## Chairman's Statement

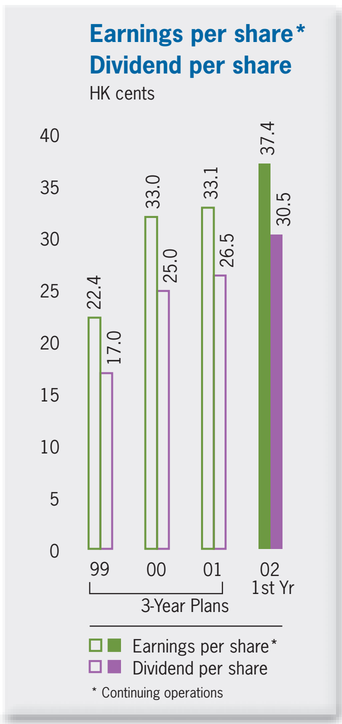
**Victor FUNG Kwok King**

### Introduction

I am pleased to report that 2002 was a year of progress for Li & Fung Limited (the "Group") and significant growth was achieved despite a slow first half. A bigger and stronger Li & Fung emerged as a result of several initiatives including the successful Janco acquisition, effective business alliances and major operational improvements during the course of the year. In particular, the Group's efforts to expand the hard goods business is yielding the expected benefits.

### Performance

In 2002, Group turnover rose by 13% to HK$37.3 billion. Profit attributable to shareholders amounted to HK$1.08 billion, passing the billion dollar mark for the first time and representing a 38% increase over the HK$782 million of 2001. Earnings per share on continuing operations were 37.4 HK cents, compared to 33.1 HK cents in 2001.



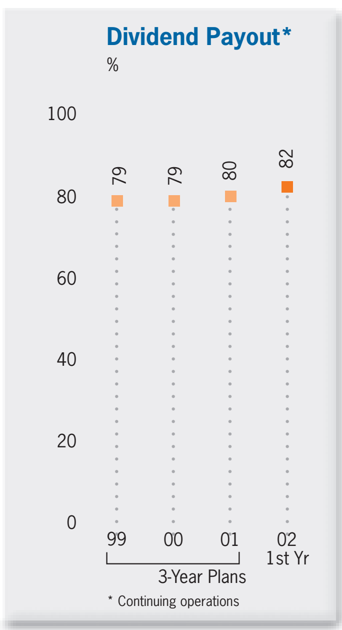

The Board of Directors has proposed a commensurate increase in final dividend to 22 HK cents per share. That, together with an interim dividend of 8.5 HK cents, will give a total dividend of 30.5 HK cents per share for the whole year (2001 total: 26.5 HK cents per share).

## Market & Business

In the early part of 2002, the global economy faced uncertainties arising from the events of September 11, and economic recovery was affected. Consumer propensity to spend was weakened and that in turn had an adverse impact on global demand for consumer goods.

The Group therefore experienced a slow start in the first half of 2002 but saw a strong recovery in the second half, supported in large part by the Group's position as a leading global Supply Chain Management partner in competitive retail markets.

With the successful acquisition and integration of Janco, today's enlarged Li & Fung Group is more diversified in terms of product mix, geographical coverage and customer base, and enjoys substantial economies of scale. The Group's list of successful acquisitions to date includes Inchcape Buying Services, Swire & Maclaine and Camberley. Of major significance was the acquisition and integration of the Colby business in 2000/2001. With the Janco acquisition last year, all these acquisitions are contributing substantially to the Group's turnover and profit growth. Janco's strengths in the hard goods sector and its emphasis on large food retailers who are rapidly expanding their non-food offerings, provides impetus for growth.




The Group will continue with its diversification strategy in order to further open up new customer segments and opportunities that, in turn, allow for turnover growth.

The Group has had a consistent policy of embracing information technology for greater efficiencies across all aspects of the Group's business and operations. Information technology provides critical connectivity in the Group's extensive supply chain network and provides customized, quality support for our customers and their time-sensitive needs. To this end, the Group's collaboration with Microsoft, started in July 2002, has already brought about tangible benefits. The Group will therefore continue to invest in new technologies so as to enhance its supply chain services and further extend its leadership position in global Supply Chain Management.

The Group's continuing strong financial position, with cash on hand of HK$2.4 billion, will allow for further investments across all fronts.

## Looking Ahead

The Middle East conflict could have a dampening effect on consumer sentiment, and business activity may be affected across the globe. Given these difficult circumstances, the Group will actively try to minimize any resultant negative impact.

Conflict aside, major opportunities continue to exist in the US and European markets, and the Group's growing presence in Asia and Australia also means the creation of new opportunities. The Group has consciously been stepping up activities in its East Asia and Southern Hemisphere regions so as to open up additional possibilities and to maximize the Group's potential.

Two decisive trends also spell continuing growth possibilities for the Group: globalization and its attendant competitive pressures, as well as China's WTO membership and the nation's increasing economic importance on the global stage, serve to underpin the criticality of Supply Chain Management. As producers and end-users further demand efficiency and competitiveness across the entire manufacturing value chain, the Group's track record as a global SCM leader helps to generate confidence and reassurance.

2002 marked the first year of the Group's Three-Year Plan 2002 - 2004. While prospects for the Group remain encouraging, the challenge will be to achieve significant turnover growth and profit improvements in order for the Group to pursue its target of doubling its profits from continuing operations over this three-year period.

The Group is cautiously optimistic, given its successful diversification and expansion strategies over the past years on which it has remained focused.

## Corporate Governance

Over the past year, the Board has reinforced the qualitative aspects of the Group's various controls and procedures in order to ensure the practice of good corporate governance. The overall approach has also been consistent with the need to ensure prudent enhancement and management of shareholder value. The Group's operating principles emphasize transparency and accountability with two key committees; namely, an Audit Committee comprising six non-executive directors and a Risk Management Committee that reviews risk management and internal control systems; and a Chief Compliance Officer overseeing a Corporate Governance Division.

In conclusion, I would like to thank the members of the Board for their continued guidance and support, and to express my appreciation to the Group's management and staff for their diligence and dedication.

**Victor FUNG Kwok King**
*Chairman*

Hong Kong, 24 March 2003