LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 494

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ANNUAL

10

REPORT




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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*
Benedict CHANG Yew Teck

* *Independent Non-executive Directors*

EXECUTIVE DIRECTORS

William FUNG Kwok Lun, *Managing Director*
Bruce Philip ROCKOWITZ
Spencer Theodore FUNG

GROUP CHIEF COMPLIANCE OFFICER

James SIU Kai Lau

COMPANY SECRETARY

Terry WAN Mei Chow

LEGAL ADVISORS

Mayer Brown 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

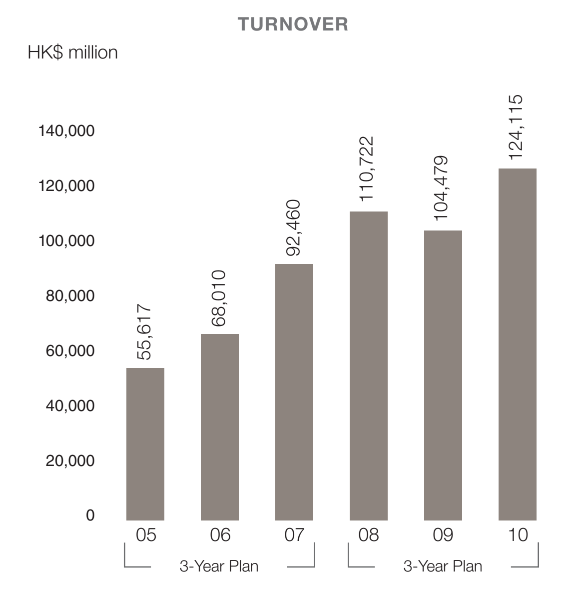
The Hongkong and Shanghai Banking Corporation Limited
Citibank, N.A.
JPMorgan Chase Bank, N.A.
Standard Chartered Bank (Hong Kong) Limited

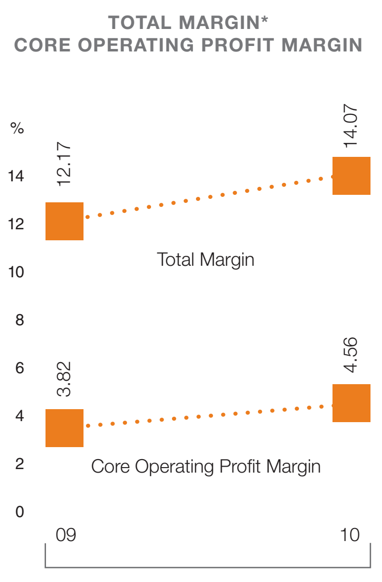
AUDITOR

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

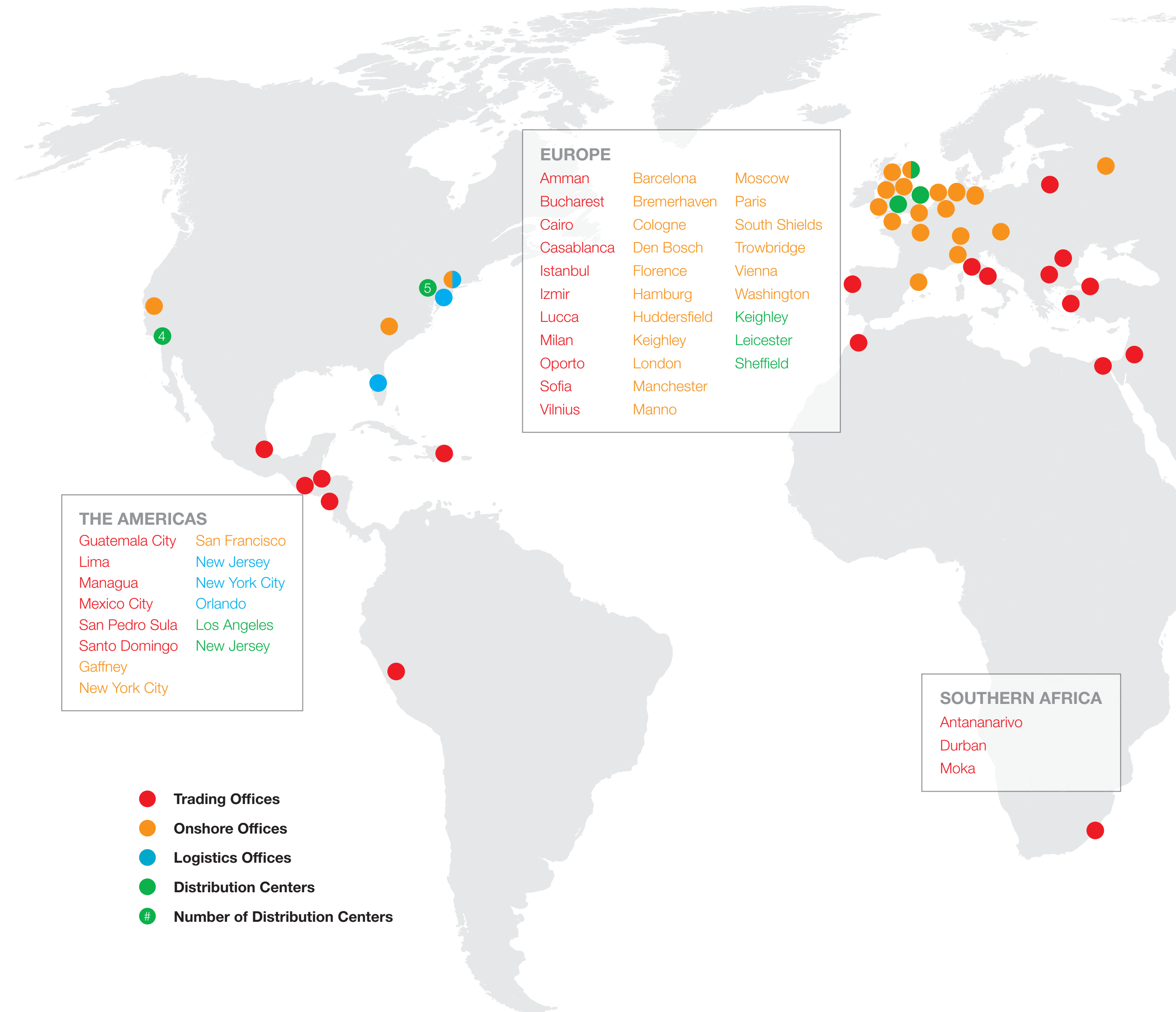
KEY FINANCIAL HIGHLIGHTS

(HK$'000)	**2010**	2009	**Change**
Turnover	**124,115,167**	104,478,983	**+19%**
Total Margin	**17,458,653**	12,717,458	**+37%**
As percentage of Turnover	**14.07%**	12.17%	
Core Operating Profit	**5,656,077**	3,990,106	**+42%**
As percentage of Turnover	**4.56%**	3.82%	
Profit attributable to shareholders of the Company	**4,278,221**	3,369,107	**+27%**
As percentage of Turnover	**3.45%**	3.22%	
Earnings per Share – Basic	**111.9 HK cents**	91.0 HK cents	**+23%**
Dividend per Share			
– Final	**52 HK cents**	49 HK cents	**+6%**
– Full year	**90 HK cents**	75 HK cents	**+20%**
Shareholders' Funds	**28,283,014**	17,759,646	
Net Assets per Share	**HK$7.06**	HK$4.72	





* Gross Profit plus other income, as percentage of turnover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South Shields
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Washington
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Sheffield
THE AMERICAS
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San Pedro Sula
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New York City
San Francisco
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Trading Offices
Onshore Offices
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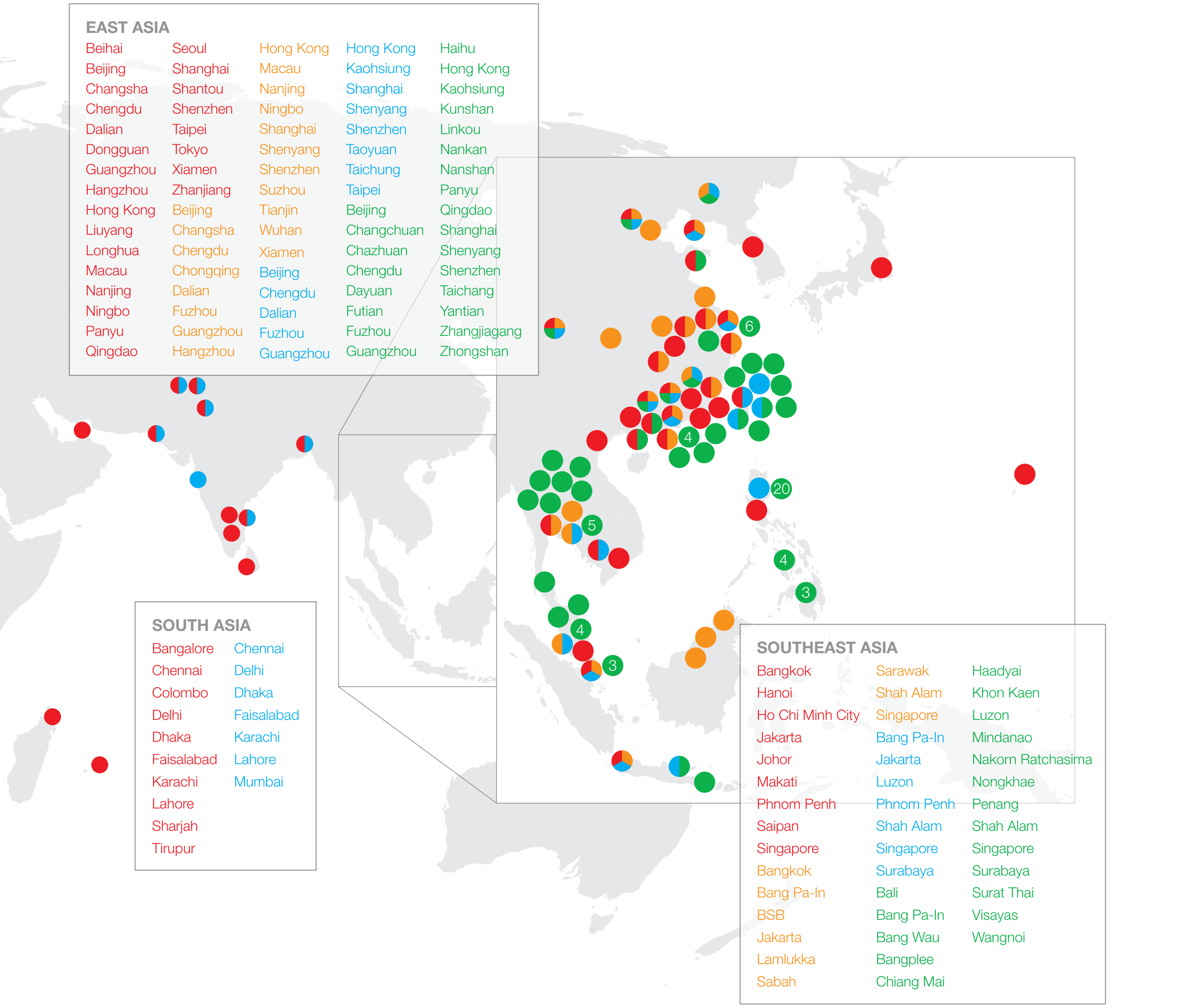
Number of Distribution Centers



Li & Fung Limited, the Hong Kong-headquartered multinational group, is recognized as the world's leader in consumer goods design, development, sourcing and distribution. It manages the supply chain for retailers and brands worldwide from about 240 offices and distribution centers in more than 40 economies spanning across the Americas, Europe, Africa and Asia. Through its three interconnected business networks – trading, logistics and onshore – Li & Fung offers a spectrum of services that covers the entire end-to-end supply chain.

CHAIRMAN'S STATEMENT

Victor Fung
Chairman

If there were any doubts as to whether the twenty-first century would be the "Asian century", 2010 may have put them finally to rest. In 2010, the Asia Pacific region emerged in pole position as a global growth driver and the site of one of the most exciting economic and social transformations in contemporary history. We have just begun to grasp the very deep impacts that the rise of Asia will have on global trade and investment, consumer markets and the economic landscape.

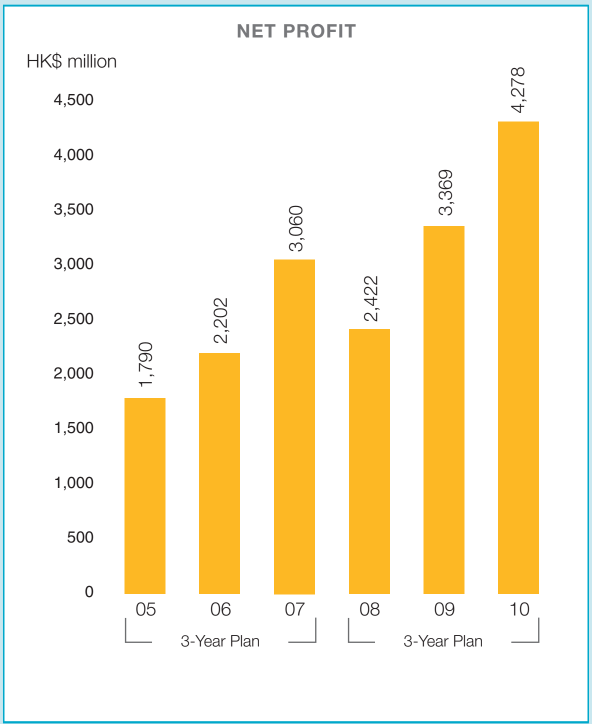
Many of these changes are already underway, as evidenced in China this year. In an effort to promote social stability and worker living standards, factory wages went up by as much as 20% to 30% in 2010. At the same time, rising consumer demand from China and other developing markets, coupled with unpredictable weather and speculation, led to substantial price increases and volatility for raw materials and commodities. These factors, combined with the ongoing depreciation of the US dollar, have created an environment of rising cost pressures that is having profound impact on trade and global sourcing.

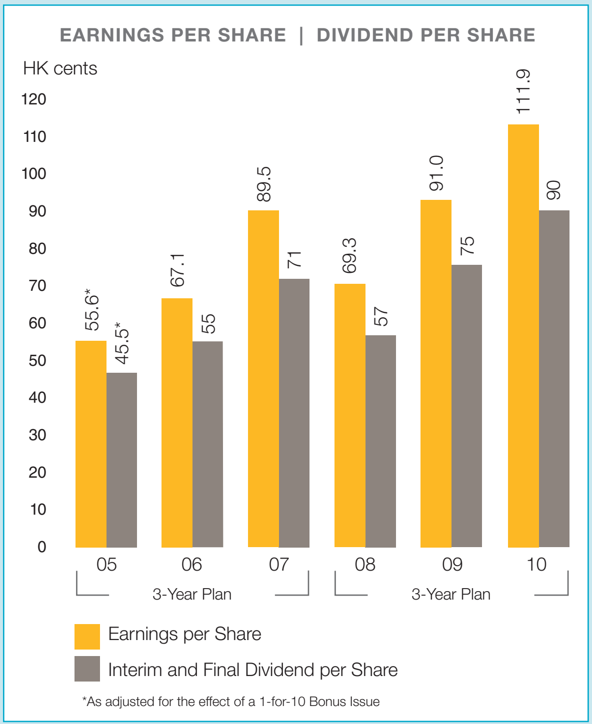
In response, some companies have been shifting certain parts of their supply chain operations in China inland and away from the more expensive coastal areas, or out of the country and into lower-cost sites in Bangladesh, Cambodia, India, Indonesia and Vietnam. While it may be too early to call this a long-term trend, the implications are clear: Global retailers and brands need partners with networks that can provide them with flexibility, quality and value regardless of market conditions.

Li & Fung operates well in this fast-changing environment. The Group recognizes the importance of offering our customers flexibility and cost-effective choices, which we deliver through our global network of 15,000 factories and approximately 240 offices and distribution centers in more than 40 economies.

To extend this competitive advantage, we are constantly seeking new locations that can deliver the right combination of quality and value. We also strive to identify opportunities to strengthen our offerings or build strategic capability. Our acquisition of Integrated Distribution Services Group Limited ("IDS"), which greatly enhances our distribution and logistics capabilities—particularly in the high growth region of Asia—is an example.

The Group's successful integration of this key business, as well as the integration of other important new businesses and our position as a global leader in sourcing and supply chain management, make us cautiously optimistic moving forward as we embark upon our new Three-Year Plan 2011-2013.

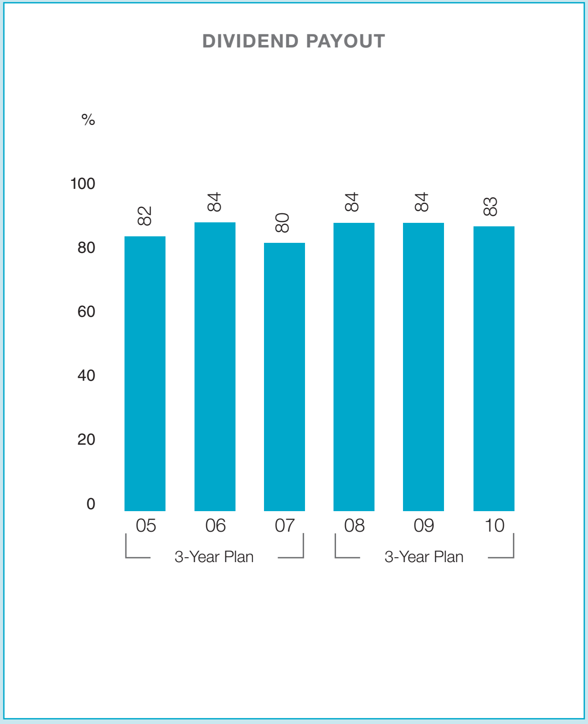




PERFORMANCE

In 2010, Group turnover increased by 19% to HK$124,115 million. Profit attributable to shareholders was HK$4,278 million, an increase of 27% compared to 2009 (HK$3,369 million). Earnings per share were 111.9 HK cents compared with 91.0 HK cents for 2009.

The Board of Directors has resolved to declare a dividend of 52 HK cents per share (2009: 49 HK cents).



MARKET & BUSINESS

With our new Three-Year Plan comes a new set of aggressive targets. Achieving these will require that we continue to build our three global networks—trading, onshore and logistics networks—to meet customers' own constantly evolving needs.

With cash available for acquisitions and a prudently managed balance sheet, the Group continues to seek out synergistic opportunities while pursuing organic growth that can help us meet our targets. In early 2010 we signed a major outsourcing deal with Wal-Mart Stores, Inc. During the year the Group also acquired Jimlar Corporation, a leading designer, distributor and supplier of footwear in the US and internationally. Other notable acquisitions signed include Visage Group Limited, Jackel Group, Cipriani Accessories Inc. and Oxford Apparel.

In particular, the October 2010 acquisition of IDS, a leading distribution and logistics services provider, has greatly strengthened Li & Fung's end-to-end supply chain solution offerings with enhanced distribution and logistics capabilities. It also expands the Group's global network deeper into emerging markets, including the global growth engines of Asia, led by China.

As Li & Fung's business expands, sustainability remains at the core of our company culture. We will continue to invest in our people and nurture talent, reduce our environmental footprint, deepen our partnerships with customers and suppliers for a more sustainable supply chain, and support the communities in which we operate.

Lastly, we will continue to adhere to the highest standards of corporate governance, transparency and ethics.

PROSPECTS

Recovery from the financial crisis and global economic downturn continues, albeit to varying degrees. According to World Bank, global GDP growth in 2011 will be 3.3% compared to 3.9% in 2010. The International Monetary Fund is more optimistic, projecting 4.3% for 2011. However, the recovery remains fragile. Unemployment remains a major issue in many developed countries. Tensions over currency threaten to escalate into protectionism and trade wars. European sovereign debt concerns could continue to drag on market sentiment.

Also, preferential bilateral trade agreements continue to proliferate, hampering the development of an inclusive multilateral trading system. In this still-fragile environment, it is critical that we keep the world's multilateral trading channels open in order to foster growth and reduce imbalances between developed and emerging markets. Over the past two years it has been my pleasure to serve as Chairman of the International Chamber of Commerce, a key proponent of the multilateral trading system. In my current position as Honorary Chairman, I will continue to support the early conclusion of the Doha Development Round of trade talks, which would help to boost growth and opportunities, especially in the emerging markets.

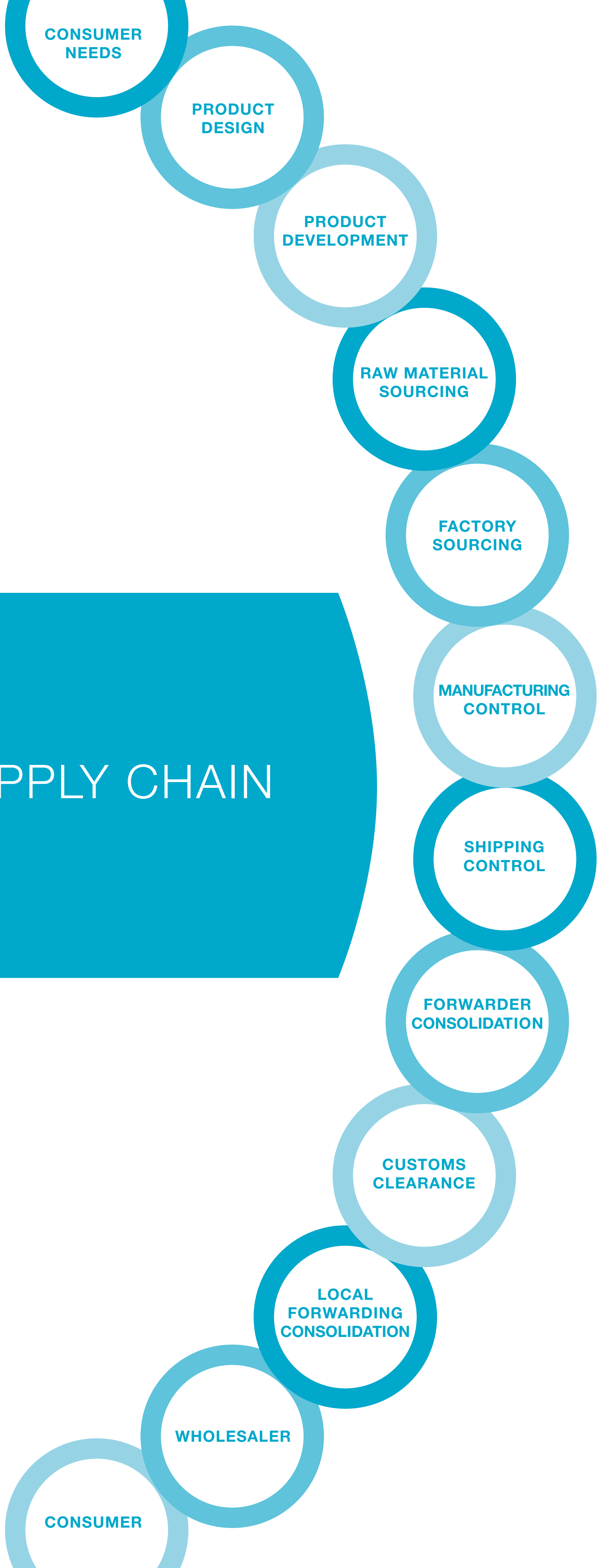
An open trading environment is even more crucial as the world rallies to support Japan in its recovery. The people of Japan have endured an unimaginable series of tragedies with impressive courage and resilience and our thoughts are with them as they work toward the future.

The year under review marked the conclusion of the Three-Year Plan 2008-2010, and I would like to say how fortunate we are at Li & Fung to have such passionate and capable people working tirelessly to help the Group achieve its goals. They will be instrumental to our success in the future and I am proud to work alongside them.

Victor FUNG Kwok King
Chairman

Hong Kong, 24 March 2011

THE SUPPLY CHAIN





We manage all aspects of the Global Supply Chain with **our extensive network** covering about 240 offices and distribution centers in more than 40 economies



William Fung
Managing Director

RESULTS REVIEW

The Group's turnover in 2010 increased by 19% to US$15,912 million (approximately HK$124 billion), reflecting relatively better consumer sentiment compared to the year before. At the same time, significant expansion in our United States and European onshore businesses have resulted in robust core operating profit growth for the year for the Company as a whole.

- Total Margin increased by 37%, increasing as a percentage of turnover from 12.17% to 14.07%
- Core Operating Profit increased by 42%; Core Operating Profit Margin increased from 3.82% to 4.56%
- Profit Attributable to shareholders reached HK$4,278 million, representing an increase of 27% compared to 2009

Bruce Rockowitz
President

SEGMENTAL ANALYSIS

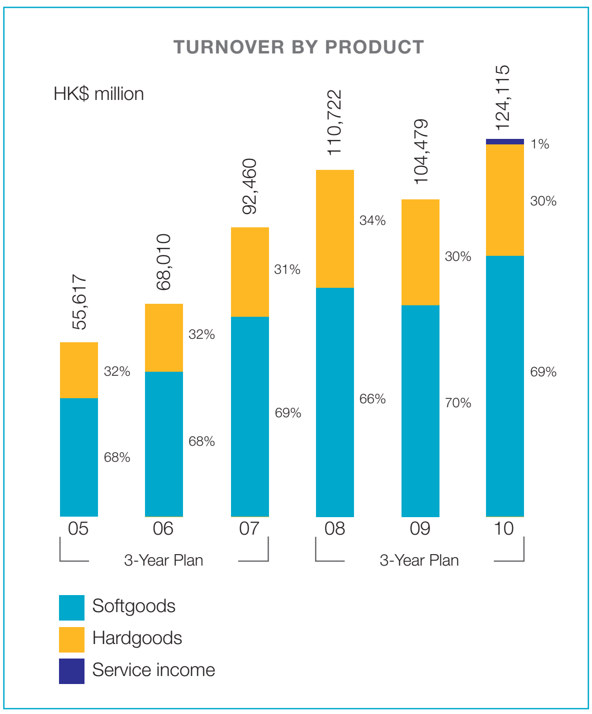
In 2010, softgoods and hardgoods accounted for 69% and 30% of turnover respectively. Service income represented approximately 1%, which is attributed to the logistics business that we took over from Integrated Distribution Services Group Limited ("IDS"). **Softgoods** turnover grew 17%, which was largely due to the organic growth of some existing customers, together with contributions from acquisitions such as Wear Me Apparel, LLC and Visage Group Limited.

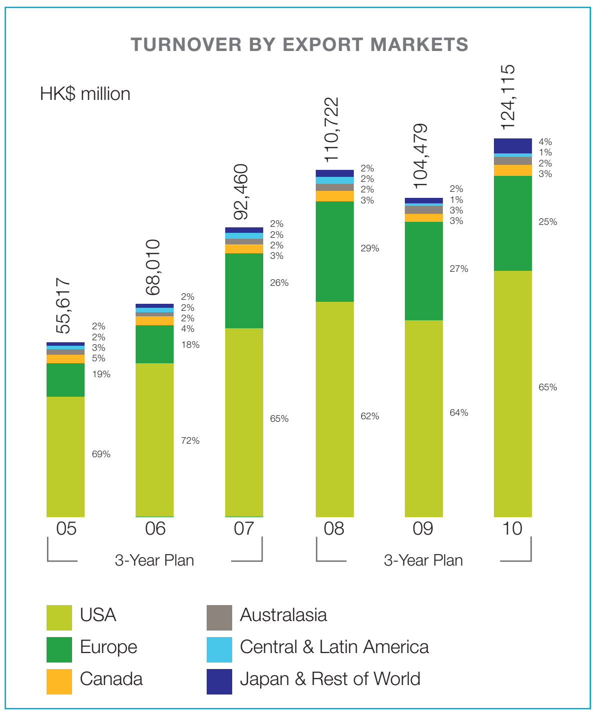
Turnover from the **hardgoods** business increased by 20%, reflecting solid organic growth as well as contributions from Jimlar Corporation, Jackel Group and Cipriani Accessories Inc.

Geographically, the **US** continued to be the Group's key export market, representing 65% of total turnover during the period under review, compared to 64% in 2009. This was partly due to contributions from Wear Me Apparel, LLC and Jimlar Corporation in the US as well as outsourcing deals like Liz Claiborne Inc. and Talbots, Inc. Turnover increased by 21%, also reflecting the slightly more positive consumer sentiment that helped drive positive organic growth with some major existing customers. Operating profit grew by 42%, which was largely attributed to contributions from our higher-margin US onshore business as it continues to grow and perform well.

Europe accounted for 25% of turnover, compared to 27% in 2009. This is partly due to the relatively weaker consumer sentiment in Europe overall. On the other hand, operating profit increased significantly by 47%, which is attributed to the good progress made in the European onshore business and contributions from the acquisition of Visage Group Limited.

Turnover in **Canada, Central & Latin America,** and **Australasia** accounted for 3%, 1% and 2% of the Group's total turnover respectively, representing increases of 36%, 15% and 8% over those geographies' previous turnover. Operating





profit increased by 20% in Canada and 12% in Australasia, but Central & Latin America experienced a drop of 27%. **Japan** and the rest of the world represented a 4% share of Group turnover, an increase of 118%. This was coupled with an increase of 110% in operating profit, which was mainly due to the IDS acquisition. Japan itself represented 0.3% of total turnover and 0.2% of operating profit only.

ACQUISITIONS

During the year, the Group has made total of three large acquisitions (Visage Group Limited, Jimlar Corporation and IDS) and eight roll-up acquisitions (e.g. Heusel Textilhandelsgesellschaft mbH, Jackel Group, HTP Group, Cipriani Accessories Inc., Kenas Furniture Group, Just Jamie & Paulrich Ltd., Oxford Apparel and Fenix Knitwear Group).

LARGE ACQUISITIONS

In February 2010, Li & Fung acquired Visage Group Limited, a leading private-label apparel supplier to high street and mass retailers in the UK. The acquisition adds substantial scale to Li & Fung's existing operation and furthers its objective of developing a significant European onshore presence. In addition, it has now developed relationships with most of the leading UK retailers, thus increasing the Group's overall market share and providing an excellent platform for future growth.

In August, Li & Fung acquired US-based Jimlar Corporation. Jimlar Corporation is a leading designer, distributor and supplier of footwear both in the US and internationally. The company has the licenses for Coach and Calvin Klein footwear, and it owns brands such as Frye, Mountrek and RJ Colt. This is a significant step in expanding the Group's onshore presence in the US as well as its capabilities in the footwear business. It should also provide further footwear sourcing capabilities for the Group as a whole.

In October, we acquired IDS. The acquisition was an important step in the Group's strategy. The IDS platform strengthens the Group's end-to-end supply chain solution offering and expands its global network for future growth. With IDS, Li & Fung will not only sell to developed nations, but it will also be able to distribute to emerging markets.

SMALL ROLL-UP ACQUISITIONS

In February 2010, Li & Fung acquired Heusel Textilhandelsgesellschaft mbH, a well established player in the children's apparel market in Germany that has solid business relationships with a number of key retailers there.

In May, Li & Fung acquired the Hong Kong-based Jackel Group, which services the beauty industry in the areas of primary packaging, fragrance and personal care. The acquisition creates significant synergies with the Group's existing health, beauty and cosmetics ("HBC") business and dramatically strengthens its HBC platform as it continues to grow in this new segment.

Li & Fung acquired the Hong Kong-based HTP Group, a design-driven jeanswear specialist in June. The deal further strengthens the Group's capabilities in denim, and it is expected to create many synergies with its existing customers in this important product category.

In June, the Group entered into an agreement to acquire substantially all of the assets of Cipriani Accessories Inc. and its affiliate, The Max Leather Group. Cipriani Accessories Inc. is a leading designer, distributor and importer of men's and women's accessories in the US, Mexico and Canada.

In August, Li & Fung acquired one of China's leading furniture trading companies, Kenas Furniture Group, which sells furniture to premier retailers and brands and has developed strong capabilities in furniture design and development.

In October, Li & Fung acquired Just Jamie & Paulrich Ltd., a supplier of ladies' tailoring and outerwear to the leading value retailers in the UK. It is recognized for its competence in coats and rainwear, as well as the quality and design it brings to the entire product range. The acquisition supports the Group's European onshore strategy to build a strong apparel business in the UK.

In November, the Group announced acquisition of substantially all of the assets of Oxford Apparel, which is one of the operating groups of Oxford Industries, Inc. Oxford Apparel is expected to be a core addition to Li & Fung's US onshore menswear platform.

At the end of December 2010, the Group acquired the Hong Kong-based Fenix Knitwear Group, which manufactures premium knitwear products to mid- to high-end retailers. This acquisition is expected to boost the Group's capabilities in designing and producing high-quality knitwear products to existing customers of Li & Fung.

OUTSOURCING DEAL

In January, the Group entered into an agreement with Wal-Mart Stores, Inc. to establish a mutually beneficial sourcing arrangement. Under the sourcing arrangement, Direct Sourcing Group ("DSG"), a wholly owned subsidiary of the Group, provides buying agency services to the Wal-Mart Group worldwide.

In November, the Group also announced it will become a sourcing agent for Li Ning Company Limited's brands in both international and domestic market. The arrangement covers sourcing for a certain range of brands in both international and domestic market.

LICENSING DEALS

LF USA signed six licensing deals in 2010:

(i) a partnership with celebrity stylist and fashion visionary Rachel Zoe to create a new contemporary lifestyle collection;

(ii) the expansion of its licensing agreement with TapouT, the leading marketer of mixed martial arts apparel and gear, to include men's and junior sportswear;

(iii) a licensing agreement with "Sean John" Men's Sportswear and Active Wear, exclusive for Macy's;

(iv) the launch of UK Style by French Connection by Sears, French Connection UK and LF USA;

(v) the launch of industry-first lifestyle brands with globally recognized entertainers Jennifer Lopez and Marc Anthony, which will be available in Kohl's stores;

(vi) the signing of Authentic Brands Group to LF USA's Kids Headquarters division for men's, women's, junior and children's apparel.

JOINT VENTURE PARTNERSHIP

A new company is formed with Star Branding that focuses on creating lifestyle concepts inspired by the powerful connections between consumers and the worlds of music, entertainment and sports. The partners in Star Branding, Tommy and Andy Hilfiger along with Bernt Ullman and Joe Lamastra, infuse the new brands with their unique sense of fashion and popular culture. The new venture, called MESH (Music Entertainment Sports Holdings), has combined LF USA's strength in building global brands, supported by its global sourcing network and distribution resources, and Star Branding's expertise in fashion and licensing opportunities inspired by music, entertainment and sports celebrities.

The above deals will further solidify the Group's market share in their respective areas and contribute positively to its bottom line.

REVIEW OF THREE-YEAR PLAN 2008-2010

The year under review comprised the final year of the Three-Year Plan 2008-2010, whose targets, set at the end of 2007, included achieving turnover of US$20 billion and core operating profit of US$1 billion. However, the unexpected onset of the global financial crisis and economic downturn of 2008 and 2009 resulted in soft consumer markets in the US and Europe that compromised Li & Fung's ability to meet these targets. Even so, we are encouraged to have recorded healthy growth in the top line as well as core operating profit over these three years. Turnover grew by 34% as of end-2010 vs 2007, and core operating profit grew by 77%. Moreover, turnover for our US and European onshore businesses reached US$2.6 billion and US$1.1 billion respectively.

We are also pleased to report that we have exceeded the operating leverage target set for this plan period. The original target set was to achieve operating leverage of doubling income percentage growth over turnover percentage growth (i.e. 2x) by the end of this Three-Year Plan 2008-2010. The actual operating leverage reported for the period was 2.3x. The Group's focus on operating leverage and cost control during the period has enabled it to drive greater profits despite a challenging consumer market.

In May 2010, the Group successfully issued a US$400 million bond, which was very well received by fixed income investors. This issue was subsequently increased by US$350 million to a total of US$750 million in July. The net proceeds will go primarily towards further business development and acquisitions. The acquisition of IDS for about US$1 billion in October 2010 was almost completely financed by the issue of new shares.

Li & Fung has maintained strong credit ratings from Moody's and Standard & Poor's, at A3 (stable) and A- (stable) respectively. The Group continues to enjoy healthy cash flow and has strong credit ratios. For details, please refer to the following "Financial Position and Liquidity" section.

The Group also concluded 2010 by making major progress toward shaping the future of the business and laying a solid foundation for the new Three-Year Plan 2011-2013.

THE NEW THREE-YEAR PLAN 2011-2013

Li & Fung has used the challenging times of the last couple of years to accelerate change within the company, accomplishing probably the most complicated restructuring in our history and setting us up for high growth in this new Three-Year Plan. The Group has grown from one global network to three, namely **Trading**, **Onshore** and **Logistics**, and they are all interconnected. It has also gone from approximately 80 offices to 240 offices and distribution centers. The IDS acquisition has expanded the Group's onshore geographical coverage to Asia for future growth, while at the same time strengthening its logistics network to link up its trading and onshore markets, capitalizing on growing opportunities in Asia and especially in China. We are now positioned to offer the most comprehensive supply chain solutions available to customers, and this is a very powerful and unique competitive positioning that will serve our business well going forward.

The new Three-Year Plan targets achieving Core Operating Profit of US$1.5 billion by 2013, with Trading, Logistics and Onshore expected to contribute US$700 million, US$100 million and US$700 million respectively.

We foresee solid growth in the **Trading** business as we continue to take market share externally and penetrate further within our existing customer base. Specifically, our relationship with Wal-Mart continues to solidify and has been progressing well. Other business ventures such as HBC and footwear are also showing promising signs of growth during this three-year period.

On the **Onshore** front, the US business is expected to continue experiencing significant growth. The US onshore business has grown to become a nearly US$2.6 billion turnover enterprise since its inception about six years ago. During this plan period, it will continue to grow via the private label, proprietary brand and licensing brand platforms. The European onshore business, which was launched during the last Three-Year Plan, has completed its initial infrastructure build-out in the face of a very tough economic environment. We expect that the European onshore business will track the development pattern of US onshore business very closely and actively grow via acquisition during this plan period. Last but certainly not least, LF Asia was recently launched to capture the growing opportunities in the emerging Asia market.

While small at present, our **Logistics** business is off to a good start as we begin the new Three-Year Plan. Not only it will capture the previous logistics business of IDS, but it will also drive significant synergies across the trading and onshore business platforms and provide the essential transportation links between the two.

We are entering a new era of sourcing. With the entry of China as a major supply market from 1979, the world has basically been in a low supply cost era for the last 30 years. The change in wage policy in China in 2009 and the subsequent significant higher export prices brings this status quo to an end. To maintain our competitive advantage, Li & Fung will continue to be on the lookout for high-quality, cost-effective sourcing markets, but increased product cost in the years ahead seems inevitable. Nonetheless, we have a vast network of about 240 offices and distribution centers in over 40 economies around the world which puts us in a relatively advantageous position, and we will continue to expand our sourcing network relentlessly to meet our customers' needs.

Li & Fung 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.

PEOPLE

As of the end of 2010, the Group had a total workforce of 26,766, of whom 4,473 were based in Hong Kong and 22,293 were located overseas.

At Li & Fung we recognize that our asset base resides in the talent, enterprise and creativity of our people. We believe that investing in our people is about investing in the future and our goal is to inspire people and build a culture and environment in which they can grow and succeed.

During 2010, with the vision of delivering world class training programs, our learning and development initiatives focused on strengthening the core functional and management capabilities of our people. Over 1,370 in-house learning programs were organized in 34 offices, with 19,500 participants joining through 75,000 learning hours. Our programs are designed to be practical and closely linked to our business, with a significant number of seminars conducted by internal experts, thereby further encouraging a culture of knowledge sharing within the organization.

The Li & Fung Leadership Program was developed in conjunction with the Massachusetts Institute of Technology (MIT) Sloan School of Management and the University of Hong Kong. Nearly 200 of our senior managers attended the 2-term seminars and workshops. This innovative program will be expanded to another 600 senior managers.

In 2010, Li & Fung also launched our corporate Program for Management Development (PMD) focusing on attracting and developing talent for future business leadership positions. A total of 43 Management Associates representing 16 nationalities from around the world participated in a one-year structured and intensive development program, including corporate orientation and training, rotational assignments in the Group's core businesses, and business education programs.

The Merchandising Skills Foundation Program is another core in-house talent development program launched in 2009, with the aim to equip merchandisers with practical, job-related skills that support business growth. In 2010, over 2,000 colleagues in 13 locations participated and in 2011, this program will be extended to a broader group of employees in more than 40 countries through e-learning.

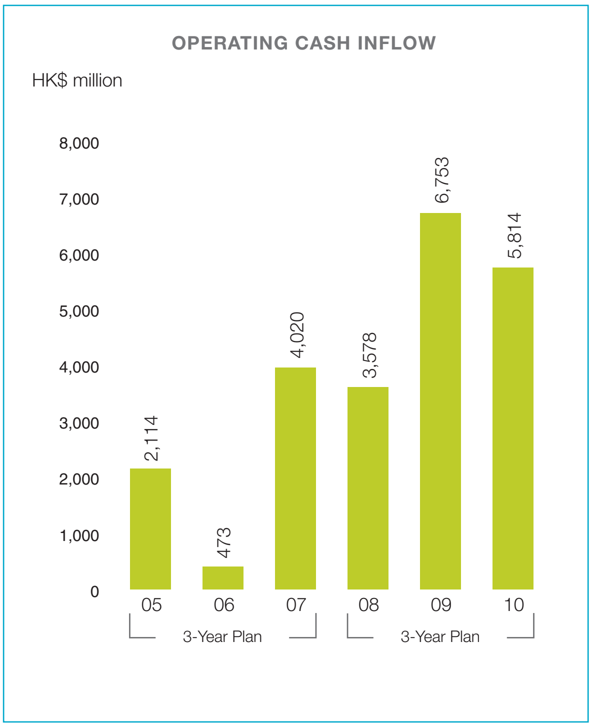
Total manpower costs for 2010 were HK$6,187 million, compared with HK$4,848 million for 2009.

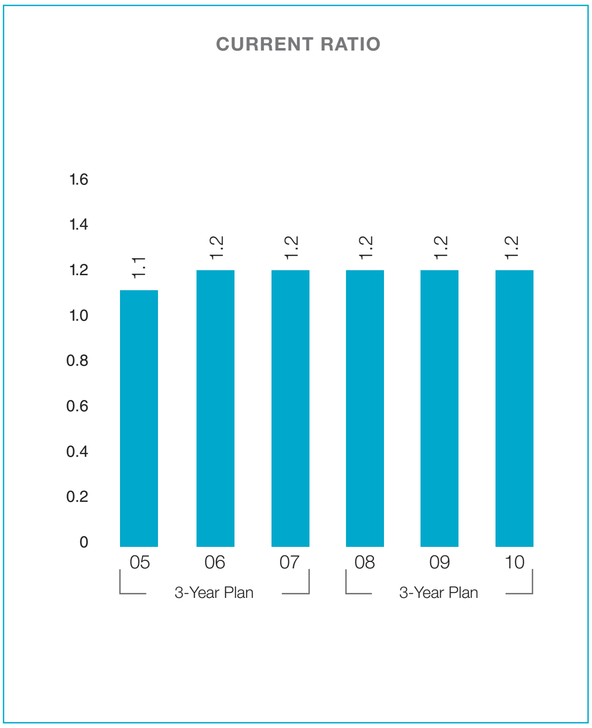
FINANCIAL POSITION AND LIQUIDITY

The Group continued to be in a strong financial position for the year under review with cash and cash equivalents amounting to HK$7,334 million at the end of December 2010.

Normal trading operations were well supported by more than HK$19 billion in bank trading facilities. In addition, the Group had available bank loans and overdraft facilities of HK$7,465 million, out of which HK$2,348 million were committed facilities. As of 31 December 2010, only HK$1,712 million of the Group's bank loans and overdraft facilities was drawn down, out of which utilization of committed facilities was HK$1,118 million.

The Group issued some additional long-term bonds of US$750 million (equivalent to approximately HK$ 5.9 billion) during the year for business development and acquisitions and at balance sheet date, the Group's gearing ratio was 12%, calculated as net debt divided by total capital. Net debt of HK$3,958 million was calculated as total borrowings (i.e. the aggregate of long-term bonds and bank loans of HK$11,292 million) less cash and cash equivalents of HK$7,334 million. Total capital was calculated as total equity of HK$28,330 million plus net debt. During the year, the Group's total equity was further strengthened by issue of shares of approximately HK$8,015 million for the privatization of IDS. The current ratio was 1.2, calculated based on current assets of HK$32,666 million and current liabilities of HK$26,147 million.





CREDIT RISK MANAGEMENT

Credit risk mainly arises from trade and other receivables.

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 with vendors 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 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$1,926 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 2009/2010.

The Commissioner of the HKIR issued a determination on 14 June 2004 to one of our 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 believed that the Group had meritorious defense 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 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.

On 19 March 2010, the Board of Review 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. On 1 April 2010, both LFT and the HKIR transmitted the stated case to the High Court for determination. On 15 July 2010, the HKIR applied to the High Court to remit the stated case to the Board of Review for amendment so as to include certain evidence and additional questions of law in the stated case. The IRD's application to amend the stated case was heard by the Court on 17 February 2011. The Court did not allow the Commissioner's application to remit the case stated to the Board in respect of the Offshore Claim. The Court also disallowed the Commissioner's application to set out the requested evidence and pose the requested additional questions of law on the Offshore Claim in the case stated. Nevertheless, the Court directed the parties to try to agree some neutral facts in respect of the Offshore Claim on which the Court can rely in determining the appeal. As regards the requested additional questions of law on the Deduction Claim, the Court directed the parties to try to agree on the reformulation of those questions, and on directions for the case stated to be remitted to the Board for amendment. The Court has fixed another hearing on 28 March 2011 to give further directions in respect of the IRD's application to remit the stated case to the Board of Review.

The appeal by the HKIR in respect of the Board of Review Decision on the Offshore Claim has been fixed to be heard before the Court of First Instance on 6 April 2011.

The Group has also filed objections with the HKIR against the remaining additional tax assessments of HK$1,593 million. The case before the Board of Review and now the High Court only applies to the additional tax assessments in respect of LFT for the years of assessment from 1992/93 to 2001/02. The Group's dispute with the HKIR regarding the remaining additional tax assessments in respect of certain other subsidiaries for the years of assessment from 1992/93 to 2001/02, and in respect of the Group for the period after the 2001/02 assessment years, is ongoing and has not yet been determined. It is therefore not yet before the Board of Review, and no hearing is currently scheduled.

Based on the assessment of the Group's legal counsel on the merits 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 that 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.

On 11 June 2010, the Group also applied for a judicial review of the HKIR Commissioner's decision rejecting LFT's application for an unconditional holdover of tax for the year of assessment 2008/09 pending the determination of the objection lodged with the HKIR. The Group has purchased tax reserve certificates in respect of LFT for the year of assessment 2008/09 as directed by the Commissioner of the HKIR pending the decision of the judicial review application. As of the date of this annual report, the hearing date for the judicial review application is yet to be fixed.

On 22 November 2010, the Group entered into an agreement to acquire substantially all of the assets of Oxford Apparel, which is one of the operating groups of Oxford Industries, Inc. This acquisition has not been closed until January 2011 and the total consideration amounted to approximately HK$949 million.

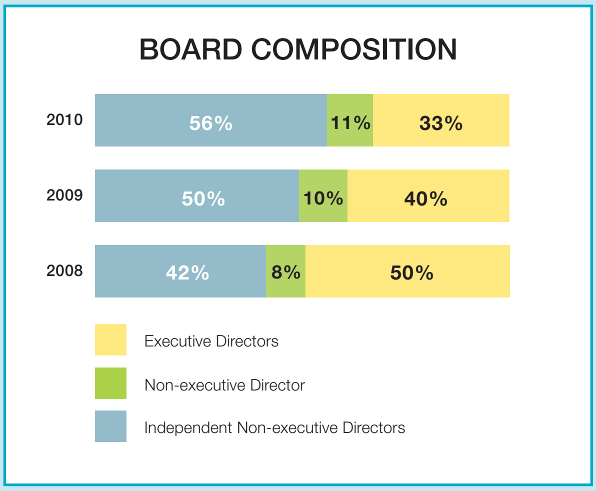
Other than the above and certain capital commitments to acquire fixed assets and computer software of approximately HK$269 million, there are no material capital commitments, contingent liabilities or off-balance sheet obligations.

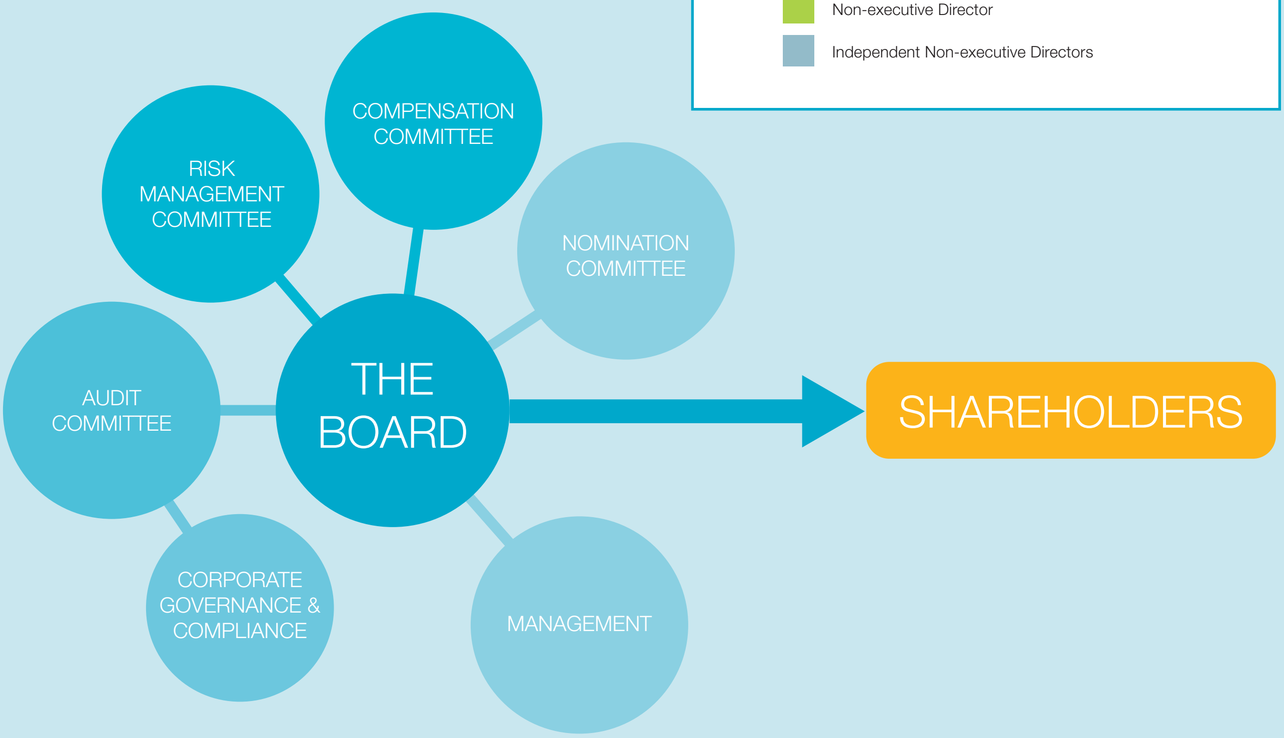
The Board of Directors and management are committed to principles of good corporate governance consistent with prudent management and enhancement of **shareholder value**. These principles emphasize transparency, accountability and independence. Set out below are those principles of corporate governance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

THE BOARD

BOARD COMPOSITION

Following the retirement of an Executive Director at 2010 Annual General Meeting and the recent appointment of a Non-executive Director in February 2011, the Board is currently composed of the Group Non-executive Chairman, the Group Executive Managing Director, two Executive Directors, five Independent Non-executive Directors and one Non-executive Director. The Board considers this composition to be more balanced and to reinforce 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 44 to 49.





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 Senior Management, 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. Senior Management is invited to join all Board meetings to enhance the Board and management communication. External auditor attended the Company's 2010 Annual General Meeting to answer any questions from the shareholders on the audit of the Company.

In 2010, the Board held **four** physical meetings and **five** phone conferences (with an **average attendance rate of 94%**). A summary of Board and Committee meetings in 2010 is set out in the following table:

BOARD AND COMMITTEE MEETINGS FOR YEAR 2010

	Board	Nomination Committee	Audit Committee	Risk Management Committee	Compensation Committee	Annual General Meeting	Special General Meeting
Non-executive Director							
Dr Victor FUNG Kwok King[1]	■■■■■■■■■	■	◪	■■	■■■■	■	◪ [5]
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	■■■■■■■■■		■■■■		■■■■	■	◪
Executive Directors							
Dr William FUNG Kwok Lun	■■■■■■■■■			■■		■	◪ [5]
Mr Bruce Philip ROCKOWITZ	◪■■■■■■■■			■■		■	■
Ms Annabella LEUNG Wai Ping – retired on 18 May 2010	◪■■■■					■	
Mr Spencer Theodore FUNG	■■■■■■■■■					■	◪ [5]
Group Chief Compliance Officer							
Mr James SIU Kai Lau	■■■■■■■■■ [4]	■ [4]	■■■■ [4]	■■	■■■■ [4]	■	■
Dates of meeting	15/01/2010 [6] 24/02/2010 [6] 24/03/2010 28/04/2010 [6] 18/05/2010 26/06/2010 [6] 12/08/2010 04/10/2010 [6] 15/11/2010	24/03/2010	24/03/2010 18/05/2010 11/08/2010 15/11/2010	24/02/2010 21/10/2010	24/03/2010 18/05/2010 11/08/2010 15/11/2010	18/05/2010	13/09/2010

1: Chairman of the Board, Nomination Committee and Risk Management Committee. Resigned as an Audit Committee member on 18 May 2010

2: Chairman of Audit Committee

3: Chairman of Compensation Committee

4: Attended Board and Committee meetings as a non-member

5: Absent and abstained from voting at the Special General Meeting as each of them was considered to have a material interest in the proposal for acquisition of Integrated Distribution Services Group Limited by way of privatization by the Company

6: Held by phone conference

■ 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, which is on no less exacting terms than those set out in Chapter 3 of the Listing Rules of the Exchange, is delegated by the Board to the Nomination Committee.

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 a 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 was conducted in Macau in November 2010. Similar Board Meeting at overseas offices coupled with office briefings and a tour by the management of our overseas offices had been conducted once every year from 2004 to 2009.

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 external legal adviser on directors' legal role and responsibilities.

To further maximize the contribution from non-management Directors, a separate meeting between the Group Chairman and Independent Non-executive Directors was held in May 2010 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 2010.

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 2010 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 management 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, all Audit Committee members are Independent Non-executive Directors, and the Nomination and Compensation Committees have been structured with a majority of Independent Non-executive Directors as members 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 **once** in 2010 (with a **100% attendance rate**) to review the board composition, the nomination of directors to fill board vacancies in 2010 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 all 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 2010 (with an **average attendance rate of 96%**) to review with 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.

In 2010, the Committee's review covers the audit plans and findings of internal and external auditors, external auditor's independence and performance, the Group's accounting principles and practices, goodwill assessment, listing rules and statutory compliance, connected transactions, internal controls, risk management, treasury, 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 and further enhancements and changes in practice were made in 2010.

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 2010, 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 require prior approval of the Audit Committee if the fee exceeds certain pre-set thresholds. 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 2010, 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 2010 have been scrutinized by the Audit Committee (refer to details of fees to auditor in *Note 4* to the accounts on page 93).

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 2010 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 2011 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 2010 (with a **100% attendance rate**) to review risk management procedures pertinent to the Group's significant investments and operations. The scope of review covers 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 **four times** in 2010 (with a **100% attendance rate**) to review and approve all Executive Directors' (including the Group Managing Director) remuneration packages and the granting of share options under the Three-Year Plan 2008-2010.

Details of Directors' emoluments of the Company are set out in *Note 11* to the accounts on pages 98 to 100.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS AND SENIOR MANAGEMENT

The primary goal of the remuneration policy on executive remuneration packages is to enable Li & Fung to motivate Executive Directors and Senior Management by linking their compensation to performance with reference to corporate and operating groups' objectives. Under the policy, a Director or a member of Senior Management 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' and Senior Management's remuneration packages including their basic salary were approved by Compensation Committee at the beginning of the Group's 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 58, 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) and Senior Management. Under this scheme, the computation of discretionary bonus (without capping) is based on measurable performance contributions of operating groups headed by the respective Executive Directors and Senior Management. 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 and Senior Management, 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.

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

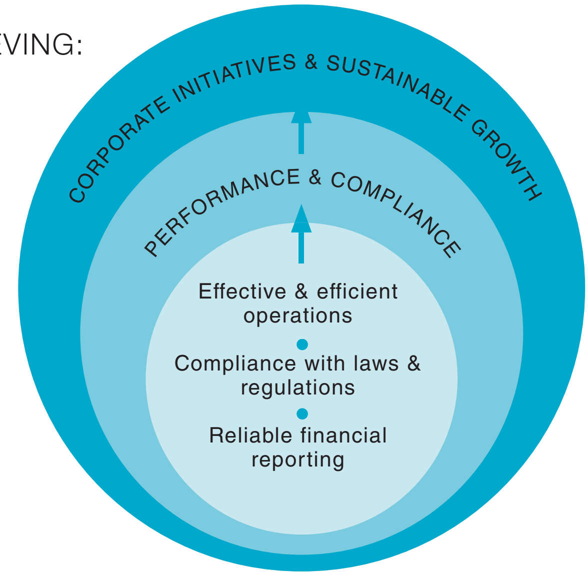
The Group operates within an established control environment, which is consistent with the principles outlined in *Internal Control and Risk Management – A Basic Framework* issued by the Hong Kong Institute of Certified Public Accountants. The scope of internal control for the Group relates to three 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 operating groups 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 2008-2010 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 operating group levels on a quarterly and 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 130 to 133.

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 structured 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, financial and operational risks of our supply chain operations, investment and acquisitions, taxation, inventory and receivable management, Group-wide insurance, human resources, contingency and disaster recovery 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 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 2010, 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 2010.

OVERALL ASSESSMENT

Based on the respective assessments made by management and the Group's CGD and also taking into account the results of the works conducted by the external auditor for the purpose of their audit, the Audit Committee considered that for 2010:

- 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.

- the resources, qualifications, experience, training programmes and budget of the staff of the Group's accounting and reporting function were adequate.

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 Code 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 Three-Year Plan 2005-2007 and Three-Year Plan 2008-2010. Details of our awards are set out on page 38 to 39.

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 2010. 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 was noted by the Company in 2010.

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 58 to 60. 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 2010.

DIRECTORS' RESPONSIBILITY FOR ACCOUNTS AND AUDITOR'S RESPONSIBILITY

The Directors' responsibility for preparing the accounts is set out on page 62, and the auditor's reporting responsibility is set out on page 63.

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 2010.

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 — Corporate Communications and Investor Relations, whose contact information is detailed on page 50.

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, S&P/StanChart Greater China Index, FTSE4Good Index, Dow Jones Sustainability Asia Pacific Index and Hang Seng Corporate Sustainability Index Series.

In 2010, 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 2010, are set out in the "Information for Investors" section on page 50 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 2010, Li & Fung received a number of recognitions from the wider business community, including being selected by *Forbes Asia*'s "Fabulous 50" in Asia and made the *Financial Times*' "FT Global 500". The Group was also named Large-Cap Corporate of the Year, Hong Kong in *Asiamoney*'s "Asia's Best-Managed Companies 2010" awards, and received "The Asset Corporate Platinum Award 2010" from *The Asset Magazine*.

The Group values feedback from shareholders on its efforts to promote transparency and foster investor relationships. Comments and suggestions are welcomed and can be addressed to the Group Corporate Communications and Investor Relations Department by mail or by email to the Group at *ir@lifung.com.hk.*

INFORMATION TECHNOLOGY

The Company continued to demonstrate its commitment to investments in Information Technology through 2010, with strategic focus on platforms driving core operations, process efficiency and information transparency.

SUPPLY CHAIN COLLABORATION

Building on the success of the Vendor Portal rollout through the first half of the Group's Three-Year Plan 2008-2010, the Company continued to add functionality to support the vendor community, specifically related to electronic document flows, shipping and payment processes. Thus reducing costs, increasing efficiency and enhancing transparency to all parties involved in the end to end transaction.

This will continue to be a strategic platform for the Company in the coming Three-Year Plan 2011-2013, extending to carriers, freight and banking processes, as well as integrating the current QC, compliance and logistics platforms.

The Company saw a sizable increase in the use of its IP enabled voice and video platforms year on year, continuing to support efficient commutations within the Company and with our partners, giving a realistic alternative to travel and associated expenses. With this growth and the growth in our office network, incremental investments were made both in our fixed network infrastructure as well as newer individual desktop video conferencing software, facilitating video conferencing to the entire company.

SERVICE AND INFRASTRUCTURE IMPROVEMENTS

The IT Division of Li & Fung (Trading) Limited was reaccredited in ISO 9001:2000 certification for quality management, achieved continuously since 2001.

As part of our End User Experience program, the Company globally upgraded its entire desktop environment to Windows 7. This was positively received as a result of all users gaining the benefits of increased performance, desktop stability, ease of use and at the same time leveraging our existing equipment.

Corporate Governance and Best Management Company Awards/Recognitions

Three-Year Plan 2008-2010
Three-Year Plan 2005-2007

2005

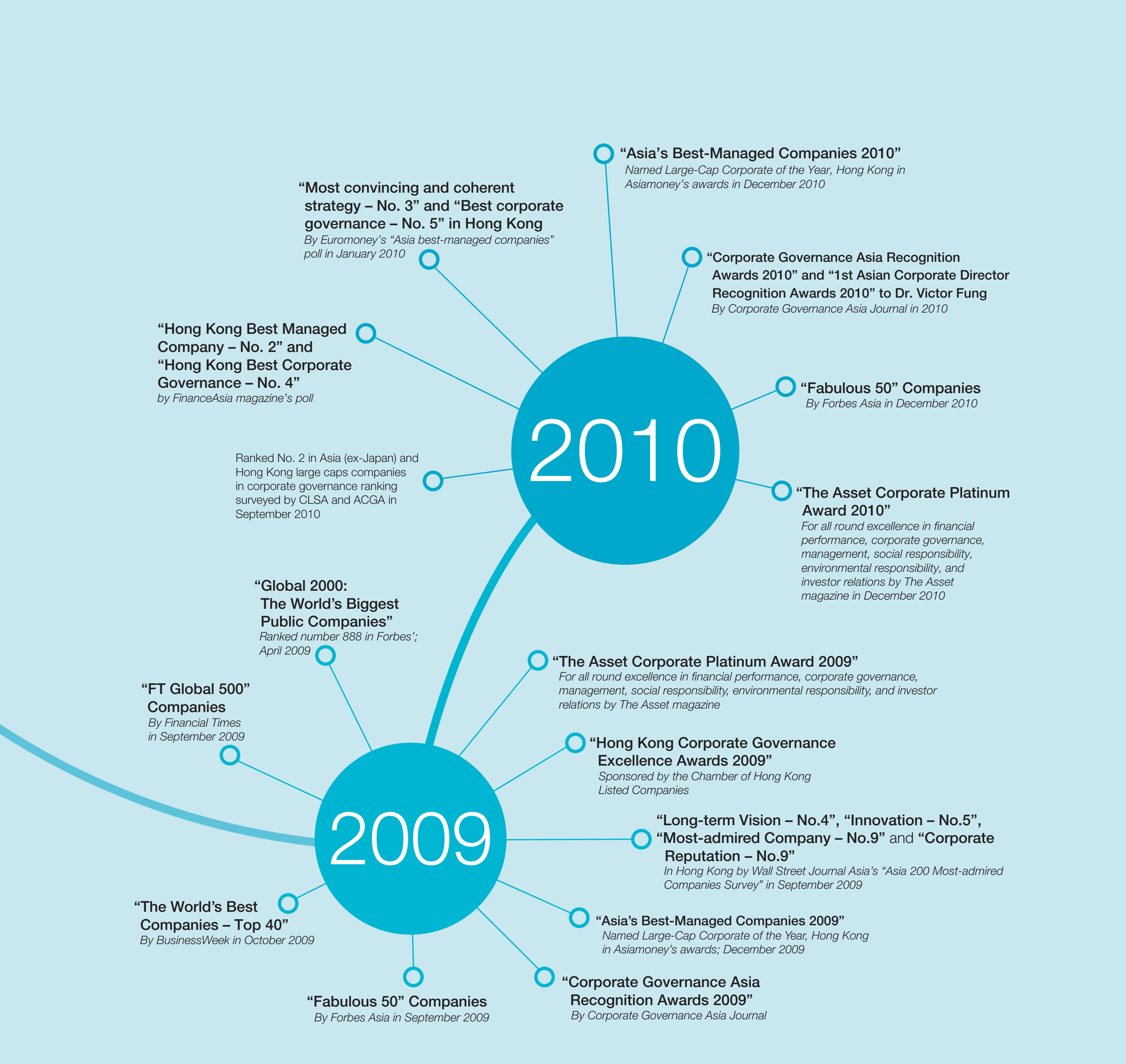
- The Gold Award in the Hang Seng Index Category of the **"Best Corporate Governance Disclosure Awards 2005"** organized by the Hong Kong Institute of Certified Public Accountants.
- Included as the **"Top Quartile Companies"** in Hong Kong with the highest corporate governance score surveyed by CLSA 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.*
- **"Hong Kong Best Managed Company – No.1"** and **"Best Corporate Governance – No.2"** by *FinanceAsia* magazine.
- **"The Asset Corporate Governance Awards 2007"** by *The Asset magazine*.
- **"Fabulous 50"** by *Forbes Asia.*
- Ranking among the top 5 of Hong Kong large caps companies in corporate governance ranking surveyed by CLSA and ACGA survey.


2010
"Asia's Best-Managed Companies 2010"
Named Large-Cap Corporate of the Year, Hong Kong in Asiamoney's awards in December 2010
"Most convincing and coherent strategy – No. 3" and "Best corporate governance – No. 5" in Hong Kong
By Euromoney's "Asia best-managed companies" poll in January 2010
"Corporate Governance Asia Recognition Awards 2010" and "1st Asian Corporate Director Recognition Awards 2010" to Dr. Victor Fung
By Corporate Governance Asia Journal in 2010
"Hong Kong Best Managed Company – No. 2" and "Hong Kong Best Corporate Governance – No. 4"
by FinanceAsia magazine's poll
"Fabulous 50" Companies
By Forbes Asia in December 2010
Ranked No. 2 in Asia (ex-Japan) and Hong Kong large caps companies in corporate governance ranking surveyed by CLSA and ACGA in September 2010
"The Asset Corporate Platinum Award 2010"
For all round excellence in financial performance, corporate governance, management, social responsibility, environmental responsibility, and investor relations by The Asset magazine in December 2010
2009
"Global 2000: The World's Biggest Public Companies"
Ranked number 888 in Forbes'; April 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
"FT Global 500" Companies
By Financial Times in September 2009
"Hong Kong Corporate Governance Excellence Awards 2009"
Sponsored by the Chamber of Hong Kong Listed Companies
"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
"The World's Best Companies – Top 40"
By BusinessWeek in October 2009
"Asia's Best-Managed Companies 2009"
Named Large-Cap Corporate of the Year, Hong Kong in Asiamoney's awards; December 2009
"Fabulous 50" Companies
By Forbes Asia in September 2009
"Corporate Governance Asia Recognition Awards 2009"
By Corporate Governance Asia Journal

SUSTAINABILITY

OUR APPROACH

Sustainability has always been a key part of our corporate culture and today provides a guiding framework for how we manage our environmental impact while contributing to the social and economic development of the societies and communities in which we operate. During 2010 we made significant progress by setting out a corporate sustainability strategy, starting to embed this within our operations and defining the parameters by which to track progress.

Our corporate sustainability strategy integrates actions that aim to improve the sustainability of our own operations and facilities and the work we do with suppliers, customers and industry partners to continually upgrade the sustainability of our global supply chain. In short, our vision is to use resources efficiently; to add business value for our customers and their suppliers; to focus on the health and wellbeing of our colleagues; and to positively impact our communities and societies.

Set out below are our key initiatives and achievements related to sustainability in 2010.

ENVIRONMENT

ENERGY AND CARBON

We recognize the risks posed by climate change and understand that business action is crucial for our global efforts to combat climate change. In 2010 we continued our partnership with the Clinton Climate Initiative and engaged Honeywell to conduct an Investment Grade Audit (IGA) of our headquarters in Hong Kong and advise us on energy efficiency opportunities. In 2010, we began to implement the audit's recommendations and have begun to see reductions in energy consumption.

For the second consecutive year, we have been awarded the Energywi$e Excellent rating for our Hong Kong offices and the "Class of Good" Energywi$e Label under the Hong Kong Awards for Environmental Excellence program of the Hong Kong government.

In conjunction with our efforts on energy efficiency in our Hong Kong headquarters, we reduced our Scope 1 and 2 carbon emissions by 12% compared to 2009. Globally, we are taking additional energy conservation measures, enabling us to reduce carbon emissions by 2.8% per m^2 compared with 2009 in our global operations. While reduction efforts have resulted from analysis on top of the IGA, many initiatives have been "bottom up" as a result of engaging our employees and leadership taken by key functional departments such as IT and corporate services.

Overall in 2010 our total global energy consumption was 187,099 GJ (51,972,203 KWh) while our total global emissions were 37,614 tons of CO_2 equivalent. This data forms part of our disclosure through the Carbon Disclosure Project.

WATER AND WASTE

We recognize that water is a scarce and valuable resource and have therefore made efforts to reduce our water consumption in Hong Kong and globally. In 2010 in our Hong Kong operations, we consumed 9,790 cubic meters of water, which is a 5.5% reduction on our consumption in 2009. We will continue to roll out water reduction efforts in our global operations.

Our waste reduction campaign focused on reducing A4 paper consumption, and in 2010 we achieved a reduction of 20.9% paper consumption per colleague in our global operations. Our total paper consumption in 2010 was 103,089 reams. We also maintained our "Class of Excellent" Wastewi$e Label in Hong Kong.

SUSTAINABLE BUILDING AND RENOVATION

In parallel to our initiatives to increase the sustainability of our existing facilities and operations, we are also seeking to practice sustainable design for our new offices and renovations. In 2010, two of our offices in the United States were certified to the Leadership in Energy and Environmental Design (LEED) Silver standard.

As we gain experience with the design and operation of sustainable offices, we aim to make sustainable building a core part of our global sustainability strategy.

OUR PARTNERSHIPS

We recognize the benefits of implementing innovative sustainability programs and strategic initiatives with our partners – including suppliers, customers, industry associations and non-governmental organizations – who share our commitment to sustainability. By taking the lead ourselves, contributing to the development of our customers' sustainability strategies and supporting our suppliers, we effect greater positive change in our supply chain.

Examples of some of our partnerships include:

- Business for Social Responsibility (BSR) – we are a member of the Beyond Monitoring Working Group and we also support a number of suppliers to participate in the BSR's Energy Efficiency Program.

- Supplier Ethical Database Exchange (Sedex) – we work with businesses to improve the ethical performance of supply chains.

- Sustainable Fashion Business Consortium (SFBC) – we aim to increase sustainable practices across the fashion supply chain.

- The Natural Resources Defense Council (NRDC) – we partner with industry experts and other retailers working on the NDRC's Responsible Sourcing Initiative – Clean by Design.

- United Nations Global Compact – we have been a signatory since 2001.

In 2010, we also supported the World Wildlife Fund, Hong Kong Council of Social Service and Habitat for Humanity on various outreach activities.

SUPPLY CHAIN RESPONSIBILITY

We believe that by collaborating with and supporting our customers' sustainability programs, we help consumers worldwide make responsible choices and lead more sustainable lives. At the same time, we also seek to engage with our suppliers and customers to enhance our collective knowledge and capabilities around sustainable sourcing and sustainable products.

At a basic level, our Vendor Code of Conduct provides a clear statement of labour and environmental commitments for our approved suppliers. The Code is based on local and national laws and regulations as well as the International Labour Organization's core conventions. These include underage labour, involuntary labour, compensation, working hours, discrimination, disciplinary practices, freedom of association, health and safety, environmental practices and the right of access.

Li & Fung employs over 130 in-house dedicated vendor compliance colleagues worldwide who regularly monitor compliance and work with suppliers that produce our customers' products, in line with our own Code of Conduct and industry-defined and customer-specific audit standards, protocols and methodologies. Suppliers are rated and approved based on designations ranging from Satisfactory to Failed (Zero Tolerance) and/or customer specific designations.

Where there are issues, our approach reflects our belief in education, consultation and reinforcement leading to continuous improvement and higher standards at factories. We work with our customers, suppliers, non-governmental organizations and experts to implement energy, water and pollution reduction initiatives, as well as raise labour standards.

To ensure product safety, quality and regulatory compliance, we have put in place rigorous internal processes backed by a team of 2,600 global Quality Assurance/Quality Control colleagues. Our internal compliance efforts are additionally backed by regular internal and external testing and certification to ensure that products conform to the required standards.

OUR PEOPLE

We believe that the most valuable part of any business is its people and this belief is reflected in our commitment to nurturing the talent, enterprise and creativity of our people. Our goal is to inspire people by building a culture and environment in which they can grow and succeed.

We also know that to ensure long-term prosperity and sustainability we want all our people to be healthy, safe, motivated and committed to our business.

DIVERSITY AND SUSTAINABILITY

The Li & Fung family is a global, diverse and dedicated group of people, committed to making our organization the best sourcing and service company in world. We believe that diversity supports and strengthens our culture and mirrors the local communities in which we operate.

At a basic level, we try to provide a healthy and safe workplace and support our colleagues to live sustainable and healthy lives. Our intranet provides information on healthy living, hygiene, disease prevention, sustainable lifestyles, ergonomics and how to enhance work-life balance. We are also vigilant about preparedness for pandemics and have trained diverse teams to react globally if and when necessary.

Being a global business, our sustainability depends on our ability to understand, embrace and operate in a diverse and multi-cultural world. Maintaining a respectful workplace is grounded in our Code of Conduct and Business Ethics. Further, our executive team exemplifies our approach, given its composition: over 24 nationalities are represented among our top 600 global managers. In addition, we actively promote the relocation and transfer of our people between countries so they can gain experience and understanding of different business and cultural environments.

LEARNING AND DEVELOPMENT

Through our learning and development programs, we aim to build a culture of continuous learning designed to enable our people to grow and succeed.

During 2010, with the vision of delivering world-class training programs, our learning and development initiatives focused on strengthening the core functional and management capabilities of our people. Over 1,370 in-house learning programs were organized in 34 offices, with 19,500 participants joining through 75,000 learning hours. Our programs are designed to be practical and closely linked to our business, with a significant number of seminars conducted by internal experts, thereby further encouraging a culture of knowledge-sharing within the organization.

Under the auspices of Li & Fung (1937) Ltd, a substantial shareholder of the Company, the Li & Fung Leadership Program was developed in conjunction with the Massachusetts Institute of Technology (MIT) Sloan School of Management and the University of Hong Kong. Nearly 200 of our senior managers attended the 2-term seminars and workshops.

In 2010, Li & Fung also launched our corporate Program for Management Development focusing on attracting and developing talent for future business leadership positions. Over 40 Management Associates representing 16 nationalities participated in a one-year development program, including corporate orientation and training, rotational assignments in the Group's core businesses and business education programs.

The Merchandising Skills Foundation Program is another in-house talent development program that aims to equip merchandisers with practical, job-related skills that support business growth. In 2010, over 2,000 colleagues in 13 locations participated and in 2011, this program will be extended to a broader group of employees in more than 40 countries through e-learning.

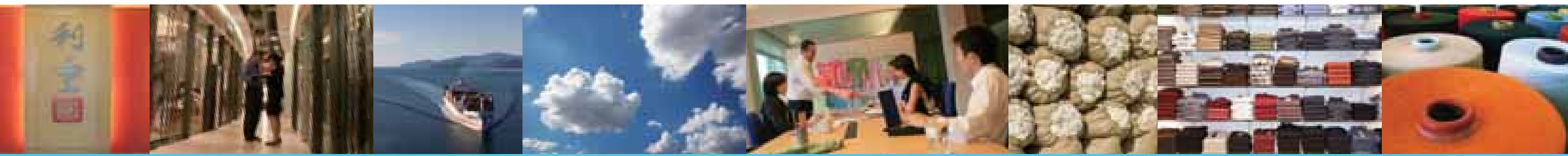
We will continue to develop innovative learning programs focused on building capabilities that add value to our business performance and attract and retain the best talent.

In addition to these structured programs, we continuously seek to engage our people through programs that reflect our commitment to environmental protection, sports and healthy lifestyles and community outreach. These programs include in-house talks and seminars and a range of excursions and voluntary activities which put employees in touch with the communities in which they work.

RECOGNITION

Our efforts in sustainability have been independently recognized through our inclusion in the Dow Jones Sustainability Index, the FTSE4Good and the newly-formed Hang Seng Corporate Sustainability Index. We are identified as a Caring Company under the Hong Kong Council of Social Service's recognition scheme and recently we were named one of four Hong Kong listed companies to be selected by Sustainable Asset Management (SAM) in its 7th annual Sustainability Yearbook 2011.

DIRECTORS AND SENIOR MANAGEMENT



DIRECTORS

Victor FUNG Kwok King

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

Aged 65. 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 Convenience Retail Asia Limited, Trinity Limited and Integrated Distribution Services Group Limited which was privatized on 29 October 2010. 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 and Baosteel Group Corporation in the People's Republic of China. Honorary Chairman of International Chamber of Commerce. A member of Chinese People's Political Consultative Conference. Vice chairman of China Centre for International Economic Exchanges. A member of the Commission on Strategic Development of the Hong Kong Government. Chairman of the Greater Pearl River Delta Business Council. 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. From July 2008 to June 2010, Chairman of the International Chamber of Commerce. From September 2004 to September 2010, Chairman of the Hong Kong – Japan Business Co-operation Committee. Awarded the Gold Bauhinia Star in 2003 and Grand Bauhinia Medal in 2010 for distinguished service to the community.

William FUNG Kwok Lun

Group Managing Director

Aged 62. 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. An independent non-executive director of VTech Holdings Limited, Shui On Land Limited and Sun Hung Kai Properties Limited. An independent director of Singapore Airlines Limited. An independent non-executive director of The Hongkong and Shanghai Hotels, Limited since 3 January 2011. A non-executive director of various companies within the Li & Fung Group including Convenience Retail Asia Limited, Trinity Limited and Integrated Distribution Services Group Limited which was privatized on 29 October 2010. 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 52. 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. Board member of the Educational Foundation for the Fashion Industries, the private fund-raising arm of the Fashion Institute of Technology. In December 2008, ranked first by Institutional Investor for the Asia's Best CEOs in the consumer category. In the years 2010 and 2011, 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.

Spencer Theodore FUNG

Executive Director

Aged 37. An Executive Director since 2008. President 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.

Paul Edward SELWAY-SWIFT

Independent Non-executive Director

Chairman of Audit Committee

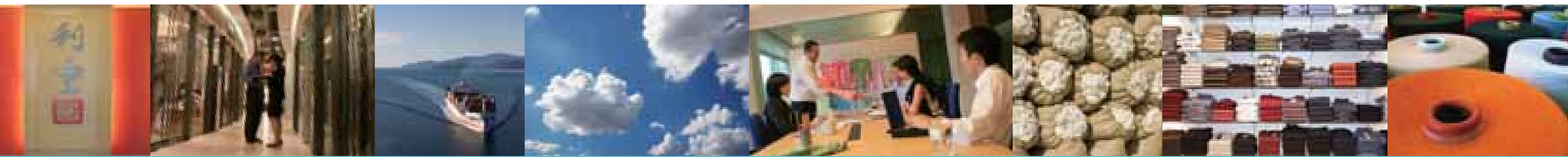
Aged 66. An Independent Non-executive Director since 1992. Chairman of Pure Circle Ltd, a producer of natural food ingredients, which is quoted on the London Stock Exchange. Also, Chairman of Atlantis Investment Management (Ireland) Ltd. A director of several other companies including Temenos Group AG. 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. Resigned as a director of Harvard International PLC on 23 September 2010.

Allan WONG Chi Yun

Independent Non-executive Director

Chairman of Compensation Committee

Aged 60. 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. An independent non-executive director of both The Bank of East Asia, Limited and China-Hongkong Photo Products Holdings Limited.



DIRECTORS (CONTINUED)

Franklin Warren McFARLAN

Independent Non-executive Director

Aged 73. 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.

Makoto YASUDA

Independent Non-executive Director

Aged 73. 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 publicly listed 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 61. An Independent Non-executive Director since 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.

Benedict CHANG Yew Teck

Non-executive Director

Aged 57. A Non-executive Director since 1 February 2011. Previously, group managing director of Integrated Distribution Services Group Limited ("IDS") which was privatized on 29 October 2010. A director of IDS since 2003 and a director of Li & Fung (1937) Limited, a substantial shareholder of the Company. Graduated from the University of Surrey, United Kingdom, with a Bachelor of Science Degree (First Class Honours) in Marine Engineering. Chairman of the Advisory Committee of the Li & Fung Institute of Supply Chain Management and Logistics of The Chinese University of Hong Kong. A member of the Advisory Board of the School of Information Systems, Singapore Management University.

GROUP CHIEF COMPLIANCE OFFICER

James SIU Kai Lau

Aged 66. 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 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 (2004 – 2010). 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.

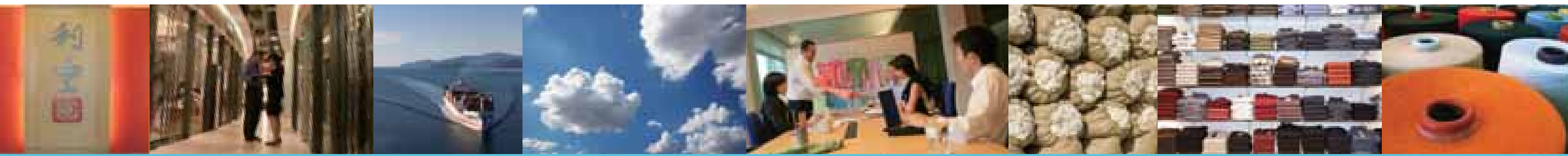
SENIOR MANAGEMENT FOR THE YEAR 2010

Henry CHAN

Aged 60. Executive Director of Li & Fung (Trading) Limited. From 2011, President of LF Products managing the Group's hardlines principal business globally. 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.

Annabella LEUNG Wai Ping

Aged 58. Executive Director of Li & Fung (Trading) Limited. From 2011, President of LF Fashion managing the Group's apparel and fashion accessories principal business globally. Formerly, the Regional Director of North Asia Apparel for Inchcape, a global sourcing network acquired by the Company in 1995. An Executive Director of the Company from 2000 to May 2010. Holds a Master of Science degree in Biology from Northeastern University. Served on various advisory boards in the Hong Kong Exporters' Association, Hong Kong Trade Development Council, Clothing Industry Training Authority, and Hong Kong Export Credit Insurance Corporation. Now serving as Chairman for the Vetting Committee for the Professional Services Development Assistance Scheme of Commerce, Industry and Technology Bureau.



SENIOR MANAGEMENT FOR THE YEAR 2010 (CONTINUED)

Richard Nixon DARLING

Aged 57. President of LF USA overseeing the Group's onshore model in the U.S. which has built a unique portfolio of well-known consumer and fashion brands, licensed and private label products. 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 as Chairman of the Board of Directors of the American Apparel and Footwear Association and as a board member for "Fashion Delivers" and Board of Governors for the Parson's School of Design.

Marc Robert COMPAGNON

Aged 52. Executive Director of Li & Fung (Trading) Limited. From 2011, President of LF Sourcing overseeing the Group's global agency business for apparel and hardgoods as well as the sourcing for the Group's onshore 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

Aged 50. President of the DSG group of companies, a dedicated sourcing group servicing Wal-Mart globally. Instrumental in leading and developing the Group's health, beauty and cosmetic business and previously, Chief Executive Officer of LF Europe, the Group's European onshore business. 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

Aged 49. Chief Operating Officer of the DSG group of companies, a dedicated sourcing group 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. A Member of the Garment Advisory Committee of the Hong Kong Trade Development Council.

SENIOR MANAGEMENT FOR THE YEAR 2010 (CONTINUED)

Lale KESEBI

Aged 42. Executive Director of Li & Fung (Trading) Limited. Responsible for the Group's corporate operations teams including legal, 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. Chair of the Corporate Sustainability Committee of the Company.

Danny LAU Sai Wing

Retired as Executive Director of Li & Fung (Trading) Limited on 31 December 2010. From 2011, Executive Director of Trinity Limited, a publicly listed company of the Li & Fung Group, and Chief Operating Officer of Trinity Group.

Guy d'AURIOL

Retired as Chief Executive Officer of LF Beauty on 31 December 2010.

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
S&P/StanChart Greater China Index
FTSE4Good Index Series
Dow Jones Sustainability Asia Pacific Index
Hang Seng Corporate Sustainability Index Series

KEY DATES

12 August 2010
Announcement of 2010 Interim Results

3 September 2010
Payment of 2010 Interim Dividend

24 March 2011
Announcement of 2010 Final Results

11 May 2011 to 18 May 2011
(both days inclusive)
Closure of Register of Shareholders

18 May 2011
Proposed Payment of 2010 Final Dividend

18 May 2011
Annual General Meeting

REGISTRAR & TRANSFER OFFICES

Principal
HSBC Securities Services (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 2010
4,024,469,403 shares

Market Capitalization as at 31 December 2010
HK$181,503,570,075

Earnings per share for 2010

Interim	57.5 HK cents
Full year	111.9 HK cents

Dividend per share for 2010

Interim	38 HK cents
Final	52 HK cents
Full year	90 HK cents

INVESTOR RELATIONS CONTACT

Ms Mable Chan
Senior Vice President – Corporate Communications and Investor Relations

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Kowloon, Hong Kong

WEBSITE

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

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

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

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

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in *Note 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 66.

The directors declared an interim dividend of HK$0.38 per ordinary share, totalling HK$1,449,365,000 which was paid on 3 September 2010.

The directors recommend the payment of a final dividend of HK$0.52 per ordinary share, totalling HK$2,100,029,000.

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 2010, the reserves of the Company available for distribution as dividends amounted to HK$5,212,249,000, comprising retained earnings of HK$3,151,576,000 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$6,878,000.

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 2010 and for the previous nine financial years are set out in the Ten-Year Financial Summary section on page 144.

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 2010, there were options ("Share Options") relating to 78,676,300 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 2010 are as follows:

	Number of Share Options					Exercise Price		
	As at 1/1/2010	Granted	Exercised[1]	Lapsed	As at 31/12/2010	HK$	Grant Date	Exercisable Period
William Fung Kwok Lun	880,000	–	880,000	–	–	25.55	24/1/2008	01/3/2009 – 28/2/2011
	880,000	–	440,000	–	440,000	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	–	225,000	–	225,000	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	36,000	–	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
	–	177,000[2]	–	–	177,000	41.52	25/3/2010	01/3/2011 – 28/2/2013

	Number of Share Options					Exercise		
	As at 1/1/2010	Granted	Exercised[1]	Lapsed	As at 31/12/2010	Price HK$	Grant Date	Exercisable Period
Continuous contract Employees	4,301,800	–	4,221,800	80,000	–	13.45	20/6/2005	20/6/2007 – 19/6/2010
	7,862,400	–	5,712,800	176,000	1,973,600	13.45	20/6/2005	20/6/2008 – 19/6/2011
	11,749,200	–	6,159,000	176,000	5,414,200	13.45	20/6/2005	20/6/2009 – 19/6/2012
	169,200	–	169,200	–	–	13.72	23/1/2006	20/6/2007 – 19/6/2010
	682,000	–	220,000	–	462,000	13.72	23/1/2006	20/6/2008 – 19/6/2011
	762,000	–	300,000	–	462,000	13.72	23/1/2006	20/6/2009 – 19/6/2012
	8,000	–	8,000	–	–	15.65	19/6/2006	20/6/2007 – 19/6/2010
	368,000	–	174,000	–	194,000	15.65	19/6/2006	20/6/2008 – 19/6/2011
	990,000	–	730,000	–	260,000	15.65	19/6/2006	20/6/2009 – 19/6/2012
	1,379,000	–	1,007,000	–	372,000	25.50	02/2/2007	20/6/2008 – 19/6/2011
	5,218,000	–	3,746,000	–	1,472,000	25.50	02/2/2007	20/6/2009 – 19/6/2012
	1,327,000	–	845,000	–	482,000	29.93	13/7/2007	20/6/2009 – 19/6/2012
	23,790,500	–	16,503,500	356,000	6,931,000	25.55	24/1/2008	01/3/2009 – 28/2/2011
	23,228,000	–	4,546,600	356,000	18,325,400	25.55	24/1/2008	01/3/2010 – 29/2/2012
	23,228,000	–	–	356,000	22,872,000	25.55	24/1/2008	01/3/2011 – 28/2/2013
	2,238,500	–	1,286,500	30,000	922,000	30.00	21/5/2008	01/3/2009 – 28/2/2011
	1,400,000	–	349,500	30,000	1,020,500	30.00	21/5/2008	01/3/2010 – 29/2/2012
	1,400,000	–	–	30,000	1,370,000	30.00	21/5/2008	01/3/2011 – 28/2/2013
	1,174,900	–	785,700	–	389,200	26.20	13/8/2008	01/3/2009 – 28/2/2011
	1,697,100	–	589,200	–	1,107,900	26.20	13/8/2008	01/3/2010 – 29/2/2012
	1,697,100	–	–	–	1,697,100	26.20	13/8/2008	01/3/2011 – 28/2/2013
	2,729,000	–	1,869,000	66,000	794,000	17.22	24/2/2009	01/3/2010 – 29/2/2012
	2,408,000	–	–	60,000	2,348,000	17.22	24/2/2009	01/3/2011 – 28/2/2013
	1,792,500	–	498,800	19,200	1,274,500	27.80	14/8/2009	01/3/2010 – 29/2/2012
	2,123,700	–	–	25,500	2,098,200	27.80	14/8/2009	01/3/2011 – 28/2/2013
	–	2,556,100[2]	–	–	2,556,100	41.52	25/3/2010	01/3/2011 – 28/2/2013
	–	1,178,600[3]	–	–	1,178,600	44.85	15/11/2010	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$39.38.

(2) The closing market price per Share as at the date preceding the date on which the Share Options were granted was HK$41.75.

(3) The closing market price per Share as at the date preceding the date on which the Share Options were granted was HK$44.05.

(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. By an ordinary resolution passed at the 2010 Annual General Meeting of the Company held on 18 May 2010 relating to the refreshing of the scheme limit on grant of options under the Option Scheme and any other share option scheme(s) of the Company, the scheme limit on grant of options was refreshed. As a result, the number of Shares available for issue in respect thereof is 379,653,943 Shares representing 9.43% of the issued shares of the Company as at the date of this Report. Notwithstanding the foregoing, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option scheme(s) of the Company must be, in aggregate, exceed 30% of the total number of issued shares of the Company from time to time.

(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 2010 are set out in *Note 41* to the accounts.

ASSOCIATED COMPANIES

Details of the Company's principal associated companies at 31 December 2010 are set out in *Note 41* to the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

During 2010, the Group purchased less than 30% of its goods and services from its five largest suppliers. The percentage of sales attributable to the Group's largest customer and the five largest customers combined were 14.5% and 32.5% 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 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.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

Details of non-exempt 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 non-exempt continuing connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). In such respect, the Group paid rental expenses of HK$71,525,000 for the year ended 31 December 2010.

(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 provision of logistics services pursuant to the 2008 Logistics Agreement constituted non-exempt continuing connected transactions for the Company under the Listing Rules. In such respect, the Group paid logistics service charges of HK$145,465,000 for the year ended 31 December 2010.

The non-exempt 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.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

As announced by the Company in the joint announcement of the Company and Integrated Distribution Services Group Limited ("IDS") published on 1 November 2010, the Company acquired the entire interest of IDS by way of privatization (the "Privatization") pursuant to a scheme of arrangement. IDS became a wholly-owned subsidiary of the Company on 29 October 2010. Since LF (1937), was a common substantial shareholder of the Company and IDS, the Privatization constituted a non-exempt connected transaction for the Company under the Listing Rules.

As a result of the Privatization, (i) the provision of logistics services pursuant to the 2008 Logistics Agreement by IDS and its subsidiaries (the "IDS Group") to the Group thereafter ceased to constitute continuing connected transactions; and (ii) certain existing continuing connected transactions of IDS became continuing connected transactions of the Company, which include distribution and sale of goods and provision of logistics services by the IDS Group to LF (1937) and its associates, and leasing of properties and purchase of goods by the IDS Group from LF (1937) and its associates. For the period from 29 October 2010 to 31 December 2010, these transactions constituted exempt continuing connected transactions of the Company under the Listing Rules.

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	34,657
Contributions forfeited by employees	(18,440)
Contributions to the defined contribution provident scheme and defined benefits plan in Taiwan	9,868
Contributions to the defined benefits scheme in the United Kingdom	1,076
Contributions pursuant to the statutory requirements in Korea	7,112
Contributions pursuant to local requirements in other overseas regions	190,366
	224,639

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*
Benedict Chang Yew Teck (appointed on 1 February 2011)

Executive Directors:

William Fung Kwok Lun, *Managing Director*
Bruce Philip Rockowitz
Annabella Leung Wai Ping (retired on 18 May 2010)
Spencer Theodore Fung

* *Independent Non-executive Directors*

In accordance with bye-law 110(A) of the Company's bye-laws, Dr William Fung Kwok Lun, Mr Allan Wong Chi Yun and Mr Makoto Yasuda will retire by rotation at the forthcoming Annual General Meeting by rotation. Dr William Fung Kwok Lun and Mr Allan Wong Chi Yun, being eligible, will offer themselves for re-election while Mr Makoto Yasuda will retire from the Board with effect from the conclusion of the forthcoming Annual General Meeting.

In accordance with bye-law 101 of the Company's bye-laws, Mr Benedict Chang Yew Teck will retire and, being eligible, offers themselves for re-election.

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

The biographical details of the directors as at the date of this Report are set out in the Directors and Senior Management section on pages 44 to 49.

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

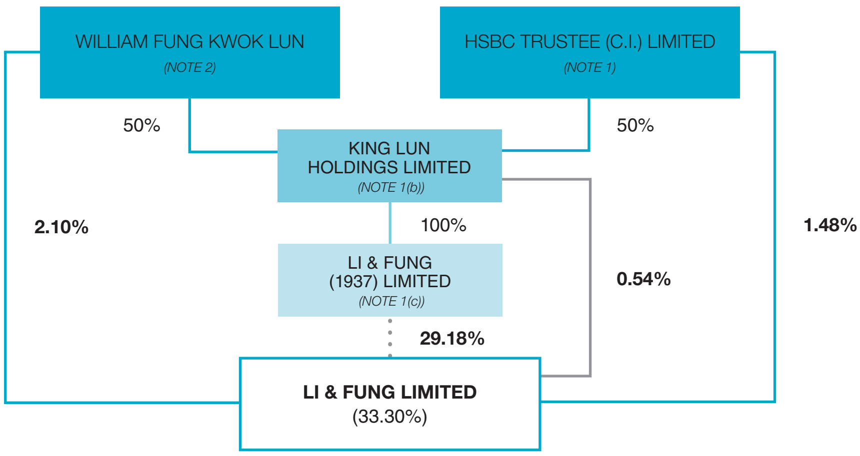
As at 31 December 2010, the directors and chief executives of the Company and their associates had the following interests in the Shares and underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) 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	1,407,222	–	1,256,004,270 [1]	–	1,257,411,492	31.24%
William Fung Kwok Lun	70,851,330	4,400	1,208,580,016 [2]	1,320,000 [3]	1,280,755,746	31.82%
Spencer Theodore Fung *	352,000	–	1,256,004,270 [1]	705,000 [3]	1,257,061,270	31.23%
Bruce Philip Rockowitz	3,587,800	–	32,411,510 [4]	22,620,880 [5]	58,620,190	1.45%
Franklin Warren McFarlan	–	–	57,200 [6]	–	57,200	0.00%
Martin Tang Yue Nien	–	–	20,000 [7]	–	20,000	0.00%

* *Son of Dr Victor Fung Kwok King*

The following simplified 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 2010,

(1) Each of Dr Victor Fung Kwok King and Mr Spencer Theodore Fung was deemed to have interests in 1,256,004,270 Shares held in the following manner:

(a) 55,825,000 Shares were directly held by HSBC Trustee (C.I.) Limited ("HSBC Trustee") as trustee of a trust established for the benefit of the family members of Dr Victor Fung Kwok King (the "Trust"), and 3,756,454 Shares were indirectly held by HSBC Trustee through its wholly-owned subsidiary, First Island Developments Limited;

(b) 21,945,880 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 as trustee of the Trust and 50% by Dr William Fung Kwok Lun; and

(c) 1,097,863,954 Shares were directly held by LF (1937), indirectly held by King Lun, and 76,612,982 Shares were indirectly held by LF (1937) through its wholly-owned subsidiary, Li & Fung (Distribution) Limited ("LFD").

(2) 12,157,200 Shares of these 1,208,580,016 Shares were held by Golden Step Limited, a company beneficially owned by Dr William Fung Kwok Lun. The balance of 1,196,422,816 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) 32,411,510 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 675,000 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 21,945,880 underlying shares in the Company in respect of options granted by King Lun to HMHL to purchase such shares in the Company in four tranches during the period from 25 December 2010 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.

(7) 20,000 Shares in the Company were held by a trust of which Mr Martin Tang Yue Nien was a beneficiary.

(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 2010 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 21,945,880 underlying Shares, representing 0.54% 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 54,945,880 Shares in the Company in ten tranches during the period from 25 December 2004 to 24 December 2019, with each tranche having an exercisable period of six years.

Save as disclosed above, as at 31 December 2010, 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 2010, 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 (21,945,880) Interest of controlled corporation (1,174,476,936)[1]	1,196,422,816	29.72%
HSBC Trustee (C.I.) Limited	Trustee (1,256,014,270)	1,256,014,270[2]	31.20%
Janus Capital Management LLC	Investment manager	227,009,460	5.64%
JPMorgan Chase & Co.	Beneficial owner (3,202,010) Investment manager (102,350,125) Custodian corporation/approved lending agent (135,469,786)	241,021,921	5.98%
Deutsche Bank Aktiengesellschaft	Custodian corporation/approved lending agent	218,006,167	5.41%
Short Positions			
King Lun Holdings Limited	Beneficial owner	21,945,880[3]	0.54%
HSBC Trustee (C.I.) Limited	Trustee	21,945,880[4]	0.54%
JPMorgan Chase & Co.	Beneficial owner (2,045,500)	2,045,500	0.05%
Deutsche Bank Aktiengesellschaft	Custodian corporation/approved lending agent	608,113	0.01%
Lending Pool			
JPMorgan Chase & Co.	Custodian corporation /approved lending agent	135,469,786	3.36%
Deutsche Bank Aktiengesellschaft	Custodian corporation/approved lending agent	206,665,415	5.13%

NOTES:
As at 31 December 2010,

(1) 1,097,863,954 Shares were directly held by LF (1937) which also through its wholly owned subsidiary, LFD, indirectly held 76,612,982 Shares. LF (1937) 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, LF (1937) and LFD.

(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 21,945,880 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 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 2010.

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 44 to 49.

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 24 to 39.

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 2010 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 2011

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道會計師事務所

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

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

We have audited the consolidated accounts of Li & Fung Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 66 to 143, which comprise the consolidated and company balance sheets as at 31 December 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED ACCOUNTS

The directors of the Company are responsible for the preparation of consolidated accounts that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated accounts that give a true and fair view 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 consolidated 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 2010, 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 2011

STATEMENT OF ACCOUNTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Turnover	*3*	**124,115,167**	104,478,983
Cost of sales		**(107,221,836)**	(92,406,211)
Gross profit		**16,893,331**	12,072,772
Other income		**565,322**	644,686
Total margin		**17,458,653**	12,717,458
Selling expenses		**(3,262,067)**	(2,009,543)
Merchandising expenses		**(7,811,910)**	(6,025,686)
Administrative expenses		**(728,599)**	(692,123)
Core operating profit	*3*	**5,656,077**	3,990,106
Other non-core operating expenses	*4*	**(357,395)**	(110,600)
Operating profit	*4*	**5,298,682**	3,879,506
Interest income		**105,815**	90,763
Interest expenses	*5*		
Non-cash interest expenses		**(150,326)**	(51,948)
Cash interest expenses		**(617,529)**	(320,161)
		(767,855)	(372,109)
Share of profits less losses of associated companies		**14,431**	7,787
Profit before taxation		**4,651,073**	3,605,947
Taxation	*6*	**(370,698)**	(240,222)
Profit for the year		**4,280,375**	3,365,725
Attributable to:			
Shareholders of the Company	*7*	**4,278,221**	3,369,107
Non-controlling interests		**2,154**	(3,382)
		4,280,375	3,365,725
Earnings per share for profit attributable to shareholders of the Company during the year			
– basic	*8*	**111.9 cents**	91.0 HK cents
– diluted	*8*	**110.7 cents**	90.6 HK cents

Details of dividends to Shareholders of the Company are set out in *Note 9*. The notes on pages 74 to 143 are an integral part of these consolidated accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
Profit for the year	**4,280,375**	3,365,725
Other comprehensive income:		
Currency translation differences	**(118,700)**	35,751
Net fair value gains on available-for-sale financial assets, net of tax	**16,703**	1,297
Net fair value (losses)/gains on cash flow hedges, net of tax	**(11,981)**	5,169
Other comprehensive (expense)/income for the year, net of tax	**(113,978)**	42,217
Total comprehensive income for the year	**4,166,397**	3,407,942
Attributable to:		
– Shareholders of the Company	**4,163,903**	3,411,180
– Non-controlling interests	**2,494**	(3,238)
Total comprehensive income for the year	**4,166,397**	3,407,942

The notes on pages 74 to 143 are an integral part of these consolidated accounts.

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Intangible assets	*12*	**38,080,889**	18,202,527
Property, plant and equipment	*13*	**2,411,647**	1,255,705
Prepaid premium for land leases	*14*	**29,753**	2,426
Associated companies	*16*	**47,893**	28,251
Available-for-sale financial assets	*17*	**657,771**	720,184
Deferred tax assets	*29*	**157,518**	58,180
		41,385,471	20,267,273
Current assets			
Inventories	*18*	**5,995,754**	2,382,632
Due from related companies	*19*	**102,670**	98,706
Trade and bills receivable	*21*	**16,216,294**	12,561,374
Other receivables, prepayments and deposits	*21*	**2,797,057**	2,331,847
Derivative financial instruments	*20*	**–**	2,620
Cash and bank balances	*22*	**7,554,535**	4,202,267
		32,666,310	21,579,446
Current liabilities			
Due to related companies	*19*	**50,944**	–
Trade and bills payable	*23*	**17,225,552**	12,005,113
Accrued charges and sundry payables	*23*	**4,810,783**	3,120,427
Balance of purchase consideration payable for acquisitions to be settled by cash	*27*	**1,936,846**	1,138,668
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	*27*	**129,837**	323,700
Taxation		**735,053**	520,969
Derivative financial instruments	*20*	**14,753**	–
Bank advances for discounted bills	*21*	**326,860**	302,123
Short-term bank loans	*24*	**695,401**	–
Bank overdrafts	*22, 24*	**220,722**	47,315
		26,146,751	17,458,315
Net current assets		**6,519,559**	4,121,131
Total assets less current liabilities		**47,905,030**	24,388,404

	Note	2010 HK$'000	2009 HK$'000
Financed by:			
Share capital	*25*	**100,612**	94,403
Reserves		**26,082,373**	15,810,930
Proposed dividend		**2,100,029**	1,854,313
		28,182,402	17,665,243
Shareholders' funds attributable to the Company's shareholders		**28,283,014**	17,759,646
Non-controlling interests		**47,185**	(33,455)
Total equity		**28,330,199**	17,726,191
Non-current liabilities			
Long-term liabilities	*27*	**19,280,873**	6,425,251
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	*27*	**–**	140,350
Post-employment benefit obligations	*28*	**64,828**	25,766
Deferred tax liabilities	*29*	**229,130**	70,846
		19,574,831	6,662,213
		47,905,030	24,388,404

Victor Fung Kwok King
Director

William Fung Kwok Lun
Director

The notes on pages 74 to 143 are an integral part of these consolidated accounts.

BALANCE SHEET

As at 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Interests in subsidiaries	*15*	**10,448,915**	2,359,597
Current assets			
Due from related companies	*19*	**28,473,982**	19,751,099
Other receivables, prepayments and deposits	*21*	**1,980**	1,463
Cash and bank balances	*22*	**1,448**	1,744
		28,477,410	19,754,306
Current liabilities			
Accrued charges and sundry payables	*23*	**114,115**	31,124
		114,115	31,124
Net current assets		**28,363,295**	19,723,182
Total assets less current liabilities		**38,812,210**	22,082,779
Financed by:			
Share capital	*25*	**100,612**	94,403
Reserves	*26(b)*	**26,810,461**	16,261,738
Proposed dividend	*26(b)*	**2,100,029**	1,854,313
		28,910,490	18,116,051
Shareholders' funds		**29,011,102**	18,210,454
Non-current liabilities			
Long-term liabilities	*27*	**9,801,108**	3,872,325
		38,812,210	22,082,779

Victor Fung Kwok King
Director

William Fung Kwok Lun
Director

The notes on pages 74 to 143 are an integral part of these consolidated accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to shareholders of the Company						
	Share capital HK$'000	**Share premium HK$'000**	**Other reserves HK$'000 *Note 26(a)***	**Retained earnings HK$'000**	**Total HK$'000**	**Non-controlling interests HK$'000**	**Total equity HK$'000**
Balance at 1 January 2010	94,403	14,182,564	(392,609)	3,875,288	17,759,646	(33,455)	17,726,191
Comprehensive income							
Profit or loss	–	–	–	4,278,221	4,278,221	2,154	4,280,375
Other comprehensive income							
Currency translation differences	–	–	(119,040)	–	(119,040)	340	(118,700)
Net fair value gains on available-for-sale financial assets, net of tax	–	–	16,703	–	16,703	–	16,703
Net fair value losses on cash flow hedges, net of tax	–	–	(11,981)	–	(11,981)	–	(11,981)
Total other comprehensive income	–	–	(114,318)	–	(114,318)	340	(113,978)
Total comprehensive income	–	–	(114,318)	4,278,221	4,163,903	2,494	4,166,397
Transactions with owners							
Employee share option scheme:							
– value of employee services	–	–	259,592	–	259,592	–	259,592
– proceeds from shares issued	1,316	1,117,640	–	–	1,118,956	–	1,118,956
– exercise of share options	–	213,173	(213,173)	–	–	–	–
Release of shares held by escrow agent for settlement of acquisition consideration	–	–	281,651	–	281,651	–	281,651
Transfer to capital reserve	–	–	484	(484)	–	–	–
2009 final dividend paid	–	–	–	(1,866,079)	(1,866,079)	(4,362)	(1,870,441)
2010 interim dividend paid	–	–	–	(1,449,365)	(1,449,365)	–	(1,449,365)
Issue of shares for privatization of IDS	4,893	8,009,817	–	–	8,014,710	–	8,014,710
Acquisition of subsidiaries/businesses	–	–	–	–	–	82,508	82,508
Total transactions with owners	6,209	9,340,630	328,554	(3,315,928)	6,359,465	78,146	6,437,611
Balance at 31 December 2010	100,612	23,523,194	(178,373)	4,837,581	28,283,014	47,185	28,330,199

	Attributable to shareholders of the Company						
	Share capital HK$'000	Share premium HK$'000	Other reserves HK$'000 *Note 26(a)*	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'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	–	42,073	144	42,217
Total comprehensive income	–	–	42,073	3,369,107	3,411,180	(3,238)	3,407,942
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
– exercise of share options	–	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

The notes on pages 74 to 143 are an integral part of these consolidated accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Operating activities			
Net cash inflow generated from operations	*30(a)*	**6,075,932**	6,922,244
Hong Kong profits tax paid		**(54,333)**	(58,876)
Overseas taxation paid		**(207,849)**	(109,966)
Net cash inflow from operating activities		**5,813,750**	6,753,402
Investing activities			
Purchase of property, plant and equipment		**(611,814)**	(393,094)
Disposal of property, plant and equipment		**71,304**	31,948
Addition of available-for-sale financial assets	*17*	**–**	(702,000)
Disposal of available-for-sale financial assets	*17*	**–**	333
Partial repayment on available-for-sale financial assets	*17*	**78,602**	–
Disposal of an associated company	*16*	**–**	128
Payment for computer software and system development costs		**(32,184)**	(182,359)
Acquisitions of subsidiaries/businesses	*31*	**(3,624,836)**	(2,435,637)
Settlement of consideration payable for prior years acquisitions of subsidiaries/businesses		**(1,636,368)**	(1,013,158)
Interest received		**105,815**	90,763
Dividends received from associated companies	*16*	**5,349**	3,148
Purchase of intangible assets		**–**	(78,521)
Disposal of prepaid premium for land leases		**2,741**	–
Net cash outflow from investing activities		**(5,641,391)**	(4,678,449)
Net cash inflow before financing activities		**172,359**	2,074,953
Financing activities			
Net proceeds from issuance of shares	*30(b)*	**1,118,956**	2,988,973
Net repayment of bank loans	*30(b)*	**(103,701)**	(512,447)
Interest paid		**(617,529)**	(320,161)
Dividends paid		**(3,319,806)**	(2,179,766)
Net proceeds from issuance of long-term notes		**5,930,091**	–
Net cash inflow/(outflow) from financing		**3,008,011**	(23,401)
Increase in cash and cash equivalents		**3,180,370**	2,051,552
Cash and cash equivalents at 1 January		**4,154,952**	2,181,965
Effect of foreign exchange rate changes		**(1,509)**	(78,565)
Cash and cash equivalents at 31 December		**7,333,813**	4,154,952
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	*22*	**7,554,535**	4,202,267
Bank overdrafts	*22*	**(220,722)**	(47,315)
		7,333,813	4,154,952

The notes on pages 74 to 143 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 and amended standards adopted by the Group

The Group has adopted the following new and amended standards of HKFRSs which are mandatory for accounting periods beginning on or after 1 January 2010 and relevant to its operations:

HKFRS 3 (revised)	Business combinations
HKAS 27 (revised)	Consolidated and separate financial statements
HKAS 17 (amendment)	Leases
HK – Int 5	Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause

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.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. 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 are expensed.

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (CONTINUED)

(a) New and amended standards adopted by the Group (continued)

- HKAS 27 (revised) 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 recognised in profit or loss. HKAS 27 (revised) has had no significant impact on the current period, as there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

- HKAS 17 (amendment), "Leases", deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Prepaid premium for land leases", and amortised over the lease term.

  HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases, and recognized all its leasehold land as operating leases and be classified as prepaid premium for land leases.

- HK Interpretation 5 "Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause" – This Interpretation requires that the classification of a term loan as a current or a non-current liability in accordance with paragraph 69(d) of HKAS 1 Presentation of financial statements should be determined by reference to the rights and obligations of the lender and borrower, as contractually agreed between the two parties and in force as of the reporting date. Therefore, the interpretation requires that amounts payable under a loan agreement which includes a clause that gives the lender the unconditional right to call the loan at any time should be classified by the borrower as current liabilities in the statement of balance sheet.

  The following new and amended standards and interpretations of HKFRSs are mandatory for accounting periods beginning on or after 1 January 2010 but they are not relevant to the Group's operations:

HKAS 1 (amendment)	Presentation of financial statements
HKAS 36 (amendment)	Impairment of assets
HKAS 39 (amendment)	Eligible hedge items
HKFRS 1 (revised)	First-time adoption of HKFRSs
HKFRS 5 (amendment)	Non-current assets held for sale and discontinued operations
HKFRS 2 (amendments)	Group cash-settled share-based payment transactions
HK(IFRIC) – Int 9	Embedded derivatives
HK(IFRIC) – Int 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – Int 17	Distributions of non-cash assets to owners
HK(IFRIC) – Int 18	Transfers of assets from customers

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (CONTINUED)

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods, but the Group has not early adopted them:

HKAS 12 (amendment)	Deferred tax: recovery of underlying assets [4]
HKAS 24 (revised)	Related party disclosures[3]
HKAS 32 (amendment)	Classification of rights issues[1]
HKFRS 9	Financial instruments[5]
HK(IFRIC) – Int 14 (amendment)	Prepayments of a minimum funding requirement[3]
HK(IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments [2]
Annual Improvements Project	Improvements to HKFRSs published in May 2010[2]

NOTES:

(1) Effective for financial periods beginning on or after 1 February 2010
(2) Effective for financial periods beginning on or after 1 July 2010
(3) Effective for financial periods beginning on or after 1 January 2011
(4) Effective for financial periods beginning on or after 1 January 2012
(5) Effective for financial periods beginning on or after 1 January 2013

1.2 CONSOLIDATION

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December 2010.

(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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

In the Company's balance sheet, investments in subsidiaries are accounted for at cost less impairment *(Note 1.7)*. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.2 CONSOLIDATION (CONTINUED)

(a) Subsidiaries (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income *(Note 1.6)*.

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.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(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 other comprehensive income is recognized in other comprehensive income. 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 making 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 dollar, 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 other comprehensive income.

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 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 classified as available-for-sale are included in the available-for-sale reserve in other comprehensive income.

(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 in other comprehensive income.

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 other comprehensive income. 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	$6^2/_3$% – $33^1/_3$%
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 and relationships 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 7 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 accounts exceeds the carrying amount in the consolidated accounts 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 those with 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, prepayments 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 for deferred tax liability 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.

(b) Discretionary bonus

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

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

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.16 EMPLOYEE BENEFITS (CONTINUED)

(c) Post employment benefit obligations

The Group participates in a number of defined contribution plans and defined benefit plans throughout the world, the assets of which are generally held in separate trustee – administrated funds. The 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.

(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).

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.16 EMPLOYEE BENEFITS (CONTINUED)

(d) Share-based compensation (continued)

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. The related employee share-based compensation reserve is transferred to 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.

1.18 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 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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) or acquisition-related costs.

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.

Service income is recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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

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

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

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 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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.

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.

(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.

Movements on the hedging reserve in shareholders' equity are shown in *Note 26*.

(b) Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss

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

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.25 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.

1.28 FINANCIAL GUARANTEE CONTRACT

Financial guarantees are initially recognised in the accounts at fair value on the date the guarantee was given. The company's liabilities under such guarantees are subsequently measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated profit and loss account within administrative expenses.

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) USEFUL LIVES OF INTANGIBLE ASSETS

The Group amortises its intangible assets with a finite useful life on a straight-line basis over their estimated useful lives. The estimated useful lives reflect the management's estimate of the period that the Group intends to derive future economic benefits from the use of these intangible assets.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(c) 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 equity investment is less than its cost. For debt security, the Group evaluates whether there is objective evidence of impairment based on the criteria such as significant financial difficulty of the obligor and a breach of contract. Based on the Group's estimation, impairment provisions of approximately HK$514,000 have been made on certain listed available-for-sale financial assets *(Note 17)* during the current year.

(d) 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.

(e) CONTINGENT CONSIDERATIONS OF ACQUISITIONS

Certain of the Group's business acquisitions involved post-acquisition performance-based contingent considerations. HKFRS 3 (Revised) is effective prospectively to business combinations for which acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The Group follows the requirement of HKFRS 3 (Revised) to recognize the fair value of those contingent considerations for acquisitions in current year, as of their respective acquisition dates as part of the consideration transferred in exchange for the acquired subsidiaries/businesses. These fair value measurements required, among other things, significant estimation of post-acquisition performance of the acquired subsidiaries/business and significant judgment on time value of money. Contingent considerations shall be re-measured at their fair value resulting from events or factors emerge after the acquisition date, with any resulting gain or loss recognized in the consolidated profit and loss account in accordance with HKFRS 3 (Revised).

3 SEGMENT INFORMATION

The Group is principally engaged in export trading of consumer products. The Group operates globally and has a sourcing network composing approximately 240 offices and distribution centers 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, or acquisition-related costs. Other information provided to the Group's management is measured in a manner consistent with that in the accounts.

3 SEGMENT INFORMATION (CONTINUED)

	Turnover 2010 HK$'000	Turnover 2009 HK$'000	Operating profit 2010 HK$'000	Operating profit 2009 HK$'000	Depreciation & amortization 2010 HK$'000	Depreciation & amortization 2009 HK$'000	Non-current assets (other than available-for-sale financial assets and deferred tax assets) 2010 HK$'000 (Note)	Non-current assets (other than available-for-sale financial assets and deferred tax assets) 2009 HK$'000
Principal markets:								
United States of America	**80,712,620**	66,801,866	**4,243,626**	2,983,886	**1,049,739**	399,336	**22,382,548**	13,861,401
Europe	**30,074,630**	28,503,892	**1,004,971**	683,497	**127,674**	117,579	**8,586,755**	4,705,639
Canada	**4,134,194**	3,035,972	**138,104**	115,394	**9,985**	7,003	**367,101**	273,559
Australasia	**2,823,112**	2,616,712	**109,589**	97,915	**8,156**	5,329	**221,039**	139,355
Central and Latin America	**1,460,673**	1,267,768	**37,352**	51,069	**4,480**	3,545	**137,812**	139,392
Rest of the world	**4,909,938**	2,252,773	**122,435**	58,345	**39,808**	7,619	**8,874,927**	369,563
	124,115,167	104,478,983	**5,656,077**	3,990,106	**1,239,842**	540,411	**40,570,182**	19,488,909
Other non-core operating expenses			**(357,395)**	(110,600)				
			5,298,682	3,879,506				
Interest income			**105,815**	90,763				
Interest expenses			**(767,855)**	(372,109)				
Share of profits less losses of associated companies			**14,431**	7,787				
Profit before taxation			**4,651,073**	3,605,947				
Taxation			**(370,698)**	(240,222)				
Profit for the year			**4,280,375**	3,365,725				

NOTE: The Group acquired IDS on 29 October 2010 by way of privatization pursuant to a scheme of arrangement *(Note 31)*. As a result of the acquisition, certain non-current assets (other than available-for-sale financial assets and deferred tax assets) of IDS amounting to approximately HK$8,370,986,000, which is principally located in the Asia Pacific Region, were grouped under the "Rest of the World" segment.

Turnover consists of sales of softgoods and hardgoods, and service income as follows:

	2010 HK$'000	2009 HK$'000
Softgoods	**86,024,804**	73,224,132
Hardgoods	**37,513,101**	31,254,851
Service income	**577,262**	–
	124,115,167	104,478,983

For the year ended 31 December 2010, approximately 14.5% (2009: 13.9%) 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:

	2010 HK$'000	2009 HK$'000
Crediting		
Gain on disposal of prepaid premium for land leases	**2,733**	–
Net exchange gains	**–**	75,183
Charging		
Cost of inventories sold	**107,221,836**	92,406,211
Amortization of computer software and system development costs *(Note 12)*	**41,717**	11,580
Amortization of brand licenses *(Note 12)*	**614,291**	116,203
Amortization of other intangible assets arising from business combinations *(Note 12)*	**215,769**	107,631
Amortization of prepaid premium for land leases *(Note 14)*	**291**	123
Depreciation of property, plant and equipment *(Note 13)*	**367,774**	304,874
Loss on disposal of property, plant and equipment	**36,194**	9,643
Loss on disposal of intangible assets	**203**	1,039
Net provision for impairment of available-for-sale financial assets *(Note 17)*	**514**	2,969
Operating leases rental in respect of land and building	**655,301**	467,039
Bad debt written off/provision for impaired receivables *(Note 21)*	**153,365**	147,394
Staff costs including directors' emoluments *(Note 10)*	**6,187,223**	4,848,386
Acquisition-related costs *(Note 31)*	**141,626**	–
Net exchange losses	**35,377**	–
The remuneration to the auditors for audit and non-audit services is as follows:		
Audit services	**26,537**	21,100
Non-audit services		
– due diligence review on acquisitions	**20,221**	7,458
– taxation services	**12,643**	11,615
– others	**2,951**	1,262
Total remuneration to auditors	**62,352**	41,435
Less : non-audit service fee capitalized as costs of business combinations	**–**	(5,328)
Net remuneration to auditors charged to consolidated profit and loss account	**62,352**	36,107

NOTE: Of the above audit and non-audit services fees, HK$25,785,000 (2009: HK$20,497,000) and HK$35,815,000 (2009: HK$20,335,000) respectively are payable to the Company's auditor.

5 INTEREST EXPENSES

	2010 HK$'000	2009 HK$'000
Non-cash interest expenses on purchase consideration, license royalty payable and long-term notes		
– wholly repayable within five years	**129,290**	48,197
– not wholly repayable within five years	**21,036**	3,751
Cash interest on bank loans and overdrafts, long-term notes		
– wholly repayable within five years	**234,094**	105,661
– not wholly repayable within five years	**383,435**	214,500
	767,855	372,109

6 TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% (2009: 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:

	2010 HK$'000	2009 HK$'000
Current taxation		
– Hong Kong profits tax	**98,886**	87,653
– Overseas taxation	**299,298**	126,814
Underprovision in prior years	**19,220**	11,964
Deferred taxation *(Note 29)*	**(46,706)**	13,791
	370,698	240,222

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:

	2010 %	2009 %
Calculated at a taxation rate of	**16.5**	16.5
Effect of different taxation rates in other countries	**(7.0)**	(2.1)
Income net of expenses not subject to taxation	**(4.0)**	(10.6)
Utilization of previously unrecognized tax losses	**(0.1)**	(0.4)
Unrecognized tax losses	**2.5**	3.3
Effective tax rate	**7.9**	6.7

6 TAXATION (CONTINUED)

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$1,926 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 2009/2010.

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 totaling 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 believed that the Group had meritorious defense 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 favor 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 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.

On 19 March 2010, the Board of Review 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. On 1 April 2010, both LFT and the HKIR transmitted the stated case to the High Court for determination. On 15 July 2010, the HKIR applied to the High Court to remit the stated case to the Board of Review for amendment so as to include certain evidence and additional questions of law in the stated case. The IRD's application to amend the stated case was heard by the Court on 17 February 2011. The Court did not allow the Commissioner's application to remit the case stated to the Board in respect of the Offshore Claim. The Court also disallowed the Commissioner's application to set out the requested evidence and pose the requested additional questions of law on the Offshore Claim in the case stated. Nevertheless, the Court directed the parties to try to agree some neutral facts in respect of the Offshore Claim on which the Court can rely in determining the appeal. As regards the requested additional questions of law on the Deduction Claim, the Court directed the parties to try to agree on the reformulation of those questions, and on directions for the case stated to be remitted to the Board for amendment. The Court has fixed another hearing on 28 March 2011 to give further directions in respect of the IRD's application to remit the stated case to the Board of Review.

The appeal by the HKIR in respect of the Board of Review Decision on the Offshore Claim has currently been fixed to be heard before the Court of First Instance on 6 April 2011.

6 TAXATION (CONTINUED)

The Group has also filed objections with the HKIR against the remaining additional tax assessments of HK$1,593 million. The case before the Board of Review and now the High Court only applies to the additional tax assessments in respect of LFT for the years of assessment from 1992/93 to 2001/02. The Group's dispute with the HKIR regarding the remaining additional tax assessments in respect of certain other subsidiaries for the years of assessment from 1992/93 to 2001/02, and in respect of the Group for the period after the 2001/02 assessment years, is ongoing and has not yet been determined. It is therefore not yet before the Board of Review, and no hearing is currently scheduled.

Based on the assessment of the Group's legal counsel on the merits 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 that 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.

On 11 June 2010, the Group also applied for a judicial review of the HKIR Commissioner's decision rejecting LFT's application for an unconditional holdover of tax for the year of assessment 2008/09 pending the determination of the objection lodged with the HKIR. The Group has purchased tax reserve certificates in respect of LFT for the year of assessment 2008/09 as directed by the Commissioner of the HKIR pending the decision of the judicial review application. As of the date of this annual report, the hearing date for the judicial review application is yet to be fixed.

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$4,441,183,000 (2009: HK$2,239,804,000).

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$4,278,221,000 (2009: HK$3,369,107,000) and on the weighted average number of 3,822,255,000 (2009: 3,701,265,000) shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of 3,822,255,000 (2009: 3,701,265,000) ordinary shares in issue by 43,219,000 (2009: 18,688,000) to assume conversion or all dilutive potential ordinary shares granted under the Company's Option Scheme and release of all shares held by escrow agents for settlement of acquisition consideration. For the calculation of dilutive potential ordinary share granted under the Company, 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

	2010 HK$'000	2009 HK$'000
Interim, paid, of HK$0.38 (2009: HK$0.26) per ordinary share	**1,449,365**	979,430
Final, proposed, of HK$0.52 (2009: HK$0.49) per ordinary share	**2,100,029**	1,854,313
	3,549,394	2,833,743

At a meeting held on 24 March 2011, the Directors proposed a final dividend of HK$0.52 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 2011 *(Note 26)*.

10 STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

	2010 HK$'000	2009 HK$'000
Salaries and bonuses	**5,271,968**	4,246,204
Staff benefits	**429,593**	302,615
Pension costs of defined contribution plans	**211,429**	165,065
Employee share option expenses	**259,592**	126,688
Pension costs of defined benefits plans *(Note 28)*	**13,210**	5,704
Long service payments	**1,431**	2,110
	6,187,223	4,848,386

Forfeited contributions totalling HK$18,440,000 (2009: HK$13,884,000) 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 2010 is set out below:

	2010					
Name of Director	Fees HK$'000	Salary & Allowance HK$'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	**86**	**4,800**	**25,203**	**–**	**12**	**30,101**
Bruce Philip Rockowitz	**83**	**4,850**	**25,171**	**381**	**12**	**30,497**
Spencer Theodore Fung	**83**	**8,153**	**160**	**–**	**12**	**8,408**
Non-executive Directors						
Victor Fung Kwok King	**341**	**–**	**–**	**–**	**–**	**341**
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	**170**	**–**	**–**	**–**	**–**	**170**

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

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

	2009					
Name of Director	Fees HK$'000	Salary & Allowance HK$'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

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:

(i) 440,000 (2009: 100,000) Shares at an exercise price of HK$13.45 with exercisable period from 20 June 2008 to 19 June 2011;

(ii) 476,000 (2009: 1,460,000) Shares at an exercise price of HK$13.45 with exercisable period from 20 June 2009 to 19 June 2012;

(iii) 1,330,000 (2009: Nil) Shares at an exercise price of HK$25.55 with exercisable period from 1 March 2009 to 28 February 2011; and

(iv) 665,000 (2009: Nil) Shares at an exercise price of HK$25.55 with exercisable period from 1 March 2010 to 29 June 2012.

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

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

As at 31 December 2010, certain directors held the following Share Options to acquire Shares of the Company:

(i) 176,000 (2009: 1,956,000) at an exercise price of HK$25.55 with exercisable period from 1 March 2009 to 28 February 2011;

(ii) 841,000 (2009: 1,956,000) at an exercise price of HK$25.55 with exercisable period from 1 March 2010 to 29 February 2012;

(iii) 1,506,000 (2009: 1,956,000) at an exercise price of HK$25.55 with exercisable period from 1 March 2011 to 28 February 2013; and

(iv) 177,000 (2009: Nil) at an exercise price of HK$41.52 with exercisable period from 1 March 2011 to 28 February 2013.

The closing market price of the Shares as at 31 December 2010 was HK$45.10.

(b) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include two (2009: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals (2009: three) during the year are as follows:

	2010 HK$'000	2009 HK$'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	**18,759**	13,093
Discretionary bonuses	**33,060**	27,545
Contributions to pension scheme	**34**	36
	51,853	40,674

	Number of individuals	
Emolument bands	**2010**	2009
HK$12,000,001 – HK$12,500,000	**–**	1
HK$13,500,001 – HK$14,000,000	**–**	1
HK$14,500,001 – HK$15,000,000	**1**	–
HK$15,000,001 – HK$15,500,000	**–**	1
HK$16,000,001 – HK$16,500,000	**1**	–
HK$20,500,001 – HK$21,000,000	**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 2010									
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
Year ended 31 December 2010									
Opening net book amount	15,517,818	436,882	729,589	185,664	585,372	410,542	323,953	12,707	18,202,527
Exchange differences	(126,429)	–	419	–	(17)	–	(668)	–	(126,695)
Acquisition of subsidiaries/ businesses *(Note 31)*	16,389,354	–	1,205,053	335,400	114,661	324,962	28,907	–	18,398,337
Adjustments to purchase consideration and net asset value *	533,336	–	–	–	–	–	–	–	533,336
Additions	–	–	–	–	–	1,913,180	32,184	–	1,945,364
Disposals	–	–	–	–	–	–	(203)	–	(203)
Amortization	–	(24,765)	(119,584)	(32,460)	(36,846)	(614,291)	(41,717)	(2,114)	(871,777)
Closing net book amount	32,314,079	412,117	1,815,477	488,604	663,170	2,034,393	342,456	10,593	38,080,889
At 31 December 2010									
Cost	32,314,079	474,761	2,013,066	561,600	721,119	2,937,223	447,564	14,820	39,484,232
Accumulated amortization	–	(62,644)	(197,589)	(72,996)	(57,949)	(902,830)	(105,108)	(4,227)	(1,403,343)
Net book amount	32,314,079	412,117	1,815,477	488,604	663,170	2,034,393	342,456	10,593	38,080,889

* *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 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	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)

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	
	2010	2009
	HK$'000	HK$'000
United States of America	**16,741,124**	10,730,071
Europe	**7,303,172**	4,027,805
Canada	**286,286**	223,576
Australasia	**149,831**	108,109
Central and Latin America	**103,322**	113,592
Rest of the world	**7,730,344**	314,665
	32,314,079	15,517,818

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.

Amortization of HK$656,008,000 (2009: HK$127,783,000) is included in the 'Selling expenses' and HK$215,769,000 (2009: HK$107,631,000) 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 1 January 2009						
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	–	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
Year ended 31 December 2010						
Opening net book amount	**117,819**	**661,093**	**410,122**	**54,752**	**11,919**	**1,255,705**
Exchange differences	**(3,498)**	**10,169**	**2,297**	**(2,866)**	**(64)**	**6,038**
Acquisition of subsidiaries/ businesses *(Note 31)*	**130,782**	**173,237**	**107,153**	**574,149**	**28,041**	**1,013,362**
Additions	**25,333**	**262,246**	**250,419**	**66,601**	**7,215**	**611,814**
Disposals	**(1,551)**	**(70,763)**	**(31,976)**	**(1,002)**	**(2,206)**	**(107,498)**
Depreciation	**(5,471)**	**(158,294)**	**(171,709)**	**(25,734)**	**(6,566)**	**(367,774)**
Closing net book amount	**263,414**	**877,688**	**566,306**	**665,900**	**38,339**	**2,411,647**
At 31 December 2010						
Cost	**302,637**	**1,404,331**	**1,446,486**	**831,832**	**70,584**	**4,055,870**
Accumulated depreciation	**(39,223)**	**(526,643)**	**(880,180)**	**(165,932)**	**(32,245)**	**(1,644,223)**
Net book amount	**263,414**	**877,688**	**566,306**	**665,900**	**38,339**	**2,411,647**

Depreciation of HK$367,774,000 (2009: HK$304,874,000) is included in the 'Administrative expenses' in the consolidated profit and loss account.

At 31 December 2010, land and buildings of HK$58,500,000 (2009: Nil) were pledged as security for the Group's short-term bank loans.

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	
	2010	2009
	HK$'000	HK$'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**26,306**	2,426
Leases of over 50 years	**3,447**	–
	29,753	2,426

	The Group	
	2010	2009
	HK$'000	HK$'000
Beginning of the year	**2,426**	2,548
Acquisition of subsidiaries/businesses *(Note 31)*	**27,409**	–
Disposal	**(8)**	–
Amortization of prepaid premium for land leases	**(291)**	(123)
Exchange differences	**217**	1
End of the year	**29,753**	2,426

15 INTERESTS IN SUBSIDIARIES

	The Company	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost	**8,496,422**	407,104
Loan to a subsidiary	**1,952,493**	1,952,493
	10,448,915	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	
	2010	2009
	HK$'000	HK$'000
Beginning of the year	**24,342**	19,831
Share of profits less losses of associated companies	**14,431**	7,787
Dividend received	**(5,349)**	(3,148)
Acquisition of subsidiaries/businesses *(Note 31)*	**1,435**	–
Addition	**9,579**	–
Disposal	**–**	(128)
Exchange differences	**(454)**	–
End of the year	**43,984**	24,342
Loans to associated companies	**3,909**	3,909
Total interest in associated companies	**47,893**	28,251

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	
	2010	2009
	HK$'000	HK$'000
Beginning of the year	**720,184**	20,189
Addition	**–**	702,000
Disposal	**–**	(333)
Partial repayment	**(78,602)**	–
Fair value gains on available-for-sale financial assets *(Note 26)*	**16,703**	1,297
Net impairment provision	**(514)**	(2,969)
End of the year	**657,771**	720,184

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Available-for-sale financial assets include the following:

	The Group 2010 HK$'000	2009 HK$'000
Listed securities:		
– Equity securities – overseas	**10,466**	9,064
Unlisted securities:		
– Debt security *(Note)*	**624,000**	702,000
– Equity securities	**107**	1,530
– Club debentures	**23,198**	7,590
	657,771	720,184
Market value of listed securities	**10,466**	9,064

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.

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

	The Group 2010 HK$'000	2009 HK$'000
HK dollar	**23,204**	7,597
US dollar	**624,000**	702,000
Japanese Yen	**10,466**	9,064
Pound Sterling	**101**	1,523
	657,771	720,184

18 INVENTORIES

	The Group	
	2010	2009
	HK$'000	HK$'000
Finished goods	**5,675,836**	2,261,289
Raw materials	**319,918**	121,343
	5,995,754	2,382,632

At 31 December 2010, inventories of HK$188,716,000 (2009: HK$149,990,000) were pledged as security for the Group's bank overdrafts.

19 DUE FROM/(TO) RELATED COMPANIES

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due from:				
Subsidiaries	**–**	–	**28,473,982**	19,751,099
Associated companies	**64,976**	98,706	**–**	–
Related companies	**37,694**	–	**–**	–
	102,670	98,706	**28,473,982**	19,751,099
Due to:				
Related companies	**50,944**	–	**–**	–

The amounts are unsecured, interest free and repayable on demand, except for amounts due from an associated company amounting to HK$60,743,000 (2009: HK$85,835,000) 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	
	2010	2009
	HK$'000	HK$'000
Forward foreign exchange contracts – (liabilities)/assets *(Note 38)*	**(14,753)**	2,620

Losses in equity of HK$5,869,000 (2009: Gains of HK$6,112,000) on forward foreign exchange contracts as of 31 December 2010 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 2010, there was no material ineffective portion recognized in the profit or loss account arising from cash flow hedges (2009: Nil).

21 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills receivable – net	**16,216,294**	12,561,374	**–**	–
Other receivables, prepayments and deposits	**2,797,057**	2,331,847	**1,980**	1,463
	19,013,351	14,893,221	**1,980**	1,463

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 vendors. The ageing analysis of trade and bills receivable based on invoice date is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Current to 90 days	**15,556,931**	12,095,108
91 to 180 days	**538,755**	377,931
181 to 360 days	**54,770**	71,239
Over 360 days	**65,838**	17,096
	16,216,294	12,561,374

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$16,023,020,000 (2009: HK$12,461,574,000) that are current or less than 90 days past due are not considered impaired. As of 31 December 2010, trade receivables of HK$193,274,000 (2009: HK$99,800,000) 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	
	2010	2009
	HK$'000	HK$'000
91 to 180 days	**106,337**	53,146
Over 180 days	**86,937**	46,654
	193,274	99,800

21 TRADE AND OTHER RECEIVABLES (CONTINUED)

As of 31 December 2010, outstanding trade receivables of HK$152,010,000 (2009: HK$151,948,000) and other receivables of HK$200,901,000 (2009: HK$110,666,000) were impaired and fully provided. The individually impaired receivables mainly relate to transactions in disputes.

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

	The Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**262,614**	279,257
Provision for receivable impairment *(Note 4)*	**153,365**	147,394
Receivables written off during the year as uncollectible	**(44,621)**	(153,735)
Unused amounts reversed	**(18,447)**	(10,302)
At 31 December	**352,911**	262,614

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$326,860,000 (2009: HK$302,123,000) to banks in exchange for cash as at 31 December 2010. The transaction has been accounted for as collateralized bank advances.

At 31 December 2010, trade receivables of HK$115,068,000 (2009: HK$106,773,000) were pledged as security for the Group's bank overdrafts.

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	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK dollar	**1,442,271**	1,001,385	**1,980**	1,463
US dollar	**12,891,380**	11,988,504	**–**	–
Euro dollar	**1,792,311**	1,572,271	**–**	–
Pound sterling	**672,007**	192,677	**–**	–
Renminbi	**657,320**	66,040	**–**	–
Malaysia Ringgits	**464,521**	–	**–**	–
Thailand Baht	**391,938**	1,513	**–**	–
Others	**701,603**	70,831	**–**	–
	19,013,351	14,893,221	**1,980**	1,463

22 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**7,554,535**	4,202,267	**1,448**	1,744
Bank overdrafts *(Note 24)*				
– Secured	**(43,537)**	(47,311)	**–**	–
– Unsecured	**(177,185)**	(4)	**–**	–
	(220,722)	(47,315)	**–**	–
	7,333,813	4,154,952	**1,448**	1,744

The effective interest rate at the balance sheet date on short-term bank balances was 0.8% (2009: 0.6%) per annum; these deposits have an average maturity period of 30 days (2009: 15 days).

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills payable	**17,225,552**	12,005,113	**–**	–
Accrued charges and sundry payables	**4,751,870**	2,900,775	**114,115**	31,124
License royalty payable *(Note 27)*	**58,913**	219,652	**–**	–
	4,810,783	3,120,427	**114,115**	31,124
	22,036,335	15,125,540	**114,115**	31,124

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 2010, the ageing analysis of trade and bills payable based on invoice date is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Current to 90 days	**16,435,019**	11,744,955
91 to 180 days	**607,122**	109,297
181 to 360 days	**58,315**	44,873
Over 360 days	**125,096**	105,988
	17,225,552	12,005,113

24 BANK BORROWINGS

	The Group 2010 HK$'000	2009 HK$'000
Long-term bank loans		
– Unsecured *(Note 27)*	**795,912**	–
Short-term bank loans		
– Secured	**26,356**	–
– Unsecured	**669,045**	–
	695,401	–
Bank overdrafts *(Note 22)*		
– Secured	**43,537**	47,311
– Unsecured	**177,185**	4
	220,722	47,315
Total bank borrowings	**1,712,035**	47,315

As at 31 December 2010 and 2009, the carrying amounts of the Group's borrowings approximate their fair values.

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

	2010 HKD	2010 USD	2010 Euro	2010 GBP	2010 RMB	2009 HKD	2009 USD	2009 Euro	2009 GBP	2009 RMB
Long-term bank loans	**1.3%**	**1.7%**	**–**	**–**	**–**	–	–	–	–	–
Short-term bank loans	**0.9%**	**1.8%**	**–**	**–**	**5.0%**	–	–	–	–	–
Bank overdrafts	**–**	**1.8%**	**2.9%**	**1.5%**	**5.1%**	–	–	2.9%	2.3%	–

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 2010 HK$'000	2009 HK$'000
HK dollar	**593,268**	–
US dollar	**432,951**	–
Euro dollar	**1,847**	29,010
Pound Sterling	**94,227**	18,305
Renminbi	**273,007**	–
Others	**316,735**	–
	1,712,035	47,315

25 SHARE CAPITAL AND OPTIONS

	2010		2009	
	Number of shares (in thousand)	**HK$'000**	Number of shares (in thousand)	HK$'000
Authorized				
At 1 January ordinary shares of HK$0.025 each	**4,000,000**	**100,000**	4,000,000	100,000
Increase in ordinary shares of HK$0.025 each	**2,000,000**	**50,000**	–	–
At 31 December ordinary shares of HK$0.025 each	**6,000,000**	**150,000**	4,000,000	100,000
Issued and fully paid				
At 1 January, ordinary HK$0.025 each	**3,776,117**	**94,403**	3,634,128	90,853
Issue of shares upon a private placing *(Notes (a))*	**–**	**–**	120,290	3,007
Issue of shares to IDS Shareholders electing for the Share Alternative under the Scheme *(Note (b))*	**195,719**	**4,893**	–	–
Exercise of share options	**52,633**	**1,316**	21,700	543
At 31 December, ordinary of HK$0.025 each	**4,024,469**	**100,612**	3,776,118	94,403

NOTES:

(a) 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 HK$0.025 each in the share capital of the Company to not less than six independent professional, institutional and/or individual investors at a price of HK$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 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.

(b) Under the acquisition of Integrated Distribution Services Group Limited and its subsidiaries (the "IDS Group") by the Company by way of privatization (the "Privatization") pursuant to a scheme of arrangement, 195,719,000 new ordinary shares of HK$0.025 each of the Company were issued on 4 November 2010 under the scheme to those IDS shareholders electing for the share alternative on the ratio of 0.585 Share for every IDS share held by the IDS shareholders whose names appear on the IDS register of shareholders on the date of acquisition on 29 October 2010.

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 2010 are as follows:

Grant Date	Exercise Price HK$	Exercisable period	Number of Share Options As at 1/1/2010	Granted	Exercised	Lapsed	As at 31/12/2010
20/6/2005	13.45	20/6/2007 – 19/6/2010	4,301,800	–	(4,221,800)	(80,000)	–
20/6/2005	13.45	20/6/2008 – 19/6/2011	8,302,400	–	(6,152,800)	(176,000)	1,973,600
20/6/2005	13.45	20/6/2009 – 19/6/2012	12,225,200	–	(6,635,000)	(176,000)	5,414,200
23/1/2006	13.72	20/6/2007 – 19/6/2010	169,200	–	(169,200)	–	–
23/1/2006	13.72	20/6/2008 – 19/6/2011	682,000	–	(220,000)	–	462,000
23/1/2006	13.72	20/6/2009 – 19/6/2012	762,000	–	(300,000)	–	462,000
19/6/2006	15.65	20/6/2007 – 19/6/2010	8,000	–	(8,000)	–	–
19/6/2006	15.65	20/6/2008 – 19/6/2011	368,000	–	(174,000)	–	194,000
19/6/2006	15.65	20/6/2009 – 19/6/2012	990,000	–	(730,000)	–	260,000
2/2/2007	25.50	20/6/2008 – 19/6/2011	1,379,000	–	(1,007,000)	–	372,000
2/2/2007	25.50	20/6/2009 – 19/6/2012	5,218,000	–	(3,746,000)	–	1,472,000
13/7/2007	29.93	20/6/2009 – 19/6/2012	1,327,000	–	(845,000)	–	482,000
24/1/2008	25.55	1/3/2009 – 28/2/2011	25,296,500	–	(17,833,500)	(356,000)	7,107,000
24/1/2008	25.55	1/3/2010 – 29/2/2012	24,734,000	–	(5,211,600)	(356,000)	19,166,400
24/1/2008	25.55	1/3/2011 – 28/2/2013	24,734,000	–	–	(356,000)	24,378,000
21/5/2008	30.00	1/3/2009 – 28/2/2011	2,238,500	–	(1,286,500)	(30,000)	922,000
21/5/2008	30.00	1/3/2010 – 29/2/2012	1,400,000	–	(349,500)	(30,000)	1,020,500
21/5/2008	30.00	1/3/2011 – 28/2/2013	1,400,000	–	–	(30,000)	1,370,000
13/8/2008	26.20	1/3/2009 – 28/2/2011	1,174,900	–	(785,700)	–	389,200
13/8/2008	26.20	1/3/2010 – 29/2/2012	1,697,100	–	(589,200)	–	1,107,900
13/8/2008	26.20	1/3/2011 – 28/2/2013	1,697,100	–	–	–	1,697,100
24/2/2009	17.22	1/3/2010 – 29/2/2012	2,729,000	–	(1,869,000)	(66,000)	794,000
24/2/2009	17.22	1/3/2011 – 28/2/2013	2,408,000	–	–	(60,000)	2,348,000
14/8/2009	27.80	1/3/2010 – 29/2/2012	1,792,500	–	(498,800)	(19,200)	1,274,500
14/8/2009	27.80	1/3/2011 – 28/2/2013	2,123,700	–	–	(25,500)	2,098,200
25/3/2010	41.52	1/3/2011 – 28/2/2013	–	2,733,100	–	–	2,733,100
15/11/2010	44.85	1/3/2011 – 28/2/2013	–	1,178,600	–	–	1,178,600
		Total	129,157,900	3,911,700	(52,632,600)	(1,760,700)	78,676,300

Subsequent to 31 December 2010, 14,047,550 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	25/3/2010	15/11/2010
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	HK$4.13	HK$6.64
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	HK$41.52	HK$44.85
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	HK$41.52	HK$44.85
Standard deviation	44%	41%	24%	27%	31%	33%	34%	36%	40%	42%	54%	58%	36%	36%
Annual risk-free interest rate	1.39% – 3.31%	1.36% – 3.41%	2.79% – 3.54%	3.90% – 4.26%	4.09% – 4.79%	3.77% – 3.88%	4.35% – 4.61%	1.68% – 2.86%	1.06% – 2.20%	1.82% – 3.30%	0.33% – 1.15%	0.10% – 1.05%	0.22% – 0.57%	0.37% – 0.49%
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	3 years	3 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%	3.18%	3.18%

* *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

(a) THE GROUP	Shares held by escrow agent for settlement of acquisition consideration *(Note (iii))* HK$'000	Capital reserve *(Note (i))* HK$'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 2010	**(464,050)**	**27,157**	**311,027**	**1,297**	**6,112**	**(274,152)**	**(392,609)**
Comprehensive income							
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**(119,040)**	**(119,040)**
Net fair value gains on available-for-sale financial assets, net of tax *(Note 17)*	**–**	**–**	**–**	**16,703**	**–**	**–**	**16,703**
Net fair value losses on cash flow hedges, net of tax	**–**	**–**	**–**	**–**	**(11,981)**	**–**	**(11,981)**
Transactions with owners							
Employee share option scheme:							
– value of employee services	**–**	**–**	**259,592**	**–**	**–**	**–**	**259,592**
Exercise of share options	**–**	**–**	**(213,173)**	**–**	**–**	**–**	**(213,173)**
Release of shares held by escrow agent for settlement of acquisition consideration	**281,651**	**–**	**–**	**–**	**–**	**–**	**281,651**
Transfer to capital reserve	**–**	**484**	**–**	**–**	**–**	**–**	**484**
At 31 December 2010	**(182,399)**	**27,641**	**357,446**	**18,000**	**(5,869)**	**(393,192)**	**(178,373)**
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
Exercise of share options	–	–	(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)

26 RESERVES (CONTINUED)

(b) THE COMPANY	Share premium HK$'000	Shares held by escrow agent for settlement of acquisition consideration *(Note (iii))* HK$'000	Contributed surplus account *(Note (ii))* HK$'000	Employee share-based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2010	**14,182,564**	**(464,050)**	**2,060,673**	**311,027**	**2,025,837**	**18,116,051**
Profit for the year	**–**	**–**	**–**	**–**	**4,441,183**	**4,441,183**
Release of shares held by escrow agent for settlement of acquisition consideration	**–**	**281,651**	**–**	**–**	**–**	**281,651**
Issue of shares for privatization of IDS	**8,009,817**	**–**	**–**	**–**	**–**	**8,009,817**
Employee share option scheme:						
– value of employee services	**–**	**–**	**–**	**259,592**	**–**	**259,592**
– proceeds from shares issued	**1,117,640**	**–**	**–**	**–**	**–**	**1,117,640**
– exercise of share options	**213,173**	**–**	**–**	**(213,173)**	**–**	**–**
2009 final dividend paid	**–**	**–**	**–**	**–**	**(1,866,079)**	**(1,866,079)**
2010 interim dividend paid	**–**	**–**	**–**	**–**	**(1,449,365)**	**(1,449,365)**
Reserves	**23,523,194**	**(182,399)**	**2,060,673**	**357,446**	**1,051,547**	**26,810,461**
Proposed dividend	**–**	**–**	**–**	**–**	**2,100,029**	**2,100,029**
At 31 December 2010	**23,523,194**	**(182,399)**	**2,060,673**	**357,446**	**3,151,576**	**28,910,490**
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
– exercise of share options	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

26 RESERVES (CONTINUED)

(b) THE COMPANY (CONTINUED)

NOTES:

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

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

(1) 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.

(2) 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.

(iii) The Company issued shares for acquisitions of CGroup and Regatta in 2007. These Shares were held by escrow agents and valued at the respective agreed upon issue price. During the year, certain portions of these shares amounted to approximately HK$286,651,000 were released to the vendors as the settlement of contingent considerations. At the balance sheet date, the remaining shares held by the escrow agent amounted to approximately HK$182,399,000 were deducted from total equity. The total amount of contingent consideration for the acquisition of CGroup had been settled. Accordingly, the remaining shares of approximately HK$52,562,000 held by the escrow agent for CGroup were considered as treasury shares of the Company as of 31 December 2010.

27 LONG-TERM LIABILITIES

	The Group		The Company	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Long-term loans from minority shareholders	**38,384**	38,867	**–**	–
Long-term bank loans *(Note 24)*	**795,912**	–	**–**	–
Balance of purchase consideration payable for acquisitions	**9,116,184**	3,422,340	**–**	–
Long-term notes – unsecured	**9,801,108**	3,872,325	**9,801,108**	3,872,325
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**129,837**	464,050	**–**	–
License royalty payable	**1,525,044**	450,039	**–**	–
	21,406,469	8,247,621	**9,801,108**	3,872,325
Current portion of balance of purchase consideration payable for acquisitions	**(1,936,846)**	(1,138,668)	**–**	–
Current portion of balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**(129,837)**	(323,700)	**–**	–
Current portion of license royalty payable *(Note 23)*	**(58,913)**	(219,652)	**–**	–
	19,280,873	6,565,601	**9,801,108**	3,872,325

27 LONG-TERM LIABILITIES (CONTINUED)

Long-term portion of balance of purchase consideration for acquisitions and long-term loans from minority shareholders are unsecured, interest-free and not repayable within twelve months. Unsecured long-term notes issued to independent third parties in 2007 of HK$3,876,390,000 will mature in 2017 and bear annual coupon of 5.5%. Unsecured long-term notes issued to independent third parties in 2010 of HK$5,924,718,000 will mature in 2020 and bear annual coupon of 5.25%.

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

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 1 year	**2,125,596**	1,682,020	**–**	–
Between 1 and 2 years	**2,566,255**	1,128,544	**–**	–
Between 2 and 5 years	**5,807,264**	1,522,687	**–**	–
Wholly repayable within 5 years	**10,499,115**	4,333,251	**–**	–
Over 5 years	**10,907,354**	3,914,370	**9,801,108**	3,872,325
	21,406,469	8,247,621	**9,801,108**	3,872,325

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

	The Group	
	2010	2009
	HK$'000	HK$'000
Loans from minority shareholders	**38,384**	38,867
Long-term bank loans – unsecured	**795,912**	–
Long-term notes – unsecured	**10,212,735**	3,925,974
Balance of purchase consideration payable for acquisitions	**7,179,338**	2,283,672
License royalty payable	**1,466,131**	230,387
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**–**	140,350
	19,692,500	6,619,250

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

	The Group	
	2010	2009
	HK$'000	HK$'000
Hong Kong dollar	**1,296,833**	135,407
US dollar	**18,353,976**	7,999,742
Pound sterling	**1,632,014**	96,871
Euro dollar	**–**	15,601
Others	**123,646**	–
	21,406,469	8,247,621

28 POST-EMPLOYMENT BENEFIT OBLIGATIONS

	The Group	
	2010	2009
	HK$'000	HK$'000
Pension obligations *(Note)*	**35,693**	16,354
Long service payment liabilities	**29,135**	9,412
	64,828	25,766

NOTES: 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	
	2010	2009
	HK$'000	HK$'000
Present value obligations	**303,130**	221,215
Fair value of plan assets	**(224,579)**	(147,862)
	78,551	73,353
Unrecognized actuarial losses	**(42,858)**	(56,999)
Pension obligations	**35,693**	16,354

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

	The Group	
	2010	2009
	HK$'000	HK$'000
Current service cost	**14,121**	14,200
Interest cost	**9,252**	8,741
Expected return on plan assets	**(7,454)**	(5,724)
Net actuarial loss recognized during the year	**3,054**	1,143
Gains on curtailments and settlements	**(5,763)**	(12,656)
Total, included in staff costs *(Note 10)*	**13,210**	5,704

28 POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	The Group 2010 HK$'000	2009 HK$'000
At 1 January	**147,862**	139,702
Expected return on plan assets	**7,454**	5,724
Actuarial gains	**10,009**	1,445
Exchange differences	**5,746**	8,946
Assets acquired in business combination	**60,208**	–
Employer contributions	**10,861**	10,014
Benefits paid	**(17,561)**	(17,969)
At 31 December	**224,579**	147,862

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

	The Group 2010 HK$'000	2009 HK$'000
At 1 January	**16,354**	18,771
Total expense – as shown above	**13,210**	5,704
Contributions paid	**(10,861)**	(10,014)
Exchange difference	**2,685**	1,893
Liabilities acquired in business combination	**14,305**	–
At 31 December	**35,693**	16,354

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

	2010 %	2009 %
Discount rate	**1.75 – 7.13**	2.25 – 11.06
Expected rate of return on plan assets	**1.75 – 6.4**	2.25 – 7
Expected rate of future salary increases	**3 – 8**	3 – 5.5
Expected rate of future pension increases	**3.3**	3.4

(vi) Experience adjustments gain/(loss):

	The Group 2010 HK$'000	2009 HK$'000
Experience adjustments on plan liabilities	**3,071**	(42,073)
Experience adjustments on plan assets	**10,009**	1,445

29 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2009: 16.5%).

The movement on the net deferred tax liabilities is as follows:

	The Group	
	2010 HK$'000	2009 HK$'000
At 1 January	**12,666**	473
(Credited)/charged to consolidated profit and loss account *(Note 6)*	**(46,706)**	13,791
Acquisition of subsidiaries/businesses	**105,920**	–
Exchange differences	**(268)**	(1,598)
At 31 December	**71,612**	12,666

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$3,397,792,000 (2009: HK$1,812,412,000) to carry forward against future taxable income, out of which HK$13,408,000 will expire by 2015. 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	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
As at 1 January	**190,820**	14,613	**31,472**	23,776	**94,666**	87,062	**2,792**	5,828	**319,750**	131,279
Credited/(charged) to consolidated profit and loss account	**1,693**	175,812	**(19,819)**	8,402	**182,931**	7,221	**3,706**	(3,054)	**168,511**	188,381
Acquisition of subsidiaries/ businesses	**153,223**	–	**11,304**	–	**28,408**	–	**–**	–	**192,935**	–
Exchange differences	**1,017**	395	**(841)**	(706)	**248**	383	**(374)**	18	**50**	90
As at 31 December	**346,753**	190,820	**22,116**	31,472	**306,253**	94,666	**6,124**	2,792	**681,246**	319,750

29 DEFERRED TAXATION (CONTINUED)

	The Group							
	Accelerated tax depreciation allowances		Intangible assets arising from business combinations		Others		Total	
Deferred tax liabilities	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
As at 1 January	**40,042**	25,208	**290,703**	97,257	**1,671**	9,287	**332,416**	131,752
(Credited)/charged to consolidated profit and loss account	**(14,411)**	17,103	**140,174**	193,446	**(3,958)**	(8,377)	**121,805**	202,172
Acquisition of subsidiaries/businesses	**60,039**	–	**214,461**	–	**24,355**	–	**298,855**	–
Exchange differences	**274**	(2,269)	**–**	–	**(492)**	761	**(218)**	(1,508)
As at 31 December	**85,944**	40,042	**645,338**	290,703	**21,576**	1,671	**752,858**	332,416

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

	The Group	
	2010 HK$'000	2009 HK$'000
Deferred tax assets	**157,518**	58,180
Deferred tax liabilities	**(229,130)**	(70,846)
	(71,612)	(12,666)

	The Group	
	2010 HK$'000	2009 HK$'000
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	**148,851**	50,113
Deferred tax assets to be recovered within 12 months	**8,667**	8,067
Deferred tax liabilities to be settled after more than 12 months	**220,063**	57,904
Deferred tax liabilities to be settled within 12 months	**9,067**	12,942

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2010 HK$'000	2009 HK$'000
Profit before taxation	**4,651,073**	3,605,947
Interest income	**(105,815)**	(90,763)
Interest expenses	**767,855**	372,109
Depreciation	**367,774**	304,874
Amortization of computer software and system development costs	**41,717**	11,580
Amortization of brand licenses	**614,291**	116,203
Amortization of other intangible assets arising from business combinations	**215,769**	107,631
Amortization of prepaid premium for land leases	**291**	123
Share of profits less losses of associated companies	**(14,431)**	(7,787)
Employee share option expenses	**259,592**	126,688
Loss on disposal of property, plant and equipment	**36,194**	9,643
Loss on disposal of intangible assets	**203**	1,039
Net provision for impairment of available-for-sale financial assets	**514**	2,969
Gain on disposal of prepaid premium for land leases	**(2,733)**	–
Operating profit before working capital changes	**6,832,294**	4,560,256
(Increase)/decrease in inventories	**(756,222)**	382,751
Decrease in trade and bills receivable, other receivables and amount due from related companies	**240,118**	2,083,989
Decrease in trade and bills payable, other payables and amount due to related companies	**(240,258)**	(104,752)
Net cash inflow generated from operations	**6,075,932**	6,922,244

(b) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	2010		2009	
	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	**14,276,967**	**–**	11,231,231	512,447
Non cash movement				
Transfer from employee share-based compensation reserve	**213,173**	**–**	56,763	–
	14,490,140	**–**	11,287,994	512,447
Net proceeds from issue of shares	**1,118,956**	**–**	2,988,973	–
Issuance of shares for the Privatization of IDS	**8,014,710**	**1,595,014**	–	–
Net repayment of bank loans	**–**	**(103,701)**	–	(512,447)
At 31 December	**23,623,806**	**1,491,313**	14,276,967	–

31 BUSINESS COMBINATIONS

During the year, the Group completed several acquisitions. These acquisitions were made with the aims to expand the Group's existing scale of operation and enlarge the Group's market presence.

In February 2010, the Group acquired Heusel Textilhandelsgesellschaft mbH, a well established player in the children's apparel market in Germany that has solid business relationships with a number of key Germany retailers.

In February 2010, Li & Fung acquired Visage Group Limited, a leading private-label apparel supplier to high street and mass retailers in the UK.

In May 2010, the Group acquired the entire interest of Hong Kong-based Jackel Group, which services the beauty industry in the areas of primary packaging, fragrance and personal care.

In June 2010, the Group acquired the Hong Kong-based HTP Group, a design-driven jeanswear specialist.

In June 2010, the Group entered into an agreement to acquire substantially all of the assets of Cipriani Accessories Inc. and its affiliate, The Max Leather Group. Cipriani Accessories Inc. is a leading designer, distributor and importer of men's and women's accessories in the US, Mexico and Canada.

In August 2010, the Group acquired one of China's leading furniture trading companies, Kenas Furniture Group, which sells furniture to premier retailers and brands and has developed strong capabilities in furniture design and development.

In the same month, the Group acquired US-based Jimlar Corporation. Jimlar Corporation is a leading designer, distributor and supplier of footwear both in the US and internationally.

In October 2010, the Group acquired IDS through the Privatization *(Note 25)*. The IDS platform strengthens the Group's end-to-end supply chain solution offering and expands its global network for future growth.

In addition, the Group acquired Just Jamie & Paulrich Ltd., a supplier of ladies' tailoring and outerwear to the leading value retailers in the UK in October. It is recognized for its competence in coats and rainwear, as well as the quality and design it brings to the entire product range.

At the end of December 2010, the Group acquired the Hong Kong-based Fenix Knitwear Group, which manufactures premium knitwear products to mid– to high-end retailers.

The acquired subsidiaries/businesses contributed revenue of approximately HK$8,299 million and profit after tax of approximately HK$390 million to the Group for the period from their respective dates of acquisition to 31 December 2010. If these acquisitions had occurred on 1 January 2010, Group revenue would have been approximately HK$141,289 million; profit after tax excluding expenses of non-recurring nature *(Note 1.20)* of approximately HK$510 million, would have been approximately HK$4,504 million. These amounts have been calculated using the Group's accounting policies, and adjusting the results of the relevant subsidiaries to reflect the additional amortization that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 January 2010, together with the consequential tax effects.

31 BUSINESS COMBINATIONS (CONTINUED)

Details of net assets acquired, goodwill and acquisition-related costs are as follows:

	Total HK$'000
Purchase consideration	17,834,536
Liabilities assumed and paid	1,375,586
Less: Fair value of net assets acquired *	(2,820,768)
Goodwill *(Note 12)*	16,389,354
Acquisition-related costs (included in other non-core operating expenses in the consolidated profit and loss account for the year ended 31 December 2010)	141,626

* *As at 31 December 2010, the Group has not finalized the fair value assessments for net assets acquired from these acquisitions. The relevant fair values of net assets acquired stated above are on a provisional basis.*

The goodwill is attributable to the acquired workforces, the profitability and the synergies expected to arise from the acquired businesses. Goodwill recognized of HK$993,651,000 is expected to be deductible for income tax purpose.

31 BUSINESS COMBINATIONS (CONTINUED)

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

	IDS HK$'000	Jimlar HK$'000	Others HK$'000	Total HK$'000
Net assets acquired:				
Intangible assets *(Note 12)* *				
– Customer relationships	118,950	435,240	650,863	1,205,053
– Licensor relationships	–	–	335,400	335,400
– Trademarks	–	114,661	–	114,661
– Brand licenses	–	–	324,962	324,962
– Others	28,743	–	164	28,907
Property, plant and equipment *(Note 13)*	901,657	–	111,705	1,013,362
Prepaid premium for land leases *(Note 14)*	27,409	–	–	27,409
Associated companies *(Note 16)*	1,435	–	–	1,435
Inventories	1,941,677	486,600	428,623	2,856,900
Trade and bills receivable	2,592,970	694,139	883,377	4,170,486
Other receivables, prepayments and deposits	106,182	14,538	83,583	204,303
Cash and bank balances	676,119	300,725	419,006	1,395,850
Trade and bills payables	(3,774,131)	(467,845)	(934,982)	(5,176,958)
License royalty payables	–	–	(324,962)	(324,962)
Accrued charges and sundry payables	(157,989)	(345,317)	(542,677)	(1,045,983)
Taxation	(48,571)	(18,441)	4,715	(62,297)
Non-controlling interests	(82,508)	–	–	(82,508)
Bank overdrafts	(464,318)	–	–	(464,318)
Bank loans	(1,595,014)	–	–	(1,595,014)
Deferred tax assets/(liabilities) *(Note 29)*	39,967	(144,997)	(890)	(105,920)
Fair value of net assets acquired	312,578	1,069,303	1,438,887	2,820,768

* *Intangible assets arising from business combinations represent customer relationships, trademarks, licensor relationships, brand licenses 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 31 December 2010, the Group has not finalized the fair value assessments for some of the intangible assets. The relevant fair values of intangible assets stated above are on provisional basis.*

31 BUSINESS COMBINATIONS (CONTINUED)

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

	IDS HK$'000	Jimlar HK$'000	Others HK$'000	Total HK$'000
Purchase consideration	**8,089,317**	**2,921,712**	**6,823,507**	**17,834,536**
Purchase consideration settled by issue of shares *(Note (i))*	**(8,014,710)**	**–**	**–**	**(8,014,710)**
Purchase consideration payable *(Note (ii))*	**–**	**(1,212,350)**	**(5,426,694)**	**(6,639,044)**
Liabilities assumed and paid	**–**	**429,127**	**946,459**	**1,375,586**
Cash and cash equivalents acquired	**(211,801)**	**(300,725)**	**(419,006)**	**(931,532)**
Net (inflow)/outflow of cash and cash equivalents in respect of the acquisitions	**(137,194)**	**1,837,764**	**1,924,266**	**3,624,836**

NOTES:

(i) The fair value of the 195,719,000 ordinary shares issued as part of the consideration paid for acquisition of IDS amounting to HK$8,014,710,000 was based on the published share price of the Company of HK$40.95 on 29 October 2010.

(ii) 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	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Guarantees in respect of banking facilities granted to:				
Subsidiaries	**–**	–	**21,690,071**	23,239,729
Associated companies	**5,850**	5,850	**–**	–
	5,850	5,850	**21,690,071**	23,239,729

33 COMMITMENTS

(a) OPERATING LEASE COMMITMENTS

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 17 years. At 31 December 2010, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group	
	2010 HK$'000	2009 HK$'000
Within one year	**1,056,358**	451,966
In the second to fifth year inclusive	**2,885,053**	1,177,030
After the fifth year	**1,729,062**	1,364,779
	5,670,473	2,993,775

33 COMMITMENTS (CONTINUED)

(b) CAPITAL COMMITMENTS

	The Group	
	2010	2009
	HK$'000	HK$'000
Contracted but not provided for:		
Property, plant and equipment	**15,012**	33,526
Computer software and system development costs	**84,314**	–
Authorised but not contracted for:		
Property, plant and equipment	**58,801**	–
Computer software and system development costs	**110,789**	–
	268,916	33,526

On 22 November 2010, the Group entered into an agreement to acquire substantially all of the assets of Oxford Apparel, which is one of the operating groups of Oxford Industries, Inc. This acquisition has not been closed until January 2011 *(Note 39)* and the total consideration amounted to approximately HK$949 million.

34 CHARGES ON ASSETS

Saved as disclosed in *Note 13*, *Note 18* and *Note 21*, at 31 December 2010 and 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$120,753,000 (2009: HK$121,113,000) for the year ended 31 December 2010.

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 certain of its associates will provide a variety of logistics services to the Group. In respect of the 2008 Logistics Agreements the Group paid logistics service charges of HK$145,465,000 (2009: HK$157,006,000) for the year ended 31 December 2010.

On 29 October 2010, the Company acquired the entire interest of IDS by way of the Privatization *(Note 25 and Note 31)*. LF 1937, was a common substantial shareholder of the Company and IDS. As a result of the Privatization, the provision of logistics services pursuant to the 2008 Logistics Agreement by IDS and its subsidiaries to the Group thereafter are not considered as related party transactions and would be fully eliminated in the consolidated profit and loss account of the Group.

35 RELATED PARTY TRANSACTIONS (CONTINUED)

During the year, there were certain expenses incurred and recharged by LF 1937 against the Group amounting to approximately HK$48,000,000 (2009: HK$37,168,000).

The foregoing related party transactions also fall under the definition of connected transactions and continuing connected transactions of the Company as stipulated in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

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 2010, if the major foreign currencies, such as Euro dollar and Sterling Pound, that the Group with exposure had strengthened/weakened by 10% (2009: 10%) against US and HK dollar with all other variables held constant, profit for the year and equity would have been approximately 2.0% (2009: 2.0%) and 2.0% (2009: 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 2010 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 2010, fair value of foreign exchange forward contracts entered into by the Group amounted to HK$14,753,000 (2009: assets of HK$2,620,000), which have been reflected in full in the Group's consolidated balance sheet as derivative financial instruments (liabilities).

(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 2010, 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$9,619,000 (2009: HK$47,000) 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$1,902,000 (2009: HK$1,972,000).

(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 with vendors 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$200,901,000 (2009: HK$110,666,000), 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.

Save as disclosed in Note 23 and Note 24 for the current financial liabilities which are contractually matured in 12 months from the balance sheet date, the table below only 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 2010				
Bank loans	**–**	**371,210**	**435,669**	**–**
Balance of purchase consideration payable for acquisitions	**2,036,336**	**1,573,070**	**4,800,517**	**855,159**
Long-term notes – unsecured	**521,625**	**521,625**	**1,564,875**	**11,561,063**
License royalty payable	**61,173**	**427,924**	**776,829**	**362,778**
Financial guarantee contract	**5,850**	**–**	**–**	**–**
At 31 December 2009				
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
License royalty payable	279,478	136,572	103,771	–
Financial guarantee contract	5,850	–	–	–
The Company				
At 31 December 2010				
Long-term notes – unsecured	**521,625**	**521,625**	**1,564,875**	**11,561,063**
Financial guarantee contract	**21,690,071**	**–**	**–**	**–**
At 31 December 2009				
Long-term notes – unsecured	214,500	214,500	643,500	4,543,500
Financial guarantee contract	21,690,071	–	–	–

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 2010 and 2009 were as follows:

	2010 **HK$'000**	2009 HK$'000
Long-term bank loans *(Note 24)*	**795,912**	–
Short-term bank loans *(Note 24)*	**695,401**	–
Long-term notes *(Note 27)*	**9,801,108**	3,872,325
	11,292,421	3,872,325
Less: Cash and cash equivalents *(Note 22)*	**(7,333,813)**	(4,154,952)
Net debt	**3,958,608**	N/A
Total equity	**28,330,199**	17,726,191
Total capital	**32,288,807**	17,726,191
Gearing ratio	**12%**	N/A

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 2010.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Derivative financial instruments used for hedging *(Note 20)*	**–**	**(14,753)**	**–**	**(14,753)**
Available-for-sale financial assets *(Note 17)*				
– Debt securities	**–**	**624,000**	**–**	**624,000**
– Equity securities	**10,466**	**–**	**107**	**10,573**
– Club debentures	**–**	**–**	**23,198**	**23,198**
Total assets	**10,466**	**609,247**	**23,305**	**643,018**

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				
Derivative 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.

38 FAIR VALUE ESTIMATION (CONTINUED)

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 2010.

	Equity securities HK$'000	Club debentures HK$'000	Total HK$'000
Opening balance	**1,530**	**7,590**	**9,120**
Fair value gains	**–**	**15,302**	**15,302**
Impairment (provision)/written back	**(820)**	**306**	**(514)**
Partial repayment	**(603)**	**–**	**(603)**
Closing balance	**107**	**23,198**	**23,305**
Total (losses)/gains recognized in profit or loss for assets held at the end of the reporting date	**(820)**	**306**	**(514)**

39 EVENTS AFTER BALANCE SHEET DATE

In January 2011, the Group acquired substantially all of the assets of Oxford Apparel, which is one of the operating groups of Oxford Industries, Inc.

40 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 24 March 2011.

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)	Integrated Distribution Services Group Limited	Bermuda	Ordinary US$12,000	100	Investment holding
(2)	LF Centennial Limited	British Virgin Islands	Ordinary US$50,000	100	Investment holding
(2)	LF Credit Limited	Bermuda	Ordinary US$12,000	100	Investment holding
(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 GBP15,500,000	100	Wholesaling
	Bossini Fashion GmbH	Germany	Euro 468,000	100	Importer
	Branded Lifestyle Taiwan Holdings Limited	Hong Kong	Ordinary HK$1	100	Retail of apparel and accessories
	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
(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	100	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

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)	Dongguan LF Beauty Manufacturing Services Limited	The People's Republic of China	US$10,211,000	100 foreign-owned enterprise	Manufacturing and export trading
	DSG (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading service
	DSG Services Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading service
	Direct Sourcing Group Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Direct Sourcing Group Investment Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Direct Sourcing Group Pte. Ltd.	Singapore	Ordinary S$10,000	100	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
	Fashion Design (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Design
	Fashion Design NY LLC	U.S.A.	Capital contribution Nil	100	Design
	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
	Heusel Textilhandelsgesellschaft mbH	Germany	Euro 225,000	100	Wholesaling
	HTP Fashion Limited	Hong Kong	Ordinary HK$1	100	Manufacturing and trading
	Homestead International Group Ltd.	U.S.A.	Voting Common Stock US$901 Non-Voting Common Stock US$99	100 Voting	Importer
	Homeworks Asia Limited	Hong Kong	Ordinary HK$2	100	Export trading
(2)	Homeworks (Europe) B.V.	The Netherlands	Ordinary Euro 18,000	100	Export trading
	IDS (Hong Kong) Limited	Hong Kong	Ordinary HK$146,000,000	100	Distribution of consumer and pharmaceutical products
	IDS (Philippines), Inc.	The Philippines	Peso 21,000,000	100	Distribution of consumer products and provision of logistics services
	IDS Logistics (Hong Kong) Limited	Hong Kong	Ordinary HK$10,000	100	Provision of logistics services
	IDS Logistics (Taiwan) Limited	Hong Kong	Ordinary HK$200	100	Provision of logistics and packaging services
	IDS Logistics (Thailand) Limited	Thailand	Ordinary Baht 303,750,000	100	Provision of logistics services
	IDS Logistics (UK) Limited	England	Ordinary GBP50,000	100	Provision of logistics services
	IDS Logistics Services (M) Sdn. Bhd.	Malaysia	Ordinary RM2,000,000	100	Provision of logistics services
	IDS Logistics Services Pte. Ltd.	Singapore	Ordinary S$28,296,962	100	Provision of logistics services
	IDS Manufacturing Limited	Thailand	Ordinary Baht 469,500,000	100	Manufacturing of household, pharmaceutical and personal care products

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
	IDS Manufacturing Sdn. Bhd.	Malaysia	Ordinary RM23,000,000	100	Manufacturing of pharmaceutical, foods and toiletries products
	IDS Marketing (Singapore) Pte. Ltd.	Singapore	Ordinary S$300,000 Preference S$60,000	100	Distribution of healthcare products
	IDS Marketing (Thailand) Limited	Thailand	Ordinary Baht 16,000,000 Preference Baht 5,500,000, 25% paid up	100	Distribution of consumer and pharmaceutical products
	IDS Sebor (Sarawak) Sdn. Bhd.	Malaysia	Ordinary RM5,000,000	67.09	Distribution of consumer products
	IDS Sebor Sabah Sdn. Bhd.	Malaysia	Ordinary RM9,850,000	60	Distribution of consumer products
	IDS Services (Malaysia) Sdn. Bhd.	Malaysia	Ordinary RM14,231,002	100	Distribution of consumer, pharmaceutical and medical equipment products
	IDS USA Inc.	U.S.A.	Common stock US$1	100	Provision of logistics services
	IDS USA West Inc.	U.S.A.	Common stock 2,000	100	Provision of logistics services
	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 Solutions GmbH	Germany	Euro 520,000	100	Importer
	JMI Sportswear Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
	JV Cosmetics Company Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading
	JV Cosmetics (Dongguan) Co. Ltd.	The People's Republic of China	HK$105,000,000	100 foreign-owned enterprise	Manufacturing and trading
	Jackel Cosmetics Limited	Hong Kong	Ordinary "A" HK$100,000 Ordinary "B" non-voting HK$13,890	100	Export trading
	Jackel France SAS	France	Ordinary Euro 37,500	100	Export trading
	Jackel, Inc.	U.S.A.	Class A voting common stock US$1 Class B non-voting common stock US$99	100	Export trading
	Jackel International (Asia) Limited	Hong Kong	Ordinary "A" HK$346,500 Ordinary "B" non-voting HK$49,500	100	Export trading
	Jackel International Europe SAS	France	Ordinary Euro 105,000	100	Export trading
	Jackel International Limited	Hong Kong	Ordinary HK$1	100	Export trading
	Jackel Vision Limited	Hong Kong	Ordinary HK$1	100	Export trading
	Jimlar Corporation	U.S.A.	Common stock US$974.260769	100	Wholesaling
	Just Jamie and Paulrich Limited	England	Ordinary GBP878	100	Wholesaling
	Kenas Pacific Trading (Pte.) Ltd.	Singapore	Ordinary S$100	100	Export trading service
	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

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	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 Accessories Group LLC	U.S.A.	Capital contribution Nil	100	Export trading
	LF Beauty Inc.	U.S.A.	Common stock US$1	100	Investment holding
	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 (Shenzhen) Limited	The People's Republic of China	HK$8,500,000	100 foreign-owned enterprise	Export trading
	LF Beauty (UK) 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
(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.	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 National Brands Group LLC	U.S.A.	Capital contribution Nil	100	Design and marketing
	LF North America Holdings Co., Inc.	U.S.A.	Ordinary US$1	100	Investment holding
	LF Products Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
	LF USA Inc.	U.S.A.	Common stock US$251,331,000 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 (Cambodia) Limited	Cambodia	Ordinary Riels 120,000,000	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 Rupees 64,000,020	100	Export trading services
	Li & Fung (Korea) Limited	Korea	Common stock Won 200,000,000	100	Export trading services

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
(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	Dirhams10,000	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 GBP100	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
	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	RMB3,000,000	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	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
	Lion Rock Trading (Switzerland) GmbH	Switzerland	CHF 50,000	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

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
	Meredith Associates Limited	Hong Kong	Ordinary US$1,001	100	Investment holding
	MESH LLC	U.S.A.	Capital contribution Nil	75	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 of 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
	Nanjing IDS Marketing Company Limited	The People's Republic of China	US$5,000,000	100 foreign-owned enterprise	Import/export and distribution of general merchandise
	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	Ordinary GBP1,020.42	100	Investment holding
	Peter Black Holdings Limited	England	Ordinary GBP16,268,648	100	Investment holding
	Peter Black Overseas Holdings Limited	England	Ordinary GBP2	100	Investment holding
	Phil Henson GmbH	Germany	Euro 50,000	100	Importer
	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	France	Euro 8,530,303	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 39,379.5	100	Wholesaling
	PromOcean UK Limited	England	Ordinary GBP1	100	Wholesaling
	PromOcean Werbeartikel GmbH	Austria	Euro 70,000	100	Wholesaling
	P.T. Lifung Indonesia	Indonesia	US$500,000	100	Export trading services
	Rhodes Limited	Hong Kong	Ordinary US$1,000	100	Export trading and sourcing
	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	Hong Kong	Ordinary HK$2	100	Export trading
	Rosetti Handbags and Accessories, Ltd.	U.S.A.	Common stock US$1	100	Wholesaling

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Shiu Fung Fireworks 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 foreign-owned enterprise	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
	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
	Universal Pharmaceutical Laboratories, Limited	Hong Kong	Ordinary HK$500,000	100	Manufacturing and distribution of pharmaceutical products
	Ventana Bekleidungsfabrikation GmbH	Germany	Euro 26,000	100	Wholesaling
	Verity Enterprises Limited	Hong Kong	Ordinary HK$2,000,000	100	Export trading
	Visage Group Limited	England	Ordinary GBP100,000	100	Investment holding
	Visage Holdings (2010) Limited	England	Ordinary GBP2	100	Investment holding
	Visage Holdings Limited	England	Ordinary GBP35,163	100	Investment holding
	Visage (Hong Kong) Limited	Hong Kong	Ordinary HK$100,000	100	Design and marketing
	Visage Limited	England	Ordinary GBP54,100	100	Design, marketing and sourcing
	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.

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

The above table lists out the principal subsidiaries of the Company as at 31 December 2010 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.

		Place of Incorporation	Issued and fully paid share capital	Percentage of equity indirectly held by the Company	Principal activities
Note	**Principal associated companies**				
	Blue Work Trading Company Limited	Hong Kong	Ordinary HK$4,000,000	50	Export trading
#	F&S Express (S) Pte. Ltd.	Singapore	Ordinary S$20,000	50	Provision of freight forwarding services
#	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$3,260,155	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$8,322,341	30	Wholesaling
#	Winco Fireworks Mississippi, L.L.C.	U.S.A.	Capital contribution US$242,592	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 2010 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

	2010 HK$'000	2009 HK$'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
Turnover										
Continuing operations	**124,115,167**	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
Discontinued operations	**–**	–	–	–	–	–	–	–	–	87,183
	124,115,167	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
Operating profit										
Continuing operations	**5,298,682**	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
Discontinued operations	**–**	–	–	–	–	–	–	–	–	(237,955)
	5,298,682	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
Interest income	**105,815**	90,763	112,748	208,193	98,491	69,539	43,163	38,373	49,581	112,837
Interest expenses	**(767,855)**	(372,109)	(480,175)	(499,664)	(148,070)	(21,376)	(11,466)	(9,813)	(8,987)	(12,464)
Share of profit less losses of associated companies	**14,431**	7,787	6,197	4,948	10,603	9,062	32,801	431	(1,638)	(345)
Profit before taxation	**4,651,073**	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
Taxation	**(370,698)**	(240,222)	(259,497)	(252,554)	(171,682)	(151,248)	(130,250)	(103,929)	(92,865)	(53,849)
Profit for the year	**4,280,375**	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
Attributable to:										
Continuing operations	**4,278,221**	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
Discontinued operations	**–**	–	–	–	–	–	–	–	–	(168,996)
Shareholders of the Company	**4,278,221**	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
Non-controlling interests	**2,154**	(3,382)	1,753	940	(157)	298	(939)	(12,104)	228	(69,567)
	4,280,375	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
Earnings per share (HK cents) *(Note)*										
Basic	**111.9**	91.0	69.3	89.5	67.1	55.6	46.5	37.4	34.1	24.8
Continuing operations	**111.9**	91.0	69.3	89.5	67.1	55.6	46.5	37.4	34.1	30.2
Dividend per share (HK cents) *(Note)*	**90**	75.0	57.0	71.0	55.0	45.5	38.2	31.8	27.7	24.1
Special dividend per share (HK cents) *(Note)*	**–**	–	–	–	–	–	22.7	–	–	–

CONSOLIDATED BALANCE SHEET

	2010 HK$'000	2009 HK$'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
Intangible assets	**38,080,889**	18,202,527	14,602,129	11,374,637	4,713,163	2,809,380	1,304,333	612,849	326,696	79,585
Property, plant and equipment	**2,411,647**	1,255,705	1,283,063	1,130,002	1,114,368	947,608	715,002	731,071	658,346	669,173
Prepaid premium for land leases	**29,753**	2,426	2,548	2,554	681,179	765,771	765,172	780,826	605,492	555,181
Associated companies	**47,893**	28,251	23,740	14,575	13,930	7,102	55,967	4,223	22,255	34,288
Available-for-sale financial assets	**657,771**	720,184	20,189	85,465	81,605	91,721	–	–	–	–
Investments	**–**	–	–	–	–	–	110,289	115,183	139,932	71,348
Deferred tax assets	**157,518**	58,180	111,441	115,604	105,982	118,419	73,039	19,150	–	–
Current assets	**32,666,310**	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
Current liabilities	**26,146,751**	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
Net current assets	**6,519,559**	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
	47,905,030	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
Financed by:										
Share capital	**100,612**	94,403	90,853	86,268	85,239	73,414	72,928	72,551	72,250	71,974
Reserves	**28,229,587**	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
Shareholders' funds	**28,330,199**	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
Long-term liabilities	**19,280,873**	6,425,251	5,760,075	5,063,586	797,487	753,192	509,487	64,094	69,199	65,955
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	**64,828**	25,766	23,766	30,335	25,464	19,821	17,889	10,827	4,029	–
Deferred tax liabilities	**229,130**	70,846	111,914	21,076	18,159	7,924	7,299	18,281	5,011	3,968
	47,905,030	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

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

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