

A Letter from Our CEO



Dear Shareholders,

I hope that this letter finds you and your family safe and healthy. As we report our 2019 results, the world is going through one of the biggest crises we have seen in modern history triggered by the COVID-19 virus. We are in unprecedented times and the world is now coming together to fight this crisis. This is a global, simultaneous, supply and demand disruption that is affecting millions of companies around the world. Within the global retail industry, Li & Fung is uniting our ecosystem of retailers and suppliers to solve this problem together.

2019 marked the end of our current Three-Year Plan (2017–2019) where our goal was to create the Supply Chain of the Future by focusing on Speed, Innovation and Digitalization. While we did not meet our financial targets, we have established ourselves as one of the leaders in digitalizing the upstream supply chain. The first year of our plan, 2017, was an experimental year for us as we looked at what the Supply Chain of the Future might mean for our business. In 2018, we began to focus on a few key areas, including 3D Digital Product Development and strengthening our global network to help our customers navigate the effects of the US-China trade war. In that second year, we also embarked on our biggest restructuring and reorganized our company and created the industry's largest unified sourcing and production platform. Following the restructuring, we brought in new management teams including the key roles of Group President Joseph Phi, Chief Operating Officer Wilson Zhu, and Chief Digital Officer Darren Palfrey. In our final year, 2019, we continued our digital transformation and extended our lead in 3D Digital Product Development and created our Logistics Digital Control Tower. With KPIs improving, our Supply Chain Solutions business (SCS) started to gain

market share. However, the overall financial results were pulled down by the general weakness in the consumer and retail industry and by customer turnover triggered before our restructuring. Our Onshore Wholesale business (Onshore Wholesale) performed relatively well in 2018 but started to face pressure in 2019. The Logistics business (Logistics) continues to gain strength with in-country logistics performing strongly and we are continuing to enter new markets and product verticals. However, our global freight management business came under pressure from depressed freight rates due to the US-

China trade conflict. Importantly, we raised US\$300 million from Temasek, the Singapore-headquartered investment company who acquired a 21.7% stake in LF Logistics in August 2019.

For 2019, our turnover was down by 10.1% due to the decline in SCS and Onshore Wholesale. Total margin decreased by 9.1%, but total margin percentage increased by 0.1 percentage point due to increased contribution from Logistics. Operating costs decreased by 5.3% due to productivity gains in SCS and Onshore Wholesale, which was partially offset by digital and logistics investments. As a result of these factors, our core operating profit decreased by 22.9%. Based on the benchmark against profit attributable to shareholders and taking into consideration the uncertainties surrounding the COVID-19 virus outbreak, the Board did not recommend the payment of a final dividend. Over the years we continued to deleverage our balance sheet. In 2019, we further reduced our bond by US\$250 million on a pro forma basis* and ended the year with a lower net debt balance of US\$244 million, lower gearing ratio of 10%, investment grade ratings by both Moody's and S&P, cash balance of US\$932 million, and banking facilities of over US\$1.5 billion.

Looking ahead, we expect the global trading environment will be highly disruptive and unpredictable. We have moved from a WTO-backed multilateral framework to one that is more fragmented with many countries striking bilateral trade deals among each other. The US-China trade war has taken center stage in global trade and represents one of the biggest disruptions we have seen in 20 years. As a result, many companies are now diversifying away from China and pursuing a more diversified global sourcing strategy which we believe is the best option to mitigate risks. Meanwhile, retail and digital disruption continues at a very fast pace

and many of our customers have yet to embrace the latest developments. Finally, the COVID-19 pandemic is likely to be the single most disruptive event the modern world has seen, causing lockdown of entire countries and simultaneous, wholesale disruption of both demand and supply.

Under this uncertain backdrop we will not announce a new three-year plan and have instead announced our 2020 & Beyond Strategic Direction under which we will continue to focus on building the Supply Chain of the Future and organic growth. We will continue to leverage our 50+ economy network to help our customers diversify risk and navigate the ever-changing global trading landscape. We will continue to build on our leadership in 3D Digital Product Development by adding new modules and will start to monetize the service. With our new structure, we will now truly leverage the scale of Li & Fung and will create three new centers of excellence focusing on denim, fabric and costing. Logistics will continue to focus on new countries, verticals and its transport business, and will continue to expand in China and e-Logistics. Finally, we will start to combine our offerings in SCS, Logistics, Onshore Wholesale and Digital to provide our customers with a one-stop-shop service that is unique in the industry. While we are excited about the new strategic direction, we know there is execution risk and a lot to do to fulfill our plan.

For the rest of 2020, the entire world will be weighed down by the effects of COVID-19. With the virus spreading across more than 100 countries around the world, we see a sudden drop in demand as consumers stay home and spend on essential goods and services only. As a result, many of our customers are now in a holding pattern that has caused disruption upstream. At the same time, many production countries are also in a lockdown that will pause the global supply chain. We have been using digital tools to ensure business continuity and also ramping up the use of 3D Digital Product Development to help our customers develop products remotely. As Li & Fung is connected to thousands of retailers and suppliers, we are now using all the information and resources in our ecosystem to help customers and suppliers learn faster from best practices and survive this crisis. We are also engaged with many local trade groups and governments to encourage financial help to our supplier partners who are in great need. Millions of workers face unemployment with no food on the table if the governments do not provide immediate help. Finally, we are also engaged with global organizations to encourage governments to take a more globally coordinated approach to combating the COVID-19 virus and the economic fallout. Since this crisis

is bigger than anything we have seen in recent decades, the entire world has to come together to take actions quickly. Only then will we have a swift recovery and not risk causing permanent damage to the global economy.

I would like to close by thanking all shareholders, customers, suppliers and our hard-working colleagues for your continued support. Looking back from the future, COVID-19 will be a temporary event and we will all come out of this eventually. I wish everyone a safe and healthy year ahead and I look forward to updating you again soon.

Yours sincerely,

Spencer Fung
Group CEO

[#]Pro Forma: excluding outstanding US\$374M bond to be redeemed with cash at hand at maturity in May 2020.