A letter from our Chairman

> “The spin-off of Global Brands allows us to focus on our core business as a pure play supply chain management company.

Year of Transition

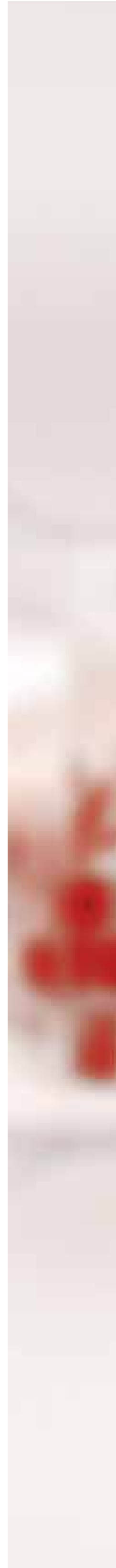
2014 was a year of transition as we spun-off our brands and licensing business (Global Brands) to be a separately listed entity. The spin-off allows Li & Fung to simplify and focus on our core business as a pure play supply chain management company. As part of this transition, Spencer Fung, our COO, assumed the role of Group CEO of Li & Fung, effective July 2014.

Given our scale and the breadth of the vendor network we have built over several decades, together with unparalleled local market knowledge and market analysis capabilities, Li & Fung continues to be the world’s leading global supply chain manager. In addition, our Logistics business offers logistics solutions across Asia both within-country as well as global freight forwarding. With the acquisition of China Container Line (CCL) in March last year, we have strengthened our freight forwarding capabilities. CCL’s container volume provides us with the leverage to negotiate competitive freight rates with all the major global shipping lines and allows us to cross-sell these services to Li & Fung customers in a more scalable and price-competitive manner.

Following the Global Brands spin-off, Li & Fung has returned to its earlier business model of strong cash flow generation, less volatility on earnings and a strong balance sheet. Going forward, we will continue to evaluate the changing dynamics of the consumer goods industry and allocate capital where necessary to invest in high growth and underserved areas.

Year of Investment

2014 was the first year of our current Three-Year Plan (2014-2016). As with previous three-year plans, the first year is always an investment year. To strengthen our platform to drive organic growth and build a sustainable enterprise, we increased our spending on several growth initiatives such as expanding our logistics platform, initiating Vendor Support Services to help our vendors, enhancing our existing people infrastructure to match our expanding business, as well as expanding our product categories, and entering new geographies to build new vendor bases and customer relationships.



William Fung
Group Chairman

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We are the leading supplier for brands and private labels online and offline.

Performance

In 2014, global retail sales were tepid and marked by a highly promotional environment. Retail sales in the United States fared better than other regions due to higher levels of discounts and promotions, but this put pressure on margins for our customers and correspondingly on our Principal Trading business. In the closing weeks of 2014, we saw some early signs of recovery as sales in the US, aided by the sudden decline in oil prices, picked up towards the end of the Christmas selling period. Europe remained challenging. Geopolitical turmoil and the drop in oil prices had a negative impact on Russian and Central European consumers. That in turn has affected our European customers who had previously relied on Russia as their fastest growing market. In addition, the advent of quantitative easing in Europe will lead to a drop in the Euro exchange rate which may further negatively impact European buyers. Asia was impacted by geopolitical events in Thailand, Vietnam, China and Hong Kong, which slowed consumer spending. Given the challenging environment, turnover increased by 1% while our total margin was down 2%. As with previous three-year plans, investments made in the first year resulted in an increase in operating costs and this held true for 2014 as we geared up to reach our Three-Year Plan targets. Core operating profit decreased 18% to US$604 million. Profit attributable to Shareholders (excluding the loss from Global Brands) decreased by 12% to US$539 million. The Board has resolved to declare a final dividend of 21 HK cents and a special dividend of 7 HK cents per share.

Key Challenges and Opportunities

Escalating minimum wages in China will continue to transition the production base to manufacturing higher-value products. While the recent drop in oil and commodity prices has slowed the expected production migration out of China, new frontier regions such as Myanmar and Africa have started to develop production bases and will be competitors for future orders. As pioneers in managing global supply chains, we will continue to expand our global production network to help customers diversify their production bases and, through the application of our standards and capacity-building initiatives, support the sustainable development of these supply chains.

Over the course of 2014, we have been building our Vendor Support Services team to offer a new array of services such as procurement support, compliance capabilities, product testing and trade credit services, to our base of over 15,000 vendors. This initiative is targeted to provide services to the vendor community, which has been an underserved market segment. These services are underpinned by our Vendor Portal, which is the data and information center for our vendors, and has and will continue to improve the efficiency of the whole supply chain in a data-driven manner.

The growth of e-commerce continues to accelerate and end consumers are demanding that their browsing, buying and merchandise-returning needs be met in both offline and online experiences. To tackle this challenge, both the e-commerce pure plays and brick-and-mortar retailers are merging to compete with an omni-channel strategy. We are a supply chain facilitator, regardless of our customer's selling channels. When we source products for our customers, these products are for both online and offline distribution. The distribution centers and stores have become the main stock room, where products are sorted for both store distribution and direct-to-consumer delivery. Over the past decade, we have anticipated this trend and designed better means of packaging our products before they leave the production regions and our e-logistics capabilities are amongst the best in the region. We also see that online retailers would increasingly want their own private labels to capture more value from the traffic their distribution platforms bring and to differentiate themselves from their competitors. In many respects, their buying requirements closely resemble those of our fast fashion customers. Both require supply chain providers to offer a wide variety of designs, in small order lots, with short delivery times. In this respect, we are the leading supplier for brands and private labels in the world for our product categories.

Prospects

Entering into 2015, we are seeing some early signs of recovery in consumer spending in the US due to improved consumer confidence and the fall in oil prices. However, the uncertainties in the Eurozone mentioned above still persist and Asia poses a macro concern and headwind for the other consumer markets. Overall, we are cautious about 2015. We will continue to focus on growing our trading business organically by increasing market share with existing customers and winning new customers. Our logistics services will continue to grow strongly on the back of winning new mandates from new customers and from cross-selling to Li & Fung's trading customers. We will continue to nurture our Vendor Support Services business to support our suppliers to enhance operational efficiencies, improve working conditions and innovate for systematic and sustainable change.

In closing, I would like to thank all my colleagues for their dedication and hard work over the past year.

William Fung Kwok Lun
Group Chairman