

LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 494)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

HIGHLIGHTS

(HK\$ millions)	2007	2006	Change
Turnover	92,460	68,010	+36%
Core Operating Profit	3,187	2,344	+36%
<i>As % of Turnover</i>	3.45%	3.45%	
Profit attributable to shareholders of the Company	3,060	2,202	+39%
Earnings per Share - basic	89.5 HK cents	67.1 HK cents	+33%
Dividend per Share			
- Final	50 HK cents	39 HK cents	+28%
- Full year	71 HK cents	55 HK cents	+29%

- Strong conclusion to last Three-Year Plan (2005-2007)
- Largest turnover growth since 2000 despite soft market sentiment
- Continued strong organic growth
- Geographical diversification into Europe has been very successful
- US onshore strategy exceeded our targets
- In spite of the current global market conditions, stage is set for another strong Three-Year Plan

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 2007 and the consolidated balance sheet of the Group as at 31 December 2007 together with the comparative figures in 2006. The annual results have been reviewed by the Company's audit committee and the Company's auditor.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	2007 HK\$'000	2006 HK\$'000
Turnover	2	92,459,949	68,010,257
Cost of sales		(82,692,446)	(60,674,807)
Gross profit		9,767,503	7,335,450
Other revenues		518,225	311,553
Total margin		10,285,728	7,647,003
Selling expenses		(1,730,239)	(1,234,610)
Merchandising expenses		(4,755,175)	(3,564,277)
Administrative expenses		(613,713)	(503,890)
Core operating profit	2	3,186,601	2,344,226
Gain on disposal of property holding subsidiaries and/or properties		456,622	71,794
Other non-core operating expenses		(43,170)	(3,700)
Operating profit	3	3,600,053	2,412,320
Interest income		208,193	98,491
Interest expenses		(499,664)	(148,070)
Share of profits less losses of associated companies		4,948	10,603
Profit before taxation		3,313,530	2,373,344
Taxation	4	(252,554)	(171,682)
Profit for the year		3,060,976	2,201,662
Attributable to:			
Shareholders of the Company		3,060,036	2,201,819
Minority interest		940	(157)
		3,060,976	2,201,662
Earnings per share for profit attributable to the shareholders of the Company during the year	5		
- basic		89.5 HK cents	67.1 HK cents
- diluted		88.3 HK cents	66.5 HK cents
Dividends	6	2,446,525	1,850,006

CONSOLIDATED BALANCE SHEET

	Note	2007 HK\$'000	2006 HK\$'000
Non-current assets			
Intangible assets		11,374,637	4,713,163
Property, plant and equipment		1,130,002	1,114,368
Prepaid premium for land leases		2,554	681,179
Associated companies		14,575	13,930
Available-for-sale financial assets		85,465	81,605
Deferred tax assets		115,604	105,982
		12,722,837	6,710,227
Current assets			
Inventories		2,059,618	1,331,258
Due from related companies		71,689	61,977
Trade and bills receivable	7	13,716,146	9,231,482
Other receivables, prepayments and deposits		1,746,722	1,316,053
Cash and bank balances		1,472,365	3,394,085
		19,066,540	15,334,855
Current liabilities			
Derivative financial instruments		21,809	4,413
Trade and bills payable	8	11,231,148	7,544,176
Accrued charges and sundry payables		2,394,858	1,315,691
Balance of purchase consideration payable for acquisitions		1,257,254	760,221
Taxation		465,765	320,632
Bank advances for discounted bills		328,175	123,282
Short term bank loans		441,796	2,776,968
Bank overdrafts		205,261	91,744
		16,346,066	12,937,127
Net current assets		2,720,474	2,397,728
Total assets less current liabilities		15,443,311	9,107,955
Financed by:			
Share capital		86,268	85,239
Reserves		8,082,371	6,883,215
Proposed dividend		1,726,678	1,330,754
		9,809,049	8,213,969
Shareholders' funds attributable to the Company's shareholders		9,895,317	8,299,208
Minority interest		(31,053)	(32,363)
Total equity		9,864,264	8,266,845
Non-current liabilities			
Long-term liabilities		5,063,586	797,487
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent		464,050	-
Post-employment benefit obligations		30,335	25,464
Deferred tax liabilities		21,076	18,159
		5,579,047	841,110
		15,443,311	9,107,955

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2007 HK\$'000	2006 HK\$'000
Total equity at 1 January	8,266,845	4,624,801
Currency translation differences	176,114	73,042
Net fair value gains/(losses) on available-for-sale financial assets	28,262	(7,496)
Net fair value losses on cash flow hedges	(3,810)	(6,530)
Net income recognized directly in equity	200,566	59,016
Profit for the year	3,060,976	2,201,662
Total recognized income for the year	3,261,542	2,260,678
Dividends paid	(2,051,185)	(1,563,542)
Issue of shares upon a private placing	-	2,723,435
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	111,756	58,465
- shares issued	590	471
- share premium on issue of new shares	274,716	162,537
Total equity as at 31 December	9,864,264	8,266,845

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") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated accounts 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) Standards, amendment and interpretations effective in 2007

- HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to Hong Kong Accounting Standard ("HKAS") 1, 'Presentation of financial statements - Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.
- HK(IFRIC) - Int 8, 'Scope of HKFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's accounts.
- HK(IFRIC) - Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognized in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's accounts.

(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, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amended) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

Notes:

1 Basis of preparation and accounting policies (Continued)

- HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it is possible that the number of reportable segments, as well as the manner in which the segments are reported, may change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash-generating units based on segment level, the change may also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.
- HK(IFRIC) - Int 14, 'HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). HK(IFRIC) - Int 14 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. The Group will apply HK(IFRIC) - Int 14 from 1 January 2008, but it is not expected to have any impact on the Group's accounts.

Notes:**2 Segment information**

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

(a) Geographical segments

	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)

(a) Geographical segments (Continued)

	United States of America 2006 HK\$'000	Europe 2006 HK\$'000	Canada 2006 HK\$'000	Australasia 2006 HK\$'000	Central and Latin America 2006 HK\$'000	Rest of The World 2006 HK\$'000	Group 2006 HK\$'000
Turnover	49,039,250	11,903,083	2,861,617	1,645,539	1,099,010	1,461,758	68,010,257
Segment results	1,639,304	434,621	108,957	66,866	39,649	54,829	2,344,226
Gain on disposal of properties and property holding subsidiaries							71,794
Other non-core operating expenses							(3,700)
Interest income							98,491
Interest expenses							(148,070)
Share of profits less losses of associated companies							10,603
Profit before taxation							2,373,344
Taxation							(171,682)
Profit for the year							2,201,662
Segment assets	10,514,411	2,673,303	654,356	313,915	243,065	233,212	14,632,262
Unallocated assets							7,412,820
Total assets							22,045,082
Segment liabilities	10,018,899	2,165,438	476,355	309,545	194,455	215,683	13,380,375
Unallocated liabilities							397,862
Total liabilities							13,778,237
Capital expenditure	226,080	52,378	8,678	5,779	3,602	5,816	302,333
Depreciation	133,583	40,170	6,222	4,268	2,731	3,686	190,660
Amortization of prepaid premium for land leases	13,237	3,213	772	444	296	396	18,358

Notes:

2 Segment information (Continued)

(b) Business segments

	Turnover 2007 HK\$'000	Segment results 2007 HK\$'000	Total assets 2007 HK\$'000	Capital expenditure 2007 HK\$'000
Softgoods	63,866,931	2,363,894	19,312,027	170,162
Hardgoods	28,593,018	822,707	7,146,346	149,344
	<u>92,459,949</u>	<u>3,186,601</u>	<u>26,458,373</u>	<u>319,506</u>
Gain on disposal of property holding subsidiaries		456,622		
Other non-core operating expenses		(43,170)		
Operating profit		<u>3,600,053</u>		
Unallocated assets			5,331,004	
Total assets			<u>31,789,377</u>	
	Turnover 2006 HK\$'000	Segment results 2006 HK\$'000	Total assets 2006 HK\$'000	Capital expenditure 2006 HK\$'000
Softgoods	46,215,649	1,798,941	10,494,627	212,387
Hardgoods	21,794,608	545,285	4,137,635	89,946
	<u>68,010,257</u>	<u>2,344,226</u>	<u>14,632,262</u>	<u>302,333</u>
Gain on disposal of properties and property holding subsidiaries		71,794		
Other non-core operating expenses		(3,700)		
Operating profit		<u>2,412,320</u>		
Unallocated assets			7,412,820	
Total assets			<u>22,045,082</u>	

Notes:

3 Operating profit

Operating profit is stated after crediting and charging the following:

	2007 HK\$'000	2006 HK\$'000
<u>Crediting</u>		
Gain on disposal of properties	-	3,268
Gain on disposal of property holding subsidiaries	456,622	68,526
<u>Charging</u>		
Cost of inventories sold	82,692,446	60,674,807
Share option expenses	111,756	58,465
Amortization of intangible assets arising from business combinations	19,118	-
Amortization of prepaid premium for land leases	16,101	18,358
Amortization of system development costs	10,346	7,797
Amortization of brand licenses	19,055	-
Depreciation of property, plant and equipment	198,360	190,660
Loss on disposal of property, plant and equipment	6,336	5,931
Provision for impairment of available-for-sale financial assets	24,052	3,700
Bad debt written off/provision for impairment of receivables	38,056	26,756

4 Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2006: 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:

	2007 HK\$'000	2006 HK\$'000
Current taxation		
- Hong Kong profits tax	168,386	134,157
- Overseas taxation	66,022	36,678
Underprovision/(overprovision) in prior years	20,181	(22,772)
Deferred taxation	(2,035)	23,619
	252,554	171,682

Notes:

5 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$3,060,036,000 (2006: HK\$2,201,819,000) and on the weighted average number of 3,420,475,000 (2006: 3,282,619,000) shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of 3,420,475,000 (2006: 3,282,619,000) ordinary shares in issue by 43,887,000 (2006: 29,606,000) 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

	2007 HK\$'000	2006 HK\$'000
Interim, paid, of HK\$0.21 (2006: HK\$0.16) per ordinary share	719,847	519,252
Final, proposed, of HK\$0.50 (2006: HK\$0.39) per ordinary share	<u>1,726,678</u>	<u>1,330,754</u>
	<u>2,446,525</u>	<u>1,850,006</u>

At a meeting held on 27 March 2008, the Directors proposed a final dividend of HK\$0.50 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 2008.

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
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>
Balance at 31 December 2006	<u>8,541,183</u>	<u>581,852</u>	<u>91,267</u>	<u>17,180</u>	<u>9,231,482</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 are on open account terms payable against deliveries of shipments which are often covered by customers' standby letters of credit, bank guarantees or credit insurance.

Certain subsidiaries of the Group transferred bills receivable balances amounting to HK\$328,175,000 (2006: HK\$123,282,000) to banks in exchange for cash as at 31 December 2007. The transaction has been accounted for as collateralised 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
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>
Balance at 31 December 2006	<u>7,203,198</u>	<u>245,151</u>	<u>52,929</u>	<u>42,898</u>	<u>7,544,176</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

The Group is extremely pleased to report that in this, the final year of our Three-Year Plan 2005-2007, we have experienced excellent growth – indeed, we have exceeded our original Three-Year Plan target of achieving US\$10 billion turnover by the end of 2007.

Turnover increased by 36% to US\$11,854 million, the strongest turnover growth since 2000, reflecting Li & Fung's solid organic growth coupled with a number of strategic acquisitions during the year.

Compared to the turnover in 2004 of US\$6 billion, this represents almost a doubling of the turnover of the Group in this past three years for 2005-2007. Profit attributable to shareholders reached HK\$3,060 million for 2007, an increase of 39% over 2006 and more than double that of 2004.

While consumer sentiment in the US and Europe started to soften midway through 2007, Li & Fung continued to perform well in view of its efficient global sourcing network and asset light strategy which enabled the Group to operate with substantial flexibility.

The Group continued with its two-pronged acquisition strategy throughout 2007. Acquisitions included the sourcing operation of global designer company Tommy Hilfiger, beauty and cosmetics company CGroup, shoes and accessories group Peter Black International Ltd, Regatta, four of Liz Claiborne's brands and American Marketing Enterprises. These acquisitions have further broadened the Group's product platforms and geographic reach, setting the stage for the next Three Year-Plan.

The Group's total margins increased by 35% and as a percentage of turnover, saw a slight decrease from 11.24% to 11.12% in 2007, reflecting margin dilution from KarstadtQuelle's lower margin business. The lower margins from KarstadtQuelle's businesses were partially offset by our higher margin US onshore business.

Core operating profits increased by 36% as a result of better market penetration and increasing contributions from earlier acquisitions like Tommy Hilfiger's sourcing operations. Core operating profit margin remained flat at 3.45%, mainly attributed to the lower margin business from KarstadtQuelle as well as continued investment in back office infrastructure.

In 2007, the Group successfully issued an inaugural bond of US\$500 million, which was very well received by fixed income investors. The notes were issued at a coupon rate of 5.50% per annum for a ten-year term, due 2017. The net proceeds have applied towards business development, acquisitions and refinancing the Group's existing indebtedness.

Segmental Analysis

In 2007, soft and hardgoods accounted for 69% and 31% of turnover respectively. **Softgoods** turnover increased by 38% whereas operating profit increased by 31%. The improvement reflects positive contributions from acquisitions in 2007 such as Tommy Hilfiger's sourcing operations and Regatta. The acquisition of Regatta, for instance, has enabled us to increase our addressable market with increasing involvement in proprietary brands business.

Turnover and operating profit from the **hardgoods** business grew by 31% and 51% respectively. This reflects solid organic growth in the hardgoods segment as well as contributions from acquisitions such as Peter Black International Ltd and CGroup.

Geographically, while the **US** market continues to be the Group's key export market, representing 65% of the Group's total turnover during the period under review, this represents a fall from 72% in 2006 and reflects our success in diversifying geographically into Europe. Turnover and operating profit grew by 22% and 26% respectively, driven by our success in increasing our market through our active involvement in the proprietary brand business, in addition to our core private label business.

We have successfully achieved our 2005-2007 Three-Year Plan target for our US onshore business of US\$1 billion turnover. Our US onshore business has grown tremendously since its inception in 2004. Apart from being a major private label company and a key player in the proprietary brands, we also have one of the largest licensed portfolios in the US.

Europe accounted for 26% in turnover, reflecting a growth of 99% over the same period last year. Operating profits grew by 77%. This strong growth is attributable to our strategy to increase our share of the European market made possible through our acquisition of KarstadtQuelle International Services.

Turnover in other markets such as **Canada, Central and Latin America**, and **Australasia** accounted for 3%, 2%, and 2%. Turnover and operating profit growth were 9%, 29%, and 33% as well as 19%, 44% and 45% respectively. The Group will continue to grow in these smaller markets where we have dominant positions. **Japan** and the rest of the world represents a turnover share of 2%, and experienced growth of 40% in turnover and 24% in operating profit.

Acquisitions

2007 marked another year in which we saw a significant number of acquisition opportunities. We continued with our two-pronged acquisition strategy as the means to expand geographical diversification and our product offer. Key acquisitions include:

In February 2007, the Group acquired the global sourcing operations of Tommy Hilfiger. The cash consideration for the purchase was approximately US\$248 million. While the transaction enables Tommy Hilfiger to access a broader buying office network, it also enhances the Group's ability to operate in the designer arena globally.

In June, Li & Fung entered into an agreement to acquire the shares of CGroup, the Hong Kong-based international Health, Beauty and Cosmetics (HBC) supply chain company. The purchase consideration was approximately US\$120 million, with two contingent amounts of up to a total of US\$80 million payable if certain profit targets are met. The Group sees tremendous opportunities to leverage potential synergies with existing customers through this acquisition.

The Group announced in August, 2007 that it had entered into an agreement to acquire Peter Black International Limited. Peter Black is a long established, large supplier of footwear, accessories, gifts and personal care merchandise to leading UK and Continental European retailers. This transaction will provide a unique platform and infrastructure for the development of Li & Fung's UK and Continental European onshore business. The purchase consideration was approximately GBP48.14 million.

In addition, the Group announced on that same day that it had entered into an agreement to acquire Regatta USA LLC, PA Group LLC and Donnkenny LLC (collectively "Regatta"). Regatta is a leading US apparel and brand management company offering proprietary brands and private label products. This transaction will help establish Li & Fung as the leader in design and marketing of proprietary brands. It will help further expand our in-house brand management and marketing capabilities to enhance proprietary brands and private label product offerings. The purchase consideration was approximately US\$148 million.

In September, the Group also announced that it had reached an agreement to buy the assets of four of Liz Claiborne Inc.'s brands – Emma James, Intuitions, JH Collectibles and Tapemeasure. There is no initial cash consideration for this purchase. The Group will use these brands to expand our proprietary brand portfolio and looks forward to reinvigorating and growing these brands at retail.

In November, the Group agreed to acquire all of the outstanding shares of American Marketing Enterprises Inc. (AME), and its related companies. AME is the premier children's entertainment character licensed company in the US. The purchase consideration was about US\$128 million.

The Group has also acquired Alliance in December 2007. Alliance is one of the largest buying agencies in India in hardgoods specializing in the home area. The purchase consideration was about US\$13 million.

New Business Ventures

The acquisition of CGroup and PB Beauty marked the Group's first foray into the HBC business. Both businesses will provide a strategic platform for Li & Fung to develop a strong HBC business with both existing customers and new customers in the continually expanding health and beauty world.

The Group's expertise and capabilities in product design and development in footwear has been greatly enhanced through the acquisition of Peter Black Footwear & Accessories and Lenci (which is based in Italy and also deals in footwear). Significant synergies are expected with existing customers.

Review of Three-Year Plan 2005-2007

The Group has successfully exceeded our original 2005-2007 Three-year Plan target of US\$10 billion turnover. Turnover was US\$11.8 billion by end of 2007, an increase of 96% over 2004. Turnover in our US onshore business has also reached the US\$1 billion sub goal by the end of 2007.

Also of significance was our successful move into new businesses like HBC as well as proprietary brands. We also achieved greater penetration in the European market through our acquisition of KarstadtQuelle International Services during this past Three-Year Plan.

At the same time, the Group has committed steadfastly to reinvest in our back office infrastructure including investment in information technology, human resources and financial accounting systems in order to provide a solid platform for our future growth. These initiatives have laid the cornerstone for a strong new Three-Year Plan.

Prospects and Progress on Three-Year Plan 2008-2010

The new Three-Year Plan is targeting to achieve a turnover of US\$20 billion, of which US\$16 billion will derive from core sourcing business and US\$4 billion from the onshore businesses in the US, Europe and China. We have set ourselves a Core Operating Profit target of US\$1 billion by the end of 2010. In addition, the Group is targeting to achieve operating leverage of doubling income percentage growth over turnover percentage growth (i.e. 2x) by the end of this new Three-Year Plan.

While the new Three-Year Plan begins against the backdrop of a soft consumer market and increasing tension between the US and China over product quality issues, the Group sees a positive start with a strong flow of orders to-date.

We foresee solid business growth in the core sourcing business driven by the increase in our market through new business ventures such as in the HBC area, footwear and proprietary brands. The Group plans to replicate the onshore business model into Europe and China in the next three years, which are expected to become another source of growth, and enhance the overall profitability of the Group. At the same time, the Group remains committed to strict and increased monitoring of social, environmental and health compliance of the factories used for our customers.

On the sourcing front, the Group will continue to expand our sourcing network relentlessly to meet the needs of customers. We opened six offices in 2007, including Changsha (China), Lucca (Italy), Casablanca (Morocco), Moscow (Russia), Keighley (the UK) and Trowbridge (the UK). We have a vast network of more than 80 offices in over 40 economies.

Last but not least, the Group will continue the two-pronged strategy of pursuing both large and small acquisitions in this Three-Year Plan to complement our organic business growth.

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\$1,267 million at the end of December 2007.

Normal trading operations were well supported by more than HK\$18,464 million in bank trading facilities. In addition, the Group had available bank loans and overdraft facilities of HK\$2,566 million, out of which only HK\$647 million was utilized.

At balance sheet date, the Group's gearing ratio was about 24%, calculated as net debt divided by total capital. Net debt of HK\$3,040 million is calculated as total borrowings (including short-term bank loans of HK\$442 million and long term notes of HK\$3,865 million less cash and cash equivalents of HK\$1,267 million). Total capital is calculated as total equity of HK\$9,864 million plus net debt. The current ratio was 1.2, based on current assets of HK\$19,067 million and current liabilities of HK\$16,346 million.

Impact of Changes in Accounting Standards

The following new standards, amendments to standards and interpretations are relevant to the Group and are mandatory for the financial year ended 31 December 2007.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

Save as the adoption of HKAS 1 (Amendment) and HKFRS 7, which introduces new disclosures relating to financial instruments, adoption of these new standards, amendments to standards and interpretations does not have any significant impact on the Group's account.

Foreign Exchange Risk Management

Most of the Group's cash balances were deposits in HK\$ or US\$ with major banks in Hong Kong, 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.

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\$1,288 million for the years of assessment from 1992/1993 to 2006/2007. 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 2007, the Group had a total workforce of 13,293 of whom 3,528 were based in Hong Kong and 9,765 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. During 2007, we also developed a new 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 resourcing programs: the Management Trainee Program and the Merchandising Development Program. The Management Trainee Program, first launched in 2003, is a global corporate management program, aimed at attracting and developing high potential university graduates to become our future leaders through accelerated career development opportunities. The program is now five years old, and 85 trainees recruited from around the world are participating in the program. The Merchandising Development Program, first launched in February 2006, is a corporate resourcing program, with the aim of developing a merchandising frontline resource pool through structured training. A customized diploma program for trainees has been developed in collaboration with the Hong Kong Polytechnic University, to obtain industry recognition and to establish industry standards for merchandising skill sets, the program will be "rolled out" to offshore offices in 2008. This year, the Merchandising Development Program won two awards: Most innovative Award and Certificate of Excellence in the Award for Excellence in Training 2007, conferred by the Hong Kong Management Association.

The Group invested in sophisticated human resource software during the period under review. Total staff costs for 2007 were HK\$3,952 million, compared with HK\$2,964 million for 2006.

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 2007 Annual Report.

AUDIT COMMITTEE

The Audit Committee met four times in 2007 (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. 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, listing rules and statutory compliance, internal controls, risk management and financial reporting matters (including the interim and annual reports and accounts for the Board's approval).

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 auditors in 2007 and up to the approval date of the Company's 2007 Annual Report and accounts, the Audit Committee was satisfied that the internal controls and accounting systems of the Group have been 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. 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. Specific confirmation has been obtained from directors and relevant employees to confirm compliance with the Model Code and the aforementioned guidelines respectively for 2007. No incident of non-compliance was noted by the Company in 2007.

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 2007.

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 50 HK cents (2006: 39 HK cents) per Share for the year ended 31 December 2007 absorbing HK\$1,727 million (2006: HK\$1,331 million). An interim dividend of 21 HK cents (2006: 16 HK cents) per Share was paid by the Company on 19 September 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 14 May 2008 to 21 May 2008, 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 13 May 2008. Dividend warrants will be despatched immediately after the holding of the Annual General Meeting on 21 May 2008 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 & Jasmine Room, 1st Floor, Mandarin Oriental, 5 Connaught Road Central, Hong Kong on 21 May 2008 at 12:00 noon. The Notice of Annual General Meeting will be published on the Company's website at www.lifung.com and HKExnews website at www.hkexnews.hk, and despatched to the shareholders on or about 21 April 2008.

PUBLICATION OF ANNUAL REPORT

The 2007 annual report will be despatched to the shareholders and available on the Company's website at www.lifung.com and HKExnews website at www.hkexnews.hk on or about 21 April 2008.

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*
Lau Butt Farn

Executive Directors:-

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

**Independent Non-executive Directors*

By Order of the Board
Victor FUNG Kwok King
Chairman



Member of the Li & Fung Group

Hong Kong, 27 March 2008

Websites: www.lifung.com
www.irasia.com/listco/hk/lifung