

# A letter from our CEO

Dear Shareholders,

After a year into my role as Group CEO, I would like to report on our performance for the first half of 2015.

Amid the challenging business environment, we continue to reposition ourselves to drive organic growth and achieve our Three-Year Plan's strategic objectives. I would like to outline for you some of the key highlights during the first six months of the year.

## Macro Environment Remains Weak

Current macroeconomic conditions remain tough globally for our customers and our business. While we expected lower oil prices to bolster household income, increase consumer spending and offset general economic softness, these effects have been muted so far as consumer spending continues to be weak. Retail sales remain lackluster and have been boosted by the highly promotional environment. Additionally, weakness in the Eurozone and the decline in the European currencies affected our business in the region. We expect this cyclical weakness to reverse as the Eurozone resolves the issues concerning Greece. In the meantime, China's economic growth continues to slow and the recent currency moves have yet to stabilize. We have been working closely with our customers to adjust their supply chains to find solutions to mitigate these cyclical challenges and add greater value to their businesses.



**Our unique multi-channel sourcing business model allows our customers to be nimble and flexible in a world that is changing at an increasing pace.**

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## Retail Environment is in Flux

The global retail industry continues to be disrupted by the rapid growth of e-commerce, which lowers the barriers to distribution globally and increases price transparency across channels and geographies. While e-commerce platform operators and pure plays benefitted from the growth in e-commerce, traditional retailers have responded by aggressively investing in their own online channels to regain lost market share. We now see brands and retailers competing both online and offline on a global basis and are using promotions to drive traffic and sales. These highly promotional activities had a negative impact on our customers and, as a result, weighed on margins in our principal business. We believe competition and promotional activities will normalize and our margins will stabilize. This disruption provides Li & Fung with a tremendous opportunity to work with our customers. Not only do many of the products we source for our traditional customers end up being sold online, we also have the opportunity to work with our online customers as they develop private labels. Additionally, we have a unique opportunity to apply supply chain data analytics and understanding of the retail landscape to help our customers maximize their sourcing and logistics strategy in the omni-channel world.

## Our Focus and Performance

Given the overall retail landscape and tough macro environment, our first half results were in line with expectation. We managed to preserve our top line by growing with our core trading customers and continuing to deliver strong performance in our logistics business. This offset the downward pressure from the tough retail and deflationary environment, and depreciation in the European currencies. Our total margin percentage held up well despite margin pressure on the retailers. We remain vigilant in improving cost efficiency and productivity, however, investments made in the second half of 2014 led to an increase in operating costs. As a result, core operating profits fell during the first half of 2015.

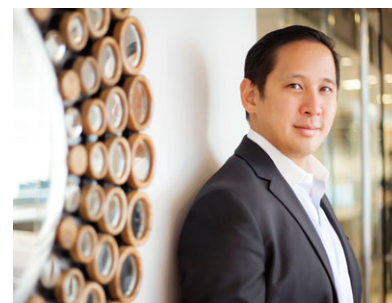
For the remainder of 2015, we continue to focus and invest for the long-term to strengthen our global sourcing platform through a combination of infrastructure upgrades and deepening our product expertise. Importantly, we continue to execute our strategy to grow our logistics business and develop our Vendor Support Services (VSS).

## Enhancing Product Expertise

We believe that in this changing retail environment, product differentiation and speed to market are increasingly important. Consumers are no longer limited by how, when and where they buy and with so much choice, they demand products that are unique and sustainable. Equally, our customers require a higher degree of product differentiation to remain competitive. We believe our focus on our core and new customers, key product verticals and innovation meets this need. At Li & Fung, we have the unique ability to apply our expertise in technology, design and development to further innovate products for our customers across all product categories. From smart furniture and beauty displays and formulation to wearable technology, we are incorporating emerging technologies and fabric innovation for our customers.

In addition to downstream demands for differentiated products, there is a corollary upstream demand for the supply chain coordination of raw materials and components. As sourcing operations continue to move out of China to other production markets, raw materials in China become disconnected from the manufacturing taking place elsewhere. Our product focused teams design and develop differentiated products for our customers, yet they also orchestrate the increasingly complex flow of raw materials, components and finished goods. Our goal is to achieve leadership in particular product categories and capture new growth opportunities.

Our multi-channel sourcing business model continues to be strong, allowing us to capture sourcing opportunities from customers that use various channels to source their merchandise. We offer flexible solutions to our customers and work with them across multiple product



Spencer Fung  
Group Chief Executive Officer

categories and production markets, no matter how they sell or how they want to buy from us. By tapping into our global network and expertise to manage their supply chain complexity, our customers leverage their core strengths at retail and optimize their sourcing strategies. We are fortunate to act as a trusted partner to our customers.

### **Growth in Logistics; Vendor Support Services (VSS) Ahead of Plan**

Our Logistics Network continues to execute and grow with new customer wins, increase market share with our existing customers, and successful penetration into e-logistics and new markets. The integration of China Container Lines (CCL) was smooth and the cross-selling of global freight services has now begun. With VSS, we are converting our existing suppliers into a new customer base. By leveraging our global network and knowhow, our vendors can enhance their overall efficiency within the supply chain. This in turn, benefits all along the supply chain. We have now completed the build-out phase and VSS is progressing ahead of plan and generating positive returns.

### **Outlook**

While we expect the macroeconomic environment to remain challenging for the rest of the year, our order book remains solid and in line with our expectations, and I am optimistic that key prospects will be converted into new businesses this year. Incremental operating costs from investments initiated in 2014 will normalize in the second half of the year. We will continue to drive operating efficiency and productivity in our operations and that should ease the pressure on our core operating profit margin for the full year.

Our logistics business remains robust, delivering strong organic growth. We continue to invest in e-logistics to take advantage of the momentum in both domestic and cross-border e-commerce. Lastly, as an organization, we are committed to focusing on our customers' needs. Our focus on product expertise will create value for our customers by helping them develop differentiated and sustainable products at quick speed to market.

We are also investing into the future with initiatives such as a presence in Silicon Valley to stay at the forefront of innovation, establishing partnership with leaders in technology, as well as thought leadership in global retail and technology to share these insights with our customers. We will be the best positioned to help our customers succeed at a time when the global retail industry is evolving.

Last but not least, I am grateful for the dedication and efforts of our employees, who live by the core values of entrepreneurship, humility and family every day.

**Spencer Theodore Fung**

Group Chief Executive Officer