Our Performance

For our Three-Year Plan (2017-2019), we are diligently executing our key themes of speed, innovation and digitalization to create the supply chain of the future.

Our Performance

Results Overview

Integrated Supply Chain and Logistics Services Have Become Critical for Omni-Channel Retail

In 2019, the retail industry continued to be disrupted by advances in omni-channel technology and cross-border e-commerce. By strengthening our global sourcing network, digital product development and design as well as logistics services, we are well positioned to help our customers tackle changes brought about by these disruptions. End-consumers, equipped with mobile technology and higher price transparency, expect brands and retailers to provide higher levels of product customization, richer experiences and more flexible purchase and delivery options. In response to this, our customers — brand owners and retailers — continued to transform their organizations and develop more sophisticated omni-channel interface to their end consumers. As a result, our customers' procurement functions need to accommodate shorter production lead times, increased SKU variety and more complex logistics requirements. This requires their supply chain and logistics service providers to be more flexible, nimble and resilient. Over the past few years, we have leveraged our global network and developed a comprehensive suite of integrated services that evolve with the needs of our customers.

Early adopters of our speed model have already significantly shortened their pre-production cycles through process redesign and converting analog processes into digital ones. Our digital platform, comprising cutting-edge services such as 3D virtual design, digital sampling and the trend engine, enables our customers to make faster, better-informed product decisions. As a result, they have been able to realize tangible benefits such as reduced mark-downs, better sell-through rates and improved inventory management. At the same time, however, carrying leaner inventory contributed to destocking we saw in the last few years and created short-term pressure on the turnover of our Supply Chain Solutions business. Our e-Logistics and global hubbing services enable our customers to store, package and draw from a common pool of inventory to deliver to either retail outlets and/or end-consumers' doorsteps. We will continue to help customers optimize their supply chain and logistics operations to cement sticky long-term relationships.

Comprehensive Global Network — Best Defense Against Disruptions from the Trade War and COVID-19 Virus

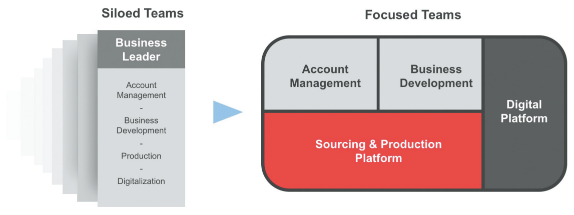
The protracted trade war between the US and China presented big challenges to the global retail supply chain in 2019. As negotiations between the two countries grind on, tariff levels, the categories of goods affected, and implementation deadlines have changed frequently, requiring swift adjustments along the supply chain. At the same time, the fundamental shift in the US-China relationship has accelerated the production migration out of China and bilateral free trade agreements have proliferated. The unraveling of the World Trade Organization framework has created a complex trade environment, which coincidentally presented our business models with opportunities not seen for the last 20 years. The recent COVID-19 virus outbreak has also caused a major disruption in the global supply chain. The restricted international travels and flow of goods have made it more difficult for customers to source products and made the supply chain significantly more complex.

Over the decades, we have cultivated deep relationships with suppliers, local business communities, and governments across our network of more than 50 economies. These relationships allow us to navigate the global supply chain effectively and move production to mitigate the impact of tariff hikes or other factors impacting global trade flows. As an example, we helped a US womenswear retailer formulate and execute a plan to reduce its reliance on China from 70% to 20% within two years by diversifying its sourcing to eight other economies across our network. Another customer, an accessories retailer, has been decreasing its China-sourcing from 40% to a targeted 10% by the end of 2020 by redirecting its orders to seven other economies. We expect that the stabilization of global trade relationships will take some time, and that the value of our global network should remain even more apparent in this period of great uncertainty and volatility.

Fundamental Reorganization of the Supply Chain Solutions Business

The reorganization of the Supply Chain Solutions business ("SCS") announced in August 2018 was the most profound for our sourcing business in close to 30 years, and it created the right structure required for the new business environment. This included forming a sourcing and production platform across countries to focus on operational excellence, distinguishing between account management and business development responsibilities at customer-facing functions, with the former focusing on gaining market share and the latter winning new customers, and creating a digital platform for the entire organization. This reorganization was followed by the recruitment of a Chief Operating Officer (COO) in October 2018 to lead the sourcing and production platform, the recruitment of a Chief Digital Officer (CDO) in early January 2019 to lead the digital drive, and the appointment of a new Group President in late January 2019 to focus on account management and business development. These new senior leadership team members have deep specialty knowledge and strong execution track records.

Focused Reorganization



Under the new leadership and strategy, we made encouraging progress in operational excellence, account management and business development. Key performance indicators (KPIs) such as on-time delivery rates and claim rates improved across the board and customer satisfaction level increased. Focused account management was received positively by customers, and this positioned us to gain more of their wallet share in the future. In parallel we reviewed our customer portfolio and began to exit non-strategic customers. This resulted in short-term turnover pressure but stronger risk control, cost rationalization, and resource allocation.

Our account management and business development efforts, strengthened by our leadership in digital solutions and services and the geographic diversity of our sourcing network, yielded encouraging business wins. 2019 was one of our most successful years in terms of converting new customers, bringing in new businesses with an annualized value of several hundred million dollars. Although a few of these businesses will take several years to ramp up and we may not immediately see significant near-term financial impact, they validated the relevance of our business model and reconfirmed that our service offering resonates with the needs of our customers.

Regarding the Group's sourcing and production platform, we replaced the old siloed model with a new collaborative model in which all businesses within a country integrate their resources for increased leverage, better communication and improved vendor management. Four regional platforms were set up to strengthen multi-country supervision and coordination. For each of these platforms, new leaders with deep production knowledge and experience were appointed. These leaders reside in our countries of production and took over sourcing and production activities from account managers who previously made decisions remotely under the old structure. A productivity drive, modeled after the successful implementation in India, which produced multiple-year positive jaws between revenue and operating costs, was carried out in major production countries.

The positive feedback from customers and vendors on our organizational restructuring and management change reinforced our confidence in the direction we have taken.

Digital Platform: Leadership in 3D and Product Development

Our digitalization initiatives began when we launched our Three-Year Plan (2017–2019). Our digital offering has since gained solid traction among customers, and has helped secure our leadership position in the 3D virtual design space. More customers are leaning on us for digital services and guidance on how to integrate digital product development into their business processes. We are also helping customers take their own digital leaps with design and development, visual planning and assortment, and digital selling. On the whole, the penetration of our end-to-end virtual design center of excellence has continued to deepen within our customer portfolio.

Our trend engine, which helps predict fashion trends, went into production in 2019. This is a digital tool to help customers make better-informed design and production decisions. Overall, our digital services continued to gain traction, which allowed us to start monetizing these services in the first half of 2019.

The build-out of our digital platform accelerated after our new CDO joined in January 2019. Various siloed applications were organized into a unified platform and our direction and priorities were reset to reflect latest changes in the business landscape. Apart from investing in our capabilities, we have formed strategic partnerships with various ecosystem partners to broaden and enrich our offering to customers. Overall, we made significant progress in building an open, flexible digital platform over the course of the last Three-Year Plan, which serves as a strong foundation for the next phase of development and implementation.

Temasek's US$300 Million Investment in Logistics Business

Our Logistics business ("LF Logistics") has been a bright spot since it became part of Li & Fung in 2010. It continues to benefit from the tailwind of rising middle-class consumption in Asia, the growth of e-commerce logistics, and geographic and vertical expansion. Despite the short-term impact of the US-China trade war and COVID-19 virus, the business' long-term prospects remain intact. As preparatory work in connection with the proposed spin-off IPO of LF Logistics was underway, we continued to evaluate strategic alternatives for the business. After considering market conditions and geopolitical uncertainties, we decided to postpone the IPO and bring in Temasek as our pre-IPO strategic investor. Temasek invested US$300 million for a 21.7% stake in LF Logistics. As the controlling shareholder of LF Logistics, we will continue to consolidate its results in our financial statements.

Through the Temasek transaction, we not only accomplished some of the objectives of the proposed IPO, but also brought in a reputable long-term investor. Temasek's investment enhanced the Group's capital structure and financial flexibility. Most importantly, it will help accelerate LF Logistics' business expansion.

Bond Refinancing: Further Optimization of the Capital Structure

In June 2019, we took an early draw-down of US$300 million from existing long-term bank loan facilities to prevent any market-driven risk that might impact the repayment of our US$750 million bond due in May 2020 (the "old bond") and allow us to maintain maximum flexibility in refinancing. In the second half of 2019, we captured a favorable market window to issue US$500 million in a five-year bond (the "new bond") in two tranches. The new bond carries a coupon rate of 4.375%, which is 87.5 basis points lower than that of the old bond. The issuance of the new bond was well received by the market. At the same time, we successfully tendered for US$376 million, or approximately 50%, of the old bond. The remaining US$374 million will be redeemed at maturity with cash on hand. As a result of this refinancing, we extended our debt maturity profile and lowered net debt outstanding compared to the prior year. After the redemption in May 2020, we will be further lower our gross debt.

Strategic Accomplishments of the Three-Year Plan (2017–2019)

From the perspective of the entire Three-Year Plan (2017–2019), we made encouraging progress along the three main themes: Speed, Innovation, Digitalization. Both our speed model and digital services have gained traction with major customers who use them to speed up their supply chains. The efficiency gained has generated tangible benefits such as reduced mark-downs and better sell-through rates for these customers.

We are seen as a leader in 3D virtual design and various applications on our digital platform, such as the trend engine, are adding unique value to our customers' business processes. We also established a data team to continually explore new ways to derive valuable insights from the vast amount of data that flows through our system. In the broader ecosystem, we mapped out more than a thousand technology companies and formed strategic partnerships with those that complement our capabilities.

Overall, we made significant progress towards our goal of creating the Supply Chain of the Future to help our customers navigate the digital economy. We have established ourselves as a unique digital supply chain service provider with clear leadership in 3D product development. Compared to the beginning of 2017, we have become more focused, more digitally savvy, and more financially flexible. The Three-Year Plan (2017–2019) was one of the most transformative in the recent history of the Company, and it has laid a strong foundation for us.

Results

The following financial results summary primarily focuses on our Continuing Operations, which include the Supply Chain Solutions business ("SCS"), Logistics business ("Logistics") and Onshore Wholesale business. The three Product Verticals are classified as Discontinued Operations and are presented separately as a single line item.

New accounting standard, HKFRS 16, which took effect in 2019, specifies how a company should recognize, measure, present and disclose leases. To maintain consistency in our consolidated financial statements throughout the reporting year, we have applied this new standard retrospectively and restated prior year comparatives. As a result, the Group recognized an increase in right-of-use assets and lease liabilities of US$392 million and US$421 million respectively as at 31 December 2018 and a decrease in net profit of US$3 million for the year ended 31 December 2018.

	Group Results[1]		
(US$ million)	**2019**	2018 (Restated)[3]	Change %
Turnover	**11,413**	12,701	−10.1%
Total Margin	**1,219**	1,342	−9.1%
As % of Turnover	***10.7%***	*10.6%*	
Operating Costs	**992**	1,047	−5.3%
As % of Turnover	***8.7%***	*8.2%*	
Core Operating Profit	**228**	295	−22.9%
As % of Turnover	***2.0%***	*2.3%*	
Profit for the Year			
— Continuing Operations	**54**	168	
— Discontinued Operations	**–**	(139)	
— **Total**	**54**	29	
Profit Attributable to Shareholders[2]			
— Continuing Operations	**17**	123	
— Discontinued Operations[1]	**–**	(136)	
— **Total**	**17**	(13)	

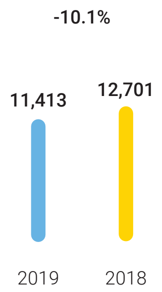
1. Group results with Discontinued Operations separately presented given the strategic divestment of the three Product Verticals in April 2018. The loss attributable to Shareholders of US$136 million in 2018 is the result of an operating loss of the discontinued business of the three Product Verticals of US$22 million primarily during the first three months of 2018 and final disposal losses resulting from the discontinued business of US$114 million.
2. Excluding profit attributable to holders of perpetual capital securities and non-controlling interests.
3. 2018 comparatives restated with adoption of new accounting standard, HKFRS 16 (Note 1 of the financial statements).

Amounts reported in millions in the management discussion and analysis are computed based on the amounts in thousands. As a result, the sum of the components reported in millions may not equal the total amount reported in millions due to rounding. Certain columns and rows within the tables may not add due to the use of rounded numbers. Percentages presented are calculated from the underlying numbers in thousands.

TURNOVER

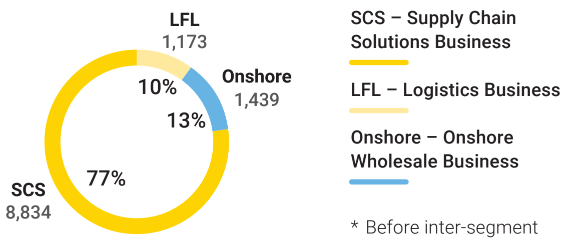
Group turnover decreased by 10.1% to US$11.4 billion due to continued customer destocking, bankruptcies and store closures, as well as customer turnover in SCS business and exits from non-strategic customers. This was offset by new customer wins and market share gains for key customers, particularly in Logistics. For SCS, customers have continued to adopt our digital solutions to increase speed to market and achieve better sell-through and reduced mark-down rates. This has improved their inventory turns and resulted in lower inventory levels. Despite pressure on our turnover, our ability to provide a faster, more flexible supply chain and shorten the production cycle is helping us cultivate stickier, longer-lasting customer relationships.

Turnover
US$m



SCS, Logistics and Onshore Wholesale business, accounted for 77%, 10% and 13% of Group turnover, respectively.

2019 Turnover Breakdown by Segments*
US$m



* Before inter-segment elimination

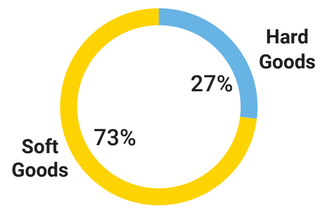
SCS turnover decreased by 11.1% primarily due to customer turnover, the exit of certain customers in bankruptcy situations, customers' continued destocking, and proactive exit from non-strategic customers. SCS achieved market share gains with some key customers, especially in the hard goods area, and new customer wins in our core apparel segment.

Logistics turnover increased by 3.5% driven by strong demand for in-country logistics services, offset by the slowdown in the global freight business and depressed freight rates due to the US-China trade conflict. On a constant currency basis, turnover increased by 6.0%. Growth was driven by China, e-logistics growth, expanded relationship with our core customers and entry into new markets.

Onshore Wholesale business turnover in the Americas, Europe and Asia decreased by 13.6%. We continued to experience pressure on our top line from weak consumer sentiment and an unstable economic environment particularly in Europe. Our Onshore Wholesale business also proactively exited non-strategic customers, which negatively impacted turnover.

Excluding Logistics, the Group derived 73% of its turnover from soft goods and 27% from hard goods.

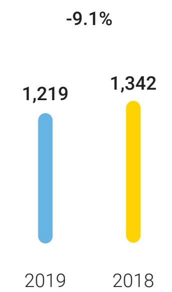
2019 Group Product Mix
(Excluding Logistics Business)



TOTAL MARGIN

Total margin decreased by 9.1% to US$1,219 million while total margin as a percentage of turnover increased from 10.6% to 10.7%. The increase in total margin as a percentage of turnover is the result of our segment diversification strategy to offer higher-margin services, such as logistics to our sourcing customers and the increased contribution from the higher-margin Logistics business. The decrease in total margin was mainly due to lower turnover, margin pressure and change in the customer mix in SCS, as well as lower turnover in the Onshore Wholesale business. This decrease was offset by business growth in Logistics and growth among selected customers in both SCS and Onshore Wholesale business. The soft launch of selling new digital services has just begun and is yet to have meaningful impact on the overall total margin.

Total Margin
US$m

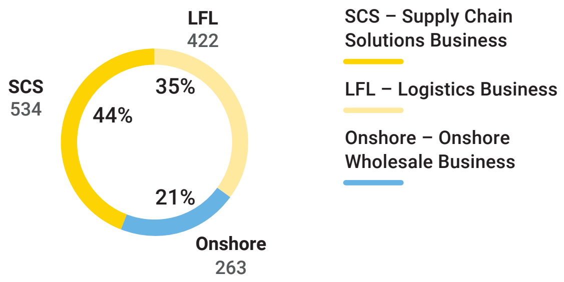


Total Margin Percentage
+0.1 percentage point

2019	2018
10.7%	10.6%

SCS, Logistics and Onshore Wholesale business accounted for 44%, 35% and 21% of total margin respectively. Total margin for Logistics saw a year-on-year increase of 8.2%. This was offset by reductions in total margin for the SCS of 17.5% and Onshore Wholesale business of 13.6%.

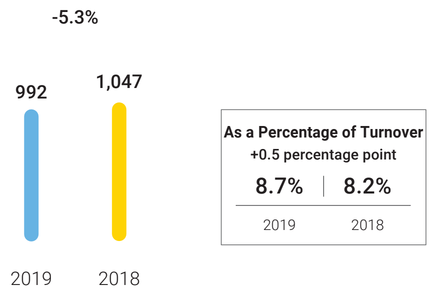
2019 Total Margin Breakdown by Segments
US$m



OPERATING COSTS

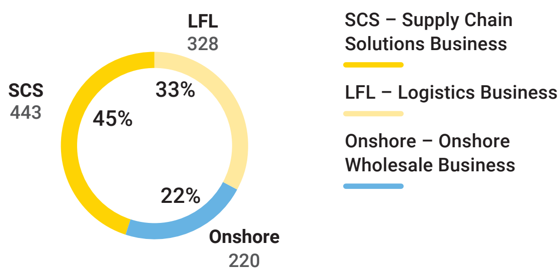
Operating costs decreased by 5.3% to US$992 million. With the establishment of the sourcing and production platform, we effectively reduced the combined operating costs in SCS and Onshore Wholesale business by US$110 million through productivity and credit strengthening initiatives. We continued to right size our organization, and apply sustained efforts to enhance our operating efficiency and productivity through technology and process improvement. These savings were offset by continued investment in digitalization, and an increase in Logistics operating costs to support its business expansion and organic growth.

Operating Costs
US$m



SCS, Logistics and Onshore Wholesale business accounted for 45%, 33% and 22% of operating costs respectively. Operating costs for SCS decreased by 11.3% through rightsizing, ongoing productivity improvements and process streamlining, although this was offset to some degree by investments in digitalization. Operating costs for Logistics increased by 10.4% as a result of continued business expansion. Operating costs for the Onshore Wholesale business decreased by 11.9% due to our restructuring efforts, particularly in the UK.

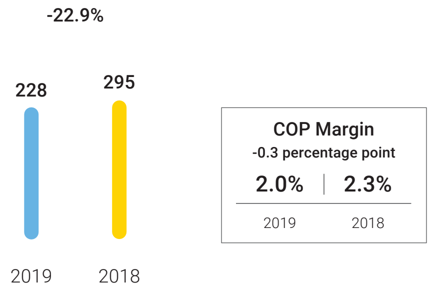
2019 Operating Costs Breakdown by Segments
US$m



CORE OPERATING PROFIT

Core operating profit ("COP") decreased by 22.9% to US$228 million. This was largely due to reductions in turnover and total margin in SCS as well as continued investment in digitalization according to our long-term plan. Corporate overheads are relatively fixed by nature to support our global network which added additional pressure to COP. As a result of the increase in operating cost percentage relative to turnover, COP margin decreased by 0.3 percentage point to 2.0%.

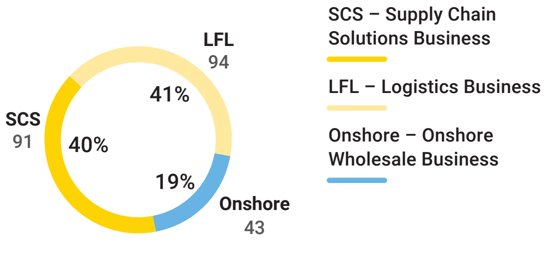
COP
US$m



In 2019, SCS, Logistics and Onshore Wholesale business accounted for 40%, 41% and 19% of our COP respectively.

While COP for SCS and Onshore Wholesale business decreased by 38.4% and 21.7% respectively, COP for Logistics increased by 1.0%.

2019 COP
Breakdown by Segments
US$m

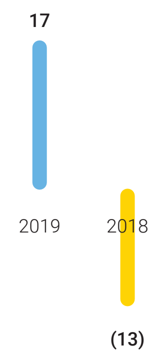


NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group recorded a net profit attributable to shareholders of US$17 million for 2019. This is compared to a net loss of US$13 million for 2018, which included an operating loss for the discontinued business of the three Product Verticals of US$22 million primarily during the first three months of 2018 and final disposal losses resulting from the discontinued business of US$114 million.

Net profit attributable to shareholders for Continuing Operations decreased to US$17 million in 2019 compared with US$123 million in 2018. This was mainly due to the drop in COP, which resulted from reductions in topline turnover and total margin, non-recurring reorganization costs related to the restructuring of SCS as well as the establishment of the sourcing and production platform, and the write-off of certain legacy IT assets due to our continued digitalization efforts. The Company also incurred one-time non-recurring costs for the bond buyback and deal costs associated with the Temasek investment. Net profit attributable to shareholders was also impacted by a higher effective tax rate in 2019 due to the higher contribution from the Logistics business in China, which has a higher corporate tax rate.

Net Profit Attributable to Shareholders
US$m

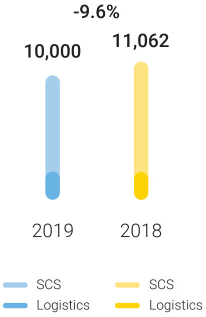


Services Segment

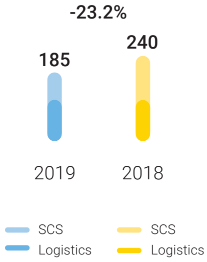
The Services segment comprises SCS and Logistics. We provide end-to-end supply chain solutions services for brands and retailers globally, from product design, raw materials procurement, production and quality control, to warehouse management and last-mile delivery to retail stores and end-consumers.

Cross-selling between SCS and Logistics has created business opportunities and further strengthened our relationships with customers. In 2019, Logistics continued its growth trajectory, while SCS experienced a challenging environment due to ongoing destocking, customer turnover, customer bankruptcies. In total, COP for our Services segment decreased by 23.2%.

Services Segment Turnover
US$m



Services Segment COP
US$m



Services — Supply Chain Solutions Business

SCS is the largest revenue generator for the Group and accounted for 77% of turnover in 2019. It offers strategic supply chain services, including product design and development, raw material and factory sourcing and manufacturing control for brands and retailers. The business has a diversified customer base that includes brands, specialty stores, department stores, big box retailers, e-commerce players, hypermarkets, off-price retailers and clubs. We have also converted our vendor base to a new customer base for services that improve factories' operational efficiencies and compliance levels.

Since 2017, we have been investing in a new digital strategy to transform our business and we have made significant strides on this journey to create the Supply Chain of the Future. Our overall digital platform connects suppliers, customers and other partners with end-to-end visibility and data analytics. The LF Digital Platform will serve as the nucleus of our future service offerings designed to provide better, faster supply chain services beyond our traditional sourcing services. Since joining in January 2019, our Chief Digital Officer has accelerated our digital transformation by building an integrated digital offering to help our customers.

In addition, we embarked on a major restructuring in SCS in the second half of 2018, making significant transformational changes that included the establishment of a strengthened, country-centric sourcing and production platform led by our new Chief Operating Officer as well as the appointment of new Group President to lead the customer-focused account management and business development efforts.

Supply Chain Solutions Business Results

	2019	2018	Change
	US$m	US$m	%
Turnover	**8,834**	9,933	–11.1%
Total Margin	**534**	647	–17.5%
As % of Turnover	***6.0%***	*6.5%*	
Operating Costs	**443**	499	–11.3%
As % of Turnover	***5.0%***	*5.0%*	
Core Operating Profit	**91**	148	–38.4%
As % of Turnover	***1.0%***	*1.5%*	

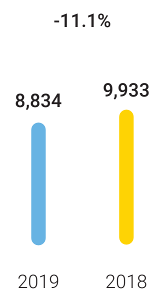
In 2019, the multi-year destocking trend and store closures in retail industry persisted, negatively affecting turnover. Turnover was also impacted by decisions made by certain customers in earlier years to establish their own buying offices. Soft goods accounted for 74% of turnover, and hard goods accounted for 26%.

Global supply chains are becoming more complex as the US-China trade conflict and the global focus on country of origin hastens the migration of production out of China, as well as, now, the recent COVID-19 virus outbreak. This plays to our strength given the breadth and depth of our global sourcing and production footprint. In 2019, we capitalized on this as well as our new digital solutions and strong execution mindset to garner organic growth from new and existing customers, bringing in new businesses with an annualized value of several hundred million dollars, to be ramped up over time. We also continued our efforts to expand our customer base, especially in the off-price segments and hard goods product categories. This helped offset pressure from retail store closures and the ongoing destocking trend. We also continued to implement effective cost control and enhance productivity.

TURNOVER

Turnover for SCS decreased by 11.1% to US$8.8 billion. As customers adjust to the new norm of omni-channel retail, they are continuing to destock and reduce their buying programs, which negatively impacted our turnover in 2019. In the US, this situation was exacerbated by a high number of store closures, which led to further inventory reductions and even more cautious buying patterns. In spite of these challenges, we have grown our businesses in the off-price channel and hard goods categories, due to our heightened business development efforts and the strong sales performances of retailers in these areas. Customer turnover, the bankruptcies of certain customers and proactive exits from non-strategic customers — all triggered in previous years — began to be reflected in the 2019 numbers. In some cases, customers have reduced their sourcing activities through sourcing agents, negatively impacting our topline turnover, although we also saw new customer wins and increased market share at selected customers. To address customer turnover, we restructured our SCS senior management team and formed the sourcing and production platform to break down silos and be even more focused on customer service and operational excellence. To improve turnover and market share with our customers, our new management team has tasked our account management teams with providing sharper focus on service performance and aligning KPIs with those of our customers. The resulting improvements in operational excellence and customer engagement are beginning to pay off, as customer turnover stabilizes and begins to bottom out. Since restructuring in the second half of 2018 and with the new management team fully in place since February 2019, there has been a net positive gain in market share from our current customers.

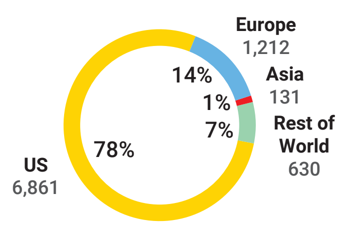
Supply Chain Solutions Business Turnover
US$m



The US, Europe, Asia and Rest of World accounted for 78%, 14%, 1% and 7%, respectively, of turnover for SCS in 2019.

Turnover for SCS in the US, Asia and Rest of World decreased by 11.8%, 45.9% and 17.6%, respectively. Turnover in these regions was primarily impacted by bankruptcies, proactive exits from non-strategic customers, and turnover among our US customers, who ship globally. Turnover in Europe increased by 5.4% due to growth in the off-price channel.

2019 Geographical Market Turnover
US$m

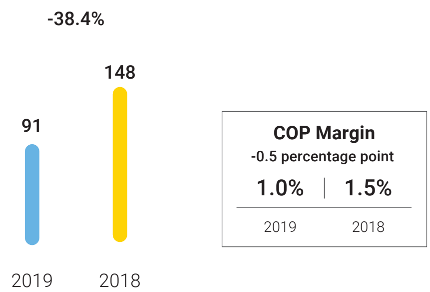


CORE OPERATING PROFIT

COP decreased by 38.4% to US$91 million while COP margin dropped 0.5 percentage point to 1.0% due to a 17.5% decline in total margin. The 11.3% decrease in operating costs to US$443 million was not enough to offset this decline. Apart from decline in turnover, general margin pressure also contributed to a decrease in total margin. While showing early promise, our new digital value-added solutions have not yet generated sufficient contribution to counter the decline in total margin.

We continued to focus on operational excellence through productivity enhancement initiatives such as greater use of technology, process reengineering and digitalization. We also continued to move merchandising roles closer to production, to improve speed and delivery quality and ultimately reduce costs. The resulting cost savings from our productivity and credit strengthening initiatives amounted to US$80 million in 2019, which represented a 16% reduction on a year-on-year basis. However, these savings were offset by additional costs related to investment in our digitalization strategy, which includes 3D design and product development, data analytics and our raw materials platform. Furthermore, certain overhead costs such as rent are fixed in the medium term and we also increased our investment in the vendor compliance area for our sustainability initiatives. Our efforts to leverage resources across the sourcing and production platform are intended to streamline the management of vendor compliance, improve quality control and assurance, and set the standard for the industry, as well as gradually adjust the overhead costs.

COP
US$m



Services — Logistics Business

Our Logistics business delivered top-line growth and maintained profitability despite challenging and highly competitive market conditions, with in-country logistics services achieving another year of double digit growth. China maintained its profitable growth momentum as our early investment in e-logistics has paid handsome dividends and allowed us to enjoy first-mover advantage. ASEAN achieved top-line growth through expanded relationships with our core customers. Our new markets of Japan, Korea and India also recorded solid results that are well ahead of plan.

We currently operate nearly 29 million square feet of warehouse space that serves customers across our four core verticals of footwear & apparel, fast-moving consumer goods, food & beverage and healthcare. Apart from providing storage and pick/pack service for domestic markets, we have progressively moved up the value chain by offering regional and global hub management, reverse logistics and other value-added services. Following the full implementation of our new transport management system and digital control tower, we have increased our transport market share by cross-selling to our existing warehousing customers as well as winning new standalone transport customers.

The global freight management business was negatively impacted by the slowdown in global trade and depressed freight rates. Nevertheless, we continued to strengthen our business development and cross-selling efforts, expand our network and invest in state-of-the-art information technology platforms to aggressively grow the base, improve service level and enhance productivity.

By cultivating strong partnerships with an extraordinary list of strategic customers, we have retained and grown with our existing customers. By continuing our investment in our overall value proposition, we have wooed and won new customers across all four verticals.

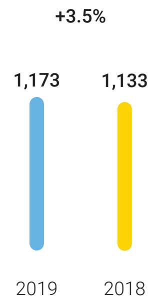
Logistics Business Results

	2019	2018	Change
	US$m	US$m	%
Turnover	**1,173**	1,133	+3.5%
Total Margin	**422**	390	+8.2%
As % of Turnover	***36.0%***	*34.4%*	
Operating Costs	**328**	297	+10.4%
As % of Turnover	***28.0%***	*26.2%*	
Core Operating Profit	**94**	93	+1.0%
As % of Turnover	***8.0%***	*8.2%*	

TURNOVER

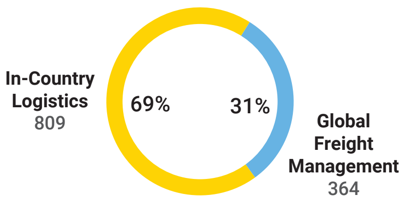
Turnover for our Logistics business increased by 3.5% to US$1,173 million, which was driven entirely by organic growth. Our reported turnover growth was impacted by currency translations from Asian currencies to the US dollar; on a constant currency basis, turnover for the Logistics business increased by 6.0%. While turnover in the in-country logistics business registered double digit growth, turnover in our global freight management business was negatively affected by the weak freight environment and a decrease in volume particularly on the China-US route. Our new business wins together with robust consumption growth in Asia across all channels, particularly e-commerce, have provided strong growth impetus for our in-country logistics business. Furthermore, we have made significant inroads into the new markets of Japan, Korea, and India and have newly expanded into the electronics verticals.

Logistics Business Turnover
US$m

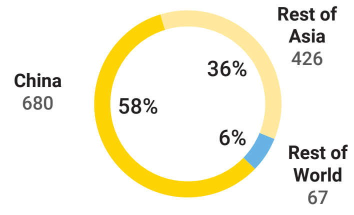


In-country logistics and global freight management accounted for 69% and 31% of turnover for the Logistics business, respectively.

2019 Turnover Breakdown
US$m



2019 Geographical Market Turnover
US$m



China is our key market for the Logistics business accounting for 58% of turnover. The rest of Asia, including Singapore, the Philippines, Malaysia, Thailand, Indonesia, India, Japan and Korea accounted for 36% of turnover, while Rest of World accounted for 6%.

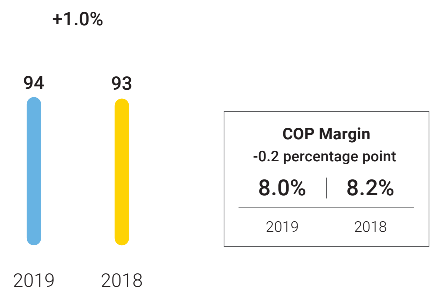
China turnover increased by 5.0% due to strong growth momentum in the in-country logistics business, though this was offset by weakness in the Chinese currency against the US dollar and drops in freight rates and volume, which affected the global freight management business. Rest of Asia showed strong growth, registering 14.5% in 2019 as we ramped up the new markets of Japan and Korea. Rest of World turnover decreased by 41.0% as it is purely a freight management business and was thus impacted by market weakness.

CORE OPERATING PROFIT

COP increased by 1.0% to US$94 million. While in-country logistics registered new customer wins, geographical expansion and productivity improvement, this performance was offset by weakness in the global freight management business due to drops in freight rates and volume. The turnover decline in global freight management resulted in negative operating leverage and a decline in COP contribution from the business. On a constant currency basis, COP for the Logistics business increased by 3.9%.

COP margin decreased marginally by 0.2 percentage point to 8.0% as the gains from customer mix optimization, productivity improvements and increased penetration of higher-margin value-added services were offset by weakness in the global freight management business.

COP
US$m



Products Segment

The Products segment comprises our Onshore Wholesale business in three markets: the Americas, Europe and Asia. The three Product Verticals that were part of this segment exited the Group in 2018.

Onshore Wholesale Business

The Products segment consists of our Onshore Wholesale business operating as an onshore supplier in the Americas, Europe and Asia, supplying apparel and hard goods to largely the same customer base as our Supply Chain Solutions business. The Onshore Wholesale business also acts as an onshore importer for customers, where the terms of each order are agreed on a per-program basis, and our customer relationships are typically longer term and strategic in nature. The business accounted for 13% of Group turnover in 2019. In 2018 we made progress on the strategic development and repositioning of our Onshore Wholesale business to adopt a leaner, more agile structure, which allowed us to have an improved cost structure in 2019.

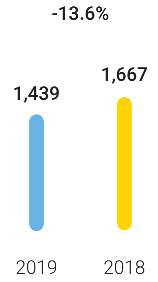
Onshore Wholesale Business Results

	2019 US$m	2018 US$m	Change %
Turnover	**1,439**	1,667	−13.6%
Total Margin	**263**	305	−13.6%
As % of Turnover	***18.3%***	*18.3%*	
Operating Costs	**220**	250	−11.9%
As % of Turnover	***15.3%***	*15.0%*	
Core Operating Profit	**43**	55	−21.7%
As % of Turnover	***3.0%***	*3.3%*	

TURNOVER

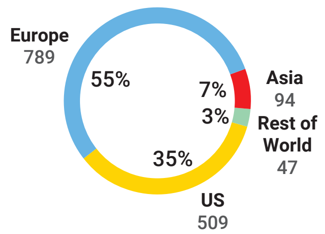
Turnover for the Onshore Wholesale business decreased year on year by 13.6% to US$1,439 million. While we continued to grow with key customers, European markets have been under pressure. The uncertainty concerning Brexit continued to weaken our business in the UK; in addition, customers in Europe have shown conservative buying patterns in our product areas, leading to reduced order volumes. As part of our customer portfolio management, we have proactively exited from non-strategic customers.

Onshore Wholesale Business Turnover
US$m



The US, Europe and Asia accounted for 35%, 55%, and 7% of segment turnover, respectively. Turnover in the US remained flat. While we restructured our product offering in the area of highly promotional items, our apparel turnover increased, which was driven by our successful focus on key accounts and continued product innovation. Turnover in Europe dropped by 19.4% due to the cautious buying patterns of key customers and economic uncertainties. Turnover in Asia decreased by 30.5% after more than doubling in 2018 as we continued to optimize our customer base in the region with a focus on high-quality customers both from total margin and credit risk perspectives. Nevertheless, we continued to see signs of growth with a number of key customers in Asia.

2019 Geographical Market Turnover
US$m

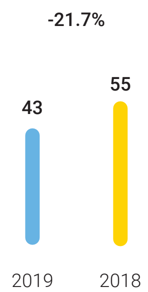


CORE OPERATING PROFIT

COP for Onshore Wholesale business decreased from US$55 million to US$43 million, mainly due to turnover decline. Total margin percentage remained flat at 18.3%.

COP margin decreased by 0.3 percentage point to 3.0%, which was largely driven by the reduction in turnover. Furthermore, we remained focused on restructuring the business to adopt a leaner, more agile structure, which lowered operating costs year-on-year by US$30 million.

COP
US$m



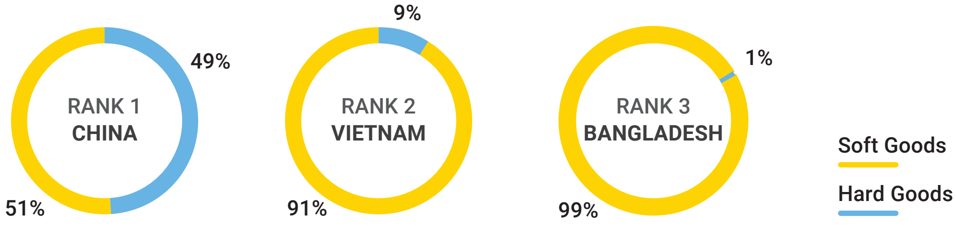
COP Margin
-0.3 percentage point

3.0%	3.3%
2019	2018

Top Sourcing Countries

Our global network of factories, which spans more than 50 economies, allows for flexibility when moving orders from one production country to another to better manage manufacturing constraints and optimize our customers' margins. In 2019, our top three sourcing countries were China, Vietnam and Bangladesh. We also have sizeable sourcing operations in other countries such as India, Indonesia and Cambodia. We are among the largest exporters in our product categories in our major sourcing countries. This comprehensive global network, combined with strong local presence, a long operating history and critical mass, is one of Li & Fung's unique competitive strengths. As the sourcing landscape continues to evolve with changes in trade policies and sourcing requirements, we are very well positioned to scale our existing operations to source in the most efficient way possible for our customers.

Top Sourcing Countries



People

Our people are our most valuable resources. As at 31 December 2019, we had a total workforce of 16,796. The 16,796 workforce includes 9,473 warehouse-related employees primarily for our Logistics business. Total manpower costs in 2019 were US$654 million compared with US$711 million in 2018. We continue to enhance the productivity of our workforce and equip our people for the new digital world. We are grateful for our colleagues' commitment to build the supply chain of the future.

Balance Sheet and Capital Structure

STRONG CASH POSITION

Li & Fung continues to have a solid recurring cash flow and cash position. As at 31 December 2019, we maintained a cash position of US$932 million. Our capital structure and financial flexibility was strengthened by the US$300 million investment in LF Logistics by Temasek, which was completed in August 2019 and the bond refinancing in September and October 2019. Our operating cashflow, together with US$612 million cash on hand carried forward from 31 December 2018, funded our working capital, lease payments, capital expenditure, interest expenses, perpetual capital securities distributions, and dividend payments. To summarize key cashflow statement items:

- In 2019, cash flow from operating activities was US$281 million compared to US$368 million in 2018. This was mainly due to a decline in COP and additional reorganization costs, as well as the usage of working capital in 2019. Our management team and operations are focused on effective working capital management and are constantly monitoring and improving our working capital position. This resulted in a reduction in inventories, which was offset mainly by the increase in accounts receivable from the Global Brands Group and extended receivable terms from selected customers

- Lease payments amounted to US$167 million compared to US$158 million last year. The increase was due to the organic growth of the Logistics business

- Capital expenditures were US$73 million while tax paid was US$36 million

- Net interest expenses increased to US$55 million as in 2018 the Group benefited from interest income on the cash proceeds of the three Product Verticals divestment for two months before the payout of the special dividend and the redemption of perpetual capital securities

- The Group made an early redemption of US$376 million of the US$750 million maturing bond in May 2020 and issued US$500 million in bond maturing in 2024, proactively extending maturity and continuing the company's deleveraging and optimization of its capital structure

- Distributions to perpetual capital securities holders was US$34 million compared to US$49 million last year. The reduction was due to the redemption of US$500 million in perpetual capital securities in May 2018

- 2018 final and 2019 interim dividend payments totaled US$55 million which was supported by cash balance carried forward from 2018

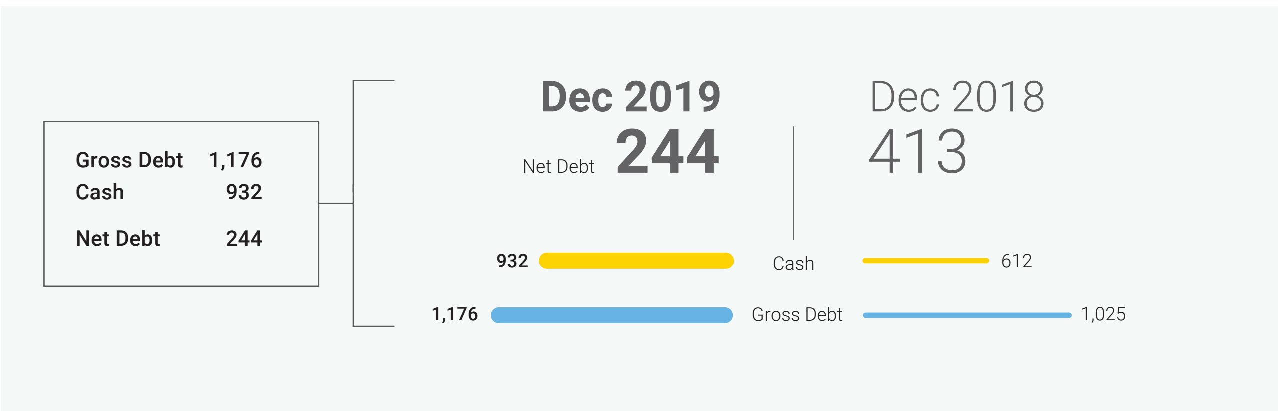
In terms of future commitments, the remaining balance of total purchase consideration payable for acquisitions was US$5 million as at the end of December 2019, of which US$3 million is earn-out payments. We continue to be asset light, and our ongoing total capital expenditures mainly include investments in digitalization and Logistics business expansion, as well as capital expenditures for continuing maintenance.

STRONG BALANCE SHEET

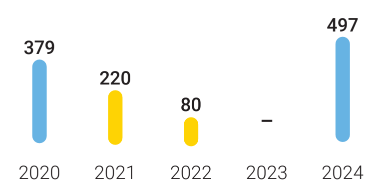
As at 31 December 2019, our cash position was US$932 million after payments of the 2018 final and 2019 interim dividends. We have also reduced the acquisition tail payments of our remaining consideration payable, further improving our balance sheet. After Temasek's US$300 million investment in LF Logistics, our net debt (total borrowings minus cash) was US$244 million and with our US$932 million cash on hand, our gross total borrowings were US$1,176 million as at 31 December 2019. Given the uncertainties in the global macroeconomic and geopolitical environments, we remain prudent and conservative in managing our balance sheet to maintain maximum financial flexibility. As at 31 December 2019, we had long-term committed bank loan facilities totaling US$856 million with tenures of one to three years. Such ample liquidity allows us to have maximum flexibility in managing our near-term debt maturity profile. We took an early draw-down of US$300 million from these long-term committed bank loan facilities in June 2019, ahead of the bond refinancing in the second half of the year. Our resulting cash position of US$932 million will assist prevent any unforeseen market-driven, geopolitical risk from impacting the repayment of the remaining US$374 million bond due in May 2020 and allow us to maximize flexibility in these times of uncertainty, considering the current uncertain geopolitical environment, particularly the trade war between the US and China, and the recent COVID-19 virus outbreak.

Our weighted average tenure of total borrowing, including the newly issued US$500 million bond, is more than 2.5 years. The majority of our debt is at a fixed rate and denominated in US dollars. Excluding the US$374 million bond due in May 2020 which we have sufficient cash on hand to cover, the weighted average tenure of total borrowing would be more than 3.5 years.

Cash and Gross Debt
US$m



Debt Maturity Schedule
US$m



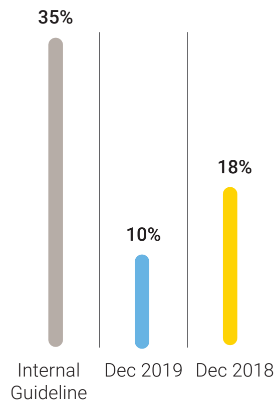
	2020	2021	2022	2023	2024
Bank Loans	5	220	80	–	–
Bonds	374	–	–	–	497

Gearing Ratio and Current Ratio

After adopting the new accounting standard HKFRS 16, our gearing ratio and current ratio were 10% and 1.1 respectively as at 31 December 2019 (18% and 1.0 respectively as at 31 December 2018). Gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short-term bank loans, long-term bank loan and long-term notes) less cash and cash equivalents. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt. The current ratio improved to 1.1.

We continued to take a conservative approach in managing our balance sheet and capital structure. As at 31 December 2019, our credit rating was Baa3 according to Moody's and BBB according to Standard & Poor's. We are committed to maintaining a strong balance sheet, healthy cash flow and strong credit ratios, with the long-term target of retaining an investment-grade rating.

Gearing Ratio



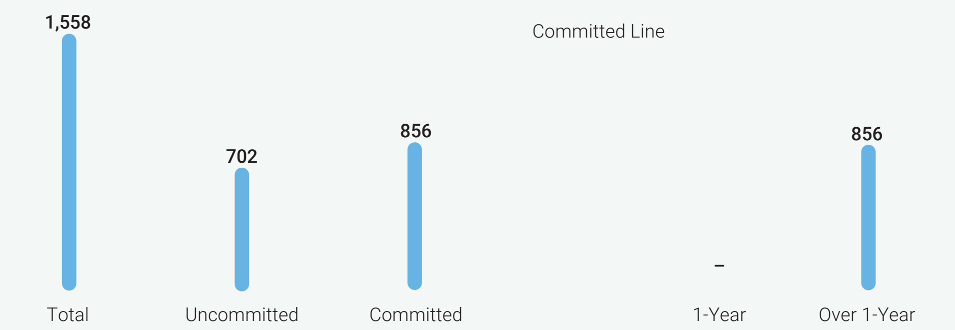
Credit Rating

Banking Facilities

Bank Loans and Overdrafts

As at 31 December 2019, we had available bank loans and overdraft facilities of US$1,558 million, of which US$856 million were committed facilities. The committed facilities have a tenure over one year with maturities in 2021 and 2022, with US$300 million drawn and US$556 million undrawn. On both a committed and uncommitted basis, only US$305 million of the Group's bank loans and overdraft facilities was utilized. Unused limits for bank loans and overdraft facilities amounted to US$1,253 million, with US$556 million being unused committed facilities.

Bank Loans and Overdraft Facilities
US$m



	Total	Uncommitted	Committed
Used	305	5	300
Unused	1,253	697	556

Trade Finance

The Group's normal trading operations are well supported by US$1.2 billion in bank trading facilities that mainly include letters of credit issued to suppliers and bills discounting. A letter of credit is a common means of payment to suppliers to support cross-border trades. The Group's payment obligations on letters of credit issued to suppliers will only be crystallized when our suppliers have shipped the merchandise to our customers or to the Group in accordance with all the terms and conditions specified in the related contractual documents. As at 31 December 2019, only approximately 13% of the trade finance facilities was used.

Contingent Liabilities and Goodwill

Adjustments to Purchase Consideration Payables

Given the unique natures of our acquired businesses, which are private enterprises that rely on their respective entrepreneurs' commercial skills to drive success, we generally structure our acquisitions with incentive schemes and contingent payments on purchase consideration payables linked to the future performance of the acquired businesses. We follow a stringent internal financial and accounting policy in evaluating potential adjustment to the estimated fair value of purchase consideration payable in accordance with the accounting standard HKFRS 3 (Revised), Business Combinations.

Our contingent consideration payables are performance-based payments in the form of "earn-out" and "earn-up" payments, which depend on a set of predetermined performance targets mutually agreed upon with entrepreneurs in accordance with sale and purchase agreements.

Earn-out payments are generally payable within three to four years upon completion of a transaction.

Earn-up payments have a high performance target threshold and, if earned, are typically payable over a period of up to five to six years upon completion of a transaction.

While many of our acquired businesses remain profitable and are growing, we may still be required to make a downward fair value adjustment to certain purchase consideration payables should the acquired businesses be unable to achieve the predetermined performance threshold within the specific timeframe as stipulated in the sale and purchase agreement. Given that the contingent consideration entitlement is usually contractual in nature and based on a specific formula linking to a particular threshold, the underlying performance of the acquired businesses could continue to grow, yet we may still be required to adjust the purchase consideration payable, especially if the high performance thresholds of earn-ups are not reached.

Goodwill Impairment Tests

We perform goodwill impairment tests based on the cash-generating units (CGU) that manage acquired businesses in accordance with HKAS 36, Impairment of Assets. Based on our assessment of all of the CGUs under the current operating structure of the Group, we have determined that there was no goodwill impairment as at 31 December 2019, as the recoverable amount of each CGU was in excess of its respective carrying value of the goodwill. We will continue to perform goodwill impairment tests on an on-going basis.

Adoption of New Accounting Standard, HKFRS 16, Leases

HKFRS 16, which specifies how a company should recognize, measure, present and disclose leases, became effective in 2019. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for short-term or low value leases that the lessees choose to exclude from the requirements. Specifically, all leases must be recognized in the balance sheet as right-of-use assets and lease liabilities. The lease liabilities and the right-of-use assets are unwound over the term of the lease giving rise to interest expenses and depreciation charges, respectively. To maintain the consistency of our consolidated financial statements throughout the year, we have elected to apply the standard retrospectively with prior year comparatives restated. Applying this new accounting standard resulted in an increase in right-of-use assets and lease liabilities of US$392 million and US$421 million, respectively, as at 31 December 2018 and a decrease in net profit of US$3 million for the year ended 31 December 2018. Further information about the application has been set out in Note 1 to the financial statements.

Risk Management

We implement various policies governing accounting control, credit and foreign exchange risk, and treasury management.

Credit Risk Management

We are exposed to credit risk from our operating activities. This arises primarily from our principal trading business, where we act as a supplier, and working capital solutions, where we settle invoices earlier at a discount to certain suppliers via LF Credit. We therefore assume direct counterparty risk for our customers in terms of these account receivables and inventory.

All new customers undergo a risk assessment process prior to trade terms being agreed in accordance with our global credit risk management framework. These assessments focus on the financial strength of individual customers as well as information specific to the customer and the economic environment in which each customer operates. To further reduce our exposure to credit risks, (a) we would require collateral (such as standby or commercial letters of credit, or bank guarantees) from customers if necessary, and (b) we have also taken out trade credit insurance to protect against losses arising from non-payment, and have entered into trade receivables factoring agreements with financial institutions on a non-recourse basis. Both receivable balances and inventory levels are reviewed regularly according to our credit policies and follow-up action is taken to recover overdue balances. Furthermore, our management reviews regularly the recoverable amount of our trade receivables to ensure that adequate impairment provision is made.

Global Brands Group Holding Limited ("GBG"), a connected person of the Company after its spin-off from the Group in July 2014, is a key customer of our Supply Chain Solutions business. In 2019, the total accounts receivable from GBG increased to US$534 million from US$453 million, excluding those arising from purchases made by GBG on behalf of the business it already divested in 2018. This increase was mainly due to the slowdown in settlement of goods shipped to GBG during the year. Following the divestment of its US wholesale business in October 2018, GBG underwent major restructuring efforts to turn around its business by substantially reducing its operating costs and exiting or closing less-profitable brands. Whilst GBG's financial condition has improved as a result of these restructuring efforts and the further injection of shareholders loans of approximately US$292 million (announced by GBG in May 2019), GBG's cash flow, which was partly impacted by one-time restructuring charges, was not yet sufficient to settle all shipments of goods on time in 2019.

Due to the slowdown in the settlement of accounts receivable, the aging profile of accounts receivable from GBG deteriorated in 2019 with US$148 million overdue 91 to 180 days and US$141 million overdue 181 to 365 days (compared to US$77 million overdue 91 to 180 days and US$15 million overdue 181 to 365 days as at the end of 2018). GBG continues to pay and settle its outstanding receivables on a monthly basis. There are no accounts receivable being overdue more than 365 days. Accordingly, and in compliance with our accounting policies, the Company has concluded that no accounts receivable provisions are required as at 31 December 2019.

Foreign Exchange Risk Management

Most of our cash balances are HK dollar and US dollar deposits with major global financial institutions, and most of our borrowings are denominated in US dollars.

Our revenues and payments are predominantly transacted in US dollars. Therefore, we do not believe there is significant risk exposure in relation to foreign exchange rate fluctuations. There are small portions of sales and purchases transacted in different currencies, for which we arrange hedging through foreign exchange forward contracts.

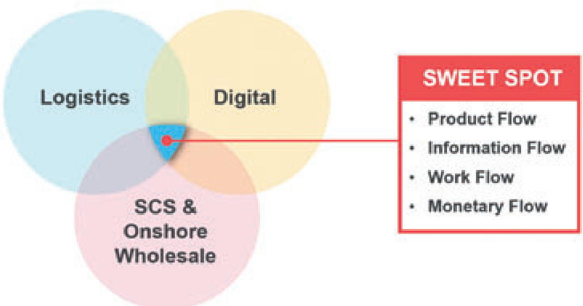
For transactions that are subject to foreign exchange risk, we hedge our foreign currency exposure once we receive confirmed orders or enter into customer transactions. To mitigate the impact from changes in foreign exchange rates, we regularly review our operations in these countries and make necessary hedging arrangements in certain currencies against the US dollar.

However, we do not enter into foreign currency hedges with respect to the local financial results and long-term equity investments of our non-US dollar foreign operations for either our income statements or balance sheet reporting purposes. Since our functional currency is the US dollar, we are subject to exchange rate exposure from the translation of foreign operations' local results to US dollars at the average rate for the year of group consolidation. Our net equity investments in non-US dollar-denominated businesses are also subject to unrealized translation gain or loss on consolidation. Fluctuation of relevant currencies against the US dollar will result in unrealized gain or loss from time to time, which is reflected as movement in exchange reserve in the consolidated statement of changes in equity.

From a medium-to long-term perspective, we manage our operations in the most cost-effective way possible within our global network. We strictly prohibit any financial derivative arrangement merely for speculation.

Strategic Direction and Key Initiatives

As the retail industry continues to undergo exponential change driven by technology and consumer behavior, our goal to create the Supply Chain of the Future remains ever more relevant. Building on the foundation we created over the previous three years, we have set the long-term strategic direction and key initiatives. This centers on leveraging our scale and scope, and focusing on execution and operational excellence to enhance our overall service offering. We plan to leverage the scale and scope of our combined Supply Chain Solutions, Logistics and Onshore Wholesale businesses, as well as our digital applications to further differentiate ourselves against the competition — including our customers' own in-house teams — in providing end-to-end supply chain services. The intersection of these three areas also gives us access to the product, information, work, and monetary flows of the global consumer goods supply chain. We will capitalize on this powerful sweet spot to generate insights and business value for our customers and ourselves.



Our intention is to further elevate our sense of urgency towards execution and agility in all that we do. Whether it is responding to a customer request, rolling out internal process improvements, or pivoting our strategy, we will focus on what we call "the urgency of now" to make things happen, and unleash more potential throughout our people and organization in next few years.

Our strategic direction encompasses our strategies in account management, business development and vendor management as well as our newly established centers of excellence in denim, costing and fabric. Operational excellence and digital services will be our key enablers, underpinned by our commitment to a "people first" philosophy.

Strategies: We have made encouraging progress in account management for our current customers, the pursuit of new customers through our business development efforts and the creation of a sourcing and production platform across countries to focus on our vendors. Over the next few years, we intend to continue to strengthen our core foundation in each of these areas with a more comprehensive service offering that combines sourcing, logistics and digital services.

With a focus on execution, we will establish a set of detailed KPIs to track our performance. Account management performance will be tracked by scorecards aligned with our key customers and via Net Promoter Score (NPS) survey. Business development will be measured by the number of new accounts, nature of commercial terms, and effectiveness of the on-boarding process. Vendor management will be measured by optimal country of production strategy, vendor capacity management and raw materials sourcing. We will subject each of these strategies to a risk mitigation test that identifies, evaluates, monitors, controls and minimizes the associated risks.

Centers of Excellence (COEs): To further leverage our scale and scope, we are creating three new COEs, in denim, fabric and costing. The denim COE captures the megatrend of casualization, focusing on helping our customers produce differentiated denim products. The fabric COE leverages our convening power to facilitate the cost-effective, efficient sourcing of fabric materials. The costing COE allows us to achieve the optimum cost level, given the required quality standards.

Enablers: Focusing on operational excellence and investing in digital capabilities as key enablers that will help us achieve our strategic goals. Operational excellence will continuously improve our operational flows and business processes, which in turn will improve our customer service levels and streamline our cost structure. Meanwhile, our ongoing investment in digital capabilities will further differentiate our integrated service offerings and help us win market share with leading brands and retailers by purposefully integrating their front and back ends.

People First: Our success rests on the ability and contribution of our people. As our most valuable resources, it is our people who create the experiences that delight our customers and it is our customers' ongoing support that generates revenue. We introduced the new structure and leadership team last year and we will continue to ensure that our structure is fit for purpose and we have the team with the right skill sets. Responsibilities for account management, business development and the digital platform are clearly defined, and colleagues will be incentivized according to a new reward system that will be rolled out in 2020.

Outlook

Uncertainties in the global trade landscape will continue to affect the supply chain over the next few years. The conclusion of phase one of the US-China trade negotiations created a temporary window of respite, but without clearly defined goals and a set time frame, phase two may prove to be more difficult. The migration of production out of China is driven not only by tariff increases but also the country's push to transform from a manufacturing exporter into a high-end value-added service provider. We believe this trend will continue and more retailers will pursue a diversified supply chain network. Given the continuing macroeconomic and geopolitical challenges, we plan to continue to assist our customers in navigating the complex supply chain and optimizing their sourcing and production through our global network of more than 50 economies.

We expect that geopolitical uncertainty and its impact on the global supply chain will further intensify in 2020. The entire supply chain from upstream raw materials sourcing to downstream production and shipping will need to be completely rewired and transformed. This will add to near-term challenges and potential disruptions in the global trade flow.

At the time of writing, the COVID-19 virus has already spread to more than 100 countries around the world and the situation is still escalating. There have been quarantines and travel restrictions of unprecedented scale, causing simultaneous disruptions on both supply and demand sides of the economy. China's supply chains are gradually returning to normalcy but other countries might experience the same disruption cycle. The global outbreak is negatively impacting consumer sentiment and mid-tier, non-essential consumer goods are likely to be hit hardest. The overall retail demand environment for years to come may also be affected. Retailers are already discounting their goods and accumulating inventory due to weak consumer demand. They will also be reassessing their supply chains for the next few months. As retailers switch to airfreight rather than shipping, and weak demand leads to order cancellations, our margin and turnover could be affected. So far, retail has been weak over the first two months of 2020, and the COVID-19 virus impact is adding even more volatility and uncertainty to our 2020 outlook, especially that of our Logistics business operating in China and various Southeast Asian countries.

We expect the multi-year destocking trend in retail to continue in 2020. While innovations in the retail industry are creating more opportunities for our new services, they will also cause more disruptions for some of our customers, potentially bringing about further store closures. Earlier decisions by some of our customers to bring their supply chain management in-house will take some time to complete as there is typically a transition period of many months, and we expect to continue experiencing some negative top-line financial impact as a result. In addition, we continue to recalibrate our customer base to optimize the risk-reward balance. Revenue contributions from customers with higher margins but also higher credit risk is likely to decrease, negatively impacting turnover and total margin. All these factors will remain headwinds for our business. However, the pressure will be alleviated by a few factors.

First, under our new organizational structure and leadership, our account management function is now singularly focused on providing the optimum customer service and curating the best experience for our customers. As customer satisfaction improves, we expect our market share with existing customers to increase over time.

Second, our customer focus is supported by the enhanced operational excellence of a truly global sourcing and production platform. The transformation of the platform in 2019 has resulted in better operating leverage and faster response times for our customers. Many changes were modeled on our India business, which enjoyed substantial improvement in operational performance. We are confident that these changes will lead to higher levels of customer satisfaction and more business opportunities. We expect to continue our restructuring and reorganizing efforts over the course of the next few years, aimed at continued improvement in productivity and rightsizing of our overall operating cost base.

We expect the Onshore Wholesale business to remain under pressure. The cost structure of the business has improved, and productivity drives will continue. However, now the spread of COVID-19 virus in the US and Europe, and Brexit may negatively impact consumer sentiment in the UK and other major countries, potentially impacting the top line and margin.

The strong organic growth momentum of the in-country logistics business is expected to face some headwinds in 2020 due to the economic slowdown in China and the impact of the COVID-19 virus outbreak in China and the various Asian countries. The global freight management business may continue to experience challenges arising from uncertainty around US-China trade relations and shipment delays due to production interruption in China and potentially other Asian countries as the virus outbreak expands to more countries across the globe. Nevertheless, we continue to believe in the long-term growth prospects of the Logistics business. Facing these adversities, we are taking actions to mitigate the impact through aggressive productivity improvement and cost control initiatives. The Temasek investment of US$300 million is a clear indication of the long-term value of the business. This will provide the Logistics business with sufficient capital to resume its growth and capture the rising consumption of the middle-income class in Asia in the medium- and long-run.

As for the SCS and Onshore Wholesale businesses, the loss of working days and backlogs at Chinese ports due to the COVID-19 virus outbreak may cause delays in production and shipment, especially in the first half of 2020. While we continue to assist our customers in transferring production out of China, we expect near-term impact of shipment delays and customers becoming more cautious in placing new orders. As the outbreak expands into North America and Europe, it may further affect retail sentiment, which is already being battered by economic weakness. At this juncture, we believe the impact will be felt throughout the year. We expect to provide a more informed discussion on this topic in our 2020 interim results. Nevertheless, our diversified sourcing platform is designed to withstand these sudden disruptions in the supply chain, and we are actively assisting our customers in alleviating the impact.

Finally, turning to our digital platform, 3D virtual design and digital product development will continue to be key priorities. Our digital platform will be developed to enhance our customers' product development capabilities through improved processes and efficiency, as well as to design a completely new way to approach the product development cycle for the omni-channel retail. In the longer run, the platform will be the basis of a fully integrated, end-to-end responsive supply chain that covers physical, digital and financial flows. Continued spending will put pressure on our operating margin, but we believe that digitalization is necessary for the long-term business success of Li & Fung. Digitalization initiatives have already started to deliver results and we expect more tangible returns from these initiatives.