

A Letter from Our CEO

With the ever-changing needs of our customers, more movements in the production base, and the need to create the end-to-end digital platform, we have reorganized our core Supply Chain Solutions business to put even greater focus on our customers.





Dear Shareholders,

Li & Fung is now at the half-way mark of our Three-Year Plan (3YP) of 2017–2019 to create the Supply Chain of the Future. As we take a pause to examine how we have done so far, we are excited to report that we exceeded our financial and strategic objectives during the first year of our Plan. 2018, however, is shaping up to be an increasingly challenging year for the Company as the environment continues to evolve faster than ever before. In April 2018, we successfully divested our three Product Verticals and brought in US\$1.1 billion of cash which helped strengthen our capital structure. Our Core Operating Profit (COP) was down 18% driven by a lower turnover, which was affected by the ongoing destocking trend, customer bankruptcies and store closures. We continued a firm control of cost in our Supply Chain Solutions business, balanced by investments made to support the double-digit growth of our Logistics business and investments in our digital platform. We also announced an aggressive reorganization to better focus on our core customers, as well as the plan to take our Logistics business public via a separate listing on the Hong Kong Stock Exchange.

In recent months the world has been consumed by the US-China trade war. As a global supply chain company, we have always employed a diversified sourcing strategy with production in more than 50 countries. With 20–30 years of history in most of these and strong relationships with the local governments, supplier communities and business leaders, we are able to quickly move production from one country to another should the trade war intensify. Despite three rounds of additional tariffs, less than 2% of our business is affected. While the tariffs do not directly impact our turnover, we have specific plans with individual customers to reposition their orders should the trade war escalate. With a globally diversified network, we are in the best position to absorb any shock and to gain market share if the situation deteriorates.

As a part of the half-time review of our Three-Year Plan, we announced one of the most important reorganizations in our history. Because of the ever-changing needs of our customers, more movements in the production base, and the need to create the end-to-end digital platform, we have reorganized our core Supply Chain Solutions business to put even greater focus on our customers. We created six new account management teams to be fully dedicated to customer-facing services and are appointing a Chief Operating Officer to run our global production platform to free up time from our customer-facing teams. The account management teams will ensure that our customers have our undivided attention in helping them achieve their goals. The production platform will harmonize our KPIs across geographies and provide a consistent level of service, making it easier than ever before to migrate production from one country to another. A new Chief Digital Officer will focus on speeding up the development of our end-to-end digital platform. The first stages of the digital platform have already been developed with our 3D virtual design team, in particular, being well received by customers for increasing their speed to market. This aggressive reorganization puts us in an offensive position to improve customer satisfaction and drive growth for our Company.

Our Logistics business continues to outperform its competition, registering 15% year-on-year COP growth and a 27% compound annual growth rate in COP since it became part of Li & Fung in 2010. Both in-country logistics and freight forwarding have strong momentum and, in particular, e-commerce logistics in China is very strong, almost doubling its growth from last year. Recently we expanded our services to the Healthcare and Electronics verticals and have expanded to new countries including Korea, Japan, Vietnam, and India – bringing additional growth to the business. To further enhance this growth, we announced our intention to seek an IPO of the Logistics business on the Hong Kong Stock Exchange as early as the first half of 2019. We will remain a controlling shareholder of LF Logistics and continue to consolidate the results of LF Logistics in our financial statements. The two businesses are highly synergistic and will continue to cross-sell and co-develop an end-to-end digital supply chain that will service our customers and suppliers seamlessly.

As we move into the second half of our Three-Year Plan to create the supply chain of the future, we remain excited about the amazing opportunities that lie ahead. Our customers, suppliers, and colleagues are excited to execute our vision and we are now more laser focused than ever. With the changing environment we have aggressively reorganized our Company to focus on our core customers and services, and to speed up the development of our end-to-end digital platform. I look forward to giving you a further update at our 2018 annual results announcement and I want to take this opportunity to thank all our colleagues, partners, and the investment community for your continued support and faith in Li & Fung.

Yours sincerely,

Spencer Fung
Group CEO

As we move into the second half of our Three-Year Plan to create the supply chain of the future, we remain excited about the amazing opportunities that lie ahead.
