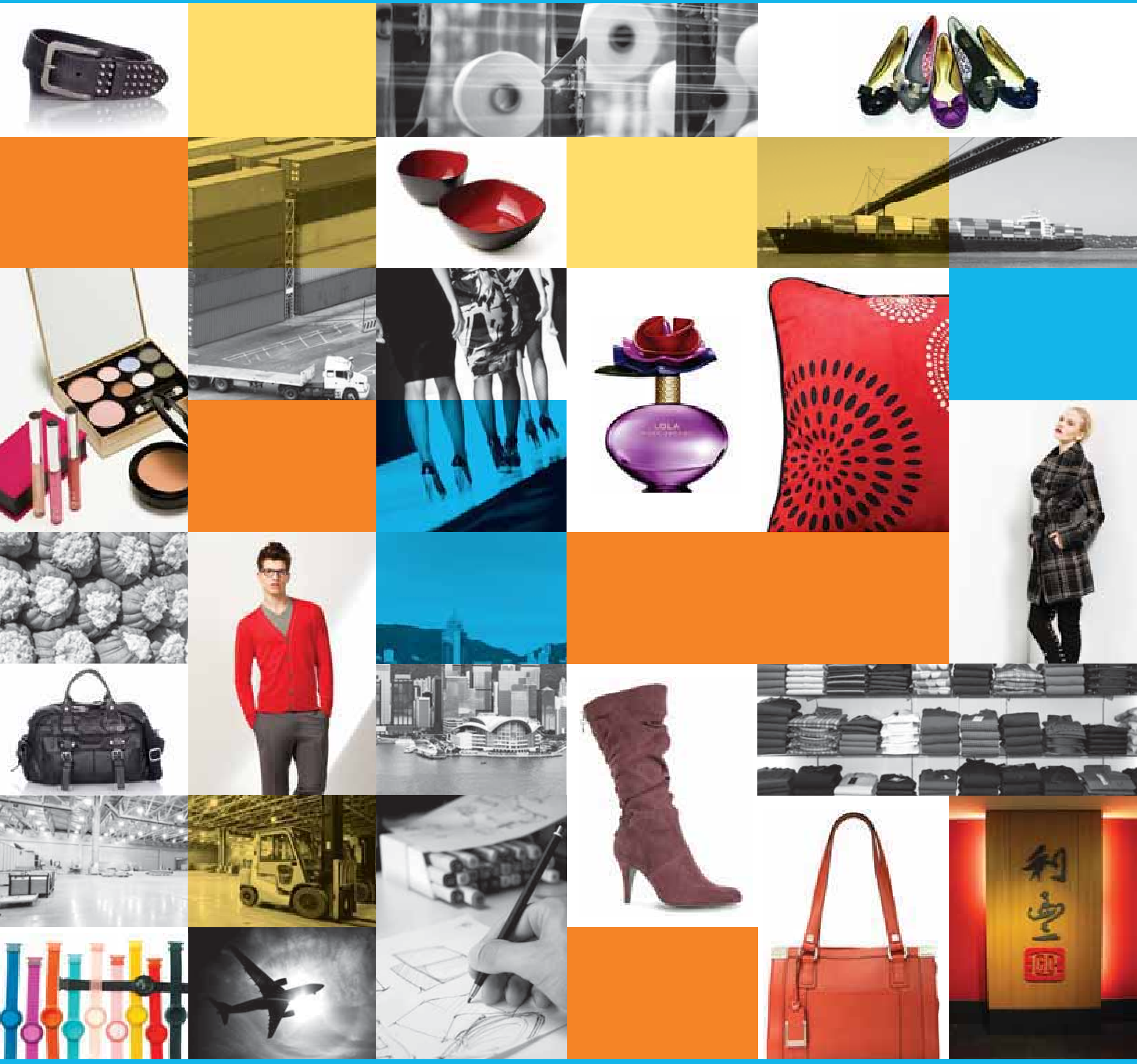
LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code: 494

ANNUAL REPORT 2011



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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*
Martin TANG Yue Nien*
Benedict CHANG Yew Teck
FU Yuning*

* *Independent Non-executive Directors*

EXECUTIVE DIRECTORS

William FUNG Kwok Lun, *Deputy Chairman*
Bruce Philip ROCKOWITZ, *Group President & Chief Executive Officer*
Spencer Theodore FUNG

GROUP CHIEF COMPLIANCE OFFICER

Srinivasan PARTHASARATHY

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

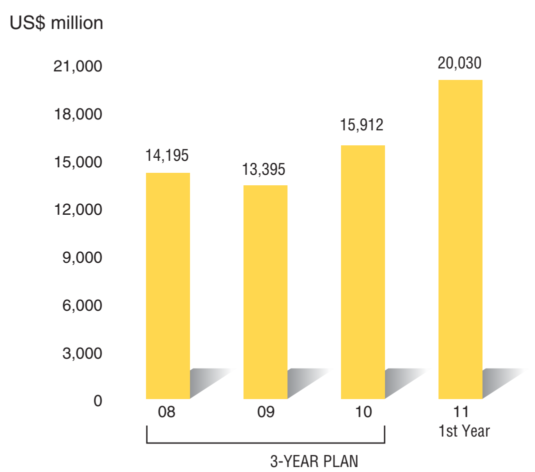
KEY FINANCIAL HIGHLIGHTS

(US$'000)	**2011**	2010	**Change**
Turnover	**20,030,271**	15,912,201	**+26%**
Total Margin	**3,074,204**	2,238,289	**+37%**
As percentage of Turnover	**15.3%**	14.1%	
Core Operating Profit	**882,056**	725,138	**+22%**
As percentage of Turnover	**4.4%**	4.6%	
Cash Earnings[#]	**849,585**	679,631	**+25%**
As percentage of Turnover	**4.2%**	4.3%	
Profit attributable to shareholders of the Company	**681,229**	548,491	**+24%**
As percentage of Turnover	**3.4%**	3.4%	
Earnings per Share – Basic	**8.43 US cents**	7.17 US cents*	**+18%**
Dividend per Share			
– Final	**34 HK cents**	26 HK cents*	**+31%**
– Full year	**53 HK cents**	45 HK cents*	**+18%**
Shareholders' Funds	**3,933,793**	3,626,029	
Net Assets per Share	**US$0.49**	US$0.45	

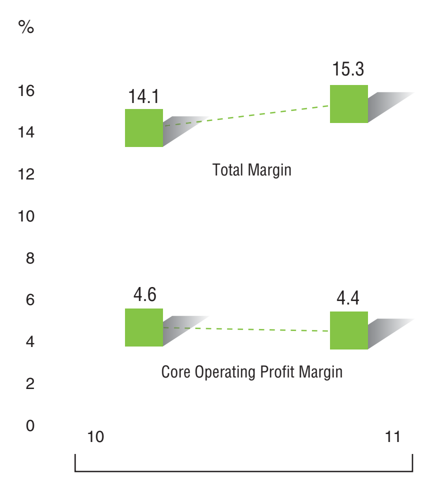
Profit for the year before non-cash interest, depreciation of property, plant and equipment, amortization of intangible assets other than brand licenses, share option expenses and share of profit from associated companies

* Adjusted for the effect of Share Subdivision in May 2011

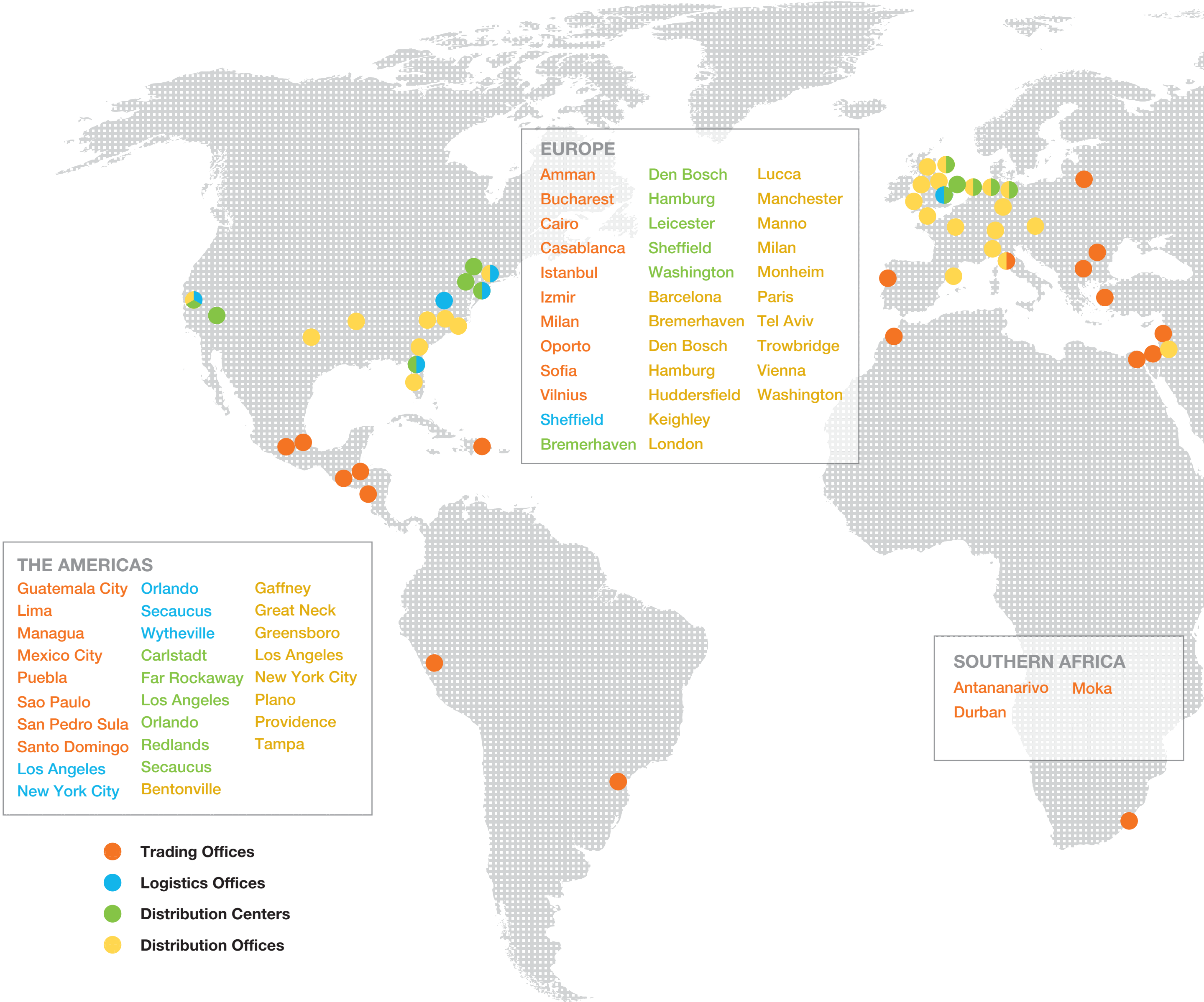
TURNOVER

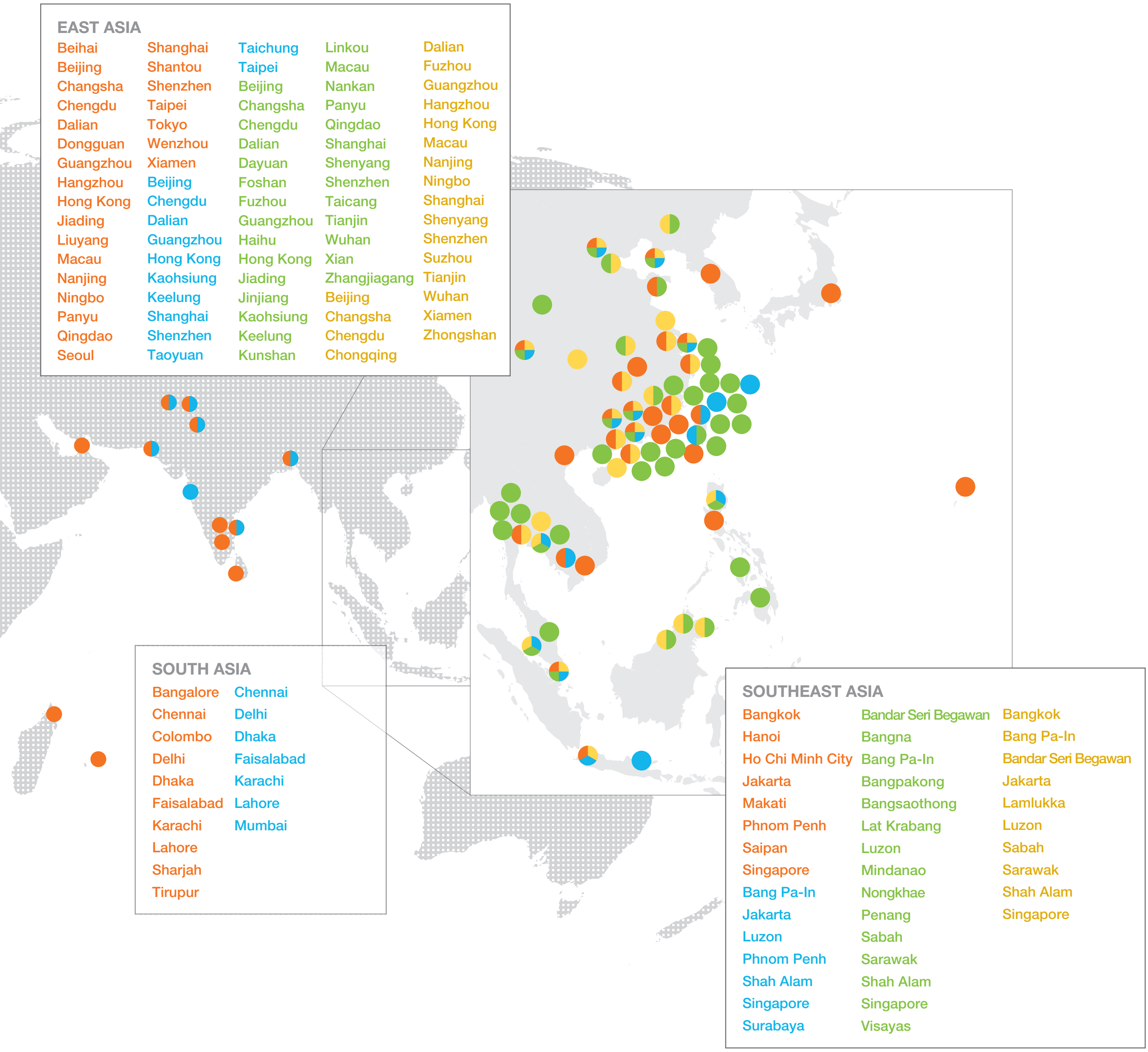


TOTAL MARGIN*
CORE OPERATING PROFITS MARGIN



* Gross Profit plus other income, as percentage of turnover


EUROPE
Amman
Bucharest
Cairo
Casablanca
Istanbul
Izmir
Milan
Oporto
Sofia
Vilnius
Sheffield
Bremerhaven
Den Bosch
Hamburg
Leicester
Sheffield
Washington
Barcelona
Bremerhaven
Den Bosch
Hamburg
Huddersfield
Keighley
London
Lucca
Manchester
Manno
Milan
Monheim
Paris
Tel Aviv
Trowbridge
Vienna
Washington
THE AMERICAS
Guatemala City
Lima
Managua
Mexico City
Puebla
Sao Paulo
San Pedro Sula
Santo Domingo
Los Angeles
New York City
Orlando
Secaucus
Wytheville
Carlstadt
Far Rockaway
Los Angeles
Orlando
Redlands
Secaucus
Bentonville
Gaffney
Great Neck
Greensboro
Los Angeles
New York City
Plano
Providence
Tampa
SOUTHERN AFRICA
Antananarivo
Durban
Moka
Trading Offices
Logistics Offices
Distribution Centers
Distribution Offices



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 with over 300 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 Distribution – Li & Fung offers a spectrum of services that covers the entire end-to-end supply chain.

CHAIRMAN'S STATEMENT

Victor Fung
Chairman

At Li & Fung, 2011 was the start of a new era of growth, marked by a series of remarkable transitions and efforts designed to ensure the Group's future leadership of a rapidly changing global supply chain.

The establishment of three business Networks – Trading, Logistics and Distribution – opens the door to significant growth opportunities. It enables us to sell across these distinct yet interconnected areas. It also provides us with yet another way to serve our customers through expanded scope and capabilities. In these times of global economic uncertainty, this proposition will be especially important as we work toward a new era of growth.

Undoubtedly, the market environment will remain challenging. While the US is expected to grow modestly, the Eurozone's GDP may contract as the debt crisis continues to create drag on its economic recovery. Nevertheless, the Group has committed significant effort and resources to ensuring that its three Networks are equipped to grow. Our growth in the immediate future will focus on cross-selling and increasing our market share, which will enable us to grow faster than the overall growth in our markets.

PERFORMANCE

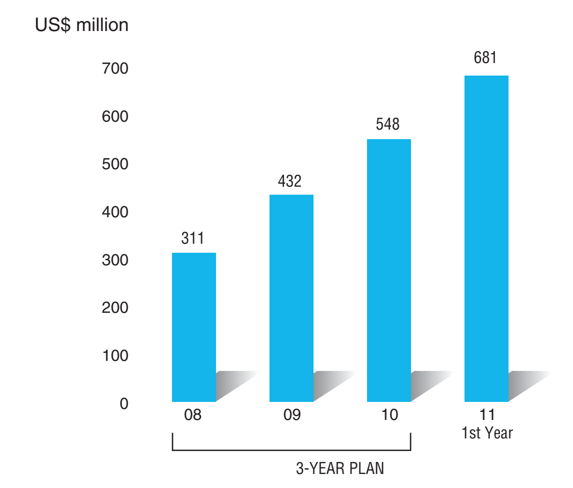
In 2011, Group turnover increased by 26% to US$20,030 million. Profit attributable to shareholders was US$681 million, an increase of 24% compared to 2010 (US$548 million). Earnings per share were 8.43 US cents compared with 7.17 US cents for 2010.

The Board of Directors has resolved to declare a dividend of 34 HK cents per share (2010: 26 HK cents, adjusted for the effect of Share Subdivision in May 2011).

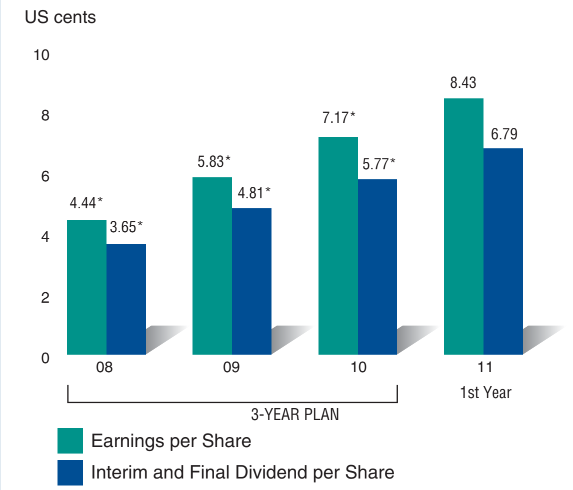
MARKET & BUSINESS

In past years, our business strategy has been based on sourcing goods in Asia for consumption in developed markets such as the US and Europe. Indeed, OECD countries are currently responsible for 80% of global consumption. Moving forward, we are adjusting our strategy to take advantage of domestic consumption increases throughout Asia, particularly among its most populous economies, such as China. In 2010, the US and Europe accounted for 89% of the Group's turnover. In 2011 that figure shrank to 81%, with China and the rest of Asia making up the difference. The Group's ability to capture business in such promising new consumer markets is a welcome development and one that we feel will help us continue to offset the sluggish global economy.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS



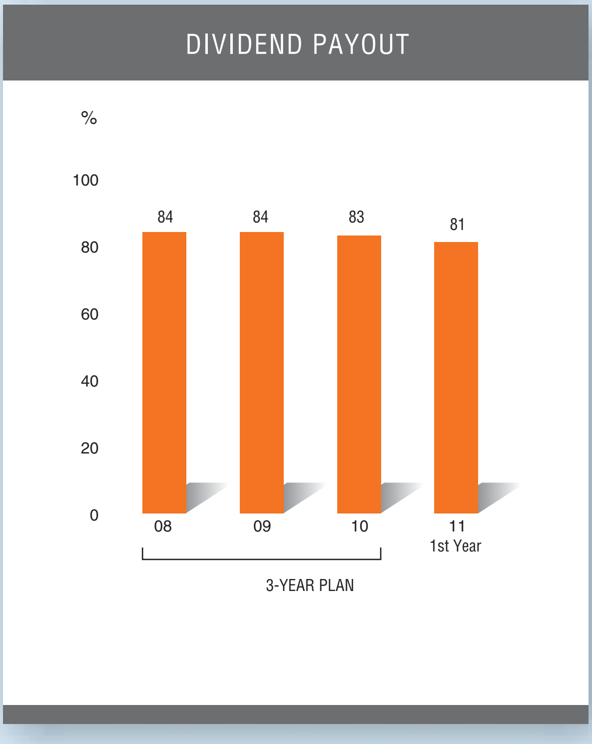
EARNINGS PER SHARE | DIVIDENDS PER SHARE



* Adjusted for the effect of Share Subdivision in May 2011

On the production side, it is estimated that Asia will account for over half of the world's output by 2050. China has long been the world's manufacturing powerhouse, and it remains the biggest sourcing market for the Group. However, with wages in the Pearl River Delta rising by 30% in recent times, this region is no longer the low-cost center of years past. Regions such as Bangladesh, Vietnam and Cambodia as well as western and northern China are gaining preference among cost-sensitive customers.

Operationally, this past year was significant because it marked the reorganization of the Group structure along three lines: Trading, Logistics and Distribution. During the year we worked tirelessly to strengthen these Networks through organic growth and acquisition while also streamlining operations. Acquisitions included several large deals and smaller roll-up deals that bolstered even more our range of products and services. With these investments, we are even better equipped to grow organically as future growth opportunities rise with the global economic recovery.



One particular advantage of having these three Networks is that by offering an unparalleled suite of global supply chain solutions for our customers, we will also generate new revenue streams and drive organic growth through substantial cross-selling opportunities.

Since the founding of Li & Fung in 1906, we have continually questioned and strengthened our business and management methods to adapt to an ever-changing world. In this context, we have made sustainability a key pillar of our current Three-Year Plan for 2011–2013, and in 2011 we continued to expand the implementation of our Sustainability Strategy. This strategy provides a foundation for our global operations to integrate sustainability into our business and with our supply chain partners. Our goal is to implement programs that bring tangible benefits to the Group and to the world. Within our four walls, we continued our efforts to reduce our environmental footprint through reductions in carbon emissions and energy, water and paper consumption; to engage our colleagues to live and work sustainably; and to support our communities around the world. This year also marks a significant milestone as we developed and prepared for the 2012 launch of our revised Code of Conduct for Suppliers and new Supplier Compliance Manual. We look forward to continuing to work with our partners to build capacity in our supply chain to improve working conditions and environmental performance and provide sustainable sourcing options.

With approximately 15,000 manufacturers in over 40 economies worldwide, Li & Fung remains in a very advantageous position to prosper in the coming years. However, it will also be critical for us to continue working closely with our partners and customers to help raise the quality of supply and manufacturing throughout the network.

PROSPECTS

The year 2011 was one of transition and investment, and we believe we have set in motion a business plan that will be borne out by the future success of our Group and our customers.

The road ahead will not be entirely smooth. The state of the global economy remains uncertain, and the weakness of the US dollar continues to hamper trade. We are also seeing a proliferation of bilateral agreements in response to the global economic downturn and political uncertainty around the world. This will only serve to undermine the power of the global supply chain while also affecting the ability of SMEs to compete in an increasingly complicated environment. We remain firm in our belief that a multilateral trading system is the best way to achieve economic recovery and growth, and we will continue to strongly encourage the world's leaders to negotiate sustainable agreements that can help achieve these goals, for developed and developing nations alike.

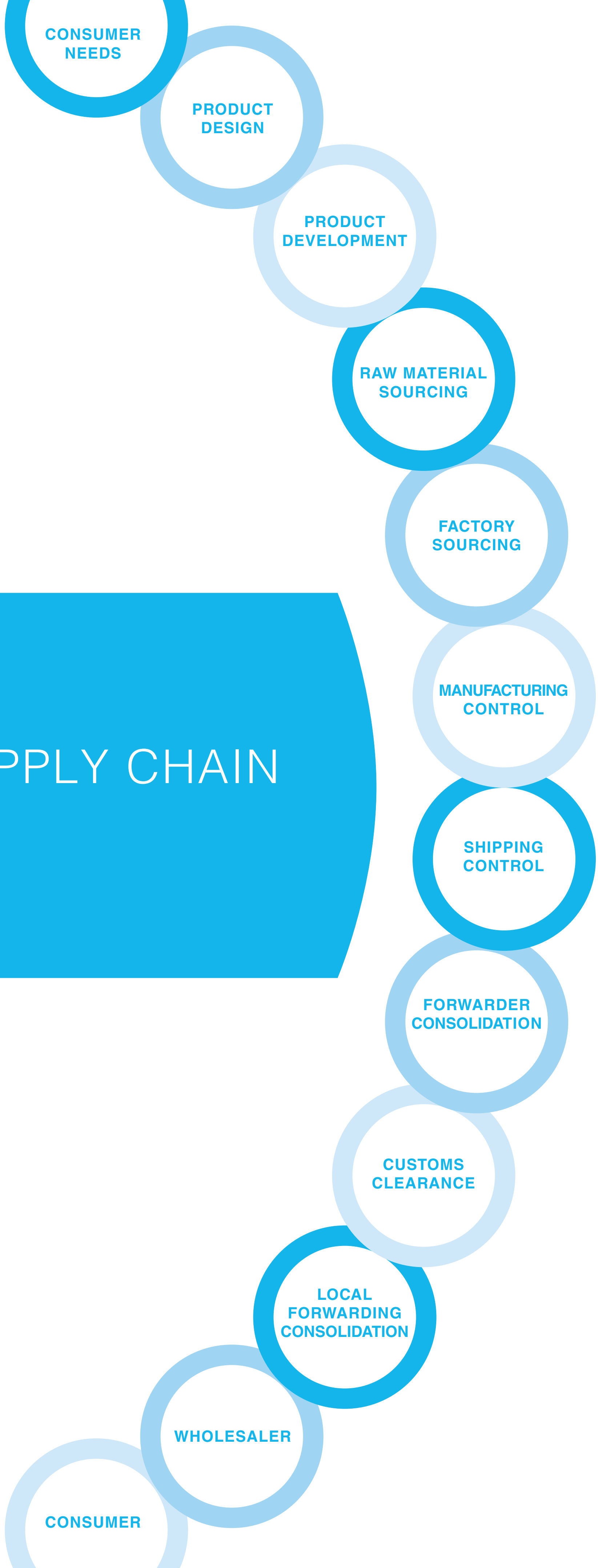
It should be noted that this year's report marks my last as Chairman of Li & Fung Limited. I will continue to serve as Non-executive Director of the Company and also as Chairman of its Risk Management and Sustainability Committee. I will also remain closely engaged in my other publicly listed and private holdings as well as our family's charitable foundations, the Victor and William Fung Foundation and the Li & Fung (1906) Foundation.

I would like to take the opportunity of this platform one last time to congratulate my colleagues around the world for helping make Li & Fung the world's leading supply chain company. Under the expert guidance of Dr. William Fung, who will assume the role of Chairman in May 2012, and Mr. Bruce Rockowitz, our Group President and CEO, I strongly believe the Group has begun a new era of prosperity, growth and leadership.

Victor FUNG Kwok King
Chairman

Hong Kong, 22 March 2012

THE SUPPLY CHAIN





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



William Fung
Executive Deputy Chairman

RESULTS REVIEW

The Group's turnover in 2011 increased by 26% to US$20,030 million (approximately HK$156 billion), reflecting continued market share gains by our business through organic growth and earlier acquisitions as well as the synergistic dynamics of the new structure of three Business Networks, notwithstanding global economic uncertainties.

Asia has become an important growth platform for Li & Fung's businesses and sourcing activities, as brands and retailers around the world are increasingly focusing on the region. With the addition of the LF Asia platform in this fast-growing consumer market, Li & Fung completed its global Distribution Network in 2011, contributing to the expansion of its distribution business. LF Asia accounted for 26% of total Distribution Network's turnover in 2011. At the same time, sourcing volume from Asia reached US$14,713 million. Asia represented 92% of the Group's total sourcing activities, spanning 20 economies in the region, including China, Vietnam, Indonesia, India, Cambodia, Thailand and the Philippines, as the Group continues to expand its sourcing network.

- Core operating profit increased by 22% to US$882 million; core operating profit margin decreased from 4.6% to 4.4%

- Total margin increased by 37% to US$3,074 million, increasing as a percentage of turnover from 14.1% to 15.3%

- Profit attributable to shareholders reached US$681 million, representing an increase of 24% compared to 2010

Core operating profit increased due to positive contributions from all three Business Networks, namely Trading, Logistics and Distribution. Recent acquisitions and investment in the new Three-Year Plan continued to contribute to high operating expenses for the year.

Cash earnings increased by 25% to US$850 million. Cash earnings is defined as profit for the year before non-cash interest, depreciation of property, plant and equipment, amortization of intangible assets other than brand licenses, share option expenses and share profit from associated companies.

Li & Fung has grown from one global business network to three, and the Group has started to see encouraging results from cross-selling amongst them, boosting confidence that cross-selling will be a key growth driver going forward.

Bruce Rockowitz
Group President & Chief Executive Officer

SEGMENTAL ANALYSIS

THREE NETWORKS SEGMENTATION

The period under review marked the first year that we reported by the three Business Networks: Trading, Logistics and Distribution.

The **Trading Network** represented 70% of total turnover, up 16% from the same period last year. This was attributed largely to continuous market share gains throughout the year despite an uncertain economic environment. The trading business delivered significant positive operating leverage as core operating profit grew 31% from last year.

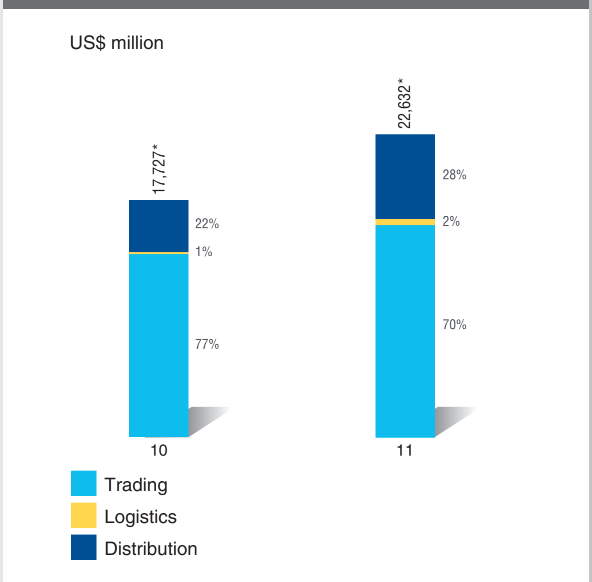
The **Logistics Network** accounted for 2% of total turnover. As the logistics business is a newly acquired business from the Integrated Distribution Services Group Limited ("IDS") acquisition, there is no direct year-on-year comparison regarding growth of turnover and core operating profit.

The **Distribution Network** represented 28% of total turnover, and it grew 61% compared to the same period last year. The growth was mainly due to contributions from acquisitions including IDS and Oxford Apparel. Core operating profit grew by only 2% from last year, mainly due to higher operating costs in the LF USA business, for which steps have been taken to reduce costs through measures including job offshoring. On the other hand, the LF Europe business delivered a solid contribution in 2011 despite difficult market conditions. LF Asia experienced a good start in 2011 with the LF Asia – Food, Health, Beauty & Cosmetics business delivering steady growth, while LF Asia – Hard & Soft Goods made a debut acquisition in 2011 as well as good progress in building an important platform for branded consumer products in Asia.

SOFTGOODS & HARDGOODS SEGMENTATION

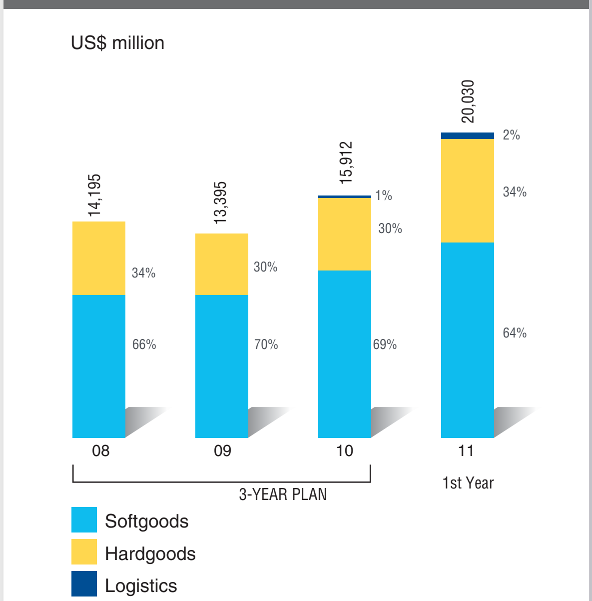
In 2011, softgoods and hardgoods accounted for 64% and 34% of turnover respectively. Logistics represented approximately 2%. **Softgoods** turnover grew 17%, which was largely due to the organic growth of some existing customers, together with contributions from acquisitions such as Oxford Apparel and Loyaltex Apparel.

TURNOVER BY NETWORK



* Turnover before elimination of inter-segment transactions

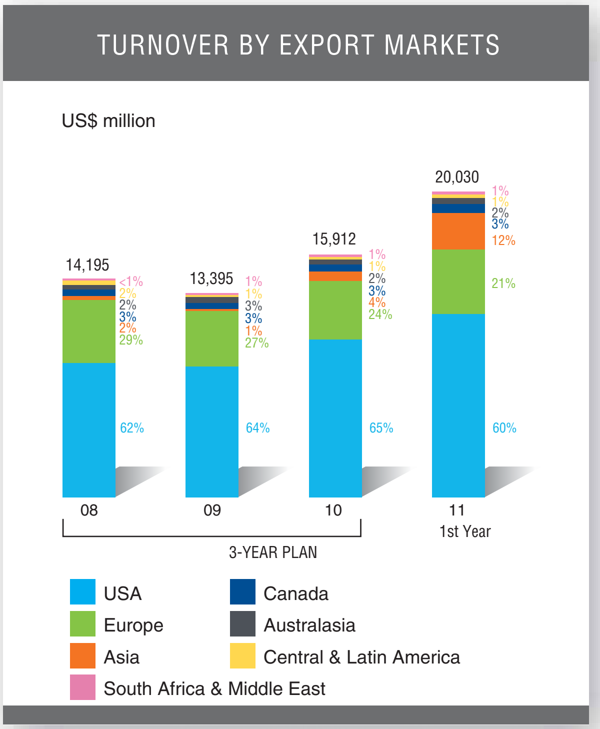
TURNOVER BY PRODUCT



Turnover from the **hardgoods** business increased by 39%, which was attributed mainly to acquisitions like IDS and Jimlar Corporation.

GEOGRAPHICAL SEGMENTATION

Geographically, while the **US** continued to be the Group's key export market, representing 60% of total turnover during the period under review, this share came down from 65% in 2010. The change was caused by increased shares from other markets, in particular China and rest of Asia, as a result of the acquisition of IDS. Year on year, turnover increased by 16%, reflecting growth in both the trading and distribution businesses.



Europe accounted for 21% of turnover, compared to 24% in 2010. The overall drop in percentage of total turnover was attributed to the increase in share by the China market after the acquisition of IDS. Year on year, turnover increased by 11%, which was caused by the continued progress made in the European distribution business.

Asia (including Japan) accounted for 12% of turnover, compared to not more than 4% during the same period last year, of which, **China** accounted for 6% of turnover, compared to 2% during the same period of last year. This was caused by the flow of business in LF Asia and LF Logistics after the acquisition of IDS at the end of 2010.

Turnover in **Canada, Central & Latin America**, and **Australasia** accounted for 3%, 1% and 2% of the Group's total turnover respectively, representing annual increases of 27%, 37% and 4%. **South Africa & the Middle East** represented less than 1% of Group's turnover, an increase of 18% from last year.

ACQUISITIONS

The Group has relied on sustained organic growth over the last 20 years, complementing it with an acquisition strategy that is especially relevant during times of uncertain economic conditions when excellent deals are available at attractive prices.

During 2011, the Group signed 18 deals that included 12 acquisitions for the Group's Trading Network and 6 for its Distribution Network. Annualized turnover and core operating profit of the 19 newly acquired companies (including Oxford Apparel which was signed in 2010 but completed in 2011) were approximately US$2 billion and US$211 million respectively for 2011. All the acquired companies have been successfully integrated into the Group. Details of major deals signed during the year are listed as below.

TRADING NETWORK

The new additions to Li & Fung's Trading Network include the acquisitions of Modium, Celissa, Techno Source, Stone Sapphire/Gemstone Printing, Loyaltex Apparel, Collection 2000, Exim Designs, Union Rich, Lloyd Textile and True Innovations.

Modium was acquired in January and is a virtual manufacturer of ladies' and men's woven apparel based in Istanbul, Turkey. Key competencies are its strong product development skills and short leadtimes.

Celissa was acquired in March and is a trading company based in Istanbul, Turkey, supplying wovens and knits to customers in Europe. Key competencies are short leadtimes and access to key customers.

In March, Li & Fung also acquired Techno Source USA, Inc., one of the fastest-growing toy companies and a toy innovator with a track record of successfully introducing electronic and non-electronic games. This acquisition provides a platform for Li & Fung to continue to build and expand its toy business globally.

In the same month, Li & Fung acquired Stone Sapphire/Gemstone Printing, a company specializing in the supply of printed paper products and technical packaging. The acquisition provides Li & Fung with a platform to source specialty paper products and complex packaging solutions for our customers, and it further complements our expertise in the "Stationery and Supplies" category.

In May, Li & Fung acquired Loyaltex Apparel Ltd. Loyaltex is a sourcing and development company specialized in knits, woven/denim and sweater. This acquisition will add a new portfolio of customers including Aeropostale, which sells casual clothing to 14-to-17-year-olds through over 900 stores in the United States, Canada and Puerto Rico; Sanmar, a major supplier of apparel to screen printers, embroiderers and promotional product distributors; and Alfred Dunner, the leading manufacturer of moderately priced ladies coordinated sportswear in the United States and Canada. This will further strengthen the Group's capabilities in global sourcing, as well as create significant synergies with its existing business.

During the same month, Li & Fung acquired Collection 2000. It specializes in fashion color cosmetics products for the beauty industry in the UK, with a range of products available in the majority of the country's leading mass color cosmetics retailers. This acquisition is expected to further category and customer base expansion in Li & Fung's Health, Beauty, and Cosmetics ("HBC") business in the UK.

In June, Li & Fung acquired Exim Designs Co., Ltd., a Thai-based furniture trading company that specializes in ready-to-assemble, flat-pack furniture. This acquisition will help strengthen Li & Fung's capabilities in the furniture business with mass-market and traditional furniture retailers and the Group expects additional synergies to be created with its existing customers in this product category.

In July 2011, the Group acquired Union Rich USA, LLC., a leading product development company specializing in storage and organization products for home and travel. This acquisition further expands our reach to specialty home improvement retailers and further improves our knowledge of the home improvement industry.

Li & Fung also acquired a design company Lloyd Textile Fashion Company Limited in July. The acquisition strengthens the Group's in-house design functions. The key managers from the acquisition will bring with them well-established relationships with customers and expert knowledge of men's product categories and markets which are important to the Group.

In September, Li & Fung acquired True Innovations, LLC, one of the leading office and entertainment furniture trading companies servicing mass retailers. It designs, markets and distributes office chairs, desks and entertainment units under its proprietary brands, licensed brands as well as retailers' private labels. This acquisition further expands Li & Fung's customer base in this product category as well as its licensing portfolio with well-known US furniture brands.

DISTRIBUTION NETWORK

In addition, the Group has acquired Beyond Productions, TVMania, Hampshire Designers, Fishman & Tobin, Crimzon Rose and Midway Enterprises/Wonderful World for its Distribution Network.

In January, Li & Fung acquired Beyond Productions, LLC, a leading designer and licensor of women's fashion apparel and accessories. The deal broadens the Group's range of offerings for the retail channel and further strengthens its position as an innovative, design-driven company.

In May, Li & Fung acquired TVMania, the leading Pan-European supplier of character licensed and branded merchandize with the most comprehensive set of licenses across Europe. Its portfolio of character licenses include Hello Kitty, Mickey Mouse, Cars, Batman, Ben 10, Bakugan, Star Wars, Barbie, Pokémon, Bob the Builder, Sponge Bob, Spiderman Movies, Smurf, Dora the Explorer as well as the surf brand Gotcha. Major licensors include Sanrio, Disney, Marvel, MTV/Nickelodeon, Hit, Cartoon Network, Lucas Films and Mattel. The company's main product categories are casual, nightwear and underwear. This acquisition will help to further expand the Group's licensed apparel business alongside its private label apparel business across Europe. The acquisition of TVMania underlines the Group's strategy of creating synergies between its US and European distribution businesses. Together with Kids Headquarters, a US deal which was acquired in 2009, this acquisition will allow the Group to become the largest global player in licensed apparel trading, and hence a stronger and even more valuable partner to licensors and retailers.

In May, Li & Fung acquired Hampshire Designers, Inc., the women's division of Hampshire Group Limited in the US. The acquisition includes Designers Originals, Mercer Street Studio and Hampshire Studio, and it is expected to further expand the Group's women's knitwear and woven product offerings and capabilities.

In August, Li & Fung acquired Fishman & Tobin, a children's apparel company and a key supplier to the boy's dresswear market, specialized in boy's dresswear, boys and girls school uniforms, boys sportswear and men's dresswear. This acquisition is a significant step in expanding the Group's licensed brands portfolio to dressier boys' and girls' apparel.

Crimzon Rose International was also acquired in August and is one of the leading companies that designs, sources, markets and distributes costume jewelry and accessories under its own brands or licenses. Major brands include Crimzon, Erica Lyons, Daisy Fuentes, Elements, Lolita and Pure Expressions. This acquisition will add a jewelry platform to Li & Fung's Distribution business in the U.S. while strengthening its sourcing capability in this product category.

In September, Li & Fung acquired Midway Enterprises (Guangzhou) Ltd., Wonderful World (HK) Ltd. and Wonderful World Overseas Limited from The Roly Group. They operate children apparel and toys businesses in Greater China. This marks Li & Fung's first acquisition for LF Asia since the expansion of its Distribution business to Asia in 2011. The acquisition dramatically strengthens LF Asia's brands and licensing portfolio and enables LF Asia to expand its business into new markets and product categories, including the children's marketplace in China.

LICENSING DEAL

In December, the Group signed master license agreement with USPA – U.S. Polo Association. According to the agreement, LF Asia will take over the management of the USPA brand in China, Hong Kong and Macau including all hardgoods and softgoods for the trademark of USPA.

DISPOSAL OF PROPERTIES AND MEDICAL EQUIPMENT BUSINESSES (CONNECTED TRANSACTIONS)

In June, the Group announced the disposal of IDS Group's medical equipment businesses to Li & Fung Distribution Limited, a wholly owned subsidiary of Li & Fung (1937) Limited, which is a substantial shareholder of the Group. The reason for disposal was that the medical equipment businesses, which involved the distribution of durable medical equipment and required provision of long-term maintenance services, were not consistent with the Group's overall consumer goods business strategy. This disposal generated a gain of approximately US$45 million for the Group.

At the same time, the Group also announced the sale of two properties in Turkey and Taiwan as well as a property company in China, and a leaseback of the property in Turkey. The Group believes the disposal and leaseback allow the Group to achieve its asset light strategy while obtaining a long lease for the Group's use. The disposal resulted in a gain of approximately US$14 million.

THE NEW THREE-YEAR PLAN 2011–2013

The period under review was the first year of the current Three-Year Plan (2011–2013). The targets of this new Three-Year Plan 2011–2013 are to achieve Core Operating Profit of US$1.5 billion by 2013, with Trading, Logistics and Distribution expected to contribute US$0.7 billion, US$0.1 billion and US$0.7 billion respectively. Our long-established market position across the supply chain network puts us in an unique position to optimize opportunities for remarkable growth in the future.

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

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.

PEOPLE

As of the end of 2011, the Group had a total workforce of 29,624, of whom 4,518 were based in Hong Kong and 25,106 were located overseas and in mainland China.

At Li & Fung we recognized 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.

EMPLOYEE ENGAGEMENT

In September 2011, we launched our first Employee Engagement Survey with the objective of assessing our engagement with our employees and their customer orientation, and finding out more about our strengths and opportunities for improvement across our business units and countries. The survey, which was web-based and implemented through a third-party to safeguard the anonymity of the respondents, consisted of 56, close-ended questions and one, open-ended question.

Out of the 14,490 employees who received the survey request, 11,237 completed the survey, representing a response rate of 78%. The survey helped management to understand the views of employees and to receive useful feedback. We have formed a Corporate Engagement Team in conjunction with business executives to communicate the survey results across the company and to identify follow-up actions. In addition, our business executives will champion improvement initiatives that focus on the three themes of Communication, Career and People Care.

WELL-BEING, OCCUPATIONAL HEALTH AND SAFETY AND HUMAN RIGHTS

We aim to provide a safe, healthy and respectful workplace by adhering to our policies and codes, raising awareness, sharing tips and experiences, and providing training for our employees.

The health and well-being of all of our people globally is at the top of our agenda. Our Useful Tips on health and well-being play a vital role in sharing knowledge to our employees through daily email messages and our internal e-platform. The tips cover issues relevant to occupational health (e.g. desk ergonomics, heavy-lifting postures and precautions, stretching exercises) and well-being (e.g. ways to stay positive, quick stress relievers at workplace).

To support the ongoing promotion of health and safety in our workplaces, we launched a series of Environmental, Health and Safety (EHS) initiatives in our distribution centers worldwide. We also provide training to our employees globally and regularly conduct internal EHS audits to ensure compliance in our operations and to strive for continual improvement.

In November 2011, we launched our human rights statement on our website and implemented an internal awareness-raising program. The statement reinforces that since the founding of Li & Fung, respect for human rights has always been at the core of our beliefs and embedded in the way we do business. We have formalized these principles into group policies and codes that foster a respect for human rights amongst our employees and business partners.

LEARNING AND DEVELOPMENT

Our learning and development programs aim to strengthen core functional and management capabilities of our people through a variety of structured training programs, peer-to-peer learning, mentoring, on-the-job training, e-learning modules, and others. In 2011, we had a record of over 36,000 employee visits to access our online learning tools and over 19,025 participants attended formal learning classes or took part in e-learning.

Learning initiatives focused on strengthening core functional and management capabilities of our people. Additional talent development programs focused on key transition points in the careers of our employees.

COMMUNITY ENGAGEMENT

Contributing to our communities is important to our employees around the world. This year we supported a variety of initiatives, ranging from: donations to assist victims of the tsunami in Japan, flooding in Bangkok and India, typhoons in the Philippines, and cold weather in Bangladesh and India; to supporting children and elderly in need globally; and to cleaning beaches and/or planting trees in the Philippines, Cambodia and Hong Kong and to helping a community conserve water in Guatemala. In 2011, over 6,000 of our employees volunteered over 3,800 hours to support over 100 environmental and social initiatives around the world. Our global employees also raised over US$1.7 million to support communities, with the LF Foundation providing over US$1.4 million to further support some of these projects.

Going forward, we will continue to expand our activities in our communities around the world and develop an approach for assessing the impacts of our engagement.

Total manpower costs for 2011 were US$1,227 million, compared with US$793 million for 2010.

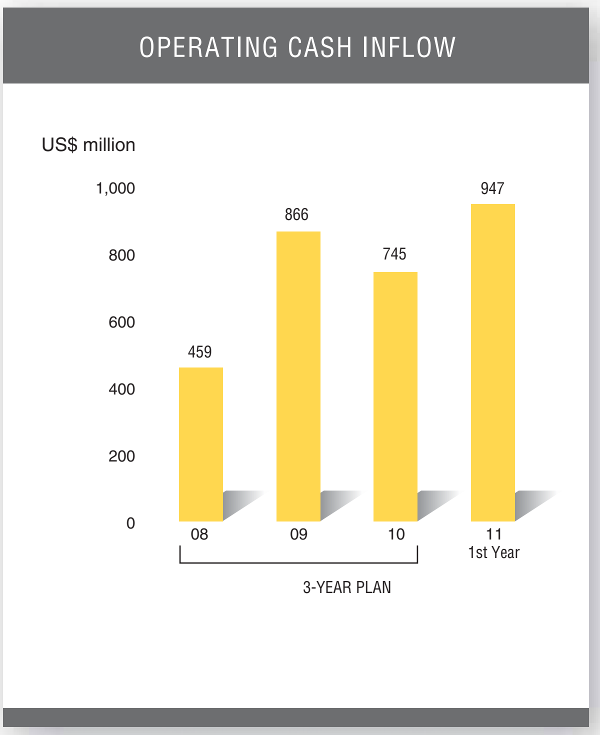
CHANGE IN FUNCTIONAL AND PRESENTATION CURRENCIES

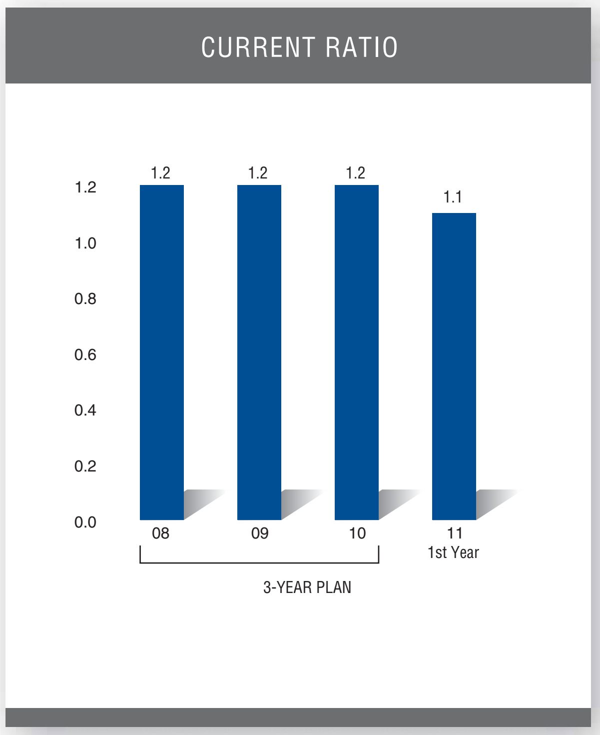
In prior years, the Company regarded Hong Kong dollar ("HK dollar") as its functional currency. However, as a result of the Group's continuous overseas acquisitions in recent years, the Company and most of its major operating subsidiaries' business transactions in terms of operating, investing and financing activities have increasingly placed greater reliance on US dollar. As such, effective from 1 January 2011, the Company and certain subsidiaries have changed their functional currency from HK dollar to US dollar. US dollar has also been adopted as the presentation currency of the Group's annual financial report. The Group's businesses as well as interests of its stakeholders are becoming more globalized and the change in presentation currency to US dollar will result in a more appropriate presentation of the Group's financial position and performance. The comparative figures in this announcement are translated accordingly. The changes in functional and presentation currencies have no significant impact on the financial positions of the Group as at 1 January 2010, 31 December 2010 and 2011, or the results and cash flows of the Group for years ended 31 December 2010 and 2011.

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 US$426 million as of the end of December 2011. Normal trading operations were well supported by more than US$2.5 billion in bank trading facilities. In addition, the Group had available bank loans and overdraft facilities of US$1,182 million, out of which US$484 million were committed facilities. As of 31 December 2011, only US$218 million of the Group's bank loan and overdraft facilities was drawn down, out of which utilization of committed facilities was US$145 million.

At balance sheet date, the Group's gearing ratio was 21%, calculated as net debt divided by total capital. Net debt of US$1,047 million was calculated as total borrowings (i.e. the aggregate of long-term bonds and bank loans of US$1,473 million) less cash and cash equivalents of US$426 million. Total capital was calculated as total equity of US$3,939 million plus net debt. The current ratio was 1.1, based on current assets of US$3,952 million and current liabilities of US$3,665 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 an ongoing assessment of each counter party and determines the credit limits based on, among other factors, their trading and settlement history as well as their respective financial background.

FOREIGN EXCHANGE RISK MANAGEMENT

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

Foreign exchange risks arising from sales and purchases transacted in different currencies are managed by the Group treasury through the use of foreign exchange forward contracts. Pursuant to the Group policy in place, foreign exchange forward contracts, or any other financial derivatives, are entered into by the Group for hedging purposes. The Group has not entered into any financial derivatives for speculation.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As of the date of this annual report, the Group has disputes with Hong Kong Inland Revenue ("HKIR") involving additional tax assessments amounting to approximately US$247 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 from1992/1993 to 2010/2011.

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 US$43 million relating to the years of assessment from 1992/93 to 2001/02. Based upon professional advice then obtained, the directors believed that the Group had meritorious defence to appeal against the Commissioner's determination. Accordingly, LFT lodged 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 should 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.

On the other hand, the HKIR also lodged an appeal against the Board of Review Decision in respect of the Offshore Claim.

On 19 March 2010, the Board of Review stated a case on questions of law in respect of both LFT's appeal on the Deduction Claim, and the HKIR's appeal on the Offshore Claim. On 1 April 2010, both LFT and the HKIR transmitted the stated case to the High Court for determination.

The appeal by the HKIR in respect of the Board of Review Decision on the Offshore Claim was dismissed by the Court of First Instance on 18 April 2011, which upheld the Board of Review Decision. LFT was also awarded costs of the appeal.

On 16 May 2011, the HKIR lodged an appeal against the judgment of the Court of First Instance to the Court of Appeal, which appeal was heard by the Court of Appeal on 14 and 15 February 2012. On 19 March 2012, the Court of Appeal has delivered its judgment. It has upheld the judgment of the Court of First Instance, and dismissed the HKIR's appeal. Any appeal against the judgment of the Court of Appeal to the Court of Final Appeal will require permission of the Court of Appeal or the Court of Final Appeal. The HKIR has until 16 April 2012 to apply for such permission to appeal.

As regards LFT's appeal on the Deduction Claim, upon the consent of the parties, the Court of First Instance has remitted the case stated to the Board of Review and directed it to make further findings of fact and to determine certain issues. As of the date of this annual report, further directions/decisions from the Board of Review are awaited.

The Group has also filed objections with the HKIR against the remaining additional tax assessments of US$204 million. The case before the Board of Review and now the Court of Appeal 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 (which has now been dismissed by the Court of Appeal), 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 decision of the Commissioner of the HKIR 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 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.

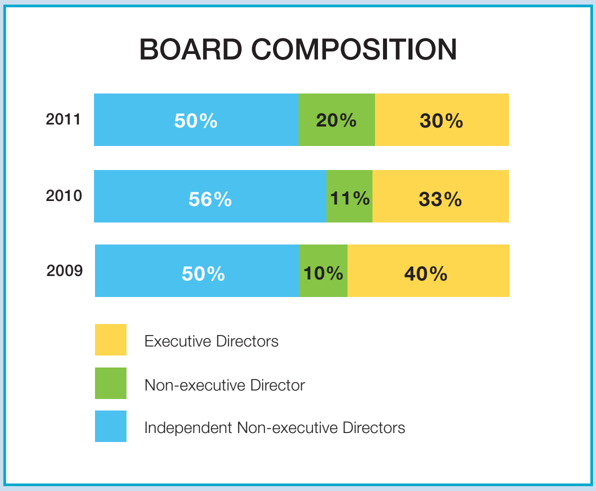
Other than the above, there are no material capital commitments, contingent liabilities or off-balance sheet obligations.

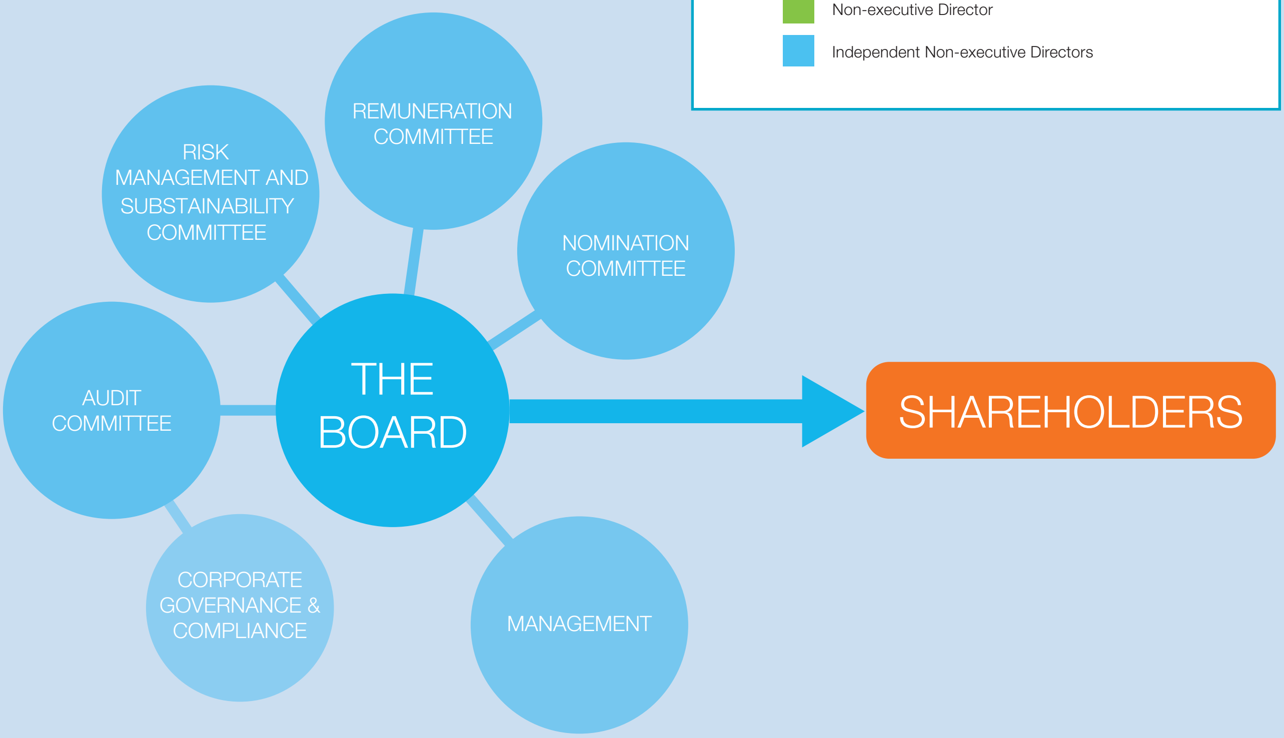
The Board of Directors and management are committed to principles of good corporate governance consistent with prudent management and enhancement of **shareholder value**. These principles emphasize transparency, accountability and independence. Set out below are those principles of corporate governance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

THE BOARD

BOARD COMPOSITION

Following the retirement of an Independent Non-executive Director at 2011 Annual General Meeting, the appointment of a Non-executive Director and an Independent Non-executive Director in February 2011 and November 2011 respectively, the Board is currently composed of the Group Non-executive Chairman, Executive Deputy Chairman, Group President and Chief Executive Officer, one Executive Director, 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 46 to 51.





GROUP CHAIRMAN AND EXECUTIVE DEPUTY CHAIRMAN

The role of the Group Chairman is separate from that of the Group Managing Director who was designated as Executive Deputy Chairman on 18 May 2011. 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.
Executive Deputy Chairman	• 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 risk management and internal control 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 usually invited to join Board meetings to enhance the Board and management communication. External auditor attended the Company's 2011 Annual General Meeting to answer any questions from the shareholders on the audit of the Company.

In 2011, the Board held **four** physical meetings and **six** phone conferences (with an **average attendance rate of 90%**). A summary of Board and Committee meetings in 2011 is set out in the following table:

BOARD AND COMMITTEE MEETINGS FOR YEAR 2011

	Board	Nomination Committee	Audit Committee	Risk Management and Sustainability Committee	Remuneration Committee	Annual General Meeting
Non-executive Directors						
Dr Victor FUNG Kwok King[1]	■■■■■■■■■■	■■		■■■■	■■■	■
Mr Benedict CHANG Yew Teck – appointed on 1 February 2011	■■■■■■■■■					■
Independent Non-executive Directors						
Mr Paul Edward SELWAY-SWIFT[2]	◩◩◩■■■■■■■	■■	■■■■			◩
Mr Allan WONG Chi Yun[3]	◩■■■■■■■■■		■■■■		■■■	■
Professor Franklin Warren McFARLAN	◩◩■■■■■■■■	■	■■■■		■■■	◩
Mr Makoto YASUDA – retired on 18 May 2011	■■■■	■	■■			■
Mr Martin TANG Yue Nien	■■■■■■■■■■		■■■■	■■■	■■■	■
Dr FU Yuning – appointed on 1 November 2011	◩■		■			
Executive Directors						
Dr William FUNG Kwok Lun[4]	◩■■■■■■■■■			◩■■■		■
Mr Bruce Philip ROCKOWITZ[5]	■■■■■■■■■■			■■■■		■
Mr Spencer Theodore FUNG	◩■■■■■■■■■					■
Group Chief Compliance Officer						
Mr James SIU Kai Lau – retired on 1 October 2011	◩■■■■■■■ [6]	■■ [6]	■■■ [6]	◩■■	■■ [6]	■
Mr Srinivasan PARTHASARATHY – appointed on 1 October 2011	◩■ [6]		■ [6]	■	◩ [6]	
Dates of meeting	11/01/2011 [7] 24/03/2011 11/04/2011 [7] 18/05/2011 29/06/2011 [7] 14/07/2011 [7] 11/08/2011 22/09/2011 [7] 21/11/2011 22/12/2011 [7]	18/05/2011 10/08/2011	24/03/2011 18/05/2011 10/08/2011 21/11/2011	17/02/2011 13/04/2011 01/08/2011 07/11/2011	24/03/2011 18/05/2011 21/11/2011	18/05/2011

1: Chairman of the Board, and Chairman of Risk Management and Sustainability Committee. Retired as Chairman of Nomination Committee on 11 August 2011 and remains as Committee member
2: Chairman of Audit Committee, and appointed as Chairman of Nomination Committee on 11 August 2011
3: Chairman of Remuneration Committee
4: Became Executive Deputy Chairman on 18 May 2011
5: Appointed as Group President and Chief Executive Officer on 18 May 2011
6: Invited to attend Board and Committee meetings as a non-member
7: 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 economics and business environment relevant to the Group's major operations. Overseas Board Meetings coupled with office briefings and a tour by the management of our overseas offices had been regularly conducted since 2004.

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 2011 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 2011.

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, was invited to attend Board and committee meetings in 2011 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, 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 and Sustainability Committee
- Remuneration 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 Remuneration 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. To further reinforce independence, the Committee was restructured to be chaired by an Independent Non-executive Director since August 2011. Its written terms of reference cover recommendations to the Board on the appointment of Directors, evaluation of board composition, assessment of the independence of Independent Non-executive Directors and the management of board succession.

The Committee met **twice** in 2011 (with a **100% attendance rate**) to review the board composition, the nomination of directors to fill board vacancies in 2011 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 2011 (with a **100% attendance rate**) 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 2011, 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 2011 by going through a detailed audit committee best practices checklist as against the Committee's current practices. Similar self-assessment exercises were conducted every two years since 2005. Based on the results of these assessments, the Committee believes it is functioning effectively but further enhancements and changes in practice are to be made.

The Committee also ensures that proper **whistle-blowing 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 2011, no incident of fraud or misconduct was reported from employees, shareholders or stakeholders that have a 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 the Committee 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 2011, 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 2011 have been scrutinized by the Audit Committee (refer to details of fees to auditor in *Note 4* to the accounts on page 97).

In addition, the **external audit engagement partner is subject to periodical rotation** of not more than 7 years. Also, the Company has enforced **a policy restricting the employment of employees or former employees of external auditor**, within 12 months preceding their employment by the external auditors, as senior executive and at senior internal audit or financial positions with the Group.

Prior to the commencement of the audit of 2011 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) as the Company's external auditor, and the Committee has recommended to the Board the reappointment of PwC in 2012 as the Company's external auditor at the forthcoming Annual General Meeting.

RISK MANAGEMENT AND SUSTAINABILITY COMMITTEE

The Risk Management Committee was re-named as the Risk Management and Sustainability Committee on 24 March 2011. It 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, and had been further updated in 2011 to authorize the Committee to review the Group's practices and strategies on corporate responsibility and sustainability. The Committee reports to the Board in conjunction with the Audit Committee.

The Risk Management and Sustainability Committee met **four times** in 2011 (with an **average attendance rate of 89%**) 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, other operational and financial risk management as well as corporate responsibility and sustainability.

REMUNERATION COMMITTEE

The Compensation Committee was renamed as the Remuneration Committee on 22 March 2012. It 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 grant of share options to employees under the Company's Share Option Scheme. It annually reviews the Group's remuneration policy.

The Committee met **three times** in 2011 (with a **100% attendance rate**) to review and approve all Executive Directors' and Senior Management's remuneration packages and the grant of share options under the Three-Year Plan 2011–2013.

Details of Directors' and Senior Management's emoluments of the Company are set out in *Note 11* to the accounts on pages 101 to 104.

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 Remuneration Committee at the beginning of the Group's Three-Year Plan 2011–2013. Under the service contracts between the Group and Executive Deputy Chairman as disclosed under Directors' Service Contracts section on page 59, Executive Deputy Chairman 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 Executive Deputy Chairman) 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. Executive Deputy Chairman 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 Executive Deputy Chairman.

SHARE OPTIONS

The Remuneration 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 Remuneration 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.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective system of risk management and 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 risk management and internal control framework.

CONTROL ENVIRONMENT

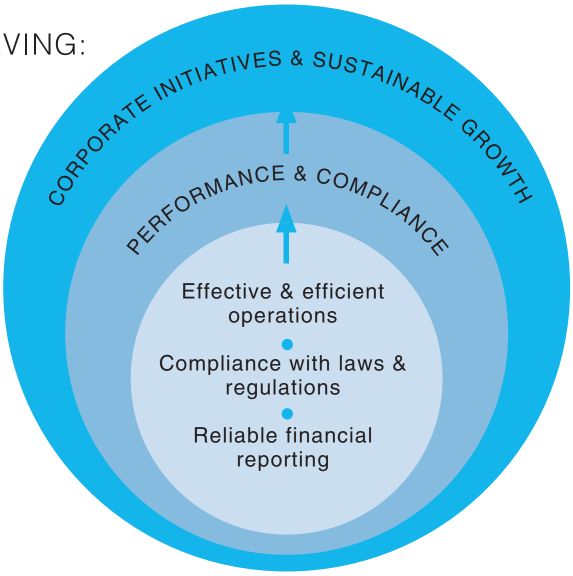
The Group operates within an established control environment, which is consistent with the principles outlined in *Internal Control and Risk Management – A Basic Framework* issued by the Hong Kong Institute of Certified Public Accountants. The scope of internal control for the Group relates to three 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, human resources functions and computer systems. All these controls are supplemented with 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 2011–2013 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 143 to 146.

INVESTMENT MANAGEMENT

The Group Investment Committee (comprising the Group Non-executive Chairman, Executive Directors and Senior Management) develops 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. Any significant integration issues have to be reported to Risk Management and Sustainability Committee.

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 MONITORING

The Risk Management and Sustainability 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, IT governance structure, corporate responsibility and sustainability.

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 all major findings and recommendations to the Audit Committee** on a regular basis.

The three-year Internal Audit Plan 2011–2013 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 and Sustainability 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 2011, management had conducted an Internal Control Self-Assessment for the business 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 2011.

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 2011:

- 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 last Three-Year Plan 2008–2010 and in 2011 in the current Three-Year Plan 2011–2013. 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 2011. 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 2011.

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 60 to 62. 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 2011.

DIRECTORS' RESPONSIBILITY FOR ACCOUNTS AND AUDITOR'S RESPONSIBILITY

The Directors' responsibility for preparing the accounts is set out on page 63, and the auditor's reporting responsibility is set out on page 64.

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 2011.

SHAREHOLDERS' RIGHTS

Under the Company's bye-laws, in addition to regular Board meetings, the Board, 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 within 21 days from the date of deposit of written notice 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 Head of Corporate Communications and Investor Relations, whose contact information is detailed on page 52.

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*), which features a dedicated Investor Relations section, facilitates effective communication 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 presentations for interim and annual results briefings as well as presentations given by senior management at investor conferences are also been made available on the corporate website.

In order to promote better communications with stakeholders, the Group revamped its corporate website in 2011. With a fresh look and feel, as well as a host of new, interactive functions, the website provides easy access to information about Li & Fung. In June 2011, Li & Fung also conducted an Analyst Day in Hong Kong, facilitating discussion between analysts and investors and the Group's senior management team, including the Executive Deputy Chairman, the Group's President and CEO, and nine Presidents of the major business units. A webcast of the event was also made available on Li & Fung's corporate website.

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 at least 20 clear business 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 Hong Kong Exchanges and Clearing Limited 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 Series, FTSE4Good Index Series, Dow Jones Sustainability Asia Pacific Index and Hang Seng Corporate Sustainability Index Series.

In 2011, 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 2011, are set out in the "Information for Investors" section on page 52 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 2011, Li & Fung received a number of recognitions from the wider business community, including being selected as one of *Forbes*' "Global 2000: The World's Biggest Public Companies" and the *Financial Times*' "FT Global 500". The Group was also named as having "Best Investor Relations by an Asia-Pacific company in the US market" in IR Magazine's US Awards 2011 as well as "Best Investor Relations by Hong Kong Company" by *Corporate Governance Asia*'s Asian Excellence Recognition Awards 2011, and it received "The Asset Corporate Platinum Award 2011" from *The Asset* magazine.

The Group values feedback from shareholders on its efforts to promote transparency and foster investor relationships. Comments and suggestions are welcome, and they 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 2011, with strategic focus on platforms driving core operations, process efficiency and information transparency.

SUPPLY CHAIN COLLABORATION

The Vendor Portal remains a key strategic platform and during 2011 was extended to carriers, freight and banking processes, as well as integrating the current quality control and compliance platforms. Leveraging the transactional data from the Vendor Portal, Vendor Search was rolled out to provide a comprehensive search tool to assist in the identification and leverage of the vendor network.

Decision Support Systems in the form of the internal dashboard were enhanced, converting transactional data into relevant, accurate and timely information accessible online at any time. During the balance of the Three-Year Plan 2011–2013, further upgrade and enhancements will be made to support the growing information needs of the Company's internal and external customers.

While the use of IP enabled voice and video platforms continued to show year on year growth, incremental investments in fixed network infrastructure were made. The integration of desktop video with more formal video conference facilities brings the expanding network of offices into a connected community that can selectively chose on line technology as opposed to travel.

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 continuous improvement and End User Experience Programs, investments were made in areas of Big Data, Storage, end point management and mobile device integration, specifically to enable users working out of multiple offices or on the road seamless and integrated access to the Company's systems.

CORPORATE GOVERNANCE AND BEST MANAGEMENT COMPANY AWARDS/RECOGNITIONS

CURRENT THREE-YEAR PLAN 2011-2013
PREVIOUS THREE-YEAR PLAN 2008-2010

2009

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

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

"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

"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

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

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

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

"Fabulous 50" Companies
By Forbes Asia in September 2009

2008

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

"Fabulous 50"
By Forbes Asia in September 2008

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

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

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

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

2011

"The Asset Corporate Platinum Award 2011"
For attaining rigorous standards in financial performance, management acumen, corporate governance, social responsibility, environmental responsibility and investor relations by The Asset magazine in December 2011

"FT Global 500" Companies
By Financial Times in 2011

"Corporate Governance Asia Recognition Awards 2011"
By Corporate Governance Asia Journal in April 2011

"Global 2000" Companies
Ranked No. 808 in Forbes in 2011

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

"Asia's Best-Managed Companies 2010"
Named Large-Cap Corporate of the Year, Hong Kong in Asiamoney's awards in December 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

SUSTAINABILITY

OVERVIEW

In 2011, we continued to build a strong foundation for sustainability, within our own operations and our supply chain. Since 2009, we have been implementing our Sustainability Strategy, which engages our employees, customers, suppliers, industry partners and communities to address our common environmental and social challenges. These challenges include: the risks posed by climate change and resource scarcity on the environmental side; and on the social side, our aspiration to support and catalyze economic development and social progress in the areas in which we operate.

Our people are core to our success and the implementation of our strategy. To support our people, we have policies, programs and partnerships, as well as a system to track and deliver results that are meaningful to our business. As we reported in 2010, our strategy integrates actions that aim to improve the sustainability of our own operations and facilities and of our global supply chain. These actions range from social and environmental risk assessment and due diligence during the investment/acquisition process as we expand our business, to implementing management systems and checking and reporting on our performance, and to working with our customers, suppliers and industry partners to continually upgrade the sustainability of our supply chain.

In 2011, we updated our standards by revising our *Code of Conduct for Suppliers* and our *Supplier Compliance Manual*. The launch of these standards establishes our new approach towards sustainable compliance by providing a transparent framework for us to work with our customers and suppliers to improve working conditions and environmental performance, and to provide more sustainable sourcing options.

We also reinforced our commitment to human rights both publicly on our website, as well as internally through employee education and training on our *Code of Conduct on Business Ethics*. This effort will continue into 2012 with specific initiatives to enhance our sustainability programs and our management of risks.

We recognize that there will continue to be sustainability challenges and opportunities going forward, and progress to be made. Building a solid foundation and supporting our employees, customers and suppliers to be more sustainable is critical to our continued efforts to make a difference in our communities around the world.

Highlights of our sustainability initiatives and achievements in 2011 are shared below.

ENVIRONMENT

ENERGY AND CARBON

We appreciate the risk that climate change poses to our business and the world. For our business, primary risks relate to the availability and increased cost of resources and the disruptive impacts that unpredictable and severe weather events could have on our supply chain. Addressing these risks is therefore an important part of our Sustainability Strategy. In addition to making our own operations more energy- and carbon-efficient, we are expanding our initiatives to support our suppliers to do the same in their facilities.

2011 marked the first full year of implementing the energy-saving initiatives recommended by the Investment Grade Audit (IGA) of our headquarters in Hong Kong and of the global campaign for our employees to adopt a range of behavioral changes. Our network of offices around the world also retrofitted existing lighting, where feasible, with more efficient LED, CFL and/or T5 fixtures in 2011. All of these efforts resulted in our global offices reducing our carbon footprint by 18% per m^2 and electricity consumption by 13% per m^2, compared with 2010. In addition to the environmental benefits of reduced energy consumption, these measures enabled us to save approximately US$490,000 per year in energy costs.

Overall in 2011, our total global electricity consumption was 163,461 GJ (45,405,947 KWh) compared with 171,016 GJ (47,504,489[1] KWh) in 2010, and our Scope 1 and 2 greenhouse gas emissions were 32,120 tons of CO_2 equivalent, compared with 35,630 of the same unit the previous year. This data comprises part of our disclosure through the Carbon Disclosure Project. For the third consecutive year, we were 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.

Going forward, we will continue to adopt energy-efficient technologies, to conserve energy and to support our supply chain partners to improve their energy efficiency and carbon intensity.

WATER AND WASTE

Water scarcity is a significant global challenge and particularly acute across many key producer economies of Asia. As noted above, being resource efficient is critical as we expand our business. In 2011, we consumed 124,064 cubic meters of water, compared with 105,310 of the same unit in 2010. Absolute consumption in our offices increased in 2011, reflecting the expansion of our business operations. However, our efficiency and conservation efforts resulted in our water consumption per headcount reducing by 2.8% in the same year. This was achieved through the use of water-efficient technology recommended by the IGA and the efforts of our employees globally to conserve water.

In 2011, our waste reduction campaign again focused on paper, a significant portion of our offices' waste stream. As above with water, our absolute A4 paper consumption increased in 2011 reflecting the expansion of our business operations. However, we reduced our consumption per person by 10% as a result of our continued conservation efforts. Our total paper consumption in 2011 was 149,072 reams compared with 136,678[2] reams in 2010. We also again maintained our "Class of Excellent" Wastewi$e Label in Hong Kong. We will continue to seek opportunities to reduce paper, minimize waste, purchase items with sustainability features and enhance recycling.

1 *Total electricity consumption and carbon emissions data reported for 2010 and 2011 covers our office-based activities as these offices have been involved in our targeted reduction campaigns and retrofitting projects. The data reported in this report for the year 2010 have been adjusted downward, from what was reported in our 2010 Annual Report. This adjustment is a result of a revision to our internal reporting system to both enhance the robustness of the data and bring the system in line with our financial reporting. The reporting scope for the next Annual Report will include LF offices and other facilities, which are captured in our new SAP Carbon Impact reporting system that we are rolling out in 2012.*

2 *For the same reasons noted in footnote #1, our paper data reported in this report for the year 2010 have been adjusted downward from what was reported in our 2010 Annual Report.*

A summary of our environmental metrics is provided in the table below.

ENVIRONMENTAL METRICS COMPARISON FOR 2010 – 2011[3]

	2010	2011	2010-2011	
	ACTUAL tons CO_2 equivalent		CHANGE tons CO_2 equivalent (+/-)	EFFICIENCY REDUCTION tons CO_2 equivalent /m^2
Carbon (Scope 1 & 2)	35,630	32,120	-3,510	-18.16%
	kWh		kWh (+/-)	kWh /m^2
Electricity	47,504,489	45,405,947	-2,098,542	-13.23%
	m^3		m^3 (+/-)	m^3 /headcount
Water	105,310	124,064	+ 18,754	-2.84%
	reams		reams (+/-)	reams /headcount
Paper	136,678	149,072	+ 12,394	-10.05%

SUSTAINABLE BUILDING AND RENOVATION

An important determinant of our ability to operate sustainably is the design and construction of our offices. Thus, building and renovating in line with sustainability guidelines forms a core part of our Sustainability Strategy. To that end, we developed our own *Sustainable Design, Construction and Renovation Guidelines for New Construction, Major Renovation and Commercial Interiors* in 2011. These user-friendly guidelines support our offices and facilities around the world to adopt LEED elements whenever feasible.

In 2010, we reported that two of our offices in the United States were certified to the LEED[4] Silver standard. In 2011, we achieved LEED Gold for our offices in Shatin, Hong Kong and Dhaka, Bangladesh; the latter was notably the first LEED Gold certification of a commercial interior in Bangladesh. We also received LEED Silver for three office floors in Istanbul, Turkey, Hong Kong's LiFung Tower and our LiFung Campus, and two floors of our New York Broadway offices. In addition, one floor of our Marylebone Road office in London passed BREEAM[5]. We are continuing to work towards LEED certification of additional offices in Hong Kong and New York.

In sum, we now have 10 office floors, the equivalent of 23,396 m^2, that have been awarded sustainable building certification and we will continue to expand our efforts going forward.

3 *Environmental metrics cover data for our office-based operations, which have implemented conservation initiatives as part of our Sustainability Strategy (refer to footnote #1).*

4 *Leadership in Energy and Environmental Design (LEED).*

5 *Building Research Establishment Environmental Assessment Method (BREEAM).*

SUPPLY CHAIN RESPONSIBILITY

Our commitment to being a responsible and sustainable business goes beyond our four walls to encompass how we manage our supply chains in over 40 economies around the world. In 2011, our vendor compliance team, comprising 140 employees worldwide, continued to regularly monitor compliance and work with our suppliers to meet our *Code of Conduct*, as well as industry- and customer-specific audit standards, protocols and methodologies. This year, over 9,800 audits of our suppliers were conducted.

To further sustainability in our supply chain, we are developing tools and programs, and working with our partners, to improve working conditions and environmental performance, and also provide sustainable sourcing options.

Over the course of 2011, we focused on enhancing our compliance tools to support our suppliers to improve their social and environmental sustainability. Our updated *Code of Conduct for Suppliers* and *Supplier Compliance Manual* set out our baseline expectations of all suppliers with which we work. The Code requires compliance with local and international regulations, including the International Labor Organization's core conventions. Key revisions include expanded ethical conduct requirements, enhanced disclosure of suppliers' performance information and the issue of human trafficking, in support of the *California Transparency in Supply Chains Act*.

The Manual outlines how to meet the Code and is the first step in building competency for sustainable compliance. In parallel, we also launched a new assessment tool for suppliers to identify gaps in meeting Code requirements. This information enables our employees to follow-up, identify opportunities for improvement as needed, and support suppliers with training, education and tools to build management systems that support ongoing compliance. Suppliers identified as having compliance issues will have access to capacity-building resources and be required to resolve the issue(s) to continue business with us.

Our aim is that through improved visibility, tracking and performance, impacts and risks will be better managed in the supply chain. Sustainability and business resilience also drive innovation, which is critical for creating products with sustainability attributes that are made in better-managed factories. We will continue to work with our customers, suppliers and industry partners to improve our collective knowledge and capabilities around sustainable sourcing, products and packaging.

OUR PEOPLE

A strong and sustainable organization has an engaged workforce that is aligned with its strategic goals. As of the end of 2011, the Company had a total workforce of 29,624, of whom 4,518 were based in Hong Kong and 25,106 were located overseas.

EMPLOYEE ENGAGEMENT

In September 2011, we launched our first Employee Engagement Survey with the objective of assessing engagement with our employees and their customer orientation, and finding out more about our strengths and opportunities for improvement across our business units and countries. The survey, which was web-based and implemented through a third-party to safeguard the anonymity of the respondents, consisted of 56, close-ended questions and one, open-ended question.

Out of the 14,490 employees who received the survey request, 11,237 completed the survey, representing a response rate of 78%. The survey helped management to understand the views of employees and to receive useful feedback. We have formed a Corporate Engagement Team in conjunction with business executives to communicate the survey results across the Company and to identify follow-up actions. In addition, our business executives will champion improvement initiatives that focus on the three themes of Communication, Career and People Care.

WELL-BEING, OCCUPATIONAL HEALTH AND SAFETY AND HUMAN RIGHTS

We aim to provide a safe, healthy and respectful workplace by adhering to our policies and codes, raising awareness, sharing tips and experiences, and providing training for our employees.

The health and well-being of all of our people globally is at the top of our agenda. Our *Useful Tips* on health and well-being play a vital role in sharing knowledge to our employees through daily email messages and our internal e-platform. The tips cover issues relevant to occupational health (e.g. desk ergonomics, heavy-lifting postures and precautions, stretching exercises) and well-being (e.g. ways to stay positive, quick stress relievers).

To support the ongoing promotion of health and safety in our workplaces, we launched a series of Environmental, Health and Safety (EHS) initiatives in our distribution centers worldwide. We also provide training to our employees globally and regularly conduct internal EHS audits to ensure compliance in our operations and to strive for continual improvement.

In November 2011, we launched our human rights statement on our website and implemented an internal awareness-raising program. The statement reinforces that since the founding of Li & Fung, respect for human rights has always been at the core of our beliefs and embedded in the way we do business. We have formalized these principles into group policies and codes that foster a respect for human rights amongst our employees and business partners. The statement further affirms our commitment to support the:

- International Labor Organization's *Declaration on Fundamental Principles and Rights at Work*, including freedom of association and the effective recognition of the right to collective bargaining, the elimination of forced or compulsory labor, the abolition of child labor and the elimination of discrimination in respect of employment and occupation;

- ten principles of the UN *Global Compact*, covering human rights, labor, environment and anti-corruption, throughout our operations; and

- UN *Declaration of Human Rights* as a necessary foundation for social development and economic progress.

LEARNING AND DEVELOPMENT

Our learning and development programs aim to strengthen core functional and management capabilities of our people through a variety of structured training programs, peer-to-peer learning, mentoring, on-the-job training, e-learning modules, and others. In 2011, we had a record of over 36,000 employee visits to access our online learning tools and over 19,025 participants attended formal learning classes or took part in e-learning.

Learning initiatives focusing on strengthening core functional and management capabilities of our people include, for example:

- The Merchandising Skills Foundation Program aims to equip merchandisers with practical, job-related skills. In 2011, over 3,700 employees in 16 locations participated and this program was then extended to a broader group through e-learning with over 3,200 employees in 33 locations participating.

- Our expanded Merchandising Development Program focuses on enhancing the technical expertise as well as individuals' confidence in serving our customers. The curriculum covers over 46 topics on product and production knowledge, productivity improvement, processes and practices, and performance enhancement skills. Over 618 in-house learning sessions were organized in 33 offices, with 18,200 participants joining through 15,000 learning hours.

Additional talent development programs focus on key transition points in the careers of our employees, including:

- a new General Manager Transition Program;
- our high-impact Leadership Program, now in its third year, which was delivered through the MIT Sloan School of Management and The University of Hong Kong, with 53 of our senior managers attending the 2-term seminars and workshops;
- the involvement of 100 of our senior executives as "Learning Champions" to drive knowledge-sharing and career development within our operations; and
- our Program for Management Development, which focuses on attracting and developing talent for future business leadership positions, has successfully completed its second year. A total of 23 Management Associates, representing 10 nationalities, participated in this structured development program that includes corporate orientation and training, rotational assignments in the Company's core businesses, and business education programs.

COMMUNITY ENGAGEMENT

Contributing to our communities is important to our employees around the world. This year we supported a variety of initiatives, ranging from: donations to assist victims of the tsunami in Japan, flooding in Bangkok and India, typhoons in the Philippines, and cold weather in Bangladesh and India; to supporting children and elderly in need globally; to cleaning beaches and/or planting trees in the Philippines, Cambodia and Hong Kong, and to helping a community conserve water in Guatemala. In 2011, over 6,000 of our employees volunteered over 3,800 hours to support over 100 environmental and social initiatives around the world. Our global employees also raised over US$1.7 million to support communities, with the LF Foundation providing over US$1.4 million to further support some of these projects.

Going forward, we will continue to expand our activities in our communities around the world and develop an approach for assessing the impacts of our engagement.

OUR PARTNERSHIPS

In 2011, we reviewed our engagement with external stakeholders – including customers, suppliers, industry associations and non-governmental organizations – to look for strategic opportunities where we could focus our efforts for impact, and support our priority of building capacity in our supply chain. As a result and for example, we are expanding our engagement with the following organizations:

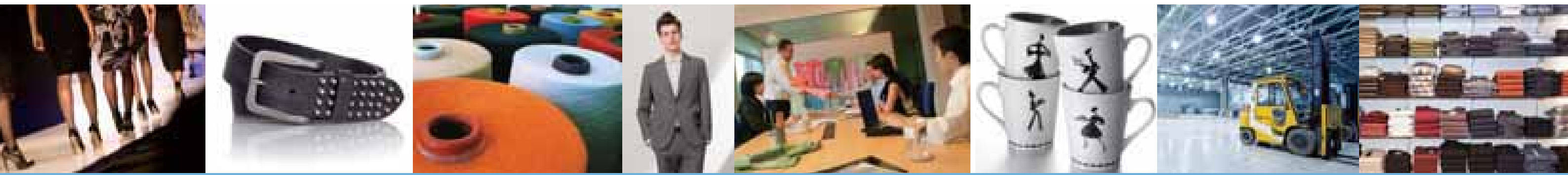
- International Labor Organization and its Better Work program for improving labor conditions in factories;
- Business for Social Responsibility and its programs in factories for energy efficiency and water management;
- Sustainable Apparel Coalition and its Apparel Sustainability Index tool, which will improve our ability to measure and manage the environmental impact of products in our supply chain; and
- Global Social Compliance Program and its efforts to improve working and environmental conditions in the global supply chain.

The learning and tools from these programs support and enhance our ongoing efforts to build a sustainable supply chain that benefits diverse communities around the world.

RECOGNITION

We have been a signatory to UN *Global Compact* since 2001 and, in recognition of our corporate-wide efforts to improve our sustainability performance, we continue to be included in the Dow Jones Sustainability Index, the FTSE4Good and the Hang Seng Corporate Sustainability Index. We are also recognized as a Caring Company under the Hong Kong Council of Social Service's recognition scheme.

DIRECTORS AND SENIOR MANAGEMENT



DIRECTORS

Victor FUNG Kwok King

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

Aged 66. 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 and Trinity Limited. 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 and Koc Holding A.S. in Turkey. An independent non-executive director of Chow Tai Fook Jewellery Group Limited in Hong Kong since November 2011. Founding Chairman of the Fung Global Institute launched in August 2011, an independent and non-profit think-tank that generates and disseminates innovative thinking and business-relevant research on global issues from Asian perspectives. Honorary Chairman of International Chamber of Commerce. A member of Chinese People's Political Consultative Conference. A 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. Chairman of the Hong Kong Trade Development Council (1991–2000). Hong Kong representative on the APEC Business Advisory Council (1996–2003). Chairman of the Hong Kong Airport Authority (1999–2008). Chairman of The Council of The University of Hong Kong (2001–2009). Chairman of the International Chamber of Commerce (2008–2010). Chairman of the Hong Kong – Japan Business Co-operation Committee (2004–2010). Awarded the Gold Bauhinia Star in 2003 and Grand Bauhinia Medal in 2010 for distinguished service to the community.

William FUNG Kwok Lun

Executive Deputy Chairman

Aged 63. Brother of Dr Victor Fung Kwok King and uncle of Mr Spencer Theodore Fung. Executive Deputy Chairman since 2011 and before that, Group Managing Director from 1986 to 2011. 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, Sun Hung Kai Properties Limited and The Hongkong and Shanghai Hotels, Limited. An independent director of Singapore Airlines Limited. A non-executive director of various companies within the Li & Fung Group including Convenience Retail Asia Limited and Trinity Limited. A director of King Lun Holdings Limited and its wholly owned subsidiary, Li & Fung (1937) Limited, substantial shareholders of the Company. A director of the Fung Global Institute, an independent and non-profit think-tank that generates and disseminates innovative thinking and business-relevant research on global issues from Asian perspectives. 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

Group President and Chief Executive Officer

Aged 53. Group President and Chief Executive Officer since May 2011. An Executive Director since 2001 and in 2004, took over day to day oversight of the Group's operations as President. 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. In 2011, received the 2011 Alumni Achievement Award from the University of Vermont. 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 38. An Executive Director since 2008. President of LF Europe, managing the Group's European distribution 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, Deputy Chairman.

Paul Edward SELWAY-SWIFT

Independent Non-executive Director

Chairman of Audit Committee and Nomination Committee

Aged 67. 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 and Harvard International PLC, Chairman of Singer & Friedlander Group PLC, a banking and investment management group, and Novae Group PLC, a specialist insurance group.

Allan WONG Chi Yun

Independent Non-executive Director

Chairman of Remuneration Committee

Aged 61. An Independent Non-executive Director since 1999. Chairman and Group Chief Executive Officer of VTech Holdings Limited. Co-founded VTech Group in 1976. Holds a Bachelor of Science degree in Electrical Engineering from The University of Hong Kong, a Master of Science degree in Electrical and Computer Engineering from the University of Wisconsin and an Honorary Doctorate of Technology from the Hong Kong Polytechnic University. A board member of the Airport Authority Hong Kong. Deputy Chairman and independent non-executive director of The Bank of East Asia, Limited. An independent non-executive director of China-Hongkong Photo Products Holdings Limited. Awarded the Silver Bauhinia Star and the Gold Bauhinia Star in 2003 and 2008 respectively.

DIRECTORS (CONTINUED)

Franklin Warren McFARLAN

Independent Non-executive Director

Aged 74. 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.

Martin TANG Yue Nien

Independent Non-executive Director

Aged 62. 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 the publicly-listed CEI Contract Manufacturing Ltd and China NT Pharma Group Limited. 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

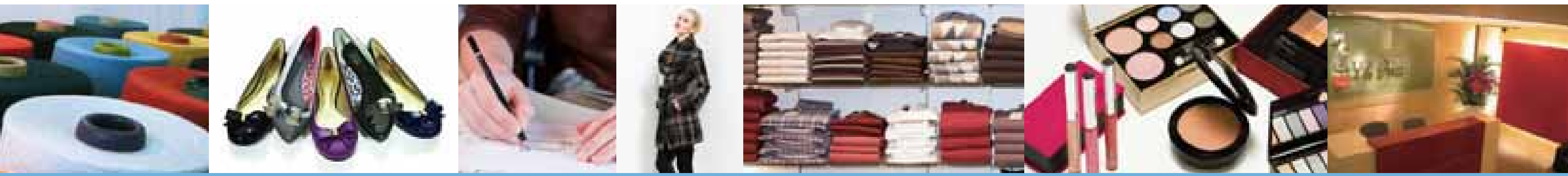
Non-executive Director

Aged 58. A Non-executive Director since February 2011. Previously, group managing director of Integrated Distribution Services Group Limited ("IDS") which was privatized on 29 October 2010. A director of IDS from 2003 to April 2011. 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.

FU Yuning

Independent Non-executive Director

Aged 55. An Independent Non-executive Director since 1 November 2011. Chairman of China Merchants Group Limited, China Merchants Holdings (International) Company Limited and China Merchants Bank Co., Ltd. An independent non-executive director of CapitaLand Limited. Graduated from Dalian Institute of Technology in the PRC with a Bachelor Degree in Port and Waterway Engineering. Holds a Doctorate Degree in Mechanical Engineering from Brunel University, United Kingdom where he also worked as a Post-Doctorate research fellow briefly. Formerly, Chairman of China Merchants Energy Shipping Co., Ltd. and China International Marine Containers (Group) Co., Ltd., and also an independent non-executive director of Sino Land Company Limited and Integrated Distribution Services Group Limited.



GROUP CHIEF COMPLIANCE OFFICER

Srinivasan PARTHASARATHY

Aged 54. Group Chief Compliance Officer of the Company since October 2011. Also, the Group Chief Compliance Officer of Li & Fung (1937) Limited, a substantial shareholder of the Company and of the Li & Fung Group of companies including Convenience Retail Asia Limited and Trinity Limited of which he is also their respective Group Chief Compliance Officer. With 30 years of experience and held various financial and commercial positions within the Li & Fung Group since 1999, and the Inchcape Group before that, in Hong Kong, Singapore, the UK and the Middle East. A Commerce Graduate of Bombay University and qualified as a Chartered Accountant in India, securing fourth position in the All India Merit Rankings. A Fellow Member of the Chartered Institute of Management Accountants, UK.

SENIOR MANAGEMENT

Henry CHAN

President of LF Products

Aged 61. 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 and also a member of the advisory Board of the MBA Programmes of the Faculty of Business Administration, The Chinese University of Hong Kong.

Annabella LEUNG Wai Ping

President of LF Fashion

Aged 59. 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 of the Vetting Committee for the Professional Services Development Assistance Scheme of Commerce and Economic Development Bureau.

Richard Nixon DARLING

President of LF USA

Aged 58. President of LF USA overseeing the Group's distribution 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.

SENIOR MANAGEMENT (CONTINUED)

Marc Robert COMPAGNON

President of LF Sourcing

Aged 53. President of LF Sourcing overseeing the Group's global agency business for apparel and hard goods as well as the sourcing for the Group's distribution 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. Founding member of Cotton's Revolutions, and the Global Apparel, Footwear and Textile Initiative (GAFTI). Non-Executive Chairman of Cebu Dream Realized, INC, a hotel and restaurant group.

Dow Peter FAMULAK

President of DSG & LF Beauty

Aged 51. President of the DSG group of companies, a dedicated sourcing group servicing Wal-Mart globally. Also President of LF Beauty, the Group's health, beauty and cosmetic business. Previously, Chief Executive Officer of LF Europe, managing the Group's European distribution 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

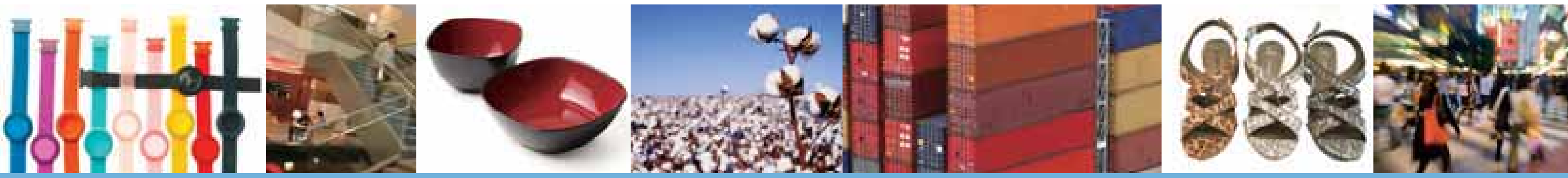
Chief Operating Officer of DSG & President of LF USA Sourcing

Aged 50. Chief Operating Officer of the DSG group of companies, a dedicated sourcing group servicing Wal-Mart globally, and President of LF USA Sourcing, managing all of the Asia sourcing business units of LF USA. Previously 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.

Joseph Chua PHI

President of LF Logistics

Aged 49. President of LF Logistics managing the Group's logistics, freight services, and supply chain management. An Executive Director of Integrated Distribution Services Group Limited from 2004 to April 2011. Joined the Group in 1999. Graduated *magna cum laude* from the University of The Philippines with a Bachelor of Science degree in Industrial Engineering and attained an MBA degree with top honors from the same university. Member of Phi Kappa Phi and Pi Gamma Mu international honor societies. Co-convener of the Li & Fung China Advisory Council. Chairman of GS1 Hong Kong. Director of GS1 Management Board. Member of the Advisory Committee, Centre for Marketing and Supply Chain Management at Hong Kong University of Science and Technology (HKUST). Member of Supply Chain 50, an association of the top supply chain professionals in the world.



Gerard Jan RAYMOND

President of LF Asia – Food, Health, Beauty & Cosmetics

Aged 55. President of LF Asia managing the Group's food, health, beauty and cosmetics distribution business in Asia. Previously, an Executive Vice President, Distribution and Regional Managing Director of Integrated Distribution Services Group Limited. Joined the Group in 2003. Educated in Australia with a Bachelor's degree in Business. A Fellow of the Australian Marketing Institute.

Jason Andrew RABIN

President of LF Asia – Hard & Soft Goods

Aged 42. President of LF Asia managing the Group's hard and soft goods distribution business in Asia. The founder of Kids Headquarters, children's and young men's apparel manufacturer, which he began in 1994. Joined the Group in 2009 when Kids Headquarters was acquired by Li & Fung. Graduated from the University of Miami in 1992. Received awards from the children's clothing industry, such as SPARC, Ernie Awards & LIMA.

Lale KESEBI

Executive Director of Li & Fung (Trading) Limited

Aged 43. 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.

INFORMATION FOR INVESTORS

LISTING INFORMATION

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

INDEX CONSTITUENT

Hang Seng Index
MSCI Index Series
FTSE4Good Index Series
Dow Jones Sustainability Asia Pacific Index
Hang Seng Corporate Sustainability Index Series

KEY DATES

11 August 2011
Announcement of 2011 Interim Results

7 September 2011
Payment of 2011 Interim Dividend

22 March 2012
Announcement of 2011 Final Results

11 May 2012
Record Date for 2012 Annual General Meeting

14 May 2012
Annual General Meeting

16 May 2012
Dividend Ex-entitlement for Shares

18 May 2012 to 21 May 2012 (both days inclusive)
Closure of Register of Shareholders

25 May 2012
Proposed Payment of 2012 Final Dividend

SHARE INFORMATION

Board lot size: 2,000 shares

Shares outstanding as at 31 December 2011
8,104,154,706 shares

Market Capitalization as at 31 December 2011
HK$116,537,744,672

Earnings per share for 2011

Interim	2.92 US cents
Full year	8.43 US cents

Dividend per share for 2011

Interim	19 HK cents
Final	34 HK cents
Full year	53 HK cents

INVESTOR RELATIONS CONTACT

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

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e-mail:	*ir@lifung.com.hk*

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

WEBSITE

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

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

Telephone:	(852) 2980 1333
e-mail:	*is-enquiries@hk-tricorglobal.com*

A Chinese version of this Annual Report can be downloaded from the Company's website and can be obtained from the Company's Hong Kong branch share registrar, Tricor Abacus Limited.
本年報中文版可從本公司網站下載，及向本公司於香港之股份過戶登記處卓佳雅柏勤有限公司索取。

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31 December 2011.

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 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 67.

The directors declared an interim dividend of US$0.024 per ordinary share (equivalent to HK$0.19), totalling US$197,360,000 which was paid on 7 September 2011.

The directors recommend the payment of a final dividend of US$0.044 per ordinary share (equivalent to HK$0.34), totalling US$354,611,000.

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 2011, the reserves of the Company available for distribution as dividends amounted to US$764,004,000, comprising retained earnings of US$499,815,000 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 US$264,189,000.

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 US$1,437,000.

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 2011 and for the previous nine financial years are set out in the Ten-Year Financial Summary section on page 160.

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 2011, there were options ("Share Options") relating to 287,356,100 shares of HK$0.0125 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 2011 are as follows:

	Number of Share Options													
	As at	Before Share Subdivision				Adjustment for Share	After Share Subdivision				As At	Exercise Price[1]		
	1/1/2011	Granted	Exercised[2]	Cancelled	Lapsed	Subdivision[1]	Granted	Exercised[2]	Cancelled	Lapsed	31/12/2011	HK$	Grant Date	Exercisable Period
William Fung Kwok Lun	440,000	–	(440,000)	–	–	–	–	–	–	–	–	12.77	24/1/2008	01/3/2010 – 29/2/2012
	880,000	–	(880,000)	–	–	–	–	–	–	–	–	12.77	24/1/2008	01/3/2011 – 28/2/2013
	–	270,000[3]	–	–	–	270,000	–	–	–	–	540,000	20.21	11/4/2011	01/5/2012 – 30/4/2015
	–	270,000[3]	–	–	–	270,000	–	–	–	–	540,000	20.21	11/4/2011	01/5/2013 – 30/4/2015
	–	675,000[3]	–	–	–	675,000	–	–	–	–	1,350,000	20.21	11/4/2011	01/5/2014 – 30/4/2016
Bruce Philip Rockowitz	225,000	–	–	–	–	225,000	–	–	–	–	450,000	12.77	24/1/2008	01/3/2010 – 29/2/2012
	450,000	–	–	–	–	450,000	–	–	–	–	900,000	12.77	24/1/2008	01/3/2011 – 28/2/2013
	–	270,000[3]	–	–	–	270,000	–	–	–	–	540,000	20.21	11/4/2011	01/5/2012 – 30/4/2015
	–	270,000[3]	–	–	–	270,000	–	–	–	–	540,000	20.21	11/4/2011	01/5/2013 – 30/4/2015
	–	675,000[3]	–	–	–	675,000	–	–	–	–	1,350,000	20.21	11/4/2011	01/5/2014 – 30/4/2016
Spencer Theodore Fung	176,000	–	(176,000)	–	–	–	–	–	–	–	–	12.77	24/1/2008	01/3/2009 – 28/2/2011
	176,000	–	–	–	–	176,000	–	–	–	–	352,000	12.77	24/1/2008	01/3/2010 – 29/2/2012
	176,000	–	–	–	–	176,000	–	–	–	–	352,000	12.77	24/1/2008	01/3/2011 – 28/2/2013
	177,000	–	–	–	–	177,000	–	–	–	–	354,000	20.76	25/3/2010	01/3/2011 – 28/2/2013
	–	180,000[3]	–	–	–	180,000	–	–	–	–	360,000	20.21	11/4/2011	01/5/2012 – 30/4/2015
	–	180,000[3]	–	–	–	180,000	–	–	–	–	360,000	20.21	11/4/2011	01/5/2013 – 30/4/2015
	–	450,000[3]	–	–	–	450,000	–	–	–	–	900,000	20.21	11/4/2011	01/5/2014 – 30/4/2016
	–	–	–	–	–	–	1,000,000[5]	–	–	–	1,000,000	14.50	22/12/2011	01/5/2013 – 30/4/2015
	–	–	–	–	–	–	1,000,000[5]	–	–	–	1,000,000	14.50	22/12/2011	01/5/2014 – 30/4/2016
	–	–	–	–	–	–	1,000,000[5]	–	–	–	1,000,000	14.50	22/12/2011	01/5/2015 – 30/4/2017
	–	–	–	–	–	–	1,000,000[5]	–	–	–	1,000,000	14.50	22/12/2011	01/5/2016 – 30/4/2018
	–	–	–	–	–	–	1,000,000[5]	–	–	–	1,000,000	14.50	22/12/2011	01/5/2017 – 30/4/2019
	–	–	–	–	–	–	1,000,000[5]	–	–	–	1,000,000	14.50	22/12/2011	01/5/2018 – 30/4/2020
	–	–	–	–	–	–	1,000,000[5]	–	–	–	1,000,000	14.50	22/12/2011	01/5/2019 – 30/4/2021
	–	–	–	–	–	–	1,000,000[5]	–	–	–	1,000,000	14.50	22/12/2011	01/5/2020 – 30/4/2022
	–	–	–	–	–	–	1,000,000[5]	–	–	–	1,000,000	14.50	22/12/2011	01/5/2021 – 30/4/2023

	Number of Share Options													
	As at	Before Share Subdivision				Adjustment for Share	After Share Subdivision				As At	Exercise Price[1]		
	1/1/2011	Granted	Exercised[2]	Cancelled	Lapsed	Subdivision[1]	Granted	Exercised[2]	Cancelled	Lapsed	31/12/2011	HK$	Grant Date	Exercisable Period
Continuous contract	1,973,600	–	(1,302,600)	–	–	671,000	–	(1,342,000)	–	–	–	6.72	20/6/2005	20/6/2008 – 19/6/2011
Employees	5,414,200	–	(2,136,200)	–	–	3,278,000	–	(1,220,000)	–	–	5,336,000	6.72	20/6/2005	20/6/2009 – 19/6/2012
	462,000	–	(231,000)	–	–	231,000	–	(462,000)	–	–	–	6.86	23/1/2006	20/6/2008 – 19/6/2011
	462,000	–	–	–	–	462,000	–	–	–	–	924,000	6.86	23/1/2006	20/6/2009 – 19/6/2012
	194,000	–	–	–	–	194,000	–	(388,000)	–	–	–	7.82	19/6/2006	20/6/2008 – 19/6/2011
	260,000	–	–	–	–	260,000	–	(100,000)	–	–	420,000	7.82	19/6/2006	20/6/2009 – 19/6/2012
	372,000	–	(184,000)	–	–	188,000	–	(248,000)	–	(128,000)	–	12.75	02/2/2007	20/6/2008 – 19/6/2011
	1,472,000	–	(128,000)	–	–	1,344,000	–	–	–	–	2,688,000	12.75	02/2/2007	20/6/2009 – 19/6/2012
	482,000	–	–	–	–	482,000	–	–	(92,000)	–	872,000	14.96	13/7/2007	20/6/2009 – 19/6/2012
	6,931,000	–	(4,568,000)	(817,000)	(1,546,000)	–	–	–	–	–	–	12.77	24/1/2008	01/3/2009 – 28/2/2011
	18,325,400	–	(5,255,000)	–	–	13,070,400	–	(2,178,000)	(60,000)	–	23,902,800	12.77	24/1/2008	01/3/2010 – 29/2/2012
	22,872,000	–	(4,096,500)	–	–	18,775,500	–	(1,620,000)	(60,000)	–	35,871,000	12.77	24/1/2008	01/3/2011 – 28/2/2013
	922,000	–	(541,000)	(97,500)	(283,500)	–	–	–	–	–	–	15.00	21/5/2008	01/3/2009 – 28/2/2011
	1,020,500	–	(333,500)	–	–	687,000	–	(30,000)	–	–	1,344,000	15.00	21/5/2008	01/3/2010 – 29/2/2012
	1,370,000	–	(267,000)	–	–	1,103,000	–	–	–	–	2,206,000	15.00	21/5/2008	01/3/2011 – 28/2/2013
	389,200	–	(173,700)	(89,200)	(126,300)	–	–	–	–	–	–	13.10	13/8/2008	01/3/2009 – 28/2/2011
	1,107,900	–	(294,000)	–	–	813,900	–	(75,500)	–	–	1,552,300	13.10	13/8/2008	01/3/2010 – 29/2/2012
	1,697,100	–	(334,500)	–	–	1,362,600	–	(122,400)	–	–	2,602,800	13.10	13/8/2008	01/3/2011 – 28/2/2013
	794,000	–	(332,000)	–	–	462,000	–	(164,000)	(76,000)	–	684,000	8.61	24/2/2009	01/3/2010 – 29/2/2012
	2,348,000	–	(1,279,600)	–	–	1,068,400	–	(472,800)	(60,000)	–	1,604,000	8.61	24/2/2009	01/3/2011 – 28/2/2013
	1,274,500	–	(79,300)	–	–	1,195,200	–	(149,400)	–	–	2,241,000	13.90	14/8/2009	01/3/2010 – 29/2/2012
	2,098,200	–	(258,400)	–	–	1,839,800	–	(63,200)	–	–	3,616,400	13.90	14/8/2009	01/3/2011 – 28/2/2013
	2,556,100	–	–	–	–	2,556,100	–	–	(599,600)	–	4,512,600	20.76	25/3/2010	01/3/2011 – 28/2/2013
	1,178,600	–	–	–	–	1,178,600	–	–	–	–	2,357,200	22.42	15/11/2010	01/3/2011 – 28/2/2013
	–	15,781,000[3]	–	–	–	15,781,000	–	–	(142,000)	–	31,420,000	20.21	11/4/2011	01/5/2012 – 30/4/2015
	–	16,057,000[3]	–	–	–	16,057,000	–	–	(150,000)	–	31,964,000	20.21	11/4/2011	01/5/2013 – 30/4/2015
	–	39,922,000[3]	–	–	–	39,922,000	–	–	(218,000)	–	79,626,000	20.21	11/4/2011	01/5/2014 – 30/4/2016
	–	–	–	–	–	–	2,162,000[4]	–	(123,000)	–	2,039,000	15.20	21/11/2011	01/5/2012 – 30/4/2015
	–	–	–	–	–	–	4,476,000[4]	–	(248,000)	–	4,228,000	15.20	21/11/2011	01/5/2013 – 30/4/2015
	–	–	–	–	–	–	10,011,000[4]	–	(554,000)	–	9,457,000	15.20	21/11/2011	01/5/2014 – 30/4/2016
	–	–	–	–	–	–	2,000,000[5]	–	–	–	2,000,000	14.50	22/12/2011	01/5/2013 – 30/4/2015
	–	–	–	–	–	–	2,000,000[5]	–	–	–	2,000,000	14.50	22/12/2011	01/5/2014 – 30/4/2016
	–	–	–	–	–	–	2,000,000[5]	–	–	–	2,000,000	14.50	22/12/2011	01/5/2015 – 30/4/2017
	–	–	–	–	–	–	2,000,000[5]	–	–	–	2,000,000	14.50	22/12/2011	01/5/2016 – 30/4/2018
	–	–	–	–	–	–	2,000,000[5]	–	–	–	2,000,000	14.50	22/12/2011	01/5/2017 – 30/4/2019
	–	–	–	–	–	–	2,000,000[5]	–	–	–	2,000,000	14.50	22/12/2011	01/5/2018 – 30/4/2020
	–	–	–	–	–	–	2,000,000[5]	–	–	–	2,000,000	14.50	22/12/2011	01/5/2019 – 30/4/2021
	–	–	–	–	–	–	2,000,000[5]	–	–	–	2,000,000	14.50	22/12/2011	01/5/2020 – 30/4/2022
	–	–	–	–	–	–	2,000,000[5]	–	–	–	2,000,000	14.50	22/12/2011	01/5/2021 – 30/4/2023

NOTES:

(1) At the 2011 Annual General Meeting of the Company held on 18 May 2011, an ordinary resolution was duly passed under which each of the existing issued and unissued shares of HK$0.025 each in the share capital of the Company as of 19 May 2011 was subdivided (the "Share Subdivision") into two shares of HK$0.0125 each.

All the Share Options which were granted and remained outstanding as of 19 May 2011 were adjusted with the Share Subdivision and accordingly, the number of Share Options increased by one share for each share in the Share Options and the subscription prices per Share were adjusted by half.

(2) The weighted average closing market price per Share immediately before the dates on which the Share Options were exercised was HK$20.86.

(3) The closing market price per Share as at the date preceding the date on which the share options were granted was HK$20.25.

(4) The closing market price per Share as at the date preceding the date on which the share options were granted was HK$15.04.

(5) The closing market price per Share as at the date preceding the date on which the share options were granted was HK$14.56.

(6) 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 565,658,886 Shares representing 6.97% 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 not, 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 2011 are set out in *Note 41* to the accounts.

ASSOCIATED COMPANIES

Details of the Company's principal associated companies at 31 December 2011 are set out in *Note 41* to the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

During 2011, 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 five largest customers combined was also less than 30% of its total sales.

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.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Group entered into the following connected transactions which were subject to reporting and announcement requirements but exempt from the independent shareholders' approval requirement.

(i) On 30 June 2011, the Group entered into agreements to dispose of properties in Turkey and Taiwan and the entire registered capital of a subsidiary incorporated in the PRC to entities indirectly wholly owned by Dr. William Fung Kwok Lun and a trust established for the family of Dr. Victor Fung Kwok King at an aggregate consideration of approximately US$26,720,000. The considerations for the properties were determined by reference to valuations of certain independent professional valuers.

(ii) On the same date, the Group entered into an agreement to dispose of the Group's medical equipment businesses in East Malaysia, Indonesia, Singapore and West Malaysia to subsidiaries of Li & Fung (Distribution) Limited at an aggregate consideration of approximately US$57,700,000. Li & Fung (Distribution) Limited is a wholly owned subsidiary of LF 1937, which is a substantial shareholder of the Company.

During the year, the Group also engaged in certain continuing connected transactions as set out below:

(i) Pursuant to the master agreement for leasing of properties that the Company entered into with LF 1937 on 13 January 2011, the Group leased certain properties from LF 1937 and its associates for the period from 1 January 2011 to 31 December 2013. As LF 1937 is a substantial shareholder of the Company, LF 1937 and its associates are connected persons of the Company and the transactions contemplated under the master leasing agreement constitute continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group paid rental expenses of US$23,913,000 for the year ended 31 December 2011.

(ii) Integrated Distribution Services Group Limited ("IDS Group") became a wholly owned subsidiary of the Company effective on 29 October 2010. As a result, continuing connected transactions of IDS Group, such as (a) distribution of products to; (b) purchase of various products from; and (c) provision of various logistics services to, LF 1937 and its associates may become non-fully exempt continuing connected transactions of the Company. For the year ended 31 December 2011, the applicable percentage ratios of the Company in respect of each category of these transactions were less than 0.1%.

Non-exempt continuing connected transactions of the Company have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors confirmed that the aforesaid non-exempt 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 the Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

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.

In Indonesia and Thailand, the Group participates in a defined contribution provident scheme for its empolyees with the contribution set at 3.7% and 7% of the employees' basic salaries respectively. In addition, the Group also participates in a defined benefit retirement scheme in accordance with local statutory requirement.

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:

	US$'000
Contributions to the MPF Scheme	4,870
Contributions forfeited by employees	(1,142)
Contributions to the defined contribution provident scheme and defined benefits plan in Taiwan	2,120
Contributions to the defined benefits scheme in the United Kingdom	178
Contributions pursuant to the statutory requirements in Korea	1,152
Contributions to the defined contribution provident scheme and defined benefits plan in Indonesia and Thailand	2,701
Contributions pursuant to local requirements in other overseas regions	40,304
	50,183

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* (retired on 18 May 2011)
Martin Tang Yue Nien*
Benedict Chang Yew Teck (appointed on 1 February 2011)
Fu Yuning* (appointed on 1 November 2011)

Executive Directors:
William Fung Kwok Lun, *Deputy Chairman*
Bruce Philip Rockowitz, *Group President & Chief Executive Officer*
Spencer Theodore Fung

* *Independent Non-executive Directors*

All directors of the Company, including independent non-executive directors, are subject to retirement by rotation at annual general meetings in accordance with bye-law 110(A) of the Company's bye-laws.

Mr Spencer Theodore Fung, Professor Franklin Warren McFarlan and Mr Martin Tang Yue Nien will retire by rotation at the forthcoming Annual General Meeting. They, being eligible, will offer themselves for re-election.

In accordance with bye-law 101 of the Company's bye-laws, Dr Fu Yuning who was appointed by the directors during the year, will retire and, being eligible, offer himself for re-election.

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 46 to 51.

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

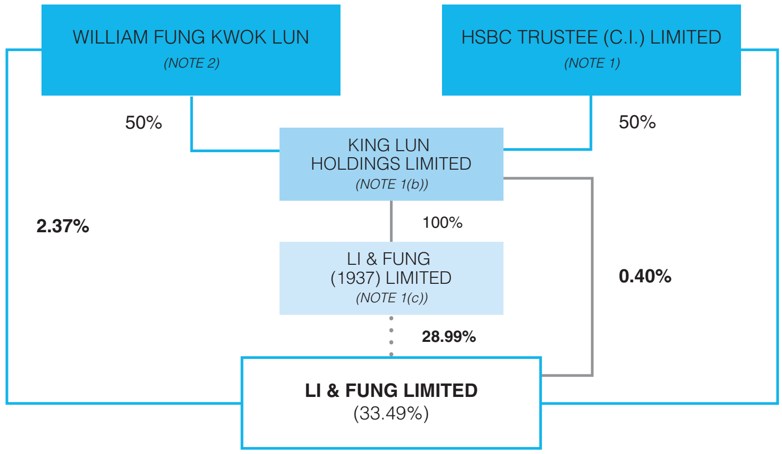
As at 31 December 2011, the directors and chief executives of the Company and their associates had the following interests in the shares of HK$0.0125 each ("Shares") and underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and 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 POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

	Number of Shares					
Name of directors	**Personal interest**	**Family interest**	**Trust/ Corporate Interest**	**Equity derivatives (share options)**	**Total**	**Percentage of issued share capital**
Victor Fung Kwok King	2,814,444	–	2,522,697,340[1]	–	2,525,511,784	31.16%
William Fung Kwok Lun	144,342,660	8,800	2,427,871,232[2]	2,430,000[3]	2,574,652,692	31.76%
Spencer Theodore Fung*	1,056,000	–	2,522,697,340[1]	11,678,000[3]	2,535,431,340	31.28%
Bruce Philip Rockowitz	7,175,600	–	49,823,020[4]	36,671,760[5]	93,670,380	1.15%
Paul Edward Selway-Swift	16,000	40,000	16,000[6]	–	72,000	0.00%
Franklin Warren McFarlan	–	–	114,400[7]	–	114,400	0.00%
Martin Tang Yue Nien	–	–	40,000[8]	–	40,000	0.00%
Benedict Chang Yew Teck	4,053,200	–	–	–	4,053,200	0.05%

* *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 2011,

(1) each of Dr Victor Fung Kwok King and Mr Spencer Theodore Fung was deemed to have interests in 2,522,697,340 Shares held in the following manner:

(a) 111,650,000 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 29,201,708 Shares were indirectly held by HSBC Trustee through its wholly owned subsidiary, First Island Developments Limited ("First Island"). With effect from 19 January 2012, HSBC Trustee has transferred 111,650,000 Shares to First Island;

(b) 32,891,760 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) 2,195,727,908 Shares were directly held by Li & Fung (1937) Limited ("LF (1937)"), a wholly owned subsidiary of King Lun, and 153,225,964 Shares were indirectly held by LF (1937) through its wholly owned subsidiary, Li & Fung (Distribution) Limited ("LFD").

(2) Out of 2,427,871,232 Shares, 26,114,400 Shares and 19,911,200 Shares were held by Golden Step Limited and Step Dragon Enterprise Limited, both companies were beneficially owned by Dr William Fung Kwok Lun. The balance of 2,381,845,632 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) 49,823,020 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 3,780,000 underlying shares in respect of share options granted by the Company to Mr Bruce Philip Rockowitz, the details of which are set out in the Share Options section stated below; and

(b) the deemed interest of Mr Bruce Philip Rockowitz in 32,891,760 underlying shares in the Company in respect of options granted by King Lun to HMHL to purchase such shares in the Company in three tranches during the period from 25 December 2011 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) 16,000 Shares in the Company were held by a trust of which Mr. Paul Edward Selway-Swift is a beneficiary.

(7) 114,400 Shares in the Company were held by a trust established for the benefit of Professor Franklin Warren McFarlan.

(8) 40,000 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 2011 to have short position through King Lun, in which all of them were deemed to have interests as disclosed above, in respect of an aggregate of 32,891,760 underlying Shares, representing 0.40% 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 109,891,760 Shares (after adjustment of Share Subdivision mentioned in *Note (1)* under Share Options above) 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 2011, 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 2011, other than the interests of the directors or chief executive of the Company as disclosed above, the following persons had interests in the Shares of the Company which fall to be disclosed to the Company under Section 336 of the SFO:–

Name of Shareholder	Capacity	Number of Shares	Percentage of issued share capital
Long Positions			
King Lun Holdings Limited	Beneficial owner (32,891,760) Interest of controlled corporation (2,348,953,872)[1]	2,381,845,632	29.39%
HSBC Trustee (C.I.) Limited	Trustee	2,522,697,340[2]	31.12%
Janus Capital Management LLC	Investment manager	570,227,220	7.03%
JPMorgan Chase & Co.	Beneficial owner (25,570,402) Investment manager (245,457,236) Custodian corporation/approved lending agent (300,380,653)	571,408,291	7.05%
Deutsche Bank Aktiengesellschaft	Beneficial owner (12,699,399) Investment manager (5,989,840) Person having a security interest in shares (14,349,506) Custodian corporation/approved lending agent (620,423,630)	653,462,375	8.06%
Capital Research and Management Company	Investment manager	414,133,000	5.11%

Name of Shareholder	Capacity	Number of Shares	Percentage of issued share capital
Short Positions			
King Lun Holdings Limited	Beneficial owner	32,891,760[3]	0.40%
HSBC Trustee (C.I.) Limited	Trustee	32,891,760[4]	0.40%
JPMorgan Chase & Co.	Beneficial owner	7,531,101	0.09%
Deutsche Bank Aktiengesellschaft	Beneficial owner (5,529,993) Person having a security interest in shares (11,222,206)	16,752,199	0.20%
Lending Pool			
JPMorgan Chase & Co.	Custodian corporation/approved lending agent	300,380,653	3.70%
Deutsche Bank Aktiengesellschaft	Custodian corporation/approved lending agent	620,423,630	7.65%

NOTES:
As at 31 December 2011,

(1) 2,195,727,908 Shares were directly held by LF (1937) which also through its wholly owned subsidiary, LFD, indirectly held 153,225,964 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 32,891,760 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 2011.

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 46 to 51.

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 2011 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, 22 March 2012

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

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 67 to 159, which comprise the consolidated and company balance sheets as at 31 December 2011, 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 Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
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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 2011, 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, 22 March 2012

STATEMENT OF ACCOUNTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2011

	Note	2011 US$'000	2010 US$'000 (Restated) *Note 1.1(c)*
Turnover	*3*	**20,030,271**	15,912,201
Cost of sales		**(17,043,929)**	(13,746,389)
Gross profit		**2,986,342**	2,165,812
Other income		**87,862**	72,477
Total margin		**3,074,204**	2,238,289
Selling and distribution expenses		**(834,099)**	(418,214)
Merchandising expenses		**(1,247,993)**	(1,001,527)
Administrative expenses		**(110,056)**	(93,410)
Core operating profit	*3*	**882,056**	725,138
Gain on disposal of businesses/subsidiary	*30(c), 35*	**50,994**	–
Gain on disposal of properties/property holding subsidiary	*30(d), 35*	**13,666**	–
Other non-core operating expenses	*4*	**(66,779)**	(45,820)
Operating profit	*4*	**879,937**	679,318
Interest income		**19,490**	13,567
Interest expenses	*5*		
Non-cash interest expenses		**(21,538)**	(19,272)
Cash interest expenses		**(107,056)**	(79,171)
		(128,594)	(98,443)
Share of profits less losses of associated companies		**1,231**	1,850
Profit before taxation		**772,064**	596,292
Taxation	*6*	**(90,660)**	(47,525)
Profit for the year		**681,404**	548,767
Attributable to:			
Shareholders of the Company	*7*	**681,229**	548,491
Non-controlling interests		**175**	276
		681,404	548,767
Earnings per share for profit attributable to the shareholders of the Company during the year			
– basic	*8*	**8.43 US cents**	7.17 US cents
– diluted	*8*	**8.39 US cents**	7.09 US cents

Details of dividends to Shareholders of the Company are set out in *Note 9*. The notes on pages 75 to 159 are an integral part of these consolidated accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 US$'000	2010 US$'000 (Restated) *Note 1.1(c)*
Profit for the year	**681,404**	548,767
Other comprehensive income/(expense):		
Currency translation differences	**(28,024)**	(15,218)
Net fair value gain on available-for-sale financial assets, net of tax	**188**	2,142
Net fair value gain/(loss) on cash flow hedges, net of tax	**10,226**	(1,536)
Net actuarial loss from post employment benefits recognized in reserve	**(3,549)**	–
Other comprehensive expense for the year, net of tax	**(21,159)**	(14,612)
Total comprehensive income for the year	**660,245**	534,155
Attributable to:		
– Shareholders of the Company	**660,291**	533,836
– Non-controlling interests	**(46)**	319
Total comprehensive income for the year	**660,245**	534,155

The notes on pages 75 to 159 are an integral part of these consolidated accounts.

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	As at 31 December 2011 US$'000	2010 US$'000 (Restated) *Note 1.1(c)*	As at 1 January 2010 US$'000 (Restated) *Note 1.1(c)*
Non-current assets				
Intangible assets	*12*	**6,525,999**	4,882,166	2,333,657
Property, plant and equipment	*13*	**325,432**	309,186	160,988
Prepaid premium for land leases	*14*	**3,144**	3,814	311
Associated companies	*16*	**7,015**	6,140	3,622
Available-for-sale financial assets	*17*	**70,574**	84,330	92,331
Deposits	*21*	**12,537**	10,200	8,633
Deferred tax assets	*29*	**24,148**	20,195	7,459
		6,968,849	5,316,031	2,607,001
Current assets				
Inventories	*18*	**1,035,788**	768,687	305,466
Due from related companies	*19*	**16,948**	13,163	12,655
Trade and bills receivable	*21*	**2,004,542**	2,079,012	1,610,433
Other receivables, prepayments and deposits	*21*	**454,310**	348,396	290,321
Derivative financial instruments	*20*	**13,743**	–	336
Cash and bank balances	*22*	**426,240**	968,530	538,752
		3,951,571	4,177,788	2,757,963
Current liabilities				
Due to related companies	*19*	**12,675**	6,531	–
Trade and bills payable	*23*	**2,336,991**	2,208,404	1,539,117
Accrued charges and sundry payables	*23*	**734,213**	581,980	389,732
Balance of purchase consideration payable for acquisitions to be settled by cash	*27*	**323,712**	248,314	145,983
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	*27*	**1,764**	16,646	41,500
Taxation		**103,006**	94,238	66,791
Derivative financial instruments	*20*	**–**	1,892	–
Bank advances for discounted bills	*21*	**40,298**	41,905	38,734
Short-term bank loans	*24*	**111,936**	89,154	–
Bank overdrafts	*22, 24*	**225**	28,298	6,066
		3,664,820	3,317,362	2,227,923
Net current assets		**286,751**	860,426	530,040
Total assets less current liabilities		**7,255,600**	6,176,457	3,137,041

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December 2011

	Note	As at 31 December 2011 US$'000	2010 US$'000 (Restated) *Note 1.1(c)*	As at 1 January 2010 US$'000 (Restated) *Note 1.1(c)*
Financed by:				
Share capital	*25*	**12,987**	12,899	12,103
Reserves	*26*	**3,566,195**	3,343,896	2,027,042
Proposed dividend		**354,611**	269,234	237,732
		3,920,806	3,613,130	2,264,774
Shareholders' funds attributable to the Company's shareholders		**3,933,793**	3,626,029	2,276,877
Non-controlling interests		**4,813**	6,049	(4,289)
Total equity		**3,938,606**	3,632,078	2,272,588
Non-current liabilities				
Long term notes	*27*	**1,256,007**	1,256,552	496,452
Balance of purchase consideration payable for acquisitions settled by cash	*27*	**1,646,664**	920,428	292,778
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	*27*	**–**	–	17,994
Other long-term liabilities	*27*	**348,351**	329,713	44,843
Post-employment benefit obligations	*28*	**13,096**	8,311	3,303
Deferred tax liabilities	*29*	**52,876**	29,375	9,083
		3,316,994	2,544,379	864,453
		7,255,600	6,176,457	3,137,041

Victor Fung Kwok King
Director

William Fung Kwok Lun
Director

The notes on pages 75 to 159 are an integral part of these consolidated accounts.

BALANCE SHEET

As at 31 December 2011

	Note	As at 31 December 2011 US$'000	2010 US$'000 (Restated) Note 1.1(c)	As at 1 January 2010 US$'000 (Restated) Note 1.1(c)
Interests in subsidiaries	*15*	**1,339,604**	1,339,604	302,512
Current assets				
Due from related companies	*19*	**3,855,441**	3,650,510	2,532,192
Other receivables, prepayments and deposits	*21*	**249**	254	187
Cash and bank balances	*22*	**295**	186	224
		3,855,985	3,650,950	2,532,603
Current liabilities				
Accrued charges and sundry payables	*23*	**9,760**	14,630	3,990
		9,760	14,630	3,990
Net current assets		**3,846,225**	3,636,320	2,528,613
Total assets less current liabilities		**5,185,829**	4,975,924	2,831,125
Financed by:				
Share capital	*25*	**12,987**	12,899	12,103
Reserves	*26(b)*	**3,562,224**	3,437,239	2,084,838
Proposed dividend	*26(b)*	**354,611**	269,234	237,732
		3,916,835	3,706,473	2,322,570
Shareholders' funds		**3,929,822**	3,719,372	2,334,673
Non-current liabilities				
Long-term notes	*27*	**1,256,007**	1,256,552	496,452
		5,185,829	4,975,924	2,831,125

Victor Fung Kwok King
Director

William Fung Kwok Lun
Director

The notes on pages 75 to 159 are an integral part of these consolidated accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to shareholders of the Company						
	Share capital US$'000	**Share premium US$'000**	**Other reserves US$'000** *Note 26(a)*	**Retained earnings US$'000**	**Total US$'000**	**Non-controlling interests US$'000**	**Total equity US$'000**
Balance at 1 January 2011	**12,899**	**3,015,794**	**(22,868)**	**620,204**	**3,626,029**	**6,049**	**3,632,078**
Comprehensive income							
Profit or loss	**–**	**–**	**–**	**681,229**	**681,229**	**175**	**681,404**
Other comprehensive income							
Currency translation differences	**–**	**–**	**(27,803)**	**–**	**(27,803)**	**(221)**	**(28,024)**
Net fair value gain on available-for-sale financial assets, net of tax	**–**	**–**	**188**	**–**	**188**	**–**	**188**
Net fair value gain on cash flow hedges, net of tax	**–**	**–**	**10,226**	**–**	**10,226**	**–**	**10,226**
Net actuarial loss from post employment benefits recognized in reserve	**–**	**–**	**(3,549)**	**–**	**(3,549)**	**–**	**(3,549)**
Total other comprehensive income	**–**	**–**	**(20,938)**	**–**	**(20,938)**	**(221)**	**(21,159)**
Total comprehensive income	**–**	**–**	**(20,938)**	**681,229**	**660,291**	**(46)**	**660,245**
Transactions with owners							
Employee share option scheme:							
– value of employee services	**–**	**–**	**18,906**	**–**	**18,906**	**–**	**18,906**
– proceeds from shares issued	**88**	**80,808**	**–**	**–**	**80,896**	**–**	**80,896**
– transfer to share premium	**–**	**17,495**	**(17,495)**	**–**	**–**	**–**	**–**
Release of shares held by escrow agent for settlement of acquisition consideration	**–**	**–**	**14,882**	**–**	**14,882**	**–**	**14,882**
Transfer to capital reserve	**–**	**–**	**74**	**(74)**	**–**	**–**	**–**
2010 final dividend paid	**–**	**–**	**–**	**(269,851)**	**(269,851)**	**–**	**(269,851)**
2011 interim dividend paid	**–**	**–**	**–**	**(197,360)**	**(197,360)**	**(1,190)**	**(198,550)**
Total transactions with owners	**88**	**98,303**	**16,367**	**(467,285)**	**(352,527)**	**(1,190)**	**(353,717)**
Balance at 31 December 2011	**12,987**	**3,114,097**	**(27,439)**	**834,148**	**3,933,793**	**4,813**	**3,938,606**

For the year ended 31 December 2011

	Attributable to shareholders of the Company						
	Share capital US$'000	Share premium US$'000	Other reserves US$'000 *Note 26(a)*	Retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2010 – Restated *(Note 1.1(c))*	12,103	1,818,277	(50,335)	496,832	2,276,877	(4,289)	2,272,588
Comprehensive income							
Profit or loss	–	–	–	548,491	548,491	276	548,767
Other comprehensive income							
Currency translation differences	–	–	(15,261)	–	(15,261)	43	(15,218)
Net fair value gain on available-for-sale financial assets, net of tax	–	–	2,142	–	2,142	–	2,142
Net fair value loss on cash flow hedges, net of tax	–	–	(1,536)	–	(1,536)	–	(1,536)
Total other comprehensive income	–	–	(14,655)	–	(14,655)	43	(14,612)
Total comprehensive income	–	–	(14,655)	548,491	533,836	319	534,155
Transactions with owners							
Employee share option scheme:							
– value of employee services	–	–	33,281	–	33,281	–	33,281
– proceeds from share issued	169	143,287	–	–	143,456	–	143,456
– transfer to share premium	–	27,330	(27,330)	–	–	–	–
Release of shares held by escrow agent for settlement of acquisition consideration	–	–	36,109	–	36,109	–	36,109
Transfer to capital reserve	–	–	62	(62)	–	–	–
2009 final dividend paid	–	–	–	(239,241)	(239,241)	(559)	(239,800)
2010 interim dividend paid	–	–	–	(185,816)	(185,816)	–	(185,816)
Issue of shares for privatization of IDS	627	1,026,900	–	–	1,027,527	–	1,027,527
Acquisition of businesses/subsidiaries	–	–	–	–	–	10,578	10,578
Total transactions with owners	796	1,197,517	42,122	(425,119)	815,316	10,019	825,335
Balance at 31 December 2010 – Restated *(Note 1.1(c))*	12,899	3,015,794	(22,868)	620,204	3,626,029	6,049	3,632,078

The notes on pages 75 to 159 are an integral part of these consolidated accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011

	Note	2011 US$'000	2010 US$'000 (Restated) *Note 1.1(c)*
Operating activities			
Net cash inflow generated from operations	*30(a)*	**987,058**	778,965
Hong Kong profits tax paid		**(14,100)**	(6,966)
Overseas taxation paid		**(48,735)**	(26,648)
Net cash inflow from operating activities		**924,223**	745,351
Investing activities			
Purchase of property, plant and equipment		**(113,223)**	(78,438)
Disposal of property, plant and equipment		**11,912**	9,142
Disposal of available-for-sale financial assets	*17*	**944**	77
Partial repayment on debt security	*17*	**13,000**	10,000
Payment for computer software and system development costs		**(4,832)**	(4,126)
Acquisitions of businesses/subsidiaries	*31*	**(701,169)**	(464,723)
Settlement of consideration payable for prior years acquisitions of businesses/subsidiaries		**(287,774)**	(209,790)
Interest received		**19,490**	13,567
Dividends received from associated companies	*16*	**300**	686
Disposal of prepaid premium for land leases		**77**	351
Proceed from disposal of businesses/subsidiary	*30(c)*	**64,060**	–
Proceeds from disposal of properties/property holding subsidiary	*30(d)*	**26,201**	–
Net cash outflow from investing activities		**(971,014)**	(723,254)
Net cash (outflow)/inflow before financing activities		**(46,791)**	22,097
Financing activities			
Net proceeds from issuance of shares	*30(b)*	**80,896**	143,456
Net drawdown/(repayment) of bank loans	*30(b)*	**25,483**	(13,295)
Interest paid		**(107,056)**	(79,170)
Dividends paid		**(468,401)**	(425,616)
Net proceeds from issuance of long-term notes		**–**	760,268
Net cash (outflow)/inflow from financing		**(469,078)**	385,643
(Decrease)/increase in cash and cash equivalents		**(515,869)**	407,740
Cash and cash equivalents at 1 January		**940,232**	532,686
Effect of foreign exchange rate changes		**1,652**	(194)
Cash and cash equivalents at 31 December		**426,015**	940,232
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	*22*	**426,240**	968,530
Bank overdrafts	*22*	**(225)**	(28,298)
		426,015	940,232

The notes on pages 75 to 159 are an integral part of these consolidated accounts.

NOTES TO THE ACCOUNTS

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The basis of preparation and 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 inclusion of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

(a) Revised and amended standards and interpretations adopted by the Group

The following revised and amended standards and interpretations of HKFRSs are mandatory for accounting periods beginning on or after 1 January 2011 but they are not relevant to the Group's operations:

HKAS 24 (revised)	Related party disclosures
HKAS 32 (amendment)	Classification of rights issues
HKFRS 1 (amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters
HK(IFRIC) – Int 14 (amendment)	Prepayments of a minimum funding requirement
HK(IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments
Third annual improvements project (2010)	Improvements to HKFRS published in May 2010

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

The following new standards and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2012 or later periods, but the Group has not early adopted them:

HKAS 1 (amendment)	Presentation of financial statements[3]
HKAS 12 (amendment)	Deferred tax: recovery of underlying assets[2]
HKAS 19 (amendment)	Employee benefits[4]
HKFRS 1 (amendment)	Severe hyperinflation and removal of fixed dates of first-time adopters[1]
HKFRS 7 (amendment)	Disclosures – Transfers of financial assets[1]
HKFRS 9	Financial instruments[4]
HKFRS 10 and HKAS 27 (2011)	Consolidated financial statements and Separate financial statements[4]
HKFRS 11 and HKAS 28 (2011)	Joint arrangements and Associates and joint ventures[4]
HKFRS 12	Disclosure of interests in other entities[4]
HKFRS 13	Fair value measurements[4]
HK(IFRIC) – Int 20	Stripping costs in the production phase of a surface mine[4]

NOTES:

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (CONTINUED)

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

The Group is in the process of making an assessment of the impact of these standards and amendments to existing standards upon initial application. So far, it has concluded that these new standards and amendments to existing standards are unlikely to have a significant impact on the Group's results of operations and financial position.

(c) Changes in functional and presentation currencies

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").

In prior years, the Company regarded Hong Kong dollar ("HK dollar") as its functional currency. However, as a result of the Group's continuous acquisitions in recent years, the Company and most of its major operating subsidiaries' business transactions in terms of operating, investing and financing activities have increasingly placed greater reliance on US dollar. As such, effective from 1 January 2011, the Company and certain of its subsidiaries have changed their functional currencies from HK dollar to US dollar. US dollar has also been adopted as the presentation currency of the Group's consolidated accounts.

The change in functional currency of the Company was applied prospectively from date of change in accordance with HKAS 21 "The Effect of Changes in Foreign Exchange Rate". On the date of the change of functional currency, all assets, liabilities, issued capital and other components of equity and profit and loss account items were translated into US dollar at the exchange rate on that date.

The change in presentation currency of the Group has been applied retrospectively in accordance with HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", and the comparative figures as at 1 January 2010 and 31 December 2010 and for the year ended 31 December 2010 have also been restated to US dollar accordingly.

The changes in functional and presentation currencies have no significant impact on the financial positions of the Group as at 1 January 2010, 31 December 2010 and 2011, or the results and cash flows of the Group for the years ended 31 December 2010 and 2011.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.2 CONSOLIDATION

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December 2011.

(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. Business 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. On an acquisition-by-acquisition basis, the Group recognises any 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.

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.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

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

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests that do not result in loss of control 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.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.2 CONSOLIDATION (CONTINUED)

(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, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. 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.

When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profits less losses of an associated companies" in the consolidated profit and loss account.

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. The financial information of associated companies has 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.

1.4 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 US dollar, which is the Company's functional and presentation currency *(Note 1.1(c))*.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.4 FOREIGN CURRENCY TRANSLATION (CONTINUED)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or revaluation where items are re-measured. 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 such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in 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 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.

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.4 FOREIGN CURRENCY TRANSLATION (CONTINUED)

(c) Group companies (continued)

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or jointly controlled entities that do not result in the group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

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. Exchange differences arising are recognised in equity.

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 classes of 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 the end of each reporting period. 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 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.6 INTANGIBLE ASSETS

(a) Goodwill

Goodwill represents the excess of the considerations transferred over the net fair value of the Group's share of the net identifiable assets/liabilities and contingent liabilities of the acquired business/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. Each unit of groups of units to which the goodwill is allocated represent the lowest level within the entity at which the goodwill is monitored for internal management purpose.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(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, brandnames, buying agency and license agreements secured, 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 10 years.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.7 IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATED COMPANIES AND NON-FINANCIAL ASSETS

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

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

1.8 FINANCIAL ASSETS

Classification

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

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and bills receivable", "other receivables, 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.

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.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.8 FINANCIAL ASSETS (CONTINUED)

Recognition and measurement (continued)

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
- 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.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.9 IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(a) Assets carried at amortized cost (continued)

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 consolidated profit and loss account. Impairment losses recognized in the consolidated profit and loss account on equity instruments are not reversed through the consolidated profit and loss account. 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.

1.11 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 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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.

1.15 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.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.15 CURRENT AND DEFERRED TAX (CONTINUED)

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.

(c) Post employment benefit obligations

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

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

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

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

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.16 EMPLOYEE BENEFITS (CONTINUED)

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted:

- including any market performance conditions;

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

- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates on the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the consolidated profit and loss account, with a corresponding adjustment to employee share-based compensation reserve.

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

1.17 PROVISIONS

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

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

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

1.18 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.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.18 CONTINGENT LIABILITIES AND CONTINGENT ASSETS (CONTINUED)

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

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

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

1.19 TOTAL MARGIN

Total margin includes trading gross profit and other recurring income relating to the trading, distribution and logistics business.

1.20 CORE OPERATING PROFIT

Core operating profit is the profit before taxation generated from the Group's trading, distribution and logistics business which excludes share of results of associated companies, interest income, interest costs, tax, 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) and 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 from 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.

Other income are recognized when the services are rendered.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.22 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying 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, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

1.23 OPERATING LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated profit and loss account on a straight-line basis over the period of the lease. The upfront prepayments made for leasehold land and land use rights are amortised on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the consolidated profit and loss account.

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

Movements in the fair values of hedging derivatives are included within shareholders' equity *(Note 26)*. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. Trading derivatives are classified as a current asset or liability.

(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 to 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.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.24 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

(a) Cash flow hedge (continued)

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

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

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

1.25 TRADE PAYABLES

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

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

1.26 DIVIDEND DISTRIBUTION

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

1.27 SHARES HELD BY ESCROW AGENT FOR SETTLEMENT OF ACQUISITION CONSIDERATION

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

1.28 FINANCIAL GUARANTEE CONTRACT

Financial guarantees are initially recognised in the financial statements 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 amortization 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 judgement of management. The fee income earned is recognized 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 INTANGIBLE ASSETS INCLUDING 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 amortizes its intangible assets with finite useful lives on a straight-line basis over their estimated useful lives. The estimated useful lives reflect the management's estimates of the periods that the Group intends to derive future economic benefits from the use of these intangible assets.

(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 investment is less than its cost, and the expected time span the Group will hold on to this investment. Based on the Group's estimation, no impairment provision is required to be made for available-for-sale financial assets during the current year *(Note 17)*.

(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, as of their respective acquisition dates as part of the consideration transferred in exchange for the acquired business. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired 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). For acquisitions completed prior to 1 January 2010, the effective date of HKFRS 3 (Revised), changes in the fair value of contingent consideration was recognized in goodwill.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(e) CONTINGENT CONSIDERATIONS OF ACQUISITIONS (CONTINUED)

The basis of the contingent consideration differs for each acquisition; generally however the contingent consideration reflects a specified multiple of the post-acquisition financial profitability of the acquired business. Consequently, the actual additional consideration payable will vary according to the future performance of each individual acquired business, and the liabilities provided reflect estimates of such future performances. Due to the number of acquisitions for which additional consideration remains outstanding and the variety of bases of determination, it is not practicable to provide any meaningful sensitivity in relation to the critical assumptions concerning future profitability of the acquired business.

Should the total actual additional consideration paid in the year ended 31 December 2011 be 0.1% higher/lower than the corresponding amount of contingent consideration estimated by management as payable at 31 December 2011, there would consequent increases/reductions in other non-core operating expenses for the year ended 31 December 2011 and goodwill of US$1,820,000 and US$151,000 respectively.

3 SEGMENT INFORMATION

The Company is domiciled in Bermuda. The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its Hong Kong office is at 11/F, Li Fung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong. The Group is principally engaged in managing the supply chain for retailers and brands worldwide from over 300 offices and distribution centers in more than 40 economies. Turnover represents revenue generated from sales and services rendered at invoiced value to customers outside the Group less discounts and returns.

During the year, the Group has accomplished a major restructuring of its operations which resulted in three new operating segments. The Group's management (Chief Operating decision-maker) considers the business principally from the perspective of three global Networks, namely Trading Network, Logistics Network and Distribution Network. Trading Network is the operating segment that focuses on the global sourcing business. Logistics Network is the operating segment that runs both the Group's international and domestic logistics services networks globally. Distribution Network is the operating segment that operates the onshore distribution businesses in the US, Pan-European and Asian regions. Prior period comparative segment information has been restated accordingly.

The Group's management assesses the performance of the operating segments based on a measure of operating profit, referred to as core operating profit (see *Note 1.20*). 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)

	Trading Network US$'000	Logistics Network US$'000	Distribution Network US$'000	Elimination US$'000	Total US$'000
Year ended 31 December 2011					
Turnover	**15,880,099**	**446,431**	**6,305,419**	**(2,601,678)**	**20,030,271**
Total margin	**1,410,282**	**175,517**	**1,488,405**		**3,074,204**
Operating costs	**(845,121)**	**(162,573)**	**(1,184,454)**		**(2,192,148)**
Core operating profit	**565,161**	**12,944**	**303,951**		**882,056**
Gain on disposal of businesses/subsidiary					**50,994**
Gain on disposal of properties/property holding subsidiary					**13,666**
Other non-core operating expenses					**(66,779)**
Operating profit					**879,937**
Interest income					**19,490**
Interest expenses					
Non-cash interest expenses					**(21,538)**
Cash interest expenses					**(107,056)**
					(128,594)
Share of profits less losses of associated companies					**1,231**
Profit before taxation					**772,064**
Taxation					**(90,660)**
Profit for the year					**681,404**
Depreciation & amortization	**41,158**	**10,499**	**174,885**		**226,542**
31 December 2011					
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	**2,012,456**	**525,483**	**4,336,188**		**6,874,127**

3 SEGMENT INFORMATION (CONTINUED)

	Trading Network US$'000	Logistics Network US$'000	Distribution Network US$'000	Elimination US$'000	Total US$'000
Year ended 31 December 2010 – Restated					
Turnover	13,741,995	73,198	3,911,803	(1,814,795)	15,912,201
Total margin	1,176,844	27,344	1,034,101		2,238,289
Operating costs	(744,285)	(32,661)	(736,205)		(1,513,151)
Core operating profit/(loss)	432,559	(5,317)	297,896		725,138
Other non-core operating expenses					(45,820)
Operating profit					679,318
Interest income					13,567
Interest expenses					
Non-cash interest expenses					(19,272)
Cash interest expenses					(79,171)
					(98,443)
Share of profits less losses of associated companies					1,850
Profit before taxation					596,292
Taxation					(47,525)
Profit for the year					548,767
Depreciation & amortization	33,567	2,065	123,322		158,954
31 December 2010 – Restated					
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	1,249,084	493,467	3,468,955		5,211,506
1 January 2010 – Restated					
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	927,213	–	1,579,998		2,507,211

3 SEGMENT INFORMATION (CONTINUED)

The geographical analysis of turnover and non-current assets (other than available-for-sale financial assets and deferred tax assets) is as follows:

	Turnover		Non-current assets (other than available-for-sale financial and deferred tax assets) As at 31 December		As at 1 January
	2011	2010	**2011**	2010	2010
	US$'000	US$'000	**US$'000**	US$'000	US$'000
		(Restated)		(Restated)	(Restated)
United States of America	**11,982,146**	10,347,772	**4,255,844**	3,156,844	1,930,783
Europe	**4,281,735**	3,855,722	**1,324,471**	910,028	466,278
China	**1,130,676**	280,892	**436,051**	465,484	7,705
Rest of Asia	**1,223,679**	261,532	**624,440**	550,375	8,444
Canada	**674,179**	530,025	**111,368**	57,073	34,154
Australasia	**378,200**	361,937	**60,770**	40,566	29,539
Central and Latin America	**256,998**	187,266	**45,072**	21,948	17,190
South Africa and Middle East	**102,658**	87,055	**16,111**	9,188	13,118
	20,030,271	15,912,201	**6,874,127**	5,211,506	2,507,211

Turnover to external parties consists of sales of softgoods, hardgoods and logistics income is as follows:

	2011	2010
	US$'000	US$'000
		(Restated)
Softgoods	**12,911,434**	11,028,821
Hardgoods	**6,719,740**	4,817,035
Logistics	**399,097**	66,345
	20,030,271	15,912,201

For the year ended 31 December 2011, approximately 13.3% (2010: 14.5%) of the Group's turnover is derived from a single external customer, of which 11.8% (2010: 13.0%) and 1.5% (2010: 1.5%) are attributable to the Trading Network and Distribution Network segments respectively.

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2011 US$'000	2010 US$'000 (Restated)
Crediting		
Gain on disposal of prepaid premium for land leases	–	350
Gain on disposal of businesses/subsidiary *(Note 30(c))*	50,994	–
Gain on disposal of properties/property holding subsidiary *(Note 30(d))*	13,666	–
Net exchange gains	6,330	–
Charging		
Cost of inventories sold	17,043,929	13,746,389
Amortization of computer software and system development costs *(Note 12)*	6,205	5,348
Amortization of brand licenses *(Note 12)*	97,394	78,755
Amortization of other intangible assets *(Note 12)**	51,878	27,663
Amortization of prepaid premium for land leases *(Note 14)*	180	37
Depreciation of property, plant and equipment *(Note 13)*	70,885	47,151
Loss on disposal of property, plant and equipment	2,222	4,640
Loss on disposal of computer software and system development costs	367	26
Net provision for impairment of available-for-sale financial assets *(Note 17)*	–	66
Operating leases rental in respect of land and building	191,076	84,013
Provision for impaired receivables *(Note 21)*	15,552	17,297
Staff costs including directors' emoluments *(Note 10)*	1,227,029	793,234
Business acquisition-related costs *(Note 31)**	14,901	18,157
Net exchange losses	–	4,536

* *Included in other non-core operating expenses*

4 OPERATING PROFIT (CONTINUED)

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

	2011 US$'000	2010 US$'000 (Restated)
Audit services	**5,017**	3,402
Non-audit services		
– due diligence reviews on acquisitions	**2,201**	2,593
– taxation services	**2,335**	1,621
– others	**247**	378
Total remuneration to auditors charged to consolidated profit and loss account	**9,800**	7,994

NOTE: Of the above audit and non-audit services fees, US$4,920,000 (2010: US$3,306,000) and US$4,783,000 (2010: US$4,592,000) respectively are payable to the Company's auditor.

5 INTEREST EXPENSES

	2011 US$'000	2010 US$'000 (Restated)
Non-cash interest expenses on purchase consideration, license royalty payable and long-term notes		
– wholly repayable within five years	**16,624**	16,575
– not wholly repayable within five years	**4,914**	2,697
Cash interest on bank loans and overdrafts, long-term notes		
– wholly repayable within five years	**40,181**	30,012
– not wholly repayable within five years	**66,875**	49,159
	128,594	98,443

6 TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% (2010: 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:

	2011 **US$'000**	2010 US$'000 (Restated)
Current taxation		
– Hong Kong profits tax	**11,689**	12,678
– Overseas taxation	**55,889**	38,371
Underprovision in prior years	**4,196**	2,464
Deferred taxation *(Note 29)*	**18,886**	(5,988)
	90,660	47,525

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:

	2011 **%**	2010 %
Calculated at a taxation rate of	**16.5**	16.5
Effect of different taxation rates in other countries	**(3.7)**	(7.0)
Income net of expenses not subject to taxation	**(2.8)**	(4.4)
Underprovision in prior years	**0.5**	0.4
Utilization of previously unrecognized tax losses	**(0.2)**	(0.1)
Unrecognized tax losses	**1.4**	2.5
Effective tax rate	**11.7**	7.9

As of the date of the annual report, the Group has disputes with the Hong Kong Inland Revenue ("HKIR") involving additional tax assessments amounting to approximately US$247 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 from1992/1993 to 2010/2011.

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 US$43 million relating to the years of assessment from 1992/93 to 2001/02. Based upon professional advice then obtained, the directors believed that the Group had meritorious defence to appeal against the Commissioner's determination. Accordingly, LFT lodged 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.

6 TAXATION (CONTINUED)

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 should 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.

On the other hand, the HKIR also lodged an appeal against the Board of Review Decision in respect of the Offshore Claim.

On 19 March 2010, the Board of Review stated a case on questions of law in respect of both LFT's appeal on the Deduction Claim, and the HKIR's appeal on the Offshore Claim. On 1 April 2010, both LFT and the HKIR transmitted the stated case to the High Court for determination.

The appeal by the HKIR in respect of the Board of Review Decision on the Offshore Claim was dismissed by the Court of First Instance on 18 April 2011, which upheld the Board of Review Decision. LFT was also awarded costs of the appeal.

On 16 May 2011, the HKIR lodged an appeal against the judgment of the Court of First Instance to the Court of Appeal, which appeal was heard by the Court of Appeal on 14 and 15 February 2012. On 19 March 2012, the Court of Appeal has delivered its judgment. It has upheld the judgment of the Court of First Instance, and dismissed the HKIR's appeal. Any appeal against the judgment of the Court of Appeal to the Court of Final Appeal will require permission of the Court of Appeal or the Court of Final Appeal. The HKIR has until 16 April 2012 to apply for such permission to appeal.

As regards LFT's appeal on the Deduction Claim, upon the consent of the parties, the Court of First Instance remitted the case stated to the Board of Review and directed it to make further findings of fact and to determine certain issues. As of the date of this annual report, further directions/decisions from the Board of Review are awaited.

The Group has also filed objections with the HKIR against the remaining additional tax assessments of US$204 million. The case before the Board of Review and now the Court of Appeal 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 (which has now been dismissed by the Court of Appeal), 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.

6 TAXATION (CONTINUED)

On 11 June 2010, the Group also applied for a judicial review of the decision of the Commissioner of the HKIR 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 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 US$562,977,000 (2010: US$569,383,000) *(Note 26)*.

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of US$681,229,000 (2010: US$548,491,000) and on the weighted average number of 8,079,799,000 (2010: 7,644,510,000) shares in issue during the year after taking into account the effect of the Share Subdivision in May 2011.

Diluted earnings per share is calculated by adjusting the weighted average number of 8,079,799,000 (2010: 7,644,510,000) ordinary shares in issue by 35,476,000 (2010: 86,438,000), after taking into account the effect of the Share Subdivision in May 2011, 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

	2011 **US$'000**	2010 US$'000 (Restated)
Interim, paid, of US$0.024 (equivalent to HK$0.19) (2010: US$0.024 (equivalent to HK$0.19)) per ordinary share *(Note)*	**197,360**	185,816
Final, proposed, of US$0.044 (equivalent to HK$0.34) (2010: US$0.033 (equivalent to HK$0.26)) per ordinary share *(Note)*	**354,611**	269,234
	551,971	455,050

At a meeting held on 22 March 2012, the Directors proposed a final dividend of US$0.044 (equivalent to HK$0.34) 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 2012 *(Note 26)*.

NOTE: Interim and final dividend per share of 2010 have been adjusted for the effect of Share Subdivision in May 2011.

10 STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

	2011 US$'000	2010 US$'000 (Restated)
Salaries and bonuses	**1,078,720**	675,893
Staff benefits	**78,259**	55,076
Pension costs of defined contribution plans	**47,117**	27,106
Employee share option expenses	**18,906**	33,281
Pension costs of defined benefits plans *(Note 28)*	**3,066**	1,694
Long service payments	**961**	184
	1,227,029	793,234

Forfeited contributions totalling US$1,142,000 (2010: US$2,364,000) 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 2011 is set out below:

	2011					
Name of Director	**Fees US$'000**	**Salary & allowance US$'000**	**Discretionary bonuses US$'000**	**Other benefits *(Note)* US$'000**	**Employer's contribution to pension scheme US$'000**	**Total US$'000**
Executive directors						
William Fung Kwok Lun	**21**	**615**	**4,105**	**–**	**2**	**4,743**
Bruce Philip Rockowitz	**21**	**572**	**4,104**	**43**	**2**	**4,742**
Spencer Theodore Fung	**21**	**1,024**	**301**	**10**	**2**	**1,358**
Non-executive directors						
Victor Fung Kwok King	**70**	**–**	**–**	**–**	**–**	**70**
Paul Edward Selway-Swift	**56**	**–**	**–**	**–**	**–**	**56**
Allan Wong Chi Yun	**46**	**–**	**–**	**–**	**–**	**46**
Franklin Warren McFarlan	**44**	**–**	**–**	**–**	**–**	**44**
Martin Tang Yue Nien	**45**	**–**	**–**	**–**	**–**	**45**
Benedict Chang Yew Teck	**19**	**–**	**–**	**–**	**–**	**19**
Fu Yuning	**7**	**–**	**–**	**–**	**–**	**7**

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

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

	2010					
Name of Director	Fees US$'000	Salary & allowance US$'000	Discretionary bonuses US$'000	Other benefits *(Note)* US$'000	Employer's contribution to pension scheme US$'000	Total US$'000
Executive directors						
William Fung Kwok Lun	11	615	3,231	–	2	3,859
Bruce Philip Rockowitz	11	622	3,227	49	2	3,911
Spencer Theodore Fung	11	1,045	21	–	2	1,079
Non-executive directors						
Victor Fung Kwok King	44	–	–	–	–	44
Paul Edward Selway-Swift	32	–	–	–	–	32
Allan Wong Chi Yun	28	–	–	–	–	28
Franklin Warren McFarlan	22	–	–	–	–	22
Makoto Yasuda	22	–	–	–	–	22
Martin Tang Yue Nien	22	–	–	–	–	22

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

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

Number of Share Options exercised *(NOTE 1)*	Exercise Price *(NOTE 2)*	Exercisable Period
352,000 (2010: 2,660,000)	HK$12.77	01/3/2009–28/2/2011
880,000 (2010: 1,330,000)	HK$12.77	01/3/2010–29/2/2012
1,760,000 (2010: Nil)	HK$12.77	01/3/2011–28/2/2013

NOTE 1: The Share Options were exercised before Share Subdivision mentioned in *Note 25(a)* to the accounts and is adjusted for the effect of Share Subdivision.

NOTE 2: The exercise price is adjusted for the effect of Share Subdivision.

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

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

As at 31 December 2011, certain directors held the following Share Options (after adjustment of Share Subdivision) to acquire Shares of the Company:

Number of Share Options	Exercise Price	Exercisable Period
802,000 (2010: 1,682,000 *(Note 3)*)	HK$12.77	01/3/2010–29/2/2012
1,252,000 (2010: 3,012,000 *(Note 3)*)	HK$12.77	01/3/2011–28/2/2013
354,000 (2010: 354,000 *(Note 3)*)	HK$20.76	01/3/2011–28/2/2013
1,440,000 (2010: Nil)	HK$20.21	01/5/2012–30/4/2015
1,440,000 (2010: Nil)	HK$20.21	01/5/2013–30/4/2015
3,600,000 (2010: Nil)	HK$20.21	01/5/2014–30/4/2016
1,000,000 (2010: Nil)	HK$14.50	01/5/2013–30/4/2015
1,000,000 (2010: Nil)	HK$14.50	01/5/2014–30/4/2016
1,000,000 (2010: Nil)	HK$14.50	01/5/2015–30/4/2017
1,000,000 (2010: Nil)	HK$14.50	01/5/2016–30/4/2018
1,000,000 (2010: Nil)	HK$14.50	01/5/2017–30/4/2019
1,000,000 (2010: Nil)	HK$14.50	01/5/2018–30/4/2020
1,000,000 (2010: Nil)	HK$14.50	01/5/2019–30/4/2021
1,000,000 (2010: Nil)	HK$14.50	01/5/2020–30/4/2022
1,000,000 (2010: Nil)	HK$14.50	01/5/2021–30/4/2023

NOTE 3: The number of Share Options is adjusted for the effect of Share Subdivision.

The closing market price of the Shares as at 30 December 2011 was HK$14.38.

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

(b) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include two (2010: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals (2010: three) during the year are as follows:

	2011 US$'000	2010 US$'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	**4,053**	2,405
Discretionary bonuses	**5,951**	4,238
Contributions to pension scheme	**27**	4
	10,031	6,647

Emolument bands	Number of individuals 2011	2010
US$1,858,974 – US$1,923,077 (equivalent to HK$14,500,001 – HK$15,000,000)	**–**	1
US$2,051,282 – US$2,115,385 (equivalent to HK$16,000,001 – HK$16,500,000)	**–**	1
US$2,500,000 – US$2,564,103 (equivalent to HK$19,500,001 – HK$20,000,000)	**1**	–
US$2,628,205 – US$2,692,308 (equivalent to HK$20,500,001 – HK$21,000,000)	**–**	1
US$3,461,539 – US$3,525,641 (equivalent to HK$27,000,001 – HK$27,500,000)	**1**	–
US$3,974,359 – US$4,038,462 (equivalent to HK$31,000,001 – HK$31,500,000)	**1**	–

There is no amount paid or payable to the directors as inducement to join the Group and compensation for loss of office as directors.

12 INTANGIBLE ASSETS

	The Group								
	Goodwill US$'000	Brand licenses US$'000	Buying agency and license agreements US$'000	Customer relationships US$'000	Licensor relationships US$'000	Trademarks and brandnames US$'000	Computer software and system development costs US$'000	Others US$'000	Total US$'000
At 1 January 2011									
Cost	4,142,831	376,567	60,867	258,085	71,999	92,451	57,380	1,900	5,062,080
Accumulated amortization	–	(115,747)	(8,031)	(25,332)	(9,358)	(7,429)	(13,475)	(542)	(179,914)
Net book amount	4,142,831	260,820	52,836	232,753	62,641	85,022	43,905	1,358	4,882,166
Year ended 31 December 2011									
Opening net book amount	4,142,831	260,820	52,836	232,753	62,641	85,022	43,905	1,358	4,882,166
Exchange differences	(19,953)	(207)	–	(233)	(2,114)	(190)	(739)	–	(23,436)
Acquisition of businesses/subsidiaries *(Note 31)*	1,360,849	34,801	–	213,168	45,079	60,601	4	300	1,714,802
Adjustments to purchase consideration and net asset value[i]	25,820	16,291	33,100	(42,822)	–	(3,200)	–	–	29,189
Adjustments to purchase consideration for acquisitions completed prior to 1 January 2010[ii]	5,536	–	–	–	–	–	–	–	5,536
Additions	–	68,911	–	–	–	–	4,832	–	73,743
Disposal of businesses/subsidiary *(Note 30(c))*	–	–	–	(157)	–	–	–	–	(157)
Disposals	–	–	–	–	–	–	(367)	–	(367)
Amortization	–	(97,394)	(6,580)	(25,897)	(9,234)	(9,804)	(6,205)	(363)	(155,477)
Closing net book amount	5,515,083	283,222	79,356	376,812	96,372	132,429	41,430	1,295	6,525,999
At 31 December 2011									
Cost	5,515,083	495,605	93,967	427,925	114,904	149,657	61,037	2,200	6,860,378
Accumulated amortization	–	(212,383)	(14,611)	(51,113)	(18,532)	(17,228)	(19,607)	(905)	(334,379)
Net book amount	5,515,083	283,222	79,356	376,812	96,372	132,429	41,430	1,295	6,525,999

[i] *These are adjustments to purchase considerations and net asset values related to certain acquisitions of businesses/subsidiaries in the prior year, which were previously determined on a provisional basis. During the measurement period, the Company recognized adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Save as adjustments to goodwill and other intangible assets arising from business combination stated above, there were corresponding net adjustments to purchase consideration of US$8,425,000 and other assets/liabilities of approximately US$20,764,000.*

[ii] *For acquisitions completed prior to 1 January 2010, the effective date of HKFRS 3 (Revised) "Business Combination" being adopted by the Group, the changes in accrued contingent considerations determined based on post-acquisition performance were made against goodwill.*

12 INTANGIBLE ASSETS (CONTINUED)

	The Group								
	Goodwill US$'000	Brand licenses US$'000	Buying agency and license agreements US$'000	Customer relationships US$'000	Licensor relationships US$'000	Trademarks and brandnames US$'000	Computer software and system development costs US$'000	Others US$'000	Total US$'000
At 1 January 2010 – Restated									
Cost	1,989,464	89,626	60,867	103,538	29,000	77,754	49,647	1,900	2,401,796
Accumulated amortization	–	(36,992)	(4,856)	(10,002)	(5,197)	(2,706)	(8,115)	(271)	(68,139)
Net book amount	1,989,464	52,634	56,011	93,536	23,803	75,048	41,532	1,629	2,333,657
Year ended 31 December 2010 – Restated									
Opening net book amount	1,989,464	52,634	56,011	93,536	23,803	75,048	41,532	1,629	2,333,657
Exchange differences	(16,207)	–	–	54	–	(2)	(87)	–	(16,242)
Acquisition of businesses/subsidiaries	2,101,198	41,662	–	154,494	43,000	14,700	3,708	–	2,358,762
Adjustments to purchase consideration for acquisitions completed prior to 1 January 2010 *	68,376	–	–	–	–	–	–	–	68,376
Additions	–	245,279	–	–	–	–	4,126	–	249,405
Disposals	–	–	–	–	–	–	(26)	–	(26)
Amortization	–	(78,755)	(3,175)	(15,331)	(4,162)	(4,724)	(5,348)	(271)	(111,766)
Closing net book amount	4,142,831	260,820	52,836	232,753	62,641	85,022	43,905	1,358	4,882,166
At 31 December 2010 – Restated									
Cost	4,142,831	376,567	60,867	258,085	71,999	92,451	57,380	1,900	5,062,080
Accumulated amortization	–	(115,747)	(8,031)	(25,332)	(9,358)	(7,429)	(13,475)	(542)	(179,914)
Net book amount	4,142,831	260,820	52,836	232,753	62,641	85,022	43,905	1,358	4,882,166

* *For acquisitions completed prior to 1 January 2010, the effective date of HKFRS 3 (Revised) "Business Combination" being adopted by the Group, the changes in accrued contingent considerations determined based on post-acquisition performance were made against goodwill.*

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		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Trading Network	**1,683,726**	1,012,184	754,337
Logistics Network	**460,300**	456,814	–
Distribution Network	**3,371,057**	2,673,833	1,235,127
	5,515,083	4,142,831	1,989,464

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 amounts to their carrying amounts 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.

13 PROPERTY, PLANT AND EQUIPMENT

	The Group					
	Land and buildings US$'000	Leasehold improvements US$'000	Furniture, fixtures and equipment US$'000	Plant and machinery US$'000	Motor vehicles and company boat US$'000	Total US$'000
At 1st January 2010 – Restated						
Cost	19,933	137,569	152,252	27,474	5,653	342,881
Accumulated depreciation	(4,828)	(52,813)	(99,672)	(20,455)	(4,125)	(181,893)
Net book amount	15,105	84,756	52,580	7,019	1,528	160,988
Year ended 31 December 2010 – Restated						
Opening net book amount	15,105	84,756	52,580	7,019	1,528	160,988
Exchange differences	(449)	1,304	294	(367)	(7)	775
Acquisition of businesses/subsidiaries	16,767	22,210	13,737	73,609	3,595	129,918
Additions	3,248	33,621	32,105	8,539	925	78,438
Disposals	(199)	(9,073)	(4,099)	(128)	(283)	(13,782)
Depreciation	(701)	(20,294)	(22,014)	(3,300)	(842)	(47,151)
Closing net book amount	33,771	112,524	72,603	85,372	4,916	309,186
At 31 December 2010 – Restated						
Cost	38,800	180,042	185,447	106,645	9,049	519,983
Accumulated depreciation	(5,029)	(67,518)	(112,844)	(21,273)	(4,133)	(210,797)
Net book amount	33,771	112,524	72,603	85,372	4,916	309,186
Year ended 31 December 2011						
Opening net book amount	**33,771**	**112,524**	**72,603**	**85,372**	**4,916**	**309,186**
Exchange differences	**(1,323)**	**(1,174)**	**(1,160)**	**(1,429)**	**(43)**	**(5,129)**
Acquisition of businesses/subsidiaries *(Note 31)*	**–**	**932**	**4,383**	**350**	**220**	**5,885**
Adjustments to purchase consideration and net asset value*	**–**	**–**	**113**	**–**	**121**	**234**
Additions	**2,739**	**32,929**	**46,713**	**29,258**	**1,584**	**113,223**
Disposals	**(3,469)**	**(2,391)**	**(1,007)**	**(6,480)**	**(787)**	**(14,134)**
Disposal of businesses/subsidiary *(Note 30(c))*	**–**	**(100)**	**(129)**	**(544)**	**–**	**(773)**
Disposals of properties/property holding subsidiary *(Note 30(d))*	**(12,175)**	**–**	**–**	**–**	**–**	**(12,175)**
Depreciation	**(1,469)**	**(26,340)**	**(27,977)**	**(13,343)**	**(1,756)**	**(70,885)**
Closing net book amount	**18,074**	**116,380**	**93,539**	**93,184**	**4,255**	**325,432**
At 31 December 2011						
Cost	**19,218**	**205,264**	**217,604**	**119,889**	**7,739**	**569,714**
Accumulated depreciation	**(1,144)**	**(88,884)**	**(124,065)**	**(26,705)**	**(3,484)**	**(244,282)**
Net book amount	**18,074**	**116,380**	**93,539**	**93,184**	**4,255**	**325,432**

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation of US$38,493,000 (2010: US$33,477,000), US$13,864,000 (2010: US$10,587,000), US$13,389,000 (2010: US$2,336,000) and US$5,139,000 (2010: US$751,000) has been expensed in merchandising expenses, administrative expenses, selling and distribution expenses and cost of sales respectively.

At 31 December 2011, land and buildings of US$3,990,000 (31 December 2010: US$7,500,000 and 1 January 2010: Nil) were pledged as security for the Group's short-term bank loans *(Note 24)*.

* *Adjustments to net asset values related to certain acquisitions of businesses/subsidiaries in the prior year, that were previously determined on a provisional basis.*

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		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Outside Hong Kong, held on:			
Leases of between 10 to 50 years	**2,715**	3,372	311
Leases of over 50 years	**429**	442	–
	3,144	3,814	311

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
Beginning of the year	**3,814**	311
Acquisition of businesses/subsidiaries	**–**	3,514
Disposal	**(77)**	(1)
Disposal of properties/property holding subsidiary *(Note 30(d))*	**(239)**	–
Amortization of prepaid premium for land leases	**(180)**	(37)
Exchange differences	**(174)**	27
End of the year	**3,144**	3,814

Amortization of US$170,000 (2010: Nil) and US$10,000 (2010: US$37,000) has been expensed in selling and distribution expenses and merchandising expenses respectively.

15 INTERESTS IN SUBSIDIARIES

	The Company		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Unlisted shares, at cost	**1,089,285**	1,089,285	52,193
Loan to a subsidiary	**250,319**	250,319	250,319
	1,339,604	1,339,604	302,512

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

Details of principal subsidiaries are set out on in *Note 41*.

16 ASSOCIATED COMPANIES

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
Beginning of the year	**6,140**	3,622
Share of profits less losses of associated companies	**1,231**	1,850
Dividend received	**(300)**	(686)
Acquisition of businesses/subsidiaries	**–**	184
Addition	**–**	1,228
Exchange differences	**(56)**	(58)
Total interest in associated companies	**7,015**	6,140

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

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
Beginning of the year	**84,330**	92,331
Partial repayment on debt security	**(13,000)**	(10,000)
Disposals	**(944)**	(77)
Fair value gains on available-for-sale financial assets *(Note 26)*	**188**	2,142
Net impairment provision	**–**	(66)
End of the year	**70,574**	84,330

Available-for-sale financial assets include the following:

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Listed securities:			
– Equity securities – overseas	**–**	1,342	1,162
Unlisted securities:			
– Debt security *(Note)*	**67,000**	80,000	90,000
– Equity securities	**14**	14	196
– Club debentures	**3,560**	2,974	973
	70,574	84,330	92,331
Market value of listed securities	**–**	1,342	1,162

NOTE: In November 2009, the Group subscribed for an unlisted debt security (the "Promissory Note") from an independent third party of US$90,000,000. 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.

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

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

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
HK dollar	**3,560**	2,974	973
US dollar	**67,000**	80,000	90,000
Japanese Yen	**–**	1,342	1,162
Pound Sterling	**14**	14	196
	70,574	84,330	92,331

18 INVENTORIES

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Finished goods	**992,426**	727,672	289,909
Raw materials	**43,362**	41,015	15,557
	1,035,788	768,687	305,466

At 31 December 2011, inventories of US$48,250,000 (31 December 2010: US$24,194,000 and 1 January 2010: US$19,229,000) were pledged as security for the Group's bank overdrafts *(Note 24)*.

19 DUE FROM/(TO) RELATED COMPANIES

	The Group			The Company		
			As at			As at
	As at 31 December		1 January	**As at 31 December**		1 January
	2011	2010	2010	**2011**	2010	2010
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
		(Restated)	(Restated)		(Restated)	(Restated)
Due from:						
Subsidiaries	**–**	–	–	**3,855,441**	3,650,510	2,532,192
Associated companies	**9,876**	8,330	12,655	**–**	–	–
Related companies	**7,072**	4,833	–	**–**	–	–
	16,948	13,163	12,655	**3,855,441**	3,650,510	2,532,192
Due to:						
Associated companies	**333**	–	–	**–**	–	–
Related companies	**12,342**	6,531	–	**–**	–	–
	12,675	6,531	–	**–**	–	–

The amounts are unsecured, interest free and repayable on demand, except for amounts due from an associated company amounting to US$9,710,000 (31 December 2010: US$7,788,000 and 1 January 2010: US$11,004,000) 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

	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Forward foreign exchange contracts – assets/(liabilities) *(Note 38)*	**13,743**	(1,892)	336

Gains in equity of US$9,474,000 (31 December 2010: Losses of US$752,000 and 1 January 2010: Gains of US$784,000) on forward foreign exchange contracts as of 31 December 2011 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 years ended 31 December 2011 and 2010, there was no material ineffective portion recognized in the profit or loss account arising from cash flow hedges.

21 TRADE AND OTHER RECEIVABLES

	The Group			The Company		
			As at			As at
	As at 31 December		1 January	As at 31 December		1 January
	2011	2010	2010	**2011**	2010	2010
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
		(Restated)	(Restated)		(Restated)	(Restated)
Trade and bills receivable – net	**2,004,542**	2,079,012	1,610,433	**–**	–	–
Other receivables, prepayments and deposits	**466,847**	358,596	298,954	**249**	254	187
	2,471,389	2,437,608	1,909,387	**249**	254	187
Less: non-current portion						
Deposits	**(12,537)**	(10,200)	(8,633)	**–**	–	–
	2,458,852	2,427,408	1,900,754	**249**	254	187

The fair values of the Group's and the Company's trade and other receivables were approximately the same as their carrying values as at 31 December 2011.

A significant portion of the Group's business is on sight letter of credit, usance letter of credit up to a tenor of 120 days, documents against payment or customers' letter of credit to suppliers. The balance of the business is on open account terms which is often covered by customers' standby letters of credit, bank guarantees, credit insurance or under a back-to-back payment arrangement with suppliers. The ageing of trade and bills receivable based on invoice date is as follows:

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Current to 90 days	**1,879,710**	1,994,478	1,550,655
91 to 180 days	**100,825**	69,071	48,453
181 to 360 days	**13,178**	7,022	9,133
Over 360 days	**10,829**	8,441	2,192
	2,004,542	2,079,012	1,610,433

21 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

As of 31 December 2011, trade receivables of US$1,969,722,000 (31 December 2010: US$2,054,233,000 and 1 January 2010: US$1,597,638,000) that are current or less than 90 days past due are not considered impaired. Trade receivables of US$34,820,000 (31 December 2010: US$24,779,000 and 1 January 2010: US$12,795,000) were past due over 90 days but not considered to be 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		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
91 to 180 days	**15,935**	13,633	6,814
Over 180 days	**18,885**	11,146	5,981
	34,820	24,779	12,795

As of 31 December 2011, outstanding trade receivables of US$26,827,000 (31 December 2010: US$19,488,000 and 1 January 2010: US$19,480,000) and other receivables of US$27,087,000 (31 December 2010: US$25,756,000 and 1 January 2010: US$14,188,000) were considered 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	
	2011	2010
	US$'000	US$'000
		(Restated)
At 1 January	**45,244**	33,668
Provision for receivable impairment *(Note 4)*	**18,232**	19,662
Receivables written off during the year as uncollectible	**(6,882)**	(5,721)
Unused amounts reversed *(Note 4)*	**(2,680)**	(2,365)
At 31 December	**53,914**	45,244

21 TRADE AND OTHER RECEIVABLES (CONTINUED)

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.

Save as disclosed as above, 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 US$40,298,000 (31 December 2010: US$41,905,000 and 1 January 2010: US$38,734,000) to banks in exchange for cash as at 31 December 2011. The transaction has been accounted for as collateralized bank advances.

At 31 December 2011, trade receivables of US$8,820,000 (31 December 2010: US$14,752,000 and 1 January 2010: US$13,689,000) were pledged as security for the Group's bank overdrafts *(Note 24)*.

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**		
	As at 31 December		As at 1 January	**As at 31 December**		As at 1 January
	2011	2010	2010	**2011**	2010	2010
	US$'000	US$'000 (Restated)	US$'000 (Restated)	**US$'000**	US$'000 (Restated)	US$'000 (Restated)
HK dollar	**219,602**	179,334	127,662	**249**	254	187
US dollar	**1,626,663**	1,648,113	1,529,075	**–**	–	–
Euro dollar	**244,333**	229,783	201,573	**–**	–	–
Pound sterling	**78,011**	86,155	24,702	**–**	–	–
Renminbi	**104,649**	84,272	8,467	**–**	–	–
Malaysia Ringgit	**42,126**	59,554	–	**–**	–	–
Thailand Baht	**52,252**	50,248	194	**–**	–	–
Others	**91,216**	89,949	9,081	**–**	–	–
	2,458,852	2,427,408	1,900,754	**249**	254	187

22 CASH AND CASH EQUIVALENTS

	The Group			The Company		
			As at			As at
	As at 31 December		1 January	**As at 31 December**		1 January
	2011	2010	2010	**2011**	2010	2010
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
		(Restated)	(Restated)		(Restated)	(Restated)
Cash and bank balances	**426,240**	968,530	538,752	**295**	186	224
Bank overdrafts *(Note 24)*						
– Secured	**(225)**	(5,582)	(6,065)	**–**	–	–
– Unsecured	**–**	(22,716)	(1)	**–**	–	–
	(225)	(28,298)	(6,066)	**–**	–	–
	426,015	940,232	532,686	**295**	186	224

The effective interest rate at the balance sheet date on short-term bank balances was 1.1% (31 December 2010: 0.8% and 1 January 2010: 0.6%) per annum; these deposits have an average maturity period of 38 days (31 December 2010: 30 days and 1 January 2010: 15 days).

23 TRADE AND OTHER PAYABLES

	The Group			The Company		
			As at			As at
	As at 31 December		1 January	**As at 31 December**		1 January
	2011	2010	2010	**2011**	2010	2010
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
		(Restated)	(Restated)		(Restated)	(Restated)
Trade and bills payable	**2,336,991**	2,208,404	1,539,117	**–**	–	–
License royalty payable *(Note 27)*	**53,614**	7,553	28,160	**–**	–	–
Other accrued charges and sundry payables	**680,599**	574,427	361,572	**9,760**	14,630	3,990
	734,213	581,980	389,732	**9,760**	14,630	3,990
	3,071,204	2,790,384	1,928,849	**9,760**	14,630	3,990

The fair values of the Group's and the Company's trade and other payables were approximately the same as their carrying values as at 31 December 2011.

23 TRADE AND OTHER PAYABLES (CONTINUED)

At 31 December 2011, the ageing of trade and bills payable based on invoice date is as follows:

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Current to 90 days	**2,254,085**	2,107,054	1,505,764
91 to 180 days	**56,542**	77,836	14,012
181 to 360 days	**7,474**	7,476	5,753
Over 360 days	**18,890**	16,038	13,588
	2,336,991	2,208,404	1,539,117

24 BANK BORROWINGS

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Long-term bank loans			
– Unsecured *(Note 27)*	**105,489**	102,040	–
Short-term bank loans			
– Secured	**4,713**	3,379	–
– Unsecured	**107,223**	85,775	–
	111,936	89,154	–
Bank overdrafts *(Note 22)*			
– Secured	**225**	5,582	6,065
– Unsecured	**–**	22,716	1
	225	28,298	6,066
Total bank borrowings	**217,650**	219,492	6,066

As at 31 December 2011, 31 December 2010 and 1 January 2010, the carrying amounts of the Group's borrowings approximated their fair values.

24 BANK BORROWINGS (CONTINUED)

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

	As at 31 December										As at 1 January				
	2011					2010					2010				
	HKD	**USD**	**Euro**	**GBP**	**RMB**	HKD	USD	Euro	GBP	RMB	HKD	USD	Euro	GBP	RMB
Long-term bank loans	**1.5%**	**0.9%**	**–**	**–**	**–**	1.3%	1.7%	–	–	–	–	–	–	–	–
Short-term bank loans	**1.5%**	**1.3%**	**–**	**–**	**–**	0.9%	1.8%	–	–	5.0%	–	–	–	–	–
Bank overdrafts	**–**	**6.3%**	**2.9%**	**6.3%**	**–**	–	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		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
HK dollar	**56,188**	76,060	–
US dollar	**127,500**	55,507	–
Euro dollar	**222**	237	3,719
Pound Sterling	**427**	12,080	2,347
Renminbi	**–**	35,001	–
Others	**33,313**	40,607	–
	217,650	219,492	6,066

25 SHARE CAPITAL AND OPTIONS

	No. of shares (in thousand)	HK$'000	Equivalent US$'000
Authorized			
At 1 January 2010, ordinary shares of HK$0.025 each	4,000,000	100,000	12,821
Increase in ordinary shares of HK$0.025 each	2,000,000	50,000	6,410
At 31 December 2010, ordinary shares of HK$0.025 each	6,000,000	150,000	19,231
At 1 January 2011, ordinary shares of HK$0.025 each	**6,000,000**	**150,000**	**19,231**
Share Subdivision *(Note (a))*	**6,000,000**	**–**	**–**
At 31 December 2011, ordinary shares of HK$0.0125 each	**12,000,000**	**150,000**	**19,231**
Issued and fully paid			
At 1 January 2010, ordinary shares of HK$0.025 each	3,776,117	94,403	12,103
Issue of shares to IDS Shareholders electing for the Share Alternative under the Scheme *(Note (b))*	195,719	4,893	627
Exercise of share options	52,633	1,316	169
At 31 December 2010, ordinary shares of HK$0.025 each	4,024,469	100,612	12,899
At 1 January 2011, ordinary shares of HK$0.025 each	**4,024,469**	**100,612**	**12,899**
Exercise of share options before Share Subdivision	**23,290**	**582**	**74**
Share Subdivision *(Note (a))*	**4,047,760**	**–**	**–**
Exercise of share options after Share Subdivision	**8,635**	**108**	**14**
At 31 December 2011, ordinary shares of HK$0.0125 each	**8,104,154**	**101,302**	**12,987**

NOTES:

(a) At the 2011 Annual General Meeting of the Company held on 18 May 2011, an ordinary resolution was duly passed under which each of the existing issued and unissued shares of HK$0.025 each in the share capital of the Company as of 19 May 2011 was subdivided (the "Share Subdivision") into two shares of HK$0.0125 each.

All the Share Options which were granted and remained outstanding as of 19 May 2011 were adjusted with the Share Subdivision and accordingly, the number of Share Options increased by one share for each share in the Share Options and the subscription prices per Share were adjusted by half.

(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 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 2011 are as follows:

			Number of Share Options										
				Before Share Subdivision				Adjustment	After Share Subdivision				
Grant Date	Exercise Price HK$	Exercisable period	As at 1/1/2011	Granted	Exercised	Cancelled	Lapsed	for Share Subdivision	Granted	Exercised	Cancelled	Lapsed	As at 31/12/2011
20/6/2005	6.72	20/6/2008–19/6/2011	1,973,600	–	(1,302,600)	–	–	671,000	–	(1,342,000)	–	–	–
20/6/2005	6.72	20/6/2009–19/6/2012	5,414,200	–	(2,136,200)	–	–	3,278,000	–	(1,220,000)	–	–	5,336,000
23/1/2006	6.86	20/6/2008–19/6/2011	462,000	–	(231,000)	–	–	231,000	–	(462,000)	–	–	–
23/1/2006	6.86	20/6/2009–19/6/2012	462,000	–	–	–	–	462,000	–	–	–	–	924,000
19/6/2006	7.82	20/6/2008–19/6/2011	194,000	–	–	–	–	194,000	–	(388,000)	–	–	–
19/6/2006	7.82	20/6/2009–19/6/2012	260,000	–	–	–	–	260,000	–	(100,000)	–	–	420,000
2/2/2007	12.75	20/6/2008–19/6/2011	372,000	–	(184,000)	–	–	188,000	–	(248,000)	–	(128,000)	–
2/2/2007	12.75	20/6/2009–19/6/2012	1,472,000	–	(128,000)	–	–	1,344,000	–	–	–	–	2,688,000
13/7/2007	14.96	20/6/2009–19/6/2012	482,000	–	–	–	–	482,000	–	–	(92,000)	–	872,000
24/1/2008	12.77	1/3/2009–28/2/2011	7,107,000	–	(4,744,000)	(817,000)	(1,546,000)	–	–	–	–	–	–
24/1/2008	12.77	1/3/2010–29/2/2012	19,166,400	–	(5,695,000)	–	–	13,471,400	–	(2,178,000)	(60,000)	–	24,704,800
24/1/2008	12.77	1/3/2011–28/2/2013	24,378,000	–	(4,976,500)	–	–	19,401,500	–	(1,620,000)	(60,000)	–	37,123,000
21/5/2008	15.00	1/3/2009–28/2/2011	922,000	–	(541,000)	(97,500)	(283,500)	–	–	–	–	–	–
21/5/2008	15.00	1/3/2010–29/2/2012	1,020,500	–	(333,500)	–	–	687,000	–	(30,000)	–	–	1,344,000
21/5/2008	15.00	1/3/2011–28/2/2013	1,370,000	–	(267,000)	–	–	1,103,000	–	–	–	–	2,206,000
13/8/2008	13.10	1/3/2009–28/2/2011	389,200	–	(173,700)	(89,200)	(126,300)	–	–	–	–	–	–
13/8/2008	13.10	1/3/2010–29/2/2012	1,107,900	–	(294,000)	–	–	813,900	–	(75,500)	–	–	1,552,300
13/8/2008	13.10	1/3/2011–28/2/2013	1,697,100	–	(334,500)	–	–	1,362,600	–	(122,400)	–	–	2,602,800
24/2/2009	8.61	1/3/2010–29/2/2012	794,000	–	(332,000)	–	–	462,000	–	(164,000)	(76,000)	–	684,000
24/2/2009	8.61	1/3/2011–28/2/2013	2,348,000	–	(1,279,600)	–	–	1,068,400	–	(472,800)	(60,000)	–	1,604,000
14/8/2009	13.90	1/3/2010–29/2/2012	1,274,500	–	(79,300)	–	–	1,195,200	–	(149,400)	–	–	2,241,000
14/8/2009	13.90	1/3/2011–28/2/2013	2,098,200	–	(258,400)	–	–	1,839,800	–	(63,200)	–	–	3,616,400
25/3/2010	20.76	1/3/2011–28/2/2013	2,733,100	–	–	–	–	2,733,100	–	–	(599,600)	–	4,866,600
15/11/2010	22.42	1/3/2011–28/2/2013	1,178,600	–	–	–	–	1,178,600	–	–	–	–	2,357,200
11/4/2011	20.21	1/5/2012–30/4/2015	–	16,501,000	–	–	–	16,501,000	–	–	(142,000)	–	32,860,000
11/4/2011	20.21	1/5/2013–30/4/2015	–	16,777,000	–	–	–	16,777,000	–	–	(150,000)	–	33,404,000
11/4/2011	20.21	1/5/2014–30/4/2016	–	41,722,000	–	–	–	41,722,000	–	–	(218,000)	–	83,226,000
21/11/2011	15.20	1/5/2012–30/4/2015	–	–	–	–	–	–	2,162,000	–	(123,000)	–	2,039,000
21/11/2011	15.20	1/5/2013–30/4/2015	–	–	–	–	–	–	4,476,000	–	(248,000)	–	4,228,000
21/11/2011	15.20	1/5/2014–30/4/2016	–	–	–	–	–	–	10,011,000	–	(554,000)	–	9,457,000
22/12/2011	14.50	1/5/2013–30/4/2015	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
22/12/2011	14.50	1/5/2014–30/4/2016	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
22/12/2011	14.50	1/5/2015–30/4/2017	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
22/12/2011	14.50	1/5/2016–30/4/2018	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
22/12/2011	14.50	1/5/2017–30/4/2019	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
22/12/2011	14.50	1/5/2018–30/4/2020	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
22/12/2011	14.50	1/5/2019–30/4/2021	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
22/12/2011	14.50	1/5/2020–30/4/2022	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
22/12/2011	14.50	1/5/2021–30/4/2023	–	–	–	–	–	–	3,000,000	–	–	–	3,000,000
		Total	78,676,300	75,000,000	(23,290,300)	(1,003,700)	(1,955,800)	127,426,500	43,649,000	(8,635,300)	(2,382,600)	(128,000)	287,356,100

Subsequent to 31 December 2011, 31,048,800 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	20/06/2005	23/01/2006	19/06/2006	02/02/2007	13/07/2007	24/01/2008	21/05/2008	13/08/2008	24/02/2009	14/08/2009	25/03/2010	15/11/2010	11/04/2011	21/11/2011	22/12/2011
Option value *(Note)*	US$0.13 – US$0.16	US$0.12 – US$0.16	US$0.18 – US$0.24	US$0.31 – US$0.36	US$0.36	US$0.29 – US$0.39	US$0.38 – US$0.53	US$0.36 – US$0.50	US$0.29 – US$0.35	US$0.45 – US$0.56	US$0.26	US$0.43	US$0.45 – US$0.57	US$0.42 – US$0.53	US$0.45 – US$0.77
Share price at date of grant *(Note)*	HK$6.72	HK$6.70	HK$7.82	HK$12.75	HK$14.6	HK$12.77	HK$15.00	HK$13.10	HK$8.61	HK$13.90	HK$20.76	HK$22.42	HK$20.21	HK$14.24	HK$14.14
Exercisable price *(Note)*	HK$6.72	HK$6.86	HK$7.82	HK$12.75	HK$14.96	HK$12.77	HK$15.00	HK$13.10	HK$8.61	HK$13.90	HK$20.76	HK$22.42	HK$20.21	HK$15.20	HK$14.50
Standard deviation	24%	27%	31%	33%	34%	36%	40%	42%	54%	58%	36%	36%	33%	48%	49%
Annual risk-free interest rate	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%	0.29% – 1.80%	0.14% – 0.84%	0.15% – 1.35%
Life of options	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	4 – 5 years	4 – 5 years	4 – 12 years
Dividend yield	3.45%	3.45%	3.04%	3.01%	3.25%	3.25%	2.54%	2.54%	2.54%	2.43%	3.18%	3.18%	2.39%	2.39%	2.39%

Note: Prior year information have been adjusted for the effect of Bonus Issue in May 2006 and Share Subdivision in May 2011.

26 RESERVES

(a) THE GROUP

	Shares held by escrow agent for settlement of acquisition consideration *(Note (iii))* US$'000	Capital reserve *(Note (i))* US$'000	Employee share-based compensation reserve US$'000	Revaluation reserve US$'000	Hedging reserve US$'000	Deferred benefit obligation US$'000	Exchange reserve US$'000	Total US$'000
Balance at 1 January 2011	(23,385)	3,544	45,826	2,308	(752)	–	(50,409)	(22,868)
Comprehensive income								
Currency translation differences	–	–	–	–	–	–	(27,803)	(27,803)
Net fair value gains on available-for-sale financial assets, net of tax *(Note 17)*	–	–	–	188	–	–	–	188
Net fair value gains on cash flow hedges, net of tax	–	–	–	–	10,226	–	–	10,226
Net actuarial loss from post employment benefits	–	–	–	–	–	(3,549)	–	(3,549)
Transactions with owners								
Employee share option scheme:								
– value of employee services	–	–	18,906	–	–	–	–	18,906
– transfer to share premium	–	–	(17,495)	–	–	–	–	(17,495)
Release of shares held by escrow agent for settlement of acquisition consideration	14,882	–	–	–	–	–	–	14,882
Transfer to capital reserve	–	74	–	–	–	–	–	74
At 31 December 2011	(8,503)	3,618	47,237	2,496	9,474	(3,549)	(78,212)	(27,439)

26 RESERVES (CONTINUED)

(a) THE GROUP (CONTINUED)

	Shares held by escrow agent for settlement of acquisition consideration *(Note (iii))* US$'000	Capital reserve *(Note (i))* US$'000	Employee share-based compensation reserve US$'000	Revaluation reserve US$'000	Hedging reserve US$'000	Exchange reserve US$'000	Total US$'000
Balance at 1 January 2010 – Restated	(59,494)	3,482	39,875	166	784	(35,148)	(50,335)
Comprehensive income							
Currency translation differences	–	–	–	–	–	(15,261)	(15,261)
Net fair value gains on available-for-sale financial assets, net of tax *(Note 17)*	–	–	–	2,142	–	–	2,142
Net fair value losses on cash flow hedges, net of tax	–	–	–	–	(1,536)	–	(1,536)
Transactions with owners							
Employee share option scheme:							
– value of employee services	–	–	33,281	–	–	–	33,281
– transfer to share premium	–	–	(27,330)	–	–	–	(27,330)
Release of shares held by escrow agent for settlement of acquisition consideration	36,109	–	–	–	–	–	36,109
Transfer to capital reserve	–	62	–	–	–	–	62
At 31 December 2010 – Restated	(23,385)	3,544	45,826	2,308	(752)	(50,409)	(22,868)

26 RESERVES (CONTINUED)

(b) THE COMPANY

	Share premium US$'000	Shares held by escrow agent for settlement of acquisition consideration *(Note (iii))* US$'000	Contributed surplus account *(Note (ii))* US$'000	Employee share-based compensation reserve US$'000	Retained earnings US$'000	Total US$'000
Balance at 1 January 2011	**3,015,794**	**(23,385)**	**264,189**	**45,826**	**404,049**	**3,706,473**
Profit for the year	**–**	**–**	**–**	**–**	**562,977**	**562,977**
Employee share option scheme:						
– value of employee services	**–**	**–**	**–**	**18,906**	**–**	**18,906**
– proceeds from shares issued	**80,808**	**–**	**–**	**–**	**–**	**80,808**
– transfer to share premium	**17,495**	**–**	**–**	**(17,495)**	**–**	**–**
Release of shares held by escrow agent for settlement on acquisition consideration	**–**	**14,882**	**–**	**–**	**–**	**14,882**
2010 final dividend paid	**–**	**–**	**–**	**–**	**(269,851)**	**(269,851)**
2011 interim dividend paid	**–**	**–**	**–**	**–**	**(197,360)**	**(197,360)**
Reserves	**3,114,097**	**(8,503)**	**264,189**	**47,237**	**145,204**	**3,562,224**
Proposed dividend	**–**	**–**	**–**	**–**	**354,611**	**354,611**
At 31 December 2011	**3,114,097**	**(8,503)**	**264,189**	**47,237**	**499,815**	**3,916,835**
Balance at 1 January 2010 – Restated	1,818,277	(59,494)	264,189	39,875	259,723	2,322,570
Profit for the year	–	–	–	–	569,383	569,383
Employee share option scheme:						
– value of employee services	–	–	–	33,281	–	33,281
– proceeds from shares issued	143,287	–	–	–	–	143,287
– transfer to share premium	27,330	–	–	(27,330)	–	–
Release of shares held by escrow agent for settlement on acquisition consideration	–	36,109	–	–	–	36,109
2009 final dividend paid	–	–	–	–	(239,241)	(239,241)
2010 interim dividend paid	–	–	–	–	(185,816)	(185,816)
Issue of shares for privatization of IDS	1,026,900	–	–	–	–	1,026,900
Reserves	3,015,794	(23,385)	264,189	45,826	134,815	3,437,239
Proposed dividend	–	–	–	–	269,234	269,234
At 31 December 2010 – Restated	3,015,794	(23,385)	264,189	45,826	404,049	3,706,473

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 US$14,232,000. 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 US$249,957,000. 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 US$14,882,000 were released to the vendors as the settlement of deferred considerations. At the balance sheet date, the remaining shares held by the escrow agent amounted to approximately US$8,503,000 were deducted from total equity. The total amount of deferred consideration for the acquisition of CGroup had been finalized. Accordingly, the remaining shares held by the escrow agent for CGroup of approximately US$6,739,000 were considered as treasury shares of the Company as of 31 December 2011.

27 LONG-TERM LIABILITIES

	The Group			The Company		
			As at			As at
	As at 31 December		1 January	**As at 31 December**		1 January
	2011	2010	2010	**2011**	2010	2010
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
		(Restated)	(Restated)		(Restated)	(Restated)
Long-term loans from non-controlling shareholders	**4,910**	4,921	4,983	**–**	–	–
Long-term bank loans *(Note 24)*	**105,489**	102,040	–	**–**	–	–
Long-term notes – unsecured	**1,256,007**	1,256,552	496,452	**1,256,007**	1,256,552	496,452
Balance of purchase consideration payable for acquisitions	**1,970,376**	1,168,742	438,761	**–**	–	–
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**1,764**	16,646	59,494	**–**	–	–
License royalty payable	**225,036**	195,518	57,697	**–**	–	–
Other non-current liability (non-financial liability)	**66,530**	34,787	10,323	**–**	–	–
	3,630,112	2,779,206	1,067,710	**1,256,007**	1,256,552	496,452
Current portion of balance of purchase consideration payable for acquisitions	**(323,712)**	(248,314)	(145,983)	**–**	–	–
Current portion of balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**(1,764)**	(16,646)	(41,500)	**–**	–	–
Current portion of license royalty payable *(Note 23)*	**(53,614)**	(7,553)	(28,160)	**–**	–	–
	3,251,022	2,506,693	852,067	**1,256,007**	1,256,552	496,452

27 LONG-TERM LIABILITIES (CONTINUED)

Balance of purchase consideration for acquisitions and long-term loans from non-controlling shareholders are unsecured, interest-free and not repayable within twelve months. Unsecured long-term notes issued to independent third parties in 2007 of US$497,414,000 will mature in 2017 and bear annual coupon of 5.5%. Unsecured long-term notes issued to independent third parties in 2010 of US$758,593,000 will mature in 2020 and bear annual coupon of 5.25%.

The maturity of the financial liabilities is as follows:

	The Group			The Company		
	As at 31 December		As at 1 January	**As at 31 December**		As at 1 January
	2011	2010	2010	**2011**	2010	2010
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
		(Restated)	(Restated)		(Restated)	(Restated)
Within 1 year	**379,090**	272,513	215,643	**–**	–	–
Between 1 and 2 years	**509,996**	329,006	144,686	**–**	–	–
Between 2 and 5 years	**1,094,110**	744,521	195,216	**–**	–	–
Wholly repayable within 5 years	**1,983,196**	1,346,040	555,545	**–**	–	–
Over 5 years	**1,580,386**	1,398,379	501,842	**1,256,007**	1,256,552	496,452
	3,563,582	2,744,419	1,057,387	**1,256,007**	1,256,552	496,452

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

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Loans from non-controlling shareholders	**4,910**	4,921	4,983
Long-term bank loans – unsecured	**105,489**	102,040	–
Long-term notes – unsecured	**1,324,800**	1,309,325	503,330
Balance of purchase consideration payable for acquisitions	**1,646,664**	920,428	292,778
License royalty payable	**171,422**	187,965	29,537
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**–**	–	17,994
	3,253,285	2,524,679	848,622

27 LONG-TERM LIABILITIES (CONTINUED)

The carrying amounts of financial liabilities are denominated in the following currencies:

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Hong Kong dollar	**148,120**	166,261	17,360
US dollar	**2,970,644**	2,353,074	1,025,608
Pound sterling	**193,826**	209,232	12,419
Euro dollar	**233,809**	–	2,000
Others	**17,183**	15,852	–
	3,563,582	2,744,419	1,057,387

28 POST-EMPLOYMENT BENEFIT OBLIGATIONS

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Pension obligations *(Note)*	**7,713**	4,576	2,097
Long service payment liabilities	**5,383**	3,735	1,206
	13,096	8,311	3,303

NOTE: The Group participates in a number of defined benefit plans in certain countries. Most of these 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.

28 POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Present value obligations	**43,808**	38,863	28,361
Fair value of plan assets	**(28,936)**	(28,792)	(18,957)
	14,872	10,071	9,404
Unrecognized actuarial losses	**(7,173)**	(5,495)	(7,307)
Amount not recognized as assets	**14**	–	–
Pension obligations	**7,713**	4,576	2,097

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

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
Current service cost	**2,795**	1,810
Interest cost	**1,358**	1,186
Expected return on plan assets	**(1,361)**	(955)
Net actuarial loss recognized during the year	**349**	392
Gains on curtailments and settlements	**(75)**	(739)
Total, included in staff costs *(Note 10)*	**3,066**	1,694

28 POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
At 1 January	**28,792**	18,957
Expected return on plan assets	**1,361**	955
Actuarial (losses)/gains	**(941)**	1,283
Exchange differences	**(480)**	737
Assets acquired in business combination	**–**	7,719
Transferred out	**(113)**	–
Employer contributions	**1,676**	1,392
Benefits paid	**(1,359)**	(2,251)
At 31 December	**28,936**	28,792

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

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
At 1 January	**4,576**	2,097
Total expense – as shown in (ii)	**3,066**	1,694
Contributions paid	**(1,821)**	(1,392)
Exchange difference	**(151)**	343
Liabilities acquired in business combination	**426**	1,834
Net actuarial loss recognized through reserve	**1,617**	–
At 31 December	**7,713**	4,576

28 POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	As at 31 December		As at 1 January
	2011	2010	2010
	%	%	%
Discount rate	**1.75–7.75**	1.75–7.13	2.25–11.06
Expected rate of return on plan assets	**1.75–6.5**	1.75–6.4	2.25–7
Expected rate of future salary increases	**3–8**	3–8	3–5.5
Expected rate of future pension increases	**2.9**	3.3	3.4

(vi) Experience adjustments (loss)/gain:

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
Experience adjustments on plan liabilities	**(2,469)**	394
Experience adjustments on plan assets	**(941)**	1,283

29 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2010: 16.5%).

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

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
At 1 January	**9,180**	1,624
Charged/(credited) to consolidated profit and loss account *(Note 6)*	**18,886**	(5,988)
Acquisition of businesses/subsidiaries *(Note 31)*	**(38)**	13,579
Adjustments to purchase consideration and net asset value	**572**	–
Disposal of subsidiaries	**135**	–
Exchange differences	**(7)**	(35)
At 31 December	**28,728**	9,180

29 DEFERRED TAXATION (CONTINUED)

Deferred tax assets are recognized for tax losses 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 US$542,956,000 (31 December 2010: US$435,614,000 and 1 January 2010: US$232,361,000) to carry forward against future taxable income, out of which US$75,899,000 will expire during 2012 – 2026. 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									
Deferred tax assets	**Provisions**		**Decelerated tax depreciation allowances**		**Tax losses**		**Others**		**Total**	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)
As at 1 January	**44,455**	24,464	**2,835**	4,035	**39,264**	12,137	**786**	358	**87,340**	40,994
Credited/(charged) to consolidated profit and loss account	**20,262**	217	**268**	(2,541)	**(9,279)**	23,453	**(627)**	475	**10,624**	21,604
Acquisition of businesses/subsidiaries	**–**	19,644	**38**	1,449	**–**	3,642	**–**	–	**38**	24,735
Disposal of businesses/subsidiary *(Note 30(c))*	**–**	–	**–**	–	**(151)**	–	**–**	–	**(151)**	–
Exchange differences	**(238)**	130	**(151)**	(108)	**54**	32	**–**	(47)	**(335)**	7
As at 31 December	**64,479**	44,455	**2,990**	2,835	**29,888**	39,264	**159**	786	**97,516**	87,340

	The Group							
Deferred tax liabilities	**Accelerated tax depreciation allowances**		**Intangible assets arising from business combinations**		**Others**		**Total**	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
		(Restated)		(Restated)		(Restated)		(Restated)
As at 1 January	**11,018**	5,134	**82,736**	37,270	**2,766**	214	**96,520**	42,618
Charged/(credited) to consolidated profit and loss account	**16,766**	(1,848)	**9,397**	17,971	**3,347**	(507)	**29,510**	15,616
Acquisition of businesses/subsidiaries	**–**	7,697	**–**	27,495	**–**	3,122	**–**	38,314
Adjustments to purchase consideration and net asset value	**–**	–	**572**	–	**–**	–	**572**	–
Disposal of businesses/ subsidiary *(Note 30(c))*	**(16)**	–	**–**	–	**–**	–	**(16)**	–
Exchange differences	**(49)**	35	**–**	–	**(293)**	(63)	**(342)**	(28)
As at 31 December	**27,719**	11,018	**92,705**	82,736	**5,820**	2,766	**126,244**	96,520

29 DEFERRED TAXATION (CONTINUED)

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

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Deferred tax assets	**24,148**	20,195	7,459
Deferred tax liabilities	**(52,876)**	(29,375)	(9,083)
	(28,728)	(9,180)	(1,624)

	The Group		
	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
The amounts shown in the consolidated balance sheet include the following:			
Deferred tax assets to be recovered after more than 12 months	16,666	19,084	6,425
Deferred tax assets to be recovered within 12 months	7,482	1,111	1,034
Deferred tax liabilities to be settled after more than 12 months	45,512	28,213	7,424
Deferred tax liabilities to be settled within 12 months	7,364	1,162	1,659

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2011 US$'000	2010 US$'000 (Restated)
Profit before taxation	**772,064**	596,292
Interest income	**(19,490)**	(13,567)
Interest expenses	**128,594**	98,443
Depreciation	**70,885**	47,151
Amortization of computer software and system development costs	**6,205**	5,348
Amortization of brand licenses	**97,394**	78,755
Amortization of other intangible assets arising from business combinations	**51,878**	27,663
Amortization of prepaid premium for land leases	**180**	37
Share of profits less losses of associated companies	**(1,231)**	(1,850)
Employee share option expenses	**18,906**	33,281
Loss on disposal of property, plant and equipment	**2,222**	4,640
Loss on disposal of computer software and system development costs	**367**	26
Net provision for impairment of available-for-sale financial assets	**–**	66
Gain on disposal of prepaid premium for land leases	**–**	(350)
Gain on disposal of businesses/subsidiary	**(50,994)**	–
Gain on disposal of properties/property holding subsidiary	**(13,666)**	–
Operating profit before working capital changes	**1,063,314**	875,935
Increase in inventories	**(119,856)**	(96,952)
Decrease in trade and bills receivable, other receivables and amount due from related companies	**139,535**	30,784
Decrease in trade and bills payable and other payables	**(95,935)**	(30,802)
Net cash inflow generated from operations	**987,058**	778,965

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	2011		2010	
	Share capital including share premium *(Note 25 & 26)*	**Bank loans**	Share capital including share premium *(Note 25 & 26)*	Bank loans
	US$'000	**US$'000**	US$'000 (Restated)	US$'000 (Restated)
At 1 January	**3,028,693**	**191,194**	1,830,380	–
Non cash movement				
Transfer from employee share-based compensation reserve	**17,495**	**–**	27,330	–
Acquisition of businesses *(Note 31)*	**–**	**748**	–	–
	3,046,188	**191,942**	1,857,710	–
Net proceeds from issue of shares	**80,896**	**–**	143,456	–
Issuance of shares for the Privatization of IDS	**–**	**–**	1,027,527	204,489
Net drawdown/(repayment) of bank loans	**–**	**25,483**	–	(13,295)
At 31 December	**3,127,084**	**217,425**	3,028,693	191,194

(c) DISPOSAL OF BUSINESSES/SUBSIDIARY

Details of net assets of disposed businesses/subsidiary at date of disposal are set out below:

	2011
	US$'000
Net assets disposed	
Property, plant and equipment *(Note 13)*	**773**
Deferred tax assets *(Note 29)*	**151**
Inventory	**8,235**
Trade and bills receivable	**14,166**
Other receivables, prepayments and deposits	**13**
Intangible assets *(Note 12)*	**157**
Trade and bills payable	**(10,015)**
Accrued charges and sundry payables	**(366)**
Taxation	**(32)**
Deferred tax liabilities *(Note 29)*	**(16)**
Book value of net assets disposed	**13,066**

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(c) DISPOSAL OF BUSINESSES/SUBSIDIARY (CONTINUED)

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

	2011 US$'000
Consideration received	**66,246**
Expenses incurred in respect of the disposal	**(2,186)**
Net inflow of cash and cash equivalents in respect of disposal of businesses/subsidiary	**64,060**

Analysis of gain on disposal of businesses/subsidiary:

	2011 US$'000
Consideration net of expenses incurred	**64,060**
Less: Net assets disposed	**(13,066)**
Gain on disposal of businesses/subsidiary *(Note 4)*	**50,994**

(d) DISPOSAL OF PROPERTIES/PROPERTY HOLDING SUBSIDIARY

Details of net assets of disposed properties/property holding subsidiary at date of disposal are set out below:

	2011 US$'000
Net assets disposed	
Property, plant and equipments *(Note 13)*	**12,175**
Prepaid premium for land leases *(Note 14)*	**239**
Other receivables, prepayments and deposits	**36**
Accrued charges and sundry payables	**71**
Taxation	**14**
Book value of net assets disposed	**12,535**

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(d) DISPOSAL OF PROPERTIES/PROPERTY HOLDING SUBSIDIARY (CONTINUED)

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

	2011 US$'000
Consideration received	**26,720**
Expenses incurred in respect of the disposal	**(519)**
Net inflow of cash and cash equivalents in respect of disposal of properties/property holding subsidiary	**26,201**

Analysis of gain on disposal of properties/property holding subsidiary:

	2011 US$'000
Consideration net of expenses incurred	**26,201**
Less: Net assets disposed	**(12,535)**
Gain on disposal of properties/property holding subsidiary *(Note 4)*	**13,666**

31 BUSINESS COMBINATIONS

During the year, the Group completed a series of acquisitions to expand the Group's existing scale of operation and enlarge the Group's market presence. The Group was not required to made an announcement in accordance with Chapter 14 of the Listing Rules for any individual acquisition completed during the year since none of the acquisitions, on a standalone basis, would be of sufficient material to be recognized as notifiable transaction, and, for reasons of materiality and commercial sensitivity, no disclosure is provided of the details and impact of any individual acquisition. However, on a collective basis, the estimated aggregate undiscounted total consideration amounted to approximately US$1,849 million, among which aggregate initial considerations paid was approximately US$707 million and the aggregate potential undiscounted performance-based contingent consideration payable could range from nil to US$1,189 million. The fair value of the aggregate contingent consideration payable of approximately US$1,103 million was determined based on applying agreed multiples to the estimated post-acquisition performance of the acquired businesses/subsidiaries and time value of money.

The acquisitions completed by the Group in current year involved no non-controlling interest. The acquisition of businesses/subsidiaries contributed revenue of approximately US$1,219 million, core operating profit of approximately US$136 million and profit after tax of approximately US$85 million to the Group for the period from their respective dates of acquisition to 31 December 2011. If these acquisitions had occurred on 1 January 2011, Group revenue would have been approximately US$20,777 million; core operating profit would have been approximately US$957 million, profit after tax would have been approximately US$723 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 2011, together with the consequential tax effect.

31 BUSINESS COMBINATIONS (CONTINUED)

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

	US$'000
Purchase consideration to be settled by cash	1,809,916
Less: Fair value of net assets acquired *	(449,067)
Goodwill *(Note 12)*	1,360,849
Acquisition-related costs (included in other non-core operating expenses in the consolidated profit and loss account for the year ended 31 December 2011).	14,901

* *As at 31 December 2011, verification of individual assets/liabilities of the acquired businesses is in progress and the Group has not finalized the fair value assessments. The relevant fair value of individual assets/liabilities stated above are provisional.*

The goodwill is attributable to the acquired workforces, the profitability and the synergies expected to arise from the acquired businesses. Goodwill recognized of US$472,474,000 is expected to be deductible for income tax purposes.

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

	US$'000
Net assets acquired:	
Intangible assets *(Note 12)*[i]	
– Customer relationships	213,168
– Licensor relationships	45,079
– Trademarks	60,601
– Brand licenses	34,801
– Computer software and system development costs	4
– Others	300
Property, plant and equipment *(Note 13)*	5,885
Inventories	164,420
Trade and bills receivable [ii]	166,052
Other receivables, prepayments and deposits	43,209
Cash and bank balances	7,144
Tax recoverable	153
Trade and bills payables	(62,349)
Accrued charges and sundry payables	(227,043)
Bank overdrafts	(1,111)
Bank loans	(748)
Bank advance for discounted bills	(536)
Deferred tax assets *(Note 29)*	38
Fair value of net assets acquired	449,067

31 BUSINESS COMBINATIONS (CONTINUED)

i *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 the date of the accounts, the valuation assessments have not yet been completed and the Group has not finalized the fair value assessments for all of the intangible assets. The relevant fair values of intangible assets stated above provisional.*

ii *The fair value of trade and bills receivables with a fair value of US$166,052,000 which are expected to be collectible in full.*

Details of these acquisitions are as follows:

In January 2011, the Group completed the acquisition of substantially all of the assets that constitutes a business of Oxford Apparel, which was one of the operating groups of Oxford Industries, Inc..

Also, in January 2011, the Group acquired Beyond Productions, LLC and Modium. Beyond Productions, LLC was a leading designer and licensor of women's fashion apparel and accessories. Modium was a virtual manufacturer of ladies' and men's woven apparel based in Istanbul, Turkey.

In March 2011, the Group acquired: (i) Celissa, a trading company based in Istanbul, Turkey, supplying wovens and knits to customers in Europe; (ii) Techno Source USA, Inc., one of the fastest-growing toy companies and a toy innovator with a track record of successfully introducing electronic and non-electronic games; and (iii) Stone Sapphire/Gemstone Printing, a company specializing in the supply of printed paper products and technical packaging.

In May 2011, the Group acquired: (i) Loyaltex Apparel Ltd., a sourcing and development company specialized in knits, woven/denim and sweater; (ii) TVMania, the leading Pan-European supplier of character licensed and branded merchandize with the most comprehensive set of licenses across Europe; (iii) Hampshire Designers, Inc.. It was the women's division of Hampshire Group Limited in the US; and (iv) Collection 2000, which specialized in fashion color cosmetics products for the beauty industry in the UK, with a range of products available in the majority of the country's leading mass color cosmetics retailers.

In June 2011, the Group acquired Exim Designs Co., Ltd., a Thai-based furniture trading company that specialized in ready-to-assemble, flat-pack furniture.

In July 2011, the Group acquired the business of Union Rich USA, LLC. and Lloyd Textile Fashion Company Limited. Union Rich USA, LLC. was a leading product development company specializing in storage and organization products for home and business and travel. Lloyd Textile Fashion Company Limited is a design Company with well-established relationships with customers and expert knowledge of men's product categories and markets.

In August 2011, the Group acquired the businesses of (i) Fishman and Tobin, Inc., which was a children's apparel company and a key supplier to the boy's dresswear market, specialized in boy's dresswear, boys and girls school uniforms, boys sportswear and men's dresswear; and (ii) Crimzon Rose International, one of the leading companies that designs, sources, markets and distributes costume jewelry and accessories under its own brands or licenses.

In September 2011, the Group acquired (i) Midway Enterprises (Guangzhou) Ltd, Wonderful World (HK) Ltd and Wonderful Overseas Limited from the Roly Group. They operate children apparel and toys businesses in Greater China; and (ii) True Innovations, LLC, one of the leading office and entertainment furniture trading companies servicing mass retailers.

31 BUSINESS COMBINATIONS (CONTINUED)

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

	US$'000
Purchase consideration	1,809,916
Purchase consideration payable *	(1,102,714)
Cash and cash equivalents acquired	(6,033)
Net outflow of cash and cash equivalents in respect of the acquisitions	701,169

* *Balances are the best 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	
	2011	2010	**2011**	2010
	US$'000	US$'000 (Restated)	**US$'000**	US$'000 (Restated)
Guarantees in respect of banking facilities granted to:				
Subsidiaries	**–**	–	**3,530,212**	2,780,778
Associated companies	**750**	750	**–**	–
	750	750	**3,530,212**	2,780,778

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 2011, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group	
	2011	2010
	US$'000	US$'000 (Restated)
Within one year	**192,411**	135,431
In the second to fifth year inclusive	**494,911**	369,879
After the fifth year	**549,867**	221,675
	1,237,189	726,985

33 COMMITMENTS (CONTINUED)

(b) CAPITAL COMMITMENTS

	The Group	
	2011	2010
	US$'000	US$'000
		(Restated)
Contracted but not provided for:		
Property, plant and equipment	**14,713**	1,925
Computer software and system development costs	**11,729**	10,809
Authorised but not contracted for:		
Property, plant and equipment	**74,072**	7,539
Computer software and system development costs	**38,791**	14,204
	139,305	34,477

34 CHARGES ON ASSETS

Save as disclosed in *Note 13*, *Note 18* and *Note 21*, at 31 December 2011 and 2010 there were no charges on the assets and undertakings of the Company and the Group.

35 RELATED PARTY TRANSACTIONS

Pursuant to the master agreement for leasing of properties that the Company entered into with LF 1937, the substantial shareholder of the Company, on 13 January 2011, the Group leased certain properties from LF 1937 and its associates during the year with aggregate rental paid of US$23,913,000 (2010: US$15,481,000).

On 30 June 2011, the Group entered into agreements to dispose of properties in Turkey and Taiwan and the entire registered capital of a subsidiary incorporated in the PRC to entities indirectly wholly owned by Dr. William Fung Kwok Lun and a trust established for the family of Dr. Victor Fung Kwok King at an aggregate consideration of approximately US$26,720,000. The considerations for the properties were determined by reference to valuations of certain independent professional valuers, which were fully paid and recognized as cash inflow from investing activities in the consolidated cash flow statement.

On the same date, the Group entered into an agreement to dispose of the Group's medical equipment businesses in East Malaysia, Indonesia, Singapore and West Malaysia to subsidiaries of Li & Fung (Distribution) Limited at an aggregate consideration of approximately US$57,700,000. The considerations were fully paid and recognized as cash inflow from investing activities in the consolidated cash flow statement. Li & Fung (Distribution) Limited is a wholly owned subsidiary of LF 1937.

During the year, there were certain expenses incurred by LF 1937 and recharged to the Group amounting to approximately US$6,154,000 (2010: US$6,154,000).

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

Save 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 2011, if the major foreign currencies, such as Euro dollar and Sterling Pound, to which the Group had exposure to had strengthened/weakened by 10% (2010: 10%) against US and HK dollar with all other variables held constant, profit for the year and equity would have been approximately 2.0% (2010: 2.0%) and 2.0% (2010: 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.

(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 maintains these equity securities investments for long-term strategic purposes and the Group's overall exposure to price risk is not significant.

At 31 December 2011 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 2011, the fair value of foreign exchange forward contracts entered into by the Group amounted to US$13,743,000 (2010: liabilities of US$1,892,000), which has been reflected in full in the Group's consolidated balance sheet as derivative financial instruments assets.

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) MARKET RISK (CONTINUED)

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for available-for-sale debt security, 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. The available-for-sale debt security issued at a fixed interest rate exposes the Group to fair value interest rate risk. The Group's policy is to maintain a diversified mix of variable and fixed rate borrowings based on prevailing market conditions.

At 31 December 2011, 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 US$2,368,000 (2010: US$1,233,000) 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 profit would have been increased or decreased by approximately US$213,000 (2010: US$244,000).

(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 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.

The Group's five largest customers, in aggregate, account for less than 30% of the Group's business. Transactions with these customers are entered into within the credit limits designated by the Group.

Except for trade receivables of US$26,827,000 (2010: US$19,488,000) and other receivables of US$27,087,000 (2010: US$25,756,000) were impaired and fully provided, 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)* 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.

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) LIQUIDITY RISK (CONTINUED)

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

The table below analyzes the liquidity impact of the Group's long-term liabilities (including annual coupons payable for the long-term notes) into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. These amounts will not reconcile to the amounts disclosed on the balance sheet and in *Note 27* for long-term liabilities.

	Less than 1 year US$'000	**Between 1 and 2 years US$'000**	**Between 2 and 5 years US$'000**	**Over 5 years US$'000**
The Group				
At 31 December 2011				
Bank loans	**–**	**49,000**	**56,489**	**–**
Balance of purchase consideration payable for acquisitions	**334,651**	**417,924**	**975,010**	**284,365**
Long-term notes – unsecured	**66,875**	**66,875**	**200,625**	**1,482,188**
License royalty payable	**58,651**	**67,566**	**87,191**	**24,613**
Financial guarantee contract	**750**	**–**	**–**	**–**
At 31 December 2010 – Restated				
Bank loans	–	47,591	55,855	–
Balance of purchase consideration payable for acquisitions	261,069	201,676	615,451	109,636
Long-term notes – unsecured	66,875	66,875	200,625	1,482,188
License royalty payable	7,843	54,862	99,593	46,510
Financial guarantee contract	750	–	–	–
At 1 January 2010 – Restated				
Balance of purchase consideration payable for acquisitions	155,404	105,578	150,465	45,940
Long-term notes – unsecured	27,500	27,500	82,500	582,500
License royalty payable	35,831	17,509	13,304	–
Financial guarantee contract	750	–	–	–
The Company				
At 31 December 2011				
Long-term notes – unsecured	**66,875**	**66,875**	**200,625**	**1,482,188**
Financial guarantee contract	**3,530,247**	**–**	**–**	**–**
At 31 December 2010 – Restated				
Long-term notes – unsecured	66,875	66,875	200,625	1,482,188
Financial guarantee contract	2,780,778	–	–	–
At 1 January 2010 – Restated				
Long-term notes – unsecured	27,500	27,500	82,500	582,500
Financial guarantee contract	2,780,778	–	–	–

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 2011 and 2010 were as follows:

	As at 31 December		As at 1 January
	2011	2010	2010
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Long-term bank loans *(Note 24)*	**105,489**	102,040	–
Short-term bank loans *(Note 24)*	**111,936**	89,154	–
Long-term notes *(Note 27)*	**1,256,007**	1,256,552	496,452
	1,473,432	1,447,746	496,452
Less: Cash and cash equivalents *(Note 22)*	**(426,015)**	(940,232)	(532,686)
Net debt	**1,047,417**	507,514	N/A
Total equity	**3,938,606**	3,632,078	2,272,588
Total capital	**4,986,023**	4,139,592	2,272,588
Gearing ratio	**21%**	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).

The following table presents the Group's financial instruments that are measured at fair value at 31 December 2011.

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Derivative financial instruments used for hedging *(Note 20)*	**–**	**13,743**	**–**	**13,743**
Available-for-sale financial assets *(Note 17)*				
– Debt securities	**–**	**67,000**	**–**	**67,000**
– Equity securities	**–**	**–**	**14**	**14**
– Club debentures	**–**	**–**	**3,560**	**3,560**
Total assets	**–**	**80,743**	**3,574**	**84,317**

The following table presents the Group's financial instruments that are measured at fair value at 31 December 2010.

	Level 1 US$'000 (Restated)	Level 2 US$'000 (Restated)	Level 3 US$'000 (Restated)	Total US$'000 (Restated)
Assets/(liabilities)				
Derivative financial instruments used for hedging *(Note 20)*	–	(1,892)	–	(1,892)
Available-for-sale financial assets *(Note 17)*				
– Debt securities	–	80,000	–	80,000
– Equity securities	1,342	–	14	1,356
– Club debentures	–	–	2,974	2,974
Total assets/(liabilities)	1,342	78,108	2,988	82,438

38 FAIR VALUE ESTIMATION (CONTINUED)

The fair values of financial instruments traded in active markets are 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 values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

Specific valuation techniques used to value financial instruments include:

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

The following table presents the changes in level 3 instruments for the year ended 31 December 2011.

	Equity securities US$'000	Club debentures US$'000	Total US$'000
Opening balance	**14**	**2,974**	**2,988**
Fair value gains	**–**	**610**	**610**
Disposal	**–**	**(24)**	**(24)**
Closing balance	**14**	**3,560**	**3,574**

39 EVENTS AFTER BALANCE SHEET DATE

On 19 March 2012, the Court of Appeal delivered a judgement on the appeal, which had been lodged by the HKIR on 16 May 2011 against the judgement of the Court of First Instance in respect of the Offshore Claim and heard before it on 14 and 15 February 2012. The Court of Appeal upheld the judgement of the Court of First Instance on the Offshore Claim and dismissed the HKIR's appeal *(Note 6)*.

40 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 22 March 2012.

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	EUR 468,000	100	Importer
	Bravado Star Manufacturing, LLC	U.S.A.	Capital contribution US$1	75	Wholesaling
	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
	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
	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

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
	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
(2)	Crimzon Rose Accessories (Shenzhen) Co. Ltd.	The People's Republic of China	HK$1,500,000	100 foreign-owned enterprise	Wholesaling
	Crimzon Rose Asia Ltd	Hong Kong	Ordinary HK$3	100	Wholesaling
	Dana International Limited	Hong Kong	Ordinary HK$2	100	Investment holding
	Dodwell (Mauritius) Limited	Hong Kong	Ordinary "A" HK$300,000 Ordinary "B" HK$200,000	60	Export trading
	Dodwell (Singapore) Pte. Ltd.	Singapore	Ordinary S$200,000	100	Export trading services
(2)	Dongguan LF Beauty Manufacturing Services Limited	The People's Republic of China	HK$11,220,000	100 foreign-owned enterprise	Manufacturing and export trading
	DSG (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading service
	DSG (Shenzhen) Limited	The People's Republic of China	RMB3,000,000	100	Export trading services
	DSG Services Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading service
(2)	Direct Sourcing Group Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(2)	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
	F&T Apparel LLC	U.S.A.	Capital contribution US$1	100	Wholesaling
(2)	Far East Logistics (Shenzhen) Co. Ltd	The People's Republic of China	HK$1,500,000	100 foreign-owned enterprise	Wholesaling
	Fashion Design (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Design
	Fashion Design NY LLC	U.S.A.	Capital contribution US$1	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
	Golden Horn N.V.	Netherlands Antilles	US$6,100	100	Investment holding
	Goodwest Enterprises Limited	Hong Kong	Ordinary HK$2	100	Export trading

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Principal subsidiaries				
	GSCM (HK) Limited	Hong Kong	Ordinary HK$140,000	100	Export trading
	Hanson Im-und Export GmbH	Germany	EUR 26,000	100	Wholesaling
	Heusel Textilhandelsgesellschaft mbH	Germany	Euro 225,000	100	Wholesaling
(2)	HTL Fashion Hazir Giyim Sanayi ve Ticaret Limited Sirketi	Turkey	YTL25,000	100	Manufacturing
	HTL Fashions (UK) Limited	England	Ordinary GBP1	100	Design and export trading
	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 (Philippines), Inc.	The Philippines	Pesos 21,000,000	100	Distribution of consumer products and provision of logistics services
	IDS Logistics (Taiwan) Limited (now known as LF Logistics (Taiwan) Limited with effect from 5 Jan 2012)	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. (now known as LF Logistics Services (M) Sdn. Bhd.with effect from 3 Jan 2012)	Malaysia	Ordinary RM2,000,000	100	Provision of logistics services
	IDS Logistics Services Pte. Ltd.) (now known as LF Logistics Services Pte. Ltd. with effect from 16 Jan 2012)	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
	IDS Manufacturing Sdn. Bhd.	Malaysia	Ordinary RM23,000,000	100	Manufacturing of pharmaceutical, foods and toiletries 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 Marketing (Thailand) Limited	Thailand	Ordinary Baht 16,000,000 Preference 5,500,000 25% paid up	100	Distribution of consumer and pharmaceutical 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	Ordinary "A" HK$2,000,000 Ordinary "B" 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	EUR 520,000	100	Importer
	JV Cosmetics Company Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading
(2)	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	Class "A" HK$100,000 Class "B" non-voting HK$13,890	100	Export trading
(2)	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" 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
	JMI Sportswear Pte. Ltd. (now known as LF Fashion Pte. Ltd. with effect from 5 Jan 2012)	Singapore	Ordinary S$10,000	100	Export trading
	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

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
	Kingsbury International Limited	Hong Kong	Ordinary HK$2	100	Export trading
	KVZ International Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	La Villa Development Limited	Hong Kong	Ordinary HK$1	100	Design and marketing of toys
	LamaLoLi GmbH	Germany	Euro 25,000	100	Wholesaling
(2)	Lenci Calzature SpA	Italy	Euro 206,400	100	Design, marketing and sourcing
	LF Accessories Group LLC	U.S.A.	Capital contribution US$1	100	Export trading
	LF Asia (Hong Kong) Limited (formerly known as IDS (Hong Kong) Limited)	Hong Kong	Ordinary HK$146,000,000	100	Distribution of consumer and pharmaceutical products
	LF Asia (Malaysia) Sdn. Bhd. (formerly known as IDS Services (Malaysia) Sdn. Bhd.)	Malaysia	Ordinary RM14,231,002	100	Distribution of consumer, pharmaceutical, and medical equipment products
	LF Asia (Singapore) Pte. Ltd. (formerly known as IDS Marketing (Singapore) Pte. Ltd.)	Singapore	Ordinary S$300,000 Preference S$60,000	100	Distribution of healthcare products
	LF Asia (Taiwan) Limited (formerly known as Branded Lifestyle Taiwan Holdings Limited)	Hong Kong	Ordinary HK$1	100	Retail of apparel and accessories
	LF Asia Sebor (Sabah) Sdn. Bhd. (formerly known as IDS Sebor Sabah Sdn. Bhd.)	Malaysia	Ordinary RM9,850,000	60	Distribution of consumer products
	LF Asia Sebor (Sarawak) Sdn. Bhd. (formerly known as IDS Sebor (Sarawak) Sdn. Bhd.)	Malaysia	Ordinary RM5,000,000	67.09	Distribution of consumer products
	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
(2)	LF Beauty (Shenzhen) Ltd	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

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
	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 Fashion Service Pte. Ltd.	Singapore	Ordinary S$10,000	100	Wholesaling
	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 Logistics (Hong Kong) Limited (formerly known as IDS Logistics (Hong Kong) Limited)	Hong Kong	Ordinary HK$10,000	100	Provision of logistics services
	LF National Brands Group LLC	U.S.A.	Capital contribution US$1	100	Design and marketing
	LF North America Holdings Co., Inc.	U.S.A.	Ordinary US$1	100	Investment holding
	LF Products (Shanghai) Limited	The People's Republic of China	RMB5,000,000	100 foreign-owned enterprise	Export, import and domestics trading
	LF Products Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
	LF Sourcing (Millwork) LLC	U.S.A.	Capital contribution US$1	100	Sourcing and export trading
	LF USA Inc.	U.S.A.	Common stock US$751,767,801 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

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Li & Fung (India) Private Limited	India	Equity shares Rupee 64,000,200	100	Export trading services
	Li & Fung (Korea) Limited	Korea	Common stock Won 200,000,000	100	Export trading services
(2)	Li & Fung (Mauritius) Limited	Mauritius	"A" Shares Rupees 750,000 "B" Shares Rupees 500,000	60	Export trading services
(2)	Li & Fung (Morocco) SARL	Morocco	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
	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
	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$800,000	100	Export trading services
	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

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
	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
	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	EUR 26,000	100	Wholesaling
	Meredith Associates Limited	Hong Kong	Ordinary US$1,001	100	Investment holding
	MESH LLC	U.S.A.	Capital contribution US$1	75	Wholesaling
	Metro Seven LLC	U.S.A.	Capital contribution US$1	100	Wholesaling
(2)	Mercury (BVI) Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Midway Enterprises (Guangzhou) Limited	The People's Republic of China	US$8,570,000	100 foreign-owned enterprise	Manufacture and distribution of licensed children's apparel and accessories
	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	EUR 21,000,000	100	Importer
	Miles Fashion Group France EURL	France	EUR 10,000	100	Wholesaling
	Miles Fashion USA, Inc.	U.S.A.	US$1,000	100	Importer
	Millwork (Shenzhen) Limited	The People's Republic of China	RMB3,000,000	100 foreign-owned enterprise	Export trading services
	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
(2)	Modium Konfeksiyon Sanayi ve Ticaret Anonim Sirketi	Turkey	A Shares YTL2,249,975 B Shares YTL25	100	Manufacturing
	Momentum Clothing Limited	England	Ordinary GBP100	100	Export trading
	Nanjing LF Asia Company Limited (formerly known as 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
	Patch Licensing LLC	U.S.A.	Capital contribution US$1	$66\,^{2}/_{3}$	Wholesaling
	Perfect Trading Inc.	Egypt	LE 2,480,000	60	Export trading
	Peter Black Footwear & Accessories Limited	England	Ordinary GBP202,000	100	Design, marketing and sourcing

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Peter Black International Limited	England	Ordinary GBP1,020.42	100	Investment holding
	Peter Black Holdings Limited	England	Ordinary GBP16,268,648.75	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 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 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
	PT Direct Sourcing Indonesia	Indonesia	Ordinary US250,000	100	Export trading services
	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
(2)	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
	Shanghai Midway Xiaozhuren Trading Co., Ltd	The People's Republic of China	RMB500,000	100 foreign-owned enterprise	Retail of children's apparel and accessories
	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

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
	Silvereed (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading
	Sky Million International Limited	Hong Kong	Ordinary HK$2	100	Property investment
	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
	T.V.M. Design Services Ltd	Israel	Ordinary NIS100	100	Design and marketing
	Toonsland Limited	Hong Kong	Ordinary HK$200,000	100	Distribution of children's apparel and accessories
	TVM Europe GmbH	Germany	Euro 25,000	100	Wholesaling
	TVMania Italy S.r.l.	Italy	Euro 10,000	100	Wholesaling
	TVMania UK Limited	England	Ordinary GBP2	100	Wholesaling
	Ventana Bekleidungsfabrikation GmbH	Germany	Euro 26,000	100	Wholesaling
	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
	Wonderful World Overseas Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Wilson Fabric Mart (China) Ltd (formerly known as Verity Enterprises Limited)	Hong Kong	Ordinary HK$2,000,000	100	Export trading
	Wilson Textile Limited	Hong Kong	Ordinary HK$1	100	Export trading
	888 UK Limited	England	Ordinary GBP100	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 2011 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.

Note	Principal associated companies	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity indirectly held by the Company	Principal activities
	Blue Work Trading Company Limited	Hong Kong	Ordinary HK$4,000,000	50	Export trading
#	Fireworks Management, Inc.	U.S.A.	Common stock US$60,000	25	Investment holding
#	Gulf Coast Fireworks Sales, L.L.C.	U.S.A.	Capital contribution US$3,109,995	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$8,708,785	30	Wholesaling
#	Winco Fireworks Mississippi, L.L.C.	U.S.A.	Capital contribution US$349,440	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 2011 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

	2011 US$'000	2010 US$'000	2009 US$'000	2008 US$'000	2007 US$'000	2006 US$'000	2005 US$'000	2004 US$'000	2003 US$'000	2002 US$'000
Turnover										
Continuing operations	**20,030,271**	15,912,201	13,394,741	14,195,143	11,853,840	8,719,264	7,130,433	6,047,513	5,465,450	4,779,662
Discontinued operations	**–**	–	–	–	–	–	–	–	–	–
	20,030,271	15,912,201	13,394,741	14,195,143	11,853,840	8,719,264	7,130,433	6,047,513	5,465,450	4,779,662
Operating profit										
Continuing operations	**879,937**	679,318	497,373	390,310	461,545	309,272	241,615	199,492	160,511	145,772
Discontinued operations	**–**	–	–	–	–	–	–	–	–	–
	879,937	679,318	497,373	390,310	461,545	309,272	241,615	199,492	160,511	145,772
Interest income	**19,490**	13,567	11,636	14,455	26,691	12,627	8,915	5,534	4,920	6,357
Interest expenses	**(128,594)**	(98,443)	(47,706)	(61,561)	(64,059)	(18,983)	(2,741)	(1,470)	(1,258)	(1,152)
Share of profit less losses of associated companies	**1,231**	1,850	998	794	634	1,359	1,162	4,205	55	(210)
Profit before taxation	**772,064**	596,292	462,301	343,998	424,811	304,275	248,951	207,761	164,228	150,767
Taxation	**(90,660)**	(47,525)	(30,798)	(33,269)	(32,379)	(22,011)	(19,391)	(16,699)	(13,324)	(11,906)
Profit for the year	**681,404**	548,767	431,503	310,729	392,432	282,264	229,560	191,062	150,904	138,861
Attributable to:										
Continuing operations	**681,229**	548,491	431,937	310,505	392,312	282,284	229,523	191,182	152,455	138,832
Discontinued operations	**–**	–	–	–	–	–	–	–	–	–
Shareholders of the Company	**681,229**	548,491	431,937	310,505	392,312	282,284	229,523	191,182	152,455	138,832
Non-controlling interests	**175**	276	(434)	225	121	(20)	38	(120)	(1,552)	29
	681,404	548,767	431,503	310,730	392,433	282,264	229,561	191,062	150,903	138,861
Earnings per share (US cents) *(Note)*										
Basic	**8.43**	7.17	5.83	4.44	5.74	4.30	3.56	2.98	2.40	2.19
Continuing operations	**8.43**	7.17	5.83	4.44	5.74	4.30	3.56	2.98	2.40	2.19
Dividend per share (US cents) *(Note)*	**6.79**	5.77	4.81	3.65	4.55	3.53	2.91	2.45	2.04	1.78
Special dividend per share (US cents) *(Note)*	**–**	–	–	–	–	–	–	1.46	–	–

CONSOLIDATED BALANCE SHEET

	2011 US$'000	2010 US$'000	2009 US$'000	2008 US$'000	2007 US$'000	2006 US$'000	2005 US$'000	2004 US$'000	2003 US$'000	2002 US$'000
Intangible assets	**6,525,999**	4,882,166	2,333,657	1,872,068	1,458,287	604,252	360,177	167,222	78,570	41,884
Property, plant and equipment	**325,432**	309,186	160,988	164,495	144,872	142,868	121,488	91,667	93,727	84,403
Other non-current assets	**117,418**	124,679	112,356	20,246	27,974	113,166	126,028	128,778	117,869	98,420
Current assets	**3,951,571**	4,177,788	2,757,963	2,752,051	2,444,428	1,966,007	1,349,745	1,057,244	895,034	804,032
Current liabilities	**3,664,820**	3,317,362	2,227,923	2,288,234	2,095,649	1,658,606	1,264,395	772,589	636,011	533,263
Net current assets	**286,751**	860,426	530,040	463,817	348,779	307,401	85,350	284,655	259,023	270,769
	7,255,600	6,176,457	3,137,041	2,520,626	1,979,912	1,167,687	693,043	672,322	549,189	495,476
Financed by:										
Share capital	**12,987**	12,899	12,103	11,648	11,060	10,928	9,412	9,350	9,301	9,263
Reserves	**3,925,619**	3,619,179	2,260,485	1,704,039	1,253,589	1,048,924	583,511	594,424	527,939	476,182
Total equity	**3,938,606**	3,632,078	2,272,588	1,715,687	1,264,649	1,059,852	592,923	603,774	537,240	485,445
Other non-current liabilities	**3,316,994**	2,544,379	864,453	804,939	715,263	107,835	100,120	68,548	11,949	10,031
	7,255,600	6,176,457	3,137,041	2,520,626	1,979,912	1,167,687	693,043	672,322	549,189	495,476

NOTE: Adjusted for the effect of 1-for-10 Bonus Issue in May 2006 and Share Subdivision in May 2011

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