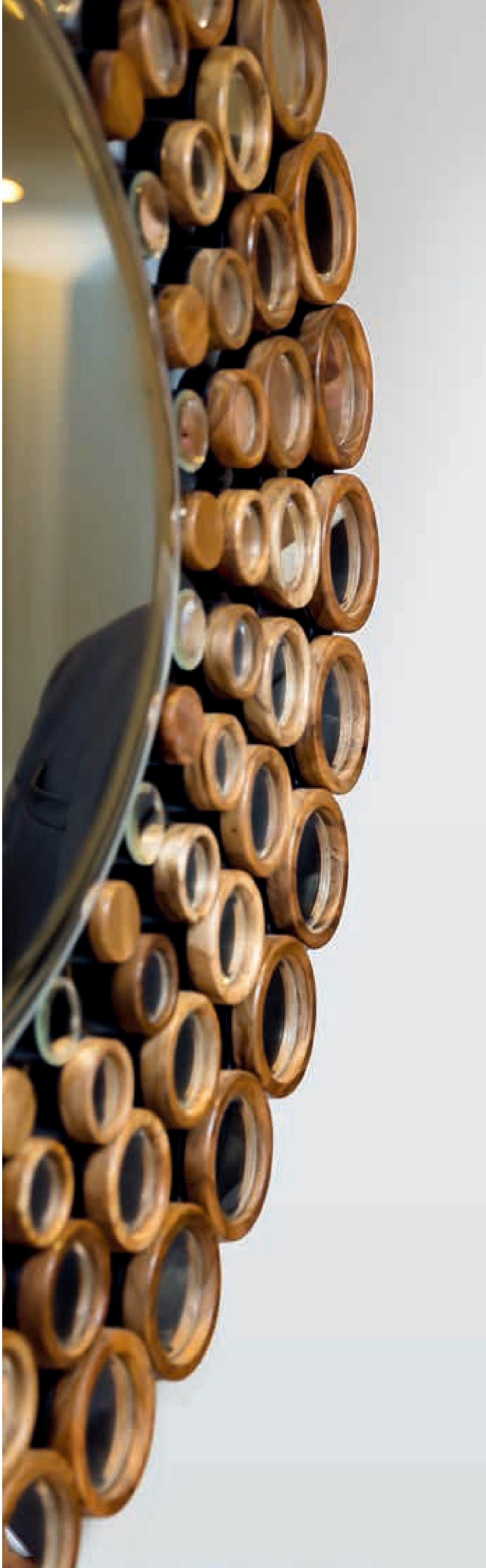
A Letter from Our CEO



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Dear Shareholders,

2017 was the first year of our Three-Year Plan and I am happy to report that we are on track. A year ago, we outlined our vision to create the supply chain of the future to help our customers navigate the digital economy and to improve the lives of one billion people in the supply chain. We aimed to achieve this by focusing on speed, innovation, and digitalization of our business. In the past twelve months, we have met our financial targets and executed our strategic goals. We have seen the beginning of a three-year digital transformation that is changing the mindset of our people and our partners. Our vision is to build a digital platform that includes all our ecosystem partners and enables them to benefit from the convening power of a network that reaches over US$2 trillion of retail sales. We are excited to have made a strong start to this journey.

2017 was another transformative year in the retail industry. While retail sales around the world are healthy overall with a 3.3% growth globally, the retail environment continues to morph at the fastest pace we have ever seen. The fundamental beliefs we upheld are now changing. Most people agree that the future business model for retail will be omni-channel. We have seen that most brick-and-mortar retailers are becoming fully omni-channel ready, and many pure e-commerce companies are now establishing a sizable brick-and-mortar presence – the two will eventually merge into a new retail format that will become the norm. Meanwhile, there was a record number of store closures in 2017, and 2018 is shaping up to be even worse. There was also a high number of retail bankruptcies, and at the time of this letter, we are already seeing an unprecedented number of bankruptcies in the first few months of 2018. Almost all retailers are now focusing on speeding up their operations to meet the demands of their end-consumers who are moving faster than ever before. As a result, a handful of those who have successfully introduced greater speed have seen strong recovery and growth towards the second half of 2017, allowing them to improve their margin and reduce their markdown and inventory. Overall, global retail is still strong and the rumored retail apocalypse did not materialize.

Technology also advanced in leaps and bounds with the growing importance of crypto currency, blockchain and artificial intelligence dominating the headlines. Increasingly many traditional companies are catching up fast to the technology curve and starting to deploy more innovative solutions in their business. Most retailers agree that technology is here to stay and it's now the story of innovate or die. The upstream value chain, however, is still slow to adapt to the change and we are now aiming to help all our partners move up the technology curve to enable them to become more digital. I believe that the future belongs to those who firmly grasp the fundamentals of the current business model and effectively apply new technologies in their businesses. While Li & Fung is a 111-year old company with deep-rooted values, we aim to stay at the forefront of technology and innovation in this exponential world.

In 2017, I am happy to report that we have achieved all our strategic goals. Speed, innovation and digitalization is the foundation of our Three-Year Plan. Over the past 12 months, we have been able to increase the speed of our customers' supply chain and reduce, on average, 20% of the lead time from design to store, resulting in a double-digit increase in sales and a double-digit decrease in mark downs and inventory for our customers. We have been working with various partners to explore new and innovative business models which can become the new normal. For digitalization, we focused on the 3D Virtual Design process and have successfully grown this area to become one of the leaders in this space, with one of the largest and most geographically-distributed 3D Virtual Design teams in the industry. We are now converting more processes from analog to digital and are excited about the prospect of linking these digital modules together to start forming the end-to-end digital supply chain platform. Internally, we have also increased the productivity of our workforce and as a result achieved a significant cost reduction in the process.

Financially, we hit our 2017 target and we are on track for the first year of our Three-Year Plan. It is one of the first times we have achieved this, and I must congratulate and thank all our people for the hard work that they have put in this year. On a like-for-like basis, we have stabilized our turnover reduction, increased our total margin percentage by 30 basis points, reduced our operating cost by 5.8%, and increased our core operating profit (COP) by 13.3%, up 40 basis points as a percentage of turnover. Our core business of Supply Chain Solutions had a solid year with a 21.2% increase in COP, and our logistics business continues its multi-year, double-digit growth with a 23.8% increase in COP. Logistics continues to outshine and is taking more market share as a result of strong growth in e-commerce logistics, entry into the new markets of India and Vietnam, and entry into a new product category, namely electronics. This is no doubt a solid start to our Three-Year Plan. However, there remains significant pressure on our business as the industry transforms, and we remain 100% focused on delivering our goals.

In December of 2017, we announced the strategic divestment of three product verticals for US$1.1 billion. This is a continuation of our exercise of simplifying the company and focusing more on our core business and creating a digital supply chain, following the spin-off of Global Brands in 2014 and the divestment of our Asia consumer and healthcare distribution business in 2016. The transaction was priced at over 14x EV/EBIT multiple, which represents good value for a business in decline, and was approved with 99.94% of the independent shareholder votes. We expect the transaction to close in the first half of this year and the Board has declared a conditional special dividend of US$520 million and the remaining US$580 million will be used to further strengthen our capital structure and allow us to invest for this Three-Year Plan.

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I would like to take this opportunity to thank all our colleagues and partners for the support that you have given the company as we embark on creating the supply chain of the future. One year ago, this felt like a concept of a future that was far away. Yet, only one year into the journey, I am excited to be able to show some real progress and see different parts of our journey become a reality. We hope that all of you can continue to support us as we attempt to create a future that will fundamentally change the way we operate in this industry.

Yours sincerely,

Spencer Fung
Group CEO