

A Letter from Our Chairman

Dear Shareholders,

As we enter the new decade, I would like to examine the major developments that are shaping global trade and the retail industry, as well as opportunities and challenges facing Li & Fung.

Macro environment

At the time of writing, the COVID-19 virus has already spread to more than 100 countries, causing social, economic and financial upheavals around the globe. Quarantines and travel restrictions of unprecedented scale have been put in place in order to contain the outbreak. Governments seem ready to deploy incremental fiscal and monetary stimulus but market confidence has so far been fragile. Concurrently, geopolitical tension seems to be rising since the beginning of the year. Russia and Saudi Arabia have just started a price war over oil production, with shocks reverberating through the markets. The US and China continue to vie for global technological leadership amidst the virus outbreak. Near-term pressure from the trade war was temporarily relieved with the conclusion of phase one of the US-China negotiations. In the meantime, most of the punitive tariffs imposed during the early phase of the conflict remain in place to the continued detriment of Sino-US trade. The disruptions from COVID-19 outbreak and the lack of a set timeframe are presenting more uncertainties to the next phase of the negotiations, which might prove to be more difficult due to the complex geopolitical and ideological backdrop.

These developments are casting doubts on the economic outlook of both the US and Europe, which are, respectively, key markets for our Supply Chain Solutions business and Onshore Wholesale business. Facing uncertain prospects, consumers in these markets are likely to scale back on discretionary spending, bringing further pressure to a wide-range of businesses, especially those selling non-essential consumer goods and services. In China, the supply chains have been gradually reverting to normalcy. However, Asia is not immune and economies in the region are beginning to feel the pressure of global volatilities. The long-term growth trajectory of Asia, especially China, supported by economic potential and favorable demographics, remains intact.

Retail industry – retailtainment on the rise

The retail industry continues to evolve at an unprecedented pace as consumer behaviors shift and technology advances. With more value attached to personal experience rather than to material possession, experiential retail, or retailtainment, has emerged. In retailtainment, consumers visit stores to experience new products or even create products customized to their tastes. They enjoy maximum flexibility in terms of when and how to buy and receive their products. Physical stores become much more than a sales outlet, but a key space for brands and retailers to build emotional connection with their customers.

The complexity of retail front-end increases exponentially as retailtainment grows. To support this development, the infrastructure and processes that facilitate the flow of physical goods, from conception to consumption, need to change dramatically. More than ever, retailers need supply chain and logistics partners that are highly responsive, sophisticated, and nimble. Our comprehensively digitalized supply chain is well-equipped to help brands and retailers adapt to the new digital landscape.

Global sourcing network of Li & Fung

Until recently, the World Trade Organization (WTO) provided a relatively stable and straight-forward sourcing landscape for many industries. In hindsight, this may prove to be an anomaly as geopolitical forces realign and the WTO-order of the past decade unravels. While we continue to help our customers diversify their production from China to other countries in our global network, it is unrealistic to move all activities out of China due to the sheer size of the country's manufacturing base and its unique upstream value chain that is hard to replicate in scale.

We therefore expect that "Made in China" will gradually become "Managed by China" as Chinese manufacturers themselves move offshore and supply essential components to other global manufacturers. This, together with a proliferation of bilateral trade agreements is usurping the previous multilateral framework and necessitate a wholesale rewiring of global supply chains. We expect a new equilibrium will ultimately emerge over time. Over the past few decades, we have put in place a global sourcing network of unrivaled breadth and depth. This network provides our customers with the diversity needed to cope with uncertainties as the global sourcing landscape becomes ever more complex. In recent weeks, our vast network has again proved its resilience as we mobilized our network to help our customers and suppliers tackle the disruptions from the COVID-19 outbreak.

Importance of Environmental, Social and Governance actions

A significant development of our time is the rising awareness of Environmental, Social and Governance (ESG) issues and the urgency of addressing our common sustainability challenges. Consumers expect businesses to make a positive impact to the world. Brands and retailers place more emphasis on whom they source from and how the products are made. Businesses are integrating initiatives such as material circularity and product traceability into their brand DNA.



Our investors and customers are also emphasizing ESG commitment and action in their decision making. We have been evolving our holistic sustainability strategy for over ten years and continue to set and attain goals to meet best practice benchmarks and stakeholder expectations for a responsible business. Improving our ESG performance drives our sustainability strategy and we integrate the sound management of ESG issues into our global operations and along our value chain. For example, we engage with suppliers in our global network only after rigorous vetting based on criteria that include environmental impact and workers' rights. Regular audits are performed to ensure continued compliance with our standards. Our 3D Digital Product Development helps reduce material wastage in sampling and greenhouse gas emissions arising from the transport of physical samples.

As one of the founding strategic partners of the Global Fashion Agenda and a participant in the Make Fashion Circular Initiative, we are committed to working with our customers to implement design strategies for recyclability, increase the resale of used garments and footwear, and increase the use of recycled post-consumer textile fibers. Going forward, we will continue to leverage our convening power and collaborate with our stakeholders along the supply chain to make our industry more environmentally, socially responsible, and sustainable.

2020 – a pivotal year

When we launched our previous Three-Year Plan in 2017, we announced our ambitious goal to create the Supply Chain of the Future. Over the past three years, we have made great strides in digitizing many previously analog steps in the consumer goods supply chain and are now the leading go-to provider of end-to-end digital services such as 3D Digital

Product Development. During the same period, we embarked on one of the most profound reorganizations and as a result Li & Fung became a leaner and more focused organization. We have the right structure and leadership in place to transform our business as the retail industry continues to reinvent itself in the face of extraordinary pressures at the consumer end. Our Logistics business, which focuses on servicing Chinese and Asian domestic customers on behalf of multinational businesses, will continue to benefit from positive secular trend in the region and the US\$300 million investment by Temasek in August 2019 will help facilitate its business expansion.

Despite the challenges facing the global economy and the retail industry, I am confident that we, by leveraging our scale and scope and focusing on operational excellence, can achieve meaningful progress in creating the Supply Chain of the Future and improve the lives of one billion people. As we unite to combat the COVID-19 pandemic and the economic havoc that may result and continue our transformation journey in this pivotal year, I would like to express my heartfelt gratitude to our colleagues, customers, shareholders, suppliers and ecosystem partners for their relentless and continuous support. Their invaluable partnership will be valued even more as we navigate this pivotal year.

Yours sincerely,

William FUNG Kwok Lun
Group Chairman