

# HKICPA Annual Conference

## New Drivers for Business Decisions and Governance

Jeremy Hobbins  
LF 1937

# The Li & Fung Group



# Li & Fung Trading Limited

- Global multinational headquartered in Hong Kong – founded 1906
- World's leading supply chain manager operating in the consumer goods market
- Shipments in excess of US\$100 billion at RSP
- Orchestrates over 15,000 suppliers in more than 40 economies to service about 2,000 customers



# Driven by Our Customers

## North America customers



## European customers



## Others



Approximately **2,000** customers in major developed markets

# Driven by Global Trade

## Global Network

### THE AMERICAS

#### Trading Offices

Guatemala City, Guatemala  
 Lima, Peru  
 Managua, Nicaragua  
 Mexico City, Mexico  
 Santo Domingo, Dominican Republic  
 San Pedro Sula, Honduras

#### Onshore Offices

Gaffney, USA  
 New York City, USA  
 San Francisco, USA

#### Logistics Offices

New Jersey, USA  
 New York, USA  
 Orlando, USA

#### Distribution Centres

Los Angeles, USA 4  
 New Jersey, USA 5

### EUROPE

#### Trading Offices

Amman, Jordan  
 Bucharest, Romania  
 Cairo, Egypt  
 Casablanca, Morocco  
 Istanbul, Turkey  
 Izmir, Turkey  
 Lucca, Italy  
 Milan, Italy  
 Oporto, Portugal  
 Sofia, Bulgaria  
 Vilnius, Lithuania

#### Distribution Centres

Keighley, UK  
 Leicester, UK  
 Sheffield, UK

#### Onshore Offices

Barcelona, Spain  
 Bremerhaven, Germany  
 Cologne (Köln), Germany  
 Den Bosch, Netherlands  
 Florence, Italy  
 Hamburg, Germany  
 Huddersfield, UK  
 Keighley, UK  
 London, UK  
 Manchester, UK  
 Manno, Switzerland  
 Moscow, Russia  
 Paris, France  
 South Shields, UK  
 Trowbridge, UK  
 Vienna, Austria  
 Washington, UK

### SOUTHERN AFRICA

#### Trading Offices

Antananarivo, Madagascar  
 Durban, South Africa  
 Moka, Mauritius

### SOUTH ASIA

#### Trading Offices

Bangalore, India  
 Chennai, India  
 Colombo, Sri Lanka  
 Delhi, India  
 Dhaka, Bangladesh  
 Faisalabad, Pakistan  
 Karachi, Pakistan  
 Lahore, Pakistan  
 Sharjah, UAE  
 Tirupur, India

#### Logistics Offices

Chennai, India  
 Delhi, India  
 Dhaka, Bangladesh  
 Faisalabad, Pakistan  
 Karachi, Pakistan  
 Lahore, Pakistan  
 Mumbai, India

### SOUTHEAST ASIA

#### Trading Offices

Bangkok, Thailand  
 Bangkok, Thailand  
 BSB, Brunei  
 Jakarta, Indonesia  
 Lamukka, Thailand  
 Sabah, Malaysia  
 Sarawak, Malaysia  
 Shah Alam, Malaysia  
 Singapore  
 Makati, Philippines  
 Phnom Penh, Cambodia  
 Saipan, Mariana Islands  
 Singapore

#### Onshore Offices

Bangkok, Thailand  
 Bangkok-In, Thailand  
 Jakarta, Indonesia  
 Luzon, Philippines  
 Phnom Penh, Cambodia  
 Shah Alam, Malaysia  
 Singapore  
 Surabaya, Indonesia

#### Logistics Offices

Bangpa-In, Thailand  
 Jakarta, Indonesia  
 Luzon, Philippines  
 Phnom Penh, Cambodia  
 Shah Alam, Malaysia  
 Singapore  
 Surabaya, Indonesia

#### Distribution Centres

Bali, Indonesia  
 Bang Pa-In, Thailand 5  
 Bang Wau, Thailand  
 Bangplee, Thailand  
 Chiang Mai, Thailand  
 Haadyai, Thailand  
 Khon Kaen, Thailand  
 Luzon, Philippines 20  
 Mindanao, Philippines 3  
 Nakorn Ratchasima, Thailand  
 Nongkhae, Thailand 2  
 Penang, Malaysia  
 Shah Alam, Malaysia 4

#### Singapore 3

Surabaya, Indonesia  
 Surat Thai, Thailand  
 Visayas, Philippines 4  
 Wangnoi, Thailand

Beihai, China  
 Changsha, China  
 Chengdu, China  
 Dalian, China  
 Dongguan, China  
 Guangzhou, China  
 Hangzhou, China  
 Hong Kong  
 Liuyang, China  
 Longhua, China  
 Macau

Ningbo, China  
 Panyu, China  
 Qingdao, China  
 Seoul, Korea  
 Shanghai, China  
 Shantou, China  
 Xiamen, China  
 Zhanjiang, China

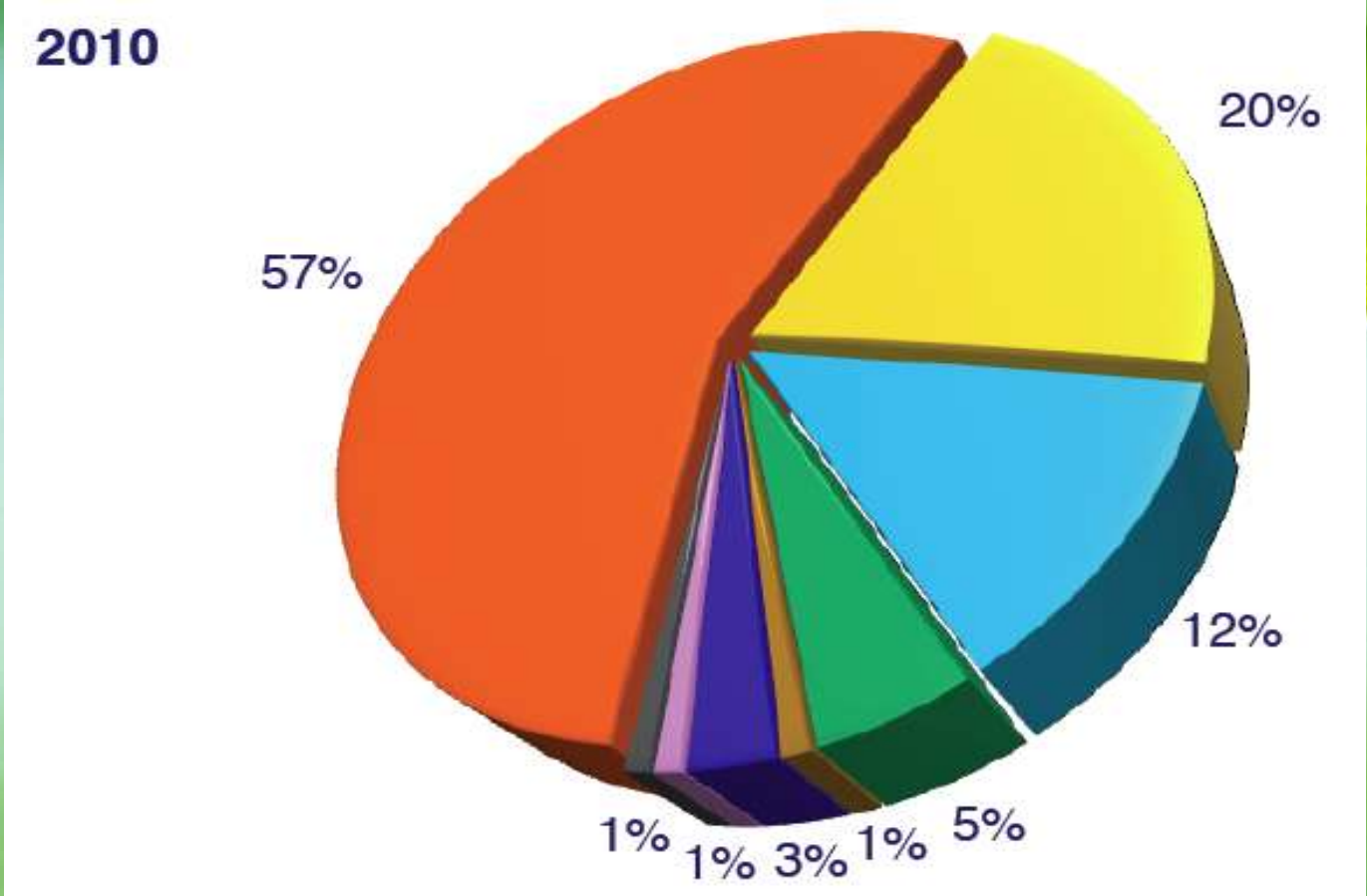
Chengde, China  
 Chengdu, China  
 Dalian, China  
 Fuzhou, China  
 Guangzhou, China  
 Hong Kong  
 Shenyang, China  
 Shenzhen, China  
 Taoyuan, Taiwan  
 Taichung, Taiwan  
 Taipei, Taiwan

Beijing, China  
 Chengdu, China  
 Changchuan, Taiwan  
 Chazhuan, Taiwan  
 Chengdu, China  
 Dayuan, Taiwan  
 Futian, China  
 Fuzhou, China  
 Guangzhou, China  
 Haihu, Taiwan  
 Hong Kong, 4  
 Kunshan, China  
 Linkou, Taiwan  
 Nan Kan, Taiwan

Fariyu, China  
 Qingdao, China  
 Shanghai, China 6  
 Shenyang, China  
 Shenzhen, China  
 Taichang, China  
 Yantian, China  
 Zhangjiagang, China  
 Zhongshan, China

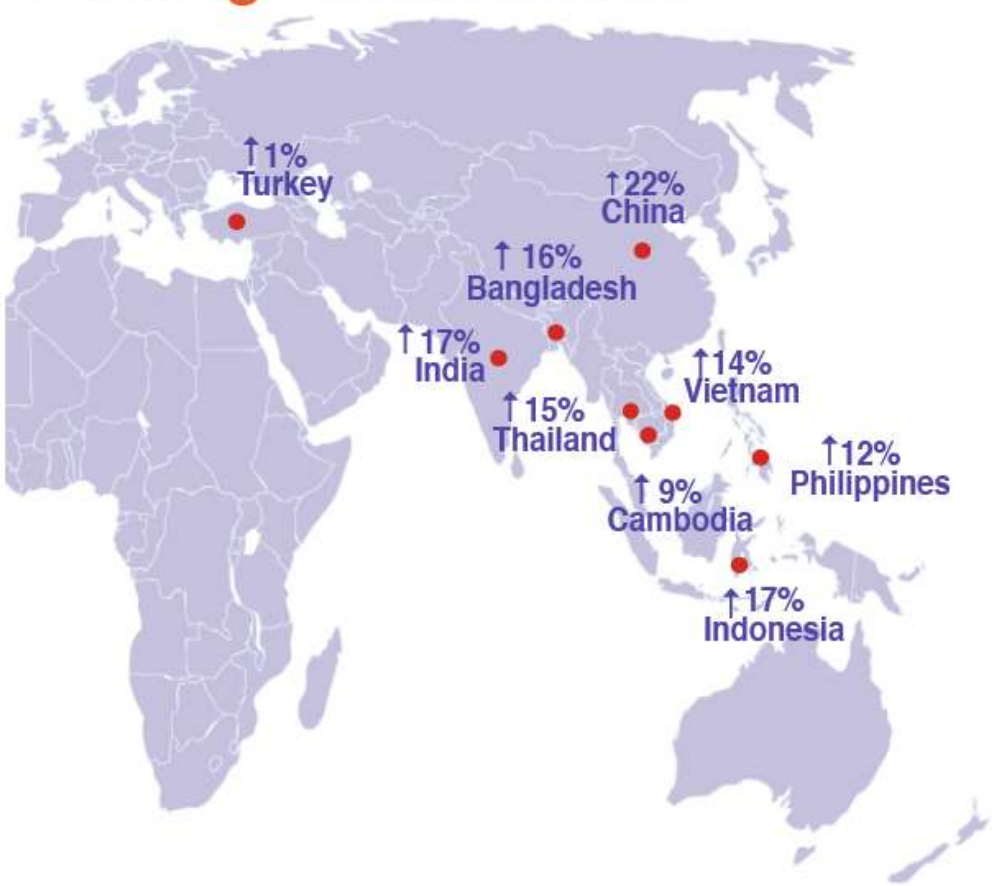
**About 240 offices and DCs in more than 40 economies with 27,000 employees and a sourcing network of over 15,000 suppliers**

# Sourcing: Locations and Products



- China
- SE Asia
- S Asia
- Europe
- East Asia
- Americas
- Africa
- HK/Macau

# Sourcing Trends in 2010



- LF's Top 10 Countries in Production Volume**
- 1<sup>st</sup> China
  - 2<sup>nd</sup> Vietnam
  - 3<sup>rd</sup> Indonesia
  - 4<sup>th</sup> Bangladesh
  - 5<sup>th</sup> India
  - 6<sup>th</sup> Turkey
  - 7<sup>th</sup> Cambodia
  - 8<sup>th</sup> Thailand
  - 9<sup>th</sup> Philippines
  - 10<sup>th</sup> Guatemala

# Borderless Manufacturing



Assembly

Label, elastic, studs, toggle and string



Product Design

Lining



Shell



Made by Hong Kong

Filler

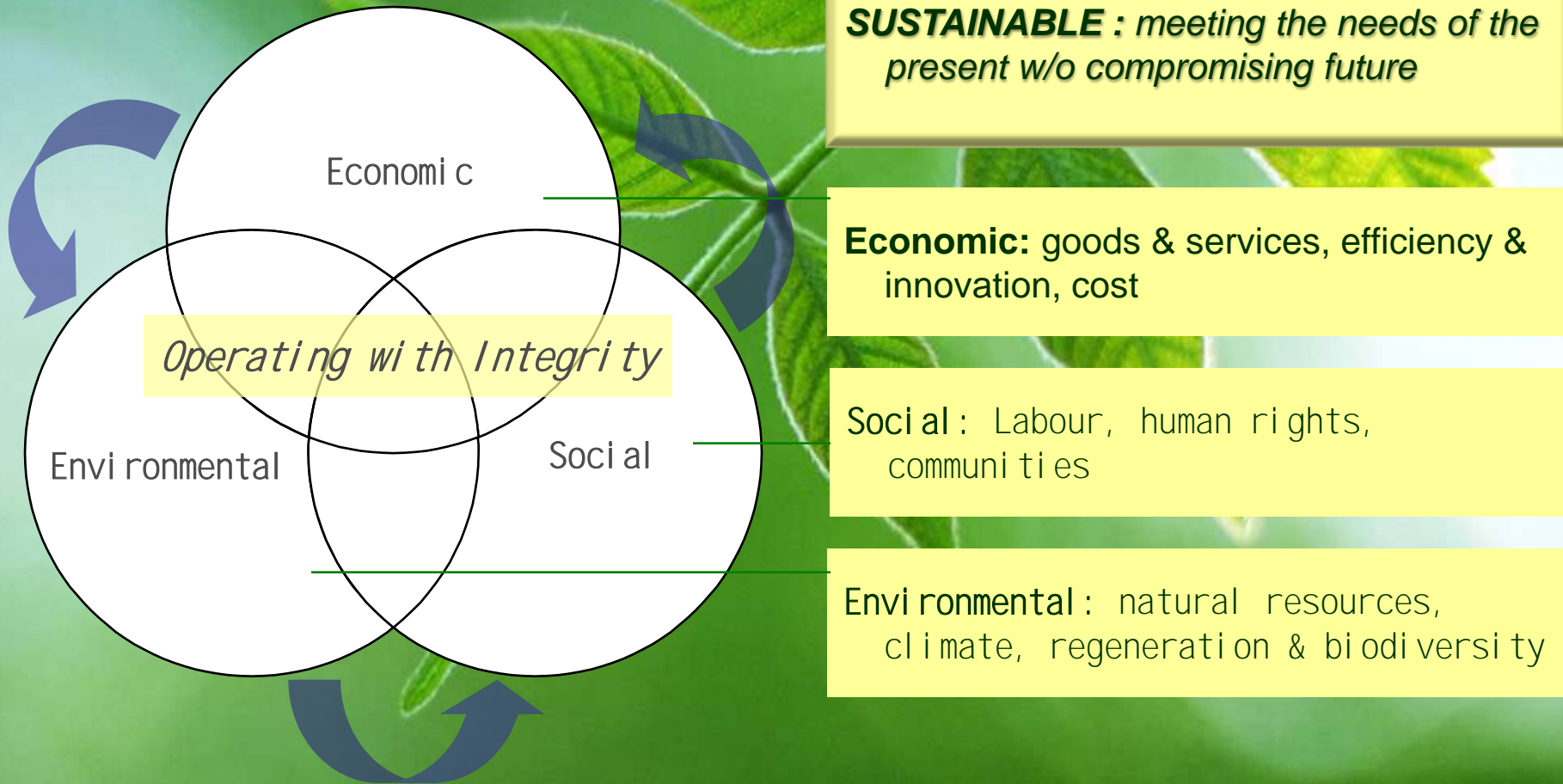


Zipper





# Driven by Sustainable Supply Chain?



# Public Company Driver: Transparency and Disclosure



## Reporting requirements

- Member of Hang Seng Index, MSCI Index, S&P/StandChart Greater China Index , FTSE4Good Index, Dow Jones Sustainability Asia Pacific Index and Hang Seng Corporate Sustainability Index Series

# Driven by Business Commitments

## UNITED NATIONS GLOBAL COMPACT



### HUMAN RIGHTS

Principle 1

Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2

make sure that they are not complicit in human rights abuses.

### LABOUR

Principle 3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4

the elimination of all forms of forced and compulsory labour;

Principle 5

the effective abolition of child labour; and

Principle 6

the elimination of discrimination in respect of employment and occupation.

### ENVIRONMENT

Principle 7

Businesses are asked to support a precautionary approach to environmental challenges;

Principle 8

undertake initiatives to promote greater environmental responsibility; and

Principle 9

encourage the development and diffusion of environmentally friendly technologies.

### ANTI-CORRUPTION

Principle 10

Businesses should work against corruption in all its forms, including extortion and bribery.

# Walmart Case Study

## “Cradle to Gate” Footprinting

Collaboration with Carbon Trust.

- example of Ladies cardigan

- ♣ Raw material assessment - cotton, wool, rayon
- ♣ Initial transportation to factory
- ♣ Factory production
- ♣ Shipping to country / containerisation
- ♣ Warehousing - piece picking and palletisation
- ♣ Final logistics leg to store



# Green Factory – Carbon Neutral



“New build” for apparel production using “common sense” initiatives

- ♣ Recycled building materials / east-west orientation
- ♣ Skylights with magnifying glass (photovoltaic glass)
- ♣ Big windows that open wide reducing air-con
- ♣ Heat reflective roof or walls / large roof overhangs
- ♣ Recycled wastewater
- ♣ Rain fed evaporative cooling system
- ♣ LED focussed lights for sewing machines
- ♣ Small diesel generator - off-set with 1,000 trees documented flora / fauna

# Major Focus / Challenge with 3<sup>rd</sup> Party Vendors

15,000 3<sup>rd</sup> party vendor factories

- ✿ Integrity is key to reporting
- ✿ Physical audit often necessary
- ✿ Education is critical – 3<sup>rd</sup> world



# Social Responsibility Driven by Partnership



Compliance to Commitment

❁ Supplier sustainability guide

- ♣ Employee practices
- ♣ Energy reduction
- ♣ Carbon footprinting
- ♣ Waste water treatment

# Driven by Cost Pressures and Stagnant Demand

## Rising Wages

Monthly Minimum Wage in China 2010

Provinces	2009	Current
Shanghai	960	1,120
Zhejiang	960	1,100
Guangdong	860	1,030
Beijing	860	960
Jiangsu	850	960
Tianjin	820	920
Shandong	760	920
Hubei	700	900
Fujian	750	900
Shanxi	720	850
Hunan	665	850
Jilin	650	820
Shaanxi	600	760
Ningxia	560	710

Unit: Yuan  
2010

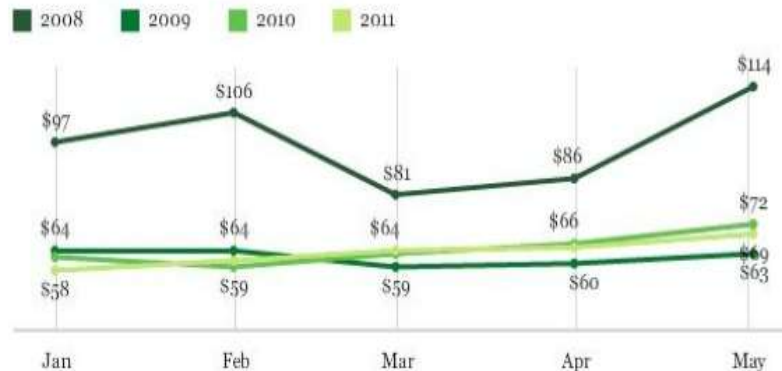


## Record High Cotton Prices

... and unfinished recession in consumer markets

U.S. Consumer Spending, January-May, 2008-2011

Monthly averages of self-reported average daily spending, in U.S. dollars



May results as of May 30  
Gallup Daily tracking



# In Conclusion: Key Drivers for the Future

- Global Trade: availability of cost effective labour driver to new locations
- China: continue as a major hub but move up the value chain
- Inflation in cost base and materials
- Stagnant demand and “Lingering Recession” in developed markets
- Labour practices and environmental integrity are key drivers to ensuring a harmonious supply chain - customer has to be prepared to pay
- Reporting requirements will increase but the spirit of UN Global Compact principles must be the driver



Thank you!