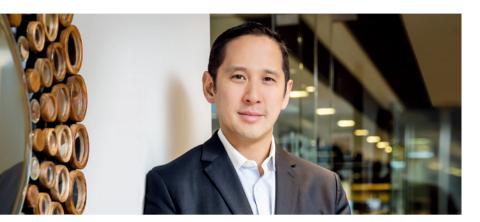
## A Letter from Our CEO



Dear Shareholders.

2019 is the last year of our Three-Year Plan to create the Supply Chain of the Future. While 2017 was our 'Year of Experimentation' and 2018 was the 'Year of Focus', 2019 is a 'Year of Acceleration'. With our restructured organization and new management team, we are bridging many silos within our company and streamlining our operations to enable us to move a lot quicker. We are also accelerating our focus on digitalization of the supply chain as our customers begin to embrace our new digital tools. In August 2018 we announced our most important restructuring in three decades and we are now starting to truly leverage the buying power of Li & Fung.

The past few months have been some of the most complex times we have seen in global trade and the need for diversification and mitigation of risk is more important than ever. With our diversified, global sourcing network spanning across more than 50 economies, we have been actively helping our customers to diversify their risks by quickly migrating production. Our digital efforts have also accelerated and our end-to-end 3D virtual design service has taken a solid leadership position and is now starting to generate revenue. In August, we closed an investment of US\$300 million by Temasek, the Singaporeheadquartered investment company, and this will accelerate our growth in our logistics business and enhance the capital structure of the entire Group.

In the first half of 2019, our turnover was down by 8.4%, but we are now seeing a stabilization of our turnover going into 2020. The new organizational structure and management team have driven key improvements in the first half and we are now seeing the beginnings of a turnaround with improved key performance indicators (KPI), increased market share with top customers, accelerated conversion of new customers, and the monetization of our digital services. We are optimistic that our turnover will begin to see the bottom in 2020. Our total margin is still under pressure, although we are seeing some strong growth in Logistics business and some momentum in our Onshore Wholesale business. Our productivity increase is driving down cost for our core business which was offset by investment in digital and growing our Logistics business. As a result. Core Operating Profit (COP) is down by 18.6%. On our capital structure, we continue to deleverage and strengthen our balance sheet. On a proforma basis, assuming the Temasek investment had been completed by 30 June 2019, we have cash of US\$861 million, net debt of US\$193 million, gearing ratio of 8%, and a solid investment grade rating.

Looking outside the Company, the overall global trading environment has been very volatile in the past few months, and we see the world quickly moving away from the multilateral WTO framework to a proliferation of bilateral deals, led by the US-China trade dispute. We believe that we are now entering a 'new normal' in global trade that will continue for at least the next decade. As a result, the established rules of global trade are now highly complex and are more complicated than the guota era of 1974-2004. In times of complexity, it is critically important to diversify risk, and Li & Fung's long-standing global network of 50+ economies is best suited to help our customers diversify the threat of tariffs and other risks to production. We think this is one of the biggest opportunities we have seen in the past 20 years.

Internally, our restructuring into much more focused areas and bridging of the many silos in the company is on track. As part of the restructuring we have brought in a new management team with a strong track record in creating growth. Over the past six months, all our major operational KPIs have improved and our customers and suppliers have noticed an immediate difference. As a result of the improved productivity and customer service, we are starting to gain market share in our top customers. Our new business development efforts are introducing more sizable targets and accelerating sales conversion. Indeed, 2019 is turning out to be one of the best years in converting new customers. Our newly created sourcing and production platform has also been instrumental in helping our customers react quickly to the US-China trade dispute by mitigating the impact of tariffs. Finally, our new digital team has hit the ground running and already signed three new technology partnerships that will enhance our digital offerings. All in all, I am very pleased with the progress of the restructuring.

In terms of our digital solutions, we are progressing our vision of the Supply Chain of the Future and have made important progress on end-to-end 3D virtual design. From a very humble effort in 2017, we have evolved our 3D team to be a true leader in the industry. This is a part of the US\$150 million investment we earmarked in 2017 to build the Supply Chain of the Future. Our 3D team is now the largest in the industry and consistently produces the highest quality output according to customer feedback. Despite our leadership position, we are still advancing at a pace that is faster than most of our competitors. We have begun to develop our own intellectual property and starting to generate revenue from this unique service. Furthermore, our 3D services are starting to disrupt the traditional industry. We have now fully digitized six different processes in the end-to-end retail value chain which is helping our customers and suppliers speed up their supply chain by an average of 30% and save costs of up to 1.2% of the retail value of their products. This is just the beginning of our digital journey, and we are very excited about what's to come.

In August, Temasek closed its investment in LF Logistics by acquiring 21.7% of the business for US\$300 million. LF Logistics have experienced consistent double-digit growth for over a decade, and continues to show strong momentum, with 7.9% turnover growth on a constant currency basis. We have a very stable and strong management team and have been growing on the back of multiple growth drivers. Despite the slowing economy in China, the in-country logistics business is growing double-digit, with very strong growth rates in eLogistics. The newer markets of Japan, Korea and India are growing well, as are the new verticals of electronics and healthcare. This strong momentum was offset by weakness in our global freight management business due to the US-China trade dispute and depressed freight rates. On a constant currency basis, COP for the Logistics business grew double-digit to 10.8%.

Looking into the second half of 2019, we see more challenges in the global retail environment which will put pressure on both turnover and gross total margin. We will continue to deleverage our balance sheet and focus on the next phase of our restructuring to drive even better service delivery and increased productivity. We also expect our business development conversion to accelerate and our 3D revenue generation to gain further momentum which will help our turnover in 2020. As the global trading environment become increasingly complex, we will continue to use our global network to help our customers navigate this very difficult time. In this complex environment, the value of our business model of dispersed global production and agile, on-the-ground, decision making is benefiting our customers and our

I would like to take this opportunity to thank all our different stakeholders for their continued support as we continue our journey to create the Supply Chain of the Future.

Yours sincerely,

## Spencer Fung Group CEO