

A letter from our Chairman



William Fung
Group Chairman

Dear Shareholders,

We are mid-way through our current Three-Year Plan (2014–2016), which remains a period of transition and investment for the Company. The spin-off of Global Brands was the first step of the transition process. During this period, the macro environment has been challenging and the retail industry has been disrupted by the impact of e-commerce. Nevertheless, we continue to invest in our business as before with the goal of building a long-term sustainable business that will weather any change in the global operating environment. In the first six months of the year, our sourcing business remained stable. In the meantime, our logistics business continued to grow strongly and our newly launched Vendor Support Services (VSS) business was ahead of plan and offering promising prospects. Going forward, Li & Fung will continue to be the leading global holistic supply chain solution provider to brands and retailers with a focus on deep product expertise.

Key Challenges and Opportunities

The emergence of e-commerce has created a new set of challenges for global brands and retailers but emerging opportunities for Li & Fung. We believe success with consumers will belong to the suppliers who provide an integrated customer experience online and offline; hence, we believe omni-channel retailing will be the predominant model of the future. We therefore expect traditional brick and mortar retailers to continue investing in e-commerce while pure plays will begin to invest in physical locations to sell or deliver to their customers. For our traditional customers, our capabilities in small-order sourcing, quick replenishment and e-logistics have helped them gain share in e-commerce and we have benefitted from their growth in the online channel. In the meantime, e-commerce pure plays primarily curate products from third-party brands and products with their own private label is still very small in scale. As the online space gets more competitive and product differentiation becomes more important, we have been working with several pure plays to develop private label solutions. In the meantime, our e-logistics business under LF Logistics has recorded robust growth on the back of rapidly rising internet business in Asia.

After three decades of export growth, China has changed policies to promote domestic consumption as a more sustainable growth engine for the future. Part of this policy change is to increase wages dramatically in this Five-Year Plan (2011–2015). This has resulted in a substantial decanting of lower value-added production out of China to less developed markets. This trend will complicate the supply chain process and disconnect raw material infrastructure in China from actual production countries. Li & Fung on the other hand has always designed sourcing

with a global network approach and is already the market leader in all non-China markets. We are best positioned to manage this transition as separate sourcing for raw materials and actual manufacturing has always been part of our modus operandi. We expect this bodes well for our future competitiveness in our core business.

Prospects

Amid a challenging macroeconomic environment, I am confident that we can help our customers to navigate through tough times by leveraging on our deep product expertise and diverse sourcing base. Retailers are increasingly using multiple sourcing channels. The major criteria for selecting sourcing channel and partners will be product based and on a global basis. In addition to being customer centric, Li & Fung has deep product expertise and the biggest global network to capitalize on this trend. Our ability to improve control from raw materials to finished product, reduce overall cost and speed up time-to-market will continue to make us the partner of choice going forward.

While I remain cautious on the macro environment, our Trading Network should continue to gain market share within our core customers and convert the solid pipeline of new businesses. In our Logistics Network, we expect the current robust growth to continue as we expand our service offerings and geographic footprint. We are already the e-logistics partner of choice for numerous global consumer brands in Asia. After the initial year and a half of investment, VSS is progressing ahead of plan and is expected to generate positive returns in 2015. Our broad global vendor base gives us ready access to a new customer base that demands support, resources and expertise to drive better efficiencies to move up the value chain.

This is all part of our longer-term vision of maintaining our leadership position in the global consumer goods supply chain and continuing to be the partner of choice going forward, including for emerging new market segments like e-commerce and China private label retail. I would like to extend my gratitude to all of my colleagues around the world for their continued hard work and support to realize this goal.

William Fung Kwok Lun

Group Chairman



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