



Victor Fung Kwok King

I am glad to report that 1999 was another year of good performance for the Group.

The Group's turnover for the year was HK\$16,298 million, representing an increase of 13.9%. Profit attributable to shareholders was HK\$575 million, up from HK\$455 million in 1998 or an increase of 26.2%.

Earnings per share were 44.7 cents compared with 36 cents in 1998. The Directors recommended a final dividend of 25 cents or a total dividend pay-out for the year of 34 cents per share, including the interim dividend of 9 cents per share.

During the year Li & Fung further strengthened its position as one of the premier global consumer products trading companies, managing the supply chain for high-volume, time-sensitive consumer goods.

REVIEW OF THE ENVIRONMENT

The United States and Western Europe remained our major markets. The US retail market continued steady growth whilst in Western Europe economic activity also staged a gradual recovery during the year.

We expect to see some consolidation in the US economy in 2000 after a decade of continuous growth. This would be healthy and conducive to a soft landing of the US economy. In the European Union, prices have become more transparent with the advent of the euro and price competition has intensified. This is likely to enforce efficiencies among European retailers and possibly lead to industry consolidation. As a result, we can foresee new opportunities and anticipate working for an expanding number of larger customers.

Our acquisition of Swire & Maclaine and Camberley will broaden our customer base and our design capabilities to serve both the US and European markets in the years ahead.

The economies of Asia have now largely stabilized which is good news for our sourcing network. China's accession to the World Trade Organization, which is expected to take place in 2000, will no doubt bring substantial benefits to the Group: on the one hand it will increase opportunities for sourcing goods from China and on the other hand it will mean that goods made in China will be less susceptible to trade interruptions. At the same time, the Indian sub-continent has rapidly developed as a major sourcing market and we expect exports from this area to increase substantially during the year.

THE NEW ECONOMY

Understanding in business and financial circles of the nature of Li & Fung's value-added package has, I believe, considerably increased over the last few years. However, more recent excitement about the Internet has led some commentators to suggest that Li & Fung could be "disintermediated" - with the Internet coming to take our place between customers and suppliers.

I see things rather differently and believe that Li & Fung today is as much a part of the New Economy as of the old. Certainly, we deal in goods but the key to our business is not "hardware" but "information and content". The core of our business is information and its application to the management of the supply chain. We are sure that the Internet and e-commerce offer vast opportunities to Li & Fung. The Internet will help us to drive further down the supply chain, integrating the management of that supply chain through information technology.

We have already been working hard to prepare ourselves for wider application of the Internet in world trade. As we move further into the New Economy, we are continually strengthening our capabilities by use of the Intranet - among Li & Fung offices worldwide - and the Extranet - on-line linkage with customers. At the core of our future operations will be a B2B strategy to open new markets and business opportunities. Our customers are rapidly shifting to an Internet setting and we are well poised to help them take advantage of new trends in sales and distribution channels.

One particular emphasis of our B2B strategy will be to capture market segments that have previously been uneconomic for the Group to penetrate: for instance, small-and-medium retailers are now being attracted with private label programmes and efficient supply chain management. We are optimistic as to our prospects in this market segment, which is becoming increasingly important as private label becomes more and more essential as a means by which retailers establish a distinctive market niche. As e-tailers grow stronger, our aim is to become their fulfillment arm by meeting their criteria for smaller quantities delivered in a shorter time frame.

PROSPECTS

We are confident that the Group's growth prospects in the coming years will be brighter than ever. Our early mastery of the Internet is vital to the continued expansion of our customer base. We are also proud that we are now richer than ever in terms of human capital, having combined the sourcing expertise of the old Li & Fung Trading, Inchcape Buying Services and the Swire trading entities. Externally, China's expected accession to the WTO on the one hand and the current economic stability in both the western and eastern worlds on the other hand will be beneficial to the Group's performance.

For some, the globalization of trade may have a backlash as non-trade issues such as environmental protection and labor standards - appear more and more frequently on the agenda of trade negotiations. Li & Fung is fortunate to be ahead of many exporters in having long-established procedures for compliance by suppliers. Many customers are coming to us because they know we have a long tradition and the competence to deal with these issues. They share our standards and our commitment to compliance.

As we move forward into the new century, we shall look at new ways to perform even more effectively in the New Economy and will pursue acquisitions that fill in the gaps in our position as one of the world's leading trading companies for consumer products.

CONCLUSION

During the year, Sir Anthony Hayward, Mr Steven Murray Small and Mr Chung Po Yang retired as Non-executive Directors. We thank them for their past service and wish them all the best.

Mr Leslie Boyd, Professor F Warren McFarlan and Mr Allan Wong Chi Yun were appointed Non-executive Directors during the year.

I wish to thank the Board of Directors for their guidance and support and to express my appreciation to all the staff members for their hard work and devotion during the year.

Victor Fung Kwok King
Chairman

Hong Kong, 27 March 2000