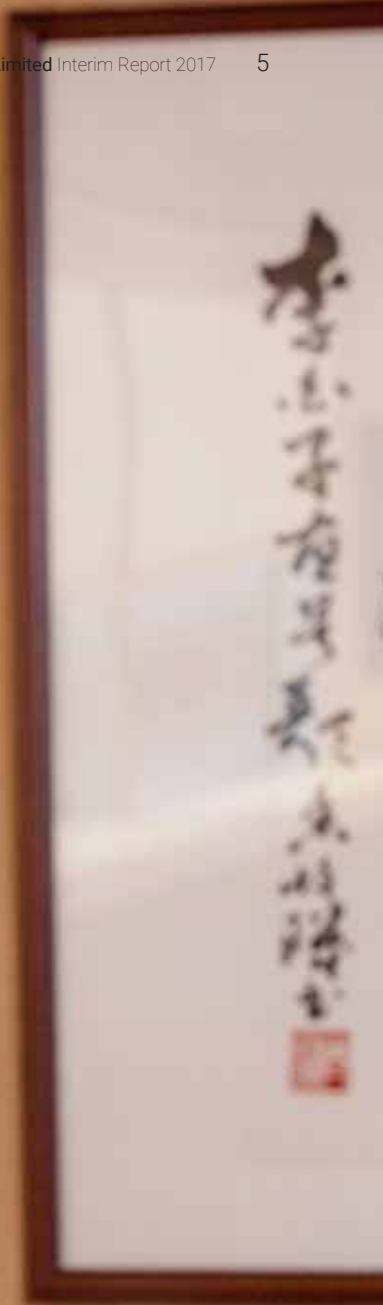


# A Letter from Our Chairman

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We have embarked on an exciting journey in our Three-Year Plan to create the supply chain of the future.



Dear Shareholders,

The global retail industry has been undergoing profound changes, driven by disruptive technologies and shifting consumer preferences. These trends have impacted Li & Fung's existing customer base, but at the same time, they have created many new potential customers for us. Both old and new customers' requirements for their supply chains have changed. With this in mind, we have embarked on an exciting journey in the Three-Year Plan (2017 – 2019) to create the supply chain of the future: a digitalized supply chain that delivers with speed, fosters innovation and generates valuable business insights.

### **Economic and Geopolitical Uncertainty**

We entered 2017 with cautious optimism for the global economy. In the US, the unemployment rate has returned to its pre-2008 level for more than a year now. In Europe, precursory remarks by central bankers on tapering suggest higher confidence in the economy. While data suggests that major economies have begun to stabilize, we see pockets of instability in the geopolitical realm that may dampen consumer sentiment or even undermine the recovery. Political volatilities, humanitarian crises and armed conflicts continue around the world. Against this backdrop, we expect consumers to continue to feel cautious about their spending.

### **Free Trade and Protectionism**

We also continue to face changing business and trade paradigms across markets. In Europe, the UK government has initiated Brexit negotiations with the European Union. The outcome of these negotiations, which may take up to two years, will have far-reaching implications beyond bilateral trade between the UK and the EU. For example, developing countries that currently export to the UK under the European Generalized Scheme of Preferences may need to renegotiate and reset trade agreements with the UK.

In the US, although the border adjustment tax no longer seems to be under consideration for the time being, uncertainties over trading relationships remain. Renegotiation of the North American Free Trade Agreement (NAFTA) is a key item on the US president's agenda and changes resulting from these talks will have implications for our US customers' sourcing strategies. Regardless of how the global trading landscape changes, given our large global footprint of operations, we are ready to readjust our strategies accordingly and with agility.

Although the current trading system faces uncertain complications, international support for free trade remains strong. The 11 countries that remain in the Trans-Pacific Partnership (TPP) have decided to continue negotiations towards a free trade framework despite the withdrawal of the US. In May this year, China hosted the first Belt and Road Forum for International Cooperation and reaffirmed its support for multilateral trading systems. In recent years, China has assumed an increasingly prominent role in advocating international trade. While the country remains a net exporter and a key sourcing destination for us, its potential as an important consumer market also has positive long-term implications.

## E-Commerce and Omni-Channel Evolutions

Strong consumption growth and the rise of e-commerce in China and the rest of Asia provide impetus for our fast-growing Asia-focused logistics business. However, the continued advent of e-commerce, coupled with fast-changing consumer preferences, has brought increasing pressure for traditional retailers to self-disrupt and re-invent themselves. In response, many retailers have formulated online sales strategies and introduced more differentiated products. At the same time, pure-play online retailers are launching their own private labels to capture higher margins and differentiate from their peers. There will be more disruption as the market moves towards a new equilibrium and we are fully-prepared to help our old and new customers navigate the shifting landscape.

## A Key Partner for Uncertain Times

In an uncertain environment, having a nimble, versatile supply chain solution provider is more important than ever. Our wide network of suppliers, with whom we have deep-rooted relationships developed over decades, gives us the ability to adjust supply chain solutions for our customers quickly as new situations emerge. This is one of our core strengths, and it positions us as a key strategic partner for brands and retailers throughout the years.

## The Supply Chain of the Future

Adding to our traditional strengths, we will be singularly focused on the goal of our Three-Year Plan and its key elements: speed, innovation and digitalization. We will not only meet and exceed the expectations of our old and new customers alike for a supply chain that meets the new consumer demands, but also employ new technologies in creating a new digitalized supply chain of the future that will anticipate future requirements. With a digitalized supply chain that can offer prescriptive - or even predictive - data analytics, we can help our customers make the most-informed decisions possible and act with optimal speed.

In creating a new digitalized supply chain, we can anticipate future requirements of our customers and this positions us as a key strategic partner.

I would like to extend my gratitude to our colleagues for their enthusiasm in working to build the supply chain of the future.

Yours sincerely,

**William Fung Kwok Lun**  
Group Chairman