Press Release

Li & Fung Announces 2019 Annual Results

- Core Operating Profit declined by 23% and net profit to shareholders returned to positive
- Temasek's US$300 million investment in LF Logistics and bond refinancing further strengthened balance sheet and capital structure
- US$932 million cash balance and over US$1.5 billion banking facilities provide adequate financial flexibility
- New management team improved NPS score and generated record market share gain, but offset by bankruptcies and 2018 market share losses
- Turnaround will take longer than expected due to higher restructuring and digitalization costs
- COVID-19 will cause major uncertainty for 2020 and beyond
- The Board of Directors has received a proposal to privatize Li & Fung

Hong Kong, 20 March 2020 – Li & Fung Limited ("Li & Fung", "the Group", or "the Company", SEHK: 494), the world's leading supply chain solutions partner for brands and retailers, today announced its annual results for the year ended 31 December 2019 and outlined its strategic direction for 2020.

The Company's financial performance was affected by the multi-year trend of destocking and customer turnover as well as record store closures and bankruptcies in the retail industry. This industry pressure was partially offset through market share gains with key customers, particularly in Logistics. However, economic challenges have been persistent.

Core operating profit ("COP") decreased by 22.9% to US$228 million. This was largely due to reductions in turnover and margin pressure in the Supply Chain Solutions business. Turnover decreased by 10.1% to US$11.4 billion due to continued destocking by customers, store closures and customer bankruptcies, as well as the Company exiting a number of higher-risk and non-strategic customers. Total margin percentage improved 0.1 percentage points to 10.7% primarily as a result of contribution from the higher-margin Logistics business. Operating costs decreased 5.3% as a result of productivity gains from the new sourcing and production country platform and other measures. Net profit attributable to shareholders was US$17 million representing a return to profitability. Adjusted profit attributable to shareholders decreased by 43.9% to US$74 million, excluding non-recurring reorganization costs and other non-core operating expenses, write-back of acquisitions payable and bond redemption costs and corresponding tax and non-controlling interest impacts. The Board of Directors do not recommend the payment of a final dividend for the year ended 31 December 2019 based on the benchmark against profit attributable to shareholders for the year ended 31 December 2019, and also taking into account the economic uncertainties as a result of the COVID-19 virus outbreak (2018: 4 HK cents per share or US$44 million). An interim dividend of 1 HK cent (2018: 3 HK cents) per share was paid by the Company on 19 September 2019.

The Logistics business delivered top-line growth and maintained profitability despite challenging and highly competitive market conditions. With strong demand for in-country logistics services, turnover increased 3.5% to US$1.2 billion and COP increased 1.0% to US$94 million. The growth of the Logistics business continued to be driven by strong growth momentum in China, e-logistics growth, expanded relationships with core customers in the ASEAN region, and solid results in the new markets of Japan, Korea and India. The US$300 million investment by Temasek validates the potential of the Logistics business and will serve to accelerate its growth and enhance the Group capital structure and financial flexibility.

The Group is financially robust and maintains a strong balance sheet with US$932 million in cash balance as well as healthy cash flow, and over US$1.5 billion in banking facilities providing adequate financial flexibility. This was demonstrated by the successful completion of a new bond offering of US$500 million that has a lower coupon rate of 4.375% compared to the previous bond. This measure has extended the Company's debt maturity profile and lowered its outstanding net debt, further optimizing its capital structure.

The Company has also continued to manage the ongoing impact of the US-China trade war, increased complexity of global supply chains and, more recently, the COVID-19 pandemic. The strength of its global sourcing and production footprint has helped reduce the effects from these disruptions on its customers.

Spencer Fung, Group CEO of Li & Fung, said: “While our financials were affected by strong headwinds in the retail sector and global markets, we achieved important gains in our goal of creating the Supply Chain of the Future in our recently completed three-year plan. We are successfully transforming from a traditional, analog agent into a unique digital supply chain service provider. We now have a leadership position in 3D digital product development and are delivering a suite of value-added services to our customers.”

Commenting on how the COVID-19 outbreak is affecting global supply chains, Spencer Fung said, “We are working around-the-clock with our customers and suppliers during this period of deep uncertainty. Our teams on the ground across the world are actively supporting customers, just as we did during the US-China trade war to help address the disruptions to their business.”

Strategic Direction for 2020 and beyond

The Company’s goal to create the Supply Chain of the Future remains more relevant than ever given the continued exponential technological change taking place in the retail industry. This has become even more evident with the persistence of global economic headwinds, as well as the unprecedented disruption caused by the COVID-19 pandemic.

Building on its strong foundation, Li & Fung intends to leverage its combined Supply Chain Solutions, Logistics and Onshore Wholesale businesses with its digital applications to provide differentiated end-to-end supply chain services that is unique in the industry. With operational excellence at its core, the Strategic Direction for 2020 and beyond also includes Li & Fung’s existing strategies in account management, business development and vendor management, as well as leveraging its scale and scope to drive competitive advantage with newly established centers of excellence in denim, costing and fabric.

Spencer Fung said, “As the industry leader combining sourcing strength, digital solutions and logistics capabilities, we will capitalize on our competitive advantage to generate significant business value and market share gains for ourselves and our customers over the long-term.”

Joseph Phi, Group President of Li & Fung, added, "We will further elevate our sense of urgency towards execution and agility in all that we do. Whether it is responding to a customer request, introducing process improvements, or pivoting our strategy, we are focusing on what we call ‘the urgency of now’ to make things happen faster and more efficiently. We are aiming to unleash the potential of our people and capabilities to help our customers. Through our continued focus on restructuring and driving new strategic initiatives, our ability to provide on-the-ground insight and an even more flexible supply chain is cultivating close, rewarding and long-lasting customer relationships built for the long-term.”

Proposed transaction to privatize Li & Fung

Today, 20 March 2020, Golden Lincoln Holdings I Limited (the “Offeror”) and Li & Fung issued a joint announcement in connection with the proposed transaction (the “Proposal”) for the privatization of the Company by way of a scheme of arrangement. The shareholders of the Offeror consist of the Fung family, the controlling shareholder of Li & Fung, and GLP Pte Limited (“GLP”), a leading global logistics warehouse operator and investor, headquartered in Singapore.

An Independent Board Committee has been established to make a recommendation to the Disinterested Shareholders as to (i) whether the Proposal, and in particular the Scheme and the Founder Arrangement, is fair and reasonable; and (ii) whether to vote in favor of the Founder Arrangement at the Company’s SGM and the scheme of arrangement at the Court Meeting. A Scheme Document will be dispatched to the Company Shareholders as soon as practicable and in compliance with the requirements of the Takeovers Code and applicable laws and regulations.

The Offeror is ultimately controlled by the Fung family holding 60% of voting shares, with GLP holding the remaining 40% of voting shares and 100% of non-voting shares, resulting in GLP having an effective economic ownership of 67.67% of the Offeror.

For details of Li & Fung's 2019 Annual Results and the Offer Announcement, please refer to the announcement posted on the HKExnews website http://www.hkexnews.hk/ and the Li & Fung website www.lifung.com.

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About Li & Fung Limited
Li & Fung (SEHK: 494), the Hong Kong-headquartered multinational group, is the world's leading supply chain solutions partner. It specializes in responsibly managing supply chains of high-volume, time-sensitive goods for leading retailers and brands worldwide, with over 230 offices across key production markets globally. Its goal is to create the supply chain of the future to help its customers navigate the digital economy and to improve the lives of one billion people in the supply chain.

For more information, please visit www.lifung.com

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