

A Letter from Our CEO

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Dear Shareholders,

2017 is the first year of our Three-Year Plan and our goal is to build the supply chain of the future to help our customers navigate the disruptive digital economy, and to improve the lives of one billion people in the supply chain. To achieve this, we are focusing on speed, innovation and digitalization. I am pleased to say we are off to a strong start for our Three-Year Plan. Turnover and margin have stabilized, operating costs have reduced and our core operating profit is up 12% on a like-for-like basis. I am also very happy to report that our new supply chain model is gaining traction and our customers are embracing our new solutions.

In the past few years we experienced deflation and destocking pressure combined with digital disruption of the industry and our new Three-Year Plan is aimed at helping our customers navigate this pressure from new forms of competition and to help them solve their biggest pain points. We have reorganized our business into the Services and Product segments to distinguish our fee-based service businesses from our principal trading, product focused businesses. Our core agency business has been renamed 'supply chain solutions' and has expanded our menu of services to include new services targeted to our supplier base as well as new digital, value-added services for brands and retailers, which is very different from other traditional agencies and buying offices. The world is changing at an unprecedented pace and we are committed to our journey to transform ourselves into a digital company.

Speed Model

Because of the disruption we have seen in retail, many brands and retailers are realizing that with the fast pace of the digital economy and the changing nature of consumer preference, we are now in an era where speed

has become the number one priority. For decades supply chains were optimized for cost and efficiency, constantly chasing lower costs. Now everyone is looking for agile supply chains. In a world where the supply chain is optimized for speed rather than for cost, lead times have been drastically reduced by 50% or more through eliminating duplicate processes, more rapid decision making, increased automation and the widespread use of digital tools. Li & Fung offers a 'speed playbook' for our customers based on years of experience working with thousands of customers and offers multiple options for them to speed up their supply chain. The results have been very positive with customers seeing a double-digit increase in sales and double-digit reductions in inventory and mark down. Going forward we will continue to experiment with even faster supply chains to reduce the time to market from the industry average of 40 weeks to only a few days – truly allowing our customers to turn their supply chains into responsive demand chains.

Virtual Design

One of the most time-consuming processes within the supply chain is design, product development, and sampling. We have created a Virtual Design Center of Excellence in our major hubs to transform the design and sampling process into a 3D virtual process, drastically reducing the time it takes to develop a product from months to mere days. Virtual samples are now photo realistic and indistinguishable from real physical samples. We conducted experiments with select customers and were able to reduce the time of product development by five months, improve adoption rate by 50% and eliminate the need for physical samples, saving cost and waste. We are very encouraged by these early results and will strive for even greater metrics over the coming months.

Productivity

Productivity and efficiency gains are a key focus. We have set an ambitious target to improve productivity by a high double-digit percentage annually. To achieve this, we have mapped the entire end-to-end supply chain across all our stakeholders to identify overlaps and align roles to eliminate duplication of key processes. We are also reexamining our internal operations to streamline and focus our processes. For example, we are restructuring our pre-order process to be even more customer centric and consolidating our post-order processes to move them closer to the factories to ensure better coordination and performance. On top of this, we are actively using different software to convert analog processes into digital formats and using more robots to automate certain tasks. The aim is to improve our efficiency and customer service KPIs and have a positive leverage of our cost base.

Logistics

Our logistics business has been on a journey of growth for the last six years and continues its strong momentum with high double-digit growth. In the first half of 2017 logistics grew its core operating profit by 20%. In particular, our e-logistics business continues its high double-digit growth and we expect the demand for e-logistics will continue to increase on the back of growing e-commerce activities in China and the rest of Asia. We have been very successful in converting some of the biggest global brands and retailers into our customer portfolio, and are now systematically expanding to new geographies with them. Some of the new countries we have entered include Korea, Japan and India. Each of these countries represents a significant potential growth driver for us. In addition to entering new geographies, we are also entering new product verticals for our logistics solutions such as electronics, adding

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yet another growth driver. I expect the strong growth momentum for our logistics business to continue throughout the Three-Year Plan.

Summary

Since the launch of our Three-Year Plan, we have been focused on deep execution of individual parts of the plan with a prioritization on stabilizing our turnover and margin, increasing productivity and developing our new virtual design service. We also have a very strong balance sheet to invest up to US\$150 million over the plan to digitalize our supply chain. In addition, we are actively communicating to all our stakeholders our goal of building the supply chain of the future. Not only are our people very excited about our new direction, our customers and suppliers have been reacting very positively to our plan and our new services. I am personally excited and extremely energized about the direction we are taking and thank all our people for their hard work and commitment to our transformation journey.

Yours sincerely,

Spencer Fung
Group CEO