

Chairman's Statement



Victor FUNG Kwok King

Introduction

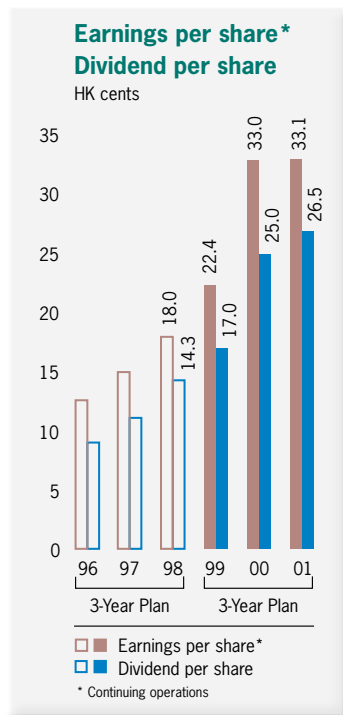
I am pleased to report that 2001 continued to be a year of growth for Li & Fung Limited (the "Group") as Li & Fung celebrated its 95th anniversary.

With a solid foundation laid down through the years and a size that results in unparalleled economies of scale, today Li & Fung is synonymous with Supply Chain Management. Li & Fung has come to be widely recognized as the leading global Supply Chain Manager with the most extensive sourcing network.

Performance

In 2001, Group turnover rose by 32% to HK\$33 billion. Profits attributable to shareholders amounted to HK\$782 million, compared to HK\$870 million in 2000. The Group's profits derived from continuing operations, that is, excluding the provision of HK\$169 million for StudioDirect as explained below, actually grew by 7% to HK\$951 million. Earnings per share on continuing operations were 33.1 cents, compared to 33 cents in 2000.

The Board of Directors has proposed a commensurate increase in final dividend to HK18.5 cents per share. That, together with interim dividend of HK8 cents per share, will give a total dividend of HK26.5 cents per share for the whole year (2000 total: HK25 cents per share).



Market & Business

The global market faced some real challenges last year as widespread slowdown began to set in early in the year. The tragic events in the US on September 11 dealt a further blow to the already sluggish market. Consumers' propensity to spend was affected to various degrees, which in turn had an adverse impact on overall demand for consumer goods.

In spite of all these adversities, the Group was able to maintain growth in turnover and profit. In fact, this overall growth was in line with our expectations as worldwide demand for Supply Chain Management services continued to increase across the board. Our leadership status in the global market has enabled us to capture a significant portion of that rising demand and ensured our sustainable growth year after year.

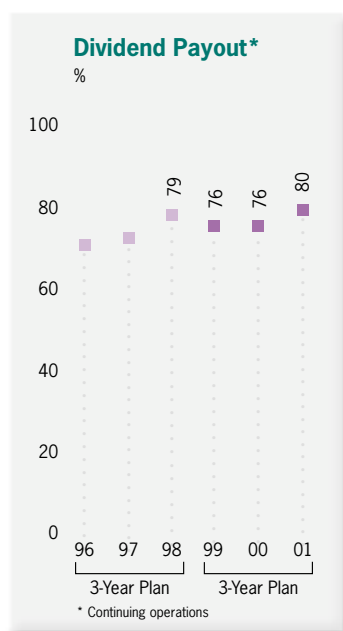
Internally our strategy of expansion through acquisition remained rewarding as our new acquisitions became new drivers of growth for the Group. Most notably integration of the Colby business, acquired toward the end of 2000, progressed as planned. We are delighted to report that in line with our forecasts, Colby has been contributing significantly to the Group's turnover and profit growth. Colby's good performance was attributable, among other things, to its particular emphasis on value retailers.

We still believe that the synergy between Supply Chain Management and the Internet is able to enhance the value of the Group's services to customers. In fact we have continued to benefit from that synergy through greater reliance on information technology in servicing our existing customers. However, in view of changes in market conditions in the US, the Group found it necessary to re-structure the operation of StudioDirect that was originally intended for capturing private label business from small to medium-sized retailers. We have decided to make a full provision of HK\$169 million and reduce the Group's stake in this operation from 57% to 15%. After this restructuring exercise, StudioDirect would transform from a full-service e-commerce company to a private label golfwear specialist accessing its customers through the Internet.

Overall I am delighted to report that the Group has achieved its 1999-2001 three-year plan target of doubling its profits from continuing operations to HK\$951 million from the 1998 level (HK\$455 million). This achievement was the result of the relentless efforts made by the management and staff toward a common goal clearly identified by the Board.

Looking Ahead

We believe the trend of globalization and the development of Supply Chain Management are mutually reinforcing. In the age of globalization, competition between economies in the international arena is tantamount to competition between supply chains. Success for a Supply Chain Manager like Li & Fung depends on its ability to dissect the manufacturing value chain from the producer to the end-user. We have been excelling in that and we will continue to do that in the most cost-effective manner.



In terms of product mix, while the Group has traditionally been more focused on soft goods, that is, mainly wearing apparel and other textile items, we have achieved considerable success in diversifying into hard goods that give better profit margins, and we will continue to pursue that.

While continuing to strengthen our presence in the US and the European Union, the Group has been conscious of the need for market diversification. We have been actively venturing into the Japanese market through the establishment of an alliance with Nichimen Corporation, a leading general trading firm in Japan. We believe the synergy between Li & Fung's global sourcing network and Nichimen's customer servicing capabilities will bring higher value to Japanese retailers.

It is generally thought that the global economic slowdown has bottomed out. In the US, our major market, encouraging signs of recovery are emerging. While it would be over-optimistic to predict an immediate V-shaped rebound, it would not be imprudent to assume that the start of gradual recovery is now on the horizon. This development would be beneficial to the Group in achieving higher growth in the coming years.

With regard to China, accession to the World Trade Organization will, among other things, further enhance its position as the global center for production. Li & Fung will benefit greatly from this development as a Hong Kong based multinational since its sourcing capabilities and competitiveness as the global leader in Supply Chain Management will be enhanced as a result.

Our new three-year (2002-2004) plan has just started. We are fully confident that our strong foundation and strengths as the global Supply Chain Management leader will ensure that our target of doubling our 2001 profit from continuing operations of HK\$951 million during this three-year period will be achievable.

Finally I wish to thank the members of the Board for their guidance and to extend my appreciation to the management and staff for their continued dedication and hard work.

Victor FUNG Kwok King

Chairman

Hong Kong, 21 March 2002

