amounts of the Group's borrowings approximate their fair values.

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

	2007 US$	2007 Euro	2007 GBP	2006 US$	2006 Euro	2006 GBP
Short-term bank loans	**5.2%**	**4.2%**	**6.4%**	5.6%	–	5.8%
Bank overdrafts	**6.5%**	**5.1%**	**7.8%**	–	4.8%	–

The Group's contractual repricing dates for borrowings are all three months or less.

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

	The Group 2007 HK$'000	The Group 2006 HK$'000
US dollar	**193,353**	2,517,900
Euro dollar	**56,010**	89,438
Pound Sterling	**362,556**	259,220
Others	**35,138**	2,154
	647,057	2,868,712

26 Share capital and options

	2007 Number of shares (in thousand)	2007 HK$'000	2006 Number of shares (in thousand)	2006 HK$'000
Authorized				
At 1 January ordinary shares of HK$0.025 each	**4,000,000**	**100,000**	3,200,000	80,000
At 31 December ordinary shares of HK$0.025 each	**4,000,000**	**100,000**	4,000,000	100,000
Issued and fully paid				
At 1 January, ordinary HK$0.025 each	**3,409,576**	**85,239**	2,936,570	73,414
Exercise of share options before				
Bonus Issue *(Note (a))*	**–**	**–**	5,093	127
Bonus Issue *(Note (b))*	**–**	**–**	294,166	7,354
Issue of shares upon a private placing *(Note (c))*	**–**	**–**	160,000	4,000
Exercise of share options after Bonus Issue *(Note (d))*	**–**	**–**	13,747	344
Exercise of share options	**23,564**	**590**	–	–
Issue of shares for acquisition of CGroup *(Note (e))*	**12,566**	**314**	–	–
Issue of shares for acquisition of Regatta *(Note (f))*	**5,000**	**125**	–	–
At 31 December, ordinary of HK$0.025 each	**3,450,706**	**86,268**	3,409,576	85,239

Notes:

(a) 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 (with exercisable period from 23 May 2004 to 22 May 2007), HK$9.20 (with exercisable period from 23 May 2005 to 22 May 2008) and HK$9.90 (with exercisable period from 20 August 2005 to 19 August 2008) per Share respectively to the share option holders who exercised their subscription rights.

(b) Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 18 May 2006, 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.

(c) 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.

(d) 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 (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), HK$8.36 (with exercisable period from 23 May 2006 to 22 May 2009), HK$9.00 (with exercisable period from 20 August 2005 to 19 August 2008) and HK$9.00 (with exercisable period from 20 August 2006 to 19 August 2009) per Share, as adjusted for the effect of the Bonus Issue, respectively to the share option holders who exercised their subscription rights.

26 Share capital and options (continued)

(e) On 15 June 2007, the Group entered into an agreement to acquire CGroup HK Limited, Concept 3 Limited and C Group US Inc. (collectively "CGroup") at a total consideration of not exceeding US$200,000,000 which is satisfied in cash of up to US$158,500,000 and by the issue of 12,566,000 Shares of the Company at an issue price of HK$25.76 each. At 31 December 2007, these consideration Shares were issued and held by an escrow agent. These consideration Share rank pari passu in all respects with the existing issued Shares of the Company.

(f) On 15 August 2007, the Group entered into an agreement to acquire the businesses of Regatta (U.S.A.) LLC, Pacific Alliance Manufacturing Group, LLC, Pacific Alliance Manufacturing, Inc., P.A. Group LLC and Donnkenny LLC (collectively "Regatta") at a consideration of US$148 million which is satisfied in cash of up to US$129,900,000 and by the issue of 5,000,000 Shares of the Company at an issue price of HK$28.07 each. At 31 December 2007, these consideration Shares were issued and held by an escrow agent. These consideration Share rank pari passu in all respects with the existing issued Shares of the Company.

Details of share options granted by the Company pursuant to the Option Scheme and the share options outstanding at 31 December 2007 are as follows:

			Number of Share Options					
Grant Date	Exercise Price HK$	Exercisable period	As at 1/1/2007	Granted	Exercised	Lapsed	Cancelled	As at 31/12/2007
23/5/2003	8.36	23/5/2004 – 22/5/2007	986,200	–	(854,200)	(132,000)	–	–
23/5/2003	8.36	23/5/2005 – 22/5/2008	3,378,200	–	(2,253,700)	–	–	1,124,500
23/5/2003	8.36	23/5/2006 – 22/5/2009	7,471,300	–	(4,532,300)	–	–	2,939,000
20/8/2004	9.00	20/8/2005 – 19/8/2008	37,800	–	(37,800)	–	–	–
20/8/2004	9.00	20/8/2006 – 19/8/2009	832,000	–	(683,600)	–	–	148,400
20/6/2005	13.45	20/6/2007 – 19/6/2010	24,914,500	–	(14,595,900)	(418,000)	–	9,900,600
20/6/2005	13.45	20/6/2008 – 19/6/2011	23,980,000	–	–	(550,000)	(676,000)	22,754,000
20/6/2005	13.45	20/6/2009 – 19/6/2012	23,430,000	–	–	(880,000)	–	22,550,000
23/1/2006	13.72	20/6/2007 – 19/6/2010	693,000	–	(441,600)	–	–	251,400
23/1/2006	13.72	20/6/2008 – 19/6/2011	1,397,000	–	–	(55,000)	(130,000)	1,212,000
23/1/2006	13.72	20/6/2009 – 19/6/2012	1,397,000	–	–	(110,000)	–	1,287,000
19/6/2006	15.65	20/6/2007 – 19/6/2010	212,000	–	(164,000)	–	–	48,000
19/6/2006	15.65	20/6/2008 – 19/6/2011	2,220,000	–	–	(50,000)	(168,000)	2,002,000
19/6/2006	15.65	20/6/2009 – 19/6/2012	2,300,000	–	–	(210,000)	–	2,090,000
2/2/2007	25.50	20/6/2008 – 19/6/2011	–	2,127,000	–	(91,000)	(8,000)	2,028,000
2/2/2007	25.50	20/6/2009 – 19/6/2012	–	7,425,000	–	(220,000)	–	7,205,000
13/7/2007	29.93	20/6/2009 – 19/6/2012	–	1,635,000	–	(42,000)	–	1,593,000

Subsequent to 31 December 2007, 2,650,500 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 as follows:

Grant Date	Exercise Price HK$	Exercisable period	Number of Share Options granted
24/1/2008	25.55	1/3/2009 – 28/2/2011	27,816,000
24/1/2008	25.55	1/3/2010 – 29/2/2012	27,816,000
24/1/2008	25.55	1/3/2011 – 28/2/2013	27,816,000

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	13/7/2007	24/1/2008
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	HK$5.55	HK$4.49 – HK$6.09
Share price at date of grant	HK$9.00	HK$9.90	HK$14.80	HK$14.75	HK$15.65	HK$25.50	HK$29.20	HK$25.55
Exercisable price	HK$8.36*	HK$9.00*	HK$13.45*	HK$13.72*	HK$15.65	HK$25.50	HK$29.93	HK$25.55
Standard deviation	44%	41%	24%	27%	31%	33%	34%	36%
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%	4.35% – 4.61%	1.68% – 2.86%
Life of options	4 – 6 years	4 – 5 years	5 – 7 years	4 – 6 years	4 – 6 years	4 – 5 years	5 years	3 – 5 years
Dividend yield	3.89%	4.24%	3.45%	3.45%	3.04%	3.01%	3.25%	3.25%

* *Exercisable prices of the share options have been adjusted to take into account the effect of 1-for-10 Bonus Issue on 18 May 2006.*

27 Reserves

The Group	Share premium HK$'000	Shares held by escrow agent for settlement of acquisition consideration *(Note (c))* HK$'000	Capital Reserve *(Note (a))* 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 2007	6,247,762	–	22,591	130,028	(1,127)	(3,921)	(338)	1,818,974	8,213,969	(32,363)	8,181,606
2006 final dividend paid	–	–	–	–	–	–	–	(1,331,338)	(1,331,338)	–	(1,331,338)
Currency translation differences	–	–	–	–	–	–	175,744	–	175,744	370	176,114
Transfer to capital reserve	–	–	1,232	–	–	–	–	(1,232)	–	–	–
Shares issued for business acquisitions *(Note 26(e) & (f))*	463,611	(464,050)	–	–	–	–	–	–	(439)	–	(439)
Net fair value gains on available-for-sale financial assets	–	–	–	–	28,262	–	–	–	28,262	–	28,262
Net fair value losses on cash flow hedges	–	–	–	–	–	(3,810)	–	–	(3,810)	–	(3,810)
Profit for the year	–	–	–	–	–	–	–	3,060,036	3,060,036	940	3,060,976
Employee share option scheme:											
– value of employee services	–	–	–	111,756	–	–	–	–	111,756	–	111,756
– proceeds from shares issued	274,716	–	–	–	–	–	–	–	274,716	–	274,716
– transfer to share premium	51,374	–	–	(51,374)	–	–	–	–	–	–	–
2007 interim dividend paid	–	–	–	–	–	–	–	(719,847)	(719,847)	–	(719,847)
Reserves	7,037,463	(464,050)	23,823	190,410	27,135	(7,731)	175,406	1,099,915	8,082,371	(31,053)	8,051,318
Proposed dividend	–	–	–	–	–	–	–	1,726,678	1,726,678	–	1,726,678
At 31 December 2007	**7,037,463**	**(464,050)**	**23,823**	**190,410**	**27,135**	**(7,731)**	**175,406**	**2,826,593**	**9,809,049**	**(31,053)**	**9,777,996**

27 Reserves (continued)

The Group	Share premium HK$'000	Capital Reserve *(Note (a))* HK$'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
2006 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)	–	–	–
Share premium on private placing *(Note 26(c))*	2,719,435	–	–	–	–	–	–	2,719,435	–	2,719,435
Transfer to share capital on Bonus Issue *(Note 26(d))*	(7,354)	–	–	–	–	–	–	(7,354)	–	(7,354)
Net fair value losses on 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$'000	Shares held by escrow agent for settlement of acquisition consideration *(Note (c))* HK$'000	Contributed surplus account *(Note (b))* HK$'000	Employee share-based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2007	6,247,762	–	2,060,673	130,028	2,063,323	10,501,786
Share issued for business acquisitions *(Note 26(e) & (f))*	463,611	(464,050)	–	–	–	(439)
Profit for the year	–	–	–	–	2,291,789	2,291,789
Employee share option scheme:						
– value of employee services	–	–	–	111,756	–	111,756
– proceeds from shares issued	274,716	–	–	–	–	274,716
– transfer to share premium	51,374	–	–	(51,374)	–	–
2006 final dividend paid	–	–	–	–	(1,331,338)	(1,331,338)
2007 interim dividend paid	–	–	–	–	(719,847)	(719,847)
Reserves	7,037,463	(464,050)	2,060,673	190,410	577,249	9,401,745
Proposed dividend	–	–	–	–	1,726,678	1,726,678
At 31 December 2007	**7,037,463**	**(464,050)**	**2,060,673**	**190,410**	**2,303,927**	**11,128,423**
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(c))*	2,719,435	–	–	–	–	2,719,435
Transfer to share capital on Bonus Issue *(Note 26(d))*	(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

27 Reserves (continued)

Notes:

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

(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.

(c) As further set out in *Note 26 (e) and (f)*, the Company issued Shares for acquisitions of CGroup and Regatta during the year. At the balance sheet date, these Shares were held by escrow agents and would be released to the vendors in future years. These shares, valued at the respective agreed upon issue price, amounting to HK$464,050,000 are presented as "Shares held by escrow agent for settlement of acquisition consideration" and deducted from total equity.

28 Long-term liabilities

	The Group		The Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Long-term loans from minority shareholders	**38,867**	38,867	**–**	–
Balance of purchase consideration payable for acquisitions	**2,382,084**	1,518,841	**–**	–
Long-term notes – unsecured	**3,864,822**	–	**3,864,822**	–
License royalty payables	**93,522**	–	**–**	–
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**464,050**	–	**–**	–
	6,843,345	1,557,708	**3,864,822**	–
Current portion of balance of purchase consideration payable for acquisitions	**(1,257,254)**	(760,221)	**–**	–
Current portion of license royalty payables	**(58,455)**	–	**–**	–
	5,527,636	797,487	**3,864,822**	–

Balance of purchase consideration for acquisitions and long-term loans from minority shareholders are unsecured and interest-free. Long-term notes issued to independent third party will mature in 2017 and bear coupon of 5.5% annually.

28 Long-term liabilities (continued)

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

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**1,315,709**	760,221	**–**	–
Between 1 and 2 years	**626,905**	556,294	**–**	–
Between 2 and 5 years	**997,042**	202,326	**–**	–
Wholly repayable within 5 years	**2,939,656**	1,518,841	**–**	–
Over 5 years	**3,903,689**	38,867	**3,864,822**	–
	6,843,345	1,557,708	**3,864,822**	–

The fair values of the long-term liabilities are as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Loans from minority shareholders	**38,867**	38,867
Balance of purchase consideration payable for acquisitions	**1,124,830**	758,620
Long-term notes – unsecured	**3,880,266**	–
License royalty payables	**93,522**	–
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**464,050**	–
	5,601,535	797,487

The carrying amounts of long-term liabilities, purchase consideration payable for acquisitions and license royalty payables are denominated in the following currencies:

	The Group	
	2007	2006
	HK$'000	HK$'000
Hong Kong dollar	**38,867**	58,404
US dollar	**6,728,289**	1,256,057
Pound sterling	**38,954**	59,954
Euro dollar	**37,235**	183,293
	6,843,345	1,557,708

29 Post-employment benefit obligations

	The Group 2007 HK$'000	2006 HK$'000
Pension obligations *(Note (a))*	**23,680**	22,890
Long service payment liabilities *(Note (b))*	**6,655**	2,574
	30,335	25,464

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 2007 HK$'000	2006 HK$'000
Present value of funded obligations	**211,174**	198,119
Fair value of plan assets	**(177,332)**	(161,238)
	33,842	36,881
Unrecognized actuarial losses	**(10,162)**	(13,991)
Pension obligations	**23,680**	22,890

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

	The Group 2007 HK$'000	2006 HK$'000
Current service cost	**12,673**	10,527
Interest cost	**9,604**	8,547
Expected return on plan assets	**(9,056)**	(7,821)
Amortization of unrecognized transitional liability	**–**	3,216
Exchange difference on amortization of unrecognized liability	**–**	623
Total, included in staff costs *(Note 10)*	**13,221**	15,092

29 Post-employment benefit obligations (continued)

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

	The Group 2007 HK$'000	The Group 2006 HK$'000
At 1 January	**161,238**	136,059
Expected return on plan assets	**9,056**	7,821
Actuarial losses	**(2,038)**	(1,340)
Exchange differences	**3,876**	12,015
Employer contributions	**12,998**	12,269
Benefits paid	**(7,798)**	(5,586)
At 31 December	**177,332**	161,238

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

	The Group 2007 HK$'000	The Group 2006 HK$'000
At 1 January	**22,890**	17,672
Total expense – as shown above	**13,221**	15,092
Contributions paid	**(12,998)**	(12,269)
Exchange difference	**567**	2,395
At 31 December	**23,680**	22,890

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

	2007 %	2006 %
Discount rate	**3.5 – 5.9**	3.75 – 5.8
Expected rate of return on plan assets	**2.75 – 8**	2.75 – 11
Expected rate of future salary increases	**3 – 10**	3 – 10
Expected rate of future pension increases	**3.1**	2.9

(vi) Experience adjustments gain/(loss):

	The Group 2007 HK$'000	The Group 2006 HK$'000
Experience adjustments on plan liabilities	**6,269**	858
Experience adjustments on plan assets	**(2,038)**	(1,340)

(b) Actuarial valuation is performed on the Group's long service payment liability. At 31 December 2007, unrecognized transitional liabilities were Nil (2006: HK$1,200,000).

30 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2006: 17.5%).

The movement on the deferred tax account is as follows:

	The Group 2007 HK$'000	The Group 2006 HK$'000
At 1 January	**(87,823)**	(110,495)
(Credited)/charged to profit and loss account *(Note 6)*	**(2,035)**	23,619
Acquisition of subsidiaries/businesses *(Note 32)*	**(16,514)**	(367)
Disposal of subsidiaries	**12,511**	–
Exchange differences	**(667)**	(580)
At 31 December	**(94,528)**	(87,823)

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 Group has unrecognized tax losses of HK$436,362,000 (2006: HK$38,323,000) to carry forward against future taxable income, which 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	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
As at 1 January	**7,010**	6,214	**14,276**	12,064	**82,761**	99,077	**1,935**	1,064	**105,982**	118,419
Credited/(charged) to profit and loss account	**7,917**	712	**(1,657)**	1,903	**(1,595)**	(16,708)	**259**	820	**4,924**	(13,273)
Acquisition of subsidiaries/ businesses *(Note 32)*	**–**	–	**16,514**	367	**–**	–	**–**	–	**16,514**	367
Disposal of subsidiary *(Note 31 (c))*	**–**	–	**(12,546)**	–	**–**	–	**–**	–	**(12,546)**	–
Exchange differences	**253**	84	**229**	(58)	**133**	392	**115**	51	**730**	469
As at 31 December	**15,180**	7,010	**16,816**	14,276	**81,299**	82,761	**2,309**	1,935	**115,604**	105,982

30 Deferred taxation (continued)

	The Group					
	Accelerated tax depreciation allowances		Others		Total	
Deferred tax liabilities	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
As at 1 January	**18,117**	7,924	**42**	–	**18,159**	7,924
Charged to profit and loss account	**2,848**	10,262	**41**	84	**2,889**	10,346
Disposal of subsidiary *(Note 31(c))*	**(35)**	–	**–**	–	**(35)**	–
Exchange differences	**63**	(69)	**–**	(42)	**63**	(111)
As at 31 December	**20,993**	18,117	**83**	42	**21,076**	18,159

	The Group	
	2007 HK$'000	2006 HK$'000
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	**104,676**	83,875
Deferred tax assets to be recovered within 12 months	**10,928**	22,107
Deferred tax liabilities to be settled after more than 12 months	**17,003**	14,536
Deferred tax liabilities to be settled within 12 months	**4,073**	3,623

31 Notes to the consolidated cash flow statement

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

	2007 HK$'000	2006 HK$'000
Profit before taxation	**3,313,530**	2,373,344
Interest income	**(208,193)**	(98,491)
Interest expenses	**499,664**	148,070
Share of profits less losses of associated companies	**(4,948)**	(10,603)
Depreciation	**198,360**	190,660
Amortization of intangible assets arising from business combinations	**19,118**	–
Amortization of prepaid premium for land leases	**16,101**	18,358
Amortization of computer software and development costs	**10,346**	7,797
Amortization of brand licenses	**19,055**	–
Employee share option expenses	**111,756**	58,465
Gain on disposal of properties	**–**	(3,268)
Gain on disposal of property holding subsidiaries	**(456,622)**	(68,526)
Net investment loss	**24,052**	3,700
Loss on disposal of property, plant and equipment	**6,336**	5,931
Operating profit before working capital changes	**3,548,555**	2,625,437
Increase in inventories	**(21,069)**	(419,696)
Increase in trade and bills receivable and other receivables	**(3,870,495)**	(1,565,054)
Increase in trade and bills payable and other payables	**4,555,518**	54,326
Net cash inflow generated from operations	**4,212,509**	695,013

(b) Analysis of changes in financing during the year

	2007		2006	
	Share capital including share premium *(Note 26 & 27)* HK$'000	**Bank loans HK$'000**	Share capital including share premium HK$'000	Bank loans HK$'000
At 1 January	**6,333,001**	**2,776,968**	3,410,999	–
Non cash movement				
Acquisition of subsidiaries/businesses *(Note 32)*	**464,050**	**401,699**	–	183,300
Transfer from employee share-based compensation reserve	**51,374**	**–**	35,559	–
	6,848,425	**3,178,667**	3,446,558	183,300
Proceeds from issue of shares	**275,306**	**–**	2,886,443	–
(Repayment)/drawdown of bank loans	**–**	**(2,736,871)**	–	2,593,668
At 31 December	**7,123,731**	**441,796**	6,333,001	2,776,968

31 Notes to the consolidated cash flow statement (continued)

(c) Disposal of property holding subsidiaries

On 5 November 2007, the Group entered into certain sale and lease back agreements with LFC Holdings Limited and LFT (Holdings) Limited, which are entities indirectly 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 under 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 a circular of the Company dated 21 November 2007.

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

	2007 HK$'000
Net liabilities disposed	
Property, plant and equipment *(Note 13)*	**263,556**
Prepaid premium for land leases *(Note 14)*	**662,650**
Available-for-sale financial assets	**350**
Other receivables, prepayments and deposits	**680**
Deferred tax assets *(Note 30)*	**12,546**
Inter-company loans*	**(917,468)**
Accrued charges and sundry payables	**(32,508)**
Tax payable	**(347)**
Deferred tax liabilities *(Note 30)*	**(35)**
Book value of net liabilities disposed	**(10,576)**

* *The inter-company loans of HK$917,468,000 were fully repaid upon completion of the disposals.*

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

	2007 HK$'000
Consideration received	**452,008**
Expenses incurred in respect of the disposal	**(5,962)**
Net inflow of cash and cash equivalents in respect of disposal of the property holding subsidiaries	**446,046**

32 Business combinations

During the year, the Group completed several acquisitions.

On 9 March 2007, the Group acquired the global sourcing operations of designer Tommy Hilfiger. Tommy Hilfiger is one of the largest and most globally developed designer brands in the world and has attained a unique positioning as a premium American lifestyle brand. Tommy Hilfiger focuses on menswear, womenswear, jeanswear and childrenswear. The acquired global sourcing operations source the merchandise from Hong Kong, Taiwan, India, Bangladesh, Sri Lanka, Tunisia, USA and Honduras.

On 15 June 2007, the Group acquired CGroup HK Limited, Concept 3 Limited and CGroup US Inc (collectively referred as "CGroup"). CGroup is a leading global supply-chain manager of health, beauty and cosmetic products for premier cosmetics brands and retailers worldwide. It operates from its head office in Hong Kong, production offices in Hong Kong and China and strong marketing and sales offices in New York and Paris.

On 15 August 2007, the Group acquired Peter Black International Limited ("PB Group"), and Regatta USA LLC, PA Group LLC and Donnkenny LLC (collectively "Regatta"). PB Group is a long established, large supplier of footwear, accessories, gifts and personal care merchandise for leading retailers in both the UK and Continental Europe, and a provider of supply chain services in the UK. Regatta is a US leading apparel and brand management company offering proprietary brands and private label products.

In November 2007, the Group acquired American Marketing Enterprises ("AME"). AME's brand portfolio holds over 40 licenses with top licensors and many other leading evergreen properties. AME designs, sources and markets its brand portfolio to leading US retailers.

The Group has completed several smaller acquisitions during the year. Since those are relatively immaterial to both the Group's financial positions and results, both individually and in aggregate, that details of acquisitions are not disclosed.

The acquired businesses contributed revenues of HK$7,351,947,000 and profit after tax of HK$187,839,000 to the Group for the period from their respective dates of acquisition to 31 December 2007. If these acquisitions had occurred on 1 January 2007, Group revenue would have been HK$97,549,837,000; profit after tax would have been HK$3,143,734,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the relevant subsidiaries to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2007, together with the consequential tax effects.

32 Business combinations (continued)

Details of net assets acquired and goodwill are as follows:

	Global sourcing operations of Tommy Hilfiger HK$'000	CGroup HK$'000	PB Group HK$'000	Regatta HK$'000	AME HK$'000	Others HK$'000	Total HK$'000
Purchase consideration:							
Consideration	1,941,244	1,409,353	750,380	1,103,471	937,930	159,326	6,301,704
Add: Direct expenses relating to the acquisitions	22,000	18,714	19,551	35,100	27,300	6,000	128,665
Less: Fair value of net assets acquired*	(258,959)	(200,078)	138,845	(140,276)	(247,935)	(13,380)	(721,783)
Goodwill *(Note 12)*	1,704,285	1,227,989	908,776	998,295	717,295	151,946	5,708,586

* *As at the date of this annual report, the Group has not finalized the fair value assessments for net assets acquired from PB Group, Regatta, AME and some other smaller acquisitions. The relevant fair value of net assets acquired stated above are on a provisional basis.*

The goodwill is attributable to the acquired workforces, the profitability and the synergies expected to arise from the acquired businesses.

32 Business combinations (continued)

The carrying amounts of the assets and liabilities, other than intangible assets arising from business combinations, of the acquired businesses approximate their fair value and are as follows:

	Global sourcing operations of Tommy Hilfiger HK$'000	CGroup HK$'000	PB Group HK$'000	Regatta HK$'000	AME HK$'000	Others HK$'000	Total HK$'000
Net assets acquired:							
Intangible assets arising from business combinations *(Note 12)**							
– Buying agency agreement	255,060	–	–	–	–	–	255,060
– Customer relationships	–	116,000	104,121	53,040	–	10,234	283,395
– Licensor relationships	–	–	–	–	226,200	–	226,200
Sub-total	255,060	116,000	104,121	53,040	226,200	10,234	764,655
Brand licenses *(Note 12)*	–	–	–	22,314	51,216	–	73,530
Computer software and system development cost	–	–	–	312	–	–	312
Property, plant and equipment *(Note 13)*	3,899	21,291	92,899	35,216	13,071	3,146	169,522
Deferred taxation *(Note 30)*	–	–	5,814	–	10,700	–	16,514
Inventories	–	53,013	510,661	133,756	–	9,861	707,291
Trade and bills receivable	–	109,202	348,385	382,792	–	–	840,379
Other receivables, prepayments and deposits	–	36,642	63,008	70,901	41,077	1,117	212,745
Cash and bank balances	–	6,058	–	1,236	–	372	7,666
Derivative financial instruments	–	(216)	(20,976)	–	–	–	(21,192)
Trade and bills payables	–	(48,953)	(434,488)	(64,190)	–	(7,824)	(555,455)
License royalty payables	–	–	–	(23,998)	(51,321)	–	(75,319)
Accrued charges and sundry payables	–	(23,002)	(583,671)	(127,197)	–	(3,526)	(737,396)
Taxation	–	(3,144)	(35,699)	–	(43,008)	–	(81,851)
Short-term bank loans	–	(57,793)	–	(343,906)	–	–	(401,699)
Bank overdrafts	–	(9,020)	(188,899)	–	–	–	(197,919)
Fair value of net assets acquired	258,959	200,078	(138,845)	140,276	247,935	13,380	721,783

* *Intangible assets arising from business combinations represent a buying agency agreement, customer relationships and licensor relationships. The Group has engaged an external firm of valuers to perform fair value assessments on these intangible assets in accordance with HKAS 38 "Intangible Assets" and HKFRS 3 "Business Combination". As at the date of this annual report, the Group has not finalized the fair value assessments for assets and liabilities acquired from PB Group, Regatta, AME and some other smaller acquisitions. The relevant fair value of assets and liabilities stated above are on provisional basis.*

32 Business combinations (continued)

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

	Global sourcing operations of Tommy Hilfiger HK$'000	CGroup HK$'000	PB Group HK$'000	Regatta HK$'000	AME HK$'000	Others HK$'000	Total HK$'000
Purchase consideration	1,941,244	1,409,353	750,380	1,103,471	937,930	159,326	6,301,704
Purchase consideration payable*	–	(539,653)	–	(418,946)	(534,553)	(98,303)	(1,591,455)
Purchase consideration settled by issue of Shares *(Note 26 (e) & (f))**	–	(323,700)	–	(140,350)	–	–	(464,050)
Direct expenses relating to the acquisitions	22,000	18,714	19,551	35,100	27,300	6,000	128,665
Cash and cash equivalents acquired	–	2,963	188,899	(1,237)	–	(372)	190,253
Net outflow of cash and cash equivalents in respect of the acquisitions	1,963,244	567,677	958,830	578,038	430,677	66,651	4,565,117

* *Balances are estimated fair value of contingent consideration payables for respective acquisitions. Final amounts of consideration settlements would be determined based on future performance of the acquired businesses.*

33 Contingent liabilities

	The Group		The Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Guarantees in respect of banking facilities granted to:				
Subsidiaries	**–**	–	**19,903,806**	18,607,564
Associated companies	**5,850**	5,850	**–**	–
Other guarantees	**–**	9,600	**–**	–
	5,850	15,450	**19,903,806**	18,607,564

34 Commitments

(a) Operating lease commitments

The Group leases various offices and warehouses under non-cancellable operating lease agreements. At 31 December 2007, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group	
	2007 **HK$'000**	2006 HK$'000
Within one year	**288,099**	155,397
In the second to fifth year inclusive	**705,436**	347,351
After the fifth year	**500,533**	389,451
	1,494,068	892,199

(b) Capital commitments

	The Group	
	2007 **HK$'000**	2006 HK$'000
Contracted but not provided for:		
Property, plant and equipment	**116,724**	3,050

35 Charge of assets

Saved as disclosed in *Note 13*, *Note 18* and *Note 21*, at 31 December 2007 there were no charges on the assets and undertakings of the Company and the Group.

36 Related party transactions

Pursuant to the sale and leaseback agreements set out in *Note 31(c)* and certain other properties tenancy agreements entered into by the Group with certain entities indirectly wholly owned by Dr William Fung Kwok Lun and a trust established for the family of Dr Victor Fung Kwok King, the Group paid rental of HK$25,793,000 (2006: HK$9,915,000) for the year ended 31 December 2007.

Subsequent to acquisition of PB Group as set out in *Note 32*, the Group had entered into a logistic service agreement with a subsidiary of Integrated Distribution Services Group Limited, which is a related party of the Company by virtue of the existence of a common substantial shareholder, namely Li & Fung (1937) Limited. For the year ended 31 December 2007, the logistic service fee charged against the Group amounted to HK$21,976,000, which was negotiated on mutually agreed and arm's length basis.

Saved as above and the key management compensation and the sale and lease back arrangement as set out in *Note 11* and *Note 31(c)* respectively to the accounts, the Group had no material related party transactions during the year.

37 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) 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.

At 31 December 2007, if the major foreign currencies, such as Euro and UK Pound, that the Group with exposure had strengthened/weakened by 10% against US and HK dollar with all other variables held constant, profit for the year and equity would have been approximately 2.4% (2006: 1.9%) and 2.5% (2006: 0.6%) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currencies denominated trade receivables, available-for-sales financial assets and borrowings. Profit and equity is more sensitive to movement in foreign exchange rates in 2007 than 2006 because of the relative increase in the Group's overall presence in the European Region.

(ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as available-for-sale financial assets. The Group maintained these equity securities investments for long-term strategic purpose and the Group's overall exposure to price risk is not significant.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises mainly from US and HK dollar denominated bank borrowings and the US dollar denominated long-term notes issued. Bank borrowings at variable rates expose the group to cash flow interest rate risk. Long-term notes issued at fixed coupon expose the Group to fair value interest rate risk. Group's policy is to maintain diversified mix of variable and fixed rate borrowings based on prevailing market condition.

At 31 December 2007, if interest rates on the borrowings had been 0.1% higher/lower with all other variables held constant, profit for the year and equity would have been approximately HK$5,119,000 (2006: HK$1,965,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

37 Financial risk management (continued)

(b) Credit risk

Credit risk mainly arises from trade receivables and cash and bank. Most of the Group's cash and cash equivalents are held in major global financial institutions. The Group has stringent policies in place to manage its credit risk.

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.

The Group's five largest customers, in aggregate, account for approximately 34% of the Group's business. Transactions with these customers are entered within the credit limits designated by the Group. The Group's credit control team makes assessment on each of the Group's individual customers and determines the respective credit limits based on, among other factors, the trading and settlement history and the financial background of each individual customer.

(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.

Management monitors rolling forecasts of the Group's liquidity reserve (comprises undrawn borrowing facility and cash and cash equivalents *(Note 22)* on the basis of expected cash flow.

The Group's bank loans of HK$441,796,000 (2006: HK$2,776,968,000) are all repayable within one year. The table below analyzes the liquidity impact of the Group's long-term liabilities (including annual coupons payable for the long-term notes) into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. These amounts will not reconcile to the amounts disclosed on the balance sheet and *Note 28* for long-term liabilities.

37 Financial risk management (continued)

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
The Group				
At 31 December 2007				
Balance of purchase consideration payable for acquisitions	**1,346,026**	**643,016**	**556,467**	**–**
Long-term notes – unsecured	**214,500**	**214,500**	**643,500**	**4,972,500**
At 31 December 2006				
Balance of purchase consideration payable for acquisitions	806,506	579,317	210,722	–
Long-term notes – unsecured	–	–	–	–
The Company				
At 31 December 2007				
Long-term notes – unsecured	**214,500**	**214,500**	**643,500**	**4,972,500**
At 31 December 2006				
Long-term notes – unsecured	–	–	–	–

38 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short-term bank loans *(Note 25)* and long-term notes *(Note 28)* less cash and cash equivalents *(Note 22)*). Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt.

38 Capital risk management (continued)

The Group's strategy is to maintain a gearing ratio of not exceeding 35%. The gearing ratios at 31 December 2007 and 2006 were as follows:

	2007 HK$'000	2006 HK$'000
Short-term bank loans *(Note 25)*	**441,796**	2,776,968
Long-term notes – unsecured *(Note 28)*	**3,864,822**	–
	4,306,618	2,776,968
Less: Cash and cash equivalent *(Note 22)*	**(1,267,104)**	(3,302,341)
Net debt/(cash)	**3,039,514**	(525,373)
Total equity	**9,864,264**	8,266,845
Total capital	**12,903,778**	8,266,845
Gearing ratio	**24%**	N/A

39 Events after balance sheet date

On 18 January 2008, the Group entered into an agreement to acquire the entire issued share capital of C.D.P. Asia Limited ("CDP") for a cash consideration of approximately HK$1,570,000. CDP is based in Hong Kong and its business comprises the design, procurement, manufacturing, and sales of all types of point-of-purchase systems and solutions for the leading global health, beauty and cosmetic manufacturing brands and the prestige and mass-market brands. The Group also agreed to advance a loan of up to approximately HK$31,740,000 to CDP at completion for CDP to repay all outstanding indebtedness owed by it to the sellers. As the sellers are directors of certain subsidiaries of the Company, the Acquisition constitutes a connected transaction for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

On 29 February 2008, the Group entered into an agreement to acquire business of the Silvereed Group for cash consideration of approximately HK$156,000,000. Silvereed Group is based in Hong Kong specializing in design, product development and arranging the manufacture of primarily ladies fashion garments and other products.

The Group will be verifying the fair value of assets, liabilities and contingent liabilities of these newly acquired businesses as at the respective acquisition dates and it is impracticable to disclose their respective amounts together with the goodwill so arising at the current stage.

40 Approval of accounts

The accounts were approved by the Board of Directors on 27 March 2008.

41 Principal subsidiaries and associated companies

Note		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	Held directly				
(2)	LF Centennial Limited	British Virgin Islands	Ordinary US$50,000	100	Investment holding
(1)	Li & Fung (B.V.I.) Limited	British Virgin Islands	Ordinary US$400,010	100	Marketing services and investment holding
	Li & Fung Trading (Shanghai) Limited	The People's Republic of China	RMB50,000,000	100 foreign-owned enterprise	Export trading
	Held indirectly				
(2)	Alka Ic ve Dis Ticaret Limited Sirketi	Turkey	TRY14,844,650	100	Export trading
(2)	Alka Italiana S.r.l.	Italy	Euro 100,000	100	Export trading
	American Marketing Enterprises, Inc.	U.S.A.	Common Stock US$1,000	100	Wholesaling
(2)	Appleton Holdings Ltd.	British Virgin Islands	Ordinary US$1	100	Investment holding
	Black Cat Fireworks Limited	England	Ordinary GBP1,200,000	100	Wholesaling
	BMB Apparel (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Importer
	BMB Apparel Limited	England	Ordinary GBP1	100	Importer
	Briefly Stated Holdings, Inc.	U.S.A.	Common stock US$1,000	100	Investment holding
	Briefly Stated Inc.	U.S.A.	Common stock US$3,000	100	Wholesaling
	Brilliant Textile Far East Limited	Hong Kong	Ordinary HK$1	100	Export trading
	BS Direct Limited	Hong Kong	Ordinary HK$2	100	Export trading
	C Group US Inc.	U.S.A.	Common stock US$1,000	100	Marketing services
	Camberley Enterprises Limited	Hong Kong	Ordinary HK$250,000	100	Apparel exporting
	Camberley Tekstil ve Dis Ticaret Limited Sirketi	Turkey	TRY50,000	100	Export trading
	Camberley Trading Service (Shenzhen) Limited	The People's Republic of China	RMB1,500,000	100 foreign-owned enterprise	Provision of inspection services
(2)	Centennial (Luxembourg) S.a.r.l.	Luxembourg	Euro 12,500	100	Investment holding
	CGroup HK Limited	Hong Kong	Ordinary HK$2,970,000 Class B Non-Voting HK$330,000	100	Export trading
	CGroup Shanghai Consulting Company Limited	The People's Republic of China	US$140,000	100 foreign-owned enterprise	Consulting services
	Character Direct Limited	Hong Kong	Ordinary HK$2	100	Design and marketing
	Civati Limited	Hong Kong	Ordinary US$450,000	100	Export trading
(2)	Colby Group Holdings Limited	British Virgin Islands	Ordinary US$45,000	100	Investment holding
(2)	Colby Property Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Comet Feuerwerk GmbH	Germany	Euro 1,000,000	100	Fireworks wholesaling
	Concept 3 Limited	Hong Kong	Ordinary HK$2	100	Investment holding
	Costume Limited	Hong Kong	Ordinary HK$2	100	Export trading

41 Principal subsidiaries and associated companies (continued)

Note		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	Craftworks Limited	Hong Kong	Ordinary HK$1	100	Export trading
(2)	Dana International Limited	Hong Kong	Ordinary HK$2	100	Investment holding
	Dodwell (Mauritius) Limited	Hong Kong	Ordinary "A" HK$300,000 Ordinary "B" HK$200,000	60	Export trading
	Dongguan San Si Cosmetic Company Limited	The People's Republic of China	US$10,211,000	100 foreign-owned enterprise	Manufacturing
(2)	Eclat Properties Inc.	British Virgin Islands	Ordinary US$100	100	Property investment
(2)	Empire Knight Group Limited	British Virgin Islands	Ordinary US$1	100	Property investment
	Eurosports Trading Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Forrestgrove Limited	Hong Kong	Ordinary HK$20	100	Export trading
	GB Apparel Limited	England	Ordinary GBP1,000	100	Investment holding
(2)	Golden Gate Fireworks Inc.	U.S.A.	Common stock US$600,000	100	Commission agent and investment holding
(2)	Golden Horn (III) L. P.	Cayman Islands	Capital contribution US$100	66	Investment holding
	Golden Horn N.V.	Netherlands Antilles	US$6,100	100	Investment holding
	Good Basis Limited	Hong Kong	Ordinary HK$2	100	Export trading
	GSCM (HK) Limited	Hong Kong	Ordinary HK$140,000	100	Export trading
	Hillung Enterprises Limited	Hong Kong	Ordinary HK$300,000	100	Export trading
	Homestead (Asia) Limited	Hong Kong	Ordinary HK$1	100	Export trading
	Homestead International Group Ltd.	U.S.A.	Voting Common Stock US$901 Non-Voting Common Stock US$99	100 Voting	Importer
	Homeworks Asia Limited	Hong Kong	Ordinary HK$2	100	Export trading
(2)	Homeworks (Europe) B.V.	The Netherlands	Ordinary Euro 18,000	100	Export trading
(2)	IFW Shenzhen Testing Service Limited	The People's Republic of China	USD660,000	100 foreign-owned enterprise	Testing and technology consultation
(2)	International Sources, Inc.	U.S.A.	Common Stock US$1	100	Trading of apparel
	International Sources Trading Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Janco International Trading Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Janco Overseas Limited	Hong Kong	Ordinary HK$760,000	100	Buying agent
	Kariya Industries Limited	Hong Kong	Ordinary HK$1,000,000	100	Manufacturing and trading
	Kingsbury International Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Kwok Yue Limited	Hong Kong	Ordinary HK$10,000	100	Export trading
	La Villa Development Limited	Hong Kong	Ordinary HK$1	100	Export trading
(2)	Lenci Calzature SpA	Italy	Euro 206,400	100	Design, marketing and sourcing

41 Principal subsidiaries and associated companies (continued)

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
(2)	LF Capital (II) Limited	British Virgin Islands	Class "A" US$185 Class "B" US$115	75	Investment holding
(2)	LF Capital Management Limited	British Virgin Islands	Ordinary US$1	100	Investment management
	LF Centennial Services (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading services
	LF Centennial Pte. Ltd.	Singapore	Ordinary S$100,000	100	Export trading
	LF Centennial Service (Singapore) Pte Ltd	Singapore	Ordinary S$10,000	100	Export trading
(2)	LF Corporate Capital (I) Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(2)	LF Europe Investment Services Limited	British Virgin Islands	Ordinary US$1	100	Investment management
(2)	LF European Capital Limited	British Virgin Islands	Ordinary US$1	75	Investment holding
(2)	LF International Inc.	U.S.A.	Common stock US$30,002	100	Investment management
(2)	LFCF Investment I (Europe) Limited	British Virgin Islands	Ordinary US$1	100	Investment management
(2)	LFCF Investment I (USA) Limited	British Virgin Islands	Ordinary US$1	100	Investment management
(2)	Li & Fung Agencia de Compras em Portugal, Limitada	Portugal	Euro 99,760	100	Export trading
	Li & Fung Enterprise Development (Shenzhen) Company Limited	The People's Republic of China	HK$10,000,000	100 foreign-owned enterprise	Provision of inspection services
	Li & Fung (Europe) Holding Limited	England	Ordinary GBP 100	100	Investment holding
	Li & Fung (Exports) Limited	Hong Kong	Ordinary HK$10,000 Non-voting deferred HK$8,600,000	100	Export trading
	Li & Fung (Fashion Accessories) Limited	Hong Kong	Ordinary "A" HK$300,000 Ordinary "B" HK$300,000	100	Export trading
(2)	Li & Fung (Guatemala) S.A.	Guatemala	Common shares Q5,000	100	Export trading
(2)	Li & Fung (Honduras) Limited	Honduras	Nominative common shares Lps25,000	100	Export trading
	Li & Fung (India) Private Limited	India	Equity shares Rupee 64,000,200	100	Export trading
	Li & Fung (Korea) Limited	Korea	Common stock Won 200,000,000	100	Export trading
	Li & Fung (London) Limited	England	Ordinary GBP10,000	100	Investment holding
(2)	Li & Fung (Mauritius) Limited	Mauritius	"A" Shares Rupees 750,000 "B" Shares Rupees 500,000	60	Export trading
(2)	Li & Fung (Morocco) SARL	Morocco	MAD10,000	100	Export trading
	Li & Fung Mumessillik Pazarlama Limited Sirketi	Turkey	TRY745,000	100	Export trading
(2)	Li & Fung (Nicaragua), Sociedad Anonima	Nicaragua	Nominative shares C$50,000	100	Export trading
	Li & Fung Pakistan (Private) Limited	Pakistan	Rs10,000,000	100	Export trading
(2)	Li & Fung (Philippines) Inc.	The Philippines	Peso 500,000	100	Export trading
(2)	Li & Fung (Portugal) Limited	England	Ordinary GBP 100	100	Investment holding

41 Principal subsidiaries and associated companies (continued)

Note		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	Li & Fung (Properties) Limited	Hong Kong	Ordinary HK$1,000,000	100	Property investment
	Li & Fung (Singapore) Pte Limited	Singapore	Ordinary S$25,000	100	Export trading
	Li & Fung South Africa (Proprietary) Limited	South Africa	Ordinary Rand 100	100	Export trading
	Li & Fung Taiwan Holdings Limited	Taiwan	NT$287,996,000	100	Investment holding
	Li & Fung Taiwan Investments Limited	British Virgin Islands	Ordinary US$4,912,180	100	Investment holding
	Li & Fung (Taiwan) Limited	Taiwan	NT$63,000,000	100	Export trading
	Li & Fung (Thailand) Limited	Thailand	Baht 20,000,000	100	Export trading
	Li & Fung (Trading) Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$10,000,000	100	Export trading and investment holding
(2)	Li & Fung Trading Service (Shanghai) Company Limited	The People's Republic of China	US$6,000,000	100 foreign-owned enterprise	Export trading
	Li & Fung Trading Service (Shenzhen) Limited	The People's Repulic of China	RMB1,500,000	100 foreign-owned enterprise	Provision of inspection services
(2)	Li & Fung (Zhanjiang) Limited	The People's Republic of China	US$2,000,000	100 foreign-owned enterprise	Packaging
	Lifung Express Limited	Hong Kong	Ordinary "A" HK$10 Ordinary "B" HK$10	100	Export trading
	Lion Rock Far East (1972) Limited (formerly:- Karstadt Quelle (Far East) (1972) Limited)	Hong Kong	Ordinary HK$20	100	Investment holding
	Lion Rock Services (Far East) & Co. (formerly:– Karstadt Quelle (Far East) & Co.)	Hong Kong	Capital contribution HK$17,000,000	100	Merchandising agent
	Lion Rock Services (Switzerland) AG (formerly:– KarstadtQuelle International Services AG)	Switzerland	CHF3,400,000	100	Export trading
	Lion Rock (Thailand) Limited (formerly:– Karstadt Quelle (Thailand) Limited)	Thailand	Ordinary Baht 15,500,000	100	Export trading
	Lion Rock Trading (Switzerland) Gmbh (formerly:- Noris International Trading Gmbh)	Switzerland	CHF 50,000	100	Export trading
(2)	Livring Limited	Mauritius	Ordinary Rs250,000	60	Export trading
	Lloyd Textile Trading Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading
	Luma Trading Limited	Hong Kong	Ordinary HK$100	60	Export trading
	Lux Plush Enterprises Limited	Hong Kong	Ordinary HK$250,000	100	Export trading
	Maclaine Limited	Hong Kong	Ordinary HK$5,570,150	100	Export trading
(2)	Mercury (BVI) Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding

41 Principal subsidiaries and associated companies (continued)

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Mighty Hurricane Holdings Inc.	U.S.A.	Common shares of US$100	100	Importer
(2)	Momentum Clothing (HK) Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Momentum Clothing Limited	England	Ordinary GBP100	100	Export trading
	Noris International Trading & Co.	Hong Kong	Capital contribution HK$3,000,000	100	Merchandising agent, freight forwarding and logistic services
	Noris Trading Limited	Hong Kong	Ordinary HK$10,000	100	Investment holding
	PB Beauty Limited	England	Ordinary GBP100	100	Design, marketing and manufacturing
	Pacific Alliance USA, Inc.	U.S.A.	Common Stock US$1	100	Wholesaling
	Paco Trading (International) Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Perfect Trading Inc.	Egypt	LE 2,480,000	60	Export trading
	Peter Black Footwear & Accessories Limited	England	Ordinary GBP202,000	100	Design, marketing and sourcing
	Peter Black Hong Kong Limited	Hong Kong	Ordinary HK$1,000	100	Buying agent
	Peter Black International Limited	England	A Ordinary GBP55,000 B Ordinary GBP35,000 C Ordinary GBP12,041	100	Investment holding
	Peter Black Holdings Limited	England	Ordinary GBP16,268,648	100	Investment holding
	Peter Black Overseas Holdings Limited	England	Ordinary GBP2	100	Investment holding
	Prodimpor SAS	France	Euro 3,030,303	100	Wholesaling
	Product Development Partners Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Promocean CIS	Russia	Russian rubels 10,000	100	Export trading
	PromOcean GmbH	Germany	Euro 25,570	100	Wholesaling
	PromOcean No 1 Limited	England	Ordinary GBP1	100	Investment holding
	PromOcean Polska SP. Z O.O.	Poland	50,000 zl	100	Wholesaling
	PromOcean Spain SL	Spain	Euro 3,005.06	100	Wholesaling
	PromOcean The Netherlands B.V.	The Netherlands	Ordinary Euro 39,379.5	100	Wholesaling
	PromOcean UK Limited	England	Ordinary GBP1	100	Wholesaling
	PromOcean Werbeartikel GmbH	Austria	Euro 70,000	100	Wholesaling
	P.T. Lifung Indonesia	Indonesia	US$500,000	100	Export trading
	Ralsey Group Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Ralsey Group Limited	U.S.A.	Common stock US$1	100	Importer
(2)	Ratners Enterprises Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Rosetti Handbags and Accessories, Ltd.	U.S.A.	Common stock US$1	100	Importer
	Shiu Fung Fireworks Company Limited	Hong Kong	Ordinary “A” HK$1,100,000 Ordinary “B” HK$1,100,000	100	Export trading

41 Principal subsidiaries and associated companies (continued)

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Shiu Fung Fireworks Trading (Changsha) Limited	The People's Republic of China	RMB4,000,000	100 foreign-owned enterprise	Export Trading
	Sky Million International Limited	Hong Kong	Ordinary HK$2	100	Property investment
	South China Industrial Group Limited	Hong Kong	Ordinary HK$1	100	Export trading
	Sports Brands Italia Limited (formerly:– Basic & More Fashion Limited)	Hong Kong	Ordinary HK$1,000,000	100	Export trading
(2)	Star Profit International Limited	Hong Kong	Ordinary HK$10,000	100	Export trading
(2)	Star Profit Garment Factory (Shenzhen) Limited	The People's Republic of China	US$1,000,000	100 foreign-owned enterprise	Manufacturing
(2)	Tantallon Enterprises Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(2)	Texnorte II-Industrias Texteis, Limitada	Portugal	Quotas Euro 5,000	100	Export trading
	Texnorte Industrial Limited	Hong Kong	Ordinary HK$2	100	Export trading
	TH Success Limited (formerly:– LF Basic Limited)	Hong Kong	Ordinary HK$1,560,000	100	Export trading
	The Millwork Trading Co., Ltd	U.S.A.	Common stock US$1,331,000 9.5% Preferred Stock US$0.17	100	Distribution and wholesaling
	Toy Island Manufacturing Company Limited	Hong Kong	Ordinary HK$62,000,000	100	Design and marketing
	Toy Island (USA) Inc.	U.S.A.	Common stock US$100	100	Marketing
	Verity Enterprises Limited	Hong Kong	Ordinary HK$2,000,000	100	Export trading
	W S Trading Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading

Notes:

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

(2) Subsidiaries not audited/reviewed by PricewaterhouseCoopers. The aggregate net assets of subsidiaries not audited/reviewed by PricewaterhouseCoopers, amounted to less than 5% of the Group's total net assets.

The above table lists out the principal subsidiaries of the Company as at 31 December 2007 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

41 Principal subsidiaries and associated companies (continued)

		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Principal associated companies				
#	Asia Direct Corporation	U.S.A.	Common stock US$1,000,000	40	Distribution and wholesaling
	Asia Direct Trading Limited	Hong Kong	Ordinary HK$1,000	40	Export trading
#	Asia Directo Limited	British Virgin Islands	Ordinary US$50,000	40	Investment holding
	Blue Work Trading Company Limited	Hong Kong	Ordinary HK$4,000,000	50	Export trading
#	Fireworks Management, Inc.	U.S.A.	Common stock US$60,000	25	Investment holding
#	Gulf Coast Fireworks Sales, L.L.C.	U.S.A	Capital contribution US$2,724,830	30	Fireworks distribution
#	Kosiuko International Limited	British Virgin Islands	Ordinary US$50,000	30	Investment holding
#	MBC Enterprises, Inc.	U.S.A.	Common stock US$2,000	25	Retailing
#	Winco Fireworks International, L.L.C.	U.S.A.	Capital contribution US$5,806,151	30	Wholesaling

\# The associated companies are not audited by PricewaterhouseCoopers.

The above table lists out the principal associated companies of the Company as at 31 December 2007 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other associated companies would, in the opinion of the directors, result in particulars of excessive length.

Ten-Year Financial Summary

CONSOLIDATED PROFIT & LOSS ACCOUNT

	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000	2002 HK$'000	2001 HK$'000	2000 HK$'000	1999 HK$'000	1998 HK$'000
Turnover										
Continuing operations	**92,459,949**	68,010,257	55,617,374	47,170,601	42,630,510	37,281,360	32,941,392	24,992,227	16,297,501	14,312,618
Discontinued operations	**–**	–	–	–	–	–	87,183	791	–	–
	92,459,949	68,010,257	55,617,374	47,170,601	42,630,510	37,281,360	33,028,575	24,993,018	16,297,501	14,312,618
Operating profit										
Continuing operations	**3,600,053**	2,412,320	1,884,600	1,556,036	1,251,986	1,137,025	906,940	832,643	595,305	471,921
Discontinued operations	**–**	–	–	–	–	–	(237,955)	(39,375)	–	–
	3,600,053	2,412,320	1,884,600	1,556,036	1,251,986	1,137,025	668,985	793,268	595,305	471,921
Interest income	**208,193**	98,491	69,539	43,163	38,373	49,581	112,837	140,330	43,830	56,093
Interest expenses	**(499,664)**	(148,070)	(21,376)	(11,466)	(9,813)	(8,987)	(12,464)	(20,585)	(32,243)	(61,346)
Share of profit less losses of associated companies	**4,948**	10,603	9,062	32,801	431	(1,638)	(345)	10,295	8,534	4,383
Profit before taxation	**3,313,530**	2,373,344	1,941,825	1,620,534	1,280,977	1,175,981	769,013	923,308	615,426	471,051
Taxation	**(252,554)**	(171,682)	(151,248)	(130,250)	(103,929)	(92,865)	(53,849)	(60,796)	(35,783)	(13,958)
Profit for the year	**3,060,976**	2,201,662	1,790,577	1,490,284	1,177,048	1,083,116	715,164	862,512	579,643	457,093
Attributable to:										
Continuing operations	**3,060,036**	2,201,819	1,790,279	1,491,223	1,189,152	1,082,888	953,727	895,538	577,058	457,588
Discontinued operations	**–**	–	–	–	–	–	(168,996)	(22,730)	–	–
Shareholders of the Company	**3,060,036**	2,201,819	1,790,279	1,491,223	1,189,152	1,082,888	784,731	872,808	577,058	457,588
Minority interests	**940**	(157)	298	(939)	(12,104)	228	(69,567)	(10,296)	2,585	(495)
	3,060,976	2,201,662	1,790,577	1,490,284	1,177,048	1,083,116	715,164	862,512	579,643	457,093
Earnings per share (HK cents) *(Note)*										
Basic	**89.5**	67.1	55.6	46.5	37.4	34.1	24.8	29.3	20.5	16.5
Continuing operations	**89.5**	67.1	55.6	46.5	37.4	34.1	30.2	30.1	20.5	16.5
Dividend per share (HK cents) *(Note)*	**71.0**	55.0	45.5	38.2	31.8	27.7	24.1	22.7	15.5	13.0
Special dividend per share (HK cents) *(Note)*	**–**	–	–	22.7	–	–	–	–	–	–

CONSOLIDATED BALANCE SHEET

	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000	2002 HK$'000	2001 HK$'000	2000 HK$'000	1999 HK$'000	1998 HK$'000
Intangible assets	**11,374,637**	4,713,163	2,809,380	1,304,333	612,849	326,696	79,585	79,625	6,274	6,228
Property, plant and equipment	**1,130,002**	1,114,368	947,608	715,002	731,071	658,346	669,173	785,380	648,439	626,896
Prepaid premium for land leases	**2,554**	681,179	765,771	765,172	780,826	605,492	555,181	496,430	507,095	511,932
Associated companies	**14,575**	13,930	7,102	55,967	4,223	22,255	34,288	28,564	1,242	12,790
Available-for-sale financial assets	**85,465**	81,605	91,721	–	–	–	–	–	–	–
Investments	**–**	–	–	110,289	115,183	139,932	71,348	53,807	86,484	51,389
Deferred tax assets	**115,604**	105,982	118,419	73,039	19,150	–	–	–	–	–
Current assets	**19,066,540**	15,334,855	10,528,014	8,246,505	6,981,269	6,271,450	5,619,991	5,853,106	2,961,634	2,234,490
Current liabilities	**16,346,066**	12,937,127	9,862,277	6,026,197	4,960,896	4,159,463	3,528,862	3,790,138	2,652,179	1,708,934
Net current assets	**2,720,474**	2,397,728	665,737	2,220,308	2,020,373	2,111,987	2,091,129	2,062,968	309,455	525,556
	15,443,311	9,107,955	5,405,738	5,244,110	4,283,675	3,864,708	3,500,704	3,506,774	1,558,989	1,734,791
Financed by:										
Share capital	**86,268**	85,239	73,414	72,928	72,551	72,250	71,974	71,605	64,765	63,761
Reserves	**9,777,996**	8,181,606	4,551,387	4,636,507	4,117,922	3,714,219	3,358,807	3,290,311	1,078,456	1,273,724
Shareholders' funds	**9,864,264**	8,266,845	4,624,801	4,709,435	4,190,473	3,786,469	3,430,781	3,361,916	1,143,221	1,337,485
Long-term liabilities	**5,063,586**	797,487	753,192	509,487	64,094	69,199	65,955	137,642	414,868	397,058
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**464,050**	–	–	–	–	–	–	–	–	–
Post-employment benefits obligations	**30,335**	25,464	19,821	17,889	10,827	4,029	–	–	–	–
Deferred tax liabilities	**21,076**	18,159	7,924	7,299	18,281	5,011	3,968	7,216	900	248
	15,443,311	9,107,955	5,405,738	5,244,110	4,283,675	3,864,708	3,500,704	3,506,774	1,558,989	1,734,791

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

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