LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 494)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

HIGHLIGHTS

(HK$ millions)	2005	2004 (As restated)	Change
Turnover	**55,617**	47,171	+18%
Operating Profit	**1,885**	1,556	+21%
As % of Turnover	**3.39%**	3.30%	
Profit attributable to shareholders of the Company	**1,790**	1,491	+20%
Earnings per Share	**61.2 HK cents**	51.2 HK cents	+20%
Dividend per Share			
– Final	**35.5 HK cents**	30 HK cents	+18%
– Full year (Excluding Special Dividend)	**50 HK cents**	42 HK cents	+19%
– Special	**–**	25 HK cents	

- Three-Year Plan 2005-2007 off to a good start. 2005 turnover growth on track to achieve the US$10 billion target for 2007
- Increase in margins in spite of heavy investment in strengthening the Group's infrastructure
- No impact from quota removal and subsequent imposition of safeguards by US and Europe
- Customers' focus on fashion has increased demand for higher-value-added services
- Good progress on acquisition strategy with five acquisitions made in 2005
- Strong momentum expected to continue over the current year
- 1-for-10 bonus issue proposed

We are pleased to announce the audited consolidated profit and loss account of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 and the consolidated balance sheet of the Group as at 31 December 2005 together with the comparative figures in 2004.

Consolidated Profit and Loss Account

	Note	2005 HK$'000	2004 HK$'000 (As restated)
Turnover	2	55,617,374	47,170,601
Cost of sales		(49,956,433)	(42,847,976)
Gross profit		5,660,941	4,322,625
Other revenues		264,384	223,444
Total margin		5,925,325	4,546,069
Selling expenses		(973,874)	(609,387)
Merchandising expenses		(2,666,214)	(2,074,333)
Administrative expenses		(424,569)	(306,313)
Core operating profit	2	1,860,668	1,556,036
Gain on disposal of properties		27,832	–
Net investment loss		(3,900)	–
Operating profit	3	1,884,600	1,556,036
Interest income		69,539	43,163
Interest expenses		(21,376)	(11,466)
Share of profits less losses of associated companies		9,062	32,801
Profit before taxation		1,941,825	1,620,534
Taxation	4	(151,248)	(130,250)
Profit for the year		1,790,577	1,490,284
Attributable to:			
Shareholders of the Company		1,790,279	1,491,223
Minority interests		298	(939)
		1,790,577	1,490,284
Earnings per share for profit attributable to the shareholders of the Company during the year	5		
– basic		61.2 HK cents	51.2 HK cents
– diluted		60.7 HK cents	50.9 HK cents
Dividends	6	1,468,432	1,955,111

Consolidated Balance Sheet

	Note	2005 HK$'000	2004 HK$'000 (As restated)
Non-current assets			
Intangible assets		2,809,380	1,304,333
Fixed assets		947,608	715,002
Prepaid premium for land leases		765,771	765,172
Associated companies		7,102	55,967
Available-for-sale financial assets		91,721	–
Investments		–	110,289
Deferred tax assets		118,419	73,039
		4,740,001	3,023,802
Current assets			
Inventories		628,121	458,453
Due from related companies		24,982	29,094
Derivative financial instruments		3,769	–
Trade and bills receivable	7	7,738,518	4,642,221
Other receivables, prepayments and deposits		884,704	766,702
Cash and bank balances		1,247,920	2,350,035
		10,528,014	8,246,505
Current liabilities			
Due to related companies		98	106
Trade and bills payable	8	6,058,717	4,625,199
Balance of purchase consideration payable for acquisitions		647,492	125,147
Accrued charges and sundry payables		1,006,181	741,409
Taxation		391,415	290,856
Current portion of long-term liabilities		–	40,652
Bank advances for discounted bills		1,554,367	–
Short-term bank loans and overdrafts			
Secured		154,476	146,298
Unsecured		49,531	56,530
		9,862,277	6,026,197
Net current assets		665,737	2,220,308
Total assets less current liabilities		5,405,738	5,244,110
Financed by:			
Share capital		73,414	72,928
Reserves		3,540,450	3,063,641
Proposed dividend		1,042,995	1,605,255
		4,583,445	4,668,896
Shareholders' funds		4,656,859	4,741,824
Minority interests		(32,058)	(32,389)
Total equity		4,624,801	4,709,435
Non-current liabilities			
Long-term liabilities		753,192	509,487
Post-employment benefit obligations		19,821	17,889
Deferred taxation		7,924	7,299
		5,405,738	5,244,110

Consolidated Statement of Changes in Equity

	2005 HK$'000	2004 HK$'000 (As restated)
Balance at 1 January, as previously reported as equity	4,844,673	4,221,902
Balance at 1 January, as previously separately reported as minority interests	(32,389)	(31,428)
Effect of changes in accounting policies	(130,617)	(105,269)
Total equity at 1 January, as restated	4,681,667	4,085,205
Currency translation differences	(45,695)	19,382
Exchange reserve realised upon closure/disposal of subsidiaries	–	(771)
Fair value gains of available-for-sale financial assets	6,369	–
Fair value gains on cash flow hedges	3,506	–
Net (expenses)/income recognised directly in equity	(35,820)	18,611
Profit for the year	1,790,577	1,490,284
Total recognised income for the year	1,754,757	1,508,895
Dividends paid	(2,033,967)	(1,077,640)
Issue of shares for acquisition	–	56
Employee share option scheme:		
– value of employee services	47,378	41,425
– shares issued	486	321
– share premium on issue of new shares	174,480	151,173
Total equity as at 31 December	4,624,801	4,709,435

Notes:

1 **Basis of Preparation and Accounting Policies**

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated accounts have been prepared under the historical cost convention, as modified by the available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of consolidated account in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The adoption of new/revised HKFRSs

In 2005, the Group adopted the new/revised Hong Kong Accounting Standards ("HKASs") and interpretations of HKFRSs below, which have not been early adopted by the Group for the preparation of the 2004 consolidated accounts and are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates

HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 15	Operating leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 23, 24, 27, 28, 33 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associated companies and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and HKAS-Ints 15 had no material effect on the Group's policies.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from fixed assets to operating leases. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised HKAS 21. Goodwill arising on acquisitions of foreign operations after 1 January 2005 have been treated as assets of the foreign operations and expressed in their respective functional currencies. At the balance sheet date, goodwill was translated at closing exchange rate and difference of HK$14,959,000 so arising was charged to the exchange reserve.

The adoption of HKASs 32 and 39 has resulted in the change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Until 31 December 2004, listed and unlisted investments of the Group were classified as non-current investments and stated in the consolidated balance sheet at cost less any provision for impairment losses. In accordance with HKAS 39, these investments were re-classified as available-for-sale financial assets and stated in the consolidated balance sheet at fair value, with subsequent changes in value reflected as reserve movements. Balance of these investments at 1 January 2005 were re-measured at fair value with balance adjusted to the then retained earnings pursuant to the transitional provisions of HKAS 39.

In addition, the Group's discounted bills with recourse, which were previously treated as contingent liabilities, have been accounted for as collateralised bank advances prospectively on or after 1 January 2005, as the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled.

It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the consolidated profit and loss account. Effective on 1 January 2005, the Group expenses the cost of share options in the consolidated profit and loss account. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the consolidated profit and loss account of the respective years.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of fixed assets acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Hong Kong Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005;

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2005; and

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005.

The adoption of revised HKAS 17 resulted in a decrease in opening retained earnings at 1 January 2004 by HK$105,269,000.

	2005 HK$'000	2004 HK$'000
Decrease in fixed assets	866,200	868,021
Increase in prepaid premium for land leases	765,771	765,172
Decrease in retained earnings	100,429	102,849
Decrease in merchandising expenses	2,420	2,420
Increase in basic earnings per share	0.08 HK cents	0.08 HK cents
Increase in diluted earnings per share	0.08 HK cents	0.08 HK cents

The adoption of HKAS 21 resulted in:

	2005 HK$'000
Decrease in intangible assets	14,959
Decrease in exchange reserve	14,959

There was no impact on basic and diluted earnings per share and opening retained earnings at 1 January 2004 from the adoption of HKAS 21.

The adoption of HKASs 32 and 39 resulted in decreases in opening hedging reserve and retained earnings at 1 January 2005 by HK$897,000 and HK$26,871,000 respectively and the details of the adjustments to the balance sheet at 31 December 2005 and for the year then ended are as follows:

	2005 HK$'000
Increase in available-for-sale financial assets	95,621
Decrease in investments	110,289
Increase in trade and bills receivable	1,554,367
Increase in bank advances for discounted bills	1,554,367
Increase in derivative financial instruments (assets)	3,769
Decrease in retained earnings	19,877
Increase in hedging reserve	2,609
Increase in revaluation reserve	6,369
Decrease in cost of good sold	6,994
Increase in basic earnings per share	0.24 HK cents
Increase in diluted earnings per share	0.24 HK cents

The adoption of HKFRS 2 resulted in a decrease in opening retained earnings as at 1 January 2004 by HK$36,386,000.

	2005 HK$'000	2004 HK$'000
Increase in employee share-based compensation reserve	107,122	77,811
Increase in share premium	18,067	–
Decrease in retained earnings	125,189	77,811
Increase in merchandising expenses	47,378	41,425
Decrease in basic earnings per share	1.62 HK cents	1.42 HK cents
Decrease in diluted earnings per share	1.61 HK cents	1.41 HK cents

No early adoption of the following new Standards or Interpretations or Amendments that have been issued but are not yet effective. The adoption of such Standards or Interpretations or Amendments will have no material impact on the accounts of the Group and will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

2 Segment Information

The principal activity of the Group is export trading of consumer products.

(a) Geographical segments

	United States of America 2005 *HK$'000*	Europe 2005 *HK$'000*	Canada 2005 *HK$'000*	Australasia 2005 *HK$'000*	Central and Latin America 2005 *HK$'000*	Rest of The World 2005 *HK$'000*	Group 2005 *HK$'000*
Turnover	38,450,852	10,307,087	2,602,404	1,882,466	997,446	1,377,119	55,617,374
Segment results	1,210,231	403,522	81,880	76,575	37,840	50,620	1,860,668
Net investment loss							(3,900)
Gain on disposal of properties							27,832
Interest income							69,539
Interest expenses							(21,376)
Share of profits less losses of associated companies							9,062
Profit before taxation							1,941,825
Taxation							(151,248)
Profit for the year							1,790,577
Segment assets	7,381,397	2,172,991	698,803	402,397	227,132	234,739	11,117,459
Unallocated assets							4,150,556
Total assets							15,268,015
Segment liabilities	6,991,447	1,737,924	491,936	385,418	196,046	217,091	10,019,862
Unallocated liabilities							623,352
Total liabilities							10,643,214
Capital expenditure	329,590	76,608	15,183	13,065	6,921	9,768	451,135
Depreciation	82,646	26,415	3,648	4,221	2,174	2,589	121,693
Amortisation of prepaid premium for land leases	12,207	3,266	825	597	316	436	17,647

	United States of America 2004 *HK$'000* (As restated)	Europe 2004 *HK$'000* (As restated)	Canada 2004 *HK$'000* (As restated)	Australasia 2004 *HK$'000* (As restated)	Central and Latin America 2004 *HK$'000* (As restated)	Rest of The World 2004 *HK$'000* (As restated)	Group 2004 *HK$'000* (As restated)
Turnover	32,102,262	9,253,030	2,089,679	1,715,444	658,044	1,352,142	47,170,601
Segment results	1,041,892	357,610	52,004	52,501	21,553	30,476	1,556,036
Net investment loss							–
Gain on disposal of properties							–
Interest income							43,163
Interest expenses							(11,466)
Share of profits less losses of associated companies							32,801
Profit before taxation							1,620,534
Taxation							(130,250)
Profit for the year							1,490,284
Segment assets	5,699,101	1,958,320	308,858	257,026	128,635	154,338	8,506,278
Unallocated assets							2,764,029
Total assets							11,270,307
Segment liabilities	4,135,739	1,282,417	241,911	199,550	99,347	108,789	6,067,753
Unallocated liabilities							493,119
Total liabilities							6,560,872
Capital expenditure	139,169	45,152	8,341	6,861	3,196	5,046	207,765
Depreciation	77,725	27,390	4,847	4,623	2,152	3,320	120,057
Amortisation of prepaid premium for land leases	11,844	3,414	771	633	304	437	17,403

(b) *Business segments*

	Turnover 2005 *HK$'000*	Segment results 2005 *HK$'000*	Total assets 2005 *HK$'000*	Capital expenditure 2005 *HK$'000*
Softgoods	38,080,180	1,480,582	7,858,285	285,595
Hardgoods	17,537,194	380,086	3,259,174	165,540
	55,617,374	1,860,668	11,117,459	451,135
Net investment loss		(3,900)		
Gain on disposal of properties		27,832		
Operating profit		1,884,600		
Unallocated assets			4,150,556	
Total assets			15,268,015	

	Turnover 2004 *HK$'000*	Segment results 2004 *HK$'000* (As restated)	Total Assets 2004 *HK$'000* (As restated)	Capital expenditure 2004 *HK$'000*
Softgoods	31,461,244	1,163,212	6,609,973	134,679
Hardgoods	15,709,357	392,824	1,896,305	73,086
	47,170,601	1,556,036	8,506,278	207,765
Net investment loss		–		
Gain on disposal of properties		–		
Operating profit		1,556,036		
Unallocated assets			2,764,029	
Total assets			11,270,307	

3 Operating Profit

Operating profit is stated after charging the following:

	2005 *HK$'000*	2004 *HK$'000* (As restated)
Amortisation of system development costs	7,675	7,668
Employee share option expenses	47,378	41,425
Depreciation of fixed assets	121,693	120,057
Amortisation of prepaid premium for land leases	17,647	17,403

4 Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	2005 *HK$'000*	2004 *HK$'000*
Current taxation		
– Hong Kong profits tax	154,545	147,921
– Overseas taxation	41,408	47,779
Overprovision in prior years	(535)	(3,882)
Deferred taxation	(44,170)	(61,568)
	151,248	130,250

5 Earnings per Share

(a) The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$1,790,279,000 (2004 (restated): HK$1,491,223,000) and on the weighted average number of 2,927,533,000 (2004: 2,911,938,000) shares in issue during the year.

(b) The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK$1,790,279,000 (2004 (restated): HK$1,491,223,000). The weighted average number of ordinary shares used in the calculation is 2,927,533,000 (2004: 2,911,938,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 20,476,000 (2004: 15,757,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

6 Dividends

	2005 *HK$'000*	2004 *HK$'000*
Interim, paid, of HK$0.145 (2004: HK$0.12) per ordinary share	425,437	349,856
Final, proposed, of HK$0.355 (2004: HK$0.30) per ordinary share	1,042,995	875,594
Special, proposed, Nil (2004: HK$0.25) per ordinary share	–	729,661
	1,468,432	1,955,111

At a meeting held on 22 March 2006, the Directors proposed a final dividend of HK$0.355 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 2006.

7 Trade and Bills Receivable

The ageing analysis of trade and bills receivable is as follows:

	Current to 90 days *HK$'000*	91 to 180 days *HK$'000*	181 to 360 days *HK$'000*	Over 360 days *HK$'000*	Total *HK$'000*
Balance at 31 December 2005	7,300,091	371,674	54,639	12,114	7,738,518
Balance at 31 December 2004	4,400,587	189,017	52,001	616	4,642,221

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

Certain subsidiaries of the Group transferred receivable balances amounting to HK$1,554,367,000 to banks in exchange for cash during the year ended 31 December 2005. The transaction has been accounted for as collateralised bank advances.

8 **Trade and Bills Payable**

	Current to 90 days *HK$'000*	91 to 180 days *HK$'000*	181 to 360 days *HK$'000*	Over 360 days *HK$'000*	Total *HK$'000*
Balance at 31 December 2005	5,849,410	121,289	43,007	45,011	6,058,717
Balance at 31 December 2004	4,423,133	118,157	54,180	29,729	4,625,199

9 **Comparatives**

As further explained in note 1, due to the adoption of the new/revised HKFRSs during the current year, the accounting treatment and presentation of certain items in the account have been revised to comply with the new requirements. Accordingly, certain comparatives have been restated to conform with the current year presentation.

Management Discussion and Analysis

Overview

2005 was the first year of the Group's current Three-Year Plan 2005-2007, and we are pleased to report satisfactory performance for the year in line with the Plan's targets. The Group's turnover was HK$55,617 million, 18% higher than 2004. Profit attributable to shareholders increased by 20% to HK$1,790 million. Earnings per share were 61.2 HK cents, compared to 51.2 HK cents in 2004.

The Board of Directors has proposed a final dividend of 35.5 HK cents per share. Together with an interim dividend of 14.5 HK cents, total dividend per share for the year 2005 was 50 HK cents (2004: 42 HK cents, plus a special dividend 25 HK cents making a total of 67 HK cents).

A 1-for-10 bonus issue has also been proposed to commemorate the 100th year anniversary of the Li & Fung Group.

Results Review

The strong increase in turnover for 2005 indicates that the Group has continued to gain market share in the markets where it operates. During this year, consumer markets faced a chaotic environment of rising interest rates and energy costs. The international textile trade also faced great changes as the textile quota system, which had been in place for more than 40 years, was removed. Despite these issues, the Group was able to expand its position amongst existing customers and develop new businesses. Retailers increasingly realize that by finding strong strategic partners in the supply chain such as Li & Fung, they are able to focus on their customers and their unique core competencies.

The current Three-Year Plan's acquisition strategy is also on track with five acquisitions made during the year, adding to the strength of the results.

The Group's total margin surged by 30% and as a percentage of sales, saw an improvement from 9.64% to 10.65% in 2005. This reflects a continued shift in more businesses being conducted with a higher-value-added supply chain model. In particular, because of the evolution of the fashion market towards more differentiated designs, the Group saw accelerated demand for our product design and development services.

The Group's operating profit rose 21% to HK$1,885 million during 2005. The margin rate has improved from 3.30% to 3.39%, despite the Group's investments in building up the corporate infrastructure to position for aggressive future growth.

In accordance with the new Hong Kong Financial Reporting Standard 2 "Share-based Payments", the operating profit above reflected a change to include an employee share option expense of HK$47 million for 2005.

The operating profit for 2004 has also been restated at HK$1,556 million, from HK$1,595 million, reflecting share option expenses of HK$41 million as well as a reversal of depreciation on land revaluation surplus of HK$2 million.

In terms of major non-recurrent items, the Group has recognized a profit of HK$27.8 million related to sale of office premises in Citicorp Centre, Hong Kong. These premises belonged to Colby Group Holdings Limited, which was acquired by the Group in 2000. Since then the business has been fully integrated with the rest of the Company on the Kowloon side, and hence the premises were no longer necessary for self-use.

A small net investment loss was also incurred in a prior venture capital investment the Group has made earlier on.

Segmental Analysis

The softgoods business accounted for 68% of the Group's turnover. Turnover and core operating profit increased by 21% and 27% respectively. The strong increase was mainly driven by organic growth as well as from new customer additions. In particular, the Group's size and leadership position has enabled us to gain new customers by providing complete outsourcing solutions to retailers who previously had in-house buying offices. During 2005, the Group took on the buying functions for two major new accounts, Ecko and Mervyn's.

The removal of the textile quota system during the year created great changes in the sourcing markets, particularly with the subsequent textile safeguards placed on China by the US and the EU. The Group was well-prepared for these developments, and during this time our geographically diversified and flexible sourcing network proved invaluable to our customers. The Group will continue to strengthen our presence in markets that are expected to benefit from the new trade regime, particularly from South Asia and South East Asia.

In terms of the hardgoods business, turnover increased by 12% but core operating profit saw a drop of 3%. The slight drop in core operating profit from this area mainly reflects start-up losses incurred in developing the two home textile brands under the Group's brand strategy and is not likely to be incurred again in 2006.

Geographically, the US is the Group's major export market, accounting for 69% of the Group's turnover. The consumer market has demonstrated resilience to a rising interest rate and energy cost environment, and market sentiment has remained generally healthy. A return to focus on fashion and differentiated products, instead of lower prices, has created extra demand for quick-response sourcing, as well as value-added services such as product development. Turnover and core operating profit saw healthy increases of 20% and 16% despite some small start-up losses in the brand business.

The Group's turnover and core operating profit in Europe grew by 11% and 13% respectively in 2005. Although the general market saw slow growth during this year, the Group saw good progress with the acquisitions it has made in the past two years and has since continued to build up these new capabilities. Europe accounted for 19% of total turnover during the year.

Canada accounted for 5% of the Group's turnover, up from 4% in 2004, with improved operating margins. Through increased penetration of more anchor customers in this market, the Group was able to generate higher sales and profitability.

Turnover and core operating profit in Central and Latin America surged by 52% and 76% respectively. First entering this market through a small acquisition in 2003, the business has generated strong momentum as well as great potential for further growth. Though not a very big market in terms of total size, there are a number of large retailers with large market share with which the Group has already developed relationships.

Business in Australasia accounted for 3% of the Group's turnover. Turnover and core operating profit grew by 10% and 46%. After a few years of strong growth, this business is now focusing on consolidating our position amongst customers there, which has led to an improvement in margins.

The rest of the world, mainly comprising business in Japan, saw a drop from 3% to 2% of total turnover. The Group has yet to find a successful strategy to build a meaningful presence in this market despite the good relationships already forged with leading players. Japan will continue to be viewed as an initiative for the longer term.

New Business Ventures

During 2005, the Group launched two more labels under the brand strategy, namely Levis RedTab tops and Royal Velvet. Despite some start-up teething problems during the initial phase, the brands enjoyed positive response from retailers and consumers. The acquisition of Briefly Stated Holdings, Inc. in the latter part of the year also greatly strengthened our capabilities and portfolio of brand licenses. Though the operations still incurred small losses for the year 2005, the Group feels that this business is now firmly on the growth track.

Acquisitions

One of the key strategies of the Group's Three-Year Plan 2005-2007 is to carry out a series of smaller acquisitions to augment capabilities in certain sectors. We believe by integrating these smaller companies into Li & Fung, we can tap into great synergies from their strong customer relationships as well as niche capabilities.

During 2005, the Group completed five acquisitions. The Group has acquired the remaining 55% of equity interest of Comet Feuerwerk GmbH. This is a fireworks company in Germany in which the Group already held 45%. The second acquisition was PromOcean The Netherlands BV, a corporate premium and promotional products supply company based in Europe. In August we announced the acquisition of Briefly Stated Holdings, Inc., an apparel company in the US with a portfolio of more than 40 character brand licenses.

The fourth acquisition conducted in 2005 was Young Stuff Apparel, Inc, an apparel company focused on supplying private label products to mass-market retailers such as Wal-Mart and Target.

Finally, the Group also acquired a hardgoods agency business sourcing primarily furniture based in Indonesia. This acquisition greatly improves the Group's sourcing in this market and also brings in a number of major new customers to the Group.

Financial Position and Liquidity

The Group continues to be in a strong financial position for the year under review with cash and cash equivalents amounting to HK$1,044 million at the end of 2005.

Normal trading operations are well supported by over HK$14,507 million in bank trading facilities, out of which only HK$1,554 million has been utilized at year end. In addition, the Group has available bank loans and overdraft facilities of HK$1,577 million, out of which only HK$204 million has been utilized.

The Group has no long-term borrowings; therefore the gearing ratio is not applicable. The current ratio was 1.1, based on current assets of HK$10,528 million and current liabilities of HK$9,862 million.

Impact of changes in accounting standards

The Group adopted certain new or revised HKFRSs during the year. The impact of these HKFRSs are set out as below. Pursuant to HKAS 17 "Leases", up-front payments made for leasehold land with a carrying value of approximately HK$766 million as of 31 December 2005 (2004: HK$765 million) are re-classified as prepaid premium for land leases payments instead of fixed assets.

According to HKAS 21 "The Effects of Changes in Foreign Exchange Rates", goodwill arising from acquisitions of foreign operations is being treated as assets of the foreign operations and expressed in their respective currencies. As of balance sheet date, this goodwill has been translated at closing exchange rates, and a difference of HK$15 million so arising has been charged to the exchange reserve.

In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement", investments previously stated at costs of approximately HK$110 million as at the beginning of 2005 have been reclassified as available-for-sale financial assets and stated in the balance sheet at 31 December 2005 at fair value of approximately HK$92 million, with the difference of HK$14 million charged to the reserves and HK$4 million charged to the consolidated profit and loss account in the current year.

In addition, the Group's discounted bills with recourse of approximately HK$1,554 million, which were previously not recognized but treated as contingent liabilities, have been recognized as bills receivable of the Group, and the corresponding proceeds received have been accounted for as collateralized bank advances.

Following the adoption of HKFRS 2 "Share-based Payments", the fair value of share options at grant date of HK$47 million (2004: HK$41 million) is charged to the consolidated profit and loss account in the current year.

Foreign Exchange Risk Management

Most of the Group's cash balances are deposited in HK$ or US$ with major banks in Hong Kong, and most of the Group's assets, liabilities, revenues and payments are either in HK$ or US$. Therefore, we consider our 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 with the use of foreign exchange forward contracts.

Capital Commitments and Contingent Liabilities

At the date of this announcement, the Group has a long-running dispute with the Hong Kong Inland Revenue Department related to the non-taxable claims of certain non Hong Kong sourced income and the deduction of certain marketing expenses of approximately HK$757 million for the years of assessment from 1992/1993 to 2004/2005. The disputes were initiated in 1999 and have been disclosed in our annual reports since that year. The Group has been working with its accounting and legal advisors in respect of its dealings with the Hong Kong Inland Revenue Department in relation to these matters. A hearing of the disputes was held before the Board of Review in January 2006 but as at the date of this announcement, the result is not yet known.

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

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

Human Resources

At the end of 2005, the Group had a total workforce of 7,629, of whom 2,565 were based in our Hong Kong headquarters and 5,064 were located overseas throughout our sourcing network of over 70 offices in 40 countries and territories. The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses and share options are also granted to eligible staff based on individual and Group performance. The Group is committed to nurturing a learning culture in the organization. Heavy emphasis is placed on training and development, as the Group's success is dependent on the efforts of a skilled, motivated work force. Total staff costs for the current year amounted to HK$2,211 million, compared to HK$1,726 million in 2004.

Outlook and Progress on Three-Year Plan 2005-2007

The Group is pleased with its good start to the Plan, and we were able to see an accelerated growth rate compared to 2004 in the face of uncertainties brought by the economic environment as well as the dismantling of the textile quota system. We feel that this strong momentum is set to continue into 2006.

2006 is a special year for the Group as we celebrate the trading business' 100th year in history. It is increasingly apparent that the Group's size and leadership position are creating new business opportunities that did not exist before, as we now have the capability to offer complete outsourcing solution to even very larger customers. The trend towards retailers outsourcing their in-house buying functions will continue.

As the Group progresses towards its US$10 billion turnover target, management is also focusing on developing the organization to further capture the economies of scale resulting from our growth, and major process and organization reviews are underway. Whilst in the short term this will lead to increased infrastructure costs, management believes that these investments will lead to increased profitability in the longer term.

All in all, 2005 was an encouraging start to the Plan, and management remains committed to pursuing the Plan targets.

Final Dividend

The Board of Directors recommended to pay to the shareholders a final dividend of 35.5 HK cents (2004: 30 HK cents and a special dividend of 25 HK cents) per Share for the year ended 31 December 2005 absorbing HK$1,043 million (2004: HK$1,609 million). An interim dividend of 14.5 HK cents (2004: 12 HK cents) per Share was paid by the Company on 20 September 2005.

Bonus Issue

The Board of Directors recommended a bonus issue of one new share of HK$0.025 each for every ten issued shares of the Company for approval by the shareholders at the Annual General Meeting to be held on 18 May 2006. An amount standing to the credit of the share premium account of the Company will be capitalized and applied in making payment in full, at par, for the new shares. Such new shares will not, however, rank for the proposed final dividend for the year ended 31 December 2005 but will in all other respects rank pari passu with the existing issued shares of the Company. A circular containing further details of the bonus issue will be despatched to the shareholders on or about 21 April 2006.

Closure of Register of Members

The Register of Members will be closed from 11 May 2006 to 18 May 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrars, Abacus Share Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 10 May 2006. Dividend warrants will be despatched immediately after the holding of the Annual General Meeting on 18 May 2006 subject to shareholders' approval of payment of the final dividend.

Annual General Meeting

The Annual General Meeting of the Company will be held at JW Marriott Ballroom, Level 3, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong on 18 May 2006 at 12:00 noon. The Notice of Annual General Meeting will be published in the South China Morning Post and Hong Kong Economic Times and despatched to shareholders on or about 21 April 2006.

Publication of Results Announcement & Annual Report

This results announcement is published on the websites of the Company (*www.lifung.com*) and The Stock Exchange of Hong Kong Limited (*www.hkex.com.hk*). The 2005 annual report will be despatched to the shareholders and available on the same websites on or about 21 April 2006.

Corporate Governance

The Board of Directors and Management are committed to principles of corporate governance consistent with prudent enhancement and management of shareholder value. These principles emphasize transparency, accountability and independence.

In order to reinforce independence, accountability and responsibility, the role of the Group Chairman is separate from that of the Group Managing Director with their respective responsibilities defined by the Board in writing.

The Board has established the Nomination Committee, the Audit Committee, the Risk Management Committee and the Compensation Committee with defined terms of reference (available to shareholders upon request), which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). All Committees are chaired by non-executive directors. To further reinforce independence, the Nomination, Audit and Compensation Committees have been structured to include a majority of independent non-executive directors since 2003 with both the Audit and Compensation Committees respectively being chaired by an independent non-executive director.

Full details on the subject of corporate governance are set out in the Company's 2005 Annual Report.

Audit Committee

The Audit Committee met four times in 2005 (with an average attendance rate of 92%) to review with senior management and the Company's internal and external auditors the Group's significant internal controls and financial matters as set out in the Committee's terms of reference. The Committee's review covers the audit plans and findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, listing rules and statutory compliance, internal controls, risk management and financial reporting matters (including the interim and annual accounts for the Board's approval).

Internal Control and Risk Management

Based on the assessments made by senior management, the Group's Internal Audit team and the external auditors in 2005 and up to the approval date of the Company's 2005 Annual Report and accounts, the Audit Committee is satisfied that the internal controls and accounting systems of the Group have been in place and function effectively and are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorisation and the accounts are reliable for publication; and that there is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

Compliance with the Model Code of the Listing Rules

The Group has adopted stringent procedures governing directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code. Specific confirmation has been obtained from directors and relevant employees to confirm compliance with the Model Code and the aforementioned guidelines respectively for 2005. No incident of non-compliance was noted by the Company in 2005.

Compliance with the Code on Corporate Governance Practices of the Listing Rules

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2005.

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.

Board of Directors

As at the date hereof, the Board of Directors of the Company comprises the following Directors:–

Non-Executive Directors:–
Victor Fung Kwok King *(Chairman)*
Paul Edward Selway-Swift*
Allan Wong Chi Yun*
Franklin Warren McFarlan*
Makoto Yasuda*
Lau Butt Farn
Leslie Boyd
(Steven Murray Small
– *Alternate to Leslie Boyd)*

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

* *Independent Non-executive Directors*

By Order of the Board
Victor Fung Kwok King
Chairman

Hong Kong, 22 March 2006

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

Member of Li & Fung Group

"Please also refer to the published version of this announcement in South China Morning Post."