

A letter from our Chairman

Dear Shareholders,

In 2015, the second year of our current Three-Year Plan (2014-2016), Li & Fung continued to strengthen its position as the world's leading global supply chain manager for consumer goods. A key theme of the current Three-Year Plan is organic growth, and our strategies and plans were formulated with this focus in mind. Despite strong macro headwinds and a challenging retail landscape, the Company delivered resilient results in 2015.

We are entering our 110th year of operation. From our humble beginnings in 1906, as a small family-owned trading company in Canton, to a Hong Kong-based multinational public corporation today, we have experienced good times and bad through numerous political and economic cycles. The cornerstone of our business continues to be our ability to change and adapt while retaining a culture of hard work and loyalty to a strong base of core customers, our dedicated management and colleagues, and our global network of vendors. With these strengths, I am confident that we are well-equipped to ride through the turbulent markets we are witnessing today and to continue to lead the industry.



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Our 2015 Performance

Performance in 2015 was muted with tough macro headwinds and the impact of e-commerce and margin pressure on the retail sector across our major markets. We maintained our top line while achieving volume growth for our trading business, but experienced some margin deterioration from the tough business environment. Nevertheless, the business remained highly cash generative. We ended 2015 with a solid cash balance, and the Board has resolved to declare a final dividend of 15 HK cents per share, after paying an interim dividend of 13 HK cents per share earlier in the year. I expect our strong cash position will be maintained, given our limited capital expenditure requirements and our organic growth strategy, for the remainder of the current Three-Year Plan.

The retail landscape is undergoing substantial changes. As a dynamic industry, retailers are constantly evolving in terms of store formats, product categories, marketing trends and sales channels. One of the latest trends, e-commerce and omni-channel retailing, has intensified competition for retailers and brands globally, leading to the highly price promotional landscape we saw in 2015. Over the long run, however, this highly promotional environment is not sustainable. Unprofitable companies will exit and there is tremendous pressure for all retailers, including online pure-plays, to enhance margins through product differentiation.

As a strategic sourcing partner, we not only serve our traditional brand and retail customers as they grow their online channels, we also source products for online retailers, many of whom are only just beginning to develop their own private label collections.

I expect the highly promotional situation to normalize as global economies recover and companies work through sustainable online sales strategies. I am confident that Li & Fung is well-positioned to benefit from the tailwinds once the market settles.



William Fung
Group Chairman



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New Frameworks Impacting Global Trade

Li & Fung has a broad vendor base spanning over 40 economies. This geographical diversification provides us with high flexibility, which is particularly important as the complexity of the sourcing world continues to intensify. New developments in the sourcing landscape, such as the shifting of production between countries, changes in international trade agreements, government policies and geopolitical tensions, add considerable uncertainty and complexity to global supply chains. Our long experience and established vendor networks in all major production economies provide the necessary diversification and flexibility that enable us to respond quickly and appropriately in times of change.

The Trans-Pacific Partnership (TPP) was widely discussed in 2015, and is expected to particularly benefit the textile and garment industry in Vietnam. Our long experience in shifting manufacturing bases across different countries will allow us to take full advantage of TPP and we are well entrenched in Vietnam, which is our second largest production country.

China's Increasing Influence on Global Trade

2015 witnessed the formal introduction of China's One-Belt-One-Road initiative ("Initiative"), with action plans designed to connect and further integrate the various economies along the "21st Century Silk Road". Although not a formal trade treaty, this important Initiative is expected to bring tremendous trading opportunities to participating countries.

Although the Initiative is in its early stages, Li & Fung is well-positioned to benefit as the Initiative develops and matures. As we have already established relationships with vendors in most of the participating countries, little additional investment, of both time and money, will be required for us to capitalize on the Initiative. Our deep experience in managing global supply chains, coupled with new sourcing opportunities, will enable us to provide innovative value-added solutions to our customers in the years to come. The Initiative will also open up new customer markets for both our trading and logistics businesses.

Another development from the Chinese government during 2015 was its announcement of the 13th five-year plan. With GDP growth planned to be no less than 6.5% p.a. and an emphasis on "innovative development", there is likely to be substantial changes in the Chinese sourcing landscape as production of certain product categories will decant from China, while others will move into China. To this end, Li & Fung is well prepared to respond to these potential changes given our large sourcing network spanning many alternative production countries. At the same time, as China continues its structural reform to move toward a more domestic consumption-driven growth model, there is huge potential for us to further convert Chinese retailers and brands as customers.

Logistics Network

Our in-country logistics business is primarily focused on Asia, especially China. During 2015, we experienced continued rapid growth especially in the e-logistics arena. We have become the strategic logistics partner of choice for many major global brands and have assisted many customers to complement online-to-offline (O2O) retail experiences for the Chinese consumers.

With the acquisition of China Container Line (CCL) in 2014, our global freight forwarding business is now entering an expansion phase and is becoming an integral part of our end-to-end supply chain solutions for our trading customers.

Vendor Support Services (VSS)

Leveraging our relationships with our vendors, we introduced the VSS program to offer a whole range of vendor-related services such as compliance training, industrial optimization, raw material procurement, risk management, product testing and trade credit services to vendors across the globe. 2015 was a year of trial and experimentation of our VSS program, and I am pleased to report success in this new business area. Our program has been progressing ahead of plan as we rolled out VSS to our existing vendor base. There will be a meaningful contribution from VSS to our core operating profit in 2016. Beyond 2016, we expect VSS to transform our vendors into a whole new customer group and for these services to develop into an exciting new business segment for the Company.

Prospects

In view of the current macro conditions, 2016 is likely to be another challenging year for our customers. While there will be some growth in our biggest market, the US, that growth is unlikely to be robust. We expect Europe's consumer demand will continue to stagnate or decline and Asia to slow. For Li & Fung, this means ongoing volume and pricing pressures for our trading business, amidst continuing price deflation and negative translational impact from a weak Euro and Asian currencies. Nevertheless, new customer wins in 2014 and 2015 will begin to contribute more meaningfully in 2016 and 2017 and provide further opportunities for deeper account penetration, cross-selling and increased market share. Our VSS program will contribute to profitability, and our logistics business is expected to maintain robust growth through new business wins and geographical expansion, led by our excellence and expertise in in-country logistics, particularly e-logistics.

In 2016, the last year of our current Three-Year Plan, we will commence planning and preparation work for our next Three-Year Plan for the period 2017 to 2019.

In closing, I would like to extend my gratitude to our colleagues for their dedication and support to management and the Company over the year.

Yours sincerely,

William Fung Kwok Lun
Group Chairman