CHAIRMAN'S STATEMENT

William Fung
Group Chairman

The year 2013 is the final year of our Three-Year Plan that covered the period 2011 to 2013. This Three-Year Plan has also been one of the most challenging in our company's long history.

Operationally, we achieved an all-time high in 2011, with a core operating profit of US$882 million. Regrettably, with macro-economic headwinds and internal restructuring costs in the United States that were higher than anticipated, we had to issue a profit warning for 2012. Happily, though, I can report that in 2013 we returned to the operating levels of 2011. We are back on track.

As we look forward to the next Three-Year Plan, covering the years 2014 to 2016, we see three major trends impacting our business in ways that bring both new challenges and new opportunities. The first has to do with changes in China, the second with tragedies in apparel factories in Bangladesh, and the third is the impact of the Internet on our customers and, through them, on us.

CHINA

As China changes gear and shift away from an over-reliance on exports to stimulating domestic consumption, I believe the impact on the global economy will be as dramatic as when China re-opened its doors in 1979. When China rejoined the world in 1979 and started to manufacture for exports the types of consumer goods that underlie Li & Fung's trading business, China added a billion workers to the global workforce. The resultant global impact as China became the "World's Factory" is well known. Now, thirty years later, as China starts along the road of eventually becoming the "World's Largest Consumer Market", it will be adding an additional billion consumers to the global market, many of them already middle class.

I predict that the impact of this shift will be as dramatic for the world in the next 30 years as China's economic opening was in the past 30 years.

In the Three-Year Plan just ended, we had already prepared for the opening up of China's consumer market by creating the LF Asia operating groups to sell to China and Asia in addition to just sourcing from them. In our new Three-Year Plan, we must now contend with the impact of the method by which China plans to boost domestic consumption i.e. by dramatically raising its minimum wage.

In its 12th Five-Year Plan (2011 – 2015), China announced that it plans to increase its average minimum wage by about 13% a year, every year in the five-year period. In other words, wages in China may rise 80% over these 5 years. This policy move, which is unprecedented by any government anywhere in the world, will dramatically affect traditional export manufacturing activities in both the Pearl and Yangtze River Deltas. Dislocation and re-location of this type of labor-intensive manufacturing to peripheral Chinese provinces – and out of China, to other developing countries – is inevitable.

With our large and unrivaled sourcing network covering over 40 countries, Li & Fung is in poll position to help customers and suppliers cope with the huge implications of this shift.

BANGLADESH

The Tazreen factory fire in 2012 and the collapse of Rana Plaza in 2013 in which, tragically, so many lives were lost, have focused the world on factory and worker safety and galvanized the global apparel industry to work together to bring about lasting change for the better. As a company, we have resolved to do our utmost to ensure that such tragedies are not repeated. The bar has now been raised, and it is our duty to help and ensure that our factory partners reach or exceed the tighter safety and compliance standards.

We will devote considerable manpower and resources on the ground to upgrade safety and sustainability within our vendor base, not just in Bangladesh but wherever we source.

Li & Fung's vendor compliance and sustainability stream now reports directly to me.

THE INTERNET

Perhaps the biggest challenge to our customers – be they retailers or brands – is how to succeed in the fast-growing world of e-commerce. The impact of more and more consumers buying on-line has spurred most traditional brick-and-mortar retailers to add an on-line dimension to their business, giving people more channels to buy products. This 'Omni Channel' approach looks set to be the dominant business model for many of our customers.

We on the sourcing side are, in turn, challenged to serve our customers' evolving needs. We must anticipate greater fluctuations in demand, respond even faster, and handle smaller orders with more frequent repeats. We must also take a lead in fostering more cooperative relationships between vendors and customers to ensure that our supply chain react efficiently and seamlessly to the increased speed and demands of the Internet world.

Factoring such challenges into our new Three-Year Plan, we announced in January a Vendor Support Services initiative that will radically change the way we deal with our 15,000-strong vendor base. We will provide services that help vendors cope with the myriad of new needs and operational complexities arising from the mega trends mentioned above – namely, the shift in production base, increasingly higher compliance standards and the need for faster, for more flexible responses in the Internet age. Through the provision of these services, we hope systematically to upgrade our supplier base, which in turn will benefit all our customers.

A second key aspect of our new Three-Year Plan is an emphasis on organic growth. The Company has made many acquisitions in recent years and these have expanded the scope of our product offering and geographical capabilities. Over the next three years, we look forward to building and growing our business organically on the strength of these expanded capabilities. Our core Trading business is in a particularly strong position to grow organically by taking advantage of the new opportunities brought on by the trends outlined above. The Vendor Support Services will further add to revenue growth in our core business. The Logistics business has grown rapidly in the past Three-Year Plan and the recently announced acquisition of China Container Line will accelerate this growth in the 2014-2016 plan.

Another important feature of all Three-Year Plans at Li & Fung is that we adopt a zero-based approach to re-examining all aspects of our organization and business. As part of this process, on fresh scrutiny of our Distribution Network, it became apparent that we had developed two distinct businesses in this business: one in the sourcing private label goods for customers on a landed, in-country basis; the other in the licensing, design and marketing of brands. These businesses require different skills and management focus. The private label business depends in large part on sourcing skills, similar to those in our core Trading business. The brands business, meanwhile, requires a much higher level of design and brand marketing and nurturing skills we have learned and cultivated over the past six years in the USA and Europe.

Hence, in the new Three-Year Plan, we will regroup the private label business back into our trading network and provide our customers with a repertoire of multi-channel sourcing services. A customer using our sourcing services will thus have multiple options, whether buying on an FOB (Free on Board) country-of-origin basis, a C&F (Cost & Freight) or CIF (Cost Insurance Freight) basis, or buying in their own country on a LDP (landed duty paid) basis. This increased flexibility in working with our customers in whatever way suits them best will further enhance our position as the world's premier sourcing company.

The brands business, which we have named the Global Brands Group, will be managed and run separately. This operating group was a US$3.3 billion business in 2013 in terms of turnover, with more than 350 licensed and controlled brands and over 3,000 employees of which some 700 are design staff.

The Company is preparing an application to the Hong Kong Stock Exchange for a possible separate listing of the Global Brands Group within 2014.

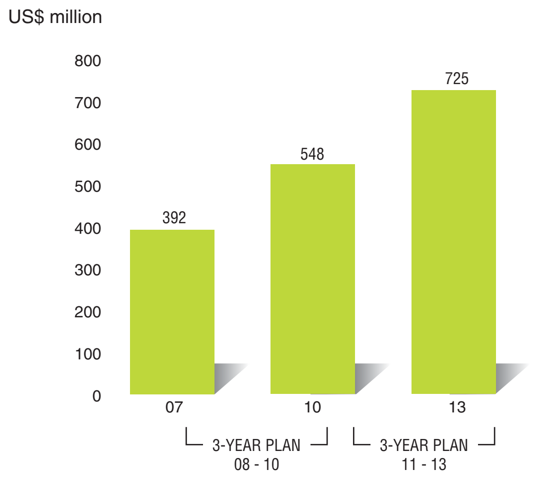
In conclusion, in 2013 we succeeded in returning to the operating profit levels of 2011, as we promised to do after the challenges of 2012. I would like to thank all my colleagues for their hard work and dedication in making this happen. I also wish to express my deep appreciation to the Board of Directors for their insightful guidance and support.

I am confident we are now poised to grow significantly over the next three years in all three of our reorganized business networks. I look forward to embarking on this exciting new journey with all our stakeholders.

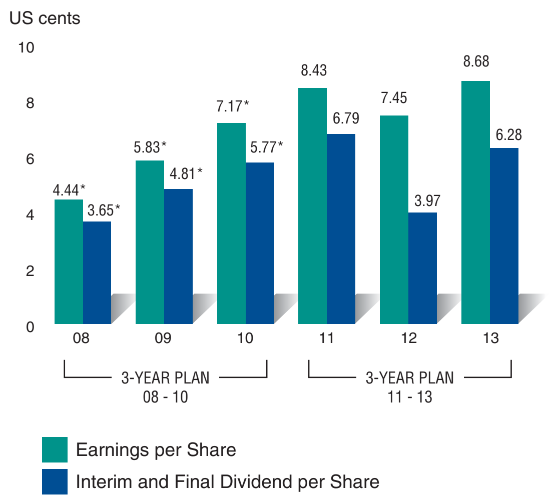
William FUNG Kwok Lun
Group Chairman

Hong Kong, 20 March 2014

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

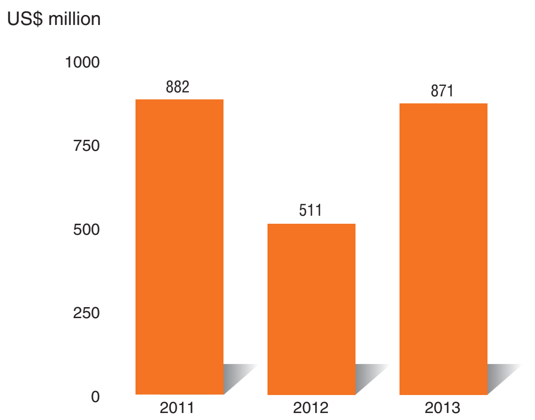


EARNINGS PER SHARE | DIVIDENDS PER SHARE

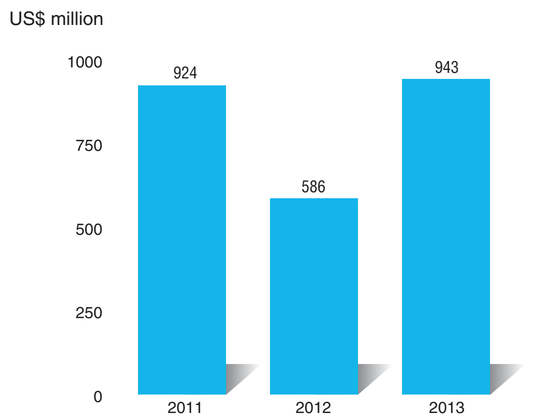


* Adjusted for the effect of Share Subdivision in May 2011

CORE OPERATING PROFIT



OPERATING CASH FLOW



THE SUPPLY CHAIN



We manage all aspects of
the Global Supply Chain with
our extensive network covering over
300 offices and distribution centers in
more than 40 economies