

# “Building for the Next 100 Years of Li & Fung”

In 1906, when our grandfather, Fung Pak-liu, founded Li & Fung in Canton (now Guangzhou), it was one of the first companies set up by Chinese merchants to engage directly in foreign trade with foreign countries. Li & Fung’s principal line of business in those days was exporting handicraft products made in China to the West. At that time, no one could have predicted the historical events that would transform the Chinese mainland and Hong Kong several times over the next 100 years. The first big change came with the Sino-Japanese war in the 1930s, when our grandfather moved company headquarters to Hong Kong. It was not easy to set down new roots, but Hong Kong, with its deep sea port, was the entrepot to Southern China. In establishing Li & Fung so early in what was to become one of the great trading cities of the world, he built a solid legacy of experience and values for succeeding generations. We are deeply grateful for his energetic and abiding entrepreneurial spirit, openness to new ideas, and courage to reinvent the company in the face of change.

In 1949, just as Fung Pak-liu passed the reins of management to the second generation, Li & Fung’s business environment suffered a devastating external shock. For thirty years, from 1949 to 1979, the Chinese mainland was basically isolated from the world, implying that Hong Kong lost its hinterland, and Li & Fung lost its production base. The second generation of Li & Fung management – our father Fung Hon-chu, his brother Fung Mo-ying, and his sister Fung Lai-wah, would have to once again reinvent the company. Luckily the wave of industrialists arriving in Hong Kong from Shanghai and other places in China after the change of government in 1949 established the British colony as a base for light manufacturing for export. It was in fact the beginning of the process of the globalization of labour intensive manufacturing. Instead of trading in Chinese handicraft products, Li & Fung set to work with these new business partners to export consumer goods like garments, toys and household products made in Hong Kong to Western markets. The business model tirelessly implemented by Fung Hon-chu and his siblings was highly successful and, during the period 1949 to 1972, brought great prosperity to Li & Fung.

In the early 1970s, when we two brothers returned from studies abroad and entered management as the third generation, Hong Kong and Li & Fung were facing a crisis. Competing Asian Tiger economies were rising fast as lower-cost production locations, and major Western retailers were engaging increasingly in direct trade with their Asian suppliers. In this new environment, the model of exporting goods made in Hong Kong had run its course. In the business school sense, it was time for Li & Fung to reinvent itself. We decided to seek out new opportunities and to offer new kinds of value-added services to major US retailers, identifying the best production bases in Asia and assisting with their overall Asian



sourcing activities. First, we went regional, opening operations in Taiwan, Korea, and many other countries in Southeast Asia, taking care to organize the company's operations around the needs of our customers. In the late 1970s, with the advent of the economic reform and opening up of the Chinese mainland by Deng Xiaoping and the creation of special economic zones, a big part of our factory base moved into the Mainland of China.

We were heavily involved in developing the concept of global supply chain management in its early days. Over the next several decades, we would develop capabilities upstream, mid-stream, and downstream across the supply chain. We separated the sourcing of raw material and components from finding the right locations for the labour intensive assembly, and developed practical solutions for quick response manufacturing, making products shop ready at the factory level. All in all, a comprehensive strategy for global supply chain management was developed. During the 15 years from 1992 to 2006, the turnover of Li & Fung Limited, our export company and our core business, grew at a compound annual growth rate of over 22 percent. Today, the Li & Fung Group, which in addition to Li & Fung Limited includes Integrated Distribution Services, Circle K convenience stores under Convenience Retail Asia, and other private entities, has embarked on a whole new era of globalization. This globalization will take Li & Fung into a world where the supply chain extends outwards toward the developed markets of the world and also connects back into the markets of China and Southeast Asia.

As we look forward to the future, we will be drawing on this rich heritage. We see ourselves very much as a global multinational that has its home and its base in Hong Kong. We want to grow along with Hong Kong as a top listed company guided by our commitment to effective corporate governance. We have a very proud Chinese heritage and we treasure talent, as reflected in our personnel management system. At the same time, we also have a very open architecture in terms of our corporate culture that gives us the ability to work with people from different parts of the world. In fact, we now have in Li & Fung a global staff of about 25,000, comprising people from more than 40 economies around the world. As part of the global community, and with great confidence and excitement, we look forward to building for the next one hundred years.

**Victor Fung Kwok King**

Group Chairman  
The Li & Fung Group

**William Fung Kwok Lun**

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