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# LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 494)

## ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

### HIGHLIGHTS

(HK\$ millions)	2008	2007	Change
Turnover	<b>110,722</b>	92,460	+20%
Core Operating Profit	<b>3,084</b>	3,187	-3%
<i>As % of Turnover</i>	<b>2.79%</b>	3.45%	
Profit attributable to shareholders of the Company	<b>2,422</b>	3,060	-21%
Earnings per Share - basic	<b>69.3 HK cents</b>	89.5 HK cents	-23%
Dividend per Share			
- Final	<b>33 HK cents</b>	50 HK cents	-34%
- Full year	<b>57 HK cents</b>	71 HK cents	-20%

- Continue to gain market share in a difficult market
- Solid turnover growth due to resilient organic growth and the flow of acquisitions and outsourcing deals
- US onshore business progressing very well, European onshore business has a start-up year
- Profits affected by a number of one-time events
- Overall financial strength is even stronger than 2007

We are pleased to announce the audited consolidated profit and loss account of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2008 and the audited consolidated balance sheet of the Group as at 31 December 2008 together with the comparative figures in 2007. The annual results have been reviewed by the Company’s audit committee and the Company’s auditor.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	2008 HK\$'000	2007 HK\$'000
Turnover	2	110,722,117	92,459,949
Cost of sales		(99,119,132)	(82,692,446)
Gross profit		11,602,985	9,767,503
Other income		420,925	518,225
Total margin		12,023,910	10,285,728
Selling expenses		(2,396,245)	(1,730,239)
Merchandising expenses		(5,842,493)	(4,755,175)
Administrative expenses		(701,117)	(613,713)
Core operating profit	2	3,084,055	3,186,601
Gain on disposal of property holding subsidiaries		-	456,622
Other non-core operating expenses net of income		(39,639)	(43,170)
Operating profit	3	3,044,416	3,600,053
Interest income		112,748	208,193
Interest expenses		(480,175)	(499,664)
Share of profits less losses of associated companies		6,197	4,948
Profit before taxation		2,683,186	3,313,530
Taxation	4	(259,497)	(252,554)
Profit for the year		2,423,689	3,060,976
Attributable to:			
Shareholders of the Company		2,421,936	3,060,036
Minority interest		1,753	940
		2,423,689	3,060,976
Earnings per share for profit attributable to the shareholders of the Company during the year	5		
- basic		69.3 HK cents	89.5 HK cents
- diluted		68.8 HK cents	88.3 HK cents
Dividends	6	2,031,155	2,446,525

## CONSOLIDATED BALANCE SHEET

	Note	2008 HK\$'000	2007 HK\$'000
<b>Non-current assets</b>			
Intangible assets		14,602,129	11,374,637
Property, plant and equipment		1,283,063	1,130,002
Prepaid premium for land leases		2,548	2,554
Associated companies		23,740	14,575
Available-for-sale financial assets		20,189	85,465
Deferred tax assets		111,441	115,604
		<b>16,043,110</b>	<b>12,722,837</b>
<b>Current assets</b>			
Inventories		2,328,948	2,059,618
Due from related companies		83,954	71,689
Trade and bills receivable	7	14,715,430	13,716,146
Other receivables, prepayments and deposits		2,027,576	1,746,722
Derivative financial instruments		34,814	-
Cash and bank balances		2,275,272	1,472,365
		<b>21,465,994</b>	<b>19,066,540</b>
<b>Current liabilities</b>			
Derivative financial instruments		-	21,809
Trade and bills payable	8	12,666,975	11,231,148
Accrued charges and sundry payables		2,771,908	2,394,858
Balance of purchase consideration payable for acquisitions to be settled by cash		1,178,118	1,257,254
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent		81,278	-
Taxation		465,727	465,765
Bank advances for discounted bills		312,693	328,175
Short term bank loans		278,217	441,796
Bank overdrafts		93,307	205,261
		<b>17,848,223</b>	<b>16,346,066</b>
<b>Net current assets</b>		<b>3,617,771</b>	<b>2,720,474</b>
<b>Total assets less current liabilities</b>		<b>19,660,881</b>	<b>15,443,311</b>
<b>Financed by:</b>			
Share capital		90,853	86,268
Reserves		12,121,852	8,082,371
Proposed dividend		1,199,369	1,726,678
		<b>13,321,221</b>	<b>9,809,049</b>
Shareholders' funds attributable to the Company's shareholders		13,412,074	9,895,317
Minority interest		(29,720)	(31,053)
<b>Total equity</b>		<b>13,382,354</b>	<b>9,864,264</b>
<b>Non-current liabilities</b>			
Long-term liabilities		5,760,075	5,063,586
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent		382,772	464,050
Post-employment benefit obligations		23,766	30,335
Deferred tax liabilities		111,914	21,076
		<b>6,278,527</b>	<b>5,579,047</b>
		<b>19,660,881</b>	<b>15,443,311</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2008 HK\$'000	2007 HK\$'000
Total equity at 1 January	9,864,264	8,266,845
Currency translation differences	(485,768)	176,114
Disposal of available-for-sale financial assets	(32,077)	-
Net fair value gains on available-for-sale financial assets	-	28,262
Impairment of available-for-sale financial assets	4,942	-
Net fair value gains/(losses) on cash flow hedges	8,674	(3,810)
Net (loss)/income recognized directly in equity	(504,229)	200,566
Profit for the year	2,423,689	3,060,976
Total recognized income for the year	1,919,460	3,261,542
Minority interest from acquisition of subsidiaries	183	-
Dividends paid	(2,559,745)	(2,051,185)
Issue of shares upon a private placing	3,878,757	-
Issue of shares for the settlement of acquisition consideration	-	464,050
Shares held by escrow agent	-	(464,050)
Employee share option scheme:		
- value of employee services	85,747	111,756
- shares issued	385	590
- share premium on issue of new shares	193,303	274,716
<b>Total equity as at 31 December</b>	<b>13,382,354</b>	<b>9,864,264</b>

**Notes:**

**1 Basis of preparation and accounting policies**

The consolidated accounts of Li & Fung Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). They have been prepared under the historical cost convention, as modified by the available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of accounts in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgment in the process of applying the Group's accounting policies.

(a) Amendments and interpretations effective in 2008

The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's accounts, as the Group has not reclassified any financial assets.

HK(IFRIC) - Int 11, 'HKFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's accounts.

HK(IFRIC) - Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's accounts.

Notes:

1 Basis of preparation and accounting policies (Continued)

- (b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>2</sup>
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items <sup>2</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate <sup>1</sup>
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation <sup>4</sup>
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners <sup>2</sup>
HK(IFRIC)-Int 18	Transfers of Assets from Customers <sup>2</sup>

In addition, the HKICPA has also issued Improvements to HKFRSs which sets out amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41, primarily with a view to remove inconsistencies and clarify wordings. Except for the amendment to HKFRS 5, which is effective for the financial periods on or after 1 July 2009, other amendments are effective for financial periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

Notes:

- 1 Effective for financial periods beginning on or after 1 January 2009
- 2 Effective for financial periods beginning on or after 1 July 2009
- 3 Effective for financial periods beginning on or after 1 July 2008
- 4 Effective for financial periods beginning on or after 1 October 2008

**Notes:****2 Segment information**

The principal activity of the Group is export trading of consumer products.

**(a) Geographical segments**

	United States of America 2008 HK\$'000	Europe 2008 HK\$'000	Canada 2008 HK\$'000	Australasia 2008 HK\$'000	Central and Latin America 2008 HK\$'000	Rest of The World 2008 HK\$'000	Group 2008 HK\$'000
Turnover	<u>68,376,444</u>	<u>32,245,042</u>	<u>3,284,379</u>	<u>2,684,857</u>	<u>1,713,028</u>	<u>2,418,367</u>	<u>110,722,117</u>
Segment results	<u>2,100,342</u>	<u>626,735</u>	<u>120,370</u>	<u>96,616</u>	<u>61,139</u>	<u>78,853</u>	<u>3,084,055</u>
Other non-core operating expenses net of income							(39,639)
Interest income							112,748
Interest expenses							(480,175)
Share of profits less losses of associated companies							6,197
Profit before taxation							<u>2,683,186</u>
Taxation							<u>(259,497)</u>
Profit for the year							<u>2,423,689</u>
Segment assets	<u>22,693,132</u>	<u>8,166,300</u>	<u>762,399</u>	<u>537,428</u>	<u>381,636</u>	<u>627,281</u>	<u>33,168,176</u>
Unallocated assets							<u>4,340,928</u>
Total assets							<u>37,509,104</u>
Segment liabilities	<u>11,917,958</u>	<u>5,471,690</u>	<u>481,998</u>	<u>364,160</u>	<u>244,275</u>	<u>412,198</u>	<u>18,892,279</u>
Unallocated liabilities							<u>5,234,471</u>
Total liabilities							<u>24,126,750</u>
Capital expenditure	<u>374,977</u>	<u>88,969</u>	<u>9,713</u>	<u>13,190</u>	<u>5,220</u>	<u>1,989</u>	<u>494,058</u>
Depreciation	<u>185,593</u>	<u>59,604</u>	<u>6,222</u>	<u>8,857</u>	<u>3,433</u>	<u>1,403</u>	<u>265,112</u>
Amortization of prepaid premium for land leases	<u>75</u>	<u>36</u>	<u>4</u>	<u>3</u>	<u>2</u>	<u>2</u>	<u>122</u>

**Notes:****2 Segment information (Continued)****(a) Geographical segments (Continued)**

	United States of America 2007 HK\$'000	Europe 2007 HK\$'000	Canada 2007 HK\$'000	Australasia 2007 HK\$'000	Central and Latin America 2007 HK\$'000	Rest of The World 2007 HK\$'000	Group 2007 HK\$'000
Turnover	59,953,695	23,732,432	3,109,224	2,191,068	1,419,840	2,053,690	92,459,949
Segment results	2,067,025	767,289	129,801	97,204	57,095	68,187	3,186,601
Gain on disposal of property holding subsidiaries							456,622
Other non-core operating expenses							(43,170)
Interest income							208,193
Interest expenses							(499,664)
Share of profits less losses of associated companies							4,948
Profit before taxation							3,313,530
Taxation							(252,554)
Profit for the year							3,060,976
Segment assets	16,959,527	6,953,747	958,522	526,128	443,931	616,518	26,458,373
Unallocated assets							5,331,004
Total assets							31,789,377
Segment liabilities	11,056,148	4,510,722	555,568	366,126	260,954	360,080	17,109,598
Unallocated liabilities							4,815,515
Total liabilities							21,925,113
Capital expenditure	197,570	88,201	11,247	9,387	5,225	7,876	319,506
Depreciation	119,570	60,916	5,783	4,799	2,803	4,489	198,360
Amortization of prepaid premium for land leases	10,441	4,133	541	382	248	356	16,101

**Notes:**

**2 Segment information (Continued)**

**(b) Business segments**

	<b>Turnover 2008 HK\$'000</b>	<b>Segment results 2008 HK\$'000</b>	<b>Total assets 2008 HK\$'000</b>	<b>Capital expenditure 2008 HK\$'000</b>
Softgoods	<b>73,123,809</b>	<b>2,635,596</b>	<b>26,291,150</b>	<b>329,846</b>
Hardgoods	<b>37,598,308</b>	<b>448,459</b>	<b>6,877,026</b>	<b>164,212</b>
	<b><u>110,722,117</u></b>	<b><u>3,084,055</u></b>	<b><u>33,168,176</u></b>	<b><u>494,058</u></b>
Other non-core operating expenses net of income		<b>(39,639)</b>		
Operating profit		<b><u>3,044,416</u></b>		
Unallocated assets			<b>4,340,928</b>	
Total assets			<b><u>37,509,104</u></b>	
	<b>Turnover 2007 HK\$'000</b>	<b>Segment results 2007 HK\$'000</b>	<b>Total assets 2007 HK\$'000</b>	<b>Capital expenditure 2007 HK\$'000</b>
Softgoods	63,866,931	2,363,894	19,312,027	170,162
Hardgoods	28,593,018	822,707	7,146,346	149,344
	<b><u>92,459,949</u></b>	<b><u>3,186,601</u></b>	<b><u>26,458,373</u></b>	<b><u>319,506</u></b>
Gain on disposal of property holding subsidiaries		456,622		
Other non-core operating expenses		(43,170)		
Operating profit		<b><u>3,600,053</u></b>		
Unallocated assets			5,331,004	
Total assets			<b><u>31,789,377</u></b>	

**Notes:**

**3 Operating profit**

Operating profit is stated after crediting and charging the following:

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
<u>Crediting</u>		
Gain on disposal of property holding subsidiaries	-	456,622
<u>Charging</u>		
Cost of inventories sold	<b>99,119,132</b>	82,692,446
Share option expenses	<b>85,747</b>	111,756
Amortization of intangible assets arising from business combinations	<b>52,860</b>	19,118
Amortization of prepaid premium for land leases	<b>122</b>	16,101
Amortization of computer software and system development costs	<b>10,853</b>	10,346
Amortization of brand licenses	<b>153,281</b>	19,055
Depreciation of property, plant and equipment	<b>265,112</b>	198,360
Loss on disposal of property, plant and equipment	<b>8,728</b>	6,336
Provision for impairment of available-for-sale financial assets	<b>14,684</b>	24,052
Bad debt written off/provision for impaired receivables	<b>212,241</b>	38,056

**4 Taxation**

Hong Kong profits tax has been provided for at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Current taxation		
- Hong Kong profits tax	<b>149,193</b>	168,386
- Overseas taxation	<b>107,837</b>	66,022
Underprovision in prior years	<b>8,134</b>	20,181
Deferred taxation	<b>(5,667)</b>	(2,035)
	<b>259,497</b>	252,554

**Notes:**

**5 Earnings per share**

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$2,421,936,000 (2007: HK\$3,060,036,000) and on the weighted average number of 3,496,003,000 (2007: 3,420,475,000) shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of 3,496,003,000 (2007: 3,420,475,000) ordinary shares in issue by 24,345,000 (2007: 43,887,000) to assume conversion of all dilutive potential ordinary shares granted under the Company's Option Scheme. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

**6 Dividends**

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Interim, paid, of HK\$0.24 (2007: HK\$0.21) per ordinary share	<b>831,786</b>	719,847
Final, proposed, of HK\$0.33 (2007: HK\$0.50) per ordinary share	<u><b>1,199,369</b></u>	<u>1,726,678</u>
	<u><b>2,031,155</b></u>	<u>2,446,525</u>

At a meeting held on 25 March 2009, the Directors proposed a final dividend of HK\$0.33 per share. The proposed dividends are not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2009.

**7 Trade and bills receivable**

The ageing analysis of trade and bills receivable is as follows:

	Current to 90 days HK\$'000	91 to 180 days HK\$'000	181 to 360 days HK\$'000	Over 360 days HK\$'000	Total HK\$'000
<b>Balance at 31 December 2008</b>	<u><b>12,928,272</b></u>	<u><b>1,704,988</b></u>	<u><b>75,776</b></u>	<u><b>6,394</b></u>	<u><b>14,715,430</b></u>
Balance at 31 December 2007	<u>12,509,235</u>	<u>980,865</u>	<u>192,938</u>	<u>33,108</u>	<u>13,716,146</u>

All trade and bills receivable are either repayable within one year or on demand. Accordingly, the fair values of the Group's trade and bills receivable are approximately the same as their carrying values.

**Notes:**

**7 Trade and bills receivable (Continued)**

A significant portion of the Group's business are on sight letter of credit, usance letter of credit up to a tenor of 120 days, documents against payment or customers' letter of credit to suppliers. The balance of the business is on open account terms which is often covered by customers' standby letters of credit, bank guarantees or credit insurance or under a back-to-back payment arrangement with suppliers.

Certain subsidiaries of the Group transferred bills receivable balances amounting to HK\$312,693,000 (2007: HK\$328,175,000) to banks in exchange for cash as at 31 December 2008. The transaction has been accounted for as collateralized bank advances.

**8 Trade and bills payable**

The ageing analysis of trade and bills payable is as follows:

	Current to 90 days HK\$'000	91 to 180 days HK\$'000	181 to 360 days HK\$'000	Over 360 days HK\$'000	Total HK\$'000
<b>Balance at 31 December 2008</b>	<b><u>12,161,586</u></b>	<b><u>361,607</u></b>	<b><u>41,221</u></b>	<b><u>102,561</u></b>	<b><u>12,666,975</u></b>
Balance at 31 December 2007	<u>10,685,357</u>	<u>430,439</u>	<u>66,046</u>	<u>49,306</u>	<u>11,231,148</u>

The fair values of the Group's trade and bills payable are approximately the same as their carrying values.

## MANAGEMENT DISCUSSION & ANALYSIS

### Results Review

Notwithstanding a challenging business environment, the Group is pleased to report that we have continued to expand market share and have experienced strong turnover growth in a gloomy market.

Turnover increased by 20% to US\$14,195 million (approximately HK\$111 billion), despite many of our customers having reduced inventory in 2008, reflecting Li & Fung's solid organic growth, growth through acquisitions and an accelerated flow of outsourcing deals in recent years.

Core operating profits decreased by 3% from the previous year. Core operating profit margin decreased to 2.79% from 3.45% which is attributed to the higher operating costs committed in 2007 which impacted on 2008. This also reflects the time lag in incorporating the benefits of new outsourcing deals. For example, the Group immediately incurs additional operating costs when a new outsourcing deal results in incorporating new staff but faces a delay in realizing revenue benefits.

Profit attributable to shareholders reached HK\$2,422 million for 2008, a decrease of 21% over 2007. Apart from the overall weak market sentiment, the bottom line was also affected by a number of one-time events including restructuring costs in many of the high cost cities, in particular the US onshore business as this was rationalized after three years of numerous acquisitions, start-up costs incurred for the European onshore business, certain provisions made due to a small number of customers' bankruptcies in 2008, and a one-time gain from disposal of property holding subsidiaries in 2007 which was not present in the 2008 accounts.

Total margins increased by 17% but as a percentage of turnover, declined slightly from 11.12% to 10.86% in 2008, due to change in customer mix.

The Group saw an increased flow of outsourcing deals in 2008. Many of our customers opted to focus on their core competencies such as retailing and marketing, and elected to outsource their non-core operations such as their sourcing operation to Li & Fung. In 2008, we executed a number of significant outsourcing deals, including Toys'R'Us' private label business, Sanrio, Timberland's apparel business, and Mexx.

In addition, we continued with our two-pronged acquisition strategy with the Group undertaking seven acquisitions in 2008: Imagine, RT Sourcing, Silverreed, Wilson & Wong, Giant Merchandising, Van Zeeland and Miles Fashion. Undoubtedly, these acquisitions will have had a significant impact on the Group's product platforms and geographic reach.

In 2008, the Group entered into a Subscription Agreement through which a wholly-owned subsidiary of Temasek Holdings (Private) Limited agreed to subscribe to 168,000,000 new shares at a price of HK\$23.09 per subscription share. The proceeds provided funds for the Group to take advantage of acquisition opportunities that may arise in this economic environment.

## Segmental Analysis

In 2008, softgoods and hardgoods accounted for 66% and 34% of turnover respectively. **Softgoods** turnover increased by 14% while operating profit increased by 11%. The improvement reflects the positive contributions from previous acquisitions such as Tommy Hilfiger's sourcing operations, American Marketing Enterprises (AME) and Regatta.

Turnover from the **hardgoods** business grew by 31% but operating profit decreased by 45%. This turnover growth reflects solid organic growth from some existing customers and contributions from previous acquisitions in the Health, Beauty and Cosmetics (HBC) business as well as the shoe business. The decline in operating profit reflects the drop in margins in the hardgoods business and in particular, the European onshore business.

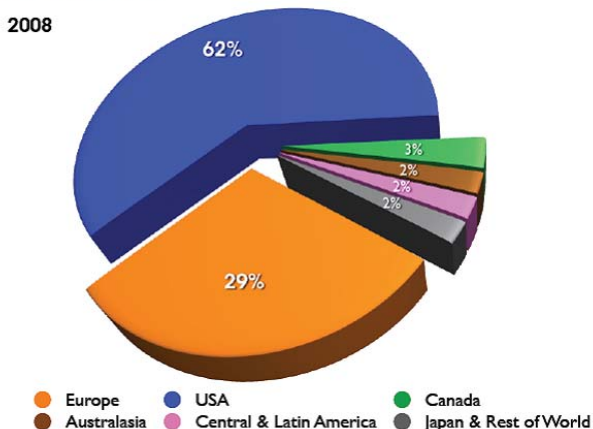
Geographically, the **US** continues to be the Group's key export market, representing 62% of total turnover during the period under review. However, this represents a fall from 65% in 2007 and reflects our continued success in diversifying geographically. Turnover and operating profit grew by 14% and 2% respectively, which resulted from contributions from acquisitions such as AME and Giant Merchandising, and our active involvement in the proprietary brand business through Regatta, in addition to our core sourcing business. As well, our US onshore business continued to grow at healthy levels in 2008. On the other hand, the operating profit of the overall US business was adversely affected by hardgoods business which saw decline in operating profit in 2008.

**Europe** accounted for 29% of turnover, reflecting growth of 36%. This growth reflects the contribution from Peter Black and outsourcing deals as well as solid organic growth from existing customers. Operating profits dropped by 18% attributed to factors including to start-up costs incurred at European onshore business and that Peter Black's margins have also decreased from previous year.

In 2008, Li & Fung began to develop the European onshore business. Similar to the US onshore business, the first year was a start-up period with associated costs and we expect the European onshore business to reach its Three-Year Plan targets in 2010.

Turnover in other markets such as **Canada, Central and Latin America, and Australasia** accounted for 3%, 2% and 2% respectively. Turnover growth for these markets stood at 6%, 21%, and 23%. Operating profit declined in Canada and Australasia was down 7% and 1% respectively but Central and Latin America recorded operating profit growth of 7%. **Japan** and the rest of the world representing turnover share of 2%, experienced growth of 18% in turnover and 16% in operating profit.

Turnover by Markets



## Acquisitions

We continued to pursue a two-pronged acquisition strategy in 2008, marked by a total of five roll-up acquisitions (Imagine, RT Sourcing, Silvereed Group, Wilson & Wong, and Giant Merchandising) and two large acquisitions (Van Zeeland and Miles Fashion).

Key acquisitions include:

- *Health, Beauty and Cosmetics (HBC)*

The Group continued to strengthen its capabilities in the HBC sector by acquiring Imagine in January 2008 and RT Sourcing in July 2008. Imagine is one of the leading companies in Asia designing and developing point-of-sale displays for retailers and manufacturers globally.

RT Sourcing is a sourcing and development company that specializes in primary packaging and components for beauty brands and full service beauty products for retailers.

The Group sees tremendous growth opportunities in the area of HBC to leverage potential synergies with existing customers.

- *Fashion*

The Group increased its presence in the better priced fashion label arena by acquiring the Silvereed Group in February 2008 and Wilson & Wong Trading Company Limited in July 2008. Both are based in Hong Kong and are “virtual manufacturers” with the focus on design and product development of ladies’ fashion garments. These deals added a new portfolio of the fashion customer.

### *Onshore Business*

- (i) *Van Zeeland*

In August, the Group announced that it had entered into an agreement to acquire Van Zeeland for HK\$2,574 million with additional incentives based on performance. Van Zeeland is a leading New York-based importer of mid-tier and department store handbag brands, including flagship labels Kathy Van Zeeland Handbags, B. Makowsky & Tignanello. The deal helps to establish the Group as the leading handbag supplier in the US across all distribution channels.

- (ii) *Miles Fashion Group*

In November, the Group announced that it had entered into an agreement to acquire all of the shares of Miles Fashion Group, a leading German supplier to some of the largest discounters and retail chains in Europe. Miles Fashion sells a wide range of ladies and menswear, kidswear, outdoor and footwear products. This acquisition helps to give the Group the platform to accelerate growth of LF Europe in the current Three-Year Plan.

(iii) *Licensed Brands*

In April 2008, the Group continued to further our US onshore business by acquiring the trademark and assets relating to the T-Shirt licensed business of Giant Merchandising. The transaction helps to provide further category and brand expansion in our licensed product business.

### **Outsourcing Deals**

2008 marked a year which saw the acceleration of outsourcing deals. These included Toys'R'Us' private label business, Sanrio, Timberland's apparel business and Mexx. Undoubtedly, these outsourcing deals, together with our acquisitions, will further solidify our market share in these respective business areas and will contribute positively to our bottom line in the years ahead. These deals have also added strong expertise and capabilities to our product design and development function in our hardgoods, softgoods as well as health, beauty and cosmetics businesses.

### **Progress on Three-Year Plan 2008-2010**

While our new Three-Year Plan 2008-2010 began against the backdrop of uncertain global economic conditions, we remain committed to the targets it outlined, that is, a turnover target of US\$20 billion, a core operating profit target of US\$1 billion, and an operating leverage target of doubling income percentage growth over turnover percentage growth (i.e. 2x). We anticipate that outsourcing deals and selective acquisitions will be a key plank of our Three-Year Plan 2008-2010 as the Group pursues this growth strategy in view of the uncertain economic environment.

Li & Fung will continue to expand our network relentlessly to meet the needs of customers. We opened four offices in 2008, namely Xiamen (China), Druillat (France), Hamburg (Germany), and Kahramanmaras (Turkey). At year-end, we had a network of more than 80 offices in over 40 economies.

We are also very pleased to report that the Group's financial strength is highly resilient despite uncertainty in the external financial market. We have maintained our strong credit ratings from Moody's and Standard & Poor's at A3 (stable) and A- (stable) respectively. Li & Fung continues to enjoy healthy cashflows and has strong credit ratios. For details, please refer to the following "Financial Position and Liquidity" section.

The Group recognizes the challenging times faced by companies worldwide. We will continue to monitor market conditions to ensure the continuing strength of our franchise and to meet our responsibilities to all our stakeholders including customers, employees, vendors and shareholders.

### **Financial Position and Liquidity**

The Group continued to be in a strong financial position for the year under review with cash and cash equivalents amounting to HK\$2,182 million at the end of December 2008.

Normal trading operations were well supported by more than HK\$19,656 million in bank trading facilities. In addition, the Group had available bank loans and overdraft facilities of HK\$4,029 million, out of which HK\$1,080 million was committed facilities. At 31 December 2008, only HK\$606 million of the Group's bank loans and overdraft facilities was utilized, in which HK\$234 million was a drawdown of the committed facilities.

At balance sheet date, the Group's gearing ratio was about 14%, calculated as net debt divided by total capital. The Group's gearing ratio decreased from last year of 24% as the Group's total equity was further strengthened by the share subscription of a wholly-owned subsidiary of Temasek Holdings (Private) Limited of approximately HK\$3,879 million. Net debt of HK\$2,199 million is calculated as total borrowings (including long-term bank loans of HK\$234 million, short-term bank loans of HK\$278 million and long term notes of HK\$3,869 million) less cash and cash equivalents of HK\$2,182 million. Total capital is calculated as total equity of HK\$13,382 million plus net debt. The current ratio was 1.2, based on current assets of HK\$21,466 million and current liabilities of HK\$17,848 million.

### **Impact of Changes in Accounting Standards**

The following amendments to standards and interpretations are relevant to the Group and are mandatory for the financial year ended 31 December 2008.

HKAS 39	Financial instruments: Recognition and measurement
HK(IFRIC) – Int 11	HKFRS 2 – Group and treasury share transactions
HK(IFRIC) – Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

These amendments to standards and interpretations do not have any significant impact on the Group's account.

### **Credit Risk Management**

Credit risk mainly arises from trade and other receivables and cash and bank balances of the Group.

Most of the Group's cash and cash equivalents are held in major global financial institutions.

The Group has stringent policies in place to manage its credit risk with trade and other receivables, which include but are not limited to the measures set out below:

- (i) A significant portion of business is secured by back-to-back payment arrangements or covered by letters of credit, customers' standby letters of credit, bank guarantees or credit insurance;
- (ii) Certain trade receivable balances on open account term are factored to external financial institutions without recourse;
- (iii) The Group's credit control team makes ongoing assessments of each individual customer and vendor and determines the credit limits based on, among other factors, their trading and settlement history and their respective financial background.

## **Foreign Exchange Risk Management**

Most of the Group's cash balances were deposits in HK\$ and US\$ with major global financial institutions, and most of the Group's assets, liabilities, revenues and payments were held in either HK\$ or US\$. Therefore, we consider that the risk exposure to foreign exchange rate fluctuations is minimal.

Foreign exchange risks arising from sales and purchases transacted in different currencies is managed by the Group treasury, with the use of foreign exchange forward contracts. Pursuant to the Group policy in place, foreign exchange forward contracts, or any other financial derivatives, are entered into by the Group for hedging purposes. The Group has not entered into any financial derivatives for speculation.

## **Capital Commitments and Contingent Liabilities**

At the date of this announcement, the Group has a long-running dispute with the Hong Kong Inland Revenue Department related to the non-taxable claims of certain non-Hong Kong sourced income and the deduction of certain marketing expenses of approximately HK\$1,599 million for the years of assessment from 1992/1993 to 2007/2008. The disputes were initiated in 1999 and have been disclosed in our annual reports since that year. The Group has been working with its accounting and legal advisors in respect of its dealings with the Hong Kong Inland Revenue Department in relation to these matters. A hearing of the disputes was held before the Board of Review in January 2006 but as at the date of this announcement, the result is not yet known.

The structure of the Group's offshore sourcing and marketing activities was established at the time of the Group's re-listing on the Hong Kong Stock Exchange in 1992, when the Group sought advice from its external professional advisors. The directors consider that sufficient tax provision has been made in the accounts in this regard and no additional material tax liabilities are expected to eventuate.

Other than the above, there are no material contingent liabilities or off-balance-sheet obligations.

## **Human Resources**

As of the end of 2008, the Group had a total workforce of 14,438 of whom 3,599 were based in Hong Kong and 10,839 were located overseas. The Group offers its staff competitive remuneration schemes. In addition, bonuses and share options are also granted to eligible staff based on individual and Group performance. The Group is committed to nurturing a learning culture in the organization. Emphasis is placed on training and development, as the Group's success is dependent upon the efforts of a skilled and motivated work force. Training programs have been developed to align with the profiles of different job levels and functions. There are different series of training programs in place including: the Management Development Series, Professional Development Series and Supervisory Skills Series focusing on the management skills training for managerial and frontline staff; the Functional Competency Training Series focusing on the technical skills training for merchandising and quality assurance functions; and Language Training for all staff. For new employees, we have also put in place a Global Induction Program across the whole group. Through this program, we aim to better integrate new staff and facilitate their development within the Company.

In addition, there are two key talent resourcing programs: the Management Trainee Program and the Merchandising Development Program. These two programs are more described in Corporate Governance section of our 2008 Annual Report.

To further uphold the corporate philosophy of talent building, the Group has recently launched a key business initiative called “Building Skills for Growth” which focuses on the Group’s investment in building new skills or upgrading existing skills of employees in order to sustain personal and organizational growth.

The Group invested in sophisticated human resource software during the period under review. Total staff costs for 2008 were HK\$4,683 million, compared with HK\$3,952 million for 2007.

## **CORPORATE GOVERNANCE**

The Board of Directors and management are committed to principles of good corporate governance consistent with prudent enhancement and management of shareholder value. These principles emphasize transparency, accountability and independence.

In order to reinforce independence, accountability and responsibility, the role of the Group Chairman is separate from that of the Group Managing Director. Their respective responsibilities are clearly established and defined by the Board in writing.

The Board has established four committees (all chaired by Independent Non-executive Director or Non-executive director) with defined terms of reference (available to shareholders upon request), which are on no less exacting terms than those set out in the Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”): the Nomination Committee, the Audit Committee, the Risk Management Committee and the Compensation Committee.

Full details on the Company’s corporate governance practices are set out in the Company’s 2008 Annual Report.

## **AUDIT COMMITTEE**

The Audit Committee met four times in 2008 (with a 100% attendance rate) to review with senior management and the Company’s internal and external auditors, the Group’s significant internal controls and financial matters as set out in the Committee’s written terms of reference.

In 2008, the Committee’s review covers the audit plans and findings of internal and external auditors, external auditor’s independence, the Group’s accounting principles and practices, goodwill assessment, listing rules and statutory compliance, connected transactions, internal controls, risk management and financial reporting matters (including the interim and annual reports and accounts for the Board’s approval).

The Audit Committee has reviewed the annual results for the year ended 31 December 2008.

## **INTERNAL CONTROL AND RISK MANAGEMENT**

The Board is responsible for maintaining a sound and effective system of internal controls in the Company and for reviewing its effectiveness through the Audit Committee.

Based on the assessments made by senior management, the Group's Internal Audit team and the external auditor for 2008, the Audit Committee considered that the internal controls and accounting systems of the Group were in place and functioning effectively and were designed to provide reasonable assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with management's authorization and the accounts were reliable for publication; and that there was an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

## **COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES**

The Group has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Specific confirmation has been obtained from each Director to confirm compliance with the Model Code for 2008. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code. No incident of non-compliance by Directors and relevant employees was noted by the Company in 2008.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES**

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2008.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

## **FINAL DIVIDEND**

The Board of Directors recommended to pay to the shareholders a final dividend of 33 HK cents (2007: 50 HK cents) per Share for the year ended 31 December 2008 absorbing HK\$1,199 million (2007: HK\$1,727 million). An interim dividend of 24 HK cents (2007: 21 HK cents) per Share was paid by the Company on 17 September 2008.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 6 May 2009 to 13 May 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrars, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 5 May 2009. Dividend warrants will be despatched immediately after the holding of the Annual General Meeting on 13 May 2009 subject to shareholders' approval of payment of the final dividend.

## ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at Pheasant to Stork Room, 1<sup>st</sup> Floor, Mandarin Oriental, 5 Connaught Road Central, Hong Kong on 13 May 2009 at 12:00 noon. The Notice of Annual General Meeting will be published on the Company's website at [www.lifung.com](http://www.lifung.com) and HKExnews website at [www.hkexnews.hk](http://www.hkexnews.hk), and despatched to the shareholders on or about 9 April 2009.

## PUBLICATION OF ANNUAL REPORT

The 2008 annual report will be despatched to the shareholders and available on the Company's website at [www.lifung.com](http://www.lifung.com) and HKExnews website at [www.hkexnews.hk](http://www.hkexnews.hk) on or about 9 April 2009.

## BOARD OF DIRECTORS

As at the date hereof, the Board of Directors of the Company comprises the following Directors:-

### *Non-Executive Directors:*

Victor Fung Kwok King (*Chairman*)  
Paul Edward Selway-Swift\*  
Allan Wong Chi Yun\*  
Franklin Warren McFarlan\*  
Makoto Yasuda\*  
Martin Tang Yue Nien\*

### *Executive Directors:*

William Fung Kwok Lun (*Managing Director*)  
Bruce Philip Rockowitz  
Henry Chan  
Danny Lau Sai Wing  
Annabella Leung Wai Ping  
Spencer Theodore Fung

*\*Independent Non-executive Directors*

By Order of the Board  
**Victor FUNG Kwok King**  
*Chairman*



Member of the Li & Fung Group

Hong Kong, 25 March 2009

Websites: [www.lifung.com](http://www.lifung.com)  
[www.irasia.com/listco/hk/lifung](http://www.irasia.com/listco/hk/lifung)