Chairman's Statement

Victor FUNG Kwok King

I am pleased to report that 2005 was a year of good performance for Li & Fung Limited (the "Group"). The Group achieved accelerated growth of 18% despite uncertainties including rising interest rates, high energy costs, and global trade issues affecting the textile industry.

Improvement in the Group's profitability reflects a continued shift toward a higher value-added supply chain model. Improved profitability has been driven by acquisitions, organic growth, and the shift among retailers from in-house buying office functions to flexible product outsourcing.

Performance

In 2005, Group turnover increased by 18% to HK$55.6 billion. Profit attributable to shareholders was HK$1.79 billion, representing a 20% increase over the HK$1.49 billion of 2004. Earnings per share were 61.2 HK cents, compared with 51.2 HK cents in 2004.

The Board of Directors has proposed a final dividend of 35.5 HK cents per share which, together with an interim dividend of 14.5 HK cents per share, will give a total dividend of 50.0 HK cents per share for the whole year (2004 total: 42.0 HK cents plus a special dividend of 25.0 HK cents per share).

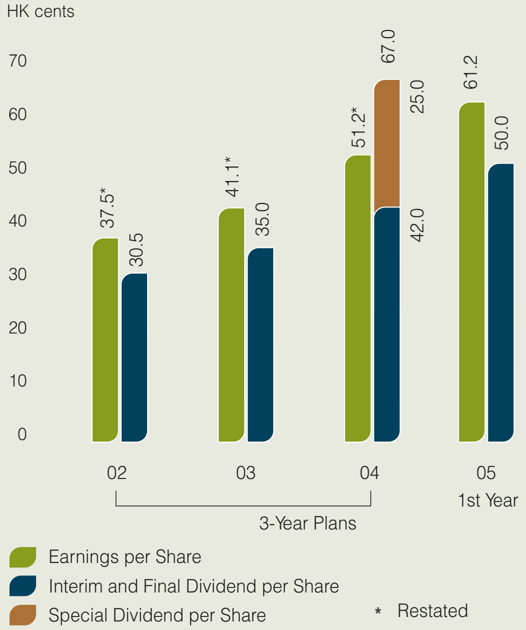
To commemorate the 100th anniversary of the Li & Fung Group, the Board of Directors also recommended a 1-for-10 bonus share issue.

Current Three-Year Plan 2005-2007

2005 was the first year of the Group's current Three-Year Plan 2005-2007. The objective of the Three-Year Plan 2005-2007 is to achieve a turnover of US$10 billion over the three year period, which implies revenue growth of 18% per annum. The Group is well on track in 2005. Efforts over the next two years will continue to be guided by the Group's philosophy of a disciplined approach to growth.

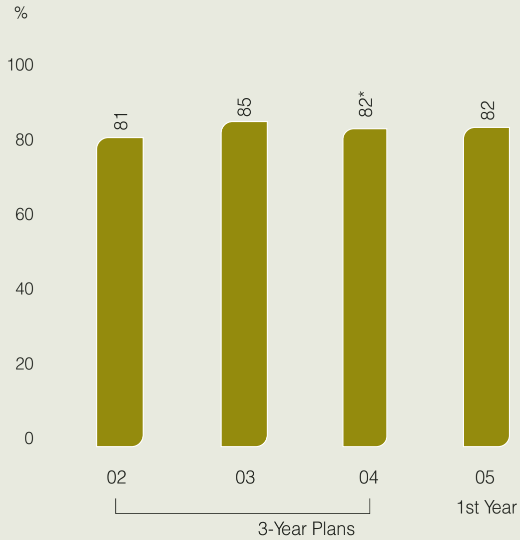
One of the key strategies of the Three-Year Plan 2005-2007 is to gain new customers by providing complete outsourcing solutions to retailers. In an uncertain and fast-changing environment, retailers in growing numbers are availing themselves of the Group's flexible 'pay as you go' solution to product sourcing. The global influence of private equity on the retail sector is driving retailers which have been subject to takeovers and restructuring to seek improved efficiency in supply-chain management by outsourcing their in-house buying functions. These developments should favour strong growth momentum for the Group in light of its size and leadership position.

Earnings per Share
Dividend per Share



* Restated

Dividend Payout



* Excluding Special Dividend

The strategy to build an on-shore United States business will have three pillars, namely private label, licensed brands as well as proprietary brands. The first pillar is the private label area; the Group will build upon its core competency on the direct off-shore sourcing model to service retailers who prefer to conduct business on an on-shore basis. These are customers who require more intensive servicing, design input, and logistics support. The market for this model of service has been dominated by many small importers. The Group is uniquely positioned with its greater capacity to create a cohesive, one-stop-shop solution for retailers' needs and there is a big opportunity for the Group in the roll-up of this fragmented market.

The second pillar is in supplying the branded goods to retailers. The Group began to develop a number of well known licensed brands in 2004, and the infrastructure is now in place to fully expand this part of the business. Given the Group's capabilities in the private label and licensed branded area, the third pillar will be the development of proprietary brands. The Group will take nationally recognized brands and build exclusive lines of merchandise for retailers.

Another key strategy of the Three-Year Plan 2005-2007 is to pursue a series of smaller acquisitions to augment organic growth. Opportunities are numerous especially in the private label importer sector. This will further enhance the Group's strong customer relationships and niche capabilities, strengthen selected business areas, and generate additional back room efficiencies.

Market and Business

In 2005, the consumer market in the United States, the Group's major export market, was resilient in the face of rising interest rates and high energy costs. Market sentiment was generally healthy. A renewed focus on fashion and differentiated products has boosted demand for quick response sourcing and value-added services.

The Group's on-shore wholesale strategy is well along. In 2005, the Group launched two more brand licenses, Levis RedTab tops and Royal Velvet, to the positive response of retailers and consumers. The Cannon license will also be launched in 2006. The Group's portfolio of licenses was greatly enhanced by the acquisition of Briefly Stated Holdings, Inc., a US apparel company, and its portfolio of more than forty cartoon character licenses. In the private label area, the acquisition of Young Stuff Apparel, Inc also brought new capabilities.

The Group completed five deals as part of its acquisitions strategy in 2005. On top of the two acquisitions related to our on-shore wholesale strategy, the other deals have expanded the Group's presence in Europe through acquisitions of companies active in fireworks and corporate premium and promotional products, and in Southeast Asia through an Indonesian hardgoods company.

Industry Trends

Going forward, a key industry trend will be the continued globalisation of manufacturing through international supply chain management. In the supply chain, activities and inputs will become increasingly dispersed across different locations and linked together through modern logistics and information technology. As part of this process, we will see the insertion of new and important countries into the global trading system. We also will see new opportunities for the Group's model of high value-added supply chain management.

While China has inserted itself into the global trading system remarkably quickly, there is much more to come. As skills, infrastructure, and transport networks improve throughout China, firms in more interior cities and provinces are developing the capabilities to produce for export and to ship their goods to coastal ports. Geographically, China's production for export is already extending inland from the coastal areas deep into China's interior, and China's links to global supply chains are becoming increasingly efficient with the opening up and liberalisation of the export trading sector. The Group, with its direct export license in China obtained in 2004, is at the forefront of this process.

India also is improving its linkages to global trade. Planned improvements in transportation infrastructure will give the output of talented labour in India's more remote areas access to world markets. As India links up to international production and trade, it will enjoy improved specialisation and enhanced competitiveness as a sourcing location. In addition, India will further develop its markets for capital goods, advanced inputs, and consumer goods. With five offices in India, the Group is well positioned to contribute to, and benefit from, these developments.

Among the smaller Asian economies, Vietnam is coming up fast as a sourcing location. In light of Vietnam's strengths including a young and low-cost work force plus vibrant entrepreneurial talent, the Group's activities in Vietnam are growing. Vietnam is working hard to conclude bilateral trade negotiations with the United States and multilateral trade negotiations for World Trade Organization (WTO) membership. Attaining Permanent Normal Trade Relations (PNTR) status from the United States and accession to the WTO should further improve the efficiency of resource allocation in Vietnam and its competitiveness as a sourcing location.

Protectionist measures such as anti-surge safeguards and embargoes will generate ongoing uncertainty in global trade. Inevitably, industries in economies that achieve noteworthy export success will have to contend with increasing anti-dumping and other protectionist responses from producers in their major markets. The Group will continue to be well prepared for such developments. Its diversified and flexible global sourcing network gives it a competitive edge in serving customers in uncertain times.

Corporate Governance

The Group is in full compliance with the Code on Corporate Governance Practices (Appendix 14 of the Listing Rules) as implemented by The Stock Exchange of Hong Kong Limited.

The Group remains firmly committed to high standards of corporate governance. It will continue to promote a strong compliance culture, by upholding the principles of transparency, accountability and independence.

The Group's culture emphasises open architecture, promoting harmony among its employees from over 40 nations. As it enters its Centenary in 2006, the Group looks forward to building for the next 100 years. It will strive to uphold its values as a Hong Kong-based multinational, to develop human capital, and to contribute to the communities of which it is a part worldwide.

In conclusion, I would like to express my gratitude to the members of the Board for their constant guidance and support. I am very grateful to the Group's management team and staff for their unswerving commitment and hard work during the past year. I also deeply appreciate the impressive contributions made to the Group by management and staff over its 100-year history.

Victor Fung Kwok King
Chairman

Hong Kong, 22 March 2006