



# United Nations Global Compact Communication on Progress 2009

# Statement of Continued Support

We are pleased to publish our Company's fourth Communication on Progress (COP). Inside you will find a summary of the many ways our management team and more than 13,000 employees are thinking about, and acting upon, our commitment to the Compact's ten principles.

This COP provides an overview of the various activities and initiatives we have undertaken throughout the year in upholding the Compact's principles. We recognize that only companies that build such principles into the way they do business will continue to thrive and prosper.

During our more than 100 years in business serving as a buying agent, Li & Fung has built a legacy of promoting the ideals of free trade and value creation through responsible business practices. Through our unique business model, we continue to integrate the principles into the way we operate so as to serve as an agent of change and to ensure our stakeholders continuing economic, social and environmental success.

We recognize there are still many opportunities where we can further improve upon. We will continue to play a valuable and constructive role in addressing our challenges, and we look forward to updating you in the future on our progress in upholding the Compact's ten principles.

**William Fung**  
Group Managing Director

# The United Nations Global Compact

## 10 Principles

### Human Rights

#### Principle 1

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

#### Principle 2

Make sure that their own corporations 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

Business should 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.

### Corruption

#### Principle 10

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

# HUMAN RIGHTS

## Principle 1

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

## Principle 2

Make sure their own corporations are not complicit in human rights abuses.

## Actions Taken to Integrate Principles

Li & Fung is committed to upholding human rights within its own organization and that of its customer's supply chains. Through an independent team of more than 120 dedicated compliance staff based in 18 countries, Li & Fung verifies and monitors compliance to its customer's human rights policies and programs. We have implemented operational processes and procedures for ongoing monitoring and auditing for compliance. The procedures also set out how to manage instances of non-compliance.

In addition, Li & Fung merchandising teams and suppliers undergo extensive training to gain awareness, knowledge and necessary skills to meet compliance and human rights requirements. Regular vendor compliance training, education and workshops are also held throughout the year to promote and build awareness for compliance. As part of ongoing training and education efforts, we have developed a new e-training module which will cater to the induction process of new recruits, serve to provide on-going refresher training, and be used for the roll-out of new and updated training and education offerings.

## Measurement of Expected Outcomes

In 2009 the Vendor Compliance Division evaluated more than 12,000 vendors in 46 countries around the world. Subsequent to the completion of each evaluation, factories were issued an evaluation report in the form of Corrective Action Plans (CAP). Facility re-evaluations were then re-scheduled based on initial evaluation outcomes and pre-defined cycles to verify issue rectification and corrective action improvement. Results from these factory evaluations determined qualification, certification and vendor approval periods.

# LABOUR STANDARDS

## Principle 3

Businesses are asked to 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 labor.

## Principle 5

The effective abolition of child labor.

## Principle 6

The elimination of discrimination in respect to employment and occupation.

## Actions Taken to Integrate Principles

Li & Fung supports and promotes the four Labor Standard's principles, internally and externally, to its various stakeholders.

Internally, the Company's Code of Conduct covers policies on equal employment opportunity and non-discrimination. We adopt an equal opportunity policy in connection with all human resource matters including recruitment, training and development, promotion, transfer, compensation and benefits, redundancy and dismissal, etc., without any form of discrimination such as race, colour, religion, sex (including pregnancy), marital status, family status, sexual orientation, national origin, ancestry, age, disability and veteran status.

There is also a Key Operation Guide (KOG) on Recruitment, which clearly states the principles that as an equal opportunity employer, we treat all staff and candidates fairly. We consider all applicants regardless of race, colour, religion, creed, sex, marital status, age, social status, national origin, and disregard all factors deemed inappropriate by laws. All hiring processes and employment practices fully comply with equal opportunity legislative requirements. All newly joined staff will be briefed the details of the Code of Conduct and the KOG.

The KOG also emphasizes the mutual respect in workplace. Harassment including verbal (e.g. derogatory comments, offensive remarks), physical (e.g. assault, impeding movement), visual (e.g. derogatory posters, drawings and graphics), and sexual (e.g. unwelcome sexual advances, requests for sexual favours), intimidation and threat are not allowed.

Staff are represented by independent trade unions / commerce sectors in some offices. In case of any labour disputes, staff reserve the rights to collective bargaining. Furthermore, the Company's KOG on Grievances ensures consistency, transparency and fairness in the handling of workplace problems or complaints.

The Corporate Governance Division also regularly conducts internal audits of our global operations to ensure that good corporate governance practices are in place.

Externally, Li & Fung promotes the four Labor Standard's principles via its Vendor Code of Conduct. Freedom of association, the right to collectively bargain, the elimination of all forms of forced / involuntary labor, the effective abolition of child labor, and the elimination of discrimination in respect to employment and occupation are critical elements contained within our Code. The Vendor Compliance Division assesses compliance with these and other labor standards in order to verify and determine adherence to applicable laws and regulations.

## Measurement of Expected Outcomes

In 2009 we are not aware of any cases of discrimination in respect of employment and occupation reported from our staff, or any other concerned parties. Through our internal HR audit on conformance of the Recruitment KOG, no cases have been reported for non-compliance on discrimination.

Throughout the year we conducted more than 12,000 vendor evaluations. A number of evaluations resulted in findings of labor standards non-compliance. Vendors that were not willing or not committed to remediating such issues were disengaged while those vendors that demonstrated an open and committed approach to solving such issues were placed on a Corrective Action Plan and monitored for performance improvement and issue rectification.

# ENVIRONMENT

## Principle 7

Businesses are asked to support precautionary approach to environmental changes.

## Principle 8

Undertake initiatives to promote a precautionary approach to environmental changes.

## Principle 9

Encourage the development and diffusion of environmentally friendly technologies

## Actions Taken to Integrate Principles

Li & Fung encourages suppliers to establish and maintain environmental protection and sustainable supply chain systems. Recognizing the growing importance of assessing the environmental impacts of the global supply chain, the Group's VC division expanded its Environmental Audit Program to a wider number of customers. The scope of the program includes a review of the impacts of factory operations on the environment. The assessment contains elements pertaining to environmental project management, wastewater, air, solid and hazardous waste, chemical handling and storage, noise, resource and energy saving, and control of restricted and hazardous substances. The team continues to expand on this program in line with emerging environmental stakeholder expectations and demands from the marketplace.

In 2009 Li & Fung maintained its "Class of Excellent" Wastewise Label in recognition of the company's effort in reduction of solid office waste. A government initiated scheme, the objective of the scheme is to encourage businesses and organizations to adopt measures in waste reduction. The Wastewise program, together with an internal 20% paper reduction campaign, as resulted in significant reductions in office waste and cost savings of more than HK\$1,000,0000.to date.

The company also employed the services of US firm Honeywell to conduct an investment grade energy audit for its Hong Kong operations. The scope of the contract also includes a global proposal for several other major offices within the Li & Fung global network. This audit is part of the company's support for the Clinton Climate Initiative's (CCI) Energy Efficiency Building Retrofit Program which brings together business and energy service firms to reduce energy consumption in existing building. The investment grade audit is expected to result in an potential energy saving of approximately 20% of overall energy consumption thereby translating into carbon emissions reductions, cost saving, and improved sustainable office space for our people. Key learning's from the audit will also be used to roll-out elsewhere within the Li & Fung global office network.

Also in 2009, Li & Fung maintained its “Class of Good” Energywise Label in recognition of the company’s effort in energy savings. A government initiated scheme, the objective of the scheme is to encourage businesses and organizations to adopt measures in saving energy. The Energywise label is one of the four environmental labels under the Hong Kong Awards for Environmental Excellence (HKAEE), jointly presented by the Environmental Campaign Committee and the Environmental Protection Department.

Li & Fung was recognized in 2009 by the Hong Kong Environment Bureau for its efforts to advance cleaner production with an award entitled “Hong Kong – Guangdong Cleaner Production Partner (Supply Chain). The company promotes cleaner production through the Cleaner Production Partnership Program (CP3). The program is jointly organized by the Environmental Protection Department, Guangdong Economic and Trade Commission, Hong Kong Productivity Council and business and industrial sectors. This five-year program will provide funding support to Hong Kong-owned factories in the Pearl River Delta region to engage environmental consultants to conduct on-site improvement assessment, which will propose practical solutions to achieve energy saving and emission reduction. A number of our suppliers have already signed up for this program.

Li & Fung strengthened its partnership with the World Wildlife Foundation (WWF) on an innovative energy conservation project called LOOP – Low Office Operation Program. Together with four other Hong Kong companies, Li & Fung participated in LOOP’s pilot rollout in 2008 and 2009. The program aims to provide firms with tools to measure and cut office energy use and green house gas emissions.

Li & Fung participated in the Carbon Disclosure Project (CDP7) for the first time in 2009. CDP7 is Li & Fung’s first response and contains 2008 statistical data on its Scope 1 and Scope 2 emissions. CDP is an initiative to collect information on how companies are responding to climate change. The participation in the initiative, and the completion of the CDP7 information request, has enabled the company to better understand the risks and opportunities of climate change. Furthermore, the process has given the organization ample ways to focus on successes and address ways to lessen its carbon footprint. The company’s worldwide CO2 emissions for 2008 totaled 35,679 tons. The company has set a target of 10% emissions reduction in 2010 from that of its baseline 2008 data. Its 2009 carbon emissions inventory is currently in progress.

In collaboration with two of our customers, we completed “cradle-to-gate” lifecycle assessments (LCA) of an article of apparel and another article of a toy in 2009. Both studies provided us with important insights relating to the environmental performance and impacts of the products that we source for our customers. The assessment included the raw materials, manufacturing, distribution, use, and disposal stages and examined impacts related to energy and climate change. The key learning outcomes of these two studies provided the company with an in-depth understanding of the complexities of lifecycle analysis and carbon footprinting and how such tools may generate value for the environment, our customers and our business.

Li & Fung continued its partnership for a second year in a row with The Asia Foundation (TAF), local government agencies, and non-governmental organizations in Guangdong, China to implement an innovative pilot project that brings local governments, industry associations, enterprises, suppliers and local environmental experts together to collaborate to reduce water pollution in the textile and dyeing sector through preventative approaches. Entitled the Pearl River Delta (PRD) Environment Program, the project has three objectives: (1) Improve the policy environment for pollution prevention; (2) Develop innovative mechanisms to overcome awareness, technology and financial barriers to enterprises adopting cleaner technology; and (3) Increase business-civil society collaboration and innovation in environmental protection initiatives. The project includes a number of program activities including seminars, grants, and workshops. In 2009, the Foundation conducted a series of activities in partnership with local China governments, academic institutions, industry associations, and environmental experts that resulted in a number of outputs including: the organization of a stakeholder workshop, the publication of a policy research report, the creation of an on-line cleaner production directory and the provision of an environmental design award.

In terms of the promotion of environmentally friendly product, Li & Fung continues to explore new opportunities and to expand its sourcing of eco-friendly related materials, products and packaging. The Group is working closely with suppliers around the world to produce more eco-friendly products for our customers. During the process, Li & Fung has been consolidating our internal knowledge and expertise to meet this new market demand and requirements driving for a more ecologically healthier and sustainable environment.

In 2009, the Group's Vietnam office renewed its "Chain of Custody" certification in trading of indoor and outdoor home-used wood products certified by The Forest Stewardship Council (FSC). The FSC is an international non-profit organization based in Germany whose mission is to promote environmentally and socially responsible forest management worldwide. FSC Chain of Custody certification is independently verified and provides assurance to our committed customers that the forest products bearing the FSC trademark label were produced from certified well-managed forests in all stages of processing, manufacturing and distribution.

## Measurement of Expected Outcomes

In 2009 we continued to endeavor to make a contribution towards minimizing our environmental impacts while formulating a more sustainable approach to our business. A number of innovative environmental initiatives were launched involving various stakeholders. We continue to realize both tangible and intangible benefits in the form of resource efficiency, cost avoidance, organizational learning, and the improvement of the environment.. As we continue to develop our eco-logical approach, we will be in a improved position to reduce our environmental impacts and thus serve as a continued agent of change.

# CORRUPTION

## Principle 10

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

### Actions Taken to Integrate Principles

Li & Fung's Code of Conduct and Business Ethics ("the Code") is endorsed by the Board and covers policies on prohibiting corruption and bribery. In November 2008, the Code has been updated with particular emphasis on the prohibition of bribery and corruption practices by all staff in the countries where the Group has operations.

All Directors and staff are accessible to the Code through the Company's internal electronic portal. Executive management and the Corporate Compliance Group together monitor the compliance and enforcement of the Code on an on-going basis.

The Code was also communicated to major suppliers and service providers, emphasizing the Company's policy on prohibition of bribery. Systematic training is organized to our suppliers to equip them with awareness, knowledge and the necessary skills and tools they need to understand and meet compliance requirements including anti-bribery practices.

The Group's Vendor Compliance division also conducts evaluations of approved suppliers on a routine and systematic basis. These evaluations include suppliers' anti-corruption practices which need to be properly documented.

Material violations of the Code will need to be reported to Risk Management Committee and relevant Senior Management for timely rectification and subject to disciplinary actions including dismissal, as necessary. In case of suspected fraud or corruption, the Company reserves the right to report to appropriate authorities.

Global staff induction program is organized for all newly joined staff (including staff from acquisitions) covering all areas of our ethical code. In addition, all newly joined staff need to sign a declaration form for the compliance of the Code upon employment.

To reinforce the conformance of our ethical Code, members of the Corporate Governance Division conduct regular interactive forums with staff members worldwide including senior management to ensure that good corporate governance practices are embedded in the Group's operations.

The Group's Policy on Reporting of Concerns (a whistle-blowing policy) is accessible by all staff through the Company's intranet website. Under this Policy, staff can report any concerns, including misconduct, impropriety or fraud in financial reporting matters and accounting practices, in confidence and without fear of recrimination for fair and independent investigation of such matters and for appropriate follow-up action, to either Senior Management or the Audit Committee through our Group Chief Compliance Officer. Any shareholders or stakeholders can also report similar concerns by writing in confidence to our Group Chief Compliance Officer.

## Measurement of Expected Outcomes

In 2009, Management and the Company's Corporate Governance Division reported to the Audit Committee proven fraud / corruption / bribery cases, if any, on periodic basis.

Based on the assessment by Management and the Audit Committee, there were no significant misconduct or business ethics issues (e.g. bribery, fraud, criminal acts, in breach of Li & Fung's Code of Conduct and Business Ethics) reported from staff, shareholders or stakeholders that have material effect on the Company's overall operations and financial performance. The assessment result has been disclosed in our 2009 Annual Report.