

Chairman's Statement



Victor FUNG Kwok King

A buoyant global economy which has persisted despite some significant geopolitical instability has contributed to a good reporting period for Li & Fung. During 2006, the Group recorded turnover of HK\$68.0 billion (US\$8.7 billion). This is in line with the Three-Year Plan 2005-2007 turnover target of US\$10 billion.

In today's environment, we are called upon to be faster and more responsive to rapidly changing consumer desires and to deliver higher quality goods and services to diverse markets worldwide in a shorter time frame. Li & Fung's global supply chain strategy has responded to this need by continuing to develop sophisticated outsourcing solutions. Our ability to respond quickly to consumer preferences and to deliver against narrower schedules has strengthened Li & Fung's position as a time sensitive supply chain manager of a wider range of consumer goods for new and existing customers.

We continue to actively foster a corporate culture of versatility, opportunity and adaptability which reflects the marketplace in which we operate.

Performance

In 2006, Group turnover increased by 22% to HK\$68.0 billion. Profit attributable to shareholders was HK\$2.2 billion, representing a 23% increase over the HK\$1.8 billion of 2005. This result is also reflected in the earnings per share which were 67.1 HK cents compared with 55.6 HK cents in 2005 (adjusted for the effect of a 1-for-10 Bonus Issue in May 2006).

The Group Board of Directors has proposed a final dividend of 39.0 HK cents per share which, together with an interim dividend of 16.0 HK cents per share, will give a total dividend of 55.0 HK cents per share for 2006 (2005: 45.5 HK cents, adjusted for effect of the Bonus Issue).

Market and Business

Despite an uncertain geopolitical backdrop, the global economy continued to experience strong growth during the past year. The increasingly inter-linked world economy has proven to be robust and shown signs of resilience. This period of broadly shared high profits and high growth worldwide has brought significant gains for the Group.

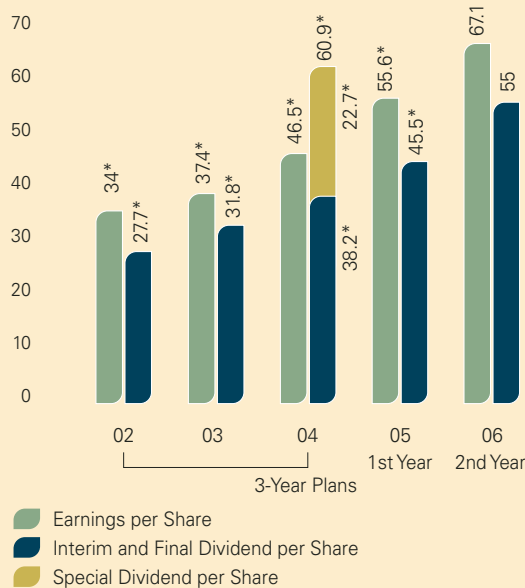
The US economy remained a strong story for Li & Fung in 2006. Consumers responded positively to stable oil prices in latter half of the year.

In Europe, an increasingly important Group market, labour markets have improved and are expected to further bolster consumer spending.

The Group continued to meet the complex outsourcing needs of existing and new customers worldwide while at the same time increasing its value-added capability. Overall, corporations have continued to consolidate with a trend to get back to core competencies. This has created opportunities for the Group to meet increasing demand to supply external outsourcing expertise.

Earnings per Share Dividend per Share

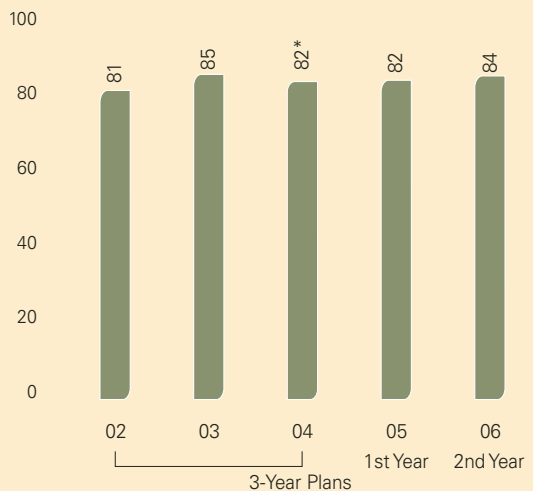
HK cents



* As adjusted for the effect of a 1-for-10 Bonus Issue

Dividend Payout

%



* Excluding Special Dividend

Chairman's Statement (continued)

The Group's global diversification strategy remains a core plank of the Three-Year Plan 2005-2007 and saw a number of major acquisitions during the past year. The Group's capacity to undertake an aggressive acquisition strategy enabled it to broaden its sourcing capabilities and enter new geographic markets while at the same time, extending the customer base.

Industry Trends

While the Group is looking to expand in key markets, diversification globally will remain a core foundation. This will ensure that the Group can continue to accommodate any fluctuations across the globe and that flexibility across those source markets can be maintained.

While diversification is the focus, China will remain an important component of the mix of source markets meeting global demands of the Group. In 2006, about one-half of the sourcing business was done in the Chinese Mainland.

China's capacity to become fully integrated with the global supply chain continues to strengthen as ongoing infrastructure and telecommunications development, especially in the interior region, presents new opportunities for the Group. With the opening of manufacturing in areas such as Chengdu and Chongqing, the sourcing mix has become increasingly competitive – generating better value and higher margins through providing even lower cost but higher quality products.

India remains a key market for the Group and is extremely important to the Group overall. The increasing integration of the Indian economy into the global marketplace has a direct impact on business opportunities for the Group.

The fragmented nature of the sub-continent's thriving outsourcing market offers significant opportunities for the Group. India is particularly strong in high value fashion apparel, footwear and home textiles including bedding and towels.

In this context, the Group's worldwide network and supply chain management expertise offers significant value-added opportunities in navigating this disjointed marketplace for its clients.

A strong, versatile and adaptable presence in both India and China which is founded on local market knowledge places the Group at a significant advantage in terms of offering the best supply chain solution worldwide for its growing customer base. In addition, new sourcing markets such as Vietnam, Turkey and Eastern bloc countries offer increased capacity to diversify and reduce supply risks. Vietnam, in particular, boasts a young, educated workforce with the capacity for significantly high-volume production. As well, it is a market renowned for good workmanship, particularly in the production of quality embroidery and elaborate ornaments, for example.

The world's consumer markets are driving demand for higher efficiency, better quality and importantly, goods which consumers will embrace. The marketplace of today is one which empowers consumers like never before and the Group is well placed to respond.

In turn, the global supply chain is truly international with inputs and resources across multiple economies being brought together through the "knowledge economy". A key strength for the Group has been to anticipate and even pre-empt those changes.

New opportunities are being identified as the Group's model of high value-added supply chain management becomes increasingly sought-after. A trend to specialisation is expected to continue to reap benefits for the Group as it brings its expertise to bear on a growing network of businesses globally.

Dispersed manufacturing and increasing complex trade flows are the way of the future. Multilateralism will deliver the best outcomes in order to facilitate complex cross-border flows generated by dispersed manufacturing. It is the multilateral system that enables each market around the world to contribute according to its skills and capabilities, and to develop its own competitive advantages.

I am encouraged by the steps taken to move forward the Doha round of multilateral trade negotiations. We must all devote the energy, support and engagement necessary to ensure a successful conclusion. The further strengthening of the global trading system will provide sizeable economic opportunities to emerging economies and lift business and consumer confidence around the world.

Prospects

Diversification both geographically and vertically will continue to underpin the Group's expansion plans. This will further strengthen the Group's overall business against minor fluctuations or volatility and position the Group for continued growth.

The Group has ambitious plans to grow the onshore business in the US both organically and by acquisitions. At the same time, plans are underway to pursue a similar strategy in Europe.

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 maintaining high standards of corporate governance. It will continue to uphold a strong compliance culture by upholding the principles of transparency, accountability and independence.

The Group's culture emphasises harmony among its employees from more than 40 economies. It will continue to strive to uphold its values as a Hong Kong-based multinational, to develop human capital and to contribute to the communities in which it operates worldwide.

The Group has instilled a culture which embraces change — a culture which encourages the pursuit of new ideas and new ways of doing things. This spirit of entrepreneurship is at the core of how we operate globally and equips the Group for success in this changing marketplace.

Conclusion

I would like to express my gratitude to the members of the Board for their constant guidance and support. I am indebted to the Group's management team and our staff around the world who contributed to Li & Fung's success during the past year.

Victor Fung Kwok King
Chairman

Hong Kong, 21 March 2007