LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 494

ANNUAL **09** 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
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

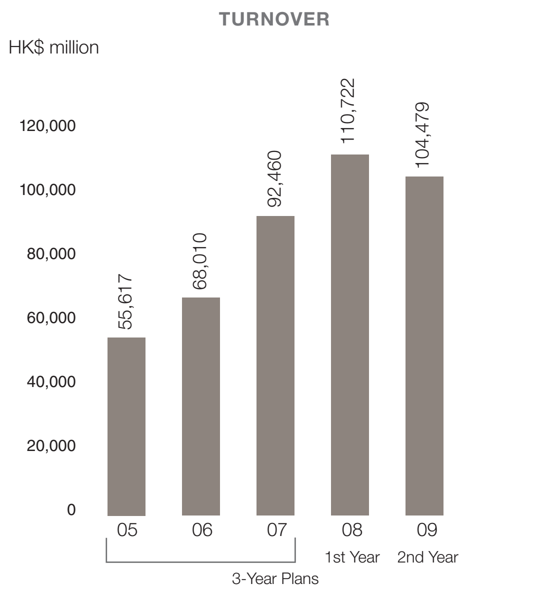
The Hongkong and Shanghai Banking Corporation Limited
Citibank, N.A.
JPMorgan Chase Bank, N.A.
Standard Chartered Bank (Hong Kong) Limited

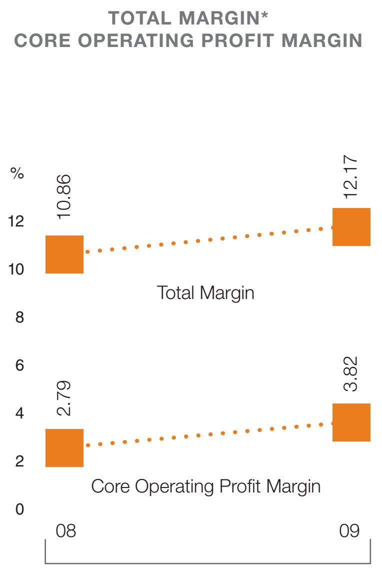
AUDITOR

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

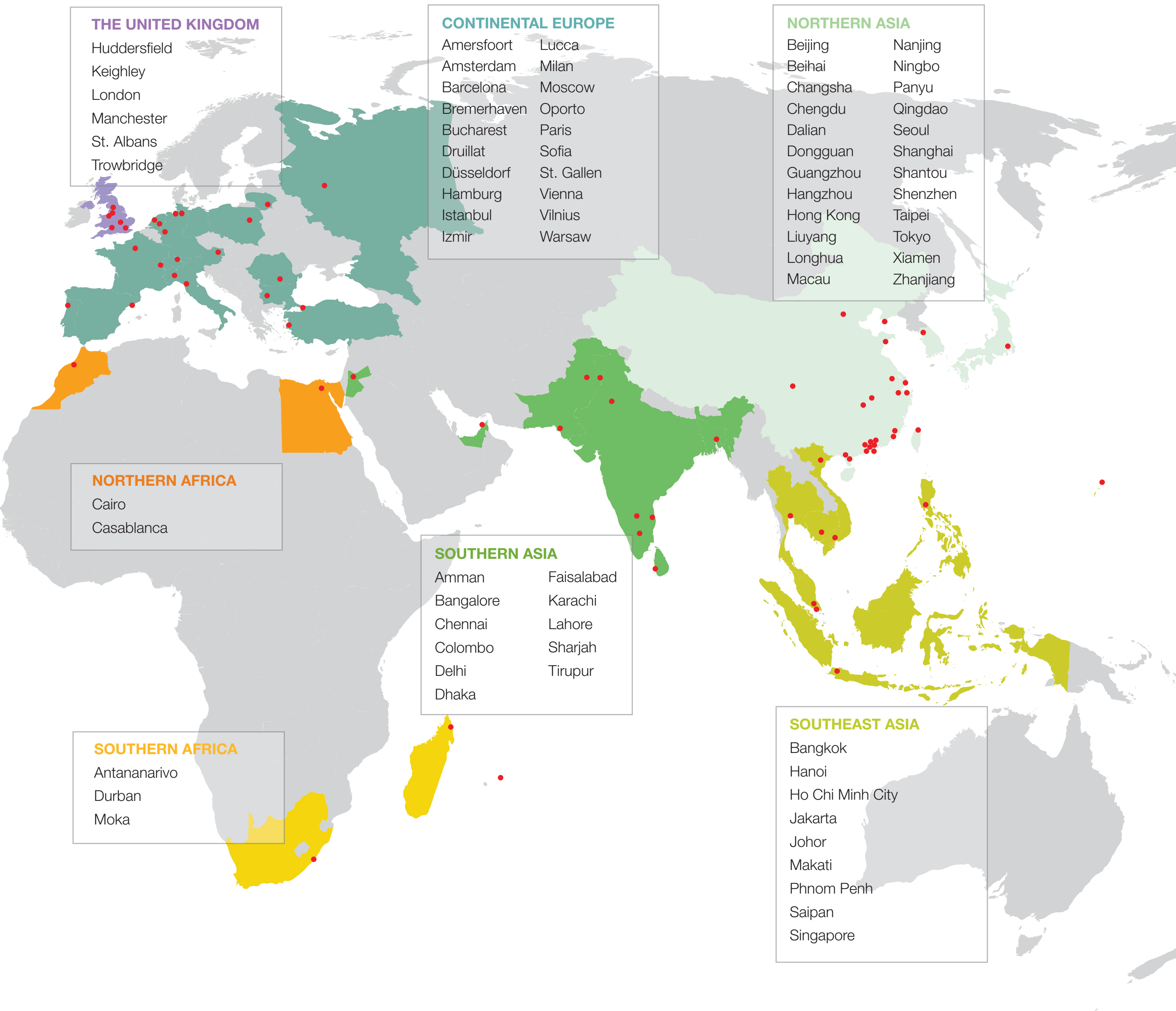
KEY FINANCIAL HIGHLIGHTS

(HK$'000)	**2009**	2008	**Change**
Turnover	**104,478,983**	110,722,117	**-6%**
Total Margin	**12,717,458**	12,023,910	**+6%**
As percentage of Turnover	**12.17%**	10.86%	
Core Operating Profit	**3,990,106**	3,084,055	**+29%**
As percentage of Turnover	**3.82%**	2.79%	
Profit attributable to shareholders of the Company	**3,369,107**	2,421,936	**+39%**
As percentage of Turnover	**3.22%**	2.19%	
Earnings per Share – basic	**91.0 HK cents**	69.3 HK cents	**+31%**
Dividend per Share			
– Final	**49 HK cents**	33 HK cents	**+48%**
– Full year	**75 HK cents**	57 HK cents	**+32%**
Shareholders' Funds	**17,759,646**	13,412,074	
Net Assets per Share	**HK$4.72**	HK$3.83	





* Gross Profit plus other income, as percentage of turnover


THE UNITED KINGDOM
Huddersfield
Keighley
London
Manchester
St. Albans
Trowbridge
CONTINENTAL EUROPE
Amersfoort
Amsterdam
Barcelona
Bremerhaven
Bucharest
Druillat
Düsseldorf
Hamburg
Istanbul
Izmir
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
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 11,000 international suppliers, Li & Fung explores the world to find quality-conscious, cost-effective manufacturers in order to provide the highest-quality goods, exceptional value and reliable, on-time delivery.

Committed to the highest standards, our 13,400 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

Despite uncertainty and volatility in our principal consumer markets, the Group achieved record profits in 2009 driven by its effective cost control measures.

Years from now, I hope we will be able to look back upon 2009 as the "bridge year" during our journey from economic turmoil to a new era of sustainable growth. Signs do indicate that the worst is possibly behind us.

For example, the G7 have pledged to continue stimulus spending, which will translate into added security for economies moving forward. The US economy saw expansion at the end of 2009, a trend that is projected to carry into 2010 (albeit modestly). Asia emerged from the recession faster than expected, and China once again could enjoy double-digit growth in 2010.

We have not crossed the bridge completely, however. Governments were forced to act swiftly and decisively to rescue the global financial markets – but with debt still an issue, bank lending remains sluggish. In addition, while US consumer spending is increasing modestly, it remains hampered by unemployment that must be dealt with before sentiment can truly recover. Similarly, the European and Japanese economies are facing slower demand and are mired by ballooning national debts.

With economic uncertainty also comes the potential for nations to withdraw and assume protectionist roles. These and other factors must be carefully monitored as we move into the coming fiscal year.

PERFORMANCE

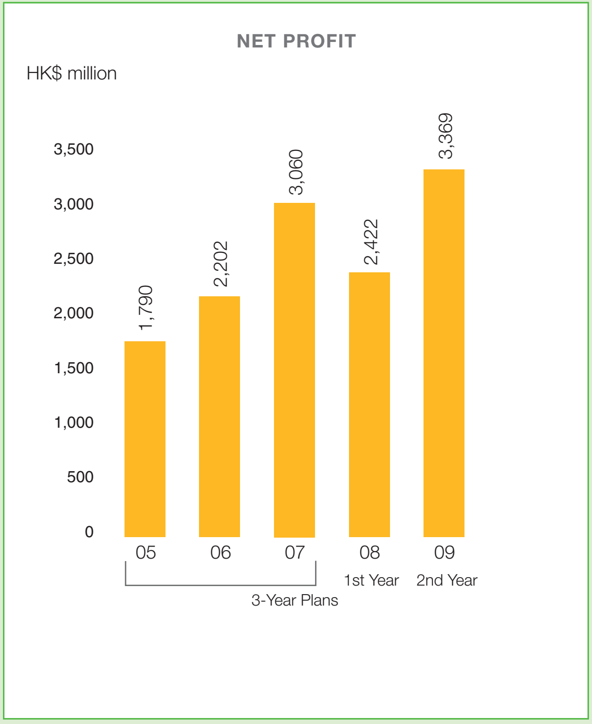
In 2009, Group turnover decreased by 6% to HK$104,479 million. Core Operating Profit increased by 29% to HK$3,990 million. Profit attributable to shareholders was HK$3,369 million, an increase of 39% compared to 2008 (HK$2,422 million). Results for both core operating profit and profit attributable to shareholders represented record highs. Earnings per share were 91.0 HK cents compared with 69.3 HK cents for 2008.

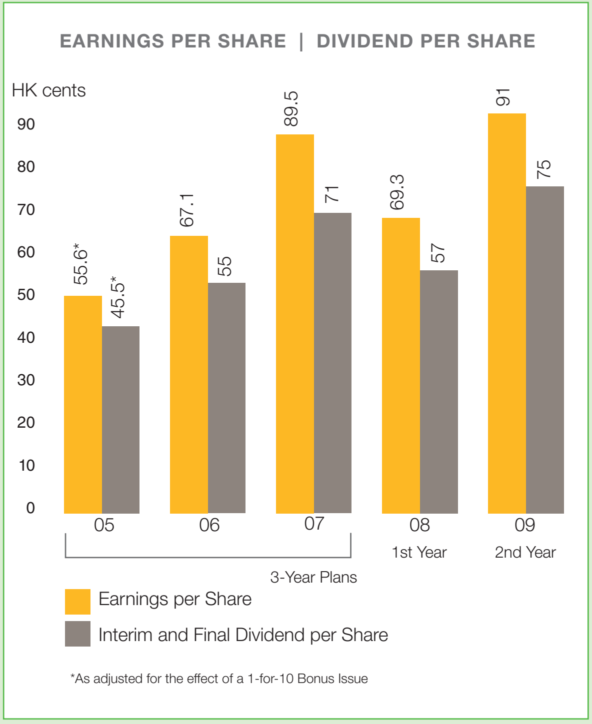
The Board of Directors has resolved to declare a final dividend of 49 HK cents per share (2008: 33 HK cents).

MARKET & BUSINESS

It has been an active year for Li & Fung. The Group continues to aggressively pursue acquisitions and organic growth, and our sourcing arrangement with Liz Claiborne and Talbots are excellent examples of this.

Indeed, the outsourcing trend remains strong, and there is a healthy pipeline of business. Over the past year the Group arrived at a number of other notable global sourcing partnership agreements. While they should not be considered indications of an economic recovery in the overall market, they have certainly further enhanced our market share.

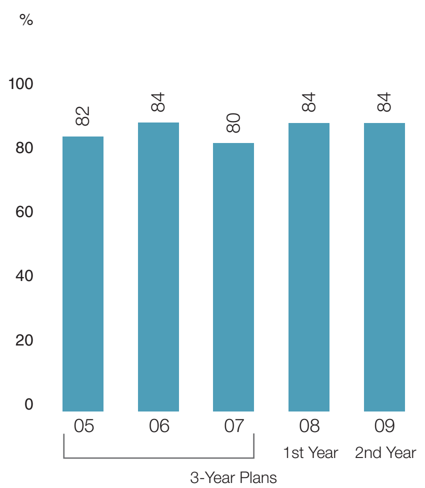




Our relationships with our customer and supplier partners remain some of our most important assets, and we continue to work closely together as the global economy recovers to achieve mutual success.

Meanwhile, the opening of our state-of-the-art, 7,100-square-metre European hub in Istanbul, Turkey, enables us to serve even better the EMEA and Russia. Turkey, along with the former Soviet republics, northern Africa and the Mediterranean, has become an important sourcing country, and this new facility will help expedite our growth throughout the region.

DIVIDEND PAYOUT



It should be noted that the Group is firmly committed to maintaining the highest standards of corporate governance and citizenry. The principles of transparency, accountability and independence play important roles in our day-to-day business. We also aim to operate in an environmentally responsible manner by managing our greenhouse gas emissions, energy consumption and waste throughout our supply chain, and we continuously seek ways to enhance our commitment in this regard.

PROSPECTS

Prudent financial management and a strong, stable operating position have been hallmarks of Li & Fung's business operations, and they will continue to serve us well in the current climate. Hence, we will tread carefully among the many green shoots of growth that are appearing around the globe.

One such sign is the International Monetary Fund revising upward its 2010 forecast for world GDP growth to 3.9% (following a 0.8% contraction in 2009), largely on the back of increased global production and trade as well as a rise in American consumption. In line with this, US retail sales are expected to show some improvement this year. Given its unparalleled offerings in product range and global supply chain management, Li & Fung is well positioned to benefit from any rebound in US consumer sentiment and spending, which would also positively impact other markets where the Group does business.

It should be reiterated that as the world markets continue to deal with recovery, now is as crucial a time as ever to conclude the Doha Round of trade negotiations and agree upon a strengthened, rules-based multilateral trade framework to help deliver prosperity and growth. Such a system could also help raise living standards, enhance sustainable business practices and hold participants to more stringent emissions standards, which are crucial to combating the issue of climate change that was at the heart of the Copenhagen summit.

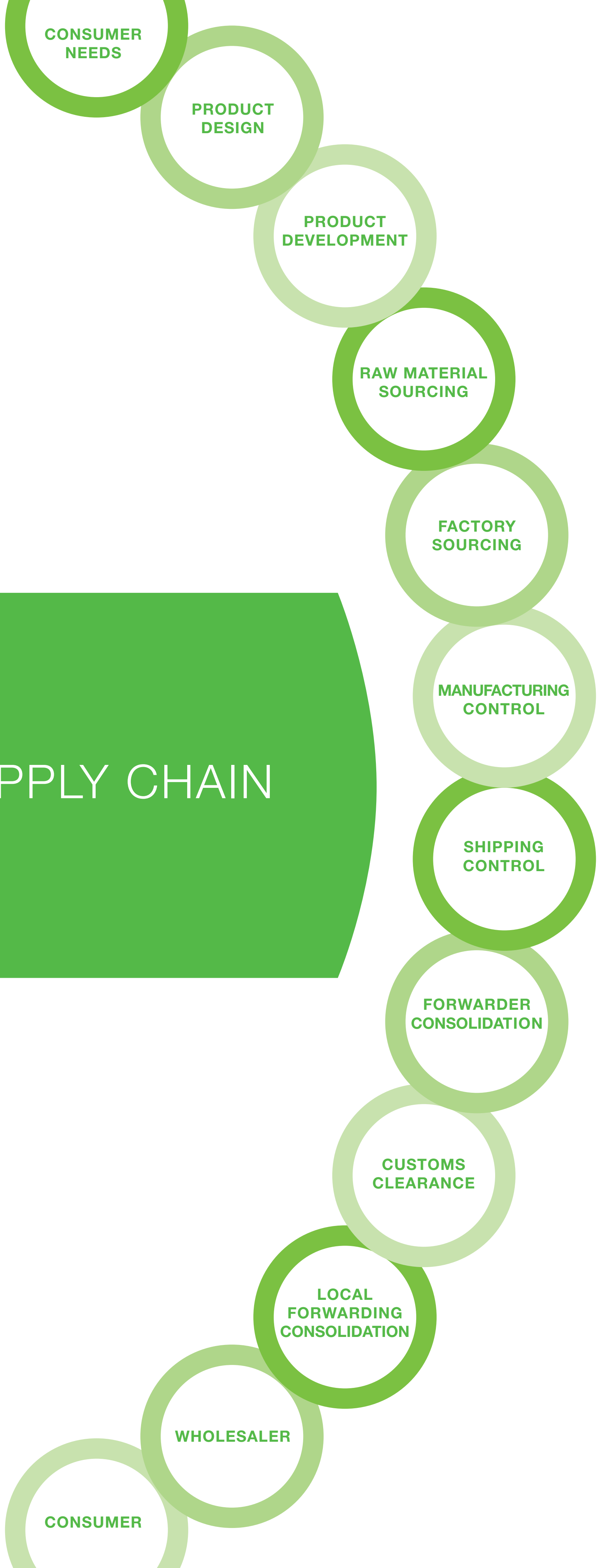
One of our key initiatives moving forward is the substantial commitment we are making to ongoing professional development and the upgrading of skills through learning and development programmes for our people around the world. We have teamed up with the New York Fashion Institute of Technology, Paris Institut Français De La Mode and the Hong Kong Polytechnic University to establish a continual Design Support Program, specifically designed to broaden and strengthen our people's design support skills and to drive career progression.

The year 2010 marks the culmination of the current Three-Year Plan, to which the Group remains committed despite the global events of 2008-2009. The inspired, dedicated and tireless efforts of our staff have been crucial to our success during these difficult times, and they will no doubt serve us well as we move forward. I also would like to once again express my sincere gratitude to the members of the Board for their continued advice and support.

Victor FUNG Kwok King
Chairman

Hong Kong, 24 March 2010

THE SUPPLY CHAIN



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

William Fung
Managing Director

RESULTS REVIEW

The Group's turnover in 2009 decreased by 6% to US$13,395 million (approximately HK$104 billion) being adversely affected by soft consumer markets world wide, tight inventory control by many of our customers as well as a number of customer insolvencies. However, disciplined cost control, the provision of increasing value-added services and the continued growth of our higher-margin onshore business enabled the Group to deliver solid operating leverage resulting in record profits. Results for both core operating profit and profit attributable to shareholders represented record highs. In addition, recent acquisitions of higher-margin businesses such as Van Zeeland, Inc. in USA made a contribution.

- Total Margin increased by 6% and as a percentage of turnover it increased from 10.86% to 12.17%

- Core Operating Profit increased by 29% and Core Operating Profit Margin increased to 3.82% from 2.79%

- Profit Attributable to shareholders reached HK$3,369 million, an increase of 39% over 2008

The Group made a number of landmark outsourcing deals in 2009, including Liz Claiborne Inc., Talbots, Inc., Hudson's Bay Trading Company and Wolverine Worldwide Inc. We have seen an increasing number of leading retail groups consolidating and aligning their global sourcing needs through partnership with us in order to leverage our scale and expertise.

We also continued our two-pronged acquisition strategy by undertaking a total of three roll-up acquisitions (JMI, Shubiz Ltd. and Clearskies Ltd.) and one large acquisition (Wear Me Apparel, LLC) in 2009.

On 5 May 2009, the Group placed 120.29 million shares at a price of HK$22.55 per share after market close on 4 May 2009, raising approximately HK$2,682 million. The proceeds provided funds for the Group to pursue business expansion opportunities.

Bruce Rockowitz
President

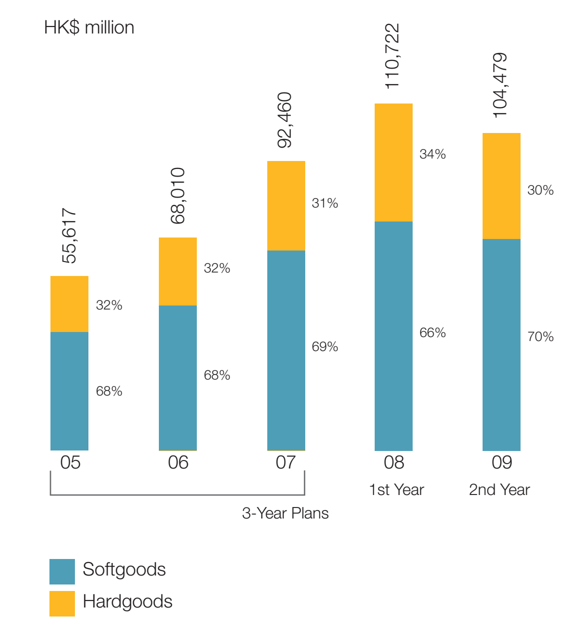
SEGMENTAL ANALYSIS

In 2009, softgoods and hardgoods accounted for 70% and 30% of turnover respectively. **Softgoods** turnover experienced flat growth, reflecting the positive contributions from recent outsourcing deals such as Liz Claiborne as well as acquisitions like Miles Fashion Group and Silvereed Group which were offset by certain customer insolvencies and sluggish consumer sentiment.

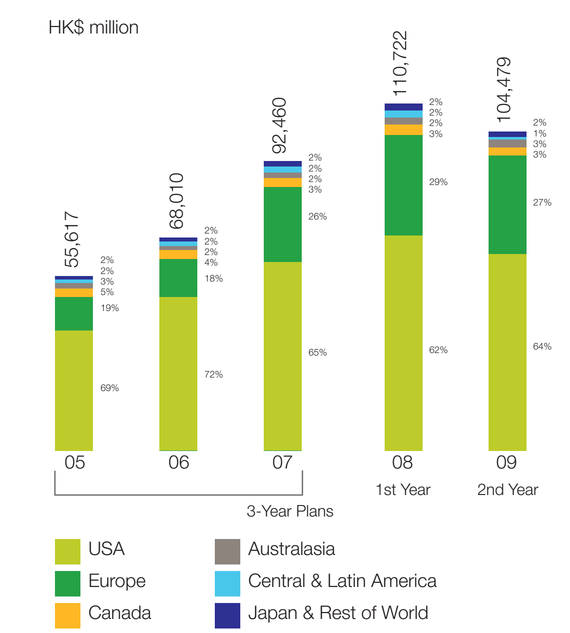
Turnover from the **hardgoods** business decreased by 17%. While previous acquisitions like RT Sourcing and Shubiz have contributed positively, this again was offset by the negative impact of certain customer insolvencies like Arcandor and KB Toys.

Geographically, the **US** continues to be the Group's key export market, representing 64% of total turnover during the period under review, an increase from 62% in 2008. This has been due to recent acquisitions like Van Zeeland in the US. Turnover declined by 2%, reflecting weaker overall consumer sentiment. Operating profit grew by 42%, which can largely be attributed to contributions from previous acquisitions such as Van Zeeland and the licensed T-shirt business of Giant Merchandising. Our US onshore business continued to grow as expected.

TURNOVER BY PRODUCT



TURNOVER BY EXPORT MARKETS



Europe accounted for 27% of turnover, reflecting a drop of 12%. This was due to the impact of certain customers facing insolvency (e.g. Arcandor and Deutsche Woolworth) and weaker sentiment overall in Europe. On the other hand, operating profit increased by 9% as a result of recent acquisitions like Miles Fashion Group and the benefits we are seeing from the earlier restructuring of our European onshore business, which Li & Fung began to develop in 2008. So far, it has followed the development patterns of our US onshore business very closely, and both operations have grown in line with our expectations.

Turnover in **Canada, Central & Latin America,** and **Australasia** respectively accounted for 3%, 1% and 3% of the Group's total respectively, representing declines of 8%, 26% and 3% from those geographies' previous performances. Operating profit declined by 4% and 16% respectively in Canada, Central & Latin America, while Australasia's operating profit grew 1%. **Japan** and the rest of the world represented a 2% share of Group turnover, a decline of 7%. This was coupled with a 26% drop in operating profit.

ACQUISITIONS

We had a total of three roll-up acquisitions (JMI, Shubiz and Clearskies) and one large acquisition in 2009 (Wear Me Apparel).

SMALL ROLL-UP ACQUISITIONS

In March 2009, the Group acquired JMI, based in Shanghai China. JMI specializes in high-end technical products such as gloves, outerwear, knitwear and accessories. In the same month, the Group acquired Shubiz Ltd. in the UK. Shubiz is a long-established, leading designer and supplier of ladies' fashion footwear to top retailers, principally in the UK. In June 2009, the Group further acquired Clearskies Ltd., the sourcing operation of Shubiz based in China.

LARGE ACQUISITION

In October 2009, the Group acquired substantially all of the assets of Wear Me Apparel, LLC, a leading designer, marketer and seller of young men's and children's apparel in the U.S. The purchase consideration was approximately US$100 million plus performance-based, contingent payments over the next five years. This acquisition dramatically strengthens LF USA's growth platform as we are now able to expand into new markets and categories including young men's and junior's.

OUTSOURCING DEALS

We had another eventful year with a number of landmark outsourcing deals: Liz Claiborne, Hudson's Bay, Talbots and Wolverine.

In February 2009, the Group entered into a long-term exclusive Buying Agency Agreement whereby Li & Fung would act as the primary global apparel and accessories sourcing agent for brands in the Liz Claiborne Inc. portfolio, which includes Lucky Brand, Juicy Couture and Kate Spade. The Group took over the sourcing operations of Liz Claiborne and paid to Liz Claiborne an amount equal to US$83 million. This is one of the best portfolios of high-profile brands in the world and a great addition to Li & Fung's existing customer base. In addition, the deal helps us continue to gain market share.

In addition, we were delighted to finalize the outsourcing deals with Hudson's Bay Trading Company and Talbots, Inc. For Hudson's Bay, this is a strategic relationship with its four main retail banners: the Bay, Zellers, Home Outfitters and Lord & Taylor. For Talbots, we are the exclusive agent for substantially all Talbots apparel products.

Lastly, we completed an outsourcing deal with Wolverine Worldwide Inc. in the US in April 2009, with respect to their apparel sourcing worldwide.

These outsourcing deals will further solidify our market share in these respective business areas and contribute positively to our bottom line in the years ahead. They also demonstrate how Li & Fung has been successful at gaining market share in a challenging environment.

PROGRESS ON THREE-YEAR PLAN 2008-2010

2009 was the second year of the current Three-Year Plan 2008-2010. While the turnover target of US$20 billion and core operating profit target of US$1 billion seem challenging at present, we remain committed to them.

On 5 May 2009, the Group announced the placing of 120.29 million of shares at a price of HK$22.55 per share. The placement has raised HK$2,682 million and have primarily used to support the Group's continued business expansion.

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.

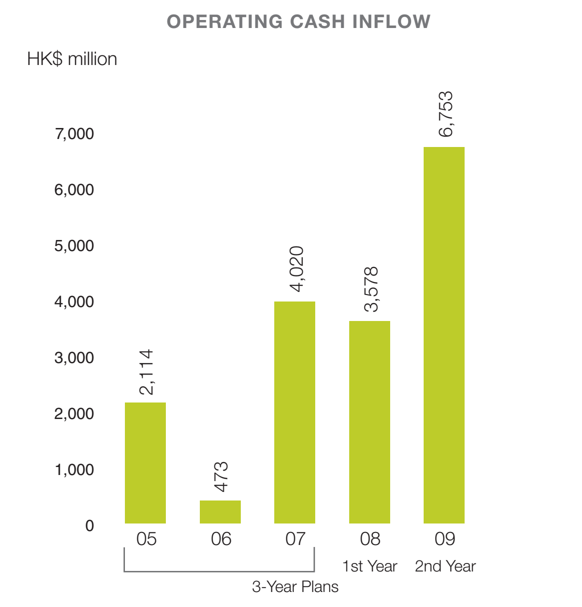
The Group will also continue to monitor market conditions to ensure the continuing strength of its franchise and to meet its responsibilities to all its stakeholders, including customers, employees, vendors and shareholders.

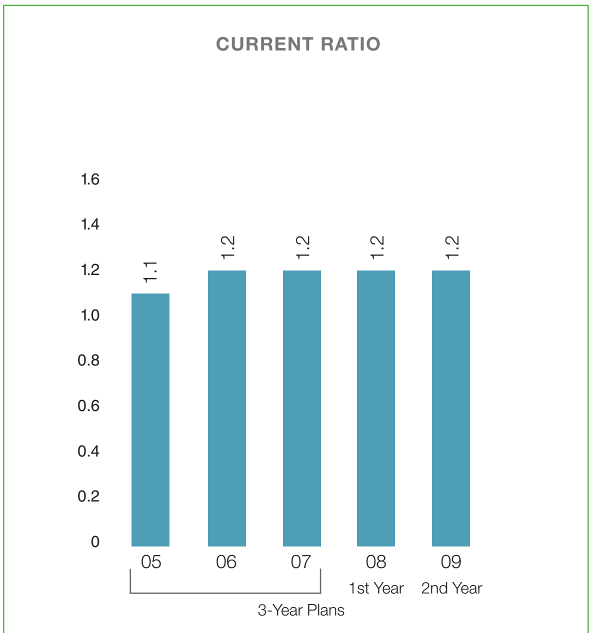
FINANCIAL POSITION AND LIQUIDITY

The Group continued to be in a strong financial position for the year under review with cash and cash equivalents amounting to HK$4,155 million at the end of December 2009.

Normal trading operations were well supported by more than HK$20 billion in bank trading facilities. In addition, the Group had available bank loans and overdraft facilities of HK$4,671 million, out of which HK$1,680 million was committed facilities. As of 31 December 2009, only HK$47 million of the Group's overdraft facilities was utilized, and no drawdown was made out of the committed facilities.

The Group's gearing was defined as net debt divided by total capital. Net debt was total borrowings less cash and cash equivalents, whereas total capital was total equity plus net debt. During the year, the Group's total equity was further strengthened by a private placing with net proceeds of approximately HK$2,682 million. The Group's total equity at the end of December 2009 was HK$17,726 million. At balance sheet date, the Group's cash and cash equivalents of HK$4,155 million exceeded its total borrowings of HK$3,872 million (i.e. the long-term notes) and resulted in no net debt. Accordingly, the Group had no gearing based on the calculation of net debt divided by total capital. The current ratio was 1.2, based on current assets of HK$21,579 million and current liabilities of HK$17,458 million.





CREDIT RISK MANAGEMENT

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

Most of the Group's cash and bank balances 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 as well as 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 are managed by the Group treasury through 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

As of the date of this announcement, the Group has disputes with Hong Kong Inland Revenue ("HKIR") involving additional tax assessments amounting to approximately HK$1,924 million on both the non-taxable claim of certain non-Hong Kong sourced income ("Offshore Claim") and the deduction claim of marketing expenses ("Deduction Claim") for the years of assessment from 1992/1993 to 2008/2009.

The Commissioner of the HKIR issued a determination on 14 June 2004 to one of its subsidiaries, Li & Fung (Trading) Limited ("LFT"), confirming additional tax assessments totalling HK$333 million relating to the years of assessment from 1992/93 to 2001/02. Under further legal advice from the Group's counsel, the directors believe that the Group has meritorious defence to appeal against the Commissioner's determination. Accordingly, LFT 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.

The Board of Review issued its decision on 12 June 2009 ("the Board of Review Decision") and held partially in favour of LFT. It agreed that the Offshore Claim for the years of assessment from 1992/93 to 2001/02 is valid. In other words, the relevant assessments in respect of such Offshore Claim shall be annulled. On the other hand, the Board of Review disagreed with the Deduction Claim for the years of assessment from 1992/93 to 2001/02. Therefore, the relevant assessments in respect of such Deduction Claim should be confirmed.

The Group has considered the reasoning of the Board of Review Decision and, having obtained professional advice, decided to lodge an appeal against the Board of Review Decision in respect of the Deduction Claim. An application requiring the Board of Review to state a case on questions of law for the opinion of the High Court was made by LFT on 10 July 2009.

On the other hand, the HKIR also lodged an appeal against the Board of Review Decision in respect of the Offshore Claim. An application requiring the Board of Review to state a case on questions of law for the opinion of the High Court was made by the HKIR on 10 July 2009.

The Board of Review has on 19 March 2010 stated a case on questions of law in respect of both LFT's appeal in respect of the Deduction Claim, and the HKIR's appeal in respect of the Offshore Claim. LFT and HKIR can transmit the stated case to the High Court for determination by 7 April 2010.

Based on the assessment of the Group's legal counsel on the merit of LFT's further appeal in respect of the Deduction Claim and the HKIR's further appeal in respect of the Offshore Claim, and having taking into account the impact and ramification which the Board of Review Decision has on the tax affairs of LFT, the directors consider that no material tax liabilities will finally crystallize and sufficient tax provision has been made in the accounts in this regard.

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

PEOPLE

As of the end of 2009, the Group had a total workforce of 13,402, of whom 3,045 were based in Hong Kong and 10,357 were located overseas.

The Group offers its people competitive remuneration schemes. In addition, bonuses and share options are also granted to those eligible based on individual and Group performance.

The Group believes that investing in its people is about investing in the future and that future success is dependent on the quality, breadth and depth of its learning and development programs. During 2009 it launched a new Learning and Development Strategy aimed at delivering world-class learning programs and focused on strengthening our people and the Company's core functional and management capabilities. Traditionally, companies have focused on "training" centered in the classroom. However, our programs have evolved and are designed to be more practical, interactive and user-friendly as well as delivered through multiple learning channels.

These learning programs are based on real-life scenarios and are delivered through a variety of media such as intranet, videos, seminars and workshops. It is an approach we call "blended learning".

Learning at Li & Fung takes many forms—from focusing on design support and merchandising, where we build and strengthen technical job skills, to executive education, where our senior managers "learn" to meet the challenges of our business. Our people consist of some of the industry's most highly regarded experts, and a key element of our learning strategy is to engage them in teaching and leading our learning programs.

The Group has several talent resourcing programs including the Management Trainee Program, the Merchandising Development Program and the Design Support Program. These programs are more fully described in Corporate Governance section of our 2009 Annual Report.

The Group also invested in sophisticated human resource software during the period under review. Total manpower costs for 2009 were HK$4,848 million, compared with HK$4,683 million for 2008.

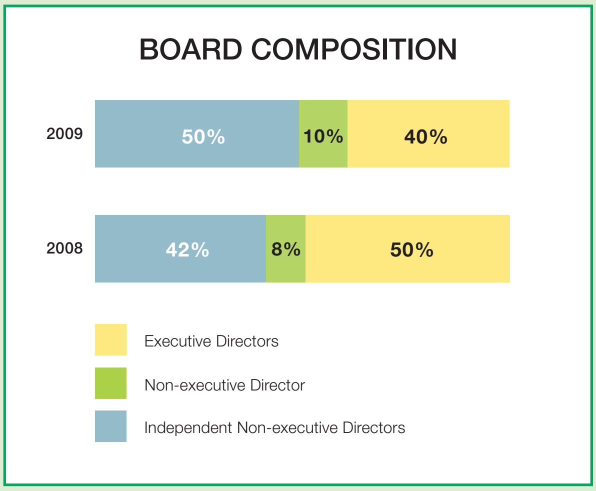
CORPORATE GOVERNANCE

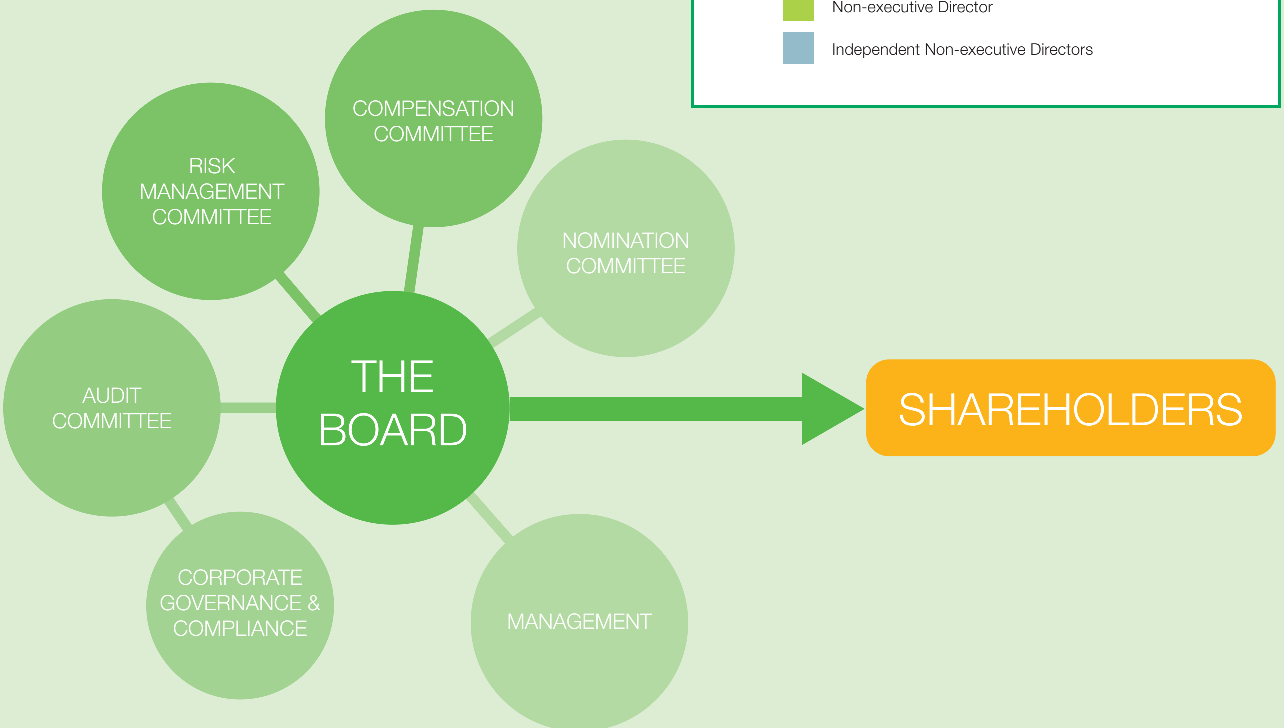
The Board of Directors and management are committed to principles of good corporate governance consistent with prudent management and enhancement of **shareholder value.** These principles emphasize transparency, accountability and independence. Set out below are those principles of corporate governance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

THE BOARD

BOARD COMPOSITION

Following the retirement of two Executive Directors at 2009 Annual General Meeting, the Board is currently composed of the Group Non-executive Chairman, the Group Executive Managing Director, three Executive Directors and five Independent Non-executive Directors. The Board considers this composition to be more balanced that reinforces a stronger independent review and monitoring function on overall management practices. Directors' biographical details and relevant relationships are set out in the Directors and Senior Management section on pages 42 to 46.





GROUP CHAIRMAN AND GROUP MANAGING DIRECTOR

The role of the Group Chairman is separate from that of the Group Managing Director. This is to enhance their respective independence, accountability and responsibility. Their respective responsibilities are clearly established and defined in writing by the Board.

Group Chairman	• responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures.
Group Managing Director	• responsible for managing the Group's business, including the implementation of major strategies and initiatives adopted by the Board with the support from other Executive Directors, and within those authorities delegated by the Board.

ROLES AND RESPONSIBILITIES OF THE BOARD

The Board is responsible for setting up the overall strategy as well as reviewing 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.

The Non-executive Directors (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.

DELEGATION TO MANAGEMENT

Day-to-day operational responsibilities are specifically delegated by the Board to management. Major matters 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 adopted by the Board;
- implementation of adequate systems of internal controls and risk management procedures; and
- compliance with relevant statutory requirements, rules and regulations.

BOARD AND COMMITTEE MEETINGS

Board meetings are scheduled one year in advance to facilitate maximum attendance by Directors. The meeting agenda is set by the Group Non-executive Chairman in consultation with members of the Board. Executive Director or President of each business stream is invited to join all Board meetings to enhance the Board and management communication. In 2009, the Board held **nine** meetings (with an **average attendance rate of 87%**).

A summary of Board and Committee meetings in 2009 is set out in the following table:

BOARD AND COMMITTEE MEETINGS FOR YEAR 2009

	Board	Annual General Meeting	Nomination Committee	Audit Committee	Risk Management Committee	Compensation Committee
Non-executive Director						
Dr Victor FUNG Kwok King[1]	■■■■■■■■■	■	■■	◪◪■■	■■	◪■■
Independent Non-executive Directors						
Mr Paul Edward SELWAY-SWIFT[2]	◪◪■■■■■■■	■	■■	■■■■		
Mr Allan WONG Chi Yun[3]	◪◪■■■■■■■	■		◪■■■		■■■
Professor Franklin Warren McFARLAN	◪◪◪■■■■■■	■		■■■■		■■■
Mr Makoto YASUDA	■■■■■■■■■	■	■■	■■■■		
Mr Martin TANG Yue Nien – appointed on 2 February 2009	◪◪◪■■■■■	■		■■■■		◪■■
Executive Directors						
Dr William FUNG Kwok Lun	◪■■■■■■■■	■			■■	
Mr Bruce Philip ROCKOWITZ	◪■■■■■■■■	■			■■	
Mr Henry CHAN – retired on 13 May 2009	■■■■■■	■				
Mr Danny LAU Sai Wing – retired on 13 May 2009	■■■■■■	■				
Ms Annabella LEUNG Wai Ping	■■■■■■■■■	■				
Mr Spencer Theodore FUNG	◪■■■■■■■■	■				
Group Chief Compliance Officer						
Mr James SIU Kai Lau	■■■■■■■■■[4]	■[4]	■■[4]	■■■■[4]	■■	■■■[4]
Dates of meeting	14/01/2009 18/02/2009 24/02/2009 25/03/2009 04/05/2009 13/05/2009 13/08/2009 19/10/2009 16/11/2009	13/05/2009	14/01/2009 25/03/2009	25/03/2009 13/05/2009 13/08/2009 16/11/2009	09/02/2009 22/10/2009	24/02/2009 25/03/2009 13/08/2009

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

■ MEETINGS ATTENDED
◪ MEETINGS UNATTENDED

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The Board has received from each Independent Non-executive Director a written annual confirmation of their independence and satisfied that independence up to the approval date of this report. The assessment of the independence of Independent Non-executive Director is delegated by the Board to the Nomination Committee. The Nomination Committee has assessed their independence with reference to number of factors that are no less exacting than those as set in Chapter 3 of the Listing Rules of the Exchange.

Each Independent Non-executive Director is required to inform the Company as soon as practicable if there is any change that may affect his independence.

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

The appointment of new director must be approved by the Board. The Board has delegated to the Nomination Committee to select and recommend candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary. The Nomination Committee has established certain guidelines to assess the candidates. These guidelines emphasize appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills, and possible time commitments to the Board and the Company.

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.

INDUCTION, INFORMATION AND ONGOING DEVELOPMENT

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, the Group has implemented a continuing programme since 2003 to update the 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 Indonesian colleagues was conducted at our Indonesia Office in November 2009. Similar sessions were conducted at our Thailand, Shanghai and Singapore offices during the years of 2006, 2007 and 2008 respectively.

In addition to the above, each newly-appointed Director received a tailored induction programme, which covers briefing on the Company's overview by the Group Chairman, meeting with management and meeting with the Company's legal consultant on directors' legal role and responsibilities.

To further maximize the contribution from non-management Directors, a separate meeting was held in May 2009 between the Group Chairman and Independent 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 2009.

INDEPENDENT REPORTING OF CORPORATE GOVERNANCE MATTERS

The Board recognizes the importance of independent reporting of the corporate governance matters of the Company. The Group Chief Compliance Officer, as appointed by the Board, attended all Board and committee meetings in 2009 to advise on corporate governance matters covering risk management and relevant compliance issues relating to business operations, mergers and acquisitions, accounting and financial reporting.

LIABILITY INSURANCE FOR THE DIRECTORS

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 with advice from external consultant on an annual basis.

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 on no less exacting terms than those set out in the Code on Corporate Governance Practices of the Listing Rules:

- Nomination Committee
- Audit Committee
- Risk Management Committee
- Compensation Committee

Each Committee has authority to engage outside consultants or experts as it considers necessary to discharge the Committee's responsibilities. Minutes of all committees meetings are circulated to all Board members. To further reinforce independence and effectiveness, 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.

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, assessment of the independence of Independent Non-executive Directors and the management of board succession.

The Committee met **twice** in 2009 (with a **100% attendance rate**) to review the board composition, the nomination of directors to fill board vacancies in 2009 and the retirement of directors by rotation.

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 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 2009 (with an **average attendance rate of 88%**) 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 and make relevant recommendations to the Board. An Audit Committee visit to the Group's Indonesia Office was also made in November 2009.

In 2009, 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, financial reporting matters (including the interim and annual financial reports for the Board's approval) and the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function as well as their training programmes and budget.

Following international best practices, the Committee conducted a self-review of its effectiveness in 2009 by going through a detailed audit committee best practices checklist as against the Committee's current practices. Similar self-assessment exercises were conducted in 2005 and 2007. Based on the results of these assessments, the Committee believes it is functioning effectively although further enhancements and changes in practice have been made.

The Committee also ensures proper arrangements are in place by which employees can report any concerns, including misconduct, impropriety or fraud in financial reporting matters and accounting practices, in confidence and without fear of recrimination for fair and independent investigation of such matters and for appropriate follow-up action. Under the Group's Policy on Reporting of Concerns, employees can report these concerns to either Senior Management or the Audit Committee through the Group Chief Compliance Officer. 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 2009, 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. The Committee also has unrestricted access to external auditor as necessary.

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. In 2009, the external auditor provided permitted non-audit services mainly in due diligence review on acquisitions and tax compliance services. The nature and ratio of annual fees to external auditor for non-audit services and for audit services in 2009 have been scrutinized by the Audit Committee (refer to details of fees to auditor in *Note 4* to the accounts on page 91).

In addition, the external audit engagement partner is subject to periodical rotation of not more than 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 2009 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 have been 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 2010 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 Non-executive Chairman. Its written terms of reference include offering recommendations to the Board on the Group's risk management and internal control systems. The Committee reports to the Board in conjunction with the Audit Committee.

The Risk Management Committee met **twice** in 2009 (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, litigation exposures, acquisitions and integration as well as other operational and financial risk 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 **three times** in 2009 (with an **average attendance rate of 83%**) to review and approve all Executive Directors' (including the Group Managing Director) remuneration packages and the granting 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
- share options granted under a shareholders' approved 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 industry and scale.

BASIC SALARY

All Executive Directors' remuneration packages including their basic salary were approved by Compensation Committee at the beginning of the Group's current Three-Year Plan (2008-2010). Under the service contracts between the Group and the Group Managing Director as disclosed under Directors' Service Contracts section on page 55, the Group Managing Director is entitled to a fixed basic salary which is subject to review by the Committee.

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 Compensation Committee approves all grants of share options under the shareholders' 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 Compensation 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 95 to 97.

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

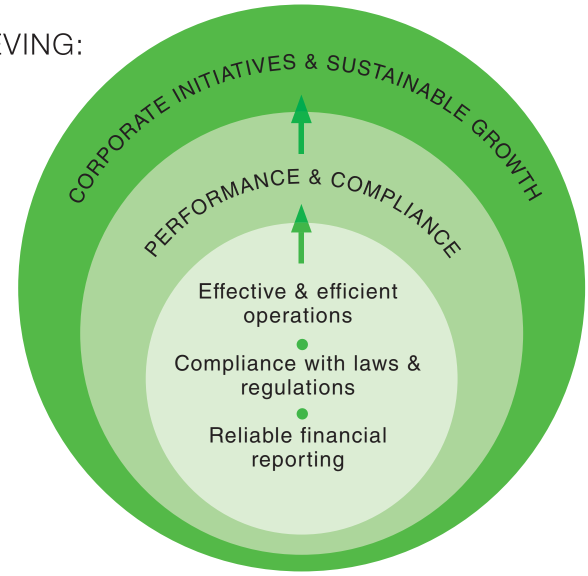
The Group operates within an established control environment, which is consistent with the principles outlined in *Internal Control and Risk Management – A Basic Framework* issued by the Hong Kong Institute of Certified Public Accountants. The scope of internal control for the Group relates to three 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 Key Operating Guidelines (KOG) tailored to the need of respective business units in the countries where the Group operates. These policies and KOG cover key risk management and control standards for the Group's operation worldwide.

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.

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



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 125 to 128.

INVESTMENT MANAGEMENT

The Group establishes Investment Committee (comprising the Group Non-executive Chairman, Executive Directors and Senior Management) to develop investment control procedures, monitor and approve the Group's major investments and acquisitions. Significant investments and acquisitions (with consideration above a threshold as pre-set by the Board) also require Board's approval.

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.

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 covered by the Committees 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

Internal Audit

The Group's Internal Audit team within the **Corporate Governance Division** (CGD), under the supervision of the Group Chief Compliance Officer, independently reviews the internal 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 current three-year Internal Audit Plan (2008-2010) of CGD is strategically linked to the Group's Three-Year Plan and was reviewed and endorsed by the Audit committee. The principal features of the tasks of CGD include:

- Internal Audit plan as prepared under a risk based assessment methodology that covers the Group's significant operations over a three-year cycle period;
- An audit scope which covers significant controls including financial, operational and compliance controls, and risk management policies and procedures;
- Unrestricted access to all the information needed for review of all operations controls and compliance with KOG and corporate policies, rules and regulations;
- Review on the special areas of concerns or risks as raised by Audit Committee, Risk Management Committee or Senior Management.

Major audit findings and recommendations from CGD, and management response to their findings and recommendations are presented at the Audit Committee meetings. The implementation of all recommendations as agreed with management 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 for 2009, management had conducted an Internal Control Self-Assessment for the trading operations and relevant accounting functions. The Group's CGD has independently performed post-assessment review on the findings noted in the self-assessment programs and considered that sound internal control practices were in place.

External Audit

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 2009.

OVERALL ASSESSMENT

Based on the respective assessments made by Senior Management, the Group's CGD and the external auditor, the Audit Committee considered that for 2009:

- 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.

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**. All the newly-joined staff are briefed and requested to acknowledge the understanding of the Code. For ease of reference and as a constant reminder, a copy of the latest guidelines is posted in the Company's internal electronic portal for reference by all staff.

MARKET RECOGNITION

The Group's continuous commitment to excellence and **high standards in corporate governance practices continued to earn market recognition from stakeholders** including bankers, analysts and institutional investors during our previous Three-Year Plan (2005-2007) and current Three-Year Plan (2008-2010). Details of our awards are set out on page 40 to 41.

DIRECTORS' AND RELEVANT EMPLOYEES' 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 2009. 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 2009.

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 55 to 57. 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 2009.

DIRECTORS' RESPONSIBILITY FOR ACCOUNTS AND AUDITOR'S RESPONSIBILITY

The Directors' responsibility for preparing the accounts is set out on page 59, and the auditor's reporting responsibility is set out on page 60.

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 full compliance with all of 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 2009.

INVESTOR RELATIONS AND COMMUNICATIONS

Li & Fung has a proactive policy for promoting investor relations and communications by maintaining regular dialogue and fair disclosure with institutional shareholders, fund managers, analysts and the media. Management attends investor meetings on a regular basis and has participated in a number of major investor conferences in Asia and North America. The Group is followed by a large number of analysts, and many of them publish reports on it regularly.

Li & Fung's corporate website *(www.lifung.com)* facilitates effective communications with shareholders, investors and other stakeholders, making corporate information and other relevant financial and non-financial information available electronically and on a timely basis. This includes extensive information about the Group's performance and activities via the Annual Report, Interim Report, press releases and announcements. Webcasts of results presentations for analysts have also been made available.

The Group's Annual General Meeting (AGM) provides another principal channel for Directors to meet and communicate with shareholders, who are likewise encouraged to participate. All shareholders are provided 21 days' notice to attend the AGM, during which Directors and Committee Chairmen or members are available to answer questions. The results of the voting by poll are published on the Group's website together with details of the meeting, including the time, venue and major resolutions.

Li & Fung is aware of its obligations under the Listing Rules, including the overriding principle that information which is expected to be price-sensitive should be announced promptly. Therefore, the Group conducts the handling and dissemination of such information in accordance with the "Guide on disclosure of price-sensitive information" issued by the Hong Kong Stock Exchange in 2002. Members of senior management are identified and authorized to act as spokespersons and respond to related external enquiries.

The Group's position in the Hong Kong market as a blue chip stock with sizeable market capitalization and a high degree of liquidity is affirmed through the continued inclusion of our stock in some of the most important benchmark indices. The stock is a constituent member of the Hang Seng Index, MSCI Index, FTSE4Good Index and Dow Jones Sustainability Asia Pacific Index.

In 2009, the Board confirmed that there were no significant changes made to Li & Fung's bye-laws affecting its operations and reporting practices. Details of the last shareholders' meeting, key calendar events for shareholders' attention as well as share information, including market capitalization as of 31 December 2009, are set out in the "Information for Investors" section on page 47 and on our corporate website.

The Group has received widespread acclaim from international business and financial magazines, which reflects the efforts it places on effective communications. In 2009, Li & Fung received a number of recognitions from the wider business community, including being selected as one of Hong Kong's top 10 companies in the *Wall Street Journal Asia*'s "Asia's 200 Most Admired Companies"; No. 888 in *Forbes*' "The World's 2,000 Biggest Public Companies"; and one of the top 40 companies in *BusinessWeek*'s "The World's Best Companies". The Group was also named Large-Cap Corporate of the Year, Hong Kong in *Asiamoney*'s "Asia's Best-Managed Companies 2009" awards, and it made the *Financial Times*' "FT Global 500" and *Forbes Asia*'s "Fabulous 50".

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 47.

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 for supplier evaluation. A copy of the Code is available at our corporate website *(www.lifung.com)*.

In 2009, 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 who is also responsible for social and environmental affairs of the Company.

The VC division conducts evaluations of approved suppliers on a routine and systematic basis in accordance with industry defined and customer's specific audit standards, 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 (ST), Immediate Action (IA), Continues Improvement (CI), 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 during their factory visits on an annual basis. In 2009, more than 12,000 facility inspections and verification audits were performed in 46 countries around the globe. In addition to internal evaluations, the VC division also operates in parallel to external independent third-party evaluations conducted by auditing firms commissioned by our customers.

Li & Fung also supports our many customers with their various third party auditing programs including that of Business for Social Compliance (BSCI), International Council of Toys Industry (ICTI), Fair Labor Association (FLA), Supplier Members Ethical Trade Audit (SMETA) 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 2009, we continued our supplier training and education efforts expanding the scope to include additional focus areas of energy efficiency, water pollution prevention and cleaner production. Continuing our partnering with WWF HK, we co-organized several seminars in Hong Kong promoting WWF's Low-carbon Office Operation Program (LOOP) and Low Carbon Manufacturing Program (LCMP).

ENVIRONMENTAL PROTECTION

In 2009, Li & Fung further enhanced its supplier environmental programs and initiatives aimed at 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. The Company also took an active role in supporting its customers in innovating and developing new tools and systems to support their sustainability programs. By adopting and promoting 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.

ENVIRONMENTAL AUDIT PROGRAM

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 expanded its Environmental Audit Program to a wider number of customers. The scope of the program includes a review of the impacts of 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 team continues to expand on this program in line with emerging environmental stakeholder expectations and demands from the marketplace.

WASTE

In 2009, Li & Fung maintained its "Class of Excellent" Wastewise Label in recognition of the Company's effort in 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 Wastewise program, together with an internal 20% paper reduction campaign, as resulted in significant reductions in office waste and cost savings of more than HK$1,000,000 to date.

ENERGY

The Company has employed the services of an US firm Honeywell to conduct an investment grade energy audit for its Hong Kong operations. The scope of the contract also includes a global proposal for several other major offices within the Li & Fung global network. This audit is part of the Company's support for the Clinton Climate Initiative's (CCI) Energy Efficiency Building Retrofit Program which brings together business and energy service firms to reduce energy consumption in existing building. The investment grade audit is expected to result in an potential energy saving of approximately 20% of overall energy consumption thereby translating into carbon emissions reductions, cost saving, and improved sustainable office space for our people. Key learnings from the audit will also be used to roll-out elsewhere within the Li & Fung global office network.

In 2009, Li & Fung also maintained its "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 (HKAEE), jointly presented by the Environmental Campaign Committee and the Environmental Protection Department.

Li & Fung was recognized in 2009 by the Hong Kong Environment Bureau for its efforts to advance cleaner production with an award entitled "Hong Kong – Guangdong Cleaner Production Partner (Supply Chain)". The Company promotes cleaner production through the Cleaner Production Partnership Program (CP3). The program is jointly organized by the Environmental Protection Department, Guangdong Economic and Trade Commission, Hong Kong Productivity Council and business and industrial sectors. This five-year program will provide funding support to Hong Kong-owned factories in the Pearl River Delta region to engage environmental consultants to conduct on-site improvement assessment, which will propose practical solutions to achieve energy saving and emission reduction. A number of our suppliers have already signed up for this program.

Li & Fung strengthened its partnership with the World Wildlife Foundation (WWF) on an innovative energy conservation project called LOOP – Low-carbon Office Operation Program. Together with four other Hong Kong companies, Li & Fung participated in LOOP's pilot rollout in 2008 and 2009. The program aims to provide firms with tools to measure and cut office energy use and green house gas emissions.

CARBON

Li & Fung participated in the Carbon Disclosure Project (CDP7) for the first time in 2009. CDP7 is Li & Fung's first response and contains 2008 statistical data on its Scope 1 and Scope 2 emissions. CDP is an initiative to collect information on how companies are responding to climate change. The participation in the initiative, and the completion of the CDP7 information request, has enabled the Company to better understand the risks and opportunities of climate change. Furthermore, the process has given the Company ample ways to focus on successes and address ways to lessen its carbon footprint.

The Company's worldwide CO_2 emissions for 2008 totaled 35,679 tons. The Company has set a target of 10% emissions reduction in 2010 from that of its baseline 2008 data. Its 2009 carbon emissions inventory is currently in progress.

In collaboration with two of our customers, we completed "cradle-to-gate" lifecycle assessments (LCA) of an article of apparel and another article of a toy in 2009. Both studies provided us with 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 these two studies provided the Company with an in-depth understanding of the complexities of lifecycle analysis and carbon footprinting and how such tools may generate value for the environment, our customers and our business.

WATER

Li & Fung continued its partnership for a second year in a row with The Asia Foundation (TAF), 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 to reduce water pollution in the textile and dyeing sector through preventative approaches. Entitled the Pearl River Delta (PRD) Environment Program, the project has three objectives: (1) Improve the policy environment for pollution prevention; (2) Develop innovative mechanisms to overcome awareness, technology and financial barriers to enterprises adopting cleaner technology; and (3) Increase business-civil society's collaboration and innovation in environmental protection initiatives. The project includes a number of program activities including seminars, grants, and workshops.

In 2009, the Foundation conducted a series of activities in partnership with local China governments, academic institutions, industry associations, and environmental experts that resulted in a number of outputs including: the organization of a stakeholder workshop, the publication of a policy research report, the creation of an on-line cleaner production directory and the provision of an environmental design award.

PRODUCT SAFETY AND TESTING

We are also working closely with our customers to design and ensure contracted manufacturers produce their products to meet or exceed all applicable product safety standards from around the world. With a dedicated Quality Assurance / Quality Control team of more than 2,300 staff, we follow rigorous internal processes and procedures to ensure product safety and compliance. This also includes internal and external product testing and certification to confirm safety, performance, and regulatory compliance. The Company is also currently pursuing national lab accreditation for its in-house testing lab located in Shenzhen, China.

CORPORATE COMMUNICATIONS

In 2009, 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. In 2009, the Company has also revamped its Intranet so as to better provide staff with reports on the Group's latest directives and initiatives and staff recreational activities. In the newly launched intranet, worldwide individual staff's stories are posted daily. This has helped to connect people of different countries and created stronger sense of belonging among the staff.

PEOPLE 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. 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.

In 2009, a 9-month full-time design support program was developed and launched in partnership with Hong Kong Polytechnic University, the New York Fashion Institute of Technology and Paris Institut Français De La Mode. The design support program commenced in June 2009, and 56 staff members are participating in the program and having on-the-job placement assignments in several sourcing offices globally.

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.

LEARNING AND DEVELOPMENT AND RETENTION

The Group believes that investing in its people is about investing in the future and that future success is dependent on the quality, breadth and depth of its learning and development programmes. During 2009, it launched a new Learning and Development Strategy aimed at delivering world-class learning programmes and focused on strengthening our people and the Company's core functional and management capabilities. Traditionally companies have focused on "training" centered in the classroom. However our programmes have evolved and are designed to be more practical, interactive and user friendly as well as delivered through multiple learning channels.

These learning programmes are based on real life scenarios and are delivered, through a variety of mediums such as intranet, videos, seminars and workshops. It's an approach we call "blended learning".

Learning in Li & Fung takes many forms from focusing on design support and merchandising where we build and strengthen technical job skills to executive education where our senior managers "learn" to meet the challenges or our business. Our people consist of some of the Industry's most highly regarded experts and a key element of our learning strategy is to engage them in teaching and leading our learning programmes.

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. As part of the people development initiatives, Li & Fung had also launched an online appraisal system for our colleagues around the globe in August 2009. Going online enabled us to reduce the time spent on paperwork and thus more time focusing on people development plans. In the end, over 10,000 of our colleagues took part in this exercise and the appraisal completion rate was close to 100%. The valuable data was then collected and analyzed for our people's development needs and enhancing personal growth.

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.

Since 2007, Li & Fung Hong Kong headquarters has 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 for years 2007, 2008 and 2009. In 2009, Li & Fung also enrolled in the Energywise Scheme, which recognizes businesses' efforts on energy savings, and was awarded the Gold Energywise Label. Starting from 2008, Li & Fung launched the Green Initiatives across the Group, and worldwide Green Teams comprising members from different business units have been formed to help raising the staff awareness and reinforce behavior changes on sustainability.

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.

In 2009, the Group has established the global Crisis Management Team (CMT) in order to proactively handle the challenges from the outbreak of H1N1. The CMT has developed the business continuity plans and various policies such as Travel, Communications, Human Resources, Building Administration and so on in order to ensure business as usual under any circumstances. Hygiene tips and health pre-cautionary measures have been communicated to all staff via Intranet and Staff Communications, and even reached their family members through the Company Calendar sent to individual staff's homes.

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 2009 included the Standard Chartered Hong Kong Marathon in which the Group was presented the fourth place of "Most Supportive Group Award". We have joined the CGCC Charity Walk in Celebration of PRC 60th Anniversary and awarded Top Ninth Fund Raising Corporation. 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 the Tree-planting Challenge organized by Friend of the Earth. In 2009, for the eighth consecutive year, these efforts and contributions toward a better society were recognized by the "5 Years+ Caring Company Award" presented by The Hong Kong Council of Social Service ("HKCSS") 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 2009, a campaign named "Social Angel", run by the HKCSS in which Li & Fung (1906) Foundation is one of the sponsors, has been launched with active participation from the Li & Fung staff. It is a volunteer campaign which our staff can share their knowledge and experiences to help Social Enterprises improve their business performances. A variety of visits and business review meetings has been conducted with Li & Fung volunteers. During 2009, the Group has also raised funds for disaster relief for victims in the Taiwan Typhoon & mudslide, the Tropical Storm Ketsana Attack in Asia Pacific Region and the Indonesia Earthquake. Through Li & Fung (1906) Foundation we had matched donations from staff with a total funding of HK$ 4 million.

INFORMATION TECHNOLOGY

The Company's commitments to supporting Information Technology investments continued in 2009 with specific focus on application systems supporting business growth, process efficiency and business partner integrations.

SUPPLY CHAIN PARTNER COLLABORATION AND PROCESS IMPROVEMENT

In 2009, the completion rollout of the Vendor Portal enhanced all communications channels between the Company and its entire supplier base, automating all transactional processes between them and reduced significantly manual data entry and the cost per transaction. The Vendor Portal also extended to supply chain document flows, enhancing to visibility and access to physical documents and reducing the requirements to print and courier documents.

Electronic collaboration remains a high focus to increase efficiency, so the Company remains committed to extend from the collaboration with customers via EDI and suppliers via Vendor Portal, to all other supply chain partners throughout 2010, including banks, carriers, customs and forwards.

COMMUNICATIONS NETWORK AND INFRASTRUCTURE

2009 also saw the effective use and upgrade of the Company's Voice Over IP (VoIP) and Video Conferencing facility both within the enterprise and with supply chain partners. Leveraging existing and upgraded data networks, the Company now places both audio and video calls to existing offices at no incremental or variable costs, enabling effective and fixed costs communications. Video conferencing has seen a significant increase in use also contributing significantly in reducing travel costs and time.

Corporate Governance and Best Management Company Awards / Recognitions

Current Three-Year Plan (2008-2010)
Previous Three-Year Plan (2005-2007)

2005

- The Gold Award in the Hang Seng Index Category of the **"Best Corporate Governance Disclosure Awards 2005"** organized by the Hong Kong Institute of Certified Public Accountants.
- Included as the **"Top Quartile Companies"** in Hong Kong with the highest corporate governance score surveyed by CLSA and Asian Corporate Governance Association.
- **"Highly Commended – Best Corporate Governance Awards 2005"** by *Investor Relations* magazine.

2006

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

2007

"Corporate Governance Asia Recognition Awards 2007"
By Corporate Governance Asia Journal

"Fabulous 50"
By Forbes Asia

"The Asset Corporate Governance Awards 2007"
By The Asset magazine

Ranking among the top 5 of Hong Kong large caps companies in corporate governance ranking surveyed by CLSA and ACGA survey.

"Hong Kong Best Managed Company – No.1" and **"Best Corporate Governance – No.2"**
By FinanceAsia magazine

2009

"Long-term Vision – No.4", "Innovation – No.5", "Most-admired Company – No.9" and **"Corporate Reputation – No.9"**
In Hong Kong by Wall Street Journal Asia's "Asia 200 Most-admired Companies Survey" in September 2009

"Hong Kong Corporate Governance Excellence Awards 2009"
Sponsored by the Chamber of Hong Kong Listed Companies

"Asia's Best-Managed Companies 2009"
Named Large-Cap Corporate of the Year, Hong Kong in AsiaMoney's awards; December 2009

"The World's Best Companies – Top 40"
By BusinessWeek in October 2009

"Corporate Governance Asia Recognition Awards 2009"
By Corporate Governance Asia Journal

"Fabulous 50" Companies
By Forbes Asia in September 2009

"Global 2000: The World's Biggest Public Companies"
Ranked number 888 in Forbes'; April 2009

"FT Global 500" Companies
By Financial Times in September 2009

"The Asset Corporate Platinum Award 2009"
For all round excellence in financial performance, corporate governance, management, social responsibility, environmental responsibility, and investor relations by The Asset magazine

2008

"Fabulous 50" Companies
By Forbes Asia in September 2008

"The World's Most Influential Companies"
By BusinessWeek in December 2008

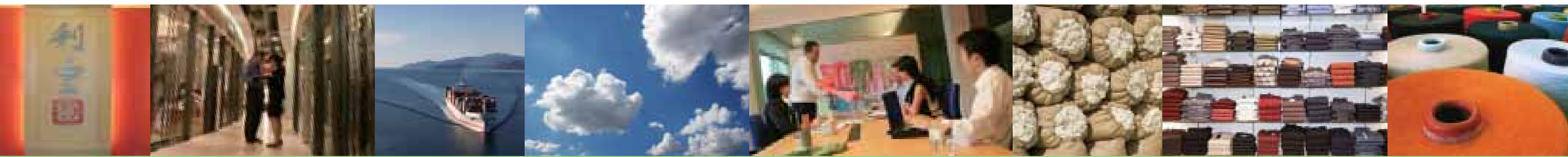
"Corporate Governance Asia Recognition Awards 2008"
By Corporate Governance Asia Journal

"Hong Kong's Best Managed Company – No.4"
By FinanceAsia survey in June 2008

"50 for 2012" Companies
By Morgan Stanley in December 2008

"The Asset Corporate Governance Awards 2008"
By The Asset magazine

DIRECTORS AND SENIOR MANAGEMENT



DIRECTORS

Victor FUNG Kwok King

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

Aged 64. Brother of Dr William Fung Kwok Lun and father of Mr Spencer Theodore Fung. Group Chairman of Li & Fung group companies including the Company and the publicly listed Integrated Distribution Services Group Limited, Convenience Retail Asia Limited and Trinity Limited (which was listed on The Stock Exchange of Hong Kong Limited on 3 November 2009). A director of King Lun Holdings Limited and its wholly owned subsidiary, Li & Fung (1937) Limited, substantial shareholders 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 in Hong Kong, CapitaLand Limited in Singapore and Baosteel Group Corporation in the People's Republic of China. Retired as independent non-executive director of Orient Overseas (International) Limited, and non-executive director of Hup Soon Global Corporation Limited both in April 2009. Chairman of International Chamber of Commerce. A member of Chinese People's Political Consultative Conference. Vice chairman of China Centre for International Economic Exchanges since March 2009. A member of the Commission on Strategic Development of the Hong Kong Government. Chairman of 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. From 2001 to November 2009, Chairman of The Council of The University of Hong Kong. Awarded the Gold Bauhinia Star in 2003 for distinguished service to the community.

William FUNG Kwok Lun

Group Managing Director

Aged 61. 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. An independent non-executive director of Sun Hung Kai Properties Limited since 1 February 2010 and an independent director of Singapore Airlines Limited since 1 December 2009. A non-executive director of various companies within the Li & Fung Group including Convenience Retail Asia Limited, Integrated Distribution Services Group Limited and Trinity Limited which was listed on The Stock Exchange of Hong Kong Limited on 3 November 2009. A director of King Lun Holdings Limited and its wholly owned subsidiary, Li & Fung (1937) Limited, substantial shareholders 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 51. 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. In 1981, co-founded Colby International Limited, a large Hong Kong buying agent, and was the Chief Executive Officer until 2000 when Colby was acquired by Li & Fung. Member of the Advisory Board for the Wharton School's Jay H Baker Retailing Initiative, an industry research center for retail at the University of Pennsylvania. Appointed as a board member of the Educational Foundation for the Fashion Industries, the private fund-raising arm of the Fashion Institute of Technology, to be effective on 30 June 2010. In December 2008, ranked first by Institutional Investor for the Asia's Best CEOs in the consumer category. In March 2010, ranked as one of the world's 30 best CEOs by Barron's. Non-Executive Chairman of the Pure Group, a lifestyle, fitness and yoga group operating in Hong Kong, Singapore and Taiwan. An independent non-executive director of Wynn Macau, Limited since 16 September 2009.

Paul Edward SELWAY-SWIFT

Independent Non-Executive Director
Chairman of Audit Committee

Aged 65. 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 Harvard International PLC and Temenos Group AG. Formerly, Deputy Chairman of HSBC Investment Bank PLC, a director of The Hongkong 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

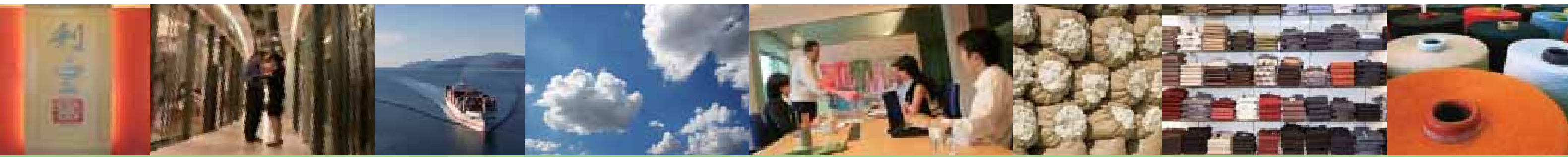
Independent Non-Executive Director
Chairman of Compensation Committee

Aged 59. 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 72. An Independent Non-executive Director since 1999. Professor Emeritus of Business Administration at Harvard University. Guest Professor and Co-Director of the China Business Case Center at Tsinghua University-SEM. 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 to 2004. An independent non-executive director of Computer Sciences Corporation. An independent non-executive director of thinkorswim Group Inc from 2004 to 2009.



DIRECTORS (CONTINUED)

Makoto YASUDA

Independent Non-Executive Director

Aged 72. 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 60. An Independent Non-executive Director since 2 February 2009. Former Chairman, Asia of Spencer Stuart & Associates, a global executive search-consulting firm. An independent non-executive director of CEI Contract Manufacturing Ltd, a Singapore publicly-listed company. Formerly, a member of the Professional Service Advisory Committee of the Hong Kong Trade Development Council. Holds a Bachelor of Science degree in Electrical Engineering from Cornell University and Master of Science in Management from the Massachusetts Institute of Technology.

Annabella LEUNG Wai Ping

Executive Director

Aged 57. An Executive Director since 2000. Responsible for the LF Seven business stream, managing the Group's 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. 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 36. An Executive Director since 2008. Chief Executive Officer of LF Europe, managing the Group's European onshore business. Joined the Group in 2001. 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 65. 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, a substantial shareholder of the Li & Fung Group of companies including publicly listed Integrated Distribution Services Group Limited, Convenience Retail Asia Limited and Trinity 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 includes currently serving as member of the Supervisory Board of the Hong Kong Housing Society and Chairman of its Audit Committee (2001 to 2006). A member of the Professional Accountants in Business Committee of the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (2002 – 2006). The Deputy Chairman of the Corporate Governance Committee of the HKICPA (2007). A member of the Securities and Futures Commission Dual Filing Advisory Group. A Fellow of both the Institute of Chartered Accountants in Australia and the HKICPA. A Fellow member of the Hong Kong Institute of Directors. Holds a Bachelor of Economics degree from University of Tasmania, Australia.

SENIOR MANAGEMENT

Henry CHAN

Executive Director of Li & Fung (Trading) Limited

Aged 59. Responsible for the LF One business stream, managing the Group's hardlines business world-wide. Joined the Group in 1972. An Executive Director of the Company from 1992 to May 2009. 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 of Li & Fung (Trading) Limited

Aged 58. Responsible for the LF Ten business stream, managing the Group's US apparel, brands and specialty stores business. 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. An Executive Director of the Company from 1992 to May 2009. 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.

Richard Nixon DARLING

President of LF USA

Aged 56. 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. Serves on the Board of Directors of "Fashion Delivers", a charitable organization that assists children and families in distressed situations. Vice chairman of the American Apparel and Footwear Association, the leading industry trade group, since 12 March 2010.

Marc Robert COMPAGNON

Executive Director of Li & Fung (Trading) Limited

Aged 51. 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.

Dow Peter FAMULAK

Executive Director of Li & Fung (Trading) Limited

Aged 49. Chief Executive Officer of the WSG group of companies, a dedicated sourcing stream servicing Wal-Mart globally. Previously, Chief Executive Officer of LF Europe and in charge of the Group's European onshore business, and also co-led the Group's health, beauty and cosmetic initiative with Guy 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 Law Society of Hong Kong, The Law Society of England and Wales and The Law Society of British Columbia (Canada).

Emily MAK MOK Oi Wai

Executive Director of Li & Fung (Trading) Limited

Aged 48. Chief Operating Officer of the WSG group of companies, a dedicated sourcing stream servicing Wal-Mart globally. Previously headed the LF Three business stream, managing the Group's department store, mass market, supermarket and specialty store 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. Graduated from The University of Hong Kong with a Bachelor of Social Sciences degree.

Guy d'AURIOL

Chief Executive Officer of LF Beauty

Aged 47. Chief Executive Officer of LF Beauty business stream, managing the Group's global health, beauty and cosmetic business. 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.

Lale KESEBI

Executive Director of Li & Fung (Trading) Limited

Aged 41. An executive director of Li & Fung (Trading) Limited since 1 March 2009. Responsible for the Group's corporate operations teams including legal, logistics, vendor compliance, human resources, corporate services and internal corporate communications. Joined the Group in 2003. Holds a Bachelor of Science (Honours) degree and a Bachelor of Law degree from Dalhousie University. Past member of The Law Society of British Columbia (Canada). Formerly, Chair of the Canadian Chamber's Business Policy & Government Relations committee and the Debenture and Scholarship committee of the Canadian International School in Hong Kong.

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
Dow Jones Sustainability Asia Pacific Index

KEY DATES

13 August 2009
Announcement of 2009 Interim Results

17 September 2009
Payment of 2009 Interim Dividend

24 March 2010
Announcement of 2009 Final Results

11 May 2010 to 18 May 2010
(both days inclusive)
Closure of Register of Shareholders

18 May 2010
Proposed Payment of 2009 Final Dividend

18 May 2010
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 2009
3,776,117,386 shares

Market Capitalization as at 31 December 2009
HK$121,779,785,698

Basic earnings per share for 2009

Interim	38.3 HK cents
Full year	91.0 HK cents

Dividend per share for 2009

Interim	26 HK cents
Final	49 HK cents
Full year	75 HK cents

ENQUIRIES CONTACT

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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 2009.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

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

Details of the analysis of the Group's turnover and contribution to operating profit for the year by operating 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 63.

The directors declared an interim dividend of HK$0.26 per ordinary share, totalling HK$979,430,000 which was paid on 17 September 2009.

The directors recommend the payment of a final dividend of HK$0.49 per ordinary share, totalling HK$1,854,313,000.

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2009, the reserves of the Company available for distribution as dividends amounted to HK$4,086,510,000, comprising retained earnings of HK$2,025,837,000 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$2,764,000.

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 2009 and for the previous nine financial years are set out in the Ten-Year Financial Summary section on page 136.

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 2009, there were options ("Share Options") relating to 129,157,900 shares of HK$0.025 each ("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 2009 are as follows:

	Number of Share Options						Exercise		
	As at 1/1/2009	Granted	Exercised [1]	Cancelled	Lapsed	As at 31/12/2009	Price HK$	Grant Date	Exercisable Period
William Fung Kwok Lun	880,000	–	880,000	–	–	–	13.45	20/6/2005	20/6/2009 – 19/6/2012
	880,000	–	–	–	–	880,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	880,000	–	–	–	–	880,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	880,000	–	–	–	–	880,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
Bruce Philip Rockowitz	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	–	–	–	–	450,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	450,000	–	–	–	–	450,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	450,000	–	–	–	–	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	20/6/2009 – 19/6/2012
	450,000	–	–	–	–	450,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	450,000	–	–	–	–	450,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	450,000	–	–	–	–	450,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
Spencer Theodore Fung	100,000	–	100,000	–	–	–	13.45	20/6/2005	20/6/2008 – 19/6/2011
	176,000	–	140,000	–	–	36,000	13.45	20/6/2005	20/6/2009 – 19/6/2012
	176,000	–	–	–	–	176,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	176,000	–	–	–	–	176,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	176,000	–	–	–	–	176,000	25.55	24/1/2008	01/3/2011 – 28/2/2013

	Number of Share Options						Exercise Price		
	As at 1/1/2009	**Granted**	**Exercised[1]**	**Cancelled**	**Lapsed**	**As at 31/12/2009**	**HK$**	**Grant Date**	**Exercisable Period**
Continuous contract Employees	962,000	–	(904,000)	–	(58,000)	–	8.36	23/5/2003	23/5/2006 – 22/5/2009
	115,400	–	(115,400)	–	–	–	9.00	20/8/2004	20/8/2006 – 19/8/2009
	6,132,000	–	(1,830,200)	–	–	4,301,800	13.45	20/6/2005	20/6/2007 – 19/6/2010
	14,440,800	–	(6,402,400)	–	(176,000)	7,862,400	13.45	20/6/2005	20/6/2008 – 19/6/2011
	19,242,000	–	(7,327,800)	–	(165,000)	11,749,200	13.45	20/6/2005	20/6/2009 – 19/6/2012
	222,200	–	(53,000)	–	–	169,200	13.72	23/1/2006	20/6/2007 – 19/6/2010
	812,000	–	(130,000)	–	–	682,000	13.72	23/1/2006	20/6/2008 – 19/6/2011
	1,117,000	–	(355,000)	–	–	762,000	13.72	23/1/2006	20/6/2009 – 19/6/2012
	10,000	–	(2,000)	–	–	8,000	15.65	19/6/2006	20/6/2007 – 19/6/2010
	1,214,000	–	(846,000)	–	–	368,000	15.65	19/6/2006	20/6/2008 – 19/6/2011
	1,905,000	–	(815,000)	–	(100,000)	990,000	15.65	19/6/2006	20/6/2009 – 19/6/2012
	1,889,000	–	(424,000)	–	(86,000)	1,379,000	25.50	02/2/2007	20/6/2008 – 19/6/2011
	6,610,000	–	(820,000)	–	(572,000)	5,218,000	25.50	02/2/2007	20/6/2009 – 19/6/2012
	1,467,000	–	(85,000)	–	(55,000)	1,327,000	29.93	13/7/2007	20/6/2009 – 19/6/2012
	24,796,000	–	(30,000)	(29,500)	(1,396,000)	23,340,500	25.55	24/1/2008	01/3/2009 – 28/2/2011
	24,796,000	–	–	–	(2,018,000)	22,778,000	25.55	24/1/2008	01/3/2010 – 29/2/2012
	24,796,000	–	–	–	(2,018,000)	22,778,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
	2,531,000	–	–	(29,500)	(263,000)	2,238,500	30.00	21/5/2008	01/3/2009 – 28/2/2011
	1,784,000	–	–	–	(384,000)	1,400,000	30.00	21/5/2008	01/3/2010 – 29/2/2012
	1,784,000	–	–	–	(384,000)	1,400,000	30.00	21/5/2008	01/3/2011 – 28/2/2013
	1,287,100	–	–	–	(112,200)	1,174,900	26.20	13/8/2008	01/3/2009 – 28/2/2011
	1,880,700	–	–	–	(183,600)	1,697,100	26.20	13/8/2008	01/3/2010 – 29/2/2012
	1,880,700	–	–	–	(183,600)	1,697,100	26.20	13/8/2008	01/3/2011 – 28/2/2013
	–	2,729,000[2]	–	–	–	2,729,000	17.22	24/2/2009	01/3/2010 – 29/2/2012
	–	2,408,000[2]	–	–	–	2,408,000	17.22	24/2/2009	01/3/2011 – 28/2/2013
	–	1,792,500[3]	–	–	–	1,792,500	27.80	14/8/2009	01/3/2010 – 29/2/2012
	–	2,123,700[3]	–	–	–	2,123,700	27.80	14/8/2009	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$26.52.

(2) The closing market price per Share as at the date preceding the date on which the Share Options were granted was HK$17.50.

(3) The closing market price per Share as at the date preceding the date on which the Share Options were granted was HK$25.45.

(4) The above options granted are recognized as expenses in the accounts in accordance with the Company's accounting policy as set out in *Note 1.16 (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 2009, the number of Shares available for issue in respect thereof is 55,896,200 Shares representing 1.48% of the issued shares of the Company as at the date of this Report.

(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 2009 are set out in *Note 41* to the accounts.

ASSOCIATED COMPANIES

Details of the Company's principal associated companies at 31 December 2009 are set out in *Note 41* to the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

During 2009, 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 13.9% and 32.2% 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 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.

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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). In such respect, the Group paid rental expenses of HK$81,415,000 for the year ended 31 December 2009.

(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 constituted a continuing connected transaction for the Company under the Listing Rules. In such respect, the Group paid logistics service charges of HK$157,006,000 for the year ended 31 December 2009.

The continuing connected transactions set out above 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 agreed-upon procedures on the continuing connected transactions recognized in 2009 set out above 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 earlier.

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

In the United Kingdom, the Group participates in a defined benefit scheme for its employees. 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	38,592
Contributions forfeited by employees	(13,884)
Contributions to the defined contribution provident scheme and defined benefits plan in Taiwan	5,214
Contributions to the defined benefits scheme in the United Kingdom	1,420
Contributions pursuant to the statutory requirements in Korea	6,871
Contributions pursuant to local requirements in other overseas regions	132,556
	170,769

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)

Executive Directors:

William Fung Kwok Lun, *Managing Director*
Bruce Philip Rockowitz
Henry Chan (retired on 13 May 2009)
Danny Lau Sai Wing (retired on 13 May 2009)
Annabella Leung Wai Ping
Spencer Theodore Fung

* *Independent Non-executive Directors*

In accordance with bye-law 110(A) of the Company's bye-laws, Dr Victor Fung Kwok King, Mr Bruce Philip Rockowitz, Mr Paul Edward Selway-Swift and Ms Annabella Leung Wai Ping will retire by rotation at the forthcoming Annual General Meeting. Dr Victor Fung Kwok King, Mr Bruce Philip Rockowitz and Mr Paul Edward Selway-Swift being eligible, will offer themselves for re-election while Ms Annabella Leung Wai Ping will retire from the Board with effect from the conclusion of the forthcoming Annual General Meeting.

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

The biographical details of the directors as at the date of this Report are set out in the Directors and Senior Management section on pages 42 to 46.

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

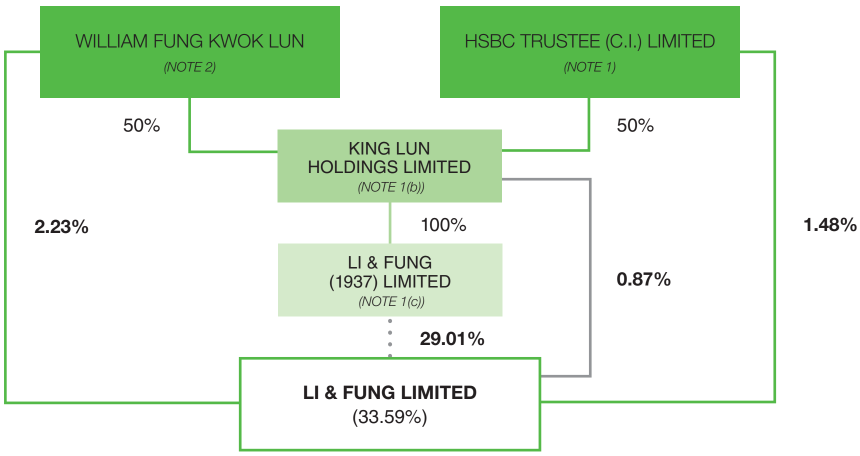
As at 31 December 2009, the directors and chief executives of the Company and their associates had the following interests in the Shares and underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) 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	31.36%
William Fung Kwok Lun	69,531,330	4,400	1,140,703,080[2]	2,640,000[3]	1,212,878,810	32.11%
Spencer Theodore Fung*	316,000	–	1,184,370,880[1]	564,000[3]	1,185,250,880	31.38%
Bruce Philip Rockowitz	2,032,800	–	21,411,510[4]	35,175,880[5]	58,620,190	1.55%
Annabella Leung Wai Ping	5,288,000	–	–	1,350,000[3]	6,638,000	0.17%
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 2009,

(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").

(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 below.

(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 below; 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 2009 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 0.87% 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 derivatives 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 2009, 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 2009, 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	29.88%
HSBC Trustee (C.I.) Limited	Trustee (1,184,370,880)	1,184,370,880[2]	31.36%
Janus Capital Management LLC	Investment manager	248,427,460	6.57%
JPMorgan Chase & Co.	Beneficial owner (5,755,769) Investment manager (83,337,126) Custodian corporation/approved lending agent (125,289,137)	214,382,032	5.67%
Short Positions			
King Lun Holdings Limited	Beneficial owner	32,945,880[3]	0.87%
HSBC Trustee (C.I.) Limited	Trustee	32,945,880[4]	0.87%
JPMorgan Chase & Co.	Beneficial owner (4,280,000) Investment manager (434,000)	4,714,000	0.12%
Lending Pool			
JPMorgan Chase & Co.	Custodian corporation/approved lending agent	125,289,137	3.31%

NOTES:

As at 31 December 2009,

(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 2009.

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 42 to 46.

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 41.

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 2009 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, 24 March 2010

PRICEWATERHOUSECOOPERS

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

We have audited the consolidated accounts of Li & Fung Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 63 to 135, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated profit and loss account, the consolidated statement of comprehensive income, 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 2009 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, 24 March 2010

STATEMENT OF ACCOUNTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2009

	Note	**2009 HK$'000**	2008 HK$'000
Turnover	*3*	**104,478,983**	110,722,117
Cost of sales		**(92,406,211)**	(99,119,132)
Gross profit		**12,072,772**	11,602,985
Other income		**644,686**	420,925
Total margin		**12,717,458**	12,023,910
Selling expenses		**(2,009,543)**	(2,396,245)
Merchandising expenses		**(6,025,686)**	(5,842,493)
Administrative expenses		**(692,123)**	(701,117)
Core operating profit	*3*	**3,990,106**	3,084,055
Other non-core operating expenses net of income	*4*	**(110,600)**	(39,639)
Operating profit	*4*	**3,879,506**	3,044,416
Interest income		**90,763**	112,748
Interest expenses	*5*	**(372,109)**	(480,175)
Share of profits less losses of associated companies		**7,787**	6,197
Profit before taxation		**3,605,947**	2,683,186
Taxation	*6*	**(240,222)**	(259,497)
Profit for the year		**3,365,725**	2,423,689
Attributable to:			
Shareholders of the Company	*7*	**3,369,107**	2,421,936
Minority interest		**(3,382)**	1,753
		3,365,725	2,423,689
Earnings per share for profit attributable to shareholders of the Company during the year			
– basic	*8*	**91.0 HK cents**	69.3 HK cents
– diluted	*8*	**90.6 HK cents**	68.8 HK cents

Details of dividends to Shareholders of the Company are set out in *Note 9*. The notes on pages 71 to 135 are an integral part of these consolidated accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
Profit for the year	**3,365,725**	2,423,689
Other comprehensive income/(expense):		
Reversal of revaluation reserve on disposal of available-for-sale financial assets	**–**	(32,077)
Reversal of revaluation reserve on impairment of available-for-sale financial assets	**–**	4,942
Net fair value gains on cash flow hedges, net of tax	**5,169**	8,674
Net fair value gains on available-for-sale financial assets, net of tax	**1,297**	–
Currency translation differences	**35,751**	(485,768)
Other comprehensive income/(expense) for the year, net of tax	**42,217**	(504,229)
Total comprehensive income for the year	**3,407,942**	1,919,460
Attributable to:		
– Shareholders of the Company	**3,411,180**	1,918,310
– Minority interest	**(3,238)**	1,150
Total comprehensive income for the year	**3,407,942**	1,919,460

The notes on pages 71 to 135 are an integral part of these consolidated accounts.

CONSOLIDATED BALANCE SHEET

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Intangible assets	*12*	**18,202,527**	14,602,129
Property, plant and equipment	*13*	**1,255,705**	1,283,063
Prepaid premium for land leases	*14*	**2,426**	2,548
Associated companies	*16*	**28,251**	23,740
Available-for-sale financial assets	*17*	**720,184**	20,189
Deferred tax assets	*29*	**58,180**	111,441
		20,267,273	16,043,110
Current assets			
Inventories	*18*	**2,382,632**	2,328,948
Due from related companies	*19*	**98,706**	83,954
Trade and bills receivable	*21*	**12,561,374**	14,715,430
Other receivables, prepayments and deposits	*21*	**2,331,847**	2,027,576
Derivative financial instruments	*20*	**2,620**	34,814
Cash and bank balances	*22*	**4,202,267**	2,275,272
		21,579,446	21,465,994
Current liabilities			
Trade and bills payable	*23*	**12,005,113**	12,666,975
Accrued charges and sundry payables	*23*	**3,120,427**	2,771,908
Balance of purchase consideration payable for acquisitions to be settled by cash	*27*	**1,138,668**	1,178,118
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	*27*	**323,700**	81,278
Taxation		**520,969**	465,727
Bank advances for discounted bills	*21*	**302,123**	312,693
Short-term bank loans	*24*	**–**	278,217
Bank overdrafts	*22, 24*	**47,315**	93,307
		17,458,315	17,848,223
Net current assets		**4,121,131**	3,617,771
Total assets less current liabilities		**24,388,404**	19,660,881

	Note	2009 HK$'000	2008 HK$'000
Financed by:			
Share capital	*25*	**94,403**	90,853
Reserves		**15,810,930**	12,121,852
Proposed dividend		**1,854,313**	1,199,369
		17,665,243	13,321,221
Shareholders' funds attributable to the Company's shareholders		**17,759,646**	13,412,074
Minority interest		**(33,455)**	(29,720)
Total equity		**17,726,191**	13,382,354
Non-current liabilities			
Long-term liabilities	*27*	**6,425,251**	5,760,075
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	*27*	**140,350**	382,772
Post-employment benefit obligations	*28*	**25,766**	23,766
Deferred tax liabilities	*29*	**70,846**	111,914
		6,662,213	6,278,527
		24,388,404	19,660,881

Victor Fung Kwok King
Director

William Fung Kwok Lun
Director

The notes on pages 71 to 135 are an integral part of these consolidated accounts.

BALANCE SHEET

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Interests in subsidiaries	*15*	**2,359,597**	2,359,597
Current assets			
Due from related companies	*19*	**19,751,099**	16,534,019
Other receivables, prepayments and deposits	*21*	**1,463**	1,932
Cash and bank balances	*22*	**1,744**	41,543
		19,754,306	16,577,494
Current liabilities			
Accrued charges and sundry payables	*23*	**31,124**	34,259
		31,124	34,259
Net current assets		**19,723,182**	16,543,235
Total assets less current liabilities		**22,082,779**	18,902,832
Financed by:			
Share capital	*25*	**94,403**	90,853
Reserves	*26*	**16,261,738**	13,744,036
Proposed dividend	*26*	**1,854,313**	1,199,369
		18,116,051	14,943,405
Shareholders' funds		**18,210,454**	15,034,258
Non-current liabilities			
Long-term liabilities	*27*	**3,872,325**	3,868,574
		22,082,779	18,902,832

Victor Fung Kwok King
Director

William Fung Kwok Lun
Director

The notes on pages 71 to 135 are an integral part of these consolidated accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to shareholders of the Company						
	Share capital HK$'000	**Share premium HK$'000**	**Other reserves HK$'000**	**Retained earnings HK$'000**	**Total HK$'000**	**Minority interest HK$'000**	**Total equity HK$'000**
Balance at 1 January 2009	**90,853**	**11,140,378**	**(506,457)**	**2,687,300**	**13,412,074**	**(29,720)**	**13,382,354**
Comprehensive income							
Profit or loss	**–**	**–**	**–**	**3,369,107**	**3,369,107**	**(3,382)**	**3,365,725**
Other comprehensive income							
Currency translation differences	**–**	**–**	**35,607**	**–**	**35,607**	**144**	**35,751**
Net fair value gains on available-for-sale financial assets, net of tax	**–**	**–**	**1,297**	**–**	**1,297**	**–**	**1,297**
Net fair value gains on cash flow hedges, net of tax	**–**	**–**	**5,169**	**–**	**5,169**	**–**	**5,169**
Total other comprehensive income	**–**	**–**	**42,073**	**3,369,107**	**3,411,180**	**(3,238)**	**3,407,942**
Total comprehensive income	**90,853**	**11,140,378**	**(464,384)**	**6,056,407**	**16,823,254**	**(32,958)**	**16,790,296**
Transactions with owners							
Employee share option scheme:							
– value of employee services	**–**	**–**	**126,688**	**–**	**126,688**	**–**	**126,688**
– proceeds from shares issued	**543**	**306,763**	**–**	**–**	**307,306**	**–**	**307,306**
– transfer to share premium	**–**	**56,763**	**(56,763)**	**–**	**–**	**–**	**–**
Transfer to capital reserve	**–**	**–**	**1,850**	**(1,850)**	**–**	**–**	**–**
2008 final dividend paid	**–**	**–**	**–**	**(1,199,839)**	**(1,199,839)**	**(497)**	**(1,200,336)**
2009 interim dividend paid	**–**	**–**	**–**	**(979,430)**	**(979,430)**	**–**	**(979,430)**
Issue of shares upon a private placing	**3,007**	**2,678,660**	**–**	**–**	**2,681,667**	**–**	**2,681,667**
Total transactions with owners	**3,550**	**3,042,186**	**71,775**	**(2,181,119)**	**936,392**	**(497)**	**935,895**
Balance at 31 December 2009	**94,403**	**14,182,564**	**(392,609)**	**3,875,288**	**17,759,646**	**(33,455)**	**17,726,191**

	Attributable to shareholders of the Company						
	Share capital HK$'000	Share premium HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Minority interest HK$'000	Total equity HK$'000
Balance at 1 January 2008	86,268	7,037,463	(55,007)	2,826,593	9,895,317	(31,053)	9,864,264
Comprehensive income							
Profit or loss	–	–	–	2,421,936	2,421,936	1,753	2,423,689
Other comprehensive income							
Currency translation differences	–	–	(485,165)	–	(485,165)	(603)	(485,768)
Reversal of revaluation reserve on disposal of available-for-sale financial assets	–	–	(32,077)	–	(32,077)	–	(32,077)
Reversal of revaluation reserve on impairment of available-for-sale financial assets	–	–	4,942	–	4,942	–	4,942
Net fair value gains on cash flow hedges, net of tax	–	–	8,674	–	8,674	–	8,674
Total other comprehensive income	–	–	(503,626)	2,421,936	1,918,310	1,150	1,919,460
Total comprehensive income	86,268	7,037,463	(558,633)	5,248,529	11,813,627	(29,903)	11,783,724
Transactions with owners							
Acquisition of subsidiaries	–	–	–	–	–	183	183
Employee share option scheme:							
– value of employee services	–	–	85,747	–	85,747	–	85,747
– proceeds from shares issued	385	193,303	–	–	193,688	–	193,688
– transfer to share premium	–	35,055	(35,055)	–	–	–	–
Transfer to capital reserve	–	–	1,484	(1,484)	–	–	–
2007 final dividend paid	–	–	–	(1,727,959)	(1,727,959)	–	(1,727,959)
2008 interim dividend paid	–	–	–	(831,786)	(831,786)	–	(831,786)
Issue of shares upon a private placing	4,200	3,874,557	–	–	3,878,757	–	3,878,757
Total transactions with owners	4,585	4,102,915	52,176	(2,561,229)	1,598,447	183	1,598,630
Balance at 31 December 2008	90,853	11,140,378	(506,457)	2,687,300	13,412,074	(29,720)	13,382,354

The notes on pages 71 to 135 are an integral part of these consolidated accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Operating activities			
Net cash inflow generated from operations	*30(a)*	**6,922,244**	3,824,557
Hong Kong profits tax paid		**(58,876)**	(165,040)
Overseas taxation paid		**(109,966)**	(81,914)
Net cash inflow from operating activities		**6,753,402**	3,577,603
Investing activities			
Purchase of property, plant and equipment		**(393,094)**	(494,058)
Disposal of property, plant and equipment		**31,948**	21,969
Addition of available-for-sale financial assets	*17*	**(702,000)**	–
Disposal of available-for-sale financial assets		**333**	51,362
Disposal of an associated company	*16*	**128**	–
Payment for computer software and system development costs		**(182,359)**	(17,596)
Acquisitions of subsidiaries/businesses	*31*	**(2,435,637)**	(2,456,976)
Settlement of consideration payable for acquisitions of subsidiaries/businesses		**(1,013,158)**	(919,435)
Advance to associated companies		**–**	(12,265)
Interest received		**90,763**	112,748
Dividends received from associated companies	*16*	**3,148**	2,875
Purchase of intangible assets		**(78,521)**	–
Net cash outflow from investing activities		**(4,678,449)**	(3,711,376)
Net cash inflow/(outflow) before financing activities		**2,074,953**	(133,773)
Financing activities			
Net proceeds from issue of shares	*30(b)*	**2,988,973**	4,072,445
Net (repayment)/drawdown of bank loans	*30(b)*	**(512,447)**	70,651
Interest paid		**(320,161)**	(400,064)
Dividends paid		**(2,179,766)**	(2,559,745)
Net cash (outflow)/inflow from financing		**(23,401)**	1,183,287
Increase in cash and cash equivalents		**2,051,552**	1,049,514
Cash and cash equivalents at 1 January		**2,181,965**	1,267,104
Effect of foreign exchange rate changes		**(78,565)**	(134,653)
Cash and cash equivalents at 31 December		**4,154,952**	2,181,965
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	*22*	**4,202,267**	2,275,272
Bank overdrafts	*22*	**(47,315)**	(93,307)
		4,154,952	2,181,965

The notes on pages 71 to 135 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*.

Changes in accounting policy and disclosures

(a) New standards and amendments effective in 2009

The Group has adopted the following new and amended standards of HKFRS which are mandatory for accounting periods beginning on or after 1 January 2009 and relevant to its operations:

HKAS 1 (revised)	Presentation of financial statements
HKFRS 1 and HKAS 27 (amendment)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 7 (amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
Annual Improvements Project	Improvements to HKFRSs 2008

The adoption of such new and amended standards does not have material impact on the consolidated accounts and does not result in substantial changes to the Group's accounting policies except certain changes on the presentation of the consolidated accounts.

- HKAS 1 (revised), "Presentation of financial statements". The revised standard prohibits 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" are required to be shown in a performance statement.

  Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated profit and loss account and consolidated statement of comprehensive income).

  The Group has elected to present two statements: a consolidated profit and loss account and a consolidated statement of comprehensive income. The consolidated accounts have been prepared under the revised disclosure requirements.

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (CONTINUED)

(a) New standards and amendments effective in 2009 (continued)

- HKFRS 8, "Operating segments". HKFRS 8 replaces HKAS 14, "Segment reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes.

  Operating segments are reported in a manner consistent with the internal reporting provided to management.

  Goodwill is allocated by management to groups of cash-generating units on a segment level. The adoption of HKFRS 8 has not resulted in any changes in reportable segment or additional goodwill impairment. There has been no further impact on the measurement of the Group's assets and liabilities.

- Amendment to HKFRS 7, "Financial instruments: disclosures". The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. This amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. The consolidated accounts have been prepared under the revised disclosure requirements.

  The following new and amended standards and interpretations of HKFRS are mandatory for accounting periods beginning on or after 1 January 2009 but they are not relevant to the Group's operations:

HKAS 23 (revised)	Borrowing costs
HKAS 32 and HKAS 1 (amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 2 (amendment)	Share-based payment – Vesting conditions and cancellations
HK(IFRIC) – Int 13	Customer loyalty programmes
HK(IFRIC) – Int 15	Agreements for the construction of real estate
HK(IFRIC) – Int 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – Int 18	Transfer of assets from customers

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (CONTINUED)

(b) Amendment to standard early adopted by the Group

The Group has early adopted the following amendment to standard addressed by annual improvements project:

Improvements to HKFRSs 2009	HKFRS 8 Operating segments – Disclosure of information about segment assets

The amendment to the standard clarifies that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker. Accordingly, segment assets have not been disclosed in the accounts as it is not reported to the chief operating decision-maker.

(c) 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 2010 or later periods, but the Group has not early adopted them:

HKFRS 1 (revised)	First-time adoption of HKFRS[2]
HKFRS 1 (amendment)	Additional exemptions for first-time adopters[3]
HKFRS 2 (amendment)	Group cash-settled share-based payment transactions[3]
HKFRS 3 (revised)	Business combinations[2]
HKFRS 9	Financial instruments[7]
HKAS 24 (revised)	Related party disclosures[6]
HKAS 27 (revised)	Consolidated and separate financial statements[2]
HKAS 32 (amendment)	Classification of rights issue[4]
HKAS 39 (amendment)	Eligible hedged items[2]
HK(IFRIC) – Int 9 and HKAS 39 Amendments	Embedded derivatives[1]
HK(IFRIC) – Int 14	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – Int 17	Distributions of non-cash assets to owners[2]
HK(IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments[5]
Annual Improvements Project	Improvements to HKFRSs 2009[3] except for amendment to HKFRS 8

NOTES:

(1) Effective for financial periods beginning on or after 30 June 2009
(2) Effective for financial periods beginning on or after 1 July 2009
(3) Effective for financial periods beginning on or after 1 January 2010
(4) Effective for financial periods beginning on or after 1 February 2010
(5) Effective for financial periods beginning on or after 1 July 2010
(6) Effective for financial periods beginning on or after 1 January 2011
(7) Effective for financial periods beginning on or after 1 January 2013

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (CONTINUED)

(c) 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 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 affect the Group is as follows:

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 profit and loss account. 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.

1.2 CONSOLIDATION

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

(a) Subsidiaries

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

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

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

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.2 CONSOLIDATION (CONTINUED)

(a) Subsidiaries (continued)

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

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

(b) Transactions with minority interests

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

(c) Associated companies

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

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

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

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

1.3 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources, assessing performance of the operating segments and makes strategic decisions.

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.4 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

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

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

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

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

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.5 PROPERTY, PLANT AND EQUIPMENT

(a) Land and buildings

Freehold land is stated at cost less impairment.

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.

(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 property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant item, and is recognized in the consolidated profit and loss account.

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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.

(b) Computer software and system development costs

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful lives of 3 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 at 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 capitalized 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 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

1.8 FINANCIAL ASSETS

Classification

The Group classifies its financial assets as either loans and receivables or 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 receivables" and "deposits, cash and bank balances" and "amount due from related companies" in the balance sheet *(Note 1.11)*.

(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 other category. 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 subsequently carried at amortized cost using the effective interest method.

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.8 FINANCIAL ASSETS (CONTINUED)

Recognition and measurement (continued)

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 other comprehensive income. Changes in the fair values of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income.

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 interest 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.

1.9 IMPAIRMENT OF FINANCIAL ASSETS

(a) Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.9 IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(a) Assets carried at amortized cost (continued)

- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the consolidated profit and loss account. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated profit and loss account.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets 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 separate consolidated profit and loss account. Impairment losses recognized in the separate consolidated profit and loss account on equity instruments are not reversed through the separate consolidated profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the separate consolidated profit and loss account.

1.10 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 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.11 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. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current asset. If not, they are presented as non-current assets. 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.

1.12 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.

1.13 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.

1.14 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 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.15 CURRENT AND DEFERRED TAX

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

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, 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 substantively 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.16 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)

1.16 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 defined benefit 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.

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)

1.16 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 expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sale, growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group 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.

1.17 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 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.18 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.

1.19 TOTAL MARGIN

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

1.20 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).

1.21 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.

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.21 REVENUE RECOGNITION (CONTINUED)

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.

1.22 BORROWING COSTS

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

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

1.23 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.

1.24 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 hedged item is more than 12 months. Trading derivatives are classified as a current asset or liability.

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.24 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

(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 other comprehensive income. 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.

1.25 TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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 and Company'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

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) ESTIMATED IMPAIRMENT OF GOODWILL

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

(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$2,969,000 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 SEGMENT INFORMATION

The Group is principally engaged in export trading of consumer products. The Group operates globally and has a sourcing network composing over 80 offices in more than 40 economies. Turnover represents revenue generated from sales at invoiced value to customers outside the Group less discounts and returns.

The Company is domiciled in Bermuda. The Group's management considers the business principally from a geographical perspective. Business reportable operating segments identified are geographical areas which the customers locate such as United States of America, Europe, Canada, Australasia, Central and Latin America and Rest of the world.

The Group's management assesses the performance of the operating segments based on a measure of operating profit. This measurement basis includes profit of the operating segments before share of results of associated companies, interest income, interest expenses and tax, but excludes material gain or loss which is of capital nature or non recurring nature such as gain or loss on disposal or impairment provision on property, plant and equipment, investments, goodwill or other assets. Other information provided to the Group's management is measured in a manner consistent with that in the accounts.

3 SEGMENT INFORMATION (CONTINUED)

	Turnover		Operating profit		Depreciation & amortization		Non-current assets (other than available-for-sale financial assets and deferred tax assets)	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Principal markets:								
United States of America	**66,801,866**	68,376,444	**2,983,886**	2,100,342	**399,336**	381,091	**13,861,401**	10,714,700
Europe	**28,503,892**	32,245,042	**683,497**	626,735	**117,579**	78,140	**4,705,639**	4,400,217
Canada	**3,035,972**	3,284,379	**115,394**	120,370	**7,003**	7,525	**273,559**	246,695
Australasia	**2,616,712**	2,684,857	**97,915**	96,616	**5,329**	5,605	**139,355**	86,159
Central and Latin America	**1,267,768**	1,713,028	**51,069**	61,139	**3,545**	3,799	**139,392**	101,829
Rest of the world	**2,252,773**	2,418,367	**58,345**	78,853	**7,619**	6,068	**369,563**	361,880
	104,478,983	110,722,117	**3,990,106**	3,084,055	**540,411**	482,228	**19,488,909**	15,911,480
Other non-core operating expenses net of income			**(110,600)**	(39,639)				
			3,879,506	3,044,416				
Interest income			**90,763**	112,748				
Interest expenses			**(372,109)**	(480,175)				
Share of profits less losses of associated companies			**7,787**	6,197				
Profit before taxation			**3,605,947**	2,683,186				
Taxation			**(240,222)**	(259,497)				
Profit for the year			**3,365,725**	2,423,689				

Turnover consists of sales of softgoods and hardgoods as follows:

	2009 HK$'000	2008 HK$'000
Softgoods	**73,224,132**	73,123,809
Hardgoods	**31,254,851**	37,598,308
	104,478,983	110,722,117

For the year ended 31 December 2009, approximately 14% (2008: 12%) of the Group's turnover is derived from a single external customer. This turnover is attributable to United States of America segment.

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2009 HK$'000	2008 HK$'000
Crediting		
Gain on disposal of available-for-sale financial assets	–	27,905
Net exchange gains	75,183	60,826
Charging		
Cost of inventories sold	92,406,211	99,119,132
Amortization of computer software and system development costs	11,580	10,853
Amortization of brand licenses	116,203	153,281
Amortization of other intangible assets arising from business combinations	107,631	52,860
Amortization of prepaid premium for land leases	123	122
Depreciation of property, plant and equipment	304,874	265,112
Loss on disposal of property, plant and equipment	9,643	8,728
Loss on disposal of subsidiaries	–	2,326
Loss on disposal of intangible assets	1,039	–
Provision for impairment of available-for-sale financial assets *(Note 17)*	2,969	14,684
Operating leases rental in respect of land and building	467,039	445,682
Bad debt written off/provision for impaired receivables *(Note 21)*	147,394	212,241
Staff costs including directors' emoluments *(Note 10)*	4,848,386	4,682,612
The remuneration to the auditors for audit and non-audit services is as follows:		
Audit services	21,100	19,108
Non-audit services		
– due diligence review on acquisitions	7,458	11,176
– taxation services	11,615	5,618
– others	1,262	1,149
Total remuneration to auditors	41,435	37,051
Less : non-audit service fee capitalized as costs of business combinations	(5,328)	(11,176)
Net remuneration to auditors charged to consolidated profit and loss account	36,107	25,875

NOTE: Of the above audit and non-audit services fees, HK$20,497,000 (2008: HK$18,904,000) and HK$20,335,000 (2008: HK$17,943,000) respectively are payable to the Company's auditor.

5 INTEREST EXPENSES

	2009 HK$'000	2008 HK$'000
Interest on bank loans and overdrafts, long-term notes		
– wholly repayable within five years	**105,661**	185,564
– not wholly repayable within five years	**214,500**	214,500
Effective interest on other financial liabilities		
– wholly repayable within five years	**48,197**	76,359
– not wholly repayable within five years	**3,751**	3,752
	372,109	480,175

6 TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profits 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:

	2009 HK$'000	2008 HK$'000
Current taxation		
– Hong Kong profits tax	**87,653**	149,193
– Overseas taxation	**126,814**	107,837
Underprovision in prior years	**11,964**	8,134
Deferred taxation *(Note 29)*	**13,791**	(5,667)
	240,222	259,497

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:

	2009 %	2008 %
Calculated at a taxation rate of	**16.5**	16.5
Effect of different taxation rates in other countries	**(2.1)**	(0.7)
Income net of expenses not subject to taxation	**(10.6)**	(7.4)
Utilization of previously unrecognized tax losses	**(0.4)**	(0.2)
Unrecognized tax losses	**3.3**	1.5
Effective tax rate	**6.7**	9.7

6 TAXATION (CONTINUED)

As of the date of approval of the accounts, the Group has disputes with the Hong Kong Inland Revenue ("HKIR") involving additional tax assessments amounting to approximately HK$1,924 million on both the non-taxable claim of certain non-Hong Kong sourced income ("Offshore Claim") and the deduction claim of marketing expenses ("Deduction Claim") for the years of assessment from 1992/1993 to 2008/2009.

The Commissioner of the HKIR issued a determination on 14 June 2004 to one of its subsidiaries, Li & Fung (Trading) Limited ("LFT"), confirming additional tax assessments totalling HK$333 million relating to the years of assessment from 1992/93 to 2001/02. Under further legal advice from the Group's counsel, the directors believe that the Group has meritorious defence to appeal against the Commissioner's determination. Accordingly, LFT 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.

The Board of Review issued its decision on 12 June 2009 ("the Board of Review Decision") and held partially in favour of LFT. It agreed that the Offshore Claim for the years of assessment from 1992/93 to 2001/02 is valid. In other words, the relevant assessments in respect of such Offshore Claim shall be annulled. On the other hand, the Board of Review disagreed with the Deduction Claim for the years of assessment from 1992/93 to 2001/02. Therefore, the relevant assessments in respect of such Deduction Claim should be confirmed.

The Group has considered the reasoning of the Board of Review Decision and, having obtained professional advice, decided to lodge an appeal against the Board of Review Decision in respect of the Deduction Claim. An application requiring the Board of Review to state a case on questions of law for the opinion of the High Court was made by LFT on 10 July 2009.

On the other hand, the HKIR also lodged an appeal against the Board of Review Decision in respect of the Offshore Claim. An application requiring the Board of Review to state a case on questions of law for the opinion of the High Court was made by the HKIR on 10 July 2009.

The Board of Review has on 19 March 2010 stated a case on questions of law in respect of both LFT's appeal in respect of the Deduction Claim, and the HKIR's appeal in respect of the Offshore Claim. LFT and HKIR can transmit the stated case to the High Court for determination by 7 April 2010.

Based on the assessment of the Group's legal counsel on the merit of LFT's further appeal in respect of the Deduction Claim and the HKIR's further appeal in respect of the Offshore Claim, and having taken into account the impact and ramification which the Board of Review Decision has on the tax affairs of LFT, the directors consider that no material tax liabilities will finally crystallize and sufficient tax provision has been made in the accounts in this regard.

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK$2,239,804,000 (2008: HK$2,221,120,000).

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$3,369,107,000 (2008: HK$2,421,936,000) and on the weighted average number of 3,701,265,000 (2008: 3,496,003,000) shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of 3,701,265,000 (2008: 3,496,003,000) ordinary shares in issue by 18,688,000 (2008: 24,345,000) 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

	2009 HK$'000	2008 HK$'000
Interim, paid, of HK$0.26 (2008: HK$0.24) per ordinary share	**979,430**	831,786
Final, proposed, of HK$0.49 (2008: HK$0.33) per ordinary share	**1,854,313**	1,199,369
	2,833,743	2,031,155

At a meeting held on 24 March 2010, the Directors proposed a final dividend of HK$0.49 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 2010 *(Note 26)*.

10 STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

	2009 HK$'000	2008 HK$'000
Salaries and bonuses	**4,246,204**	4,137,960
Staff benefits	**302,615**	278,632
Pension costs of defined contribution plans	**165,065**	167,932
Employee share option expenses	**126,688**	85,747
Pension costs of defined benefits plans *(Note 28)*	**5,704**	11,829
Long service payments	**2,110**	512
	4,848,386	4,682,612

Forfeited contributions totalling HK$13,884,000 (2008: HK$4,324,000) 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 2009 is set out below:

	2009					
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**	**18,036**	**–**	**12**	**22,937**
Bruce Philip Rockowitz	**83**	**4,460**	**18,018**	**423**	**12**	**22,996**
Annabella Leung Wai Ping	**83**	**3,900**	**6,519**	**–**	**12**	**10,514**
Spencer Theodore Fung	**83**	**1,664**	**1,070**	**–**	**12**	**2,829**
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**
Martin Tang Yue Nien	**156**	**–**	**–**	**–**	**–**	**156**

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

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

			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

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

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

(a) 100,000 (2008: 1,396,000) Shares at an exercise price of HK$13.45 with exercisable period from 20 June 2008 to 19 June 2011.

(b) 1,460,000 (2008: Nil) Shares at an exercise price of HK$13.45 with exercisable period from 20 June 2009 to 19 June 2012.

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

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

As at 31 December 2009, certain directors held the following Share Options to acquire Shares of the Company:

(a) 440,000 (2008: 1,420,000) at an exercise price of HK$13.45 with exercisable period from 20 June 2008 to 19 June 2011;

(b) 476,000 (2008: 2,816,000) at an exercise price of HK$13.45 with exercisable period from 20 June 2009 to 19 June 2012;

(c) 1,956,000 (2008: 2,856,000) at an exercise price of HK$25.55 with exercisable period from 1 March 2009 to 28 February 2011;

(d) 1,956,000 (2008: 2,856,000) at an exercise price of HK$25.55 with exercisable period from 1 March 2010 to 29 February 2012; and

(e) 1,956,000 (2008: 2,856,000) 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 2009 was HK$32.25.

(b) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include two (2008: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals (2008: one) during the year are as follows:

	2009 HK$'000	2008 HK$'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	**13,093**	4,526
Discretionary bonuses	**27,545**	12,936
Contributions to pension scheme	**36**	12
	40,674	17,474

	Number of individuals	
Emolument bands	**2009**	2008
HK$12,000,001 – HK$12,500,000	**1**	–
HK$13,500,001 – HK$14,000,000	**1**	–
HK$15,000,001 – HK$15,500,000	**1**	–
HK$17,000,001 – HK$17,500,000	**–**	1

12 INTANGIBLE ASSETS

	The Group								
	Goodwill HK$'000	Buying agency agreement HK$'000	Customer relationships HK$'000	Licensor relationships HK$'000	Trademarks HK$'000	Brand licenses HK$'000	Computer software and system development costs HK$'000	Other intangible assets HK$'000	Total HK$'000
At 1 January 2009									
Cost	12,923,819	255,060	528,432	226,200	538,200	304,577	107,984	14,820	14,899,092
Accumulated amortization	–	(22,318)	(27,690)	(21,970)	–	(172,336)	(52,649)	–	(296,963)
Net book amount	12,923,819	232,742	500,742	204,230	538,200	132,241	55,335	14,820	14,602,129
Year ended 31 December 2009									
Opening net book amount	12,923,819	232,742	500,742	204,230	538,200	132,241	55,335	14,820	14,602,129
Exchange differences	97,471	–	–	–	1	–	22	–	97,494
Acquisition of subsidiaries/businesses *(Note 31)*	2,333,121	63,180	279,162	–	200,847	310,554	–	–	3,186,864
Adjustments to purchase consideration and net asset value*	163,407	–	–	–	(132,600)	–	–	–	30,807
Transfer from property, plant and equipment *(Note 13)*	–	–	–	–	–	–	98,856	–	98,856
Additions	–	156,521	–	–	–	83,950	182,359	–	422,830
Disposals	–	–	–	–	–	–	(1,039)	–	(1,039)
Amortization	–	(15,561)	(50,315)	(18,566)	(21,076)	(116,203)	(11,580)	(2,113)	(235,414)
Closing net book amount	15,517,818	436,882	729,589	185,664	585,372	410,542	323,953	12,707	18,202,527
At 31 December 2009									
Cost	15,517,818	474,761	807,594	226,200	606,479	699,081	387,243	14,820	18,733,996
Accumulated amortization	–	(37,879)	(78,005)	(40,536)	(21,107)	(288,539)	(63,290)	(2,113)	(531,469)
Net book amount	15,517,818	436,882	729,589	185,664	585,372	410,542	323,953	12,707	18,202,527

* *Adjustments to purchase considerations and net asset values related to certain acquisitions of subsidiaries/businesses in prior years, but 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	Trademarks HK$'000	Brand licenses HK$'000	Computer software and system development costs HK$'000	Other intangible assets HK$'000	Total HK$'000
At 1 January 2008									
Cost	10,489,257	255,060	283,395	226,200	–	110,788	99,658	–	11,464,358
Accumulated amortization	–	(9,565)	(6,411)	(3,142)	–	(19,055)	(51,548)	–	(89,721)
Net book amount	10,489,257	245,495	276,984	223,058	–	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	–	91,733	48,110	–	11,374,637
Exchange differences	(291,236)	–	–	–	–	–	(1,491)	–	(292,727)
Acquisition of subsidiaries/businesses	2,701,968	–	237,602	–	538,200	17,361	1,973	14,820	3,511,924
Adjustments to purchase consideration and net asset value*	26,184	–	7,435	–	–	–	–	–	33,619
Additions	–	–	–	–	–	176,428	17,596	–	194,024
Disposal of subsidiaries	(2,354)	–	–	–	–	–	–	–	(2,354)
Amortization	–	(12,753)	(21,279)	(18,828)	–	(153,281)	(10,853)	–	(216,994)
Closing net book amount	12,923,819	232,742	500,742	204,230	538,200	132,241	55,335	14,820	14,602,129
At 31 December 2008									
Cost	12,923,819	255,060	528,432	226,200	538,200	304,577	107,984	14,820	14,899,092
Accumulated amortization	–	(22,318)	(27,690)	(21,970)	–	(172,336)	(52,649)	–	(296,963)
Net book amount	12,923,819	232,742	500,742	204,230	538,200	132,241	55,335	14,820	14,602,129

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

12 INTANGIBLE ASSETS (CONTINUED)

IMPAIRMENT TEST FOR GOODWILL

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to operating segment.

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

	The Group	
	2009	2008
	HK$'000	HK$'000
United States of America	**10,730,071**	8,540,104
Europe	**4,027,805**	3,732,687
Canada	**223,576**	198,715
Australasia	**108,109**	60,418
Central and Latin America	**113,592**	80,024
Rest of the world	**314,665**	311,871
	15,517,818	12,923,819

In accordance with HKAS 36 "Impairment of Assets" the Group completed its annual impairment test for goodwill allocated to the Group's various 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 generates 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 reflects specific risk related to the relevant segments. The budgeted gross margin and net profit margin were determined by 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.

Amortisation of HK$127,783,000 (2008: HK$164,134,000) is included in the 'Selling expenses' and HK$107,631,000 (2008: HK$52,860,000) in the other non-core operating expenses net of income, in the consolidated profit and loss account.

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 2008						
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	–	–	(76)	(2,781)	–	(2,857)
Acquisition of subsidiaries/businesses	–	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
Year ended 31 December 2009						
Opening net book amount	**121,954**	**578,224**	**502,990**	**57,910**	**21,985**	**1,283,063**
Exchange differences	**3,893**	**6,050**	**5,294**	**4,824**	**58**	**20,119**
Acquisition of subsidiaries/ businesses *(Note 31)*	**–**	**385**	**4,365**	**–**	**–**	**4,750**
Transfer to intangible assets *(Note 12)*	**–**	**–**	**(98,856)**	**–**	**–**	**(98,856)**
Additions	**–**	**203,003**	**179,310**	**7,271**	**3,510**	**393,094**
Disposals	**(3,600)**	**(4,051)**	**(24,545)**	**(1,325)**	**(8,070)**	**(41,591)**
Depreciation	**(4,428)**	**(122,518)**	**(158,436)**	**(13,928)**	**(5,564)**	**(304,874)**
Closing net book amount	**117,819**	**661,093**	**410,122**	**54,752**	**11,919**	**1,255,705**
At 31 December 2009						
Cost	**155,478**	**1,073,037**	**1,187,567**	**214,297**	**44,094**	**2,674,473**
Accumulated depreciation	**(37,659)**	**(411,944)**	**(777,445)**	**(159,545)**	**(32,175)**	**(1,418,768)**
Net book amount	**117,819**	**661,093**	**410,122**	**54,752**	**11,919**	**1,255,705**

Depreciation of HK$304,874,000 (2008: HK$265,112,000) is included in the 'Administrative expenses' in the consolidated profit and loss account.

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 is analyzed as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**2,426**	2,548
	2,426	2,548

	The Group	
	2009	2008
	HK$'000	HK$'000
Beginning of the year	**2,548**	2,554
Amortization of prepaid premium for land lease	**(123)**	(122)
Exchange differences	**1**	116
End of the year	**2,426**	2,548

15 INTERESTS IN SUBSIDIARIES

	The Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**407,104**	407,104
Loan to a subsidiary	**1,952,493**	1,952,493
	2,359,597	2,359,597

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 41*.

16 ASSOCIATED COMPANIES

	The Group	
	2009	2008
	HK$'000	HK$'000
Beginning of the year	**19,831**	10,666
Share of profits less losses of associated companies	**7,787**	6,197
Dividend received	**(3,148)**	(2,875)
Acquisition of businesses	**–**	5,843
Disposal	**(128)**	–
End of the year	**24,342**	19,831
Loans to associated companies	**3,909**	3,909
Total interest in associated companies	**28,251**	23,740

The carrying values of the loans to associated companies approximate their fair values; the loans are interest free, unsecured and repayment is not expected to be required within twelve months.

Details of principal associated companies are set out in *Note 41*.

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2009	2008
	HK$'000	HK$'000
Beginning of the year	**20,189**	85,465
Addition	**702,000**	–
Disposal	**(333)**	(55,534)
Net fair value gains on available-for-sale financial assets *(Note 26)*	**1,297**	–
Reversal of revaluation reserve on impairment of available-for-sale financial assets *(Note 26)*	**–**	4,942
Impairment provision	**(2,969)**	(14,684)
End of the year	**720,184**	20,189

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Available-for-sale financial assets include the following:

	The Group	
	2009 HK$'000	2008 HK$'000
Listed securities:		
– Equity securities – overseas	**9,064**	7,832
Unlisted securities:		
– Debt security *(Note)*	**702,000**	–
– Equity securities	**1,530**	4,767
– Club debentures	**7,590**	7,590
	720,184	20,189
Market value of listed securities	**9,064**	7,832

NOTE: In November 2009, the Group subscribed for an unlisted debt security (the "Promissory Note") from an independent third party of HK$702,000,000. The Promissory note is interest bearing at 7.5% per annum and repayable by 30 June 2014. It is secured by, among other things, certain collaterals such as trademarks, patents and licenses. The maximum exposure to credit risk at the reporting date is the carrying value of the Promissory Note. Value of the Promissory Note is determined with discounted cash flow analysis based on the prevailing required rate of return at balance sheet date of certain comparable debt instruments in the market.

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

	The Group	
	2009 HK$'000	2008 HK$'000
At 1 January	**67,375**	52,691
Provision for impairment charged to consolidated profit and loss account	**2,969**	14,684
Available-for-sale financial assets written off	**(32,155)**	–
At 31 December	**38,189**	67,375

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

	The Group	
	2009 HK$'000	2008 HK$'000
HK dollar	**7,597**	7,597
US dollar	**702,000**	3,301
Japanese Yen	**9,064**	7,768
Pound Sterling	**1,523**	1,523
	720,184	20,189

18 INVENTORIES

	The Group	
	2009	2008
	HK$'000	HK$'000
Finished goods	**2,261,289**	2,181,224
Raw materials	**121,343**	147,724
	2,382,632	2,328,948

At 31 December 2009, inventories of HK$149,990,000 (2008: HK$193,197,000) were pledged as security for the Group's bank overdrafts.

19 DUE FROM RELATED COMPANIES

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due from:				
Subsidiaries	**–**	–	**19,751,099**	16,534,019
Associated companies	**98,706**	83,954	**–**	–
	98,706	83,954	**19,751,099**	16,534,019

The amounts are unsecured, interest free and repayable on demand, except for amounts due from an associated company amounting to HK$85,835,000 (2008: HK$70,784,000) 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 values.

20 DERIVATIVE FINANCIAL INSTRUMENTS

	The Group	
	2009	2008
	HK$'000	HK$'000
Forward foreign exchange contracts – assets *(Note 38)*	**2,620**	34,814

Gains in equity of HK$6,112,000 (2008: HK$943,000) on forward foreign exchange contracts as of 31 December 2009 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 2009, there was no material ineffective portion recognized in the profit or loss account arising from cash flow hedges (2008: Nil).

21 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills receivable – net	**12,561,374**	14,715,430	**–**	–
Other receivables, prepayments and deposits	**2,331,847**	2,027,576	**1,463**	1,932
	14,893,221	16,743,006	**1,463**	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 is 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 based on invoice date is as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Current to 90 days	**12,095,108**	12,928,272
91 to 180 days	**377,931**	1,704,988
181 to 360 days	**71,239**	75,776
Over 360 days	**17,096**	6,394
	12,561,374	14,715,430

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 of HK$12,461,574,000 (2008: HK$14,602,011,000) that are current or less than 90 days past due are not considered impaired. As of 31 December 2009, trade receivables of HK$99,800,000 (2008: HK$113,419,000) 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	
	2009	2008
	HK$'000	HK$'000
91 to 180 days	**53,146**	83,324
Over 180 days	**46,654**	30,095
	99,800	113,419

21 TRADE AND OTHER RECEIVABLES (CONTINUED)

As of 31 December 2009, outstanding trade receivables of HK$151,948,000 (2008: HK$184,890,000) and other receivables of HK$110,666,000 (2008: HK$94,367,000) were impaired and fully provided. The individually impaired receivables mainly relate to transactions in disputes.

During the year, trade receivables with certain bankrupt/insolvent customers of HK$1,089,170,000 (2008: HK$407,662,000) were derecognized along with the corresponding trade payables generated from back-to-back transactions *(Note 23)*.

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

	The Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**279,257**	122,060
Provision for receivable impairment *(Note 4)*	**147,394**	212,241
Receivables written off during the year as uncollectible	**(153,735)**	(37,832)
Unused amounts reversed	**(10,302)**	(17,212)
At 31 December	**262,614**	279,257

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$302,123,000 (2008: HK$312,693,000) to banks in exchange for cash as at 31 December 2009. The transaction has been accounted for as collateralised bank advances.

At 31 December 2009, trade receivables of HK$106,773,000 were pledged as security for the Group's bank overdrafts (2008: HK$87,063,000).

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	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK dollar	**1,001,385**	1,253,935	**1,463**	1,932
US dollar	**11,988,504**	13,344,748	**–**	–
Euro dollar	**1,572,271**	1,828,235	**–**	–
Pound sterling	**192,677**	163,896	**–**	–
Others	**138,384**	152,192	**–**	–
	14,893,221	16,743,006	**1,463**	1,932

22 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**4,202,267**	2,275,272	**1,744**	41,543
Bank overdrafts *(Note 24)*				
– Secured	**(47,311)**	(91,302)	**–**	–
– Unsecured	**(4)**	(2,005)	**–**	–
	(47,315)	(93,307)	**–**	–
	4,154,952	2,181,965	**1,744**	41,543

The effective interest rate at the balance sheet date on short-term bank balances was 0.6% (2008: 0.6%) per annum; these deposits have an average maturity period of 15 days (2008: 16 days).

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills payable	**12,005,113**	12,666,975	**–**	–
Accrued charges and sundry payables	**2,900,775**	2,711,849	**31,124**	34,259
License royalty payable *(Note 27)*	**219,652**	60,059	**–**	–
	3,120,427	2,771,908	**31,124**	34,259
	15,125,540	15,438,883	**31,124**	34,259

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 2009, the ageing analysis of trade and bills payable based on invoice date is as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Current to 90 days	**11,744,955**	12,161,586
91 to 180 days	**109,297**	361,607
181 to 360 days	**44,873**	41,221
Over 360 days	**105,988**	102,561
	12,005,113	12,666,975

23 TRADE AND OTHER PAYABLES (CONTINUED)

The Group's obligation to trade payables amounting to HK$1,089,170,000 (2008: HK$407,662,000) generated from back-to-back transactions with certain customers, ceased upon the bankruptcy or insolvencies of these customers. Accordingly, these trade payables were derecognized along with the corresponding trade receivables *(Note 21)*.

24 BANK BORROWINGS

	The Group	
	2009	2008
	HK$'000	HK$'000
Long-term bank loans – unsecured *(Note 27)*	**–**	234,230
Short-term bank loans – unsecured	**–**	278,217
Bank overdrafts *(Note 22)*		
– Secured	**47,311**	91,302
– Unsecured	**4**	2,005
	47,315	93,307
Total bank borrowings	**47,315**	605,754

As at 31 December 2009, the carrying amounts of the Group's borrowings approximate their fair values.

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

		2009			2008	
	US$	**Euro**	**GBP**	US$	Euro	GBP
Long-term bank loans	**–**	**–**	**–**	0.6%	–	–
Short-term bank loans	**–**	**–**	**–**	2.6%	–	–
Bank overdrafts	**–**	**2.9%**	**2.3%**	6.5%	4.5%	2.8%

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	
	2009	2008
	HK$'000	HK$'000
US dollar	**–**	532,390
Euro dollar	**29,010**	71,359
Pound Sterling	**18,305**	2,005
	47,315	605,754

25 SHARE CAPITAL AND OPTIONS

	2009 Number of shares (in thousand)	2009 HK$'000	2008 Number of shares (in thousand)	2008 HK$'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	**3,634,128**	**90,853**	3,450,706	86,268
Issue of shares upon a private placing *(Notes (a) & (b))*	**120,290**	**3,007**	168,000	4,200
Exercise of share options	**21,700**	**543**	15,422	385
At 31 December, ordinary of HK$0.025 each	**3,776,118**	**94,403**	3,634,128	90,853

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 amounting 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) Pursuant to a placing agreement dated 5 May 2009, Li & Fung (1937) Limited, a substantial shareholder of the Company, placed 120,290,000 existing shares of the Company to not less than six independent professional, institutional and/or individual investors at a price of HK$22.55 per share and to subscribe from the Company for the same number of shares at the same price. The net proceeds of the subscription amounted to approximately HK$2,682,000,000, after taking into account the placing commission and other expenses borne or incurred by Li & Fung (1937) Limited in relation to the placing and/or the subscription, was used by the Company as general working capital of the Group which may include funding future business development and acquisitions by the Group from time to time.

25 SHARE CAPITAL AND OPTIONS (CONTINUED)

Details of share options granted by the Company pursuant to the Option Scheme and the share options outstanding at 31 December 2009 are as follows:

Grant Date	Exercise Price HK$	Exercisable period	Number of Share Options As at 1/1/2009	Granted	Exercised	Lapsed	Cancelled	As at 31/12/2009
23/5/2003	8.36	23/5/2006 – 22/5/2009	962,000	–	(904,000)	(58,000)	–	–
20/8/2004	9.00	20/8/2006 – 19/8/2009	115,400	–	(115,400)	–	–	–
20/6/2005	13.45	20/6/2007 – 19/6/2010	6,132,000	–	(1,830,200)	–	–	4,301,800
20/6/2005	13.45	20/6/2008 – 19/6/2011	14,980,800	–	(6,502,400)	(176,000)	–	8,302,400
20/6/2005	13.45	20/6/2009 – 19/6/2012	21,178,000	–	(8,787,800)	(165,000)	–	12,225,200
23/1/2006	13.72	20/6/2007 – 19/6/2010	222,200	–	(53,000)	–	–	169,200
23/1/2006	13.72	20/6/2008 – 19/6/2011	812,000	–	(130,000)	–	–	682,000
23/1/2006	13.72	20/6/2009 – 19/6/2012	1,117,000	–	(355,000)	–	–	762,000
19/6/2006	15.65	20/6/2007 – 19/6/2010	10,000	–	(2,000)	–	–	8,000
19/6/2006	15.65	20/6/2008 – 19/6/2011	1,214,000	–	(846,000)	–	–	368,000
19/6/2006	15.65	20/6/2009 – 19/6/2012	1,905,000	–	(815,000)	(100,000)	–	990,000
2/2/2007	25.50	20/6/2008 – 19/6/2011	1,889,000	–	(424,000)	(86,000)	–	1,379,000
2/2/2007	25.50	20/6/2009 – 19/6/2012	6,610,000	–	(820,000)	(572,000)	–	5,218,000
13/7/2007	29.93	20/6/2009 – 19/6/2012	1,467,000	–	(85,000)	(55,000)	–	1,327,000
24/1/2008	25.55	1/3/2009 – 28/2/2011	26,752,000	–	(30,000)	(1,396,000)	(29,500)	25,296,500
24/1/2008	25.55	1/3/2010 – 29/2/2012	26,752,000	–	–	(2,018,000)	–	24,734,000
24/1/2008	25.55	1/3/2011 – 28/2/2013	26,752,000	–	–	(2,018,000)	–	24,734,000
21/5/2008	30.00	1/3/2009 – 28/2/2011	2,531,000	–	–	(263,000)	(29,500)	2,238,500
21/5/2008	30.00	1/3/2010 – 29/2/2012	1,784,000	–	–	(384,000)	–	1,400,000
21/5/2008	30.00	1/3/2011 – 28/2/2013	1,784,000	–	–	(384,000)	–	1,400,000
13/8/2008	26.20	1/3/2009 – 28/2/2011	1,287,100	–	–	(112,200)	–	1,174,900
13/8/2008	26.20	1/3/2010 – 29/2/2012	1,880,700	–	–	(183,600)	–	1,697,100
13/8/2008	26.20	1/3/2011 – 28/2/2013	1,880,700	–	–	(183,600)	–	1,697,100
24/2/2009	17.22	1/3/2010 – 29/2/2012	–	2,729,000	–	–	–	2,729,000
24/2/2009	17.22	1/3/2011 – 28/2/2013	–	2,408,000	–	–	–	2,408,000
14/8/2009	27.80	1/3/2010 – 29/2/2012	–	1,792,500	–	–	–	1,792,500
14/8/2009	27.80	1/3/2011 – 28/2/2013	–	2,123,700	–	–	–	2,123,700
		Total	150,017,900	9,053,200	(21,699,800)	(8,154,400)	(59,000)	129,157,900

Subsequent to 31 December 2009, 8,194,300 Shares have been allotted and issued under the Option Scheme.

25 SHARE CAPITAL AND OPTIONS (CONTINUED)

Employee share option expenses charged to the consolidated profit and loss account 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	14/8/2009
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	HK$6.99–HK$8.81
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	HK$27.80
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	HK$27.80
Standard deviation	44%	41%	24%	27%	31%	33%	34%	36%	40%	42%	54%	58%
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%	0.10%–1.05%
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	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%	2.43%

* *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	**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**	**Total HK$'000**
Balance at 1 January 2009	**(464,050)**	**25,307**	**241,102**	**–**	**943**	**(309,759)**	**(506,457)**
Comprehensive income							
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**35,607**	**35,607**
Net fair value gains on available-for-sale financial assets, net of tax *(Note 17)*	**–**	**–**	**–**	**1,297**	**–**	**–**	**1,297**
Net fair value gains on cash flow hedges, net of tax	**–**	**–**	**–**	**–**	**5,169**	**–**	**5,169**
Transactions with owners							
Employee share option scheme:							
– value of employee services	**–**	**–**	**126,688**	**–**	**–**	**–**	**126,688**
– transfer to share premium	**–**	**–**	**(56,763)**	**–**	**–**	**–**	**(56,763)**
Transfer to capital reserve	**–**	**1,850**	**–**	**–**	**–**	**–**	**1,850**
At 31 December 2009	**(464,050)**	**27,157**	**311,027**	**1,297**	**6,112**	**(274,152)**	**(392,609)**

	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	Total HK$'000
Balance at 1 January 2008	(464,050)	23,823	190,410	27,135	(7,731)	175,406	(55,007)
Comprehensive income							
Currency translation differences	–	–	–	–	–	(485,165)	(485,165)
Reversal of revaluation reserve on disposal of available-for-sale financial assets	–	–	–	(32,077)	–	–	(32,077)
Reversal of revaluation reserve on impairment of available-for-sale financial assets *(Note 17)*	–	–	–	4,942	–	–	4,942
Net fair value gains on cash flow hedges, net of tax	–	–	–	–	8,674	–	8,674
Transactions with owners							
Employee share option scheme:							
– value of employee services	–	–	85,747	–	–	–	85,747
– transfer to share premium	–	–	(35,055)	–	–	–	(35,055)
Transfer to capital reserve	–	1,484	–	–	–	–	1,484
At 31 December 2008	(464,050)	25,307	241,102	–	943	(309,759)	(506,457)

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 2009	**11,140,378**	**(464,050)**	**2,060,673**	**241,102**	**1,965,302**	**14,943,405**
Profit for the year	**–**	**–**	**–**	**–**	**2,239,804**	**2,239,804**
Issue of shares upon a private placing	**2,678,660**	**–**	**–**	**–**	**–**	**2,678,660**
Employee share option scheme:						
– value of employee services	**–**	**–**	**–**	**126,688**	**–**	**126,688**
– proceeds from shares issued	**306,763**	**–**	**–**	**–**	**–**	**306,763**
– transfer to share premium	**56,763**	**–**	**–**	**(56,763)**	**–**	**–**
2008 final dividend paid	**–**	**–**	**–**	**–**	**(1,199,839)**	**(1,199,839)**
2009 interim dividend paid	**–**	**–**	**–**	**–**	**(979,430)**	**(979,430)**
Reserves	**14,182,564**	**(464,050)**	**2,060,673**	**311,027**	**171,524**	**16,261,738**
Proposed dividend	**–**	**–**	**–**	**–**	**1,854,313**	**1,854,313**
At 31 December 2009	**14,182,564**	**(464,050)**	**2,060,673**	**311,027**	**2,025,837**	**18,116,051**
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

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) 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	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'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	**3,422,340**	2,733,700	**–**	–
Long-term notes – unsecured	**3,872,325**	3,868,574	**3,872,325**	3,868,574
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**464,050**	464,050	**–**	–
License royalty payable	**450,039**	122,881	**–**	–
	8,247,621	7,462,302	**3,872,325**	3,868,574
Current portion of balance of purchase consideration payable for acquisitions	**(1,138,668)**	(1,178,118)	**–**	–
Current portion of balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**(323,700)**	(81,278)	**–**	–
Current portion of license royalty payable *(Note 23)*	**(219,652)**	(60,059)	**–**	–
	6,565,601	6,142,847	**3,872,325**	3,868,574

Balance of purchase consideration for acquisitions and long-term loans from minority shareholders are unsecured, interest-free and with no fixed repayment terms. 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	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 1 year	**1,682,020**	1,319,455	**–**	–
Between 1 and 2 years	**1,128,544**	1,188,087	**–**	–
Between 2 and 5 years	**1,522,687**	1,047,319	**–**	–
Wholly repayable within 5 years	**4,333,251**	3,554,861	**–**	–
Over 5 years	**3,914,370**	3,907,441	**3,872,325**	3,868,574
	8,247,621	7,462,302	**3,872,325**	3,868,574

The fair values of the long-term liabilities (non-current portion) are as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Loans from minority shareholders	**38,867**	38,867
Long-term notes – unsecured	**3,925,974**	3,410,082
Balance of purchase consideration payable for acquisitions	**2,283,672**	1,555,582
License royalty payable	**230,387**	62,822
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**140,350**	382,772
	6,619,250	5,450,125

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

	The Group	
	2009	2008
	HK$'000	HK$'000
Hong Kong dollar	**135,407**	180,316
US dollar	**7,999,742**	7,227,431
Pound sterling	**96,871**	38,954
Euro dollar	**15,601**	15,601
	8,247,621	7,462,302

28 POST-EMPLOYMENT BENEFIT OBLIGATIONS

	The Group	
	2009	2008
	HK$'000	HK$'000
Pension obligations *(Note)*	**16,354**	18,771
Long service payment liabilities	**9,412**	4,995
	25,766	23,766

NOTE:

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	
	2009	2008
	HK$'000	HK$'000
Present value obligations	**221,215**	182,982
Fair value of plan assets	**(147,862)**	(139,702)
	73,353	43,280
Unrecognized actuarial losses	**(56,999)**	(24,509)
Pension obligations	**16,354**	18,771

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

	The Group	
	2009	2008
	HK$'000	HK$'000
Current service cost	**14,200**	14,997
Interest cost	**8,741**	9,867
Expected return on plan assets	**(5,724)**	(8,952)
Net actuarial loss recognized in year	**1,143**	216
Gains on curtailments and settlements	**(12,656)**	(4,299)
Total, included in staff costs *(Note 10)*	**5,704**	11,829

28 POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

(iii) The movements in the fair value of plan assets of the year are as follows:

	The Group	
	2009 **HK$'000**	2008 HK$'000
At 1 January	**139,702**	177,332
Expected return on plan assets	**5,724**	8,952
Actuarial gains/(losses)	**1,445**	(15,060)
Exchange differences	**8,946**	(32,213)
Employer contributions	**10,014**	10,464
Benefits paid	**(17,969)**	(9,773)
At 31 December	**147,862**	139,702

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

	The Group	
	2009 **HK$'000**	2008 HK$'000
At 1 January	**18,771**	23,680
Total expense – as shown above	**5,704**	11,829
Contributions paid	**(10,014)**	(10,464)
Exchange difference	**1,893**	(6,274)
At 31 December	**16,354**	18,771

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

	2009 **%**	2008 %
Discount rate	**2.25 – 11.06**	2.75 – 9.79
Expected rate of return on plan assets	**2.25 – 7**	1.5 – 6.4
Expected rate of future salary increases	**3 – 5.5**	3 – 8
Expected rate of future pension increases	**3.4**	2.75

(vi) Experience adjustments gain/(loss):

	The Group	
	2009 **HK$'000**	2008 HK$'000
Experience adjustments on plan liabilities	**(42,073)**	(3,186)
Experience adjustments on plan assets	**1,445**	(15,060)

29 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2008: 16.5%).

The movement on the deferred tax account is as follows:

	The Group	
	2009 HK$'000	2008 HK$'000
At 1 January	**473**	(94,528)
Charged/(credited) to consolidated profit and loss account *(Note 6)*	**13,791**	(5,667)
Acquisition of subsidiaries/businesses	**–**	(218)
Adjustments for prior year acquisitions *	**–**	97,257
Exchange differences	**(1,598)**	3,629
At 31 December	**12,666**	473

* *Adjustment to deferred tax liabilities of certain subsidiaries/businesses acquired in prior year which were previously determined on a provisional basis.*

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$1,812,412,000 (2008: HK$371,687,000) to carry forward against future taxable income, out of which HK$180,082,000 will expire during 2022-2027. 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	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
As at 1 January	**14,613**	15,180	**23,776**	16,816	**87,062**	81,299	**5,828**	2,309	**131,279**	115,604
Credited/(charged) to consolidated profit and loss account	**175,812**	1,157	**8,402**	9,156	**7,221**	7,291	**(3,054)**	3,322	**188,381**	20,926
Acquisition of subsidiaries/ businesses	**–**	–	**–**	218	**–**	–	**–**	–	**–**	218
Exchange differences	**395**	(1,724)	**(706)**	(2,414)	**383**	(1,528)	**18**	197	**90**	(5,469)
As at 31 December	**190,820**	14,613	**31,472**	23,776	**94,666**	87,062	**2,792**	5,828	**319,750**	131,279

29 DEFERRED TAXATION (CONTINUED)

	The Group							
	Accelerated tax depreciation allowances		Intangible assets arising from business combinations		Others		Total	
Deferred tax liabilities	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
As at 1 January	**25,208**	20,993	**97,257**	–	**9,287**	83	**131,752**	21,076
Charged/(credited) to consolidated profit and loss account	**17,103**	4,330	**193,446**	–	**(8,377)**	10,929	**202,172**	15,259
Adjustments for prior year acquisitions	**–**	–	**–**	97,257	**–**	–	**–**	97,257
Exchange differences	**(2,269)**	(115)	**–**	–	**761**	(1,725)	**(1,508)**	(1,840)
As at 31 December	**40,042**	25,208	**290,703**	97,257	**1,671**	9,287	**332,416**	131,752

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

	The Group	
	2009 HK$'000	2008 HK$'000
Deferred tax assets	**58,180**	111,441
Deferred tax liabilities	**(70,846)**	(111,914)
	(12,666)	(473)

	The Group	
	2009 HK$'000	2008 HK$'000
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	**50,113**	102,107
Deferred tax assets to be recovered within 12 months	**8,067**	9,334
Deferred tax liabilities to be settled after more than 12 months	**57,904**	98,626
Deferred tax liabilities to be settled within 12 months	**12,942**	13,288

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2009 HK$'000	2008 HK$'000
Profit before taxation	**3,605,947**	2,683,186
Interest income	**(90,763)**	(112,748)
Interest expenses	**372,109**	480,175
Depreciation	**304,874**	265,112
Amortization of computer software and system development costs	**11,580**	10,853
Amortization of brand licenses	**116,203**	153,281
Amortization of other intangible assets arising from business combinations	**107,631**	52,860
Amortization of prepaid premium for land leases	**123**	122
Share of profits less losses of associated companies	**(7,787)**	(6,197)
Employee share option expenses	**126,688**	85,747
Gain on disposal of available-for-sale financial assets	**–**	(27,905)
Provision for impairment of available-for-sale financial assets	**2,969**	14,684
Loss on disposal of property, plant and equipment	**9,643**	8,728
Loss on disposal of subsidiaries	**–**	2,326
Loss on disposal of intangible assets	**1,039**	–
Operating profit before working capital changes	**4,560,256**	3,610,224
Decrease in inventories	**382,751**	27,661
Decrease/(increase) in trade and bills receivable, other receivables and amount due from related companies	**2,083,989**	(656,174)
(Decrease)/increase in trade and bills payable and other payables	**(104,752)**	842,846
Net cash inflow generated from operations	**6,922,244**	3,824,557

(b) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	2009		2008	
	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	**11,231,231**	**512,447**	7,123,731	441,796
Non cash movement				
Transfer from employee share-based compensation reserve	**56,763**	**–**	35,055	–
	11,287,994	**512,447**	7,158,786	441,796
Net proceeds from issue of shares	**2,988,973**	**–**	4,072,445	–
Net (repayment)/drawdown of bank loans	**–**	**(512,447)**	–	70,651
At 31 December	**14,276,967**	**–**	11,231,231	512,447

31 BUSINESS COMBINATIONS

On 19 October 2009, the Group entered into an asset purchase agreement to acquire all of the assets of Wear Me Apparel, LLC ("Wear Me Apparel") for a cash consideration of HK$794 million, plus premium for net assets acquired, and a performance based, contingent sum of up to HK$2,340 million. WearMe is a leading designer, marketer and seller of young men's and children's apparel in the US and manages a portfolio of licensed national brands, proprietary brands, private labels and character licenses.

During the year, the Group also completed the following business combinations and acquisitions of certain other smaller businesses with an aggregate cash consideration of approximately HK$970 million.

On 23 February 2009, the Group entered into an agreement to acquire the sourcing operations of Liz Claiborne Inc. and its affiliates in Asia (collectively referred to as "Liz"). 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.

On 19 March 2009, the Group entered into an agreement to acquire Shubiz Limited ("Shubiz"), which is based in UK and principally engaged in design and supply of ladies' fashion footwear to retailers.

In March 2009, the Group also completed acquisition of JMI, which is a business based in Shanghai China specializing in high-end and technical products such as gloves, outerwear, knitwear and accessories.

The acquired businesses contributed revenues of approximately HK$4,780 million and profit after tax of approximately HK$120 million to the Group for the period from their respective dates of acquisition to 31 December 2009. If these acquisitions had occurred on 1 January 2009, Group revenue would have been approximately HK$110,103 million; profit after tax would have been approximately HK$3,467 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 2009, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

	Wear Me Apparel HK$'000	**Others HK$'000**	**Total HK$'000**
Purchase consideration	2,417,368	966,613	3,383,981
Add: Direct expenses relating to the acquisitions	12,849	41,879	54,728
Less: Fair value of net assets acquired*	(859,431)	(246,157)	(1,105,588)
Goodwill *(Note 12)*	1,570,786	762,335	2,333,121

* *As at the date of the accounts, the Group has not finalized the fair value assessments for net assets acquired from these acquisitions. The relevant fair value of net assets acquired stated above are on a provisional basis.*

31 BUSINESS COMBINATIONS (CONTINUED)

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:

	Wear Me Apparel HK$'000	Others HK$'000	Total HK$'000
Net assets acquired:			
Intangible assets *(Note 12)**			
– Buying agency agreement	–	63,180	63,180
– Customer relationships	234,000	45,162	279,162
– Trademarks	89,700	111,147	200,847
– Brand licenses	310,554	–	310,554
Property, plant and equipment *(Note 13)*	–	4,750	4,750
Inventories	422,712	13,723	436,435
Trade and bills receivable	1,122,650	49,735	1,172,385
Other receivables, prepayments and deposits	124,884	3,494	128,378
Cash and bank balances	–	7,187	7,187
Trade and bills payables	(178,686)	(10,205)	(188,891)
License royalty payables	(310,554)	–	(310,554)
Accrued charges and sundry payables	(364,935)	(22,261)	(387,196)
Taxation	–	7,243	7,243
Bank overdrafts	–	(26,998)	(26,998)
Bank borrowings	(590,894)	–	(590,894)
Fair value of net assets acquired	859,431	246,157	1,105,588

* *Intangible assets arising from business combinations represent customer relationships, trademarks and various other smaller intangible assets. The Group has engaged external 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 the accounts, 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.*

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

	Wear Me Apparel HK$'000	Others HK$'000	Total HK$'000
Purchase consideration	2,417,368	966,613	3,383,981
Purchase consideration payable*	(1,514,127)	(99,650)	(1,613,777)
Direct expenses relating to the acquisitions	12,849	41,879	54,728
Repayment of bank borrowings	590,894	–	590,894
Cash and cash equivalents acquired	–	19,811	19,811
Net outflow of cash and cash equivalents in respect of the acquisitions	1,506,984	928,653	2,435,637

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

32 CONTINGENT LIABILITIES

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees in respect of banking facilities granted to:				
Subsidiaries	**–**	–	**23,239,729**	21,434,483
Associated companies	**5,850**	5,850	**–**	–
	5,850	5,850	**23,239,729**	21,434,483

33 COMMITMENTS

(a) OPERATING LEASE COMMITMENTS

The Group leases various offices and warehouses under non-cancellable operating lease agreements. At 31 December 2009, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**451,966**	384,813
In the second to fifth year inclusive	**1,177,030**	696,506
After the fifth year	**1,364,779**	541,580
	2,993,775	1,622,899

(b) CAPITAL COMMITMENTS

	The Group	
	2009	2008
	HK$'000	HK$'000
Contracted but not provided for:		
Property, plant and equipment	**33,526**	161,507

34 CHARGES ON ASSETS

Saved as disclosed in *Note 18* and *Note 21*, at 31 December 2009 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$121,113,000 (2008: HK$108,680,000) for the year ended 31 December 2009.

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$157,006,000 (2008: HK$121,205,000) for the year ended 31 December 2009.

Saved as above and the key management compensation as set out in *Note 11* 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 and 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 the same currency.

Foreign exchange risk arising from sales and purchases transacted in different currencies are managed by the Group treasury through 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 2009, if the major foreign currencies, such as Euro dollar and Sterling Pound, that the Group with exposure had strengthened/weakened by 10% (2008: 10%) against US and HK dollar with all other variables held constant, profit for the year and equity would have been approximately 2.0% (2008: 2.0%) and 2.0% (2008: 2.0%) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currencies denominated trade receivables, available-for-sale financial assets, borrowings and intangible assets.

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) MARKET RISK (CONTINUED)

(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 2009 and up to the report date of the accounts, 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 2009, fair value of foreign exchange forward contracts entered into by the Group amounted to HK$2,620,000 (2008: HK$34,814,000), which have been reflected in full in the Group's consolidated balance sheet as derivative financial instruments (assets).

(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. Available-for-sale debt security issued at fixed interest rate expose the Group to fair value interest rate risk. The Group's policy is to maintain diversified mix of variable and fixed rate borrowings based on prevailing market condition.

At 31 December 2009, if the variable interest rates on the bank borrowings had been 0.1% higher/lower with all other variables held constant, profit for the year and equity would have been approximately HK$47,000 (2008: HK$8,514,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings. If the prevailing market interest rate on the available-for-sale debt security had been 0.1% higher/lower with all other variables held constant, the Group's equity would have been decreased or increased by approximately HK$1,972,000 (2008: Nil).

(b) CREDIT RISK

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

Most of the Group's cash and bank balances 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 an assessment of each individual customer and vendor and determines the credit limits based on, among other factors, their trading and settlement history as well as their respective financial background.

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK (CONTINUED)

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

Except for the other receivables of HK$110,666,000 (2008: HK$94,367,000), none of the other financial assets including available-for-sale debt security *(Note 17)*, due from related companies *(Note 19)* and other receivables and deposits *(Note 21)* is past due or impaired as there is no recent history of default of the counterparties. The maximum exposure of these other financial assets to credit risk at the reporting date is their carrying amounts.

(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 reserves (comprises undrawn borrowing facilities and cash and cash equivalents *(Note 22)*) on the basis of expected cash flow.

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 2009				
Bank loans	–	–	–	–
Balance of purchase consideration payable for acquisitions	1,212,154	823,508	1,173,630	358,332
Long-term notes – unsecured	214,500	214,500	643,500	4,543,500
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
The Company				
At 31 December 2009				
Long-term notes – unsecured	214,500	214,500	643,500	4,543,500
At 31 December 2008				
Long-term notes – unsecured	214,500	214,500	643,500	4,758,000

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 loans *(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.

The Group's strategy is to maintain a gearing ratio not exceeding 35%. The gearing ratios at 31 December 2009 and 2008 were as follows:

	2009 **HK$'000**	2008 HK$'000
Long-term bank loans *(Note 24)*	**–**	234,230
Short-term bank loans *(Note 24)*	**–**	278,217
Long-term notes – unsecured *(Note 27)*	**3,872,325**	3,868,574
	3,872,325	4,381,021
Less: Cash and cash equivalents *(Note 22)*	**(4,154,952)**	(2,181,965)
Net debt	**N/A**	2,199,056
Total equity	**17,726,191**	13,382,354
Total capital	**17,726,191**	15,581,410
Gearing ratio	**N/A**	14%

38 FAIR VALUE ESTIMATION

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

38 FAIR VALUE ESTIMATION (CONTINUED)

The following table presents the Group's financial instruments that are measured at fair value at 31 December 2009.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Derivatives financial instruments used for hedging *(Note 20)*	–	2,620	–	2,620
Available-for-sale financial assets *(Note 17)*				
– Debt securities	–	702,000	–	702,000
– Equity securities	9,064	–	1,530	10,594
– Club debentures	–	–	7,590	7,590
Total assets	9,064	704,620	9,120	722,804

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

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. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The following table presents the changes in level 3 instruments for the year ended 31 December 2009.

	Equity securities HK$'000	Club debentures HK$'000	Total HK$'000
Opening balance	4,767	7,590	12,357
Disposal	(333)	–	(333)
Closing balance	4,434	7,590	12,024
Total losses recognized in profit or loss for assets held at the end of the reporting date	(2,904)	–	(2,904)

39 EVENTS AFTER BALANCE SHEET DATE

On 28 January 2010, the Group entered into a series of agreements with WalMart Stores, Inc. and its subsidiaries ("Wal-Mart Group") with a view to establishing a mutually beneficial sourcing arrangement with the Wal-Mart Group. The sourcing arrangement is non-exclusive, does not contain any sourcing volume commitments by the Wal-Mart Group and will continue until terminated by mutual agreement.

On 25 February 2010, the Group entered into an agreement to acquire the entire issued share capital of Visage Group Limited ("Visage") for a total consideration of not exceeding HK$2,076 million. Visage Group is a leading private-label apparel supplier to leading high street and mass retailers in the UK. Visage Group has strong expertise and capabilities in design and product development in men's, ladies and childrenswear.

40 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 24 March 2010.

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	Held directly				
(2)	LF Centennial Limited	British Virgin Islands	Ordinary US$50,000	100	Investment holding
(2)	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 International Trading Company Pte Ltd	Singapore	Ordinary S$5,000,000	100	Provision of inspection services and export trading
	American Marketing Enterprises, Inc.	U.S.A.	Common Stock US$1,000	100	Wholesaling
(2)	Appleton Holdings Ltd.	British Virgin Islands	Ordinary US$1	100	Investment holding
	Black Cat Fireworks Limited	England	Ordinary GBP1,200,000	100	Wholesaling
	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
	C Group US LLC	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	Manufacturing and trading
	Camberley Trading Service (Shenzhen) Limited	The People's Republic of China	RMB1,500,000	100 foreign-owned enterprise	Export trading services
(2)	Centennial (Luxembourg) S.a.r.l.	Luxembourg	Euro 8,931,250	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	Provision of sales support services
	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

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
(2)	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	75	Provision of agency 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
	Craftworks Limited	Hong Kong	Ordinary HK$1	100	Export trading
	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
	Dodwell (Singapore) Pte. Ltd.	Singapore	Ordinary S$200,000	100	Export trading services
(2)	Dongguan LF Beauty Manufacturing Services Limited (formerly: Dongguan San Si Cosmetic Company Limited)	The People's Republic of China	US$10,211,000	100 foreign-owned enterprise	Manufacturing and export trading
(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
	Eslite Design Limited	Hong Kong	Ordinary HK$2	100	Provision of design services
	Forrestgrove Limited	Hong Kong	Ordinary HK$20	100	Export trading
	GB Apparel Limited	England	Ordinary GBP1,000	100	Investment holding
	GMR (Hong Kong) 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
	Goodwest Enterprises 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
	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	"A" Ordinary HK$2,000,000 "B" Ordinary HK$199,980	100	Export trading
(2)	International Sources LLC	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
	JMI Sportswear Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
	Kariya Industries Limited	Hong Kong	Ordinary HK$1,000,000	100	Manufacturing and trading
	KHQ Investment LLC	U.S.A.	Capital contribution US$1,000	100	Wholesaling
	Kingsbury International Limited	Hong Kong	Ordinary HK$2	100	Export trading
	KVZ International Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	La Villa Development Limited	Hong Kong	Ordinary HK$1	100	Design and marketing of toys
(2)	Lenci Calzature SpA	Italy	Euro 206,400	100	Design, marketing and sourcing
	LF Beauty Limited	Hong Kong	Ordinary HK$1	100	Export trading
	LF Beauty Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
	LF Beauty (UK) Limited (formerly: PB Beauty Limited)	England	Ordinary GBP100	100	Design, marketing and manufacturing
(2)	LF Capital (II) Limited	British Virgin Islands	Class "A" US$185 Class "B" US$115	75	Investment holding

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
(2)	LF Capital Management Limited	British Virgin Islands	Ordinary US$1	100	Investment management
	LF Centennial Pte. Ltd.	Singapore	Ordinary S$100,000	100	Export trading
	LF Centennial Services (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading services
	LF Centennial Service (Singapore) Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading services
(2)	LF Corporate Capital (I) Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	LF Credit Pte. Ltd. (formerly: LF Credit (Singapore) Pte. Ltd.)	Singapore	Ordinary S$1,000,000	100	Provision of trade-related services
	LF Europe (Germany) GmbH	Germany	Euro 25,000	100	Investment holding
	LF Europe Limited	England	Ordinary GBP26,788,000	100	Investment holding
(2)	LF European Capital Limited	British Virgin Islands	Ordinary US$1	75	Investment holding
	LF Home Limited	Hong Kong	Ordinary HK$2	100	Export trading
(2)	LF International Inc.	U.S.A.	Common stock US$30,002	100	Investment management
	LF North America Holdings Co., Inc.	U.S.A.	Ordinary US$1	100	Investment holding
	LF USA Inc. (formerly: 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
(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 (Bangladesh) Limited	Bangladesh	Ordinary Taka 9,500,000	100	Export trading 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	Investment holding
(2)	Li & Fung (Guatemala) S.A.	Guatemala	Common shares Q5,000	100	Export trading services
(2)	Li & Fung (Honduras) Limited	Honduras	Nominative common shares Lps25,000	100	Export trading services
	Li & Fung (India) Private Limited	India	Equity shares Rupee 64,000,200	100	Export trading services
	Li & Fung (Korea) Limited	Korea	Common stock Won 200,000,000	100	Export trading services
(2)	Li & Fung (Mauritius) Limited	Mauritius	"A" Shares Rupees 750,000 "B" Shares Rupees 500,000	60	Export trading services
(2)	Li & Fung (Morocco) SARL	Morocco	Dirhams 10,000	100	Export trading services
	Li & Fung Mumessillik Pazarlama Limited Sirketi	Turkey	YTL15,639,650	100	Export trading services
(2)	Li & Fung (Nicaragua), Sociedad Anonima	Nicaragua	Nominative shares C$50,000	100	Export trading services
	Li & Fung Pakistan (Private) Limited	Pakistan	Rs10,000,000	100	Export trading services
(2)	Li & Fung (Philippines) Inc.	The Philippines	Peso 1,000,000	100	Export trading services
(2)	Li & Fung (Portugal) Limited	England	Ordinary GBP 100	100	Investment holding
	Li & Fung (Properties) Limited	Hong Kong	Ordinary HK$1,000,000	100	Investment holding
	Li & Fung (Singapore) Pte Limited	Singapore	Ordinary S$25,000	100	Export trading services
	Li & Fung South Africa (Proprietary) Limited	South Africa	Ordinary Rand 100	100	Export trading services
	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

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Li & Fung (Taiwan) Limited	Taiwan	NT$63,000,000	100	Sourcing and inspection
	Li & Fung (Thailand) Limited	Thailand	Baht 20,000,000	100	Export trading services
(2)	Li & Fung Trading (Italia) S.r.l.	Italy	Euro 100,000	100	Export trading services
	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 services
	Li & Fung Trading Service (Shenzhen) Limited	The People's Republic of China	RMB1,500,000	100 foreign-owned enterprise	Export trading services
	Li & Fung Trading (Shanghai) Limited	The People's Republic of China	RMB50,000,000	100 foreign-owned enterprise	Export trading
	Li & Fung (Vietnam) Limited	Vietnam	Charter Capital US$139,000	100	Export trading services
(2)	Li & Fung (Zhanjiang) Limited	The People's Republic of China	US$2,000,000	100 foreign–owned enterprise	Property investment
	Lion Rock Far East (1972) Limited	Hong Kong	Ordinary HK$20	100	Investment holding
	Lion Rock (Hong Kong) Limited	Hong Kong	Ordinary HK$10,000	100	Investment holding
	Lion Rock 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 services
(2)	Lion Rock (Thailand) Limited	Thailand	Ordinary Baht 15,500,000	100	Export trading services
	Lion Rock Trading (Switzerland) Gmbh	Switzerland	CHF50,000	100	Export trading
	Lloyd Textile Trading Limited	Hong Kong	Ordinary HK$1,000,000	100	Manufacturing and trading
	Lux Plush Enterprises Limited	Hong Kong	Ordinary HK$250,000	100	Export trading
	Match Winner Vertriebs GmbH	Germany	Euro 26,000	100	Wholesaling
	Metro Seven LLC	U.S.A.	Capital contribution Nil	100	Wholesaling
(2)	Mercury (BVI) Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Mighty Hurricane Holdings Inc.	U.S.A.	Common shares US$100	100	Wholesaling
	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
	Millwork Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
	Momentum Clothing Limited	England	Ordinary GBP100	100	Export trading
	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 2,488,000	60	Export trading
	Peter Black Footwear & Accessories Limited	England	Ordinary GBP202,000	100	Design, marketing and sourcing
	Peter Black International Limited	England	A Ordinary GBP550 B Ordinary GBP350 C Ordinary GBP120	100	Investment holding

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	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
	Product Development Partners Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Promocean CIS	Russia	Russian rubels 10,000	100	Export trading
	PromOcean France SAS (formerly: Prodimpor SAS)	France	Euro 3,030,303	100	Wholesaling
	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	Euro 178,677	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 services
	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	Export trading services
	RVVW Apparel LLC	U.S.A.	Capital contribution Nil	100	Wholesaling
	Ralsey Group Limited	U.S.A.	Common stock US$1	100	Wholesaling
(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 Asia Limited (formerly: Good Basis Limited)	Hong Kong	Ordinary HK$2	100	Export trading
	Rosetti Handbags and Accessories, Ltd.	U.S.A.	Common stock US$1	100	Wholesaling
	Shiu Fung Fireworks Company Limited	Hong Kong	Ordinary "A" HK$1,100,000 Ordinary "B" HK$1,100,000	100	Export trading
	Shiu Fung Fireworks Trading (Changsha) Limited	The People's Republic of China	RMB4,000,000	100	Export trading
	Shubiz Limited	England	Ordinary GBP2	100	Design, marketing and sourcing
	Shutoo Limited	England	Ordinary GBP1	100	Design, marketing and sourcing
	Silvereed (Hong Kong) 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	Compliance services
	Sports Brands Italia Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading
(2)	STS 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

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	TH Success Limited	Hong Kong	Ordinary HK$1,560,000	100	Export trading
	Toy Island Manufacturing Company Limited	Hong Kong	Ordinary HK$62,000,000	100	Design and marketing
	Toy Island (USA) LLC	U.S.A.	Capital contribution US$100	100	Marketing
	Ventana Bekleidungsfabrikation GmbH	Germany	Euro 26,000	100	Wholesaling
	Verity Enterprises Limited	Hong Kong	Ordinary HK$2,000,000	100	Export trading
	VZI Investment Corp.	U.S.A.	Common stock US$1	100	Wholesaling
	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
	888 UK Limited	England	Ordinary GBP1	100	Service company

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 2009 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.

	Principal associated companies	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity indirectly held by the Company	Principal activities
	Blue Work Trading Company Limited	Hong Kong	Ordinary HK$4,000,000	50	Export trading
#	Fireworks Management, Inc.	U.S.A.	Common stock US$60,000	25	Investment holding
#	Gulf Coast Fireworks Sales, L.L.C.	U.S.A.	Capital contribution US$3,034,568	30	Fireworks distribution
	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$8,486,040	30	Wholesaling
#	Winco Fireworks Mississippi, L.L.C.	U.S.A.	Capital contribution US$124,446	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 2009 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

	2009 HK$'000	2008 HK$'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
Turnover										
Continuing operations	**104,478,983**	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
Discontinued operations	**–**	–	–	–	–	–	–	–	87,183	791
	104,478,983	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
Operating profit										
Continuing operations	**3,879,506**	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
Discontinued operations	**–**	–	–	–	–	–	–	–	(237,955)	(39,375)
	3,879,506	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
Interest income	**90,763**	112,748	208,193	98,491	69,539	43,163	38,373	49,581	112,837	140,330
Interest expenses	**(372,109)**	(480,175)	(499,664)	(148,070)	(21,376)	(11,466)	(9,813)	(8,987)	(12,464)	(20,585)
Share of profit less losses of associated companies	**7,787**	6,197	4,948	10,603	9,062	32,801	431	(1,638)	(345)	10,295
Profit before taxation	**3,605,947**	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
Taxation	**(240,222)**	(259,497)	(252,554)	(171,682)	(151,248)	(130,250)	(103,929)	(92,865)	(53,849)	(60,796)
Profit for the year	**3,365,725**	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
Attributable to:										
Continuing operations	**3,369,107**	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
Discontinued operations	**–**	–	–	–	–	–	–	–	(168,996)	(22,730)
Shareholders of the Company	**3,369,107**	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
Minority interests	**(3,382)**	1,753	940	(157)	298	(939)	(12,104)	228	(69,567)	(10,296)
	3,365,725	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
Earnings per share (HK cents) *(Note)*										
Basic	**91.0**	69.3	89.5	67.1	55.6	46.5	37.4	34.1	24.8	29.3
Continuing operations	**90.6**	69.3	89.5	67.1	55.6	46.5	37.4	34.1	30.2	30.1
Dividend per share (HK cents) *(Note)*	**75.0**	57.0	71.0	55.0	45.5	38.2	31.8	27.7	24.1	22.7
Special dividend per share (HK cents) *(Note)*	**–**	–	–	–	–	22.7	–	–	–	–

CONSOLIDATED BALANCE SHEET

	2009 HK$'000	2008 HK$'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
Intangible assets	**18,202,527**	14,602,129	11,374,637	4,713,163	2,809,380	1,304,333	612,849	326,696	79,585	79,625
Property, plant and equipment	**1,255,705**	1,283,063	1,130,002	1,114,368	947,608	715,002	731,071	658,346	669,173	785,380
Prepaid premium for land leases	**2,426**	2,548	2,554	681,179	765,771	765,172	780,826	605,492	555,181	496,430
Associated companies	**28,251**	23,740	14,575	13,930	7,102	55,967	4,223	22,255	34,288	28,564
Available-for-sale financial assets	**720,184**	20,189	85,465	81,605	91,721	–	–	–	–	–
Investments	**–**	–	–	–	–	110,289	115,183	139,932	71,348	53,807
Deferred tax assets	**58,180**	111,441	115,604	105,982	118,419	73,039	19,150	–	–	–
Current assets	**21,579,446**	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
Current liabilities	**17,458,315**	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
Net current assets	**4,121,131**	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
	24,388,404	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
Financed by:										
Share capital	**94,403**	90,853	86,268	85,239	73,414	72,928	72,551	72,250	71,974	71,605
Reserves	**17,631,788**	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
Shareholders' funds	**17,726,191**	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
Long-term liabilities	**6,425,251**	5,760,075	5,063,586	797,487	753,192	509,487	64,094	69,199	65,955	137,642
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**140,350**	382,772	464,050	–	–	–	–	–	–	–
Post-employment benefits obligations	**25,766**	23,766	30,335	25,464	19,821	17,889	10,827	4,029	–	–
Deferred tax liabilities	**70,846**	111,914	21,076	18,159	7,924	7,299	18,281	5,011	3,968	7,216
	24,388,404	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

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

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