

2016 Annual Results Presentation



March 29 2017

Analyst Meeting

Highlights

- Turnover and COP are negatively impacted due to tough retail environment
- Despite challenges, resilient performance with improved total margin % and cost control
- Logistics continued double-digit growth with e-commerce logistics outperforming
- Raised US\$1 billion through strategic divestment and perpetual securities issuance
- New Three-Year Plan (2017-2019) to build the Supply Chain of the Future for our customers and to drive growth



Results

External Headwinds More Extreme

- Deflationary environment continued, driven by over-capacity, soft commodity prices and weak consumer demand
- Persistently highly promotional landscape continues
- Retailers reducing lead time and destocking
- Numerous retail bankruptcies and unprecedented amount of store closures
- Demand for general apparel remained subdued, while home and athleisure categories were strong
- New US administration will spur more FTAs and potential border adjusted tax

2016 Annual Results Highlights

(All in US\$M)

	2015	2016	Change %	Excluding the Asia consumer & healthcare distribution business ⁽¹⁾		
				2015	2016	Change %
Turnover	18,831	16,761	(11.0%)	17,667	16,195	(8.3%)
Total Margin	2,189	1,962	(10.4%)	1,995	1,875	(6.0%)
<i>% of Turnover</i>	11.6%	11.7%		11.3%	11.6%	
Operating Costs	1,676	1,550	(7.5%)	1,500	1,468	(2.1%)
<i>% of Turnover</i>	8.9%	9.2%		8.5%	9.1%	
Core Operating Profit	512	412	(19.6%)	496	408	(17.7%)
<i>% of Turnover</i>	2.7%	2.5%		2.8%	2.5%	
Adjusted Profit Attributable to Shareholders ⁽²⁾	345	261	(24.4%)			
<i>% of Turnover</i>	1.8%	1.6%				

- Soft turnover due to price deflation, currency depreciation & destocking
- Total margin % increased due to Logistics Network and verticals
- Decline in operating costs from tighter cost control
- Proposed final dividend of 12 HK cents/share

(1) Excluding the Asia consumer and healthcare distribution business, which was strategically divested in June 2016

(2) Adjusted profit attributable to Shareholders excludes non-cash M&A items (write-back of acquisition payable, amortization of other intangible assets and non-cash interest expenses)

Net Profit Analysis (All in US\$M)

	2015	2016	Change %
Core Operating Profit	512	412	(19.6%)
<i>Write-back of Acquisition Payable</i>	117	-	
<i>Amortization of Intangible Assets</i>	(34)	(34)	
<i>Gain on Disposal of Business</i>	-	8	
<i>One-off Reorganization Costs</i>	-	(6)	
Operating Profit	595	380	(36.1 %)
<i>Non-cash Interest Expenses</i>	(7)	(4)	
<i>Net Cash Interest Expenses</i>	(83)	(71)	
<i>Share of Profits from Associated Companies / Joint Venture</i>	2	2	
<i>Taxation</i>	(58)	(49)	
<i>Distribution to Perpetual Securities</i>	(30)	(36)	
<i>Non-controlling Interests</i>	2	1	
Profit Attributable to Shareholders	421	223	
Adjusted Profit Attributable to Shareholders ⁽¹⁾	345	261	(24.4%)

- No write-back of acquisition payable in 2016
- Net cash interest expenses and taxation were stable
- Adjusted Profit Attributable to Shareholders US\$261m (↓24.4%)

(1) Adjusted profit attributable to Shareholders excludes non-cash M&A items (write-back of acquisition payable, amortization of other intangible assets and non-cash interest expenses)

Trading Network (All in US\$M)

	2015	2016	Change %	Excluding the Asia consumer & healthcare distribution business ⁽¹⁾		
				2015	2016	Change %
Turnover	17,907	15,857	(11.4%)	16,735	15,287	(8.7%)
Total Margin	1,909	1,650	(13.5%)	1,715	1,563	(8.9%)
<i>% of Turnover</i>	10.7%	10.4%		10.3%	10.2%	
Operating Costs	1,449	1,299	(10.4%)	1,272	1,216	(4.4%)
<i>% of Turnover</i>	8.1%	8.2%		7.6%	8.0%	
Core Operating Profit	460	351	(23.6%)	443	347	(21.7%)
<i>% of Turnover</i>	2.6%	2.2%		2.6%	2.3%	

- Turnover decreased due to deflation and destocking
- Maintained share of wallet with core customers
- Total like-for-like margin % was flat but increased for the verticals
- Effective cost control led to reduction in operating costs of US \$100m excluding one-off items

(1) Excluding the Asia consumer and healthcare distribution business, which was strategically divested in June 2016

Logistics Network (All in US\$M)

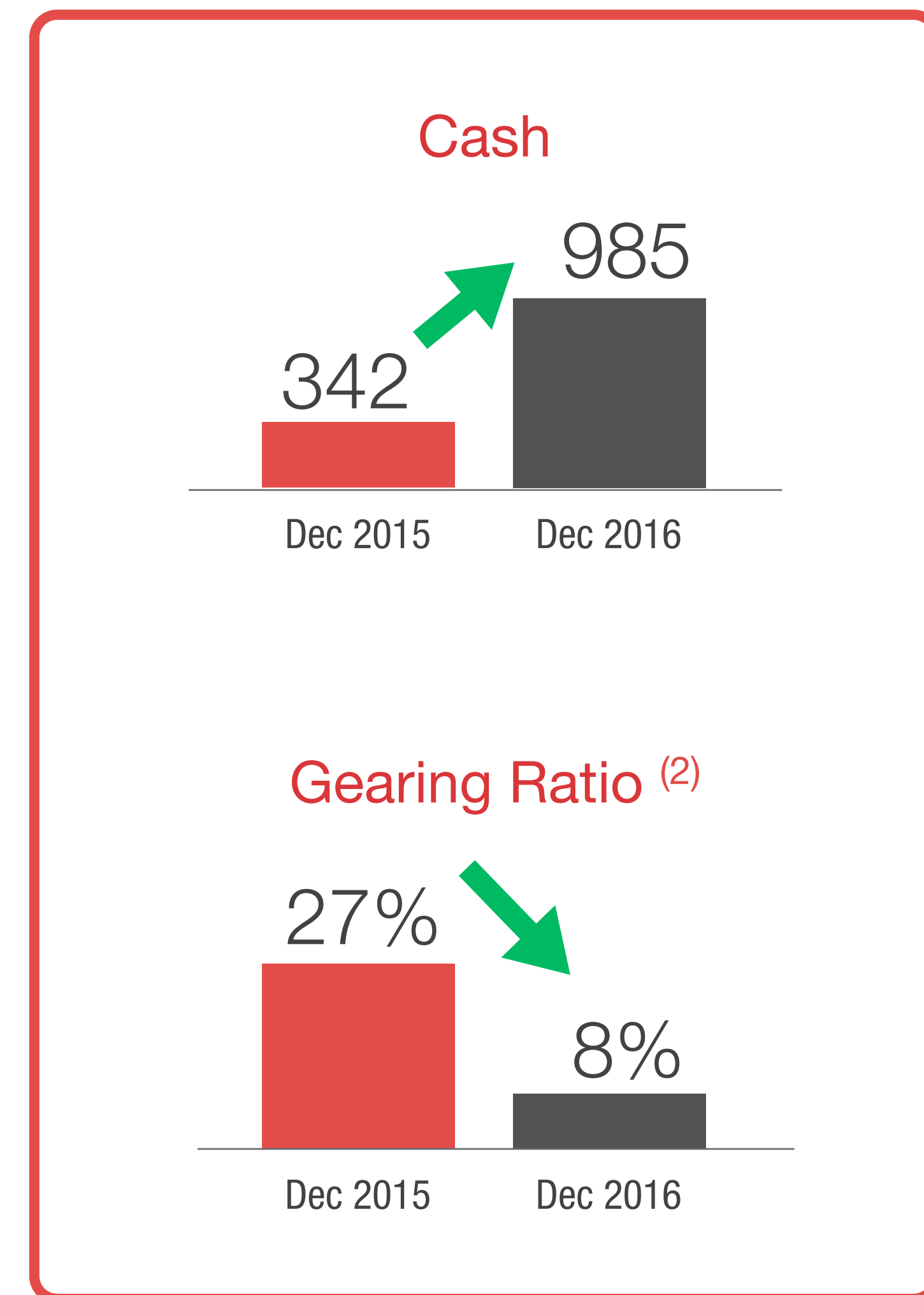
	2015	2016	Change %
Turnover	932	907	(2.7%)
Total Margin	280	312	+11.4%
Operating Costs	227	251	+10.4%
<i>% of Turnover</i>	24.4%	27.7%	
Core Operating Profit	53	61	+15.5%
<i>% of Turnover</i>	5.6%	6.7%	

- Like-for-like turnover increased over 10% after adjusted for currency and deflation of freight rate
- Sustained strong growth through new customer wins, geographical expansion into Japan & Korea
- E-logistics gaining market leadership
- Global freight rates under pressure; prudent freight procurement & value-added services supported growth

Capital Structure (All in US\$M)

	Dec 2015	Dec 2016
Bonds	1,254	1,253
Bank Loans	196	29
Total Debt	1,450	1,282
Cash	342	985
Net Debt	1,107	297
Total Equity	3,010	3,483
Total Capital ⁽¹⁾	4,118	3,781

(1) Sum of net debt and total equity (2) Net debt divided by total capital



- Total debt decreased from US\$1.4b to US\$1.3b
- Issued US\$650m of perpetual securities in Nov 2016; gearing ratio reduced to 8%
- Cash increased to US\$985m from strategic divestment & issuance of perpetual securities

- Maximum financial flexibility to refinance US\$500m bond due in May 2017 and prepare for strong headwinds in 2017
- Total bank facilities of US\$1.6b; US\$1.5b undrawn
- Unused committed facilities of US\$876m

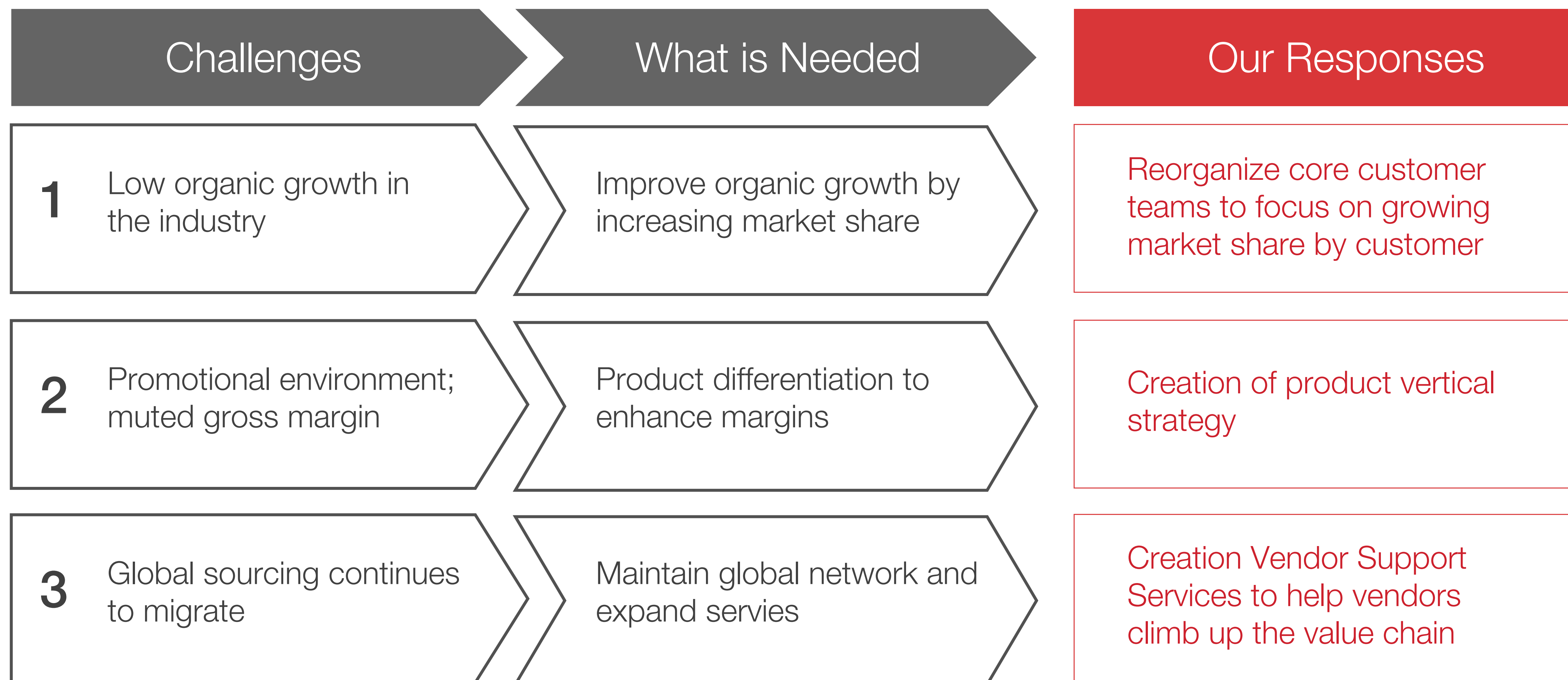
Industry Developments

E-commerce Development

- E-commerce contributes ~10% of total US retail⁽¹⁾
- Continues to gain market share at the expense of profits
- Different business and financial model creates unlevel playing field
- Brick-and-mortar retailers investing in omni-channel and acquiring e-commerce companies to compete
- Li & Fung continues to serve omni-channel retailers selling both offline and online
- We are also helping more and more pure-play e-commerce companies going into private label with their supply chain strategies
- LF Logistics growing the e-logistics piece-picking business double-digit on the back of e-commerce growth in China and Asia

(1) US retail sales exclude automobile and gasoline

Our Responses to Industry Changes & Headwinds



Core Customer Focus

- Customer needs are increasingly complex
- Increased focus on core customers to better serve them and help fill in white space for growth
- Corresponds to Three-Year Plan strategic goals
 - Building a Sustainable Enterprise
 - Keeping Things Simple
 - Focusing on Organic Growth
- Maintained or increased share of wallet for core customers

Product Verticals - Asset-light Strategy

Sweaters

- Factory base consolidation
- Virtual fitting
- Yarn purchase consolidation
- Consolidation of design and QC



Furniture

- Core customer focus
- Product innovation and materials development



Beauty

- Creative days in Paris and Shanghai
- New formulations
- Smart and recyclable packaging



- Achieved margin % increase in 2016
- Furniture COP achieved double-digit growth

Manufacturing
(factories)

Raw materials sourcing

- Better prices from scale
- Certified origin tracing
- Explore new raw material technology & substitutes

Product design & development

- Aggregate internal design resources
- Focused & interactive product development cycle
- Partner with R&D institutions

Factory sourcing & manufacturing control

- Strategic tie-up and leverage with critical players in value chain

Value added services

- Aggregate customer's POS info and data
- Data analytics, providing feedback to design & production

Brand management & marketing

Retail / E-commerce

Vendor Support Services (VSS)

- 15,000+ vendors as our customers
- Helping vendors navigate supply chain complexity and compliance as production migrates
- Improving efficiency across the supply chain

2013 Planning

- Strategic planning as part of 3YP

2014

- VSS announcement
- Assembled core team
- Fully implemented Total Sourcing Portal to connect suppliers
- 3 key areas:
Vendor Supply Chain Services,
Trade Credit Services,
Vendor Compliance & Sustainability

2015

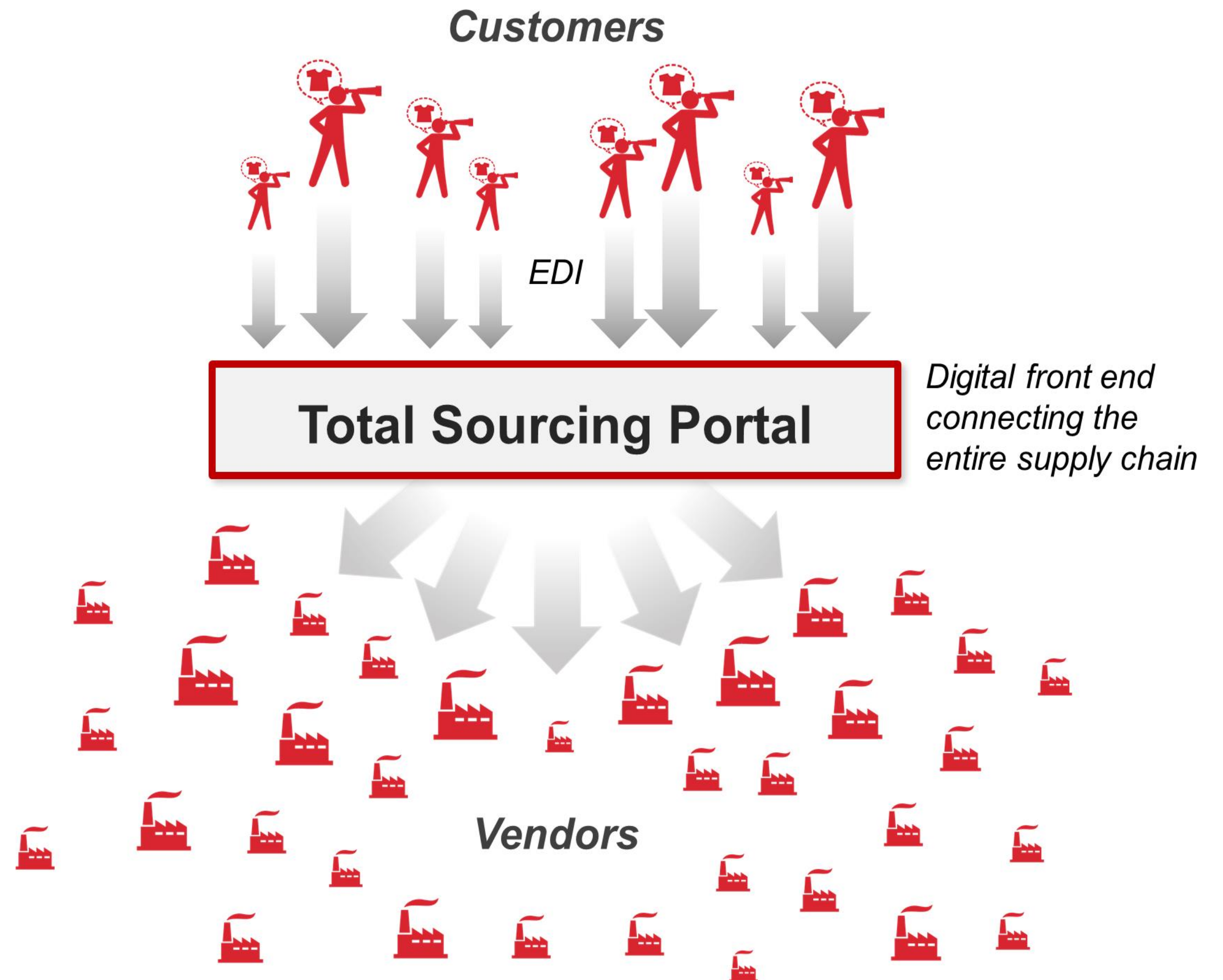
- Successful pilots in 2015 with positive feedback
- Exceeded 2015 target

2016

- Continue gradual roll-out
- Achieved > 5% COP

Total Sourcing Portal Digitalizing the Supply Chain

- Digital portal connecting customers data platform with our global vendor base
- Digitize paper processes
 - Order processing, monitoring and changes, inspection approvals and shipping
- Orchestrate billing and payment
- Resource center on compliance and sustainability
- Generated revenue and improved productivity



Organic Growth

Organic Growth Drivers

Growth Segments

- Logistics (in-country, e-logistics, global freight management) continues multi-year double-digit growth
- Vendor Support Services – achieved > 5% COP
- Verticals have increased margin % and furniture grew double-digit COP

Growth Customers


- New customer pipeline remains strong
- Converting many non apparel customers
- Signed new contract with large and fast growing value retailer
- Nice growth with recently converted customers

Outlook 2017

- More uncertainty in macro and geo-political environment
- Retail expects unprecedented number of store closures
- Mild deflation and destocking continue
- Resilience: Focused on productivity increase and cost control
- Begin to execute New Three-Year Plan focused on Speed, Innovation, and Digitalization

Summary

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Our New Three-Year Plan 3YP (2017-2019)

Last 3YP 2014 - 2016

Sustainable enterprise

Simplicity

Organic growth

New 3YP 2017 - 2019



Speed



Innovation

01010

Digitalization

3YP Goal

Our goal is 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.

Context to New 3YP (2017 - 2019)

- Unpredictable macro & geo-political environment
- Permanently promotional retail environment
- Unprecedented number of bankruptcies & store closures
- E-commerce vs Brick & Mortar morphing into omni-channel
- Exponential technology enabling brand new disruptive business models
- 2015 reorganization and various experiments formed the foundation for this plan

Our 3YP Core Themes



Speed



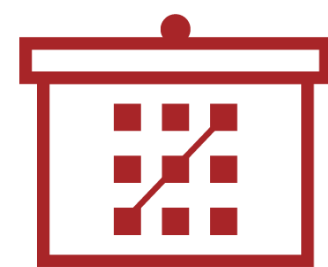
Innovation

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Digitalization



Data Analytics



Productivity



Supply Chain
Solutions



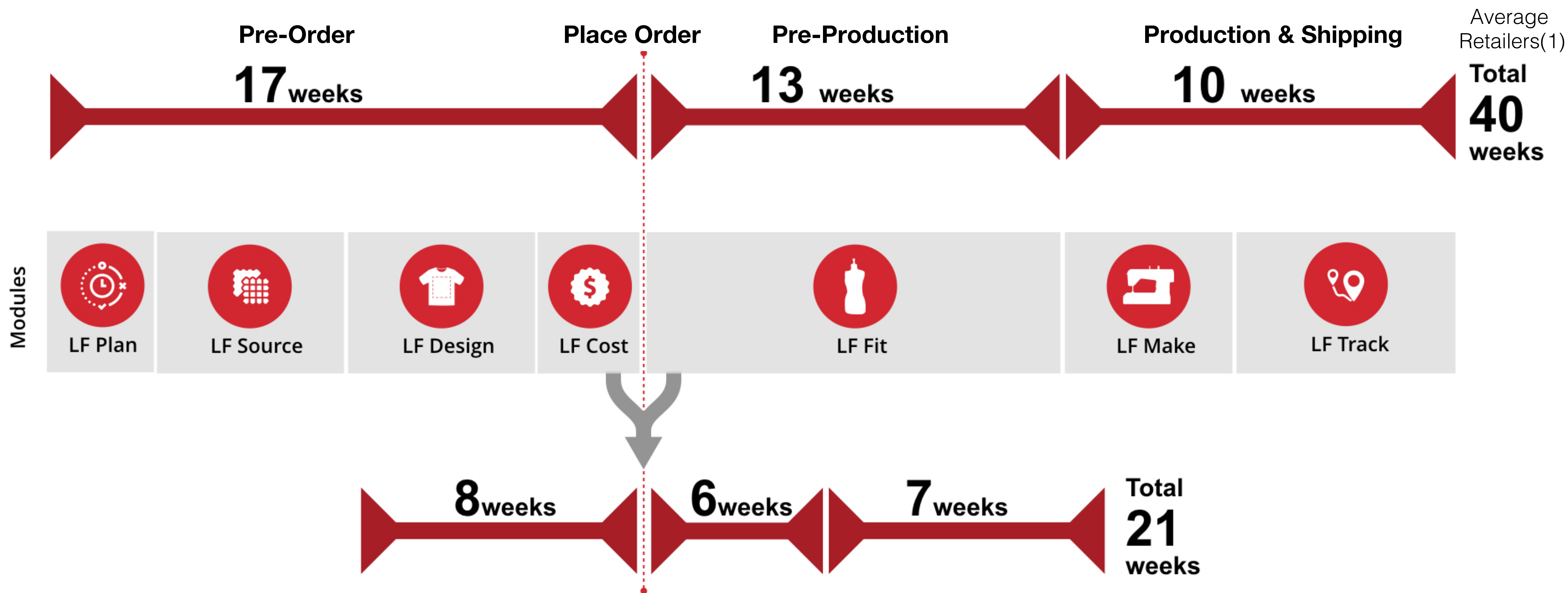
Global Business
Development



LF Ecosystem

Speed

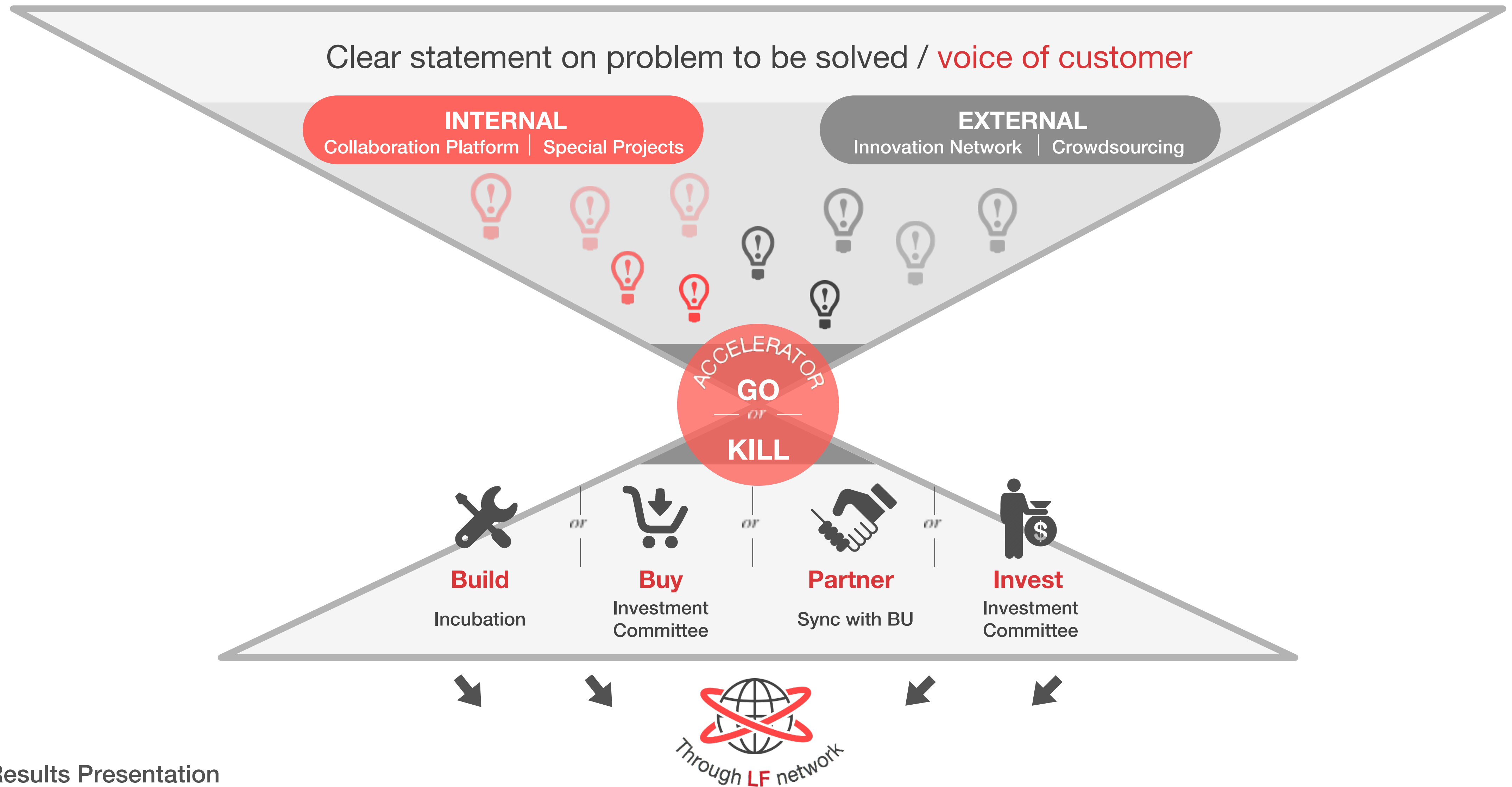
Externally to increase the velocity of our customers' supply chains, to meet growing consumer expectations driven by eCommerce. Internally using rapid prototyping to operate as fast as a startup.



(1) Our estimate of industry average; not representative of Li & Fung customers

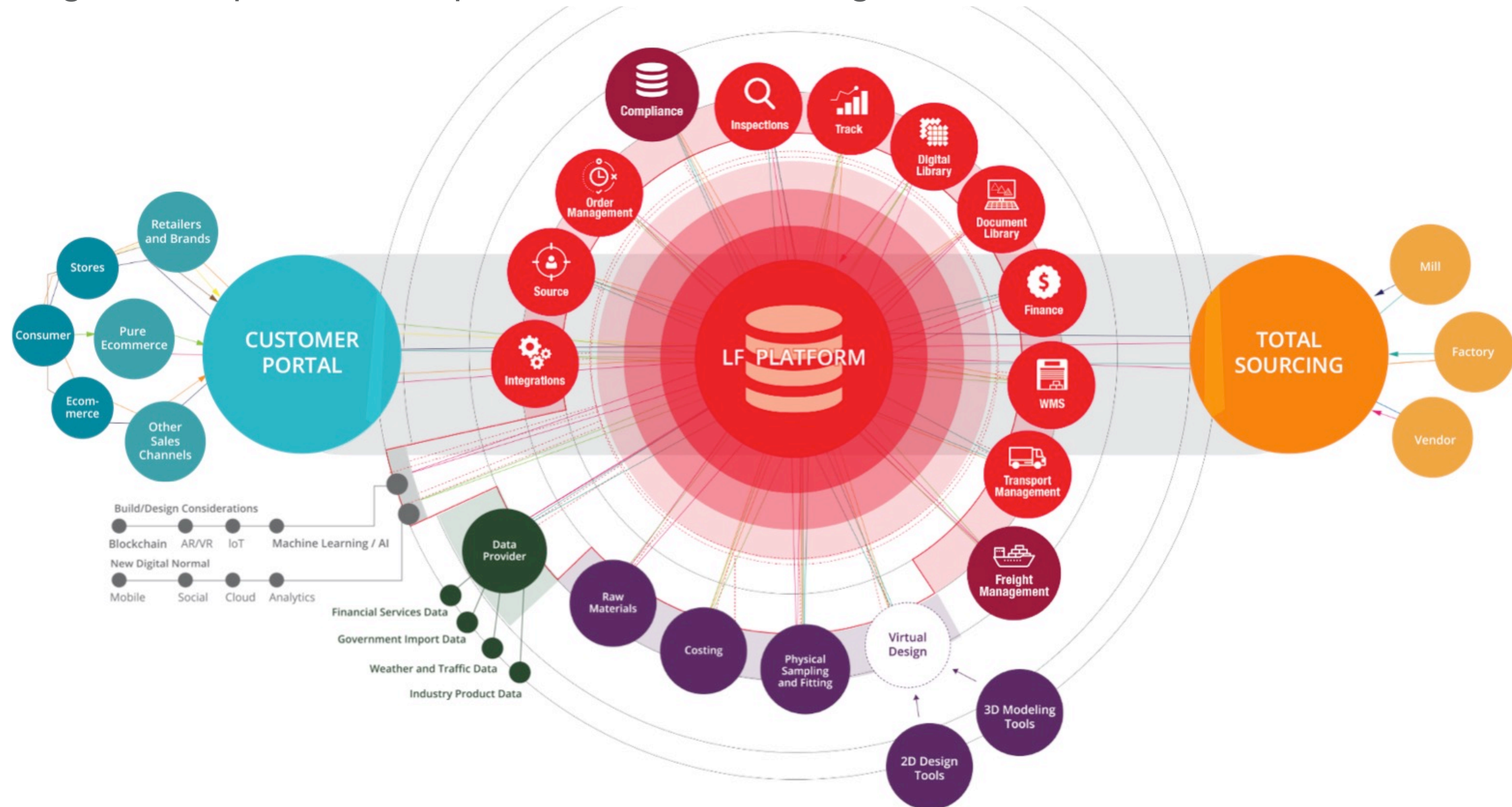
Innovation

We are building a culture of innovation in the company to provided innovation in products for our customers and innovation in business models to expand our service offering.



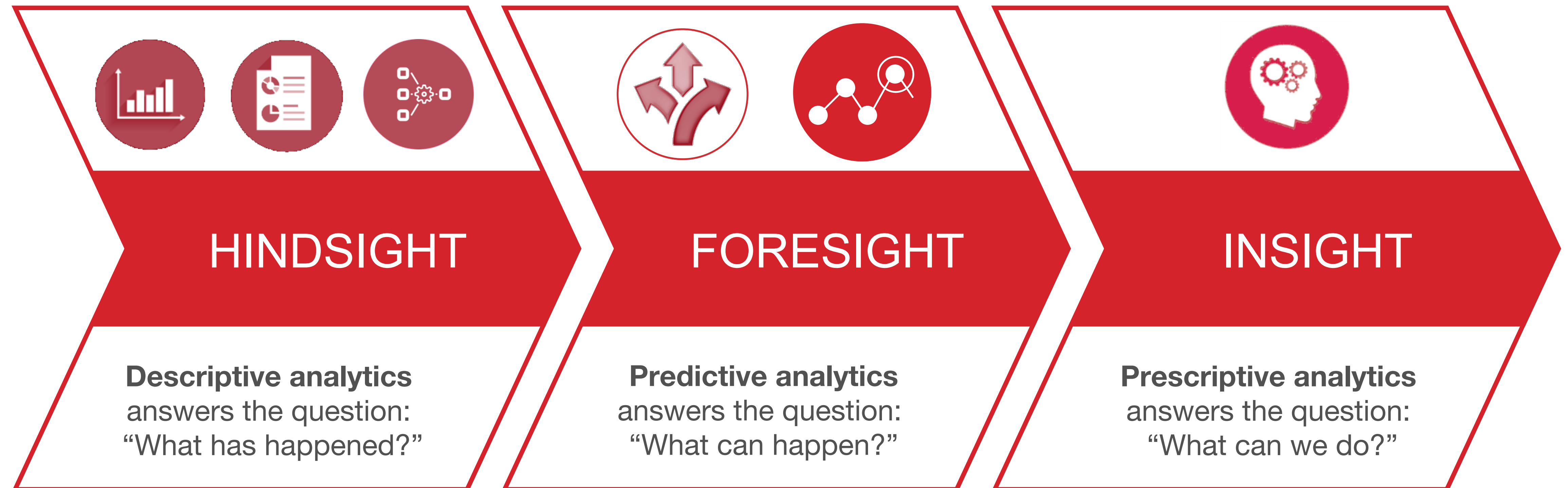
Digitalization

Our digital platform will provide end-to-end visibility for our customers and allow us to be at the forefront of digital disruption and capture data to drive insights.



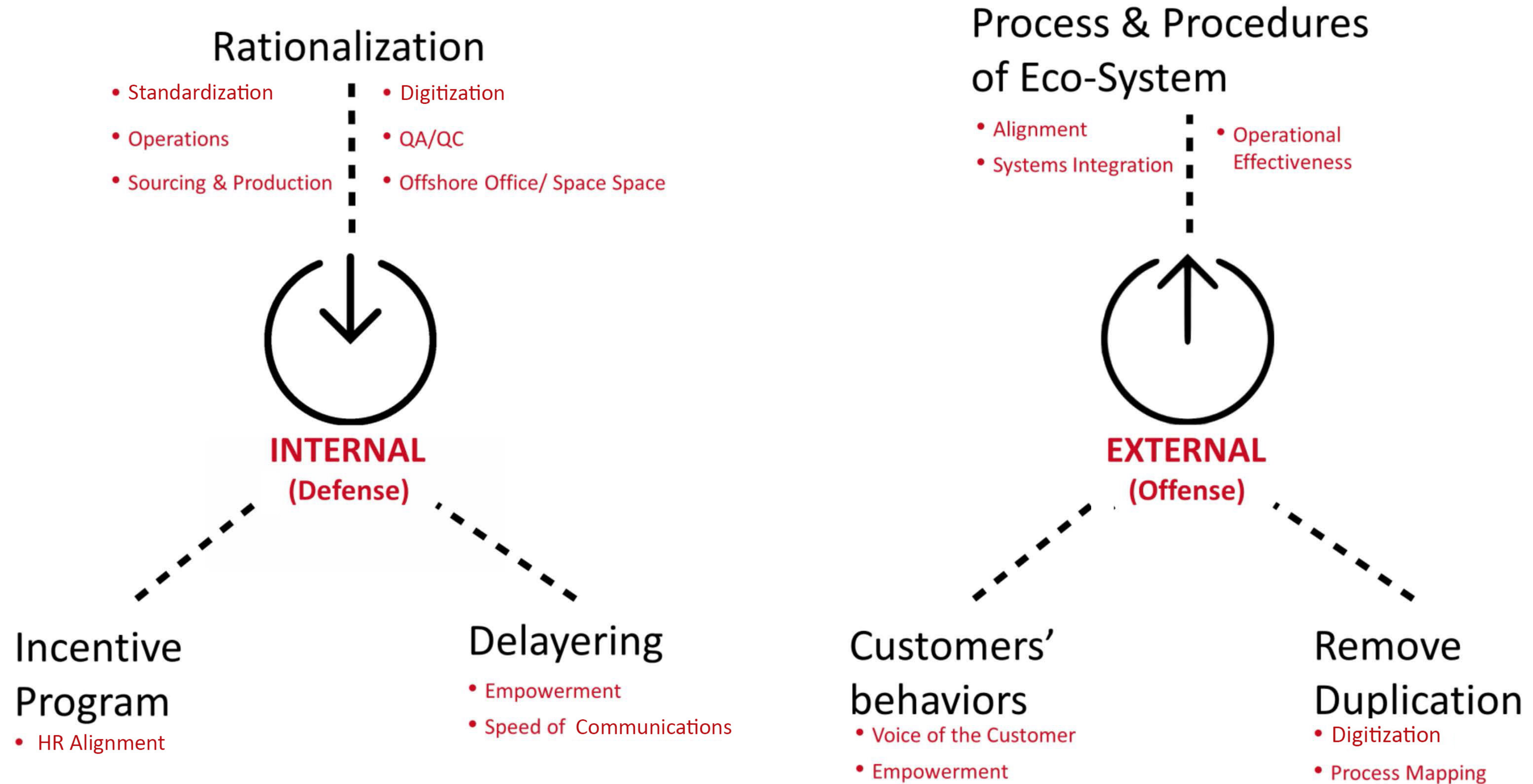
Data Analytics

Our ability to deliver end-to-end data analytics to drive value along the supply chain with equivalent to US\$100b of retail supply chain data.



Productivity

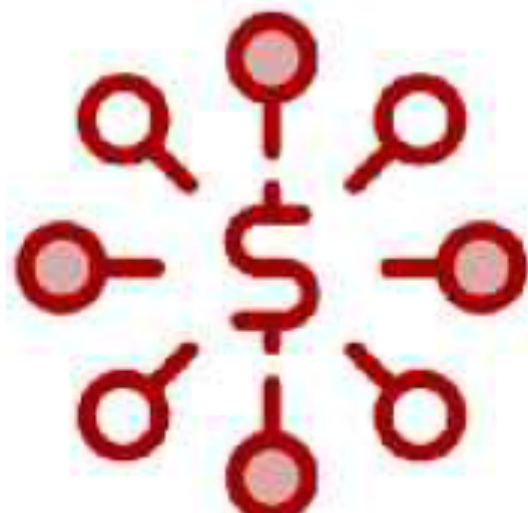
We will drive our productivity to the most efficient levels to ensure cost competitiveness



Supply Chain Solutions

Helping our customers improve speed and efficiency across their global supply chains and helping vendors navigate supply chain complexity and compliance as production migrates.

Trade Credit Services



Dedicated Team



Separate team that operates across the LF group, resources drawn from global management consulting firms

Robust Methodology



Agile, repeatable, leveraging rapid prototyping solution design

Cross-LF Expertise



Seamless leverage of additional expertise drawn from our business practitioners and internal IT technical experts

Vendor Compliance Services



Vendor Supply Chain Services



Process Improvement



- Lean/Six Sigma
- Activity based costing
- Process redesign

Role Alignment



- On-shore/Off-shore responsibility optimization
- Design, PD, Production accountabilities
- Management layers and spans

Technology Evaluation and Implementation



- Requirements gathering
- Solution evaluation
- Implementation and integration

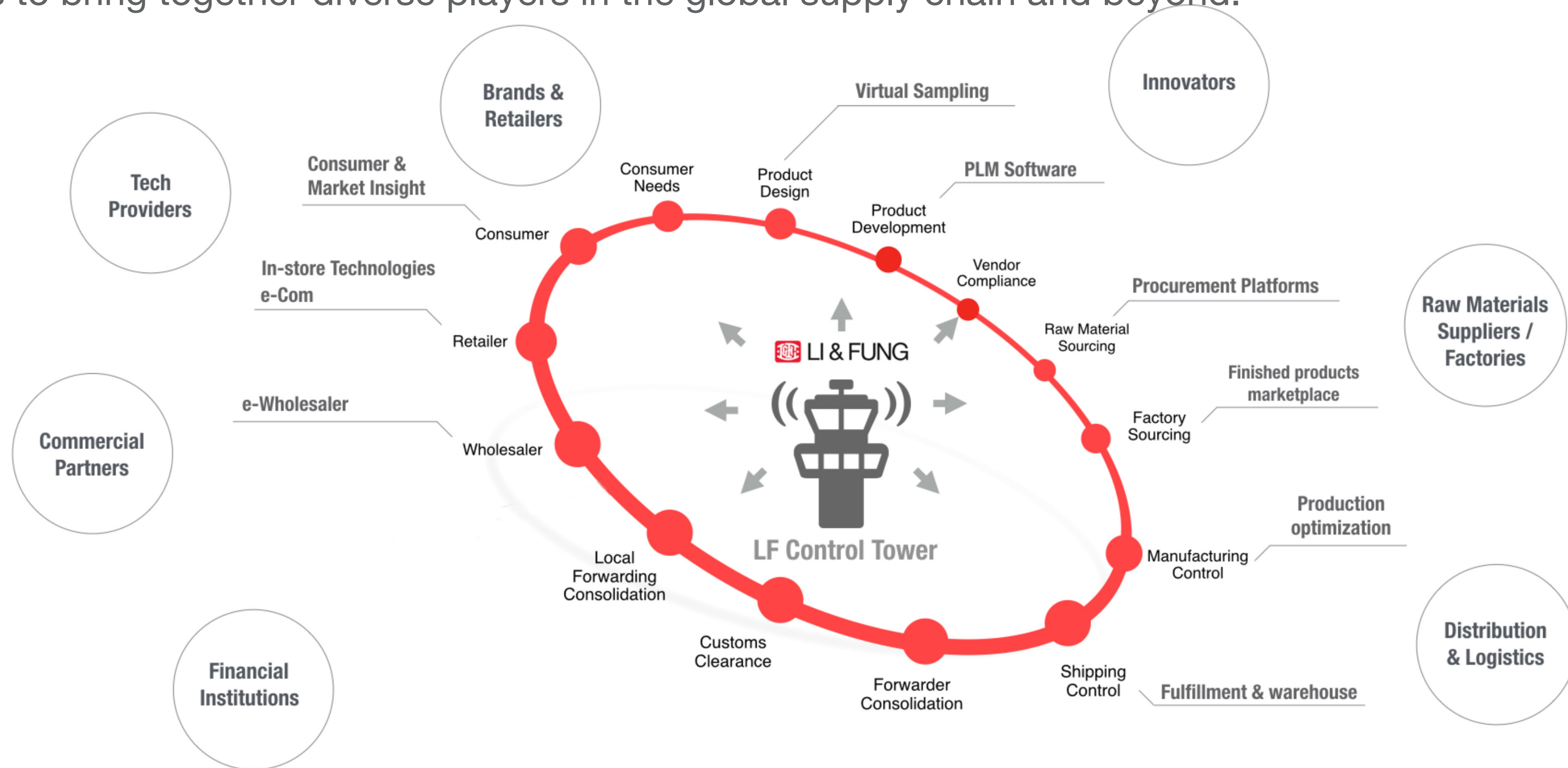
Global Business Development

We will create a new Global Business Development that spans across the whole company to win new businesses and expand “wallet share” in existing customers

- Dedicated Global BD resources / teams
- Market segmentation, analysis of customer’s business challenges
- Solution-based selling
- Implementation of CRM software to track business development activity and opportunities
- Unique end-to-end supply chain services including trading and logistics to differentiate from competitors

LF Ecosystem

We will expand the LF Ecosystem using our convening power with access to US\$2T+ of retail sales to bring together diverse players in the global supply chain and beyond.



3YP Implementation

Organization



Our headline structure will include...

Reorganize into
Services & Products

Services:

- Supply Chain Solutions
- Logistics

Products:

- 3 verticals
- Onshore wholesale

People



We need to grow these skills...

Data analytics

E-commerce

Digitalization

Business development

Technology



We will invest in...

PLM software

3-D sampling software

Resource scheduling software

Data analytics

Digital supply chain

Process



We will need to improve...

Speed

Productivity

Value-add focus

Partnerships



We will partner with...

Supply chain players

Technology companies

Universities

Professional service companies

Data companies

Reorganization

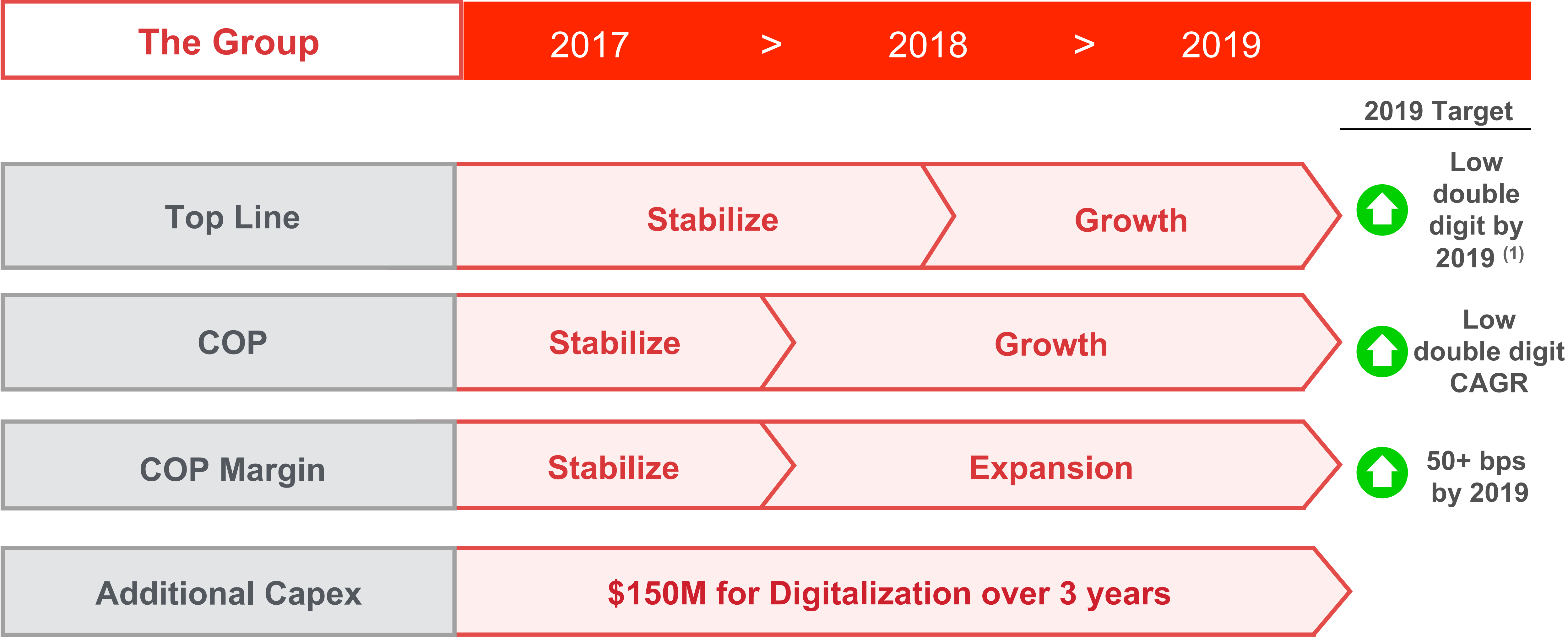


2016 Turnover

US\$12.7b

US\$3.5b

3YP Financial Targets



⁽¹⁾ Low double digit total growth from 2016 to 2019 period; single digit CAGR

3YP Goal

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