LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 494

利豐

ANNUAL
08
REPORT

CONTENTS

CORPORATE INFORMATION

NON-EXECUTIVE DIRECTORS

Victor FUNG Kwok King, *Chairman*
Paul Edward SELWAY-SWIFT*
Allan WONG Chi Yun*
Franklin Warren McFARLAN*
Makoto YASUDA*
Martin TANG Yue Nien*

** 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
Spencer Theodore FUNG

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 HM 12, Bermuda

HONG KONG OFFICE

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

PRINCIPAL BANKERS

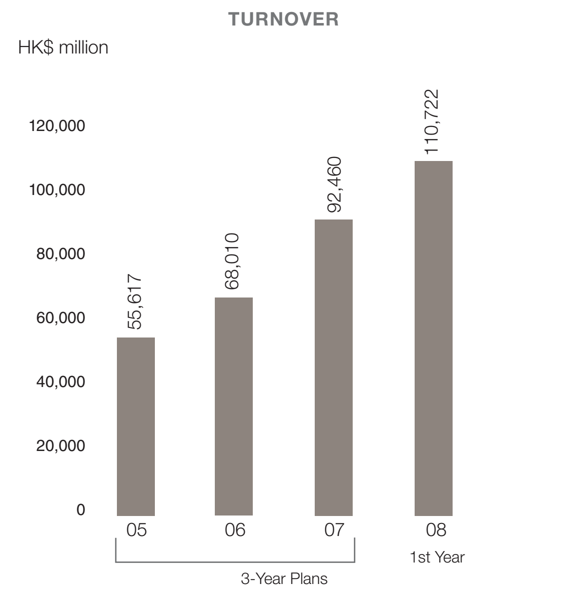
The Hongkong and Shanghai Banking Corporation Limited
Citibank, N.A.
JPMorgan Chase Bank, N.A.
Standard Chartered Bank (Hong Kong) Limited

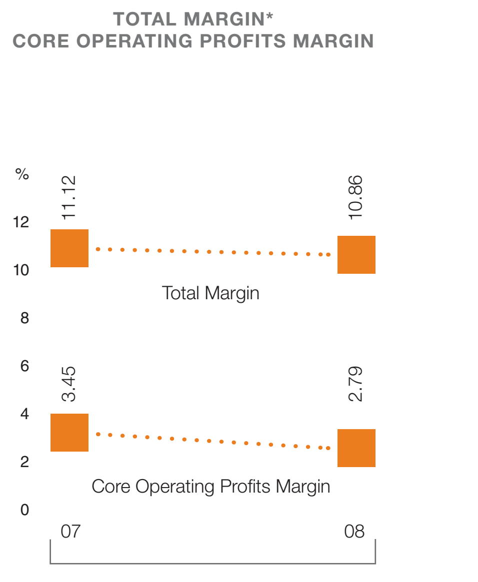
AUDITOR

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

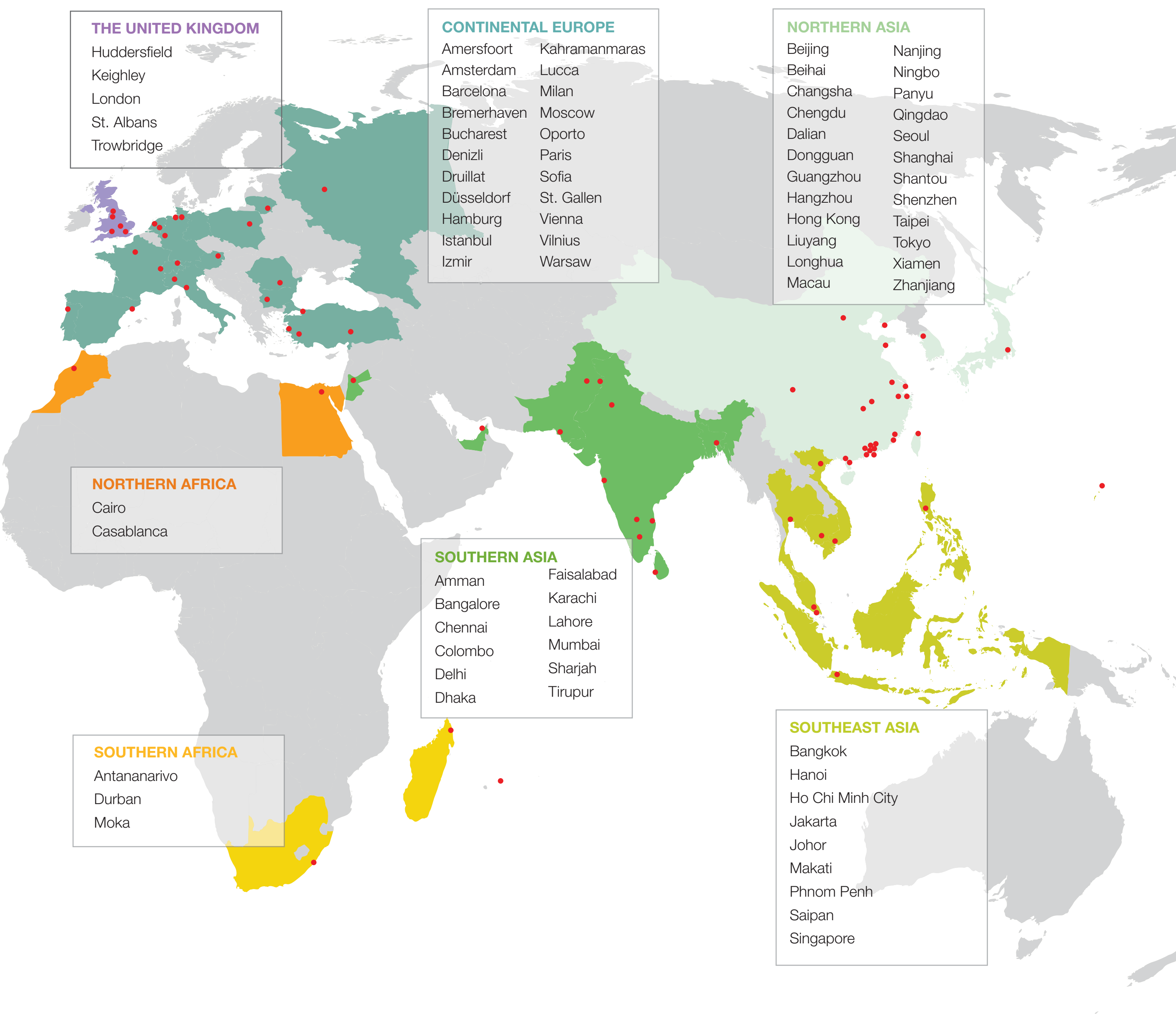
KEY FINANCIAL HIGHLIGHTS

(HK$'000)	**2008**	2007	**Change**
Turnover	**110,722,117**	92,459,949	**+20%**
Total Margin	**12,023,910**	10,285,728	**+17%**
As percentage of Turnover	**10.86%**	11.12%	
Core Operating Profit	**3,084,055**	3,186,601	**-3%**
As percentage of Turnover	**2.79%**	3.45%	
Profit attributable to shareholders of the Company	**2,421,936**	3,060,036	**-21%**
As percentage of Turnover	**2.19%**	3.31%	
Earnings per Share – basic	**69.3 HK cents**	89.5 HK cents	**-23%**
Dividend per Share			
– Final	**33 HK cents**	50 HK cents	**-34%**
– Full year	**57 HK cents**	71 HK cents	**-20%**
Shareholders' Funds	**13,412,074**	9,895,317	
Net Assets per Share	**HK$3.83**	HK$2.88	





* Gross Profit plus other revenues, as percentage of turnover


THE UNITED KINGDOM
Huddersfield
Keighley
London
St. Albans
Trowbridge
CONTINENTAL EUROPE
Amersfoort
Amsterdam
Barcelona
Bremerhaven
Bucharest
Denizli
Druillat
Düsseldorf
Hamburg
Istanbul
Izmir
Kahramanmaras
Lucca
Milan
Moscow
Oporto
Paris
Sofia
St. Gallen
Vienna
Vilnius
Warsaw
NORTHERN ASIA
Beijing
Beihai
Changsha
Chengdu
Dalian
Dongguan
Guangzhou
Hangzhou
Hong Kong
Liuyang
Longhua
Macau
Nanjing
Ningbo
Panyu
Qingdao
Seoul
Shanghai
Shantou
Shenzhen
Taipei
Tokyo
Xiamen
Zhanjiang
NORTHERN AFRICA
Cairo
Casablanca
SOUTHERN ASIA
Amman
Bangalore
Chennai
Colombo
Delhi
Dhaka
Faisalabad
Karachi
Lahore
Mumbai
Sharjah
Tirupur
SOUTHERN AFRICA
Antananarivo
Durban
Moka
SOUTHEAST ASIA
Bangkok
Hanoi
Ho Chi Minh City
Jakarta
Johor
Makati
Phnom Penh
Saipan
Singapore

GLOBAL REACH, LOCAL PRESENCE

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 12,000 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 14,000 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
Chairman

Li & Fung's results for 2008 were impacted by the economic turmoil which continues to reverberate around the world. Despite the nature of the crisis and its global reach, Li & Fung is pleased to report solid results for the year under review.

During 2008, the Group recorded turnover of US$14,195 million (HK$110,722 million). We are glad to have achieved this result despite the global impact of the financial crisis on credit markets worldwide which has affected trade movement across the entire global supply chain.

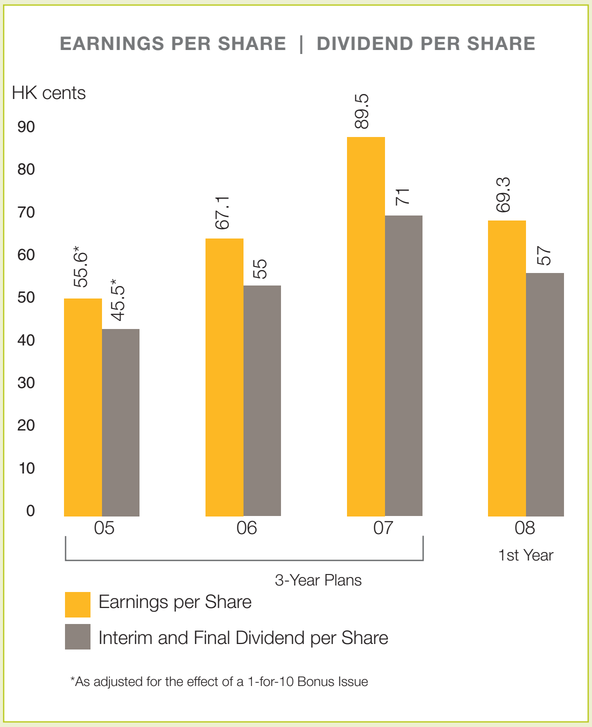
While it was particularly challenging, 2008 also reaffirmed the strength of the Group's reach, and the versatility of its people and its processes. The Group's vertical and geographic diversification and strong financial position have seen results hold up for the year under review.

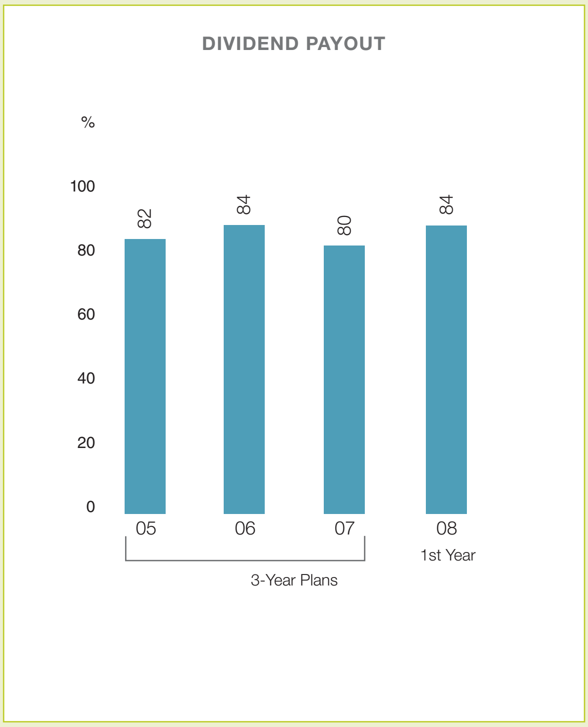
PERFORMANCE

Group turnover for 2008 increased 20% to US$14,195 million (HK$110,722 million). Profit attributable to shareholders dropped by 21% to HK$2.4 billion. The result is reflected in the basic earnings per share which stood at 69.3 HK cents.

MARKET AND BUSINESS

At the heart of Li & Fung's success lies a deep-rooted commitment to all our stakeholders. Our commitment to this principle remains unswerving as we seek to balance the differing interests of all our stakeholders against a backdrop of uncertainty and extreme volatility. We will continue to look to strike the best balance across those interests whether they be those of employees, shareholders, suppliers and customers.





Global consolidation across the supply chain has created opportunities as well as challenges. The Group's ability to orchestrate resources quickly in response to a rapidly changing and dynamic marketplace has enabled Li & Fung to take advantage of some of those opportunities while at the same time limit the downside. This inherent flexibility has benefited the Group as new source markets have emerged in a fast-changing global environment.

Opportunities for new outsourcing deals have continued to surface as customers look to focus on their core competencies and seek to devolve buying and sourcing operations in an effort to achieve efficiencies and cost savings. Indeed, many of these customers would like to shift some of their fixed costs to variable, favouring the Group's business model. This trend has significantly helped to bolster Li & Fung's business in a very difficult environment.

While consumer sentiment is weak, the Group has also benefited from a shift in demand from high-end brands and luxury goods to value brands. Our extensive involvement in the private label business therefore provides some counter-cyclical buffer in this respect.

Li & Fung's commitment to a focused and strategic two-pronged acquisition strategy continued to position the Group well. Outsourcing deals and selective acquisitions will be a key plank of our Three-Year Plan 2008—2010 given the uncertain economic environment, as the Group pursues a controlled growth strategy.

INDUSTRY TRENDS

The Group has continued to respond to opportunities as they arise and has refocused resources on those markets with the greatest potential. During the year, Li & Fung expanded its presence in Europe with two new offices in France and Germany and has also opened a new office in Turkey, which continues to strengthen its position as a global sourcing market. At the same time, the Group has expanded its extensive network in China, opening an office in Xiamen during the period under review.

It is particularly important that the events of 2008 do not give nations around the world reason to retreat into protectionism. The free flow of trade globally will play a critical role in restoring a prosperous world economic order; policymakers must resist the temptation to bow to calls for short-sighted protectionist measures and must instead look at ways to enhance the global multilateral trading system which will effectively meet the challenges ahead. Trade barriers inevitably invoke retaliation by trading partners and therefore benefit no-one. Such actions would only further prolong the impact of the economic downturn worldwide and must therefore be avoided.

Globalisation and the increasing inter-connectedness of markets and people is a positive force for development that cannot be turned back. It cannot be blamed for the economic downturn. It is therefore important that the Doha round of multilateral trade negotiations is successfully completed.

PROSPECTS

Few can accurately predict the duration and extent of the global financial downturn although it is important to consider the impact of the global public sector stimulus packages and the increased co-operation across international boundaries to stimulate demand and find ways to curb the fallout. Such moves are essential if consumer confidence is to rebound.

Since inflationary pressure has receded, we expect cost pressure will be reduced across most sourcing markets.

Looking ahead, with the increased shift towards outsourcing by customers worldwide, the Group expects to increase market share. This expansion coupled with Li & Fung's strong financial position lays a solid foundation for the Group to emerge even stronger when the economic downturn recedes.

CORPORATE GOVERNANCE

Li & Fung has always held dear the principles of transparency, accountability and independence. The Group's commitment to meeting the highest standards of corporate governance remain strong.

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.

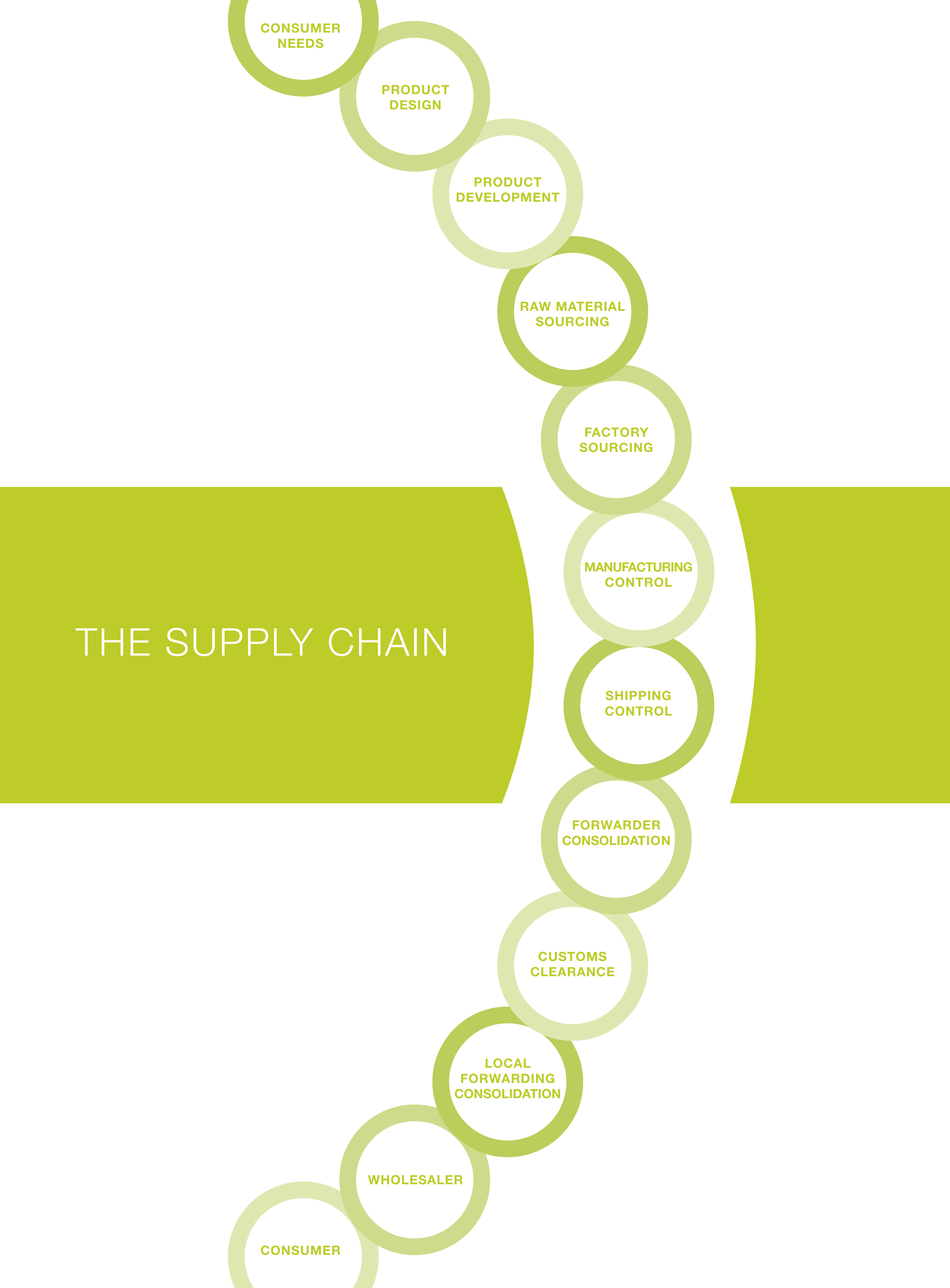
Diversity remains a central part of Li & Fung's culture which is borne out by the fact that the Group employs more than 14,000 people across more than 40 economies. As a Hong Kong-based multinational, Li & Fung will continue to seek to develop a culture of inclusion and mutual respect in order to develop our people and to give back to the communities in which we operate.

CONCLUSION

I would like to once again express my sincere gratitude to the members of the Board for their continued advice and support. I would also like to thank the management team and thousands of staff around the world who are critical to our success. The global economic crisis calls for a united and concerted effort by each and every one of us and we will weather this storm together.

Victor Fung Kwok King
Chairman

Hong Kong, 25 March 2009


THE SUPPLY CHAIN
CONSUMER NEEDS
PRODUCT DESIGN
PRODUCT DEVELOPMENT
RAW MATERIAL SOURCING
FACTORY SOURCING
MANUFACTURING CONTROL
SHIPPING CONTROL
FORWARDER CONSOLIDATION
CUSTOMS CLEARANCE
LOCAL FORWARDING CONSOLIDATION
WHOLESALER
CONSUMER

WE MANAGE ALL ASPECTS OF
THE GLOBAL SUPPLY CHAIN WITH
OUR EXTENSIVE NETWORK
COVERING OVER 80 OFFICES
IN OVER 40 ECONOMIES

MANAGEMENT DISCUSSION & ANALYSIS

William Fung
Managing Director

RESULTS REVIEW

Notwithstanding a challenging business environment, the Group is pleased to report that we have continued to expand market share and have experienced strong turnover growth in a gloomy market.

Turnover increased by 20% to US$14,195 million (approximately HK$111 billion), despite many of our customers having reduced inventory in 2008, reflecting Li & Fung's solid organic growth, growth through acquisitions and an accelerated flow of outsourcing deals in recent years.

Core operating profits decreased by 3% from the previous year. Core operating profit margin decreased to 2.79% from 3.45% which is attributed to the higher operating costs committed in 2007 which impacted on 2008. This also reflects the time lag in incorporating the benefits of new outsourcing deals. For example, the Group immediately incurs additional operating costs when a new outsourcing deal results in incorporating new staff but faces a delay in realizing revenue benefits.

Profit attributable to shareholders reached HK$2,422 million for 2008, a decrease of 21% over 2007. Apart from the overall weak market sentiment, the bottom line was also affected by a number of one-time events including restructuring costs in many of the high cost cities, in particular the US onshore business as this was rationalized after three years of numerous acquisitions, start-up costs incurred for the European onshore business, certain provisions made due to a small number of customers' bankruptcies in 2008, and a one-time gain from disposal of property holding subsidiaries in 2007 which was not present in the 2008 accounts.

Total margins increased by 17% but as a percentage of turnover, declined slightly from 11.12% to 10.86% in 2008, due to change in customer mix.

The Group saw an increased flow of outsourcing deals in 2008. Many of our customers opted to focus on their core competencies such as retailing and marketing, and elected to outsource their non-core operations such as their sourcing operation to Li & Fung. In 2008, we executed a number of significant outsourcing deals, including Toys'R'Us' private label business, Sanrio, Timberland's apparel business, and Mexx.

In addition, we continued with our two-pronged acquisition strategy with the Group undertaking seven acquisitions in 2008: Imagine, RT Sourcing, Silvereed, Wilson & Wong, Giant Merchandising, Van Zeeland and Miles Fashion. Undoubtedly, these acquisitions will have had a significant impact on the Group's product platforms and geographic reach.

In 2008, the Group entered into a Subscription Agreement through which a wholly-owned subsidiary of Temasek Holdings (Private) Limited agreed to subscribe to 168,000,000 new shares at a price of HK$23.09 per subscription share. The proceeds provided funds for the Group to take advantage of acquisition opportunities that may arise in this economic environment.

Bruce Rockowitz
President

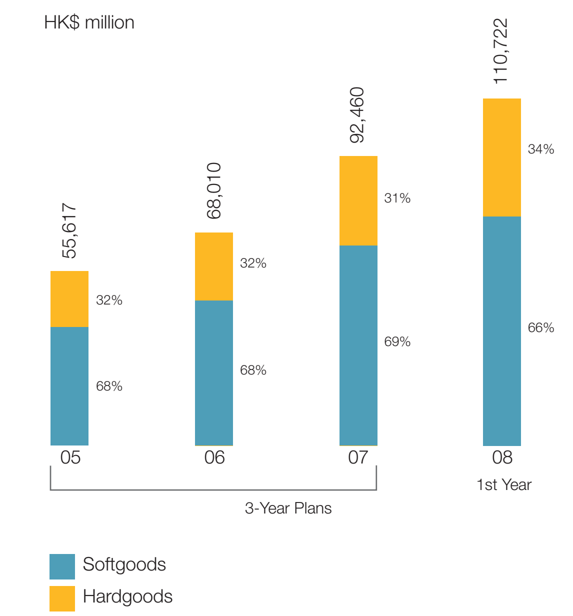
SEGMENTAL ANALYSIS

In 2008, softgoods and hardgoods accounted for 66% and 34% of turnover respectively. **Softgoods** turnover increased by 14% while operating profit increased by 11%. The improvement reflects the positive contributions from previous acquisitions such as Tommy Hilfiger's sourcing operations, American Marketing Enterprises (AME) and Regatta.

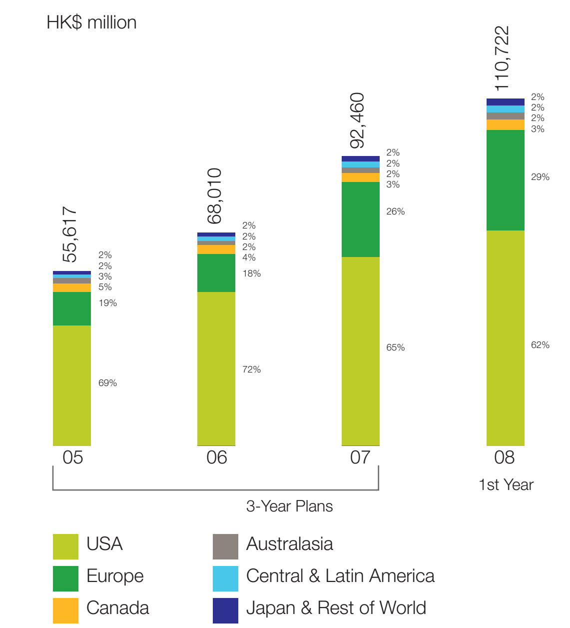
Turnover from the **hardgoods** business grew by 31% but operating profit decreased by 45%. This turnover growth reflects solid organic growth from some existing customers and contributions from previous acquisitions in the Health, Beauty and Cosmetics (HBC) business as well as the shoe business. The decline in operating profit reflects the drop in margins in the hardgoods business and in particular, the European onshore business.

Geographically, the **US** continues to be the Group's key export market, representing 62% of total turnover during the period under review. However, this represents a fall from 65% in 2007 and reflects our continued success in diversifying geographically. Turnover and operating profit grew by 14% and 2% respectively, which resulted from contributions from acquisitions such as AME and Giant Merchandising, and our active involvement in the proprietary brand business through Regatta, in addition to our core sourcing business. As well, our US onshore business continued to grow at healthy levels in 2008. On the other hand, the operating profit of the overall US business was adversely affected by hardgoods business which saw decline in operating profit in 2008.

TURNOVER BY PRODUCT



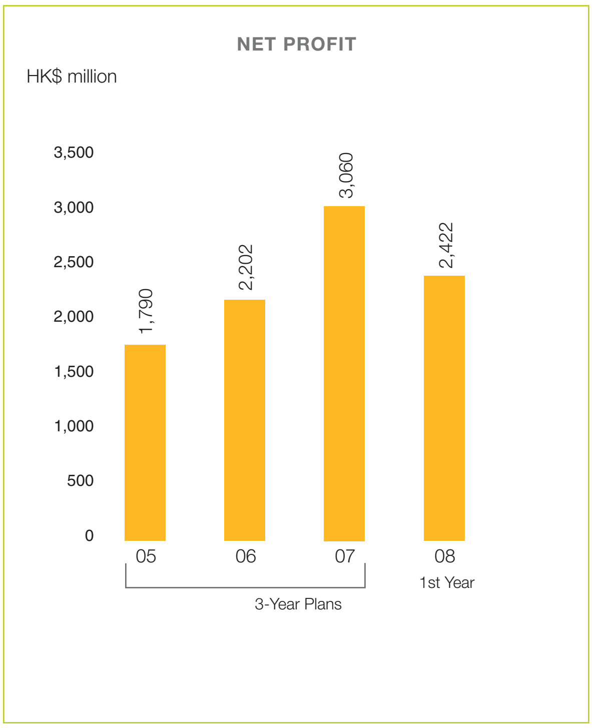
TURNOVER BY EXPORT MARKETS

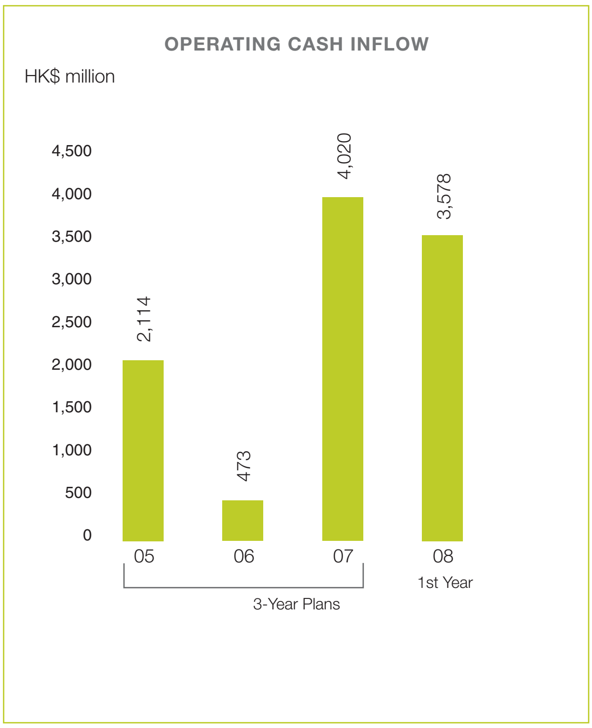


Europe accounted for 29% of turnover, reflecting growth of 36%. This growth reflects the contribution from Peter Black and outsourcing deals as well as solid organic growth from existing customers. Operating profits dropped by 18% attributed to factors including to start-up costs incurred at European onshore business and that Peter Black's margins have also decreased from previous year.

In 2008, Li & Fung began to develop the European onshore business. Similar to the US onshore business, the first year was a start-up period with associated costs and we expect the European onshore business to reach its Three-Year Plan targets in 2010.

Turnover in other markets such as **Canada, Central and Latin America,** and **Australasia** accounted for 3%, 2% and 2% respectively. Turnover growth for these markets stood at 6%, 21%, and 23%. Operating profit declined in Canada and Australasia was down 7% and 1% respectively but Central and Latin America recorded operating profit growth of 7%. **Japan** and the rest of the world representing turnover share of 2%, experienced growth of 18% in turnover and 16% in operating profit.





ACQUISITIONS

We continued to pursue a two-pronged acquisition strategy in 2008, marked by a total of five roll-up acquisitions (Imagine, RT Sourcing, Silvereed Group, Wilson & Wong, and Giant Merchandising) and two large acquisitions (Van Zeeland and Miles Fashion).

Key acquisitions include:

• HEALTH, BEAUTY AND COSMETICS (HBC)

The Group continued to strengthen its capabilities in the HBC sector by acquiring Imagine in January 2008 and RT Sourcing in July 2008. Imagine is one of the leading companies in Asia designing and developing point-of-sale displays for retailers and manufacturers globally.

RT Sourcing is a sourcing and development company that specializes in primary packaging and components for beauty brands and full service beauty products for retailers.

The Group sees tremendous growth opportunities in the area of HBC to leverage potential synergies with existing customers.

• FASHION

The Group increased its presence in the better priced fashion label arena by acquiring the Silvereed Group in February 2008 and Wilson & Wong Trading Company Limited in July 2008. Both are based in Hong Kong and are "virtual manufacturers" with the focus on design and product development of ladies' fashion garments. These deals added a new portfolio of the fashion customer.

ONSHORE BUSINESS

(i) Van Zeeland

In August, the Group announced that it had entered into an agreement to acquire Van Zeeland for HK$2,574 million with additional incentives based on performance. Van Zeeland is a leading New York-based importer of mid-tier and department store handbag brands, including flagship labels Kathy Van Zeeland Handbags, B. Makowsky & Tignanello. The deal helps to establish the Group as the leading handbag supplier in the US across all distribution channels.

(ii) Miles Fashion Group

In November, the Group announced that it had entered into an agreement to acquire all of the shares of Miles Fashion Group, a leading German supplier to some of the largest discounters and retail chains in Europe. Miles Fashion sells a wide range of ladies and menswear, kidswear, outdoor and footwear products. This acquisition helps to give the Group the platform to accelerate growth of LF Europe in the current Three-Year Plan.

(iii) Licensed Brands

In April 2008, the Group continued to further our US onshore business by acquiring the trademark and assets relating to the T-Shirt licensed business of Giant Merchandising. The transaction helps to provide further category and brand expansion in our licensed product business.

OUTSOURCING DEALS

2008 marked a year which saw the acceleration of outsourcing deals. These included Toys'R'Us' private label business, Sanrio, Timberland's apparel business and Mexx. Undoubtedly, these outsourcing deals, together with our acquisitions, will further solidify our market share in these respective business areas and will contribute positively to our bottom line in the years ahead. These deals have also added strong expertise and capabilities to our product design and development function in our hardgoods, softgoods as well as health, beauty and cosmetics businesses.

PROGRESS ON THREE-YEAR PLAN 2008–2010

While our new Three-Year Plan 2008–2010 began against the backdrop of uncertain global economic conditions, we remain committed to the targets it outlined, that is, a turnover target of US$20 billion, a core operating profit target of US$1 billion, and an operating leverage target of doubling income percentage growth over turnover percentage growth (i.e. 2x). We anticipate that outsourcing deals and selective acquisitions will be a key plank of our Three-Year Plan 2008-2010 as the Group pursues this growth strategy in view of the uncertain economic environment.

Li & Fung will continue to expand our network relentlessly to meet the needs of customers. We opened four offices in 2008, namely Xiamen (China), Druillat (France), Hamburg (Germany), and Kahramanmaras (Turkey). At year-end, we had a network of more than 80 offices in over 40 economies.

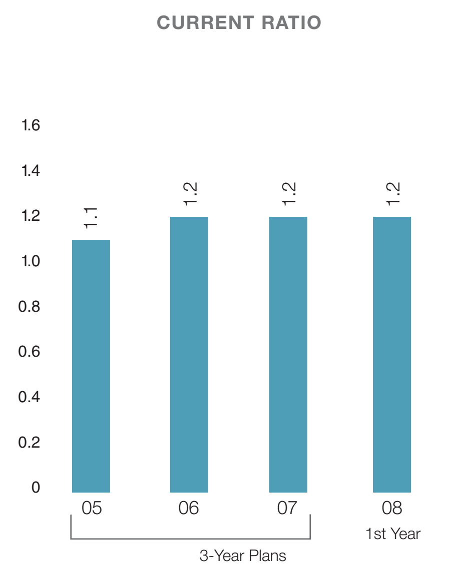
We are also very pleased to report that the Group's financial strength is highly resilient despite uncertainty in the external financial market. We have maintained our strong credit ratings from Moody's and Standard & Poor's at A3 (stable) and A- (stable) respectively. Li & Fung continues to enjoy healthy cashflows and has strong credit ratios. For details, please refer to the following "Financial Position and Liquidity" section.

The Group recognizes the challenging times faced by companies worldwide. We will continue to monitor market conditions to ensure the continuing strength of our franchise and to meet our responsibilities to all our stakeholders including customers, employees, vendors and shareholders.

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$2,182 million at the end of December 2008.

Normal trading operations were well supported by more than HK$19,656 million in bank trading facilities. In addition, the Group had available bank loans and overdraft facilities of HK$4,029 million, out of which HK$1,080 million was committed facilities. At 31 December 2008, only HK$606 million of the Group's bank loans and overdraft facilities was utilized, in which HK$234 million was a drawdown of the committed facilities.



At balance sheet date, the Group's gearing ratio was about 14%, calculated as net debt divided by total capital. The Group's gearing ratio decreased from last year of 24% as the Group's total equity was further strengthened by the share subscription of a wholly-owned subsidiary of Temasek Holdings (Private) Limited of approximately HK$3,879 million. Net debt of HK$2,199 million is calculated as total borrowings (including long-term bank loans of HK$234 million, short-term bank loans of HK$278 million and long term notes of HK$3,869 million) less cash and cash equivalents of HK$2,182 million. Total capital is calculated as total equity of HK$13,382 million plus net debt. The current ratio was 1.2, based on current assets of HK$21,466 million and current liabilities of HK$17,848 million.

IMPACT OF CHANGES IN ACCOUNTING STANDARDS

The following amendments to standards and interpretations are relevant to the Group and are mandatory for the financial year ended 31 December 2008.

HKAS 39	Financial instruments: Recognition and measurement
HK(IFRIC) – Int 11	HKFRS 2 – Group and treasury share transactions
HK(IFRIC) – Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

These amendments to standards and interpretations do not have any significant impact on the Group's account.

CREDIT RISK MANAGEMENT

Credit risk mainly arises from trade and other receivables and cash and bank balances of the Group.

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 with trade and other receivables, which include but are not limited to the measures set out below:

(i) A significant portion of business is secured by back-to-back payment arrangements or covered by letters of credit, customers' standby letters of credit, bank guarantees or credit insurance;

(ii) Certain trade receivable balances on open account term are factored to external financial institutions without recourse;

(iii) The Group's credit control team makes ongoing assessments of each individual customer and vendor and determines the credit limits based on, among other factors, their trading and settlement history and their respective financial background.

FOREIGN EXCHANGE RISK MANAGEMENT

Most of the Group's cash balances were deposits in HK$ and US$ with major global financial institutions, 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. Pursuant to the Group policy in place, foreign exchange forward contracts, or any other financial derivatives, are entered into by the Group for hedging purposes. The Group has not entered into any financial derivatives for speculation.

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$1,599 million for the years of assessment from 1992/1993 to 2007/2008. 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 2008, the Group had a total workforce of 14,438 of whom 3,599 were based in Hong Kong and 10,839 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. For new employees, we have also put in place a 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 talent resourcing programs: the Management Trainee Program and the Merchandising Development Program. These two programs are more described in Corporate Governance section of this Report on page 35.

To further uphold the corporate philosophy of talent building, the Group has recently launched a key business initiative called "Building Skills for Growth" which focuses on the Group's investment in building new skills or upgrading existing skills of employees in order to sustain personal and organizational growth.

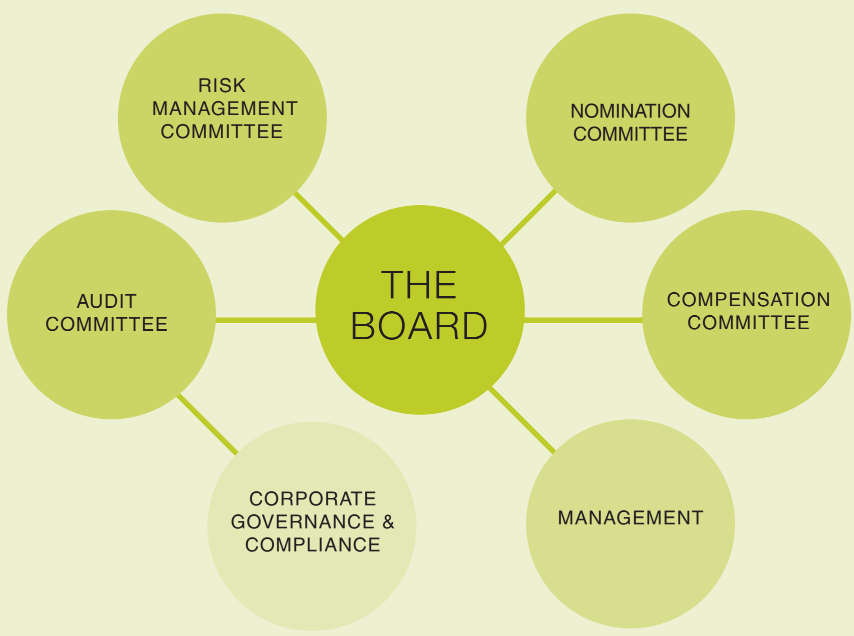
The Group invested in sophisticated human resource software during the period under review. Total staff costs for 2008 were HK$4,683 million, compared with HK$3,952 million for 2007.

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, five Executive Directors and five Independent Non-executive Directors, whose biographical details and relevant relationships are set out in the Directors and Senior Management section on pages 38 to 42.

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 2008 (with an **average attendance rate of 94%**) 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 Singapore colleagues was conducted at our Singapore Hub Office in November 2008. A similar session was at our Shanghai and Thailand offices in 2007 and 2006 respectively.

To maximize the contribution from non-management Directors, a separate meeting was held in May 2008 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 in 2008.

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 2008 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 2008 are detailed in the following table:

BOARD AND COMMITTEE MEETINGS FOR YEAR 2008

	Board	Nomination Committee	Audit Committee	Risk Management Committee	Compensation Committee
Non-executive Directors					
Dr Victor FUNG Kwok King[1]	●●●●●●●●	●	●●●●	●●●●	●●●●●
Mr LAU Butt Farn – retired on 21 May 2008	●●●				
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	○●●●●●●●				
Mr Spencer Theodore FUNG – appointed on 1 July 2008	●●●●●				
Group Chief Compliance Officer					
Mr James SIU Kai Lau	●●●●●●●●[4]	●[4]	●●●●[4]	●●●●	●●●●●[4]
Chief Operating Officer					
Mr Chen Kuan JEANG	●●●●●●●●[4]		●●●●[4]	●●●●[5]	
Dates of meeting	17/01/2008 27/03/2008 21/05/2008 13/08/2008 05/09/2008 10/10/2008 21/10/2008 12/11/2008	27/03/2008	27/03/2008 21/05/2008 13/08/2008 12/11/2008	06/05/2008 28/07/2008 24/09/2008 03/11/2008	24/01/2008 27/03/2008 16/04/2008 21/05/2008 13/08/2008

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
5: Mr Jeang ceased to be a Risk Management Committee member on 31 December 2008.
Note: All Committee chairmen attended the Annual General Meeting held on 21 May 2008.

● NUMBER OF MEETINGS ATTENDED
○ NUMBER OF MEETINGS HELD

In 2008, 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 for three consecutive years from 2006 to 2008 by *Corporate Governance Asia Journal*;
- "The Asset Corporate Governance Awards 2008" for second consecutive years since 2007 by *The Asset* magazine;
- One of "The World's Most Influential Companies" by *BusinessWeek* in 2008;
- One of the "Fabulous 50" companies by *Forbes Asia* in 2008;
- One of the "50 for 2012" companies by Morgan Stanley in 2008

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. Details and reports of the Committees are set out below.

CORPORATE GOVERNANCE ASIA
Recognition Awards 2006-2008

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 selects and recommends candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary.

The Committee met **once** in March 2008 (with a **100% attendance rate**) to review the board composition and the nomination of directors to fill board vacancies in 2008.

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 2008 (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. An informal Audit Committee visit to the Group's New York Office was also made in October 2008.

In 2008, 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, goodwill assessment, listing rules and statutory compliance, connected transactions, 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 conducted a self-review of its effectiveness for 2007 and 2005 by completing a detailed questionnaire on the effective running of an audit committee. The self-assessment indicated a good rating was achieved in 2007 and 2005 respectively. A similar exercise will be conducted in 2009.

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 2008, 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 AUDITOR'S INDEPENDENCE

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

A policy on provision of non-audit services by the external auditor 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 auditor. During the year, the external auditor 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 auditor for non-audit services and for audit services are subject to scrutiny by the Audit Committee (refer to details of fees to auditor in *Note 4* to the accounts on page 85).

In addition, the external audit engagement partner is subject to periodical rotation of every 7 years, and a policy restricting the employment of employees or former employees of external auditor at senior executive and financial positions with the Group has also been enforced.

Prior to the commencement of the audit of 2008 accounts of the Company, the **Committee received written confirmation from the external auditor on its 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 2009 as the Company's external auditor 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 **four times** in 2008 (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, credit risk management, inventory management, goodwill assessment, tax compliance issues, and other operational and financial risks management.

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 granting and allocation of share options to employees under the Company's Share Option Scheme. It annually reviews the Group's remuneration policy.

The Committee met **five times** in 2008 (with a **100% attendance rate**) to review and approve all Executive Directors' (including the Group Managing Director) remuneration packages and the granting and allocation of share options under the current Three-Year Plan (2008-2010).

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

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

The principal elements of Li & Fung's executive remuneration package include 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 a 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 88 to 90.

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 portal reference by all staff.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Specific confirmation has been obtained from each Director to confirm compliance with the Model Code for 2008. 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. No incident of non-compliance by Directors and relevant employees was noted by the Company in 2008.

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 2008.

DIRECTORS' RESPONSIBILITY FOR ACCOUNTS AND AUDITOR'S RESPONSIBILITY

The Directors' responsibility for preparing the accounts is set out on page 55, and the auditor's reporting responsibility is 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.

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 36 and 37* to the accounts on pages 121 to 124.

OPERATIONAL CONTROL MANAGEMENT

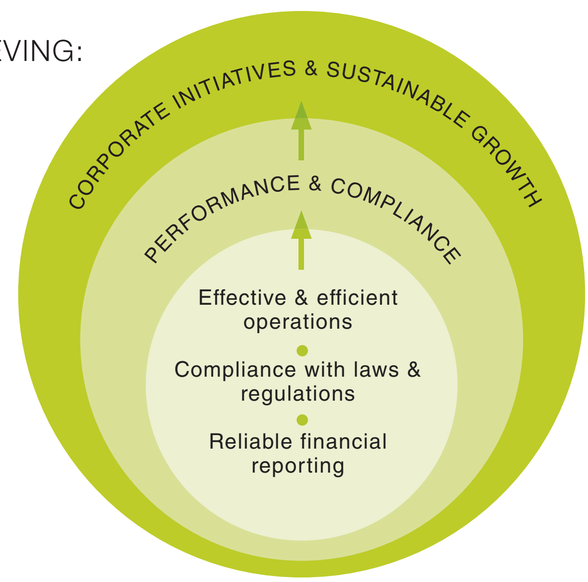
The Group establishes and implements written Key Operating Guidelines (KOG) and corporate policies encompassing key risk and control standards for the Group's operations worldwide. Control procedures are in place to approve (i) our major investment and acquisition activities by our Investment Committee and (ii) 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 program 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 our adherence to relevant laws and regulations, listing rules compliance, public disclosure requirements and our standards of compliance practices.

LI & FUNG'S INTERNAL CONTROL FRAMEWORK IS DESIGNED TO ACHIEVING:



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 risks. 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 execution of the current Three-Year Internal Audit Plan (2008-2010) that is strategically linked to the Group's Three-Year Plan. The Internal 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 and reported to the Audit Committee at each Committee meeting.

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 Programs for the trading operations and relevant accounting functions conducted by the Management.

Our external auditor, PricewaterhouseCoopers, performs independent statutory audits on the Group's accounts. As part of its audit engagement, our external auditor also reports to the Audit Committee any significant weaknesses in the Group's internal control system which might come to its notice during the course of audit. PricewaterhouseCoopers noted no significant internal control weaknesses in its audit for 2008.

OVERALL ASSESSMENT

Based on the assessments made by senior management, the Group's Internal Audit team and the external auditor for 2008, the Audit Committee considered that:

- the internal controls and accounting systems of the Group were 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 2008.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

SUPPLY CHAIN RESPONSIBILITY

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 2008, the Group employed more than 120 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 independent of our sourcing/merchandising divisions and focuses on improving suppliers' labor, health and safety, environmental and security standards. The VC division reports to a corporate executive who reports directly to our Group Managing Director.

The VC division conducts evaluations of approved suppliers on a routine and systematic basis in accordance with industry defined and customer's specific audit protocols and methodologies. The scope of an evaluation includes an opening meeting, site inspection, employee and management interview, document review, reporting, and closing meeting. Suppliers are then rated and approved based on designations ranging from Satisfactory, Immediate Action, Continues Improvement, or Failed (Zero Tolerance) and/or customer specific designations.

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 2008, more than 10,000 facility inspections and verification audits were performed around the globe. In addition to internal evaluations, the VC division also operates in parallel to external evaluations conducted by independent third-party auditing firms commissioned by our customers.

We also support our customers with their various third-party auditing programs including that of Business for Social Compliance, International Council of Toys Industry, and others.

TRAINING AND EDUCATION

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 understand and meet compliance requirements.

In 2008, Li & Fung expanded its scope of supplier training and education efforts to include additional focus areas of energy conservation and cleaner production. Partnering with HSBC, we co-organized a seminar in Hong Kong, together with representatives from HSBC Living Business, the Business Environmental Council, the World Wildlife Foundation (WWF) Hong Kong, and the Hong Kong Productivity Council. The seminar was attended by our top suppliers for promoting the growing interest and awareness in eco-logical issues facing the supply chain business.

ENVIRONMENTAL AND ENVIRONMENTAL AUDIT PROGRAM

In 2008, Li & Fung continued to develop and implement a broad spectrum of environmental programs and initiatives focusing our efforts on three core areas: resource conservation, environmental protection, and product stewardship. Li & Fung enforced 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.

Li & Fung encourages suppliers to establish and maintain environmental protection and sustainable supply chain systems. Recognizing the growing importance of assessing the environmental impacts of the global supply chain, the Group's VC division continued its pilot run of Li & Fung's Environmental Audit Program during 2008. The scope of the program covers a review of the impacts of our factory operations on the environment. The assessment contains 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. The program was tested with a number of customers to gauge its efficacy and feasibility as a future service offering.

WASTE

In 2008, Li & Fung received a prestigious environmental conservation award to recognize our commitment and effort towards sustainability in the workplace. We were awarded the "Class of Excellent" Wastewise Label in recognition of the Company's effort in the reduction of solid office waste. A government initiated scheme, the objective of the scheme is to encourage businesses and organizations to adopt measures in waste reduction. The results of the waste minimization program have led to significant reductions in office waste and cost savings of HK$400,000 in 2008.

ENERGY

Also in 2008, Li & Fung was awarded the "Class of Good" Energywise Label in recognition of the Company's effort in energy savings. A government initiated scheme, the objective of the scheme is to encourage businesses and organizations to adopt measures in saving energy. The Energywise label is one of the four environmental labels under the Hong Kong Awards for Environmental Excellence, jointly presented by the Environmental Campaign Committee and the Environmental Protection Department.

In an effort to advance cleaner production, Li & Fung is actively promoting the Cleaner Production Partnership Program for Hong Kong-owned factories in the Pearl River Delta region. This five-year program is jointly organized by the Environmental Protection Department, Guangdong Economic and Trade Commission, Hong Kong Productivity Council and business and industrial sectors. The program will provide funding support to those factories to engage environmental consultants to conduct on-site improvement assessment for deriving practical solutions to achieve energy saving and emission reduction. A number of our suppliers have joined this program in 2008.

Li & Fung also partnered with WWF and four other Hong Kong companies to help launch the pilot rollout of the Low Office Operation Program (LOOP), an innovative energy conservation project. The program aims to provide companies with tools to measure and reduce office energy use and green house gas emissions. LOOP will be launched within Hong Kong in early 2009.

CARBON

In collaboration with one of our customers, the Group completed a "cradle-to-gate" lifecycle assessment of two articles of apparel that provides important insights relating to the environmental performance and impacts of the products that we source for our customers. The assessment included the raw materials, manufacturing, distribution, use, and disposal stages and examined impacts related to energy and climate change. The key learning outcomes of this project will be used to build upon further understanding the complexities of carbon footprinting and how it may generate value for the environment, our customers and our business.

WATER

Li & Fung partnered with The Asia Foundation, local government agencies, and non-governmental organizations in Guangdong, China to implement an innovative pilot project that brings local governments, industry associations, enterprises, suppliers and local environmental experts together to collaborate on water pollution reduction in the textile and dyeing sectors through preventative approaches. Entitled the Pearl River Delta Environment Program, the project strives to achieve three objectives: (1) improving the policy environment for pollution prevention; (2) developing innovative mechanisms to overcome awareness, technology and financial barriers to enterprises adopting cleaner technology; and (3) enhancing collaboration and innovation in environmental protection initiatives in business civil society. The project activities included seminars, grants, and workshops.

PRODUCT STEWARDSHIP

In terms of the promotion of environmentally friendly product, Li & Fung continues to explore new opportunities and to expand its sourcing of eco-friendly related materials, products and packaging. The Group is working closely with suppliers around the world to produce more eco-friendly products for our customers. During 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 2008, the Group's Vietnam office renewed its "Chain of Custody" certification in trading of indoor and outdoor home-used wood products certified by The Forest Stewardship Council (FSC). The FSC is 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.

PRODUCT SAFETY AND TESTING

Li & Fung works closely with our customers to design and ensure contracted manufacturers produce their products to conform with or exceed all applicable safety standards from around the world. With a dedicated Quality Assurance / Quality Control team of more than 2,600 staff, the Group follows rigorous internal processes and procedures, in conjunction with external testing and certification, to confirm safety, performance, and regulatory compliance.

STAKEHOLDER ENGAGEMENT

In order to cope with the complexity of the environmental and social issues within global supply chain, Li & Fung is proactively working with our customers, industry peers, academics, and non-governmental organizations to address the underlying root causes and issues that impact our factories worldwide.

In addition to supporting our customers in their various supply chain stakeholder engagement programs, Li & Fung also participates directly in a number of multi-stakeholder initiatives. 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. BSR provides information, tools, training and advisory services to make corporate social responsibility an integral part of business operations and strategies.

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. In 2008, Li & Fung also joined BSR's Clean Cargo Working Group (CCWG). CCWG develops voluntary environmental management guidelines and measures to help evaluate and improve the performance of freight transport. Members included leading multinational manufacturers and retailers (shippers), freight carriers (ocean, road, rail and air service providers) that are dedicated to integrating environmentally and socially responsible business practices into transportation management.

Since 2006, Li & Fung has also been an AB member of Supplier Ethical Data Exchange (SEDEX). SEDEX uses the latest technology to enable companies to maintain and share data on labor practices in the supply chain.

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.

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 has a proactive policy of promoting investor relations and communications by maintaining regular dialogues with institutional shareholders and analysts. Management has attended investor meetings on a regular basis and participated in a number of major investor conferences in Asia and North America. The Company is followed by a large number of analysts and many of them publish reports on the Company regularly.

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.

The Company continues to utilize its corporate website to further promote effective communication. The website disseminates shareholder information and other relevant financial and non-financial information electronically on a timely basis.

During 2008, 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 2008 are set out in Information for Investors section on page 43 and on our corporate website.

In 2008, Li & Fung received several recognitions from the wider business community. Li & Fung was selected as one of the "Fabulous 50" companies by *Forbes Asia* magazine, one of the "50 for 2012" companies by Morgan Stanley, and one of the top 25 companies in "The World's Most Influential Companies" by *BusinessWeek*. Mr. Bruce Rockowitz, President of the Group, was ranked first place for the "Asia's Best CEOs in the consumer category" by *Institutional Investor* magazine in December 2008.

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 Senior Vice President – Investor Relations, whose contact information is detailed on page 43.

CORPORATE COMMUNICATIONS

In 2008, the Company held semi-annual 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, are held in Hong Kong and overseas Hubs 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's Intranet also provides staff with reports on the Group's latest directives and initiatives and staff recreational activities.

INFORMATION TECHNOLOGY

The Company's commitments to supporting Information Technology investments continued in 2008 with specific focus on application systems supporting business growth, process efficiency and business partner integrations.

GLOBAL SYSTEM IMPLEMENTATION AND UPGRADES

In 2008, the Company has completed some major upgrades and implementations including the completion of our global Finance Accounting system, Financial Data Warehouse Reporting and Human Resources platform. These implementations focused on process re-engineering and enhancements, global standardization and simplification of processes and enhanced reporting, resulting in recorded improvement in processing time, reduced manual data entry and increased accuracy and data integrity.

Other continued rollouts of supply chain extended application systems in 2008 included Mobile Quality Control (MQC), Document Management Platform and Vendor Compliancy System. Focus on these systems will be continued during 2009.

ELECTRONIC INTEGRATIONS AND SUPPLY CHAIN PARTNER COLLABORATION

In 2008, the Company has carried on the initiative of increasing electronic integration with all major supply chain partners with a major increase in automated electronic integrations with customers, vendors and banking institutions, leading to a reduction of manual data entry, increase in data accuracy and a reduction in cost per transaction.

In addition, the Company launched a new dedicated online portal specifically targeted to Supply Partner Collaboration, focusing on order and document flows. It has immediate benefits of reducing order related expenses and increased partner communications. All these initiatives will have continued focus and investment throughout 2009.

NETWORK AND INFRASTRUCTURE

To accommodate the growing number of applications, transactions and users, the Group continues to invest and enhance its Global Wide Area Network (WAN) and its communications backbone. The Company has also specifically introduced new network points and major overall increase in bandwidth capacity available at all offices. With further introduction of Network Optimization Appliances, the overall cost of these upgrades was significantly reduced and thereby containing the overall networking costs or even reducing costs in some locations.

A special focus was given to a Voice Over IP (VoIP) project, which tied the Company's existing phone systems with the state of the art VoIP Platform, enabling all our major offices to place calls over our WAN. This project has been leveraging on our prior investments with a significant reduction of telecommunications costs. In addition, the Group has conducted a review of the Company's Video Conferencing capabilities during the year, and the implementation of upgrades was due for completion in early 2009.

SERVICE IMPROVEMENTS

In 2008, the IT Division of Li & Fung (Trading) Limited was re-accredited since 2001 in ISO 9001:2000 certification for quality management system standards applicable to the provision of in-house IT products and services.

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 Program in 2003 with an aim of nurturing young talented professionals to accommodate business growth of the Group. The program is a structured career development and intensive training program 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 program. Since 2007, the Management Trainee Program was further rolled out to overseas offices such as India and Shanghai so as to build and strengthen the Group's future leadership capability. The Company currently has more than 80 trainees participating in the program. About 30 of them had successfully completed the program and are now taking up managerial positions in different functions within the organization.

Since 2007, Li & Fung had more than 100 trainees participating in its Merchandising Development Program which aimed to attract new recruits to the Company and build its merchandising resource pool. The program was tailor-made for the Company's new merchandising staff and covered a mix of in-house and external training programs. These included practical skills-based, structured on-the-job training, factory attachments and e-learning modules. As part of the program, 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. Given the success of the program in Hong Kong, it has been further rolled out to Shanghai Office in 2008 with 23 trainees currently participating in the program.

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 strongly believes that "Investing in our people is an investment in our business". Future growth and success of our Group depends on how well our people are able to respond to the ever-changing needs of our customers. Therefore the Group 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 has recently launched a key business initiative called "Building Skills for Growth" and it is about the Group's investment in building new skills or upgrading existing skills of our people in order to sustain personal and organizational growth. Apart from this major initiative, the Group also implements a policy of sponsoring staff to attend job-related training and self-improvement programs. Management development programs are also in place for senior employees. Contents of the Group's in-house programs 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.

Regarding the global HR information system which was initially developed in 2007, Li & Fung continued the enhancement of its people data management and rolled out the recruitment module to major hubs around the world. Apart from Hong Kong, the recruitment module was being implemented in Shanghai, India and Shenzhen hubs. In 2009, we shall continue to roll out the recruitment module to the Bangkok, Singapore, Korea, Taiwan and Turkey hubs. Phase II of the project will include the development of other core HR functions like performance management, talent management interfaced with e-learning, manpower planning and headcount control, and a document management centre with fully automated employment processes.

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 and 2008, 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. Li & Fung received the Gold Wastewise Label Award in recognition of the Company's effort in waste reduction. In 2008, Li & Fung also launched the Green Initiatives across the Group.

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 included various government and non-government advisory boards and professional associations promoting Hong Kong's exports, the advancement of international trade, community quality-housing solutions, best corporate governance practices and identifies new opportunities during the recent financial turmoil. Executives' participation included 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, 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 2008 included the 3rd Tour of Hong Kong Shanghai HSBC Hong Kong Stage, an international fundraising cycling event in which the Group was presented 2 awards, namely, Excellence in Engagement Award, and Champion in Top Fundraising Team Award. Another key event is the Standard Chartered Hong Kong Marathon in which the Group was presented the fourth place of "Most Supportive Group Award". The Group continued to support 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 of "Bring Me A Book Hong Kong", which is a community foundation to promote family literacy, by visiting kindergarten and participating in story-reading and sharing with kids. In 2008, for the seventh 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.

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. In 2008, the Group also initiated internal fundraising for Sichuen Earthquake and Myanmar Cyclone victims, and through Li & Fung (1906) Foundation we had matched donations from staff with a total fund of HK$23,730,000 raised for both events.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Victor FUNG Kwok King

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

Aged 63. Brother of Dr William Fung Kwok Lun and father of Mr Spencer Theodore Fung. Group Chairman of Li & Fung (1937) Limited and publicly listed Li & Fung group companies including the Company, Integrated Distribution Services Group Limited and Convenience Retail Asia Limited. A director of King Lun Holdings 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 BOC Hong Kong (Holdings) Limited, Orient Overseas (International) Limited, CapitaLand Limited in Singapore and Baosteel Group Corporation in the People's Republic of China, and a non-executive director of Hup Soon Global Corporation Limited. Chairman of International Chamber of Commerce. A member of Chinese People's Political Consultative Conference and the Executive Committee of the Commission on Strategic Development of the Hong Kong Government. Chairman of the Hong Kong University Council, the Greater Pearl River Delta Business Council and the Hong Kong–Japan Business Co-operation Committee. 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. From 1999 to 2008, Chairman of the Hong Kong Airport Authority. Awarded the Gold Bauhinia Star in 2003 for distinguished service to the community.

William FUNG Kwok Lun

Group Managing Director

Aged 60. Brother of Dr Victor Fung Kwok King and uncle of Mr Spencer Theodore Fung. 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. Degrees of Doctor of Business Administration, *honoris causa*, were conferred by the Hong Kong University of Science & Technology and by the Hong Kong Polytechnic University. A non-executive director of HSBC Holdings PLC. An independent non-executive director of 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. Past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Pacific Economic Cooperation Committee. Awarded the Silver Bauhinia Star by the Hong Kong Special Administrative Region Government in 2008.

Bruce Philip ROCKOWITZ

President

Aged 50. 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. In December 2008, ranked first by Institutional Investor for the Asia's Best CEOs in the consumer category. 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 64. An Independent Non-executive Director since 1992. Chairman of Pure Circle Ltd, a producer of natural food ingredients, which is 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, Chairman of Singer & Friedlander Group PLC, a banking and investment management group, and Novae Group PLC, a specialist insurance group.

Allan WONG Chi Yun

Independent Non-Executive Director

Chairman of Compensation Committee

Aged 58. 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 Doctorate 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 71. 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 thinkorswim Group Inc.

Makoto YASUDA

Independent Non-Executive Director

Aged 71. An Independent Non-executive Director since 2001. Chairman and Chief Executive of international advisory firm Yasuda Makoto & Co., Ltd. Engaged in private equity investment and management activities in Asia for more than 35 years. An independent non-executive director of other companies including Yamatake Corporation. Formerly, Director & Executive Vice President of Private Investment Company for Asia (PICA) S.A. Graduated from Gakushuin University and University of Illinois.

Martin TANG Yue Nien

Independent Non-Executive Director

Aged 59. An Independent Non-executive Director since 2 February 2009. Former Chairman, Asia of Spencer Stuart & Associates, a global executive search-consulting firm. A member of the Professional Service Advisory Committee of the Hong Kong Trade Development Council. An independent non-executive director of CEI Contract Manufacturing Ltd, a Singapore publicly-listed company. Holds a Bachelor of Science degree in Electrical Engineering from Cornell University and Master of Science in Management from the Massachusetts Institute of Technology.

DIRECTORS (CONTINUED)

Henry CHAN

Executive Director

Aged 59. An Executive Director since 1992. In charge of the LF One business stream focusing on hardlines world-wide. Joined the Group in 1972. More than 30 years' experience in the hardgoods area. Graduated from the University of Hong Kong with a Bachelor of Social Science degree. Holds an MBA degree from the Chinese University of Hong Kong. A member of The Hong Kong Institute of Directors.

Danny LAU Sai Wing

Executive Director

Aged 57. 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. Well experienced 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 56. 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. Well experienced in the textile industry which covers all categories of apparel. Serving on the Softgoods Sub-committee of The Hong Kong Exporters' Association, Advisory Board of the Hong Kong Export Credit Insurance Corporation and the Vetting Committee for the Professional Services Development Assistance Scheme of Commerce, Industry And Technology Bureau.

Spencer Theodore FUNG

Executive Director

Aged 35. An Executive Director since 1 July 2008. Joined the Group in 2001. An executive director of Li & Fung (Trading) Limited, a wholly-owned subsidiary of the Company and in charge of a business unit with 800 staff in 19 countries and responsible for overall sourcing strategy and operating effectiveness of the unit. Holds a Bachelor of Arts degree from Harvard College and Master of Science in Accounting and Master in Business Administration degrees from Northeastern University. A U.S. Certified Public Accountant. The son of Dr. Victor Fung Kwok King, Group Chairman, and nephew of Dr. William Fung Kwok Lun, Group Managing Director.

GROUP CHIEF COMPLIANCE OFFICER

James SIU Kai Lau

Aged 64. 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 Limited and Convenience Retail Asia Limited 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 (now known as "LF USA Inc."), a joint venture with Li & Fung that became a wholly owned subsidiary in 1999. Well experienced in retail and wholesale merchandising. Serves on the Board of Directors of "Fashion Delivers", a charitable organization that assists children and families in distressed situations, the Board of Directors of the American Apparel and Footwear Association, the leading industry trade group, as well as, serving as a Board member for the Fashion Institute of Technology's Educational Foundation for the Fashion Industries.

Marc Robert COMPAGNON

Executive Director of Li & Fung (Trading) Limited

Aged 50. Responsible for the LF Eight business stream, managing the Group's U.S. department store business, U.S. 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. Non-Executive Chairman of Cebu Dream Realized, INC, a hotel and restaurant group.

SENIOR MANAGEMENT (CONTINUED)

Dow Peter FAMULAK

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

Aged 48. 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. Responsible for the LF Three business stream, managing the Group's department store, mass market, supermarket and specialty stores apparel business in the Americas, as well as the Southern Hemisphere and Japan. Joined the Group in 2000 with the acquisition of Colby International Limited where Emily 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.

Guy d'AURIOL

Chief Executive Officer of LF Beauty

Aged 46. Chief Executive Officer of LF Beauty and co-leading the Group's global health, beauty and cosmetic initiative with Dow Famulak. Joined the Group in 2007 at the time of acquisition of CGroup – a company which he had co-founded with his brother Yan d'Auriol in 1985. Engaged in the Supply Chain Management of beauty and cosmetic products for premier cosmetics brands and retailers worldwide for over 20 years.

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

13 August 2008
Announcement of 2008 Interim Results

17 September 2008
Payment of 2008 Interim Dividend

25 March 2009
Announcement of 2008 Final Results

6 May 2009 to 13 May 2009
(both days inclusive)
Closure of Register of Shareholders

13 May 2009
Proposed Payment of 2008 Final Dividend

13 May 2009
Annual General Meeting

REGISTRAR & TRANSFER OFFICES

Principal:
The Bank of Bermuda Limited
6 Front Street, Hamilton HM 11, 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 2008
3,634,127,586 shares

Market Capitalization as at 31 December 2008
HK$48,261,214,342

Basic earnings per share for 2008

Interim	36.0 HK cents
Full year	69.3 HK cents

Dividend per share for 2008

Interim	24 HK cents
Final	33 HK cents
Full year	57 HK cents

ENQUIRIES CONTACT

Ms Mable Chan
Senior Vice President - Investor Relations

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

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

WEBSITE

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

A Chinese version of this Annual Report is available from the Company upon request 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站下載。

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31 December 2008.

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 40* to the account.

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 25* 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$0.24 per ordinary share, totalling HK$831,786,000 which was paid on 17 September 2008.

The directors recommend the payment of a final dividend of HK$0.33 per ordinary share, totalling HK$1,199,369,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in *Note 26* to the accounts.

DISTRIBUTABLE RESERVES

At 31 December 2008, the distributable reserves of the Company available for distribution as dividends amounted to HK$4,025,975,000, comprising retained earnings of HK$1,965,302,000 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 26* 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$4,254,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment 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 2008 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 2008, there were options (“Share Options”) relating to 150,017,900 shares granted by the Company pursuant to the Option Scheme which were valid and outstanding.

Details of the Share Options granted under the Option Scheme and remain outstanding as at 31 December 2008 are as follows:

	Number of Share Options						Exercise		
	As at 1/1/2008	Granted	Exercised[1]	Cancelled	Lapsed	As at 31/12/2008	Price HK$	Grant Date	Exercisable Period
William Fung Kwok Lun	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
	–	880,000[2]	–	–	–	880,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	–	880,000[2]	–	–	–	880,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	–	880,000[2]	–	–	–	880,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
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
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
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
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
Danny Lau Sai Wing	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
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
Annabella Leung Wai Ping	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
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	–	450,000[2]	–	–	–	450,000	25.55	24/1/2008	01/3/2011 – 28/2/2013

	Number of Share Options						Exercise		
	As at 1/1/2008	Granted	Exercised[1]	Cancelled	Lapsed	As at 31/12/2008	Price HK$	Grant Date	Exercisable Period
Spencer Theodore Fung	176,000	–	(176,000)	–	–	–	13.45	20/6/2005	20/6/2007 – 19/6/2010
	176,000	–	(76,000)	–	–	100,000	13.45	20/6/2005	20/6/2008 – 19/6/2011
	176,000	–	–	–	–	176,000	13.45	20/6/2005	20/6/2009 – 19/6/2012
	–	176,000[2]	–	–	–	176,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	–	176,000[2]	–	–	–	176,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	–	176,000[2]	–	–	–	176,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
Continuous contract Employees	684,500	–	(629,500)	–	(55,000)	–	8.36	23/5/2003	23/5/2005 – 22/5/2008
	2,059,000	–	(1,097,000)	–	–	962,000	8.36	23/5/2003	23/5/2006 – 22/5/2009
	148,400	–	(33,000)	–	–	115,400	9.00	20/8/2004	20/8/2006 – 19/8/2009
	8,404,600	–	(2,712,600)	–	–	5,692,000	13.45	20/6/2005	20/6/2007 – 19/6/2010
	19,938,000	–	(5,957,200)	–	(420,000)	13,560,800	13.45	20/6/2005	20/6/2008 – 19/6/2011
	19,734,000	–	–	(239,000)	(1,133,000)	18,362,000	13.45	20/6/2005	20/6/2009 – 19/6/2012
	251,400	–	(29,200)	–	–	222,200	13.72	23/1/2006	20/6/2007 – 19/6/2010
	1,212,000	–	(365,000)	–	(35,000)	812,000	13.72	23/1/2006	20/6/2008 – 19/6/2011
	1,287,000	–	–	(115,000)	(55,000)	1,117,000	13.72	23/1/2006	20/6/2009 – 19/6/2012
	48,000	–	(38,000)	–	–	10,000	15.65	19/6/2006	20/6/2007 – 19/6/2010
	2,002,000	–	(788,000)	–	–	1,214,000	15.65	19/6/2006	20/6/2008 – 19/6/2011
	2,090,000	–	–	(55,000)	(130,000)	1,905,000	15.65	19/6/2006	20/6/2009 – 19/6/2012
	2,028,000	–	–	–	(139,000)	1,889,000	25.50	02/2/2007	20/6/2008 – 19/6/2011
	7,205,000	–	–	(375,000)	(220,000)	6,610,000	25.50	02/2/2007	20/6/2009 – 19/6/2012
	1,593,000	–	–	(30,000)	(96,000)	1,467,000	29.93	13/7/2007	20/6/2009 – 19/6/2012
	–	24,960,000[2]	–	–	(1,064,000)	23,896,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	–	24,960,000[2]	–	–	(1,064,000)	23,896,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	–	24,960,000[2]	–	–	(1,064,000)	23,896,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
	–	2,705,000[3]	–	–	(174,000)	2,531,000	30.00	21/5/2008	01/3/2009 – 28/2/2011
	–	1,962,000[3]	–	–	(178,000)	1,784,000	30.00	21/5/2008	01/3/2010 – 29/2/2012
	–	1,962,000[3]	–	–	(178,000)	1,784,000	30.00	21/5/2008	01/3/2011 – 28/2/2013
	–	1,304,300[4]	–	–	(17,200)	1,287,100	26.20	13/8/2008	01/3/2009 – 28/2/2011
	–	1,911,300[4]	–	–	(30,600)	1,880,700	26.20	13/8/2008	01/3/2010 – 29/2/2012
	–	1,911,300[4]	–	–	(30,600)	1,880,700	26.20	13/8/2008	01/3/2011 – 28/2/2013

NOTES:

(1) The weighted average closing market price per Share immediately before the dates on which the Share Options were exercised was HK$26.46.

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

(3) The closing market price per Share as at the date preceding the date on which the Share Options were granted was HK$29.10.

(4) The closing market price per Share as at the date preceding the date on which the Share Options were granted was HK$27.00.

(5) The above options granted are recognized as expenses in the accounts in accordance with the Company's accounting policy as set out in *Note 1.15 (d)* to the accounts. Other details of Share Options granted by the Company are set out in *Note 25* 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 2008, the number of Shares available for issue in respect thereof is 56,795,000 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 2008 are set out in *Note 40* to the accounts.

ASSOCIATED COMPANIES

Details of the Company's principal associated companies at 31 December 2008 are set out in *Note 40* to the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

During 2008, 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 12.2% and 32.4% 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 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.

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 into on 22 December 2006 and 5 November 2007 between the Group and certain connected persons, which are associates of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun, the Group disposed of certain property holding subsidiaries and agreed to lease back the relevant properties for unexpired term of one year with options exercisable by the Group to renew the tenancies for two to three further terms of three years each. The lease back arrangements constituted continuing connected transactions under the Listing Rules. In such respect, the Group paid rental expenses of HK$81,415,000 for the year ended 31 December 2008.

(ii) On 23 May 2008, the Company entered into the 2008 Logistics Agreement (the "2008 Logistics Agreement") with Li & Fung (1937) Limited ("LF 1937"), a substantial shareholder of the Company, pursuant to which LF 1937 and its associates will provide a variety of logistics services to the Group. The 2008 Logistics Agreement covers the scope of services contemplated under the original PB Logistics Agreement entered into on 14 September 2007 between the Group and Integrated Distribution Services Group Limited, an associate of LF 1937. The provision of logistics services pursuant to the 2008 Logistics Agreement and the PB Logistic Agreement constituted continuing connected transactions for the Company under the Listing Rules. In such respect, the Group paid logistics service charges of HK$121,205,000 for the year ended 31 December 2008.

(iii) On 18 January 2008, the Group acquired the entire issued share capital of C.D.P. Asia Limited ("Imagine"). Imagine is based in Hong Kong and is one of the leading companies in Asia specializing in designing and developing point-of-sale displays for retailers and manufacturer globally. The Group also advanced a loan of approximately HK$31,740,000 to Imagine at completion for Imagine 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 Listing Rules.

The continuing connected transactions set out above as items (i) and (ii) have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors confirmed that the aforesaid continuing 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 2008 set out above as items (i) and (ii) 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 recognised 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	42,154
Contributions forfeited by employees	(4,324)
Contributions to the defined contribution provident scheme and defined benefits plan in Taiwan	7,667
Contributions to the defined benefits scheme in the United Kingdom	467
Contributions pursuant to the statutory requirements in Korea	11,269
Contributions pursuant to local requirements in other overseas regions	122,528
	179,761

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 *
Martin Tang Yue Nien * (appointed on 2 February 2009)
Lau Butt Farn (retired on 21 May 2008)

Executive Directors:

William Fung Kwok Lun, *Managing Director*
Bruce Philip Rockowitz
Henry Chan
Danny Lau Sai Wing
Annabella Leung Wai Ping
Spencer Theodore Fung (appointed on 1 July 2008)

* *Independent Non-executive Directors*

In accordance with bye-law 110(A) of the Company's bye-laws, Professor Franklin Warren McFarlan, Mr Henry Chan and Mr Danny Lau Sai Wing will retire by rotation at the forthcoming Annual General Meeting. Professor Franklin Warren McFarlan, being eligible, will offer himself for re-election while Mr Henry Chan and Mr Danny Lau Sai Wing will retire from the Board with effect from the conclusion of the forthcoming Annual General Meeting.

In accordance with bye-law 101 of the Company's bye-laws, Mr Spencer Theodore Fung and Mr Martin Tang Yue Nien will retire and, being eligible, 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 42.

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

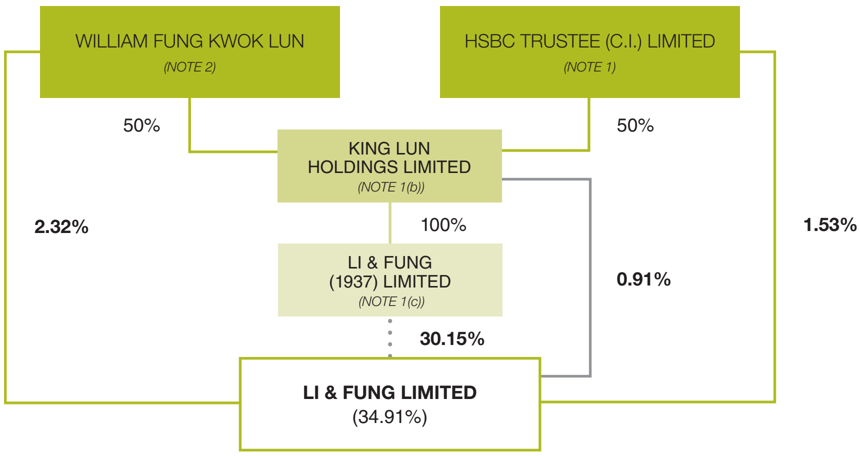
As at 31 December 2008, the directors and chief executives of the Company and their associates had the following interests in the Shares and underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) 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	Family interest	Trust/ Corporate Interest	Equity derivatives (share options)	Total	Percentage of issued share capital
Victor Fung Kwok King	–	–	1,184,370,880[1]	–	1,184,370,880	32.59%
William Fung Kwok Lun	68,651,330	4,400	1,140,703,080[2]	3,520,000[3]	1,212,878,810	33.38%
Spencer Theodore Fung*	76,000	–	1,184,370,880[1]	804,000[3]	1,185,250,880	32.61%
Bruce Philip Rockowitz	2,032,800	–	21,411,510[4]	35,175,880[5]	58,620,190	1.61%
Henry Chan	3,954,000	–	–	2,670,000[3]	6,624,000	0.18%
Danny Lau Sai Wing	7,914,000	–	–	2,230,000[3]	10,144,000	0.28%
Annabella Leung Wai Ping	4,746,000	–	–	1,790,000[3]	6,536,000	0.18%
Franklin Warren McFarlan	–	–	57,200[6]	–	57,200	0.00%

* *Son of Dr Victor Fung Kwok King*

The following chart illustrates the interests of Dr Victor Fung Kwok King and Mr Spencer Theodore Fung under *Note (1)* below and the interest of Dr William Fung Kwok Lun under *Note (2)* below:



NOTES:

As at 31 December 2008,

(1) Each of Dr Victor Fung Kwok King and Mr Spencer Theodore Fung, was deemed to have interests in 1,184,370,880 Shares held in the following manner:

(a) 55,825,000 Shares were directly held by HSBC Trustee (C.I.) Limited as trustee of a trust established for the benefit of the family members of Dr Victor Fung Kwok King (the "Trust"). HSBC Trustee (C.I.) Limited has taken over from J.P. Morgan Trust Company (Jersey) Limited the role as the trustee of the Trust with effect from 27 August 2008.

(b) 32,945,880 Shares were directly held by King Lun Holdings Limited ("King Lun"), a private company incorporated in the British Virgin Islands owned as to 50% by HSBC Trustee (C.I.) Limited as trustee of the Trust and 50% by Dr William Fung Kwok Lun.

(c) 1,095,600,000 Shares were indirectly held by King Lun through its wholly-owned Hong Kong incorporated subsidiary, Li & Fung (1937) Limited ("LF (1937)").

(2) 12,157,200 Shares of these 1,140,703,080 Shares were held by Golden Step Limited, a company beneficially owned by Dr William Fung Kwok Lun. The balance of 1,128,545,880 Shares were directly and indirectly held by King Lun as mentioned in *Note (1) (b) and (c)* above.

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

(4) 21,411,510 Shares in the Company were held by Hurricane Millennium Holdings Limited ("HMHL"), a company beneficially owned by a trust which had been set up for the benefit of family members of Mr Bruce Philip Rockowitz.

(5) these interests represented:

(a) the beneficial interest of Mr Bruce Philip Rockowitz in 2,230,000 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 32,945,880 underlying shares in the Company in respect of options granted by King Lun to HMHL to purchase such shares in the Company in six tranches during the period from 25 December 2008 to 24 December 2019 with each tranche having an exercisable period of six years pursuant to an agreement made between King Lun and HMHL.

(6) 57,200 Shares in the Company were 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, Dr William Fung Kwok Lun and Mr Spencer Theodore Fung was taken as at 31 December 2008 to have short position through King Lun, in which all of them were deemed to have interests as disclosed above, in respect of an aggregate of 32,945,880 underlying Shares, representing 0.91% 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 six tranches during the period from 25 December 2008 to 24 December 2019, with each tranche having an exercisable period of six years.

Save as disclosed above, as at 31 December 2008, 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 2008, 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 (32,945,880) Interest of controlled corporation (1,095,600,000)[1]	1,128,545,880	31.06%
HSBC Trustee (C.I.) Limited	Trustee (1,184,370,880)	1,184,370,880[2]	32.59%
Janus Capital Management LLC	Investment manager	283,334,460	7.80%
JPMorgan Chase & Co.	Beneficial owner (3,995,369) Investment manager (97,796,526) Custodian corporation/approved lending agent (116,385,564)	218,177,459	6.00%
Capital Research and Management Company	Investment Manager	218,510,500	6.01%
Allianz SE	Interest of controlled corporation	19,111,900	0.53%
Short Positions			
King Lun Holdings Limited	Beneficial owner	32,945,880[3]	0.91%
HSBC Trustee (C.I.) Limited	Trustee	32,945,880[4]	0.91%
JPMorgan Chase & Co.	Beneficial owner (1,399,000) Investment manager (800,000)	2,199,000	0.06%
Lending Pool			
Allianz SE	Custodian corporation/approved lending agent	265,557,445	7.31%
JPMorgan Chase & Co.	Custodian corporation/approved lending agent	116,385,564	3.20%

NOTES:

(1) 1,095,600,000 Shares were held by LF (1937) which was a wholly-owned subsidiary of King Lun. Both of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun were directors of King Lun and LF (1937).

(2) Please refer to *Note (1)* under the Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures section stated above.

(3) This short position represented King Lun's short position in 32,945,880 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.

(4) HSBC Trustee (C.I.) Limited was taken to have short position in the same underlying shares held by 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 2008.

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 42.

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 20 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 2008 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, 25 March 2009

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

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 2008, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE ACCOUNTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 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, 25 March 2009

STATEMENT OF ACCOUNTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2008

	Note	**2008 HK$'000**	2007 HK$'000
Turnover	*3*	**110,722,117**	92,459,949
Cost of sales		**(99,119,132)**	(82,692,446)
Gross profit		**11,602,985**	9,767,503
Other income	*3*	**420,925**	518,225
Total margin		**12,023,910**	10,285,728
Selling expenses		**(2,396,245)**	(1,730,239)
Merchandising expenses		**(5,842,493)**	(4,755,175)
Administrative expenses		**(701,117)**	(613,713)
Core operating profit	*3*	**3,084,055**	3,186,601
Gain on disposal of property holding subsidiaries	*4*	**–**	456,622
Other non-core operating expenses net of income	*4*	**(39,639)**	(43,170)
Operating profit	*4*	**3,044,416**	3,600,053
Interest income	*3*	**112,748**	208,193
Interest expenses	*5*	**(480,175)**	(499,664)
Share of profits less losses of associated companies		**6,197**	4,948
Profit before taxation		**2,683,186**	3,313,530
Taxation	*6*	**(259,497)**	(252,554)
Profit for the year		**2,423,689**	3,060,976
Attributable to:			
Shareholders of the Company	*7 & 26*	**2,421,936**	3,060,036
Minority interest		**1,753**	940
		2,423,689	3,060,976
Earnings per share for profit attributable to the shareholders of the Company during the year			
– basic	*8*	**69.3 HK cents**	89.5 HK cents
– diluted	*8*	**68.8 HK cents**	88.3 HK cents
Dividends	*9*	**2,031,155**	2,446,525

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	**2008 HK$'000**	2007 HK$'000
Non-current assets			
Intangible assets	*12*	**14,602,129**	11,374,637
Property, plant and equipment	*13*	**1,283,063**	1,130,002
Prepaid premium for land leases	*14*	**2,548**	2,554
Associated companies	*16*	**23,740**	14,575
Available-for-sale financial assets	*17*	**20,189**	85,465
Deferred tax assets	*29*	**111,441**	115,604
		16,043,110	12,722,837
Current assets			
Inventories	*18*	**2,328,948**	2,059,618
Due from related companies	*19*	**83,954**	71,689
Trade and bills receivable	*21*	**14,715,430**	13,716,146
Other receivables, prepayments and deposits	*21*	**2,027,576**	1,746,722
Derivative financial instruments	*20*	**34,814**	–
Cash and bank balances	*22*	**2,275,272**	1,472,365
		21,465,994	19,066,540
Current liabilities			
Derivative financial instruments	*20*	**–**	21,809
Trade and bills payable	*23*	**12,666,975**	11,231,148
Accrued charges and sundry payables	*23*	**2,771,908**	2,394,858
Balance of purchase consideration payable for acquisitions to be settled by cash	*27*	**1,178,118**	1,257,254
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	*27*	**81,278**	–
Taxation		**465,727**	465,765
Bank advances for discounted bills	*21*	**312,693**	328,175
Short-term bank loans	*24*	**278,217**	441,796
Bank overdrafts	*22, 24*	**93,307**	205,261
		17,848,223	16,346,066
Net current assets		**3,617,771**	2,720,474
Total assets less current liabilities		**19,660,881**	15,443,311

	Note	**2008 HK$'000**	2007 HK$'000
Financed by:			
Share capital	*25*	**90,853**	86,268
Reserves	*26*	**12,121,852**	8,082,371
Proposed dividend	*26*	**1,199,369**	1,726,678
		13,321,221	9,809,049
Shareholders' funds attributable to the Company's shareholders		**13,412,074**	9,895,317
Minority interest	*26*	**(29,720)**	(31,053)
Total equity		**13,382,354**	9,864,264
Non-current liabilities			
Long-term liabilities	*27*	**5,760,075**	5,063,586
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	*26, 27*	**382,772**	464,050
Post-employment benefit obligations	*28*	**23,766**	30,335
Deferred tax liabilities	*29*	**111,914**	21,076
		6,278,527	5,579,047
		19,660,881	15,443,311

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 2008

	Note	2008 HK$'000	2007 HK$'000
Interests in subsidiaries	*15*	**2,359,597**	2,406,474
Current assets			
Due from related companies	*19*	**16,534,019**	12,706,454
Other receivables, prepayments and deposits	*21*	**1,932**	–
Cash and bank balances	*22*	**41,543**	1,128
		16,577,494	12,707,582
Current liabilities			
Accrued charges and sundry payables	*23*	**34,259**	34,543
		34,259	34,543
Net current assets		**16,543,235**	12,673,039
Total assets less current liabilities		**18,902,832**	15,079,513
Financed by:			
Share capital	*25*	**90,853**	86,268
Reserves	*26*	**13,744,036**	9,401,745
Proposed dividend	*26*	**1,199,369**	1,726,678
		14,943,405	11,128,423
Shareholders' funds		**15,034,258**	11,214,691
Non-current liabilities			
Long-term liabilities	*27*	**3,868,574**	3,864,822
		18,902,832	15,079,513

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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Note	2008 **HK$'000**	2007 HK$'000
Total equity at 1 January		**9,864,264**	8,266,845
Currency translation differences	*26*	**(485,768)**	176,114
Disposal of available-for-sale financial assets	*26*	**(32,077)**	–
Net fair value gains on available-for-sale financial assets	*26*	**–**	28,262
Impairment of available-for-sale financial assets	*26*	**4,942**	–
Net fair value gains/(losses) on cash flow hedges	*26*	**8,674**	(3,810)
Net (loss)/income recognized directly in equity		**(504,229)**	200,566
Profit for the year	*26*	**2,423,689**	3,060,976
Total recognized income for the year		**1,919,460**	3,261,542
Minority interest from acquisition of subsidiaries	*26, 31*	**183**	–
Dividends paid	*26*	**(2,559,745)**	(2,051,185)
Issue of shares upon a private placing	*25, 26*	**3,878,757**	–
Issue of shares for the settlement of acquisition consideration	*25, 26*	**–**	464,050
Shares held by escrow agent	*26*	**–**	(464,050)
Employee share option scheme:			
– value of employee services	*26*	**85,747**	111,756
– shares issued	*25*	**385**	590
– share premium on issue of new shares	*26*	**193,303**	274,716
Total equity as at 31 December		**13,382,354**	9,864,264

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 2008

	Note	2008 HK$'000	2007 HK$'000
Operating activities			
Net cash inflow generated from operations	*30(a)*	**3,824,557**	4,212,509
Hong Kong profits tax paid		**(165,040)**	(121,685)
Overseas taxation paid		**(81,914)**	(71,030)
Net cash inflow from operating activities		**3,577,603**	4,019,794
Investing activities			
Purchase of property, plant and equipment		**(494,058)**	(319,506)
Disposal of property, plant and equipment		**21,969**	44,970
Disposal of subsidiaries	*30(c)*	**–**	446,046
Disposal of available-for-sale financial assets		**51,362**	–
Payment for computer software and system development costs		**(17,596)**	(30,514)
Acquisitions of subsidiaries/businesses	*31*	**(2,456,976)**	(4,565,117)
Settlement of consideration payable for acquisitions of subsidiaries/businesses		**(919,435)**	(814,152)
Advance to associated companies		**(12,265)**	(9,712)
Interest received		**112,748**	208,193
Dividends received from associated companies		**2,875**	4,303
Net cash outflow from investing activities		**(3,711,376)**	(5,035,489)
Net cash outflow before financing activities		**(133,773)**	(1,015,695)
Financing activities			
Net proceeds from issue of shares	*30(b)*	**4,072,445**	275,306
Drawdown/(repayment) of bank loans	*30(b)*	**70,651**	(2,736,871)
Issue of long-term notes		**–**	3,862,482
Interest paid		**(400,064)**	(430,657)
Dividends paid		**(2,559,745)**	(2,051,185)
Net cash inflow/(outflow) from financing activities		**1,183,287**	(1,080,925)
Increase/(decrease) in cash and cash equivalents		**1,049,514**	(2,096,620)
Cash and cash equivalents at 1 January		**1,267,104**	3,302,341
Effect of foreign exchange rate changes		**(134,653)**	61,383
Cash and cash equivalents at 31 December		**2,181,965**	1,267,104
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	*22*	**2,275,272**	1,472,365
Bank overdrafts	*22*	**(93,307)**	(205,261)
		2,181,965	1,267,104

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

NOTES TO THE ACCOUNTS

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"). They 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) Amendments and interpretations effective in 2008

The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's accounts, as the Group has not reclassified any financial assets.

HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's accounts.

HK(IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', 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. This interpretation does not have any impact on the Group's accounts.

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [2]
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 8	Operating Segments [1]
HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation [1]
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items [2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate [1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation [4]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners [2]
HK(IFRIC) – Int 18	Transfers of Assets from Customers [2]

In addition, the HKICPA has also issued Improvements to HKFRSs which sets out amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41, primarily with a view to remove inconsistencies and clarify wordings. Except for the amendment to HKFRS 5, which is effective for the financial periods on or after 1 July 2009, other amendments are effective for financial periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

NOTES:

(1) Effective for financial periods beginning on or after 1 January 2009
(2) Effective for financial periods beginning on or after 1 July 2009
(3) Effective for financial periods beginning on or after 1 July 2008
(4) Effective for financial periods beginning on or after 1 October 2008

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)

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 8, 'Operating segments', replaces HKAS 14, 'Segment reporting', 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.

HKAS 1 (Revised), 'Presentation of financial statements'. The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009.

HKFRS 3 (Revised), 'Business combinations'. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

HKAS 27 (Revised), 'Consolidated and separate financial statements'. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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.

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.

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.2 CONSOLIDATION (CONTINUED)

(c) Associated companies (continued)

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.

1.3 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.

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.4 FOREIGN CURRENCY TRANSLATION (CONTINUED)

(b) Transactions and balances (continued)

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.

(c) Group companies

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

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

(ii) income and expenses for each consolidated income statement 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 property, plant and equipment 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.

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.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

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 trademarks, 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 5 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, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets 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

Classification

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. The Group's loans and receivables comprise "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.

Recognition and measurement

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)

Recognition and measurement (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 (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the 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

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

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

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.

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.15 EMPLOYEE BENEFITS (CONTINUED)

(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.

(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.

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 income are recognized when the services are rendered.

1.21 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are 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 26*. 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 at fair value through profit or loss and accounted for at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments 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.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(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)*.

(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, impairment provisions of approximately HK$14,684,000 have been made on certain listed 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:

	2008 HK$'000	2007 HK$'000
Turnover		
Sales	**110,718,050**	92,456,988
Rental income	**4,067**	2,961
	110,722,117	92,459,949
Other income	**420,925**	518,225
Interest income	**112,748**	208,193
Total	**111,255,790**	93,186,367

3 TURNOVER, INCOMES AND SEGMENT INFORMATION (CONTINUED)

(b) Primary reporting format – geographical segments

	United States of America 2008 HK$'000	Europe 2008 HK$'000	Canada 2008 HK$'000	Australasia 2008 HK$'000	Central and Latin America 2008 HK$'000	Rest of The World 2008 HK$'000	Group 2008 HK$'000
Turnover	**68,376,444**	**32,245,042**	**3,284,379**	**2,684,857**	**1,713,028**	**2,418,367**	**110,722,117**
Segment results	**2,100,342**	**626,735**	**120,370**	**96,616**	**61,139**	**78,853**	**3,084,055**
Other non-core operating expenses net of income							**(39,639)**
Interest income							**112,748**
Interest expenses							**(480,175)**
Share of profits less losses of associated companies							**6,197**
Profit before taxation							**2,683,186**
Taxation							**(259,497)**
Profit for the year							**2,423,689**
Segment assets	**22,693,132**	**8,166,300**	**762,399**	**537,428**	**381,636**	**627,281**	**33,168,176**
Unallocated assets							**4,340,928**
Total assets							**37,509,104**
Segment liabilities	**11,917,958**	**5,471,690**	**481,998**	**364,160**	**244,275**	**412,198**	**18,892,279**
Unallocated liabilities							**5,234,471**
Total liabilities							**24,126,750**
Capital expenditure	**374,977**	**88,969**	**9,713**	**13,190**	**5,220**	**1,989**	**494,058**
Depreciation	**185,593**	**59,604**	**6,222**	**8,857**	**3,433**	**1,403**	**265,112**
Amortization of prepaid premium for land leases	**75**	**36**	**4**	**3**	**2**	**2**	**122**

3 TURNOVER, INCOMES AND SEGMENT INFORMATION (CONTINUED)

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

	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)

(c) Secondary reporting format – business segments

	Turnover 2008 HK$'000	**Segment results 2008 HK$'000**	**Total assets 2008 HK$'000**	**Capital expenditure 2008 HK$'000**
Softgoods	**73,123,809**	**2,635,596**	**26,291,150**	**329,846**
Hardgoods	**37,598,308**	**448,459**	**6,877,026**	**164,212**
	110,722,117	**3,084,055**	**33,168,176**	**494,058**
Other non-core operating expenses net of income		**(39,639)**		
Operating profit		**3,044,416**		
Unallocated assets			**4,340,928**	
Total assets			**37,509,104**	

	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	

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2008 HK$'000	2007 HK$'000
Crediting		
Gain on disposal of available-for-sale financial assets	**27,905**	–
Gain on disposal of property holding subsidiaries	**–**	456,622
Net exchange gains	**60,826**	91,014
Charging		
Cost of inventories sold	**99,119,132**	82,692,446
Amortization of intangible assets arising from business combinations	**52,860**	19,118
Amortization of prepaid premium for land leases	**122**	16,101
Amortization of computer software and system development costs	**10,853**	10,346
Amortization of brand licenses	**153,281**	19,055
Depreciation of property, plant and equipment	**265,112**	198,360
Loss on disposal of property, plant and equipment	**8,728**	6,336
Loss on disposal of subsidiaries *(Note 30(c))*	**2,326**	–
Provision for impairment of available-for-sale financial assets	**14,684**	24,052
Operating leases rental in respect of land and building	**445,682**	323,846
Bad debt written off/provision for impaired receivables	**212,241**	38,056
Staff costs including directors' emoluments *(Note 10)*	**4,682,612**	3,951,964
The remuneration to the auditors for audit and non-audit services is as follows:		
Audit services	**19,108**	18,460
Non-audit services		
– due diligence review on acquisitions	**11,176**	14,101
– taxation services	**5,618**	9,622
– others	**1,149**	2,937
Total remuneration to auditors	**37,051**	45,120
Less : non-audit service fee capitalised as costs of business combinations	**(11,176)**	(14,101)
Net remuneration to auditors charged to consolidated profit and loss account	**25,875**	31,019

NOTE: Of the above audit and non-audit services fee, HK$18,904,000 (2007: HK$18,125,000) and HK$17,943,000 (2007: HK$26,660,000) respectively are payable to the Company's auditor.

5 INTEREST EXPENSES

	2008 HK$'000	2007 HK$'000
Effective interest on financial liabilities carried at amortized costs		
– wholly repayable within five years	**76,359**	66,667
– not wholly repayable within five years	**3,752**	2,340
Interest on bank loans and overdrafts		
– wholly repayable within five years	**185,564**	296,913
– not wholly repayable within five years	**214,500**	133,744
	480,175	499,664

6 TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% (2007: 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:

	2008 HK$'000	2007 HK$'000
Current taxation		
– Hong Kong profits tax	**149,193**	168,386
– Overseas taxation	**107,837**	66,022
Underprovision in prior years	**8,134**	20,181
Deferred taxation *(Note 29)*	**(5,667)**	(2,035)
	259,497	252,554

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:

	2008 %	2007 %
Calculated at a taxation rate of	**16.5**	17.5
Effect of different taxation rates in other countries	**(0.7)**	(0.2)
Income net of expenses not subject to taxation	**(7.4)**	(11.6)
Utilization of previously unrecognized tax losses	**(0.2)**	(0.3)
Unrecognized tax losses	**1.5**	2.2
Effective tax rate	**9.7**	7.6

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$1,599 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 2007/2008.

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$1,266 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$2,221,120,000 (2007: HK$2,291,789,000).

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$2,421,936,000 (2007: HK$3,060,036,000) and on the weighted average number of 3,496,003,000 (2007: 3,420,475,000) shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of 3,496,003,000 (2007: 3,420,475,000) ordinary shares in issue by 24,345,000 (2007: 43,887,000) 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

	2008 **HK$'000**	2007 HK$'000
Interim, paid, of HK$0.24 (2007: HK$0.21) per ordinary share	**831,786**	719,847
Final, proposed, of HK$0.33 (2007: HK$0.50) per ordinary share	**1,199,369**	1,726,678
	2,031,155	2,446,525

At a meeting held on 25 March 2009, the Directors proposed a final dividend of HK$0.33 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 2009 *(Note 26)*.

10 STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

	2008 HK$'000	2007 HK$'000
Salaries and bonuses	**4,137,960**	3,472,805
Staff benefits	**278,632**	219,314
Pension costs of defined contribution plans	**167,932**	133,592
Employee share option expenses	**85,747**	111,756
Pension costs of defined benefits plans *(Note 28)*	**11,829**	13,221
Long service payments	**512**	1,276
	4,682,612	3,951,964

Forfeited contributions totalling HK$4,324,000 (2007: HK$1,701,000) 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 2008 is set out below:

	2008					
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**	**4,800**	**24,725**	**–**	**12**	**29,626**
Bruce Philip Rockowitz	**83**	**4,460**	**20,589**	**524**	**12**	**25,668**
Henry Chan	**83**	**3,900**	**10,995**	**201**	**12**	**15,191**
Danny Lau Sai Wing	**83**	**3,900**	**9,792**	**–**	**12**	**13,787**
Annabella Leung Wai Ping	**83**	**3,900**	**6,338**	**4**	**12**	**10,337**
Spencer Theodore Fung	**43**	**1,664**	**200**	**–**	**12**	**1,919**
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	**33**	**–**	**–**	**–**	**–**	**33**

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS (CONTINUED)

			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

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

During the year, the following Shares were issued to certain directors of the Company pursuant to exercise of Share Options under the Option Scheme:

(a) 440,000 (2007: Nil) at an exercise price of HK$8.36 with exercisable period from 23 May 2005 to 22 May 2008;

(b) 880,000 (2007: 880,000) at an exercise price of HK$8.36 with exercisable period from 23 May 2006 to 22 May 2009;

(c) 1,056,000 (2007: 1,320,000) Shares at an exercise price of HK$13.45 with exercisable period from 20 June 2007 to 19 June 2010; and

(d) 1,396,000 (2007: Nil) Shares at an exercise price of HK$13.45 with exercisable period from 20 June 2008 to 19 June 2011.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS (CONTINUED)

As at 31 December 2008, certain directors held the following Share Options to acquire Shares of the Company:

(a) 440,000 (2007: 1,320,000) at an exercise price of HK$13.45 with exercisable period from 20 June 2007 to 19 June 2010;

(b) 1,420,000 (2007: 2,640,000) at an exercise price of HK$13.45 with exercisable period from 20 June 2008 to 19 June 2011;

(c) 2,816,000 (2007: 2,640,000) at an exercise price of HK$13.45 with exercisable period from 20 June 2009 to 19 June 2012;

(d) 2,856,000 (2007: Nil) at an exercise price of HK$25.55 with exercisable period from 1 March 2009 to 28 February 2011;

(e) 2,856,000 (2007: Nil) at an exercise price of HK$25.55 with exercisable period from 1 March 2010 to 29 February 2012; and

(f) 2,856,000 (2007: Nil) at an exercise price of HK$25.55 with exercisable period from 1 March 2011 to 28 February 2013.

The closing market price of the Shares as at 31 December 2008 was HK$13.28.

(b) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include four (2007: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual (2007: one) during the year are as follows:

	2008 HK$'000	2007 HK$'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	**4,526**	4,202
Discretionary bonuses	**12,936**	9,362
Contributions to pension scheme	**12**	12
	17,474	13,576

	Number of individuals	
Emolument bands	**2008**	2007
HK$13,500,001 – HK$14,000,000	**–**	1
HK$17,000,001 – HK$17,500,000	**1**	–

12 INTANGIBLE ASSETS

	The Group									
	Goodwill	Buying agency agreement	Customer relationships	Licensor relationships	Trademarks	Others	Intangible assets arising from business combinations *(Note 31)*	Brand licenses	Computer software and system development costs	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2008										
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
Year ended 31 December 2008										
Opening net book amount	10,489,257	245,495	276,984	223,058	-	-	11,234,794	91,733	48,110	11,374,637
Exchange differences	(291,236)	-	-	-	-	-	(291,236)	-	(1,491)	(292,727)
Acquisition of subsidiaries/ businesses *(Note 31)*	2,701,968	-	237,602	-	538,200	14,820	3,492,590	17,361	1,973	3,511,924
Adjustments to purchase consideration and net assets value *	26,184	-	7,435	-	-	-	33,619	-	-	33,619
Additions	-	-	-	-	-	-	-	176,428	17,596	194,024
Disposal of subsidiaries *(Note 30(c))*	(2,354)	-	-	-	-	-	(2,354)	-	-	(2,354)
Amortization	-	(12,753)	(21,279)	(18,828)	-	-	(52,860)	(153,281)	(10,853)	(216,994)
Closing net book amount	12,923,819	232,742	500,742	204,230	538,200	14,820	14,414,553	132,241	55,335	14,602,129
At 31 December 2008										
Cost	12,923,819	255,060	528,432	226,200	538,200	14,820	14,486,531	304,577	107,984	14,899,092
Accumulated amortization	-	(22,318)	(27,690)	(21,970)	-	-	(71,978)	(172,336)	(52,649)	(296,963)
Net book amount	12,923,819	232,742	500,742	204,230	538,200	14,820	14,414,553	132,241	55,335	14,602,129

* *Adjustments to purchase considerations and net asset values of certain acquisitions of subsidiaries/businesses completed in prior years, which were previously determined on a provisional basis.*

12 INTANGIBLE ASSETS (CONTINUED)

	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 31)* 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	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 considerations and net asset values of certain acquisitions of subsidiaries/businesses completed in prior years, which were previously determined on a provisional basis.*

12 INTANGIBLE ASSETS (CONTINUED)

IMPAIRMENT TEST FOR GOODWILL

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

	The Group	
	2008 **HK$'000**	2007 HK$'000
Softgoods	**7,606,829**	6,725,796
Hardgoods	**5,316,990**	3,763,461
	12,923,819	10,489,257

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 long-term continuous 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 changes 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 1st January 2007						
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	(256,217)	–	–	(7,339)	–	(263,556)
Acquisition of subsidiaries/businesses	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
Year ended 31 December 2008						
Opening net book amount	**170,295**	**517,397**	**349,046**	**74,672**	**18,592**	**1,130,002**
Exchange differences	**(38,244)**	**(10,615)**	**(11,263)**	**(16,764)**	**(815)**	**(77,701)**
Disposal of subsidiaries *(Note 30(c))*	**–**	**–**	**(76)**	**(2,781)**	**–**	**(2,857)**
Acquisition of subsidiaries/ businesses *(Note 31)*	**–**	**7,169**	**19,391**	**106**	**8,704**	**35,370**
Additions	**583**	**177,200**	**286,572**	**25,669**	**4,034**	**494,058**
Disposals	**(378)**	**(9,866)**	**(18,124)**	**279**	**(2,608)**	**(30,697)**
Depreciation	**(10,302)**	**(103,061)**	**(122,556)**	**(23,271)**	**(5,922)**	**(265,112)**
Closing net book amount	**121,954**	**578,224**	**502,990**	**57,910**	**21,985**	**1,283,063**
At 31 December 2008						
Cost	**163,751**	**880,060**	**1,148,039**	**191,131**	**61,535**	**2,444,516**
Accumulated depreciation	**(41,797)**	**(301,836)**	**(645,049)**	**(133,221)**	**(39,550)**	**(1,161,453)**
Net book amount	**121,954**	**578,224**	**502,990**	**57,910**	**21,985**	**1,283,063**

At 31 December 2008, no property, plant and equipment were pledged as security for the Group's borrowings (2007: HK$98,946,000).

14 PREPAID PREMIUM FOR LAND LEASES

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

	The Group	
	2008	2007
	HK$'000	HK$'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**2,548**	2,554
	2,548	2,554

	The Group	
	2008	2007
	HK$'000	HK$'000
Opening	**2,554**	681,179
Disposal of subsidiaries	**–**	(662,650)
Amortization of prepaid operating lease payment	**(122)**	(16,101)
Exchange differences	**116**	126
	2,548	2,554

15 INTERESTS IN SUBSIDIARIES

	The Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**407,104**	453,981
Loan to a subsidiary	**1,952,493**	1,952,493
	2,359,597	2,406,474

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

Details of principal subsidiaries are set out on in *Note 40*.

16 ASSOCIATED COMPANIES

	The Group	
	2008	2007
	HK$'000	HK$'000
Beginning of the year	**10,666**	10,021
Share of associated companies'		
Profit before taxation	**6,276**	5,052
Taxation	**(79)**	(104)
Dividend received	**(2,875)**	(4,303)
Acquisition of subsidiaries/businesses *(Note 31)*	**5,843**	–
End of the year	**19,831**	10,666
Loans to associated companies	**3,909**	3,909
Total interest in associated companies	**23,740**	14,575

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

Details of principal associated companies are set out in *Note 40*.

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2008	2007
	HK$'000	HK$'000
Beginning of the year	**85,465**	81,605
Disposal	**(55,534)**	–
Disposal of subsidiaries	**–**	(350)
Revaluation surplus transfer to equity *(Note 26)*	**–**	28,262
Impairment provision	**(9,742)**	(24,052)
End of the year	**20,189**	85,465

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Available-for-sale financial assets include the following:

	The Group	
	2008	2007
	HK$'000	HK$'000
Listed securities:		
– Equity securities – overseas	**7,832**	60,230
Unlisted securities:		
– Equity securities	**4,767**	17,555
– Club debentures	**7,590**	7,680
	20,189	85,465
Market value of listed securities	**7,832**	60,230

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

	The Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**52,691**	28,639
Provision for impairment charged to profit and loss account	**9,742**	24,052
Amount transferred from revaluation reserve	**4,942**	–
At 31 December	**67,375**	52,691

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

	The Group	
	2008	2007
	HK$'000	HK$'000
HK dollar	**7,597**	7,788
US dollar	**3,301**	16,094
Japanese Yen	**7,768**	17,405
Euro dollar	**–**	42,655
Pound Sterling	**1,523**	1,523
	20,189	85,465

18 INVENTORIES

	The Group	
	2008 **HK$'000**	2007 HK$'000
Finished goods	**2,181,224**	1,915,017
Raw materials	**147,724**	144,601
	2,328,948	2,059,618

At 31 December 2008, inventories of HK$193,197,000 were pledged as security for the Group's borrowings (2007: HK$396,736,000).

19 DUE FROM RELATED COMPANIES

	The Group		The Company	
	2008 **HK$'000**	2007 HK$'000	**2008** **HK$'000**	2007 HK$'000
Due from:				
Subsidiaries	**–**	–	**16,534,019**	12,706,454
Associated companies	**83,954**	71,689	**–**	–
	83,954	71,689	**16,534,019**	12,706,454

The amounts are unsecured, interest free and repayable on demand, except for amounts due from associated companies amounting to HK$70,784,000 (2007: HK$57,570,000) which are unsecured but interest bearing at approximately 5% per annum. Fair values of amounts due from related companies are approximately the same as the carrying value.

20 DERIVATIVE FINANCIAL INSTRUMENTS

	The Group	
	2008 **HK$'000**	2007 HK$'000
Forward foreign exchange contracts – assets/(liabilities)	**34,814**	(21,034)
Interest rate collar – liabilities	**–**	(775)
	34,814	(21,809)

Gains in equity of HK$943,000 (2007: losses of HK$7,731,000) on forward foreign exchange contracts as of 31 December 2008 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 26)*.

For the year ended 31 December 2008, there was no material ineffective portion recognized in the profit or loss arising from cash flow hedges (2007: HK$1,176,000).

21 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills receivable – net	**14,715,430**	13,716,146	**–**	–
Other receivables, prepayments and deposits	**2,027,576**	1,746,722	**1,932**	–
	16,743,006	15,462,868	**1,932**	–

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 is on open account terms which is often covered by customers' standby letters of credit, bank guarantees, credit insurance or under a back-to-back payment arrangement with suppliers. The ageing analysis of trade and bills receivable is as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
Current to 90 days	**12,928,272**	12,509,235
91 to 180 days	**1,704,988**	980,865
181 to 360 days	**75,776**	192,938
Over 360 days	**6,394**	33,108
	14,715,430	13,716,146

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 2008, trade receivables of HK$113,419,000 (2007: HK$277,005,000) 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	
	2008	2007
	HK$'000	HK$'000
91 to 180 days	**83,324**	194,797
Over 180 days	**30,095**	82,208
	113,419	277,005

As of 31 December 2008, outstanding trade receivables of HK$184,890,000 (2007: HK$38,875,000) 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 and the Company's trade and other receivables are denominated in the following currencies:

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK dollar	**1,253,935**	1,163,696	**1,932**	–
US dollar	**13,344,748**	11,817,839	**–**	–
Euro dollar	**1,828,235**	1,927,649	**–**	–
Pound sterling	**163,896**	407,967	**–**	–
Others	**152,192**	145,717	**–**	–
	16,743,006	15,462,868	**1,932**	–

Movements on the Group's provision for impairment of trade and other receivables are as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**122,060**	105,613
Provision for receivable impairment *(Note 4)*	**212,241**	38,056
Receivables written off during the year as uncollectible	**(37,832)**	(15,809)
Unused amounts reversed	**(17,212)**	(5,800)
At 31 December	**279,257**	122,060

The creation and release of provision for impaired receivables have been included in "selling expenses" in the consolidated profit and loss account *(Note 4)*. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

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$312,693,000 (2007: HK$328,175,000) to banks in exchange for cash as at 31 December 2008. The transaction has been accounted for as collateralised bank advances.

At 31 December 2008, trade receivables of HK$87,063,000 were pledged as security for the Group's borrowings (2007: HK$372,280,000).

22 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**2,275,272**	1,472,365	**41,543**	1,128
Bank overdrafts *(Note 24)*				
– Secured	**(91,302)**	(97,575)	**–**	–
– Unsecured	**(2,005)**	(107,686)	**–**	–
	(93,307)	(205,261)	**–**	–
	2,181,965	1,267,104	**41,543**	1,128

The effective interest rate at the balance sheet date on short-term bank deposits was 0.6% (2007: 4.2%) per annum; these deposits have an average maturity period of 16 days (2007: 20 days).

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills payable	**12,666,975**	11,231,148	**–**	–
Accrued charges and sundry payables	**2,711,849**	2,336,403	**34,259**	34,543
License royalty payable *(Note 27)*	**60,059**	58,455	**–**	–
	2,771,908	2,394,858	**34,259**	34,543
	15,438,883	13,626,006	**34,259**	34,543

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

At 31 December 2008, the ageing analysis of trade and bills payable is as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
Current to 90 days	**12,161,586**	10,685,357
91 to 180 days	**361,607**	430,439
181 to 360 days	**41,221**	66,046
Over 360 days	**102,561**	49,306
	12,666,975	11,231,148

24 BORROWINGS

	The Group	
	2008	2007
	HK$'000	HK$'000
Long-term bank loans – unsecured *(Note 27)*	**234,230**	–
Short-term bank loans		
– Secured	**–**	1,261
– Unsecured	**278,217**	440,535
	278,217	441,796
Bank overdrafts *(Note 22)*		
– Secured	**91,302**	97,575
– Unsecured	**2,005**	107,686
	93,307	205,261
Total borrowings	**605,754**	647,057

As at 31 December 2008, the carrying amounts of the Group's borrowings approximate their fair values.

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

		2008			2007	
	US$	**Euro**	**GBP**	US$	Euro	GBP
Long-term bank loans	**0.6%**	**–**	**–**	–	–	–
Short-term bank loans	**2.6%**	**–**	**–**	5.2%	4.2%	6.4%
Bank overdrafts	**6.5%**	**4.5%**	**2.8%**	6.5%	5.1%	7.8%

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	
	2008	2007
	HK$'000	HK$'000
US dollar	**532,390**	193,353
Euro dollar	**71,359**	56,010
Pound Sterling	**2,005**	362,556
Others	**–**	35,138
	605,754	647,057

25 SHARE CAPITAL AND OPTIONS

	2008		2007	
	Number of shares (in thousand)	**HK$'000**	Number of shares (in thousand)	HK$'000
Authorized				
At 1 January ordinary shares of HK$0.025 each	**4,000,000**	**100,000**	4,000,000	100,000
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	**3,450,706**	**86,268**	3,409,576	85,239
Issue of shares upon a private placing *(Note (a))*	**168,000**	**4,200**	–	–
Exercise of share options *(Note (b))*	**15,422**	**385**	23,564	590
Issue of shares for acquisition of CGroup *(Note (c))*	**–**	**–**	12,566	314
Issue of shares for acquisition of Regatta *(Note (d))*	**–**	**–**	5,000	125
At 31 December, ordinary of HK$0.025 each	**3,634,128**	**90,853**	3,450,706	86,268

NOTES:

(a) Pursuant to a subscription agreement dated 6 September 2008, Dunearn Investments (Mauritius) Pte Ltd, a wholly owned subsidiary of Temasek Holdings (Private) Limited, subscribed 168,000,000 new Shares at a price of HK$23.09 per share ("Subscription"). The net proceeds of the Subscription amounted to approximately HK$3,879,000,000 was used by the Company as general working capital which may include funding acquisitions by the Group from time to time.

(b) During the year, the following Shares were issued to the share option holders who exercised their subscription rights with details stated below:

(i) 1,069,500 Shares at a price of HK$8.36 with exercisable period from 23 May 2005 to 22 May 2008;

(ii) 1,977,000 Shares at a price of HK$8.36 with exercisable period from 23 May 2006 to 22 May 2009;

(iii) 33,000 Shares at a price of HK$9.00 with exercisable period from 20 August 2006 to 19 August 2009;

(iv) 3,768,600 Shares at a price of HK$13.45 with exercisable period from 20 June 2007 to 19 June 2010;

(v) 7,353,200 Shares at a price of HK$13.45 with exercisable period from 20 June 2008 to 19 June 2011;

(vi) 29,200 Shares at a price of HK$13.72 with exercisable period from 20 June 2007 to 19 June 2010;

(vii) 365,000 Shares at a price of HK$13.72 with exercisable period from 20 June 2008 to 19 June 2011;

(viii) 38,000 Shares at a price of HK$15.65 with exercisable period from 20 June 2007 to 19 June 2010; and

(ix) 788,000 Shares at a price of HK$15.65 with exercisable period from 20 June 2008 to 19 June 2011.

25 SHARE CAPITAL AND OPTIONS (CONTINUED)

(c) 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 million 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 ("Consideration Shares"). The Consideration Shares had been issued and held by an escrow agent. The Consideration Shares rank pari passu in all respects with the existing issued Shares of the Company.

(d) 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 ("Consideration Shares"). The Consideration Shares had been issued and held by an escrow agent. The Consideration Shares 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 2008 are as follows:

			Number of Share Options					
Grant Date	Exercise Price HK$	Exercisable period	As at 1/1/2008	Granted	Exercised	Lapsed	Cancelled	As at 31/12/2008
23/5/2003	8.36	23/5/2005 – 22/5/2008	1,124,500	–	(1,069,500)	(55,000)	–	–
23/5/2003	8.36	23/5/2006 – 22/5/2009	2,939,000	–	(1,977,000)	–	–	962,000
20/8/2004	9.00	20/8/2006 – 19/8/2009	148,400	–	(33,000)	–	–	115,400
20/6/2005	13.45	20/6/2007 – 19/6/2010	9,900,600	–	(3,768,600)	–	–	6,132,000
20/6/2005	13.45	20/6/2008 – 19/6/2011	22,754,000	–	(7,353,200)	(420,000)	–	14,980,800
20/6/2005	13.45	20/6/2009 – 19/6/2012	22,550,000	–	–	(1,133,000)	(239,000)	21,178,000
23/1/2006	13.72	20/6/2007 – 19/6/2010	251,400	–	(29,200)	–	–	222,200
23/1/2006	13.72	20/6/2008 – 19/6/2011	1,212,000	–	(365,000)	(35,000)	–	812,000
23/1/2006	13.72	20/6/2009 – 19/6/2012	1,287,000	–	–	(55,000)	(115,000)	1,117,000
19/6/2006	15.65	20/6/2007 – 19/6/2010	48,000	–	(38,000)	–	–	10,000
19/6/2006	15.65	20/6/2008 – 19/6/2011	2,002,000	–	(788,000)	–	–	1,214,000
19/6/2006	15.65	20/6/2009 – 19/6/2012	2,090,000	–	–	(130,000)	(55,000)	1,905,000
2/2/2007	25.50	20/6/2008 – 19/6/2011	2,028,000	–	–	(139,000)	–	1,889,000
2/2/2007	25.50	20/6/2009 – 19/6/2012	7,205,000	–	–	(220,000)	(375,000)	6,610,000
13/7/2007	29.93	20/6/2009 – 19/6/2012	1,593,000	–	–	(96,000)	(30,000)	1,467,000
24/1/2008	25.55	1/3/2009 – 28/2/2011	–	27,816,000	–	(1,064,000)	–	26,752,000
24/1/2008	25.55	1/3/2010 – 29/2/2012	–	27,816,000	–	(1,064,000)	–	26,752,000
24/1/2008	25.55	1/3/2011 – 28/2/2013	–	27,816,000	–	(1,064,000)	–	26,752,000
21/5/2008	30.00	1/3/2009 – 28/2/2011	–	2,705,000	–	(174,000)	–	2,531,000
21/5/2008	30.00	1/3/2010 – 29/2/2012	–	1,962,000	–	(178,000)	–	1,784,000
21/5/2008	30.00	1/3/2011 – 28/2/2013	–	1,962,000	–	(178,000)	–	1,784,000
13/8/2008	26.20	1/3/2009 – 28/2/2011	–	1,304,300	–	(17,200)	–	1,287,100
13/8/2008	26.20	1/3/2010 – 29/2/2012	–	1,911,300	–	(30,600)	–	1,880,700
13/8/2008	26.20	1/3/2011 – 28/2/2013	–	1,911,300	–	(30,600)	–	1,880,700

Subsequent to 31 December 2008, 325,000 Shares have been allotted and issued under the Option Scheme.

25 SHARE CAPITAL AND OPTIONS (CONTINUED)

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

Grant Date	Exercise Price HK$	Exercisable Period	Number of Share Options granted
24/2/2009	17.22	1/3/2010 – 29/2/2012	2,729,000
24/2/2009	17.22	1/3/2011 – 28/2/2013	2,408,000

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:

Date of grant	23/5/2003	20/8/2004	20/6/2005	23/1/2006	19/6/2006	2/2/2007	13/7/2007	24/1/2008	21/5/2008	13/8/2008	24/2/2009
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	HK$5.99–HK$8.22	HK$5.63–HK$7.81	HK$4.52–HK$5.42
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	HK$30.00	HK$26.20	HK$17.22
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	HK$30.00	HK$26.20	HK$17.22
Standard deviation	44%	41%	24%	27%	31%	33%	34%	36%	40%	42%	54%
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%	1.06%–2.20%	1.82%–3.30%	0.33%–1.15%
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	3–5 years	3–5 years	3–4 years
Dividend yield	3.89%	4.24%	3.45%	3.45%	3.04%	3.01%	3.25%	3.25%	2.54%	2.54%	2.54%

* *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.*

26 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 2008	**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**
2007 final dividend paid	–	–	–	–	–	–	–	(1,727,959)	(1,727,959)	–	(1,727,959)
Currency translation differences	–	–	–	–	–	–	(485,165)	–	(485,165)	(603)	(485,768)
Transfer to capital reserve	–	–	1,484	–	–	–	–	(1,484)	–	–	–
Disposal of available-for-sale financial assets	–	–	–	–	(32,077)	–	–	–	(32,077)	–	(32,077)
Net fair value gains on cash flow hedges	–	–	–	–	–	8,674	–	–	8,674	–	8,674
Impairment of available-for-sale financial assets	–	–	–	–	4,942	–	–	–	4,942	–	4,942
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	183	183
Profit for the year	–	–	–	–	–	–	–	2,421,936	2,421,936	1,753	2,423,689
Issue of shares upon a private placing	3,874,557	–	–	–	–	–	–	–	3,874,557	–	3,874,557
Employee share option scheme:											
– value of employee services	–	–	–	85,747	–	–	–	–	85,747	–	85,747
– proceeds from shares issued	193,303	–	–	–	–	–	–	–	193,303	–	193,303
– transfer to share premium	35,055	–	–	(35,055)	–	–	–	–	–	–	–
2008 interim dividend paid	–	–	–	–	–	–	–	(831,786)	(831,786)	–	(831,786)
Reserves	11,140,378	(464,050)	25,307	241,102	–	943	(309,759)	1,487,931	12,121,852	(29,720)	12,092,132
Proposed dividend	–	–	–	–	–	–	–	1,199,369	1,199,369	–	1,199,369
At 31 December 2008	**11,140,378**	**(464,050)**	**25,307**	**241,102**	**–**	**943**	**(309,759)**	**2,687,300**	**13,321,221**	**(29,720)**	**13,291,501**

26 RESERVES (CONTINUED)

	Attributable to shareholders of the Company										
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
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 25(c) & (d))*	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

26 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 2008	**7,037,463**	**(464,050)**	**2,060,673**	**190,410**	**2,303,927**	**11,128,423**
Profit for the year	**–**	**–**	**–**	**–**	**2,221,120**	**2,221,120**
Issue of shares upon a private placing	**3,874,557**	**–**	**–**	**–**	**–**	**3,874,557**
Employee share option scheme:						
– value of employee services	**–**	**–**	**–**	**85,747**	**–**	**85,747**
– proceeds from shares issued	**193,303**	**–**	**–**	**–**	**–**	**193,303**
– transfer to share premium	**35,055**	**–**	**–**	**(35,055)**	**–**	**–**
2007 final dividend paid	**–**	**–**	**–**	**–**	**(1,727,959)**	**(1,727,959)**
2008 interim dividend paid	**–**	**–**	**–**	**–**	**(831,786)**	**(831,786)**
Reserves	**11,140,378**	**(464,050)**	**2,060,673**	**241,102**	**765,933**	**13,744,036**
Proposed dividend	**–**	**–**	**–**	**–**	**1,199,369**	**1,199,369**
At 31 December 2008	**11,140,378**	**(464,050)**	**2,060,673**	**241,102**	**1,965,302**	**14,943,405**
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 25(c) & (d))*	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

26 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 25 (c) and (d)*, the Company issued Shares for acquisitions of CGroup and Regatta in 2007. 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.

27 LONG-TERM LIABILITIES

	The Group		The Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Long-term loans from minority shareholders	**38,867**	38,867	**–**	–
Long-term bank loans *(Note 24)*	**234,230**	–	**–**	–
Balance of purchase consideration payable for acquisitions	**2,733,700**	2,382,084	**–**	–
Long-term notes – unsecured	**3,868,574**	3,864,822	**3,868,574**	3,864,822
License royalty payables	**122,881**	93,522	**–**	–
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**464,050**	464,050	**–**	–
	7,462,302	6,843,345	**3,868,574**	3,864,822
Current portion of balance of purchase consideration payable for acquisitions	**(1,178,118)**	(1,257,254)	**–**	–
Current portion of license royalty payables *(Note 23)*	**(60,059)**	(58,455)	**–**	–
Current portion of balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**(81,278)**	–	**–**	–
	6,142,847	5,527,636	**3,868,574**	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.

27 LONG-TERM LIABILITIES (CONTINUED)

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

	The Group		The Company	
	2008 **HK$'000**	2007 HK$'000	**2008** **HK$'000**	2007 HK$'000
Within one year	**1,319,455**	1,315,709	**–**	–
Between 1 and 2 years	**1,188,087**	626,905	**–**	–
Between 2 and 5 years	**1,047,319**	997,042	**–**	–
Wholly repayable within 5 years	**3,554,861**	2,939,656	**–**	–
Over 5 years	**3,907,441**	3,903,689	**3,868,574**	3,864,822
	7,462,302	6,843,345	**3,868,574**	3,864,822

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

	The Group	
	2008 **HK$'000**	2007 HK$'000
Loans from minority shareholders	**38,867**	38,867
Balance of purchase consideration payable for acquisitions	**1,555,582**	1,124,830
Long-term notes – unsecured	**3,410,082**	3,880,266
License royalty payables	**62,822**	35,067
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**382,772**	464,050
	5,450,125	5,543,080

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

	The Group	
	2008 **HK$'000**	2007 HK$'000
HK dollar	**180,316**	38,867
US dollar	**7,227,431**	6,728,289
Pound sterling	**38,954**	38,954
Euro dollar	**15,601**	37,235
	7,462,302	6,843,345

28 POST-EMPLOYMENT BENEFIT OBLIGATIONS

	The Group	
	2008	2007
	HK$'000	HK$'000
Pension obligations *(Note (a))*	**18,771**	23,680
Long service payment liabilities *(Note (b))*	**4,995**	6,655
	23,766	30,335

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	
	2008	2007
	HK$'000	HK$'000
Present value of funded obligations	**182,982**	211,174
Fair value of plan assets	**(139,702)**	(177,332)
	43,280	33,842
Unrecognized actuarial losses	**(24,509)**	(10,162)
Pension obligations	**18,771**	23,680

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

	The Group	
	2008	2007
	HK$'000	HK$'000
Current service cost	**14,997**	12,673
Interest cost	**9,867**	9,604
Expected return on plan assets	**(8,952)**	(9,056)
Net actuarial loss recognized in year	**216**	–
Gains on curtailments and settlements	**(4,299)**	–
Total, included in staff costs *(Note 10)*	**11,829**	13,221

28 POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	The Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**177,332**	161,238
Expected return on plan assets	**8,952**	9,056
Actuarial losses	**(15,060)**	(2,038)
Exchange differences	**(32,213)**	3,876
Employer contributions	**10,464**	12,998
Benefits paid	**(9,773)**	(7,798)
At 31 December	**139,702**	177,332

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

	The Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**23,680**	22,890
Total expense – as shown above	**11,829**	13,221
Contributions paid	**(10,464)**	(12,998)
Exchange difference	**(6,274)**	567
At 31 December	**18,771**	23,680

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

	2008	2007
	%	%
Discount rate	**2.75 – 9.79**	3.5 – 5.9
Expected rate of return on plan assets	**1.5 – 6.4**	2.75 – 8
Expected rate of future salary increases	**3 – 8**	3 – 10
Expected rate of future pension increases	**2.75**	3.1

(vi) Experience adjustments gain/(loss):

	The Group	
	2008	2007
	HK$'000	HK$'000
Experience adjustments on plan liabilities	**(3,186)**	6,269
Experience adjustments on plan assets	**(15,060)**	(2,038)

(b) Actuarial valuation is performed on the Group's long service payment liability. At 31 December 2008, unrecognized transitional liabilities were Nil (2007: Nil).

29 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2007: 17.5%).

The movement on the deferred tax account is as follows:

	The Group 31 December 2008 HK$'000	31 December 2007 HK$'000
At 1 January	**(94,528)**	(87,823)
Credited to profit and loss account *(Note 6)*	**(5,667)**	(2,035)
Acquisition of subsidiaries/businesses *(Note 31)*	**(218)**	(16,514)
Arising from acquired businesses	**97,257**	–
Disposal of subsidiaries	**–**	12,511
Exchange differences	**3,629**	(667)
At 31 December	**473**	(94,528)

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$371,687,000 (2007: HK$436,362,000) to carry forward against future taxable income, which will expire during 2021–2027. 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	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
As at 1 January	**15,180**	7,010	**16,816**	14,276	**81,299**	82,761	**2,309**	1,935	**115,604**	105,982
Credited/(charged) to profit and loss account	**1,157**	7,917	**9,156**	(1,657)	**7,291**	(1,595)	**3,322**	259	**20,926**	4,924
Acquisition of subsidiaries/ businesses *(Note 31)*	**–**	–	**218**	16,514	**–**	–	**–**	–	**218**	16,514
Disposal of subsidiary	**–**	–	**–**	(12,546)	**–**	–	**–**	–	**–**	(12,546)
Exchange differences	**(1,724)**	253	**(2,414)**	229	**(1,528)**	133	**197**	115	**(5,469)**	730
As at 31 December	**14,613**	15,180	**23,776**	16,816	**87,062**	81,299	**5,828**	2,309	**131,279**	115,604

29 DEFERRED TAXATION (CONTINUED)

	The Group							
	Accelerated tax depreciation allowances		Intangible assets arising from business combinations		Others		Total	
Deferred tax liabilities	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
As at 1 January	**20,993**	18,117	**–**	–	**83**	42	**21,076**	18,159
Charged to profit and loss account	**4,330**	2,848	**–**	–	**10,929**	41	**15,259**	2,889
Arising from acquired businesses	**–**	–	**97,257**	–	**–**	–	**97,257**	–
Disposal of subsidiary	**–**	(35)	**–**	–	**–**	–	**–**	(35)
Exchange differences	**(115)**	63	**–**	–	**(1,725)**	–	**(1,840)**	63
As at 31 December	**25,208**	20,993	**97,257**	–	**9,287**	83	**131,752**	21,076

After offsetting balances within the same tax jurisdiction, the balances as disclosed in the consolidated balance sheet are as follows:

	The Group	
	2008 HK$'000	2007 HK$'000
Deferred tax assets	**111,441**	115,604
Deferred tax liabilities	**(111,914)**	(21,076)
	(473)	94,528

	The Group	
	2008 HK$'000	2007 HK$'000
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	**102,107**	104,676
Deferred tax assets to be recovered within 12 months	**9,334**	10,928
Deferred tax liabilities to be settled after more than 12 months	**98,626**	17,003
Deferred tax liabilities to be settled within 12 months	**13,288**	4,073

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW GENERATED FROM OPERATIONS

	2008 HK$'000	2007 HK$'000
Profit before taxation	**2,683,186**	3,313,530
Interest income	**(112,748)**	(208,193)
Interest expenses	**480,175**	499,664
Share of profits less losses of associated companies	**(6,197)**	(4,948)
Depreciation	**265,112**	198,360
Amortization of intangible assets arising from business combinations	**52,860**	19,118
Amortization of prepaid premium for land leases	**122**	16,101
Amortization of computer software and system development costs	**10,853**	10,346
Amortization of brand licenses	**153,281**	19,055
Employee share option expenses	**85,747**	111,756
Gain on disposal of available-for-sale financial assets	**(27,905)**	–
Gain on disposal of property holding subsidiaries	**–**	(456,622)
Net investment loss	**14,684**	24,052
Loss on disposal of property, plant and equipment	**8,728**	6,336
Loss on disposal of subsidiaries	**2,326**	–
Operating profit before working capital changes	**3,610,224**	3,548,555
Decrease/(increase) in inventories	**27,661**	(21,069)
Increase in trade and bills receivable and other receivables	**(656,174)**	(3,870,495)
Increase in trade and bills payable and other payables	**842,846**	4,555,518
Net cash inflow generated from operations	**3,824,557**	4,212,509

(b) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	2008		2007	
	Share capital including share premium *(Note 25 & 26)* HK$'000	**Bank loans HK$'000**	Share capital including share premium *(Note 25 & 26)* HK$'000	Bank loans HK$'000
At 1 January	**7,123,731**	**441,796**	6,333,001	2,776,968
Non cash movement				
Acquisition of subsidiaries/ businesses	**–**	**–**	464,050	401,699
Transfer from employee share-based compensation reserve	**35,055**	**–**	51,374	–
	7,158,786	**441,796**	6,848,425	3,178,667
Proceeds from issue of shares	**4,072,445**	**–**	275,306	–
Drawdown/(repayment) of bank loans	**–**	**70,651**	–	(2,736,871)
At 31 December	**11,231,231**	**512,447**	7,123,731	441,796

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(c) DISPOSAL OF SUBSIDIARIES

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

	2008 HK$'000
Net liabilities disposed	
Property, plant and equipment *(Note 13)*	2,857
Inventories	9,245
Other receivables, prepayments and deposits	3,577
Trade and bills payable	(12,940)
Accrued charges and sundry payables	(2,767)
Book value of net liabilities disposed	(28)
Goodwill *(Note 12)*	2,354
	2,326

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

	2008 HK$'000
Consideration received	–
Expenses incurred in respect of the disposal	–
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries	–

Analysis of loss on disposal of subsidiaries:

	2008 HK$'000
Consideration net of expenses incurred	–
Less: Goodwill net of net liabilities disposed	(2,326)
Loss on disposal of subsidiaries *(Note 4)*	2,326

31 BUSINESS COMBINATIONS

During the year, the Group completed several acquisitions.

On 18 January 2008, the Group acquired the entire issued share capital of C.D.P. Asia Limited ("Imagine"). Imagine is based in Hong Kong and is one of the leading companies in Asia specializing in designing and developing point-of-sale displays for retailers and manufacturer globally. The Group also advanced a loan of approximately HK$31,740,000 to Imagine at completion for Imagine 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.

In August 2008, the Group entered into an agreement to acquire all of the assets of Van Zeeland, Inc. ("VZI"), a leading New York based importer of mid-tier and department store handbag brands. The purchase price was approximately HK$2,574,000,000 in cash, with additional incentive based on company performance.

During the year, the Group completed also the following business combinations and acquisitions of certain other smaller businesses with an aggregate cash consideration of approximately HK$1,092,382,000.

On 29 February 2008, the Group acquired business of the Silvereed Group, which is based in Hong Kong specializing in design and product development of ladies fashion garments.

In April 2008, the Group acquired the trademark and assets relating to the T-Shirt licensed business of Giant Merchandising, which is primarily based in the US.

On 13 July 2008, the Group acquired business of Wilson & Wong Trading Company Limited, which is based in Hong Kong principally focuses on design and product development of ladies fashion garments.

On 17 July 2008, the Group acquired RT Sourcing, which is a sourcing and development company based in Hong Kong specializing in primary packaging and components for beauty brands and full service beauty products for retailers.

On 28 November 2008, the Group acquired all the shares of Miles Fashion Group, a leading German supplier to some of the largest discounters and retails chains in Europe. Miles Fashion sells a wide range of ladies and menswear, kidswear, outdoor and footwear products.

The acquired businesses contributed revenues of approximately HK$1,964 million and profit after tax of approximately HK$66 million to the Group for the period from their respective dates of acquisition to 31 December 2008. If these acquisitions had occurred on 1 January 2008, Group revenue would have been approximately HK$115,107 million; profit after tax would have been approximately HK$2,553 million. 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 2008, together with the consequential tax effects.

31 BUSINESS COMBINATIONS (CONTINUED)

Details of net assets acquired and goodwill are as follows:

	VZI HK$'000	Others HK$'000	Total HK$'000
Purchase consideration:			
Consideration	2,488,342	1,073,391	3,561,733
Add: Direct expenses relating to the acquisitions	16,110	61,701	77,811
Less: Fair value of net assets acquired*	(751,109)	(186,467)	(937,576)
Goodwill *(Note 12)*	1,753,343	948,625	2,701,968

* *As at the date of this annual report, the Group has not finalized the fair value assessments for net assets acquired from the 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.

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:

	VZI HK$'000	Others HK$'000	Total HK$'000
Net assets acquired:			
Intangible assets arising from business combinations *(Note 12)**			
– Customer relationships	102,180	135,422	237,602
– Trademarks	538,200	–	538,200
– Others	14,820	–	14,820
Sub-total	655,200	135,422	790,622
Brand licenses *(Note 12)*	–	17,361	17,361
Computer software and system development cost *(Note 12)*	–	1,973	1,973
Property, plant and equipment *(Note 13)*	2,850	32,520	35,370
Associated companies *(Note 16)*	–	5,843	5,843
Deferred taxation *(Note 29)*	–	218	218
Inventories	40,197	266,039	306,236
Trade and bills receivable	105,263	446,531	551,794
Other receivables, prepayments and deposits	3,258	82,205	85,463
Cash and bank balances	640	36,021	36,661
Derivative financial instruments	–	38,233	38,233
Trade and bills payables	(5,302)	(228,565)	(233,867)
License royalty payables	–	(17,361)	(17,361)
Accrued charges and sundry payables	(50,997)	(496,216)	(547,213)
Taxation	–	(4,578)	(4,578)
Minority interest	–	(183)	(183)
Bank overdrafts	–	(128,996)	(128,996)
Fair value of net assets acquired	751,109	186,467	937,576

* *Intangible assets arising from business combinations represent customer relationships, trademarks and various other smaller intangible assets. 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 some of the intangible assets. The relevant fair value of intangible assets stated above are on provisional basis.*

31 BUSINESS COMBINATIONS (CONTINUED)

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

	VZI HK$'000	Others HK$'000	Total HK$'000
Purchase consideration	2,488,342	1,073,391	3,561,733
Purchase consideration payable*	(1,006,342)	(268,561)	(1,274,903)
Direct expenses relating to the acquisitions	16,110	61,701	77,811
Cash and cash equivalents acquired	(640)	92,975	92,335
Net outflow of cash and cash equivalents in respect of the acquisitions	1,497,470	959,506	2,456,976

* *Balance 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.*

32 CONTINGENT LIABILITIES

	The Group		The Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Guarantees in respect of banking facilities granted to:				
Subsidiaries	**–**	–	**21,434,483**	19,903,806
Associated companies	**5,850**	5,850	**–**	–
	5,850	5,850	**21,434,483**	19,903,806

33 COMMITMENTS

(a) OPERATING LEASE COMMITMENTS

The Group leases various offices and warehouses under non-cancellable operating lease agreements. At 31 December 2008, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**384,813**	288,099
In the second to fifth year inclusive	**696,506**	705,436
After the fifth year	**541,580**	500,533
	1,622,899	1,494,068

(b) CAPITAL COMMITMENTS

	The Group	
	2008	2007
	HK$'000	HK$'000
Contracted but not provided for:		
Property, plant and equipment	**161,507**	116,724

34 CHARGE OF ASSETS

Saved as disclosed in *Note 18* and *Note 21*, at 31 December 2008 there were no charges on the assets and undertakings of the Company and the Group.

35 RELATED PARTY TRANSACTIONS

Pursuant to certain sale and leaseback agreements and some 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$108,680,000 (2007: HK$25,793,000) for the year ended 31 December 2008.

On 23 May 2008, the Company entered into the 2008 Logistics Agreement (the "2008 Logistics Agreement") with LF 1937, a substantial Shareholder of the Company, pursuant to which LF 1937 and certain other entities, such as Integrated Distribution Services Group Limited, with LF 1937 as a common substantial shareholder will provide a variety of logistics services to the Group. The 2008 Logistics Agreement covers the scope of services contemplated under the original PB Logistics Agreement entered into on 14 September 2007 between the Group and Integrated Distribution Services Group Limited. In respect of these logistic agreements the Group paid logistics service charges of HK$121,205,000 for the year ended 31 December 2008.

Saved as above and the key management compensation and the acquisition of Imagine as set out in *Note 11* and *Note 31* respectively to the accounts, the Group had no material related party transactions during the year.

36 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 dollar 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. Pursuant to the Group policy in place, foreign exchange forward contracts, or any other financial derivatives, are entered into by the Group for hedging purposes. The Group has not entered into any financial derivatives for speculation.

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

At 31 December 2008, if the major foreign currencies, such as Euro and UK Pound, that the Group with exposure had strengthened/weakened by 10% (2007: 10%) against US and HK dollar with all other variables held constant, profit for the year and equity would have been approximately 2.0% (2007: 2.4%) and 2.0% (2007: 2.5%) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currencies denominated trade receivables, available-for-sales financial assets, borrowings and intangible assets. Profit and equity is less sensitive to movement in foreign exchange rates in 2008 than 2007 because of the relative increase in the Group's overall presence in regions other than Europe.

(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.

At 31 December 2008 and up to the report date of the Group's annual report, the Group held no material financial derivative instruments except for certain foreign exchange forward contracts entered into for hedging of foreign exchange risk exposure on sales and purchases transacted in different currencies. At 31 December 2008, fair value of foreign exchange forward contracts entered into by the Group amounted to HK$34,814,000, which have been reflected in full in the Group's consolidated balance sheet as derivative financial instruments (assets).

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) MARKET RISK (CONTINUED)

(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 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 2008, if the variable 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$8,514,000 (2007: HK$5,119,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

(b) CREDIT RISK

Credit risk mainly arises from trade and other receivables and cash and bank of the Group.

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 with trade and other receivables, which include but are not limited to the measures set out below:

(i) A significant portion of business is secured by back-to-back payment arrangement or covered by letters of credit, customers' standby letters of credit, bank guarantees or credit insurance;

(ii) Certain trade receivable balances on open account term are factored to external financial institutions without recourse;

(iii) The Group's credit control team makes ongoing assessment of each individual customer and vendor and determines the credit limits based on, among other factors, their trading and settlement history and their respective financial background.

The Group's five largest customers, in aggregate, account for approximately 32% of the Group's business. Transactions with these customers are entered within the credit limits designated by the Group.

(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.

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) LIQUIDITY RISK (CONTINUED)

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 27* for long-term liabilities.

	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 2008				
Bank loans	278,217	234,230	–	–
Balance of purchase consideration payable for acquisitions	1,281,037	807,051	829,094	–
Long-term notes – unsecured	214,500	214,500	643,500	4,758,000
At 31 December 2007				
Bank loans	441,796	–	–	–
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
The Company				
At 31 December 2008				
Long-term notes – unsecured	214,500	214,500	643,500	4,758,000
At 31 December 2007				
Long-term notes – unsecured	214,500	214,500	643,500	4,972,500

37 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 24)*, long-term bank loan *(Note 24)* and long-term notes *(Note 27)* less cash and cash equivalents *(Note 22)*). Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt.

37 CAPITAL RISK MANAGEMENT (CONTINUED)

The Group's strategy is to maintain a gearing ratio of not exceeding 35%. The gearing ratios at 31 December 2008 and 2007 were as follows:

	2008 HK$'000	2007 HK$'000
Long-term bank loans *(Note 24)*	**234,230**	–
Short-term bank loans *(Note 24)*	**278,217**	441,796
Long-term notes – unsecured *(Note 27)*	**3,868,574**	3,864,822
	4,381,021	4,306,618
Less: Cash and cash equivalent *(Note 22)*	**(2,181,965)**	(1,267,104)
Net debt	**2,199,056**	3,039,514
Total equity	**13,382,354**	9,864,264
Total capital	**15,581,410**	12,903,778
Gearing ratio	**14%**	24%

38 EVENTS AFTER BALANCE SHEET DATE

On 23 February 2009, the Group entered into an agreement to acquire the sourcing operations of Liz Claiborne Inc. ("LIZ") and its affiliates in Asia for a cash consideration of not exceeding HK$647,400,000. LIZ is one of the leading designers and retailers of fashion brands based in the United States. LIZ sells a variety of apparel, accessories and fragrance products for men, women and children. Products are offered under retail-based brands and wholesale-based brands and are sold through its retail and outlet stores and wholesale distribution channels.

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

39 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 25 March 2009.

40 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
	LF Credit Limited	Bermuda	Ordinary US$12,000	100	Trade Financing
(1)	Li & Fung (B.V.I.) Limited	British Virgin Islands	Ordinary US$400,010	100	Marketing services and investment holding
	Held indirectly				
	Alster Fashion (Hangzhou) Company Ltd	The People's Republic of China	US$100,000	90 Chinese-Foreign Equity Joint Venture	Export trading
	Alster International Trading Company Pte Ltd	Singapore	Ordinary S$5,000,000	100	Provision of inspection services
	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
	Bossini Fashion GmbH	Germany	Euro 468,000	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
	BS Direct Limited	Hong Kong	Ordinary HK$2	100	Export trading
	C Group US LLC (converted from C Group US Inc.)	U.S.A.	Capital contribution US$1,000	100	Marketing services
	C.D.P. Asia Limited	Hong Kong	Ordinary HK$3,000,000	100	Investment holding
	Camberley Enterprises Limited	Hong Kong	Ordinary HK$250,000	100	Apparel exporting
	Camberley Tekstil ve Dis Ticaret Limited Sirketi	Turkey	YTL50,000	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 POP Limited	Hong Kong	Ordinary HK$2	100	Trading agent
	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
	Colourful Express Trading Pte. Ltd.	Singapore	Ordinary S$2	100	Investment holding
	Colourful Lifestyle Productions Limited	Hong Kong	Ordinary HK$1,170,000	67.5	Provision of inspection services
	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

40 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
	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
	Forrestgrove Limited	Hong Kong	Ordinary HK$20	100	Export trading
	GB Apparel Limited	England	Ordinary GBP1,000	100	Investment holding
	GMR (Hong Kong) Limited (formerly:– Eurosports Trading Limited)	Hong Kong	Ordinary HK$2	100	Export trading
(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
	Hanson Im-und Export GmbH	Germany	Euro 26,000	100	Wholesaling
	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
	Imagine POS Limited	Hong Kong	Ordinary HK$2,199,980	100	Export trading
(2)	International Sources LLC (converted from "International Sources, Inc.")	U.S.A.	Capital contribution US$1	100	Trading of apparel
	International Sources Trading Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Jac Tissot Fashion GmbH	Germany	Euro 520,000	100	Importer
	Janco International Trading Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Janco Overseas Limited	Hong Kong	Ordinary HK$760,000	100	Buying agent
	KVZ International Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	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

40 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
	LF Beauty Limited	Hong Kong	Ordinary HK$1	100	Export trading
(2)	LF Capital (II) Limited	British Virgin Islands	Class "A" US$185 Class "B" US$115	75	Investment holding
(2)	LF Capital Management Limited	British Virgin Islands	Ordinary US$1	100	Investment management
	LF Centennial Services (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading
	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
	LF Europe (Germany) GmbH	Germany	Euro 25,000	100	Investment holding
(2)	LF Europe Investment Services Limited	British Virgin Islands	Ordinary US$1	100	Investment management
	LF Europe Limited (formerly:– Li & Fung (London) Limited)	England	Ordinary GBP10,000	100	Investment holding
(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) Co., Ltd.	The People's Republic of China	HK$10,000,000	100 foreign-owned enterprise	Provision of inspection services
	Li & Fung (Europe) Holding Limited	England	Ordinary GBP100	100	Investment holding
	Li & Fung (Exports) Limited	Hong Kong	Ordinary HK$10,000 Non-voting deferred HK$8,600,000	100	Export trading
	Li & Fung (Fashion Accessories) Limited	Hong Kong	Ordinary "A" HK$300,000 Ordinary "B" HK$300,000	100	Export trading
(2)	Li & Fung (Guatemala) S.A.	Guatemala	Common shares Q5,000	100	Export trading
(2)	Li & Fung (Honduras) Limited	Honduras	Nominative Common shares Lps25,000	100	Export trading
	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
(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	Dirhams10,000	100	Export trading
	Li & Fung Mumessillik Pazarlama Limited Sirketi	Turkey	YTL15,589,650	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 1,000,000	100	Export trading
(2)	Li & Fung (Portugal) Limited	England	Ordinary GBP100	100	Investment holding

40 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
	Li & Fung (Properties) Limited	Hong Kong	Ordinary HK$1,000,000	100	Property investment
	Li & Fung (Singapore) Private 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
(2)	Li & Fung Trading (Italia) S.r.l. (formerly:– Alka Italiana S.r.l.)	Italy	Euro 100,000	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 Republic of China	RMB1,500,000	100 foreign-owned enterprise	Provision of inspection services
	Li & Fung Trading (Shanghai) Limited	The People's Republic of China	RMB50,000,000	100 foreign-owned enterprise	Export trading
(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	Hong Kong	Ordinary HK$20	100	Investment holding
	Lion Rock (Hong Kong) Limited (formerly:– Noris Trading Limited)	Hong Kong	Ordinary HK$10,000	100	Investment holding
	Lion Rock International Trading & Co. (formerly:– Noris International Trading & Co.)	Hong Kong	Capital contribution HK$3,000,000	100	Merchandising agent, freight forwarding and logistic services
	Lion Rock Services (Far East) & Co.	Hong Kong	Capital contribution HK$17,000,000	100	Merchandising agent
	Lion Rock Services (Switzerland) AG	Switzerland	CHF3,400,000	100	Export trading
	Lion Rock (Thailand) Limited	Thailand	Ordinary Baht 15,500,000	100	Export trading
	Lion Rock Trading (Switzerland) 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
	Match Winner Vertriebs GmbH	Germany	Euro 26,000	100	Wholesaling
	Metro Seven LLC	U.S.A.	Nil Capital contribution	100	Wholesaling
(2)	Mercury (BVI) Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding

40 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 US$100	100	Importer
	Miles Fashion Asia Pte Ltd	Singapore	Ordinary S$1	100	Export trading
	Miles Fashion GmbH	Germany	Euro 21,000,000	100	Importer
	Miles Fashion Group France EURL	France	Euro 10,000	100	Wholesaling
	Miles Fashion USA, Inc.	U.S.A.	US$1,000	100	Importer
	Millwork Holdings Co., Inc.	U.S.A.	Common stock US$1	100	Investment holding
(2)	Momentum Clothing (HK) Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Momentum Clothing Limited	England	Ordinary GBP100	100	Export trading
	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	England	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
	Phil Henson GmbH	Germany	Euro 50,000	100	Importer
	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
	RT Sourcing Asia Limited	Hong Kong	HK$102,000	100	Export trading
	RT Sourcing USA Inc.	U.S.A.	Common stock US$6	100	Importer
	RT Sourcing (Shenzhen) Co. Ltd.	The People's Republic of China	HK$1,000,000	100 foreign-owned enterprise	Buying agent
	RVVW Apparel LLC	U.S.A.	Nil Capital contribution	100	Wholesaling
	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
	Region Giant Holdings Limited	British Virgin Islands	Ordinary US$31	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

40 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	Export trading
	Siemssen IT Services GmbH	Germany	Euro 25,000	100	IT services
	Silvereed (Hong Kong) Limited (formerly:– Brilliant Textile Far East Limited)	Hong Kong	Ordinary HK$1	100	Export trading
	Sky Million International Limited	Hong Kong	Ordinary HK$2	100	Property investment
	Social Compliance Management & Audit Pte Ltd	Singapore	Ordinary S$1	100	Audit services
	South China Industrial Group Limited	Hong Kong	Ordinary HK$1	100	Export trading
	Sports Brands Italia Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading
(2)	STS Shenzhen Testing Service Limited (formerly:– IFW Shenzhen Testing Service Limited)	The People's Republic of China	US$660,000	100 foreign-owned enterprise	Testing and technology consultation
(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	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) LLC (converted from "Toy Island (U.S.A.) Inc.")	U.S.A.	Capital contribution US$100	100	Marketing
	Ventana Bekleidungsfabrikation GmbH	Germany	Euro 26,000	100	Wholesaling
	VZI Investment Corp.	U.S.A.	Common stock US$1	100	Wholesaling
	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
	Wilson Textile Limited	Hong Kong	Ordinary HK$1	100	Export trading

NOTES:

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

(2) Subsidiaries not audited by PricewaterhouseCoopers. 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 2008 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.

40 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity indirectly 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
#	FCA Merchandising GmbH	Germany	Euro 50,000	50	Wholesaling
#	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$3,058,130	30	Fireworks distribution
#	MBC Enterprises, Inc.	U.S.A.	Common stock US$2,000	25	Retailing
#	Upsolut Merchandising GmbH & Co. KG	Germany	Euro 5,000	39	Distribution and wholesaling
#	Winco Fireworks International, L.L.C.	U.S.A.	Capital contribution US$6,849,933	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 2008 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

	2008 HK$'000	2007 HK$'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
Turnover										
Continuing operations	**110,722,117**	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
Discontinued operations	**–**	–	–	–	–	–	–	87,183	791	–
	110,722,117	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
Operating profit										
Continuing operations	**3,044,416**	3,600,053	2,412,320	1,884,600	1,556,036	1,251,986	1,137,025	906,940	832,643	595,305
Discontinued operations	**–**	–	–	–	–	–	–	(237,955)	(39,375)	–
	3,044,416	3,600,053	2,412,320	1,884,600	1,556,036	1,251,986	1,137,025	668,985	793,268	595,305
Interest income	**112,748**	208,193	98,491	69,539	43,163	38,373	49,581	112,837	140,330	43,830
Interest expenses	**(480,175)**	(499,664)	(148,070)	(21,376)	(11,466)	(9,813)	(8,987)	(12,464)	(20,585)	(32,243)
Share of profit less losses of associated companies	**6,197**	4,948	10,603	9,062	32,801	431	(1,638)	(345)	10,295	8,534
Profit before taxation	**2,683,186**	3,313,530	2,373,344	1,941,825	1,620,534	1,280,977	1,175,981	769,013	923,308	615,426
Taxation	**(259,497)**	(252,554)	(171,682)	(151,248)	(130,250)	(103,929)	(92,865)	(53,849)	(60,796)	(35,783)
Profit for the year	**2,423,689**	3,060,976	2,201,662	1,790,577	1,490,284	1,177,048	1,083,116	715,164	862,512	579,643
Attributable to:										
Continuing operations	**2,421,936**	3,060,036	2,201,819	1,790,279	1,491,223	1,189,152	1,082,888	953,727	895,538	577,058
Discontinued operations	**–**	–	–	–	–	–	–	(168,996)	(22,730)	–
Shareholders of the Company	**2,421,936**	3,060,036	2,201,819	1,790,279	1,491,223	1,189,152	1,082,888	784,731	872,808	577,058
Minority interests	**1,753**	940	(157)	298	(939)	(12,104)	228	(69,567)	(10,296)	2,585
	2,463,689	3,060,976	2,201,662	1,790,577	1,490,284	1,177,048	1,083,116	715,164	862,512	579,643
Earnings per share (HK cents) *(Note)*										
Basic	**69.3**	89.5	67.1	55.6	46.5	37.4	34.1	24.8	29.3	20.5
Continuing operations	**69.3**	89.5	67.1	55.6	46.5	37.4	34.1	30.2	30.1	20.5
Dividend per share (HK cents) *(Note)*	**57.0**	71.0	55.0	45.5	38.2	31.8	27.7	24.1	22.7	15.5
Special dividend per share (HK cents) *(Note)*	**–**	–	–	–	22.7	–	–	–	–	–

CONSOLIDATED BALANCE SHEET

	2008 HK$'000	2007 HK$'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
Intangible assets	**14,602,129**	11,374,637	4,713,163	2,809,380	1,304,333	612,849	326,696	79,585	79,625	6,274
Property, plant and equipment	**1,283,063**	1,130,002	1,114,368	947,608	715,002	731,071	658,346	669,173	785,380	648,439
Prepaid premium for land leases	**2,548**	2,554	681,179	765,771	765,172	780,826	605,492	555,181	496,430	507,095
Associated companies	**23,740**	14,575	13,930	7,102	55,967	4,223	22,255	34,288	28,564	1,242
Available-for-sale financial assets	**20,189**	85,465	81,605	91,721	–	–	–	–	–	–
Investments	**–**	–	–	–	110,289	115,183	139,932	71,348	53,807	86,484
Deferred tax assets	**111,441**	115,604	105,982	118,419	73,039	19,150	–	–	–	–
Current assets	**21,465,994**	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
Current liabilities	**17,848,223**	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
Net current assets	**3,617,771**	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
	19,660,881	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
Financed by:										
Share capital	**90,853**	86,268	85,239	73,414	72,928	72,551	72,250	71,974	71,605	64,765
Reserves	**13,291,501**	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
Shareholders' funds	**13,382,354**	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
Long-term liabilities	**5,760,075**	5,063,586	797,487	753,192	509,487	64,094	69,199	65,955	137,642	414,868
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**382,772**	464,050	–	–	–	–	–	–	–	–
Post-employment benefits obligations	**23,766**	30,335	25,464	19,821	17,889	10,827	4,029	–	–	–
Deferred tax liabilities	**111,914**	21,076	18,159	7,924	7,299	18,281	5,011	3,968	7,216	900
	19,660,881	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

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

LIFUNG TOWER
888 Cheung Sha Wan Road
Kowloon, Hong Kong
Tel. (852) 2300 2300 | www.lifung.com

PRINTED ON 50% POST-CONSUMER WASTE RECYCLED PAPER