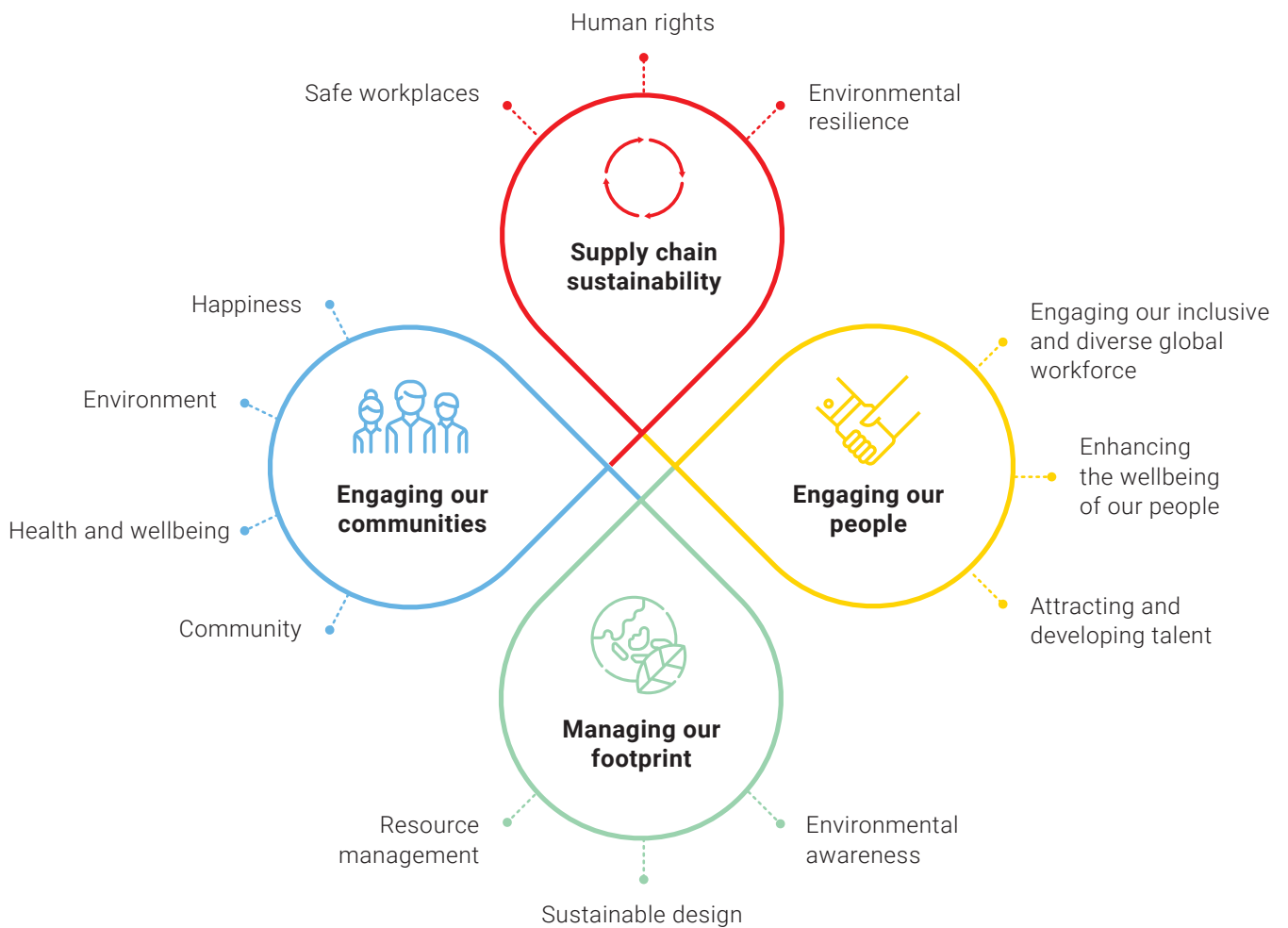


## Sustainability @ Li & Fung

Engaging our people, improving supply chain sustainability, responsibly managing our footprint and improving the lives of those along the supply chain is central to our Sustainability Strategy.

## Our Sustainability Strategy

2019 marks the tenth year of implementing our holistic Sustainability Strategy. Our actions are aligned under four pillars: Supply Chain Sustainability, Engaging our People, Our Communities and Managing our Footprint. Since 2009, we have made significant progress against our qualitative and quantitative targets.



# Sustainability @ Li & Fung

Integrating sustainability into our operations and along our value chain is central to our business success.

Li & Fung, the Hong Kong-headquartered, multinational group, is the world's leading supply chain solutions partner for brands and retailers worldwide. We design, source and deliver a diverse range of products – including apparel, accessories and household items – from a network of 10,000 suppliers in over 50 production countries, for over 2,000 customers globally. With no factory ownership, we are an asset-light organization using our 16,796 people and our extensive reach, depth of experience, market knowledge and digital solutions to enable our customers to respond quickly to evolving consumer and production trends.

We are focused on digitalizing our global supply chain to create an end-to-end stream of synchronized supply chain data that will allow us to improve speed, cost, working capital, inventory, sustainability and traceability for all partners in our ecosystem. Our priority is developing and operating responsible, agile supply chains that meet the demands of a dynamic retail sector, while protecting and improving the lives of all who are touched by it.

We have been evolving our holistic Sustainability Strategy for over ten years and continue setting aspirational goals to meet best practice benchmarks and stakeholder expectations for a responsible business. Improving our environmental, social and governance (ESG) performance drives our Sustainability Strategy and we integrate the sound management of ESG issues into our global operations.

Key challenges we are addressing include safeguarding the livelihoods, health, safety and wellbeing of people within our own organization and supply chains and improving our performance in a world of increasingly scarce resources with severe levels of pollution and environmental degradation. These issues, exacerbated by the impact of climate change, pose risks and opportunities to evolve our Sustainability Strategy and day-to-day activities. With increased transparency and action, we aim to improve working conditions and environmental performance in both our own operations and in factories, and to build sustainable communities along our supply chain.

The need for greater transparency, accountability and industry cooperation to address our common, global challenges influences how we do business and engage with our stakeholders.

## Our Commitment to Sustainability and Disclosure

Improving our sustainability performance and enhancing our overall disclosure<sup>1</sup> of information is integral to our business and to meeting evolving expectations for increased transparency. In support of Fung Group being a signatory to the United Nations' Global Compact (UNGC) since 2002, we have been publicly disclosing our progress in implementing actions to support the UNGC's 10 Principles on human and labor rights, the environment and anti-corruption. Since 2016, the Fung Group has aligned with the UN's Sustainable Development Goals (SDGs) and last year expanded its reporting<sup>2</sup> on how its publicly-listed companies are making progress to support the goals of No Poverty, Good Health and Wellbeing, Gender Equality, Affordable and Clean Energy, Decent Work and Economic Growth and Responsible Production and Consumption.

1 Refer to our website for our HKEX ESG Guide Content Index that outlines how we address the mandatory "comply or explain" provisions and the recommended disclosures, as outlined in the Hong Kong Exchanges and Clearing Limited (HKEX)'s Listing Rules and Guidance, Appendix 27 – Environmental, Social and Governance Reporting Guide.

2 Refer to the Fung Group's 2018 Communication of Progress – [https://s3-us-west-2.amazonaws.com/ungc-production/attachments/cop\\_2019/477993/original/UN\\_GlobalReport\\_2018\\_FINAL.pdf?1567184477](https://s3-us-west-2.amazonaws.com/ungc-production/attachments/cop_2019/477993/original/UN_GlobalReport_2018_FINAL.pdf?1567184477)

In August 2019 at the G7 summit, we joined forces, as part of Fung Group, with 250 of world’s biggest fashion and textile companies to sign The Fashion Pact, committing the 56 signatories to improving sustainability standards in the fashion industry. The Fashion Pact outlines what our industry will do to safeguard the planet by stopping global warming, restoring biodiversity and protecting the oceans.

Our Logistics business also signed the Arctic Shipping Corporate Pledge in October 2019, launched by Nike and the Ocean Conservancy. As a signatory, we are one of 20 consumer goods and shipping logistics companies, that commit to not intentionally ship goods through the Arctic Passage. The initiative closely aligns with the goals of the Fashion Pact, as well as our commitment to pollution prevention.

We have made progress in support of the goal of our Three-Year Plan (2017–2019) and beyond to help improve the lives of a billion people along our supply chain. We do this by continually engaging our customers, suppliers, colleagues, partners and communities to create shared value. Through this common pursuit of shared value, we align our actions along the supply chain to make progress towards six of the SDGs where we can focus our actions for impact.



In 2019, we were recognized as one of 23 companies in Asia to receive the Asset ESG Corporate Awards 2019 – Platinum Award, and one of four to be recognized for 11 consecutive years. We also received the Hong Kong Corporate Governance Excellence Award 2019 – Award for Sustainability Excellence, organized by the Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy of Hong Kong Baptist University as well as the Hong Kong Award for Environmental Excellence – Silver Award for the Servicing and Trading sector and the Hong Kong Green Organization Certificate from the Hong Kong SAR Government’s Environmental Campaign Committee.

As part of our commitment to sustainability, transparency and disclosure, we are a constituent of the FTSE4Good Index Series, a leading global sustainability index. In Hong Kong, we are on the Hang Seng Corporate Sustainability Benchmark Index and are recognized as a Caring Company by the Hong Kong Council for Social Service. We submit Climate Change and Supply Chain responses to the Carbon Disclosure Project (CDP), as requested by our investors and our customers, and we also submit information to ESG raters such as Sustainalytics and MSCI.



## Our Stakeholders

Understanding the needs, concerns and views of our stakeholders, engaging them in regular, open dialogue, and integrating their priorities into our operations, is essential to our success. Through regular business activities, we engage with our employees, customers, suppliers, industry and

NGO partners to improve performance and conditions in the supply chain and to build sustainable communities. Our key stakeholder groups and how we engage with them are shown below.

Our stakeholders	How we engage with our stakeholders
Employees	<ul style="list-style-type: none"> <li>• Engagement through annual conferences, town halls, workshops, team meetings and other work, social and community events</li> <li>• One Family intranet and regular communication emails</li> <li>• Annual Engagement Surveys</li> </ul>
Customers	<ul style="list-style-type: none"> <li>• Communication and face-to-face meetings</li> <li>• Customer Satisfaction Program to enhance our services by obtaining and measuring customer feedback in a systematic manner               <ul style="list-style-type: none"> <li>– Net Promoter Score – invites selected customers to indicate how likely they are to recommend us to colleagues and peers</li> <li>– Operational Survey – invites selected customers to fill in a questionnaire on our services and customer strategy</li> <li>– Voice of the Customer – senior managers collect direct feedback from our customers</li> </ul> </li> </ul>
Suppliers and workers	<ul style="list-style-type: none"> <li>• Communication, meetings, training and conferences</li> <li>• Capacity-building programs for factory managers and workers</li> <li>• Online Vendor Portal and Sustainability Resource Center for suppliers</li> <li>• Updated Supplier Code of Conduct to drive responsible business practices in our supply chain and related training</li> </ul>
Investors, shareholders, analysts and creditors	<ul style="list-style-type: none"> <li>• Communication, meetings, briefings and investor conferences</li> <li>• Investors, shareholders and other stakeholders can request information and feedback through our IR team and website – <a href="mailto:ir@lifung.com">ir@lifung.com</a></li> </ul>
Industry and trade organizations, peers and partners	<ul style="list-style-type: none"> <li>• Dialogue and meetings</li> <li>• Industry collaboration initiatives</li> </ul>
Non-governmental and community organizations and partners	<ul style="list-style-type: none"> <li>• Dialogue and meetings</li> <li>• Partnership initiatives and projects in factories in the supply chain and in communities</li> </ul>
Government	<ul style="list-style-type: none"> <li>• We engage government through industry groups, such as the HKGCC and ICC<sup>3</sup>, and through the direct dialogue of our executive leadership</li> </ul>
Academia	<ul style="list-style-type: none"> <li>• We engage academics, administrators and students at MIT, Stanford, HKU, HKUST, Chinese University of Hong Kong, Singapore Management University and China Europe International Business School.</li> </ul>
Media	<ul style="list-style-type: none"> <li>• Communication, meetings, briefings and press conferences</li> <li>• Media can request information and feedback through our media team, website and PR agency</li> </ul>

Further information on how we engage our stakeholders is outlined in the other sections of this Annual Report and in the *Li & Fung's Shareholders' Communication Policy*<sup>5</sup>. We welcome feedback on our Sustainability Strategy, stakeholder engagement, material issues and reporting at [ir@lifung.com](mailto:ir@lifung.com).

<sup>3</sup> Hong Kong General Chamber of Commerce and International Chamber of Commerce.

<sup>4</sup> Massachusetts Institute of Technology, Stanford University, The University of Hong Kong, Hong Kong University of Science and Technology, The Chinese University of Hong Kong, Singapore Management University and China Europe International Business School.

<sup>5</sup> <https://www.lifung.com/wp-content/uploads/2018/03/Shareholders-Communication-Policy-20160113-Eng.pdf>

## Engaging a Key Stakeholder — Our Customers

As an example of deeper engagement with one stakeholder group — our customers — we launched a new Customer Satisfaction Program with the objective of enhancing our services by obtaining and measuring customer feedback in a systematic manner. This is an ongoing initiative comprised of three components: Net Promoter Score, Operational Survey and a revamped Voice of Customer (VoC). The results are analyzed and benchmarked over time to drive improvements.

Net Promoter Score is a quarterly exercise that invites selected customers to indicate how likely they are to recommend Li & Fung to colleagues and peers. Respondents are also asked to give reasons for their scores and provide suggestions. The Operational Survey is conducted semi-annually for selected customers to complete a questionnaire on our services and strategy. For the VoC, we collect direct feedback from the senior management of our customers through in-person interviews.

In 2019, we conducted our third, annual VoC survey, targeting 15 key customers in the apparel, accessories and hardgoods sectors. We also conduct separate semi-annual surveys to gather specific feedback on key service aspects from functional leads within our customers, as well as quarterly “pulse checks” for feedback across our customers’ employees.

For the VoC survey, team leaders interview our customers’ management to understand their perception of our service quality. Topics include both operational and strategic issues, such as product development, material sourcing, sampling, costing, factory sourcing and sustainability, order management, systems and product testing, communications and strategic business alignment. Our teams also conduct internal assessments of the relationship. Survey scores are shared with business teams with summaries highlighting positive feedback and areas for improvement. Each business team then develops a corrective action plan with areas to address such as talent development, structural or process changes and recalibration, or enhanced collaboration with customer teams.

Overall, our survey results are improving year on year. As with previous years, the 2019 results show that customer perceptions vary and there are areas to reinforce and continue and others requiring improvement. Headline feedback included the importance of implementing a more structured approach to “closing the loop” on feedback provided by customers and of continuing to ensure a consistent delivery of sourcing solutions across our global organization.

## Our Material Issues

At Li & Fung, engaging our stakeholders along the value chain is inherent in how we do business. To determine our material issues, we consider:

- the views of our stakeholders, which are shared through a variety of channels
- stakeholder perceptions of, and expectations for, our performance
- risks and opportunities to our business and that of our customers
- best practice within our industry
- parameters assessed by investors and by sustainability raters and indices

We will continue to review the priorities of our stakeholders and refine our material issues over time, as they drive our Sustainability Strategy.



We launched a new Customer Satisfaction Program with the objective of enhancing our services by obtaining and measuring customer feedback in a systematic manner.

Below we identify our relevant material issues, aligned with our strategy pillars and six SDGs, as well as our material governance parameters that guide and reinforce our actions.

**Governance parameters**

Values and ethics	Transparency
Independence and diversity	Economic performance and market presence
Anti-corruption	Risk and compliance management
Privacy and data protection	Stakeholder engagement

**Li & Fung Sustainability Strategy pillar and relevant SDGs**

**Engaging our People**

Our people are front and center of all that we do and are critical to our success. We engage and support them and are committed to their wellbeing and career development.



**Material issues**

- Human and labor rights
  - fair compensation, working terms and benefits
  - equal opportunities and non-harassment
  - inclusion and diversity
  - health, safety and wellbeing
- Talent attraction and retention
- Engagement
- Training and development

**Supply Chain Sustainability**

Managing risk, furthering compliance, collaborating with the industry and other partners to raise sustainability performance and safeguarding and enhancing the lives of workers and communities along the supply chain are essential to meet the demands of the dynamic global retail sector. Our strategy for supply chain sustainability focuses on three priority areas: human rights, safe workplaces and environmental resilience.



- Human rights
  - equal opportunities and non-harassment
  - fair wages, working terms and conditions
  - freedom of association and social dialogue
  - freely-chosen employment
- Safe workplaces
  - occupational health and safety
  - fire and building safety
  - educated and engaged workers
- Environmental resilience
  - climate change
  - material/resource management and efficiency
  - chemical management and detox
  - air and GHG emission management
  - wastewater management
  - waste management and recycling
  - reuse and closed loop
- Product
  - innovation and circular economy design
  - sustainable, reduced impact design and product/packaging
  - responsibly-sourced materials
  - traceability
  - health, safety and quality

**Li & Fung Sustainability Strategy pillar and relevant SDGs****Engaging our Communities**

We are driven by our purpose to improve lives along the supply chain and in our communities. We harness our strengths, global networks and knowledge to make scalable, sustainable impact by activating communities, convening our partners along the supply chain and focusing on innovative solutions for exponential impact.

**Material issues**

Employee engagement and volunteering  
 Community investment, engagement and development  
 Stakeholder and industry collaboration and engagement

**Managing our Footprint**

We responsibly manage our resources and environmental footprint to reduce our impact by taking action within our operations to build sustainable workplaces and raising the awareness of our people to effect change.



Environmental awareness and action  
 Sustainable design, construction and renovation  
 Climate change  
 Air and GHG emission management  
 Material/resource management and efficiency (inputs, energy, water, etc.)  
 Waste management and recycling  
 Sustainable/responsible procurement