

## Chairman's Statement



**Victor FUNG Kwok King**

Year 2000 was a year of outstanding performance for Li & Fung.

Group turnover was up a record 53% to HK\$24,993 million. Profit attributable to shareholders increased by 51% to HK\$870 million.

Adjusted for a two-for-one share split in September 2000, earnings per share were 32.2 cents, compared to 22.4 cents in 1999.

The growth and consistent performance of the Group were key to Li & Fung's inclusion as a component of the Morgan Stanley Country Index of Hong Kong from 17 May 2000, the Hong Kong Hang Seng Index from 2 August 2000 and the FTSE World Index (Hong Kong Sub Index) from 18 September 2000.

## REVIEW OF THE ENVIRONMENT

The market environment in our major markets — the United States and Western Europe — remained basically favorable during the period under review.

The growth momentum of the US economy continued into the first and second quarters of 2000. Notwithstanding signs of a slowdown in the third and fourth quarters, the overall economic performance of the economy was still quite strong as personal consumption expenditure continued to grow in real terms.

In the European Union, a more stable euro was conducive to trading activities but competition in the retail market remained stiff. Demand for efficient outsourcing and supply chain management was strong as retailers were trying to reduce inventory and minimize cost. This has enabled us to expand our service to larger customers in this market from our offices in the Mediterranean.

Our strong and expanding outsourcing network was the key factor that accounted for the Group's outstanding organic growth last year. At the same time, our strategy of growth by acquisition has also worked out in accordance with our expectations. Swire & Maclaine and Camberley, which we acquired in 1999, have broadened our customer base and upgraded our design capabilities considerably, thus allowing us to serve a wider spectrum of customers in both the US and Europe. This expansion strategy continued into 2000. In early November we successfully acquired another local sourcing giant Colby Group Holdings Limited, thereby further strengthening the Group's position as the premier global company in consumer goods and supply chain management.

## CHINA'S ENTRY TO THE WORLD TRADE ORGANIZATION

We believe China's entry to the WTO — probably before the end of 2001 — will give rise to greater opportunities for the Group. WTO membership would enable China's exports, especially non-garments, to become more competitive in the world market as discriminatory trade practices and trade barriers will largely be wiped out as China will have redress under WTO regulations.

To Li & Fung, this means the availability of more sourcing opportunities in the Mainland that can further reinforce our position as a global leader in consumer goods sourcing with a well-established global sourcing network that covers 37 countries.

## OUR IT INITIATIVES

We are fully aware of the power of information technology, especially the Internet, in today's world economy that has become more integrated or globalized. We also understand the importance of the synergy between supply chain management and the Internet that can give rise to greater sophistication and higher value-added for our customers.

The Group has been actively pursuing the B2B application of the Internet for market development. Last year we announced our plan to develop StudioDirect, a private label operation targeting specialty retailers that are mainly small and medium-sized. The studiodirect.com website was officially launched in the US in February 2001. Through this website, we now provide customized service to individual small and medium-sized enterprises for building their own brands without the need to place orders in large quantities. We are confident that demand will be built steadily by this new operation and that our strengths in both the Old Economy and the New Economy will ensure our leadership status in global trade.

## PROSPECTS

Despite the possible slowdown of the US economy, the Group is well positioned to sustain healthy growth, given its stronger and more diversified sourcing network.

Our internally generated growth in 2000, together with our acquisition of Colby at the end of the year, will ensure top line growth in 2001.

The Group's balance sheet is extremely strong and we enjoy a cash balance of over HK\$2.7 billion that can be used to fund future expansion.

Our goal remains to double the profits of the Group over the three-year period from 1999-2001. Our performance in the last two consecutive years is an excellent indicator that we are on track to achieving this goal.

## CONCLUSION

I wish to thank the board for their continued guidance and support and to express my appreciation to the management and staff of the Group for the outstanding results achieved during the year.

**Victor FUNG Kwok King**

*Chairman*

Hong Kong, 26 March 2001