

A letter from our CEO



Spencer Fung
Group Chief Executive Officer

Dear Shareholders,

2016 is the last year of our current Three-Year Plan and I am pleased to say that we have been diligently executing our strategic goals and making important progress. In 2014 we set out to 1) build a sustainable enterprise 2) simplify our business and 3) focus on organic growth. We have embedded these three goals into everything we do in the Company. We have taken a deliberate course of action to minimize short-term actions and instead focus on initiatives that will benefit the long-term foundation of the business like investing in people, systems, infrastructure and innovation. We have simplified our Company by spinning off non-core assets like our global brands and licensing business, now Global Brands Group, and our Asia consumer and healthcare distribution business and also simplified our organizational structure and processes globally. We have also focused on organic growth and won new customers as well as increased our share of wallet from existing customers. Our actions have all worked together to enhance our foundation and are helping us build a sustainable enterprise.

The macro environment, however, has been one of the toughest we have ever seen. Industry pressures, geopolitical uncertainties, US election concerns, a Brexit reality and the sad rise of terrorist activity has caused uncertainty in the market and affected consumer confidence. The retail environment is almost permanently promotional and many brick-and-mortar retailers are now under constant pressure. Further, many retailers are focused on working down excess inventory from previous seasons and reducing overall levels of inventory and increasing their speed to market. E-commerce players continue to take market share and cause disruption to how consumers spend and how retailers compete. Technological advancements have brought new disruptions to industries at an ever-accelerating pace. The sourcing market continues a multi-year deflationary trend and global terrorism has affected many countries, including key production markets in Turkey and Bangladesh. Our Company performance in the first half of the year reflects these challenges and as a result our business volume decreased.

During these turbulent times, our business foundation remains solid. Our Three-Year Plan goals have helped us focus on our core business and solidify our multi-channel sourcing strategy such that more of our customers now use our entire end-to-end supply chain services. While the overall business has been under pressure, we continue to convert our strong pipeline of new customers every few months and to help more e-commerce customers with their private label strategies. Our reorganization last year to focus more on our core customers enabled us to increase our share of wallet. Additionally, our three product vertical groups are now deeper into their supply chains, creating asset-light ecosystems focused on technology and innovation. Our logistics business continues a multi-year double-digit growth pattern with in-country logistics and global freight and within that e-logistics is growing even faster and capitalizing on the explosive growth of e-commerce in China and around Asia. Our new Silicon Valley office has also been bringing new innovative ideas, exploring new partnerships in technology and leading our advanced data analytics strategy. Finally, our Vendor Support Services has also grown very well from a low base and we are forecasting it to exceed our goal of 5% core operating profit this year.

We expect the second half of 2016 to remain challenging and we will continue implementing our margin enhancement and cost control measures to counteract the effects of the environment and mitigate pressure to our business. We continue working on process reengineering and investing in software and automation to increase our efficiency. Meanwhile, we have already begun planning for our next Three-Year Plan for 2017-2019. Although we are still early in the process, we are quite excited to be working across some key themes such as speed, innovation and digitalization of the supply chain, which we believe will play an integral part of our strategy. I am very encouraged by the passion the whole team has shown so far and am looking forward to announcing next year how we are planning to make further progress in building a long-term sustainable future for Li & Fung.

Yours sincerely,

Spencer Fung
Group CEO

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**We are excited
to be working on
speed, innovation
and digitalization
of the supply chain.**
