



TRANSPARENCY REPORT II

Have Hong Kong Garment Companies Improved
Their Reporting on Labour Standards?

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This paper is based on research undertaken by CSR Asia, with Dr. Stephen Frost and Ms. Catherine Walter as the researchers. CSR Asia is a social enterprise that strives to be the leading provider of information about Corporate Social Responsibility in the Asia-Pacific region. CSR Asia builds capacity in companies and their supply chains to promote awareness of CSR in order to advance sustainable development across the region.

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INTRODUCTION

Oxfam's Concern with Labour Standards

In 2007, 1.3 billion people were at work but still lived below the USD\$2 a day poverty line.¹ Issues of global concern such as labour abuses and supply chain issues, continuing scandals over product safety and widespread corruption hit people vulnerable to poverty first and hardest. Oxfam Hong Kong believes there is a need for business to take the lead in developing improved labour standards and practices. We have long been active in promoting corporate responsibility and good labour standards in the garment industry, an industry that employs hundreds of thousands of mainly women workers in developing countries, many of whom work in difficult and insecure conditions.

In 2004, we released the research report *Turning the Garment Industry Inside Out – Purchasing Practices and Workers' Lives*; and we advocated for changes in purchasing practices, as well as for improved practices in corporate social responsibility (CSR) by garment companies. We published a CSR resource kit for the garment industry. In 2006, we launched the first *Transparency Report – How Hong Kong Garment Companies Can Improve Public Reporting of their Labour Standards*. The report called on Hong Kong's top garment retailers to provide consumers and investors with sufficient information they need to make ethical buying and investment choices.

The *Transparency Report* was the first time that Hong Kong garment companies were rated according to how open and clear they were in reporting on their supply chain labour standards. Although the results revealed that very few garment companies were actually reporting on their ethical supply chain practices in Hong Kong, it generated interest among the media, consumers, socially responsible investors and the Hong Kong garment companies themselves. One of the outcomes has been the creation of the garment roundtable in 2007 to discuss issues regarding social compliance and transparency in the supply chain. To enhance learning among companies and stakeholders, Oxfam Hong Kong also organised a Sustainable Reporting Seminar for the Apparel and Footwear Industry.

This second *Transparency Report* revisits the issue of transparency in Hong Kong garment sector supply chain operations and seeks to provide an updated view of the overall performance, key developments and some of the key issues facing Hong Kong companies in this critical area. We hope that this report will encourage more Hong Kong garment companies to come forth and share in our efforts to improve labour standards, corporate transparency and simultaneously the reputation and competitiveness of Hong Kong companies.

Benefits of Transparency to Hong Kong Companies

Although Hong Kong is still considered primarily a sourcing centre for the apparel manufacturing of big US and European brands, its home grown brands are increasingly getting noticed abroad. Large apparel brands such as Esprit, Giordano, Baleno, Bossini, G2000, Jeanswest and Crocodile have expanded to major cities in Europe, the US and the Middle East. Hong Kong apparel brands may have a widespread geographic network, but most are still primarily focused and dependent on markets in the Asia-Pacific region. Therefore, they have had limited exposure to the added pressures of more mature markets, which include more stringent reporting requirements, heightened consumer expectations, and NGO and media scrutiny. We believe that Hong Kong brands have great global potential, and that improved transparency is a potent strategy to improve access to and opportunities in these markets.

As Hong Kong apparel brands become increasingly well-known at home and abroad, they can expect to begin experiencing a new interest in their information disclosure on corporate governance and corporate social responsibility. Public reporting is an integral part of CSR and business ethics because it makes companies accountable to their stakeholders and fosters better internal management processes to improve overall performance. Bad reporting is perceived as a sign of bad performance and leads to worry and a lack of trust among stakeholders. Good public reporting improves corporate image and reputation and, if part of a broader CSR strategy, results in improved recruitment and retention, competitive differentiation, better risk management, access to new markets and improved management.

In terms of risk management, Hong Kong companies have two main reasons to improve their transparency. First, as manufacturers, they are under increased pressure from their clients to comply with CSR standards and rising expectations from those clients for better transparency. Second, as Hong Kong brands begin to

focus on the European and US markets, they will face more scrutiny from western activists, NGOs, consumers, trade unions, media and so on.

A few of the larger companies are beginning to feel pressure from investors about their social compliance. They find that they are fielding more and more requests about supply chain practices from institutional investors, socially responsible investors and NGOs. The publication of information about their supply chain practices in regard to labour and environment issues would serve as a central reference for these types of inquiries, saving staff time and presenting a consistent official company view. The longer-term benefit, of course, is an improvement in competitiveness not only locally but globally as well.

Public reporting on social compliance in the supply chain is a critical first step for Hong Kong apparel companies, as this topic is seen as a major trade issue in Asia. The Asian Development Bank's report *Asian Development Outlook 2006: Routes for Asia's Trade*, highlights that the garment sector in Asia is under pressure from international buyers and development partners to ensure compliance with social and labour standards. The Bank cites raised productivity and quality levels as a direct result of the improved welfare of workers.

Leading global companies in the apparel sector have taken the lead in promoting reporting on CSR; some small and medium enterprises (SMEs) in global supply chains have also taken the first steps in reporting. Hong Kong companies, no matter how large or small, should also be able to live up to recognised international standards and practices.

BOX 1: CASE STUDY ON CSR REPORTING BY A CHINESE SME

A study released earlier this year by the Global Reporting Initiative (GRI), entitled *Small, Smart and Sustainable: Experiences of SME Reporting in Global Supply Chains*, outlines the added value of the CSR reporting process for SME suppliers in emerging economies and how it enhances understanding of CSR and transparency in the supply chain. The Otto Group, based in Germany, was used as a case study for the retail industry. One of Otto's China-based suppliers, Shunde Hengfa Knitting Garment Co. Ltd, participated in the study.

Shunde Hengfa is a traditional family-run factory with women's lingerie as their main product. They are part of the Hong Kong-based Wan Fat Group and have over 200 employees. Their turnover was around HK\$ 7,401,198 (US\$949,097) for the reporting period January-October 2007. Shunde Hengfa had just finalised its Business Social Compliance Initiative (BSCI) certification process for the first time in 2007 and was relatively new to the concept of CSR. The factory was initially critical of implementing the project because it had never been asked by its customers to create a CSR report. The trust relationship with Otto helped convince the factory to test out CSR reporting.

The most material issues found for Shunde Hengfa were those regarding its employees, as the factory was coping with a shortage of labour in the region. Therefore, employee satisfaction and retention of skilled workers were considered vital to the company. In its report, Shunde Hengfa identified excessive overtime as a key challenge and committed itself to the improvement of this issue.

Shunde Hengfa's report covered a period of six months and adhered to a small number of GRI indicators to comply with the basic reporting level of the Guidelines. The factory preferred to start slowly and build up its reporting practices and capabilities over time. The report was produced in Chinese and English in order to reach local and international readers, and included goals for the next five years. These included more skills training courses to address the labour shortage issue.

The main benefits of the reporting process were the development of management systems and improved priority setting. The company's Managing Director, who was responsible for the reporting process, stated that "Systematic collection of data, analysis of the data and being transparent about the data gives our middle management a comprehensive understanding of the operation process of our factory." Another benefit cited was a better understanding of CSR concepts and an improved familiarity with global CSR concerns, such as carbon emissions and waste, as well as their own impacts on sustainability.

Participating multinational enterprises observed that the reporting exercise gave their suppliers the ability to speak for themselves through a report, rather than passively responding to demands for management of certain issues. They commented that reporting enabled their suppliers to become stronger and more proactive and organisations. They saw reporting as a way to enhance the quality of their supply base.

Source: Global Reporting Initiative (GRI), 2008. "*Small, Smart and Sustainable: Experiences of SME Reporting in Global Supply Chains.*"

METHODOLOGY

What We Are Rating

Building on the first *Transparency Report*, this year's report aims to assess the level of transparency demonstrated by Hong Kong apparel companies regarding their ethical performance in the supply chain. It is important to keep in mind that this report evaluates transparency and not actual performance. To measure transparency, only publicly available information released by the companies themselves is included in this research. Since this report focuses on the supply chain, Hong Kong companies' operations such as retail stores and merchandising departments are excluded from this research.

We recognise that this approach has limitations. We are aware that companies' reports and websites may not reflect the current extent of their activities. If this is the case, we hope this report will encourage those companies to improve their reporting to the public. There are multiple benefits of honest, transparent reporting for companies; and we believe that Hong Kong apparel brands are ready to take this next step.

How We Collected Information

As a first step, we gathered company profile data to allow for later comparisons based on characteristics such as size, market presence and nature of ownership. The second stage of the research was based on corporate websites, annual reports and/or CSR reports. These sources were used to collect relevant data during the compilation of company scores in May 2008.

Once preliminary company scores were established, they were sent to each company's chief executive or chairperson via registered mail in June 2008 for review and evaluation. Companies were given the opportunity to provide additional publicly available information that would be relevant to the research and would improve their score. Approximately six weeks following the initial mailing, a second mail was sent to provide another chance for companies to review their scores and to submit relevant information for final consideration. This process resulted in additional data being taken into account in compiling the final score cards. In particular, Esquel, Glorious Sun and Chickeeduck showed a commitment to the process. These companies contributed time and resources to supplement the research with updated, publicly available information about the latest developments in their supply chain management.

The Companies We Studied

This year, we expanded the research from the original 16 garment companies to 26 major Hong Kong apparel companies. As in the previous research, the additional 10 companies were drawn from the Hong Kong Trade Development Council database of garment companies and fit the key characteristics of the initial study group. Companies in this year's report cover major market segments and sub-divisions of those markets in Hong Kong. They range from small, medium to large, and from private to some of the largest publicly-listed companies in Hong Kong. Despite such diversity, most are well-

known local brands and household names. As previously, all companies are Hong Kong-owned or predominantly Hong Kong-owned.

The 26 companies in this report account for over 100 Hong Kong brands and over HK\$ 170 billion in annual turnover. They operate over 21,000 retail outlets in more than 40 countries and are focused on the markets of

greater China. All companies have stores in Hong Kong, 88% have stores in the People's Republic of China (PRC), and 58% have stores in Macau and in Taiwan. Southeast Asia is the next dominant market, with 65% of companies having retail outlets in the region. Twenty-seven percent of companies have stores in the Middle East and in Europe. Only four of the companies have retail outlets in the US.

TABLE 1: COMPANY PROFILES

COMPANY	PLACE OF INCORPORATION	BRANDS OWNED	TURNOVER (HK\$ MILLION)	NO. OF STORES	OUTLET LOCATIONS	MARKET SEGMENT
Bauhaus International (Holdings) Limited	Cayman Islands	Bauhaus, Tough Jeansmith, Salad, 80/20, Elite	509	64	Hong Kong, PRC, Taiwan	Trendy fashion for young consumers, fashionable women's wear, military-inspired chic casual, denim, apparel, bags and accessories
Belle International Holdings	Cayman Islands	Belle, Staccato, Teenmix, Tata, Fato, JipiJapa	13,271	6,143	Hong Kong, PRC, Macau, US	Men's and women's footwear, sportswear, handbags and accessories
Bossini International Holdings Limited	Bermuda	Bossini, Sparkle	2,568	1,051	20 countries including: PRC, Hong Kong, Taiwan, Korea, Singapore, Vietnam, Philippines, Thailand, Indonesia, Malaysia, Europe, Middle East, Russia, Africa	Men's and women's casual wear, children's wear
Chickeeduck	Hong Kong	Chickeeduck, People's Republic	>100	48	PRC, Hong Kong, Macau, Indonesia, Korea, Australia, Saudi Arabia and United Arab Emirates	Baby, chic children's wear and accessories, fashionable women's wear
Crocodile Garments Limited *	Hong Kong	Crocodile, Crocosport, Crocoladies, Crocokids, My First Croco	441	512	Hong Kong, Macau, PRC	High-end, executive men's and women's apparel, baby and children's apparel, sportswear and accessories
Dickson Concepts (International) Limited	Bermuda	Polo Ralph Lauren, Polo jeans Co. Ralph Lauren, Ralph Lauren Collection, Seibu, Harvey Nichols, Goyard, Tommy Hilfiger, TOD's, Brooks Brothers, Michael Kors, Hogan, Bertolucci, Dickson Watch & Jewellery, Chopard, The Royal Diamond, Charles Jourdan	3,100	500	Hong Kong, PRC, Taiwan, Singapore, Malaysia, Philippines	Men's and women's wear, jeanswear, luxury goods
Esprit Holdings Limited	Bermuda	Esprit	29,640	604	Over 40 countries including: Hong Kong, PRC, Taiwan, Singapore, Macau, Malaysia, Australia, Europe, US and Canada	Men's, women's, youth and children's apparel, shoes and accessories
Esquel Group of Companies	NA	PYE	> 3,000	4	PRC	Luxury women's and men's shirts
Fashion Community Kitterick (F.C.K)	Hong Kong	Kitterick, Z, K-2, a.y.k., indu home, Red's	NA	59	Hong Kong, PRC, Malaysia	Alternative youth, city girl, shoes and socks for women, men's and women's apparel, youthful women's apparel
G2000 (Apparel) Limited	NA	G2000, U2 (LAB), G2000 Pink, G2 blu, G2 Black Label, UWN	NA	Over 800	Hong Kong, Macau, PRC, Singapore, Taiwan, Malaysia, Thailand, Indonesia, Philippines, Cyprus, Middle East	Men's and women's career, trendy and casual wear

COMPANY	PLACE OF INCORPORATION	BRANDS OWNED	TURNOVER (HK\$ MILLION)	NO. OF STORES	OUTLET LOCATIONS	MARKET SEGMENT
Gay Giano International Group Limited	Bermuda	Gay Giano, Cour Carre, DueG	131	15	Hong Kong	Men's and women's designer fashions, executive wear, trendy youth wear
Giordano International Limited	Hong Kong	Giordano, Giordano Ladies, Giordano Junior, Bluestar Exchange, Blue Navy, Giordano Concepts	4,950	1,895	30 countries including: Hong Kong, PRC, Japan, Korea, Taiwan, Singapore, Indonesia, Thailand, Philippines, Australia, Myanmar, Brunei, Vietnam, Malaysia, India, Middle East, US, Canada	Men's and women's casual wear, children's wear
Glorious Sun Enterprises Limited	Bermuda	Jeanswest (Spoylt, Denial), Quicksilver Glorious Sun	4,784	1,940	Australia, New Zealand, Middle East, PRC, Hong Kong, Macau, Thailand, Vietnam	Denim, casual wear apparel, board-rider sports wear
Goldlion Holdings Limited	Hong Kong	Goldlion, Van Garie	1,073	Over 927	Hong Kong, PRC, Singapore, Malaysia	Ties, leather goods, men's accessories
Hembly International Holdings Limited	Cayman Islands	Sisley, Lotto, Stonefly, Bond Street, Bond Street Collection	1,037	205	Hong Kong, Italy, France, Sweden, Germany, PRC, Macau	Men and women's trendy fashion, luxury and sports apparel and footwear
Heroic Rendezvous	Hong Kong	Heroic Rendezvous, Psychedelic	NA	>4	Hong Kong	Young men's and women's casual apparel, smart casual office wear
I.T Limited	Bermuda	I.T., b-ab, http://www.izzue.com , 5cm, i.t loves mickey, chocolate	1,530	370	Hong Kong, PRC, Taiwan, Macau, Malaysia, Thailand, Saudi Arabia	Young casual, women's mass market, young fashion, trendy women's fashion
Li & Fung Limited	Bermuda	Tommy Hilfiger, Peter Black, Regatta, Emma James, Intuitions, JH Collectibles, Tapemeasure, American Marketing Enterprises, Lenci Calzature, Rosetti, Briefly Stated, Young Stuff	92,459	NA	Over 40 countries, including: Hong Kong, PRC, Macau, Taiwan, SE Asia, Korea, Japan, Middle East, Europe, US and Africa	Men's, women's, youth and children's apparel, jeanswear, shoes, handbags and accessories, outdoorwear and footwear, underwear and sleepwear
Moiselle International Holdings Limited	Cayman Islands	Moiselle, mademoiselle, imaroon, M.kids	352	123	Hong Kong, PRC, Macau, Taiwan	Women's wear, children's wear
PMTD Limited	Hong Kong	2%, +-x÷, th., ODF	NA	92	Hong Kong, PRC, Macau, Taiwan, Malaysia, Australia, Canada, New Zealand	Japanese hip and chic, mature and sophisticated fashion for women, casual and unisex apparel
Texwinca Holdings Limited	Bermuda	Baleno, Samuel&Kevin, Baleno Attitude, E-Base, IP Zone, Bambini, City Jeans	8,299	3,787	Hong Kong, PRC, Taiwan, Macau, Singapore, Malaysia	Men's and women's casual wear, children's wear
Topsy International Limited	NA	Episode, Episode Essentials, Episode Studio, Jessica, Colour Eighteen and Weekend Workshop	NA	Over 300	Hong Kong, PRC, Taiwan, Thailand, Macau, Philippines, Singapore, UK	Fashionable women's wear, children's wear, teen's wear, executive wear
U-Right International Holdings Limited	Bermuda	U-Right, Sevendays, U-MIX	1,774	548	Hong Kong, PRC	Women's wear, men's wear, casual wear
Veeko International Holdings Limited	Cayman Islands	Veeko, Wanko, i-MIX	642	200	Hong Kong, Macau, Taiwan, PRC, Singapore	Women's wear, casual wear, executive wear
YGM Trading Limited	Hong Kong	Michel Rene, Guy Laroche	1,023	347	Hong Kong, Macau, PRC, Taiwan, Europe, South East Asian countries	Men's and women's executive and city wear and accessories, sophisticated, contemporary and elegant women's fashion
Young Grace International Limited	Hong Kong	I.S.O, MCP, Street Couture by ISO	NA	44	Hong Kong, PRC, Taiwan and other Asian countries	Trendy street wear for Rebels

* Formerly Lai Sun Garment (International) Limited. Lai Sun Garment sold its stakes in Crocodile Garments Limited to Rich Promise Limited (RPL) in 2006 and ceased to engage in any garment business. RPL is the major shareholder of Crocodile Garments Limited.

* Please note: the above data was collected in May 2008 and provides a snapshot of company operations during this time period. U-Right International Holdings Limited started liquidation since October 2008.

Rating the Companies

We applied the methodology used in the first *Transparency Report*, which was based on the Gradient Index² rating system developed by AccountAbility³ in the UK. The Index is an internationally recognised standard, which has been applied to a range of industry sectors over the past few years. It aims to promote best practice management of supply chain labour standards by assessing companies' performance according to 19 standard criteria across the following five categories: Governance and Risk Management, Code of Conduct, Stakeholder Engagement, Management, as well as Auditing and Reporting. Scores are awarded according to how close the company's reporting efforts are to international labour standards and emerging best practices. The overall score of each company can range from 0 to 100.

The Gradient Index allows for flexibility to enable the most suitable adaptation of the rating system to the study objectives, industry sector and market being assessed. Users are able to adjust the weighting of the core index criteria to create their own index according to their priorities. For example, this methodology has been modified and applied to apparel companies operating in the Canadian market in 2005 and 2006 by the Ethical Trading Action Group (ETAG)⁴.

The initial *Transparency Report* followed an "apple to apple" comparison with the performance of the Canadian market. However, this year's report methodology has been adapted to the level of performance in the Hong Kong market. In light of the overwhelmingly low scores Hong Kong apparel companies received in the previous report, the weightings of the core index have been adjusted in order to encourage Hong Kong companies to improve. The following two changes were made: the weighting of section 2 (Code for Labour Standards in the Supply Chain) was slightly raised from 15% to 20%, and the weighting of section 5 (Auditing and Reporting) was slightly lowered from 35% to 30%. In making these adjustments, we were conscious not to compromise the quality and credibility of the report. In

effect, these changes had no impact on the vast majority of companies. However, those companies that disclosed information about their Code of Conduct were rewarded with a slightly improved score.

The table below shows the five categories and the adjusted weightings.

TABLE 2: GRADIENT INDEX AND WEIGHTINGS

CATEGORY	WEIGHTING (% OF TOTAL SCORE)
Governance and risk management	10%
Code of conduct	20%
Stakeholder engagement	20%
Management	20%
Auditing and Reporting	30%
Total	100%

RESEARCH CRITERIA

The full description of the 19 specific criteria for the five categories and their weightings are provided below.

1. Governance and Risk Management

This category evaluates the extent to which a company's board of directors has recognised and begun to address the potential risks associated with labour standards compliance in its supply chain. (Worth 10% of overall score)

CRITERIA: GOVERNANCE AND RISK MANAGEMENT	SCORING	WEIGHTING
1.1 Board-level responsibility for ethical issues in the supply chain		
There is a formal sub-committee of the Board of Directors with explicit responsibility for ethical issues in the supply chain.	100%	40%
There is a member of the Board of Directors with explicit responsibility for ethical issues in the supply chain.	66.7%	
There is a member of the Board of Directors or committee with responsibility for CSR issues, but it is not clear if this includes responsibility for ethical issues in the supply chain.	33.3%	
There is no evidence of responsibility at the Board of Directors level for ethical issues in the supply chain either specifically or as part of responsibility for CSR issues.	0%	
1.2 Reporting of labour standards issues in the supply chain as a risk factor		
There is evidence in the annual report and accounts of a systematic analysis of labour standards issues as a risk factor.	100%	30%
There is mention in the annual report and accounts of labour standards issues as a risk factor.	66.7%	
There is mention on the corporate website or in other corporate material of labour standards issues as a risk factor.	33.3%	
There is no mention of labour standards issues as a risk factor.	0%	
1.3 Risk analysis of ethical issues in the company's existing supply chain		
A risk or exposure analysis of ethical issues in the company's existing supply chain has been conducted.	100%	30%
A risk or exposure analysis of ethical issues in the company's existing supply chain is yet to be conducted, but there is a stated commitment to undertake one.	50%	
There is no mention of conducting a risk or exposure analysis of ethical issues in the company's existing supply chain.	0%	

2. Code of Conduct

This category assesses public accessibility, completeness, and application of the company's policies and codes of conduct on labour standards in the supply chain. (Worth 20% of overall score)

CRITERIA: CODE FOR LABOUR STANDARDS IN THE SUPPLY CHAIN	SCORING	WEIGHTING
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2.1 Quality and scope of the code for labour standards in the supply chain

A code for labour standards in the supply chain exists that covers all ILO core conventions, without qualification or limitation. (see Box 2)	50%	+25% if the code includes a living wage provisions +25% if the code includes an hours of work provision that is consistent with ILO conventions (see Box 3)	60%
A code for labour standards in the supply chain exists that addresses all of the issues of the ILO core conventions but limits or qualifies the company's commitment to one of the ILO core conventions.	25%		
There is no code that addresses labour standards in the supply chain, or a code exists that covers some but not all ILO core conventions, or the code limits or qualifies the company's commitment to more than one of the core conventions.	0%		

2.2 Publication and availability of the code for labour standards in the supply chain

The complete code for labour standards in the supply chain is available to the public.	100%	20%
The code for labour standards in the supply chain is referred to in published information.	66.7%	
The company will supply the code for labour standards in the supply chain on request, but there is no reference to it in published information.	33.3%	
There is no evidence of a code for labour standards in the supply chain in published information.	0%	

2.3 Application of the code for supply chain labour standards

The code for supply chain labour standards applies to the entire breadth of or almost the entire breadth of the supply chain, including the company's own procurement.	100%	20%
The code for supply chain labour standards applies to the entire breadth of or almost the entire breadth of the supply chain but does not apply to the company's own procurement.	66.7%	
Application of the code is (clearly or deliberately) limited to a portion of the supply chain or to certain products or to selected suppliers or countries of supply.	33.3%	
It is unclear how much of the supply chain the code for supply chain labour standards applies to, or there is no code addressing labour standards in the supply chain.	0%	

BOX 2: ILO LABOUR STANDARDS COMPLIANCE

As a beginning step in a company's labour standards compliance programme, a code of conduct should, at the minimum, meet the core conventions of the International Labour Organization (ILO). A summary of the core conventions and a guideline on compliance is provided below.

ILO CORE CONVENTIONS

CORE CONVENTIONS OF THE ILO	CONVENTION DETAIL
Conventions 29 and 105	Elimination of Forced and Compulsory Labour
Conventions 87 and 98	Freedom of Association and the Right to Collective Bargaining
Conventions 100 and 111	Elimination of Discrimination
Conventions 138 and 182	Abolition of Child Labour

Three core labour rights to which companies often qualify their commitment are freedom of association, non-discrimination, and the prohibition of child labour.

Companies that qualify their commitment to freedom of association and the right to bargain collectively usually indicate that suppliers are only required to respect this

right where and when it is legally recognised. In other words, suppliers are not expected to do more than they are required to do by law. A common justification for qualifying a company's commitment to freedom of association is the legal restriction on that right in the People's Republic of China.

Regarding child labour, the ILO sets the minimum age at 15, and allows an exception of 14 for some kinds of labour in developing countries. Companies often prohibit children under 18 (or 17) to work in factories, but allow those aged 15 or 16 to work under special circumstances (such as apprenticeship schemes). Even where the law of the country of manufacture allows 14-year-olds to work, no companies actively encourage such practices though a literal interpretation would suggest that 14 is an acceptable minimum age in all countries where the law permits.

Regarding discrimination, the ILO says there shall be no discrimination in access to employment, particular occupations, training, conditions of employment, pay or benefits on the basis of race, colour, gender, religion, political opinion, national extraction or social origin.

BOX 3: HOURS OF WORK AND A LIVING WAGE

Standards for hours of work for various occupations and workplaces are established by numerous ILO conventions. The general rule is that workers shall not be required to work more than 48 hours per week on a regular basis, that overtime hours shall be voluntary and restricted to 12 hours per week, and that workers are entitled to one day off in every seven-day period.

There is growing consensus on the need to include provisions in codes of conduct that provide for payment of a living wage. While a company should at the minimum ensure that, where applicable, legally-mandated minimum wages are being paid, and that the prevailing industry wage in the area is being met, it should also commit to ensuring that the wage paid is sufficient to meet workers' basic needs.

3. Stakeholder Engagement

This category assesses the extent to which a company reports actively and engages with key stakeholders, such as non-government organisations (NGOs) and unions, in importing countries and in the country of manufacture. Ongoing and regular engagement was viewed more favourably than irregular or ad hoc engagement. (Worth 20% of the overall score)

CRITERIA: STAKEHOLDER ENGAGEMENT	SCORING	WEIGHTING
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3.1 Membership of multi-stakeholder processes

The company is a member of the Ethical Trading Initiative, the Fair Labor Association or Social Accountability International and/or is involved in a comparable initiative that includes representation from both NGOs and labour.	100%	50%
The company is not a member of the Ethical Trading Initiative, the Fair Labor Association or Social Accountability International or of a comparable initiative that includes representation from both NGOs and labour.	0%	

3.2 Engagement with NGOs and/or trade unions relating to labour standards in supply chains

There is evidence of stakeholder engagement over time with NGOs and/or trade unions (excluding membership of groups in 3.1) that includes engagement in country of manufacture.	100%	50%
There is evidence of stakeholder engagement over time with NGOs and/or trade unions (beyond membership of groups in 3.1) in the host country only.	66.7%	
There is evidence of only ad hoc stakeholder engagement with NGOs and/or trade unions (beyond membership in Multisectoral Initiatives or MSIs in 3.1), or it is unclear whether engagement is taking place over time.	33.3%	
There is no evidence of proactive engagement with NGOs and/or trade unions beyond membership in MSIs in 3.1.	0%	

4. Management

Companies need to have management systems in place that enable them to achieve and maintain compliance. This includes proper training for both factory management personnel and workers on the ground. For instance, both management and workers should be aware of the provisions contained in codes of conduct. (Worth 20% of the overall score)

CRITERIA: MANAGEMENT	SCORING	WEIGHTING
4.1 Resource commitment		
There is a senior manager whose primary responsibility includes labour standards in the supply chain. The manager is two or fewer reporting levels from the board.	100%	30%
There is a senior manager whose primary responsibility includes labour standards in the supply chain. The manager is more than two reporting levels from the board, or it is not clear how many levels from the board he or she is.	50%	
There is no senior manager whose primary responsibility includes labour standards in the supply chain.	0%	
4.2 Training for buying agents		
There is ongoing, scheduled training for buying agents on labour standards in the supply chain.	100%	25%
There is training for buying agents on labour standards in the supply chain, but it is on an ad hoc rather than a scheduled basis.	50%	
There is no training for buying agents on labour standards in the supply chain.	0%	
4.3 Training for factory management personnel and workers		
There is ongoing, scheduled training for factory workers and management personnel on labour standards in the supply chain.	100%	25%
There is training for factory workers and management personnel on labour standards in the supply chain, but it is on an ad hoc rather than an ongoing, scheduled basis.	66.7%	
There is training for factory management personnel on labour standards in the supply chain, but there is no training for factory workers.	33.3%	
There is no training for factory management personnel or factory workers on labour standards in the supply chain.	0%	
4.4 Rewards and incentives		
Incentives for senior management and/or purchasing staff are explicitly linked to their performance on labour standards in the supply chain.	100%	20%
Incentives for buying and/or ethical trading staff are explicitly linked to their performance on labour standards in the supply chain.	66.7%	
Incentives for labour teams are explicitly linked to their performance on labour standards in the supply chain.	33.3%	
There is no mention of incentives that are linked to labour standards in the supply chain.	0%	

5. Auditing and Reporting

This category rates the extent to which companies report on their audit process to achieve labour standards compliance within their supply chains, how auditing is planned, and how transparent the company is regarding audit findings and corrective action. (Worth 30% of the overall score)

CRITERIA: SUPPLY CHAIN AUDITING AND REPORTING	SCORING	WEIGHTING
5.1 Commitment to auditing labour standards in the supply chain		
There is a policy committing the company to auditing labour standards across the entire breadth of the supply chain.	100%	15%
There is a policy committing the company to ad hoc auditing or to pilot audits of labour standards across at least part of the supply chain, or the level of commitment to auditing labour standards in the supply chain is unclear.	50%	
There is no evidence of a policy committing the company to any form of auditing labour standards across any part of the supply chain.	0%	
5.2 Status of audit schedule		
An auditing work plan has been scheduled and is currently being implemented.	100%	5%
An auditing work plan has been scheduled but has not yet been implemented.	50%	
There is no scheduled work plan for auditing labour standards in the supply chain, or there is no auditing of labour standards in the supply chain.	0%	
5.3 Public disclosure of manufacturing sites		
The company has publicly disclosed the names and addresses of all of the facilities producing its own branded goods and those of any subsidiary brands owned by the company.	100%	10%
The company has publicly disclosed the names and addresses of all of the facilities producing only its own branded goods.	66.7%	
The company has publicly disclosed the names and addresses of a portion of the facilities producing its own branded goods.	33.3%	
The company has not publicly disclosed the names and addresses of the facilities producing its own branded goods.	0%	
5.4 Transparency of the labour standards auditing methodology		
The supply chain labour standards auditing methodology is publicly available and follows generally accepted practices and/or at least one explicit external standard.	100%	15%
The auditing methodology is not publicly-available and/or is not grounded in a generally accepted practice and/or external standard, or there are no audits of labour standards in the supply chain.	0%	

CRITERIA: SUPPLY CHAIN AUDITING AND REPORTING	SCORING	WEIGHTING
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5.5 External verification of labour standard audits

There is third party involvement that includes systematic input from NGOs and/or labour in the country of supply into the verification of labour standard audits.	100%	20%
There is third party involvement that includes ad hoc input from NGOs and/or labour in the country of supply into verification of labour standard audits, or it is unclear how systematic this involvement is.	66.7%	
There is third party involvement in the verification of labour standard audits, but there is no input from NGOs or labour in the country of supply.	33.3%	
There is no external verification of supply chain labour standard audits.	0%	

5.6 Reporting the results of audits of labour standards in the supply chain

There is full and complete disclosure including quantitative analysis of audit findings at the factory or supplier level.	100%	20%
There is some disclosure and analysis of audit findings at a factory or supplier level.	75%	
There is full and complete disclosure and quantitative analysis of aggregate audit findings.	50%	
There is broad commentary on aggregate audit findings, but no figures are disclosed.	25%	
There is no discussion of audit findings.	0%	

5.7 Dealing with non-compliance

There is a policy for handling instances of non-compliance with the code, and this policy includes a staged approach to dealing with violations.	100%	15%
There is reference to handling non-compliance with the code. Details of how this is handled are given, but there is no indication of a staged approach to dealing with violations of the code.	66.7%	
There is reference to handling non-compliance with the code, but there are no details of the approach used.	33.3%	
There is no mention of dealing with non-compliance with the code.	0%	

FINDINGS

Research Findings

Below is a summary of the overall findings from this year's research. Please note that complete report cards for those companies that achieved above a zero score are included in the *Individual Company Report Cards* section of this report. While reviewing company scores, please keep in mind that they reflect the level of transparency of reporting and not actions being taken by companies on labour standards in the supply chain. For example, over the course of this research, we found that many of the top performers had internal policies and management systems in place before they began publicly reporting on their supply chain practices.

The findings show that some leading companies showed heightened interest and response to the research. More companies showed concern about the research and engaged with Oxfam and CSR Asia to better understand the research criteria and how to cooperate with the research. This indicates a shift towards awareness about the need for information disclosure on ethical supply chain practices and of how transparency can impact the business. Based on the heightened level of interest, it looks likely that reporting will become a trend among the more socially responsible companies in Hong Kong in the near future.

Many of the companies that did receive a score this year are not yet providing sufficient, credible and verifiable information to consumers or shareholders to allow informed ethical choices. However, some compare favorably with the level of disclosure seen in more mature markets such as Canada (see Table 4 below). The notable example is Esquel Group, which has shown a commitment to and leadership in improving the transparency of its ethical supply chain operations as evidenced by the high score it achieved. This is highly impressive given that Esquel Group is a private company and has made such progress on its own initiative.

In addition to Esquel and those companies taking part in the garment roundtable, Glorious Sun, Chickeeduck and Hembly have engaged with Oxfam Hong Kong and CSR-Asia during the research period. It is revealed that these three companies have some good practices in place, which are not fully reflected in their public reporting at this time.

TABLE 3: OVERALL COMPANY SCORES

COMPANY NAME	TOTAL SCORE (%)
Esquel Group of Companies	70
Li & Fung Limited	33
Glorious Sun Enterprises Limited	32
Esprit Holdings Limited	19
Giordano International Limited	13
Chickeeduck	10
Hembly International Holdings Limited	3
Bauhaus International (Holdings) Limited	0
Belle International Holdings	0
Bossini International Holdings Limited	0
Crocodile Garments Limited	0
Dickson Concepts (International) Limited	0
Fashion Community Kitterick (F.C.K)	0
G2000 (Apparel) Limited	0
Gay Giano International Group Limited	0
Goldlion Holdings Limited	0
Heroic Rendezvous	0
I.T Limited	0
Moiselle International Holdings Limited	0
PMTD Limited	0
Texwinca Holdings Limited	0
Topy International Limited	0
U-Right International Holdings Limited	0
Veeko International Holdings Limited	0
YGM Trading Limited	0
Young Grace International Limited	0

To provide a context for these results and to serve as a comparison, listed below are the scores of 30 North American companies operating in the Canadian market also ranked according to the Gradient Index. However, please note that because the weighting scale of the Hong Kong research has been slightly modified, this serves more as an indicative comparison against a more mature

market. Of the 30 companies surveyed in 2006/07, only eight (please refer to Table 4 below) scored more than 50 points. Eight scored zero points. Most of the top performers have been previous targets of high-profile public anti-sweatshop campaigns by consumers, investors, trade unions and NGOs. It was concluded that this was a decisive factor in their high score.

TABLE 4: SCORES OF RETAILERS AND BRANDS SELLING CLOTHES IN THE CANADIAN MARKET IN 2006/07

COMPANY NAME	TOTAL SCORE (%)
Mountain Equipment Co-op	74
adidas Group	73
Gap Inc.	71
Levi Strauss & Co	69*
Nike	68
H&M	64
Eddie Bauer	63
Liz Clairborne	62
Zara (Inditex)	49
Hudson's Bay Company	48
American Eagle Outfitters	40
Wal-Mart	40
Mark's Work Wearhouse	39
Winners (TJX)	36
Roots	27
La Senza	23
Lululemon	18
Sears	8
Northern Group	6
Reitmans	6
Polo Ralph Lauren	5

* Levi Strauss & Co's score was downgraded from 78 to 69 in January 2007.

* Reebok has been removed from the above list because it has since been acquired by the adidas Group.

* Companies scoring a zero score include: Boutique Jacob, Forzani, Grafton-Fraser, Harry Rosen, International Clothiers, Le Chateau, Tristan & America and YM Inc.

Of the Hong Kong apparel companies in this year's study, only Esquel Group compares favourably with the top company scores in the Canadian market. The remainder all scored below 50. This disparity in performance levels is a clear indication of the significant gap between the market demands in Hong Kong and those of more mature markets. Currently, Hong Kong apparel companies are facing limited or no market and consumer pressures for increased transparency of their supply chain practices. However, several companies are beginning to feel increased pressure from investors and clients about their supply chain labour practices. It is inevitable that these and other pressures will become more evident over time as Hong Kong apparel brands grow and expand beyond Asian markets, and as local stakeholders such as consumers become more aware and demanding of ethical business practices. Action will also be spurred by leading companies like Esquel Group raising the bar on responding to the issue. The question is no longer if but when.

Supplementary Interviews

In this research, the core participants of the garment roundtable were given the opportunity to provide supplementary information about their supply chain labour practices. Several leading Hong Kong apparel brands were open to this option and have participated in interviews with CSR Asia. Although Esquel Group is new to the research and not yet a part of the roundtable, as the top performer in our rankings they have also been given the opportunity to be interviewed. The following section provides a summary of the interviews conducted, which provide some useful insight into the attitudes of Hong Kong companies towards transparency and the steps they are already taking to improve the ethical performance of their supply chains. Please note that these are the companies' own statements and not Oxfam Hong Kong's assessment of their programmes. The information disclosed here was not taken into account when compiling the company's score unless it was publicly available during the course of this research.

Esquel

As a major Hong Kong supplier, Esquel directly manages 15 garment manufacturing facilities worldwide and is in a better position to exert direct control over the ethical standards of its supply chain. Esquel is currently further strengthening its internal systems around ethical supply chain management and aims to complete the establishment of a robust internal system before expanding its public reporting of supply chain and CSR practices. The interview summary aims to supplement the information already provided on Esquel's corporate website.

At Esquel, there is board-level responsibility for ethical issues in the supply chain. In addition to the CSR department's accountability to the company's Vice Chairman and CEO, the Director of Internal Audit reports directly to the Board. The Internal Audit department is responsible for conducting human resource audits in manufacturing facilities to ensure compliance with local labour regulations and Esquel policies and procedures.

To further improve the effectiveness of Esquel's social compliance program, the work of the CSR Director and Internal Audit Director is being aligned. This integration aims to address labour issues more proactively when allocating resources to target potential risks in Esquel's six countries of manufacture. An informal risk assessment exists, which ranks countries according to the level of potential risk associated with their labour standards.

Operations management is involved on a quarterly basis in reviewing and commenting on supply chain labour issues. To closely link operations staff to the CSR department, senior management has planned a headcount increase of management-level CSR staff. The restructuring will add a more senior CSR role inside the factory, reporting to the CSR department based in company headquarters. This strategic realignment aims to ensure adequate oversight of the achievement of Esquel's labour standards.

To better understand the labour challenges faced by its factories, Esquel engages on labour issues with stakeholders in its countries of operation. Esquel sees the value in reaching out to local groups and hearing their views about labour risks. NGOs have provided input to Esquel's social compliance system through factory audits, which have been performed by the Fair Labor Association (FLA) and Verité. Verité has also conducted factory training in their factories on labour issues.

Esquel is one of the few Hong Kong apparel companies to adhere to the CSC9000T standard. It implements this supply chain management system not only in its China factories but also has similar systems at its factories in all countries of operation. Esquel has also recently become a participating supplier of the FLA who will also oversee Esquel's internal oversight system. As a part of this process, internal audits are regularly planned and are already in process for 2009. Esquel also accepts and relies on the results of third-party audits, most of which are performed by its multinational brand clients or their chosen auditors. Although subject to the social requirements of its clients, Esquel has developed its own code of conduct to better instill its social values across its operations. The company is also planning to establish key performance indicators to measure the accountability of managers in ensuring Esquel's labour standards are achieved.

Esquel works closely with its factories using a staged approach to identify the root causes of labour issues, and implement solutions that can systematically solve them. Any serious labour issues are brought to the attention of senior management. Esquel has a strong business incentive to mitigate such issues as they affect staff morale and turnover, and create customer concern. Esquel also plans to develop and add more information about its supply chain management on its corporate website with a view to further their sustainability reporting in the future.

Esprit

Esprit Holdings Limited is the largest apparel brand in Hong Kong, with an annual turnover of around HK\$ 30 billion in 2007. Esprit is listed on the Stock Exchange of Hong Kong Limited, and is a constituent stock of the following indexes: Hang Seng Index, MSCI Hong Kong Index, FTSE All-World Index for Hong Kong, S&P/HKEx LargeCap Index and S&P Asia 50 Index. It is one of the few Hong Kong listed apparel companies operating in the international markets. The company has over 13,000 wholesale outlets in more than 40 countries, including about 604 company-owned and franchised stores. This global exposure has been a key factor in shaping its supply chain standards and practices over the years.

The driver for Esprit's supplier management system was an assessment by KPMG done in 2003 highlighting that this was an area of improvement for the company. That year, Esprit issued its Vendor Compliance Program internally to improve on social compliance in its Far East Asia operations. In 2007, the programme was rolled out globally, demonstrating a commitment to continued improvement. Today, Esprit is an active member of the Business Social Compliance Initiative (BSCI), a leading business platform for the improvement of social compliance in the supply chain. Esprit sits on the BSCI Board of Directors and influences good practice, striving for policies that go above and beyond the status quo. The company has made this area a priority for their business, demonstrating integrated internal policies, procedures and management system.

Esprit has assigned Board-level responsibility for managing ethical issues in the supply chain. The Manager of Global Sourcing Compliance reports directly to the Chief Operating Officer. Esprit's Code of Conduct is the Sourcing Compliance Policy, which is based on the Business Social Compliance Initiative (BSCI) Code of Conduct and covers all International Labour Organization (ILO) core conventions on labour standards. The

Sourcing Compliance Policy is written into Esprit's Buyer Agreement to ensure full integration with its business practices. It applies to the entire supply chain as well as procurement.

The purchasing process adheres to the Sourcing Compliance Policy. When an Esprit buyer places an order, it goes through a compliance procedure that involves background checks of the supplier. To ensure its standards are effectively implemented across its operations, Esprit carries out staff training on labour standards in the supply chain. There is annual training for buying agents and factory management personnel.

Esprit views labour standards issues in the supply chain as a risk factor and defines substantial critical violations (e.g. child labour) in its Vendor Compliance Manual. The Manual includes a policy committing Esprit to audit of labour standards across its entire supply chain operations. This was implemented in the previous years and has been scheduled for 2008. To facilitate continuous risk analysis of labour issues across the supply chain in its production countries, a monitoring database tracks vendor performance by region and provides a quantitative analysis of aggregate audit findings. The database is updated semi-annually and identifies critical labour issues by country. Based on these reviews, Esprit updates its sourcing policies to be responsive to non-compliance issues in the future.

Auditing is based on BSCI's auditing methodology. If a violation is identified, the supplier is given a grace period of up to 18 months to comply with Esprit's standards, during which time the factory is suspended from being a supplier for Esprit. The grace period allows the factory a fair chance to resolve any non-compliance issues. This is because Esprit's auditing approach is not compliance-driven, which results in companies policing their supply chains. It is based instead on engagement with the supply chain and aims to build long-term business partnerships. However, if an offence occurs again after

a factory has been reactivated as a supplier following suspension, the current contract will be terminated.

Giordano

Giordano International Limited is one of Hong Kong's largest apparel brands, with an annual turnover of nearly HK\$ 5 billion in 2007. The company has been listed on the Hong Kong Stock Exchange since 1991 and has over 1,800 stores and 'points of sale' in 30 markets in the Asia-Pacific and Middle East. Expanding internationally, the chain recently opened its first stores in Egypt, Russia, and the US (in Los Angeles). This increased international exposure has resulted in more interest by investors in the company's performance, including its supply chain labour standards.

Giordano has Board-level responsibility for ethical issues in the supply chain, although it doesn't make the link between senior management and social compliance in the supply chain explicit in its public reporting. Giordano's Risk Management Committee, which is composed of five members including one Executive Director, the Group Chief Financial Officer, the Head of Internal Audit and two senior management representatives, is responsible for the Group's internal control system. Supply chain issues related to compliance with labor laws are considered a risk factor by the Group and are included in its internal control system. Risk analysis of ethical issues in the company's supply chain is conducted twice a year by this Committee, which reports to the Board, to which it is fully accountable.

The company's social compliance team comprises the General Manager, Internal Audit Director, Quality Assurance Manager, and Corporate Communications and Investor Relations Manager. The Quality Assurance Manager is the front line of defense against social non-compliance in the supply chain and is responsible for performing audits and monitoring, and guiding improvement. The Internal Audit Director acts as

the second line of defense and monitors higher-level developments such as the Labour Contract Law and its implications for Giordano. The Corporate Communications and Investor Relations Manager works closely with this group, which reports to the General Manager. Although labour standards in the supply chain are not the General Manager's primary responsibility, these are an important part of his overall risk management responsibility. The company's Legal and Secretariat departments are also involved in issues around social compliance in the supply chain.

Giordano's code of conduct is its Core Ethical Sourcing Requirements, which is published in the Corporate Governance section of its Annual Report. Giordano's Core Ethical Sourcing Requirements prohibits child labour, forced or prison labour, harassment and abuse of workers, and covers health and safety, the environment and compliance. The Group considers the Core Ethical Sourcing Requirements as the minimum requirements to be complied with by suppliers. Additionally, the Group has general requirements which outline that suppliers must be in compliance with local labour legislation. The Group operates on the assumption that ensuring compliance with local labour laws should be sufficient in achieving acceptable labour standards.

A key highlight of Giordano's supply chain management is the integration of compliance and purchasing through the company's Quality Assurance team and Central Sourcing team working closely together. The collaboration includes vendor training for buying agents in the Central Sourcing team. Giordano also holds seminars for factory management personnel in order to promote compliance with its standards.

Giordano's Core Ethical Sourcing Requirements refer to supplier audits taking place to ensure standards are being met. The Quality Assurance Manager conducts audits of 'high risk' suppliers annually and 'low risk' suppliers biennially. Auditing is an ongoing process.

Giordano's auditing methodology is based on Worldwide Responsible Accredited Production (WRAP) and Social Accountability 8000 (SA8000). The company's wholly-owned subsidiary manufacturers are certified according to these standards.

The results of labour standard audits are reported internally to the Risk Management Committee. A termination clause is written into supplier contracts for cases of non-compliance. If suppliers don't meet the core requirements of the Core Ethical Sourcing Requirements, Giordano may choose not to re-audit and may proceed with terminating the contract. If Giordano observes a lack of commitment toward compliance from the supplier, termination will begin.

The Group is currently not reporting on these actions because it never saw a need for disclosing this information explicitly. However, it is considering improving its transparency and its supply chain standards. For example, it has indicated openness to Oxfam Hong Kong performing an assessment of its supply chain operations, to disclosing more details of their wholly-owned manufacturing facilities, and to considering publicly sharing an aggregate overview of audit findings in the future.

Trends among smaller Hong Kong apparel brands

Esprit and Giordano are unique models in the Hong Kong apparel industry sector due to their high turnover and/or broad market exposure. More representative of the local market are companies like Moïselle and U-Right. These brands are significantly smaller-scale and are currently focused primarily on local consumers. Some of these are former family enterprises, some still consider themselves SMEs, and some have only recently begun listing publicly and have to adapt to new compliance requirements such as increased transparency on corporate governance.

The lack of global renown has placed these brands in a comfort zone free of external stakeholder pressures. They have not yet experienced scrutiny over their supply chain practices from key stakeholder groups such as consumers, investors or the media and therefore, do not currently see a business need for addressing the social compliance of their suppliers. In effect, they do not have explicit policies, personnel or management systems in place to ensure compliance with labour standards across their supply chains.

However, they are becoming increasingly more aware that this is an area that sooner or later will have to be given a higher priority. Ethical supply chain performance and corporate social responsibility are still relatively new concepts for these companies. A positive step has been the willingness and interest of Moisselle, U-Right and Goldlion to participate in the garment roundtable on improving knowledge of CSR and transparency, which was initiated following the first *Transparency Report*. The interviews that were conducted with Moisselle and U-Right offer some insight into the practices and attitudes surrounding labour issues in the supply chain, which are likely to be shared by other Hong Kong apparel brands.

Moisselle

Moisselle's three wholly-owned manufacturing facilities in the PRC supply 60% of its sales volume. The remaining 40% is outsourced. Moisselle is not a mass producer and requires a high level of performance, flexibility and skill from its external suppliers. The company considers itself very choosy when selecting new business partners and considers legal compliance, which includes labour law, as part of the package.

Although there is no explicit organisational responsibility for the ethical performance of the supply chain, there is some relevant involvement of the procurement and purchasing staff. The Department of Design and Production is responsible for procurement, purchasing

and for selecting suitable suppliers. Risk analysis is performed while selecting new suppliers. This assessment involves collecting references from the factory's business partners, large brands and reputable companies.

Based on a set of minimum criteria, they review potential suppliers, which are directly approved by the General Manager. Although no policy exists defining the minimum requirements for selection of new suppliers, the General Manager's experience plays a vital role in ensuring that high quality suppliers are selected. If the team finds improper practices (including environmental or labour issues), the supplier is not considered to be able to produce quality products and will not be selected as a business partner. There is no monitoring of supplier labour standards after they have passed the selection process. The Chairman has regular meetings with the Department of Design and Production to check on issues related to procurement and purchasing.

Non-compliance with the law, especially regarding employment, is considered a risk factor. Due to the relatively small size of the company and its vertical integration, it is able to ensure legal compliance with labour standards (i.e. Labour Contract Law in the PRC) for its own facilities such as offices, shops and its three factories, which account for the vast majority of output.

Moisselle will cut a contract if the supplier is found to be non-compliant with local law, which includes labour laws. However, this is driven by the risk of losing expensive inputs like material provided to a factory if it is shut down or penalised by local government authorities.

The business case for addressing ethical performance in the supply chain is not apparent to Moisselle at present. As a licensee for Walt Disney Company, Moisselle's production facilities have been subjected to Disney's Code of Conduct and auditing process.

U-Right

U-Right outsources most of its supply chain capacity. Unlike Moisselle, only 8-10% of its production volume is produced by wholly-owned manufacturing facilities. Despite having significant exposure to external suppliers, the company didn't consider labour as a risk factor until the enactment of the Labour Contract Law in the PRC. Legal impetus has so far driven U-Right to ensure compliance in its own factory.

U-Right has identified a supply chain challenge facing many Chinese companies that are considering improving their labour practices. They believe that improving supply chain labour standards correlates with an increase in costs. They feel that foreign brands are in some cases hypocritical in terms of pressing suppliers for bargain basement prices, while pushing for higher labour standards using their demanding codes of conduct requirements.

Future outlook

Although many Hong Kong apparel brands don't see the business need to act now on labour issues in the supply chain, they believe that the topic will become important for their business in the mid- to long-term. In three to five years, they expect the Hong Kong market will begin facing more compliance pressures from key groups such as consumers. They are also becoming aware that future expansion to new markets and listing on foreign exchanges will inevitably bring upon them increased pressure to focus on social compliance in the supply chain. Until then it may be difficult to convince senior management to allocate the budget and the resources necessary to implement an effective strategy for improving the social responsibility of their supply chain operations.

Interim piecemeal improvements may include expanding corporate governance reporting to include corporate social responsibility or disclosing information about their wholly-owned production facilities. It is noteworthy that these brands care about their corporate image and will

adapt quickly to a new market trend. This should alert Hong Kong apparel brands to keep CSR initiatives on their radar to monitor new market dynamics. In the short-term, Hong Kong brands admit they know little about CSR and do have an interest in learning more about how it relates to their business. This includes gaining an understanding of industry best practice, especially on companies sourcing in China and on the tangible benefits of CSR and improved transparency.

NEW TRENDS IN SUSTAINABILITY REPORTING AND SUSTAINABLE SUPPLY CHAINS

New Trends in sustainability reporting among leading international brands ⁵

Over the past three years, leading companies have begun reporting more about the root causes of persistent non-compliance and poor audit results, as well as identifying changes in their approach to achieving and maintaining labour standards compliance based on these analyses. In its *FY05-06 Corporate Responsibility Report*, Nike acknowledges that:

*"In Generation I we set standards. In Generation II we developed tools and methods to monitor those standards. Each generation was a stepping stone to the next and delivered vital learning and experience for all stakeholders... Generation III is what we call responsible competitiveness. While monitoring continues to be a cornerstone of our approach, we are taking a broader, more holistic look at our supply chain, focusing on root cause identification and solutions that will drive systemic change."*⁶

Nike, for example, outlines what it believes are some of the root causes of excessive overtime hours within their supply chains and sets out plans to eliminate excessive overtime in its contract factories by 2011 using a combination of approaches. It is recognised that outlining the company's understanding of the problem

and the steps it is taking to address it, as well as setting precise targets for completion, represents a step forward for CSR reporting.

Training programs for factory management and workers ⁷

There is also a growing appreciation that calling for CSR in the supply chain is not feasible unless factories have adequate management systems in place to ensure they meet standards. Since the discussion of root causes in company CSR reports has tended to focus on persistent factory-level problems, it is not surprising that the solutions proposed by brand buyers have emphasised training for and engagement with factory management to improve HR practices, materials management and productivity. Consequently, discussion of training programs, as well as engagement with local labour and non-governmental organisations, has been given more prominence in recent CSR reports, which is a positive trend.

Gap's latest CSR report includes a map of the world identifying the initiatives and projects in which it is engaged in each country, which helps stakeholders visualise the extent to which the company has committed to engagement and training across its supply chain.⁸ One strong focus for training programs in the coming years

appears to be freedom of association and collective bargaining, known as “enabling rights” because they provide workers with the ability to enforce compliance with labour standards. While many reports on training are at best a listing of activities, Gap goes further by reporting some measurable results from its training programmes. The move towards more open reporting on results rather than events, as well as clear information on how training results are being measured, should be encouraged.

Worker empowerment projects between brands and NGOs in China

The first generation of efforts to ensure fair working conditions often involved workers secondarily, and was merely a top-down approach from buyers. Where brands’ approaches to worker empowerment once consisted solely of translating codes of conduct into local languages and making those available to workers, civil society is calling for a bottom-up approach and to include workers at the heart of monitoring programmes.

It is believed that workers know their problems and welfare needs best. An emerging trend is to include workers in factory decision-making processes relating to workplace practices. This includes establishing systems by which workers can air grievances to which management must respond. Pilot programmes recently created between brands and NGOs include installing labour helplines in factories that produce the brands’ products. These helplines are operated by independent NGOs such as the China Labour Support Network to take workers’ complaints independently and to enhance the capacity of workers. They also run a mobile van and associated occupational health and safety programmes to deliver services and education to a large number of migrant workers at the industrial areas in Guangzhou.

Other NGOs like Labour Education and Service Network, the Chinese Working Women Network, and Qingdao Xiaochen Hotline Center are also actively involved in

workers’ rights training and worker hotline services in industrial areas. They run pilot projects including building worker committees/communication mechanisms in supplier factories in southern China. It appears that the brands’ programmes will be increasingly effective if they include a worker empowerment component and draw on the unique skills, networks and credibility of NGOs, unions and community groups.

Beyond monitoring: a new vision for sustainable supply chains

There is now a widely held belief that auditing supplier workplaces has limitations for improving workers’ conditions. Challenges such as under-skilled auditors, the limitations of private monitoring, the lack of a rigorous certification process, and bribery and corruption issues of auditors call for other approaches to ensure ethical working conditions in supplier workplaces.

While auditing is still important, without which companies would not be able to identify problems, more voices are calling on multinationals to move beyond monitoring or policing the supply chains. Business for Social Responsibility has elaborated in its paper “Beyond Monitoring” a new approach that is designed to address the root causes of social and environmental shortcomings in global supply chains. They encourage companies to pursue a four-part integrated approach that has potential to achieve more lasting change.

1. **BUYER INTERNAL ALIGNMENT** of purchasing practices with social and environmental objectives. It is widely agreed that greater collaboration between functions overseeing social compliance and purchasing is an essential way to overcoming current barriers.
2. **SUPPLIER OWNERSHIP** of good working and environmental conditions in their workplaces. This is most likely to be achieved through a basic bargain where suppliers assume greater responsibility for managing their workforces consistent with global

expectations, and buyers provide greater security for ongoing business relationships.

3. **EMPOWERMENT OF WORKERS** who take a stronger role in asserting and protecting their own rights. This will develop through an increasingly informed and participatory workplace, with access to secure communications channels, effective means of raising and resolving disputes, and opportunities for skills development.
4. **PUBLIC POLICY FRAMEWORKS** that ensure wider and more even application of relevant laws. In many contexts, enforcement of labour laws has *de facto* been left to private actors. Emerging models of public-private partnerships and an increased appreciation by global business of the importance of effective public governance as a pre-condition for economic growth offer interesting new pathways to progress.⁹

Disclosure of names and addresses of supplier factories

On April 13, 2005, Nike became the first major brand to publicly disclose its global supply chain for Nike-brand products. Since then, Levi Strauss, Timberland, adidas and Puma have followed suit by also disclosing their supply factory locations. In Hong Kong, a few companies are disclosing the names and addresses of their wholly-owned manufacturing facilities; however, there is still a degree of sensitivity around disclosing what is considered to be competitive information. Supply factory lists are a useful check on a company's claims and add credibility to a company's efforts to achieve labour standards compliance, since they open up company supply chains to scrutiny by stakeholders and encourage cooperation on compliance issues among buyers in shared factories. In its most recent CSR report, Nike has included a full list of factories that manufacture its products, complete with addresses. Nike argues that, since they first disclosed factory locations two years ago, the company is "seeing successes as

a result of collaboration – shared information, shared best practices, leveraged resources and more effective coverage of supply chains within our industry." Two years on, they add, "we have realized no competitive disadvantage from bringing greater transparency to our supply chain."¹⁰

Footprint Chronicles – a social and environmental impact tracking system

Patagonia has made strides in corporate transparency and accountability through its Footprint Chronicles, which is a CSR/social and environmental impact tracking system. The Footprint Chronicles is a website that tracks and discloses "the good and the bad" in Patagonia's supply chain. This system exposes the problems uncovered in the supply chain to enable its customers to create solutions.

This approach draws on earlier efforts of companies to improve the transparency and accountability of their supply chain operations. These efforts included disclosing code of conduct violations, disclosing the environmental and community impacts of products on the packaging (like nutrition labels on food), disclosing climate impacts, chemicals used and resource consumption associated with products.

The Footprint Chronicles provides transparency – by disclosing information about its manufacturing operations impacting on CSR, and accountability – by identifying weaknesses and non-compliance in its supply chain for public scrutiny. In so doing, it is creating the next generation of transparent and accountable business practices. The Footprint Chronicles can be accessed through the following link:

<http://www.patagonia.com/usa/footprint/index.jsp>

BOX 4:

USEFUL RESOURCES

GRI Apparel and Footwear Sector Supplement

The Global Reporting Initiative (GRI), the foremost global authority on sustainability reporting, recently released the *Sustainability Reporting Guidelines & Apparel and Footwear Sector Supplement*, which tailors the G3 Reporting Guidelines to the apparel industry and provides new sector-specific indicators to provide additional guidance to apparel companies' public disclosure on CSR.

The new sector-specific category, "Supply Chain Standards and Practices" includes the following management disclosures and performance indicators:

Code of Conduct

- Code of conduct content and coverage
- Number and location of workplaces covered by code of conduct

Audit Process

- Parties and personnel engaged in code of conduct compliance
- Compliance audit process
- Number of audits conducted and percentage of workplaces audited

Non-Compliance Findings

- Incidents of non-compliance with legal requirements or collective bargaining agreements on wages
- Incidents of non-compliance with overtime standards
- Incidents of non-compliance with standards on pregnancy and maternity rights
- Incidents of the use of child labor
- Incidents of non-compliance with standards on gender discrimination
- Incidents of non-compliance with code of conduct
- Analysis of data from code compliance audits

Remediation

- Remediation practices to address non-compliance findings

Grievance Procedures

- Policy and procedures for receiving, investigating, and responding to grievances and complaints

Capacity Building

- Strategy and scope of efforts to strengthen capacity of management, workers and other staff to improve in social and environmental performance

Business Integration

- Policies for supplier selection, management, and termination
- Actions to identify and mitigate business practices that affect code compliance

The Sector Supplement also indicates 17 new apparel-specific indicators for the Social and Environmental categories in response to the intensified focus on working conditions and environmental practices throughout the supply chain. These include new specifications for materials, energy, emissions, effluents and waste, products and services, employment, wages and hours, diversity and equal opportunity, labour/management relations, occupational health and safety, non-discrimination, abolition of child labour, community investment and public policy.

In addition to the standard disclosures, the added sector-specific indicators bring the total to 34 performance indicators in the following four categories: Supply Chain Standards and Practices, Economic, Environmental and Social.

The Sector Supplement takes into account the diversity of size, structure and functions of organisations in the apparel and footwear sector; most items apply to both manufacturing organisations (i.e., organisations that

own or operate one or more manufacturing facilities) as well as non-manufacturing organisations (e.g. brands that do not own or operate manufacturing facilities). It also provides recommendations to beginner reporters or SMEs on how each performance indicator could be applied in an incremental manner. This is done by marking “do-ability criteria” which are: 1 – Feasible to report for most and would be at the entry point for new reporters, 2 – Normative and would be at a medium do-ability level, and 3 – Likely to be included in reports by best reporters, but challenging in terms of data collection and would not be expected to be reported by new reporters.

If Hong Kong apparel companies are to adhere to the Sector Supplement, they would simultaneously improve their Transparency Report score by a wide margin.

Please visit the pilot version of the Sustainability Reporting Guidelines & Apparel and Footwear Sector Supplement at http://www.globalreporting.org/NR/rdonlyres/AF0B47C-AA2B-4E5A-B108-780C46A46399/0/AFSS_Pilot.pdf

GRI Global Action Network for Transparency in the Supply Chain

As problems in international companies’ supply chains continue to come under the spotlight, Amsterdam-based Global Reporting Initiative announced the launch of the GRI Global Action Network for Transparency in the Supply Chain in July 2008. Through this initiative, the GRI is calling on multinational firms to take the lead by promoting sustainability in their supply chains through greater transparency in disclosing their economic, environmental and social performance.

To mark the launch of the global network, GRI has published *Small, Smart and Sustainable*. The publication shares the experiences of companies in the global supply chain from six developing countries including India, China and Thailand. It captures the challenges

and opportunities as seen by the suppliers as well as the multinationals that have participated in the project. Please visit their report at <http://www.globalreporting.org/NR/rdonlyres/02AF6322-C207-4F79-85B2-EC017826B60F/0/SSSReport.pdf>

One of the key benefits for global network members will be the opportunity to take part in GRI-certified training in disclosure on key sustainability indicators for multinational firms’ suppliers. “We are convinced that only by bringing about transparency throughout the supply chain can companies fully understand and work towards dealing with very serious risks not only to the environment and society, but to brand reputation,” said Nelmara Arbex, Director of Learning Services at GRI. In the coming months, a new GRI publication will be launched outlining a step-by-step approach to sustainability reporting for SMEs in the supply chain.

Maquila Solidarity Network

Maquila Solidarity Network (MSN) is the secretariat of the Ethical Trading Action Group (ETAG), a coalition of NGOs, trade unions and faith groups in Canada advocating improved labour practices based on international labour standards. ETAG, in association with AccountAbility, published the original Transparency Report Card for the Canadian market – on which this research is based – in 2005, and a follow-up version in 2006. It is a good source of research and publications on labour issues and standards in global supply chains.

MSN’s 2006 *Transparency Report Card: Revealing Clothing* evaluated 30 top apparel brands in the Canadian market (listed in the Research Findings section above) and revealed an improvement in their scores since the initial 2005 report. The 2006 report added the following two new criteria: Worker and third party complaints and Rewards and incentives for compliant suppliers. Please visit their report at <http://en.maquilasolidarity.org/en/issues/ca/transparency/TRC/2006>

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

So, have Hong Kong garment companies improved their reporting on labour standards? This research has shown that although there has not been a marked overall improvement in actual reporting on supply chain social compliance, more leading Hong Kong garment retail companies are taking this issue more seriously and are in the process of putting practices, systems and internal communications in place before they progress towards public reporting.

Compared with other stakeholders of Hong Kong apparel brands, the Hong Kong Exchanges and Clearing Limited (HKEx) is the most influential. During interviews, companies implied that if improved transparency was required by HKEx, they would certainly respond. Some apparel companies have already urged Oxfam Hong Kong to approach the HKEx to begin providing more guidance for companies wanting to report on CSR. This is already happening in Mainland China where the Shenzhen Stock Exchange encourages publicly listed companies to adopt the Global Reporting Initiative (GRI) reporting standards. In January 2008, the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council published guidelines to encourage State-Owned Enterprises to embed corporate social responsibility into their practices and establish a CSR reporting system.

Furthermore, in some countries, CSR reporting has become mandatory. Starting in 2009, all state-owned companies of Sweden are required to produce sustainability reports based on GRI Guidelines. In the UK, the updated Companies Bill was passed in November 2006, requiring companies to take responsibility for areas such as environmental performance, employees, social and community matters and to disclose information on their main suppliers. In the United States and France, environmental disclosure requirements have been established for listed companies. In Japan, specified corporations have been required to publish an annual environment report since 2005. In 2008, it became mandatory for publicly listed companies in Malaysia to disclose their CSR activities in annual reports.

A few of the larger companies are beginning to feel pressure from investors about their social compliance. They find that they are fielding more and more requests about supply chain practices from institutional investors, socially responsible investors and NGOs. The publication of information about their supply chain practices in regard to labour and environment issues would serve as a central reference for these types of inquiries, saving staff time and presenting a consistent official company view. The longer-term benefit, of course, is an improvement in competitiveness not only locally but globally.

Speaking with Hong Kong apparel companies, many of which are suppliers of globally renowned apparel brands, have proven again that clients' purchasing practices contribute to poor supply chain labour practices. There is consensus that a major obstacle to ethical supply chain practices is the price squeeze being felt by suppliers from large multinational apparel clients parallel to increasingly stringent supplier codes of conduct requirements. Oxfam Hong Kong has highlighted this issue in its *Turning the Garment Industry Inside Out: Purchasing Practices and Workers' Lives* report released in 2004. However, this key issue still needs to be addressed.

There is a need for greater engagement with stakeholders of all types, including companies, consumers, investors, HKEx, labour unions and NGOs, business associations, workers and the public. Oxfam Hong Kong believes that combined and complementary policies and actions by various actors will be needed to adequately address labour standards issues in global supply chains. In the first *Transparency Report*, we put forward a set of recommendations and we repeat some of these in the next section with some additions. These recommendations will serve as a road map for better company reporting and labour standards compliance in the supply chain. If fully implemented, these recommendations would help set the stage for collaborative action to eliminate workers' rights abuses in global supply chains.

Recommendations to Hong Kong Apparel Companies

- Provide transparent public reports to consumers, to shareholders and to civil society about progress in labour standards in the company's supply chains and ongoing policies to improve them. Include these reports in companies' websites. Consider adopting the GRI Reporting Guidelines and the Apparel and Footwear Sector Supplement in sustainability or CSR reporting.
- Commit to responsible labour standards in the supply chain at the highest level of corporate management and ensure that an understanding of these standards and the benefits of insisting on high standards are integrated throughout the company.
- Assign overall responsibility for labour rights in the supply chain to senior management and ensure that the Board of Directors also has a committee paying attention to this important issue.
- Adopt a code of conduct that applies the standards of ILO conventions and ensure it is done in a way which takes into account the particular problems and needs of women.
- Engage with NGOs and labour organisations. Facilitate workers' rights training and worker complaint system at the factory level. Ensure that suppliers and workers are knowledgeable about their rights and responsibilities under the code and local law.
- Join a credible multi-stakeholder initiative and collaborate with other companies, labour unions and labour NGOs in seeking labour standards compliance and long-term solutions to persistent industry problems.

Recommendations to Multinational Apparel Brands

- Multinational apparel brands committed to social responsibility should acknowledge that their own sourcing and purchasing practices are some of the root causes of poor labour standards. They should find ways to make respect for workers' rights integral to the company's vision and integrate that commitment into sourcing and purchasing practices.

Recommendations to Consumers

- Urge Hong Kong apparel companies to provide consumers with sufficient information on labour practices in their global supply chains and their efforts to improve those practices, for consumers to make ethical, informed choices when they shop.
- Start to review buying habits and show concern for the labour conditions of the products being made. Share this report with friends and relatives and raise the labour issue in schools or workplaces. If you have a favourite label and you are not sure the product is ethically produced, write to the companies and ask them about their labour rights practices. Express your opinion about ethical clothing and consumption to the media.
- Encourage Hong Kong garment companies to work with labour and non-governmental organisations to improve working conditions in apparel supplier factories and to tackle the root causes of persistent workers' rights abuses in the industry as a whole.

Recommendations to Investors

- Work with other shareholders, institutional investors and stakeholders to persuade companies to improve their public reporting on supply chain standards and risk assessments of relevant issues in order to allow investors to track ethical progress and make better informed ethical choices.
- Socially responsible investors could play a valuable role in urging companies to enlarge the disclosure of environmental, social and governance (ESG) issues in their supply chain.
- Call on the HKEx and/or Government to follow the positive steps of the Shenzhen Stock Exchange and the State-owned Assets Supervision and Administration Commission (SASAC) of the State

Council in encouraging publicly listed companies to establish a CSR reporting system and/or adopt the GRI reporting standards.

Recommendations to the HKEx

- The HKEx should follow the positive steps of the Shenzhen Stock Exchange in encouraging publicly listed companies to adopt the GRI reporting standards and expand information requirements for IPO prospectuses in the interest of providing investors the kind of information required to make ethical investment decisions.

INDIVIDUAL. COMPANY REPORT CARDS

ESQUEL GROUP OF COMPANIES

NOTES OF FINDINGS	COMPANY SCORE	QUESTION WEIGHTINGS (% OF SECTION)
1. Governance and Risk Management		
1.1 Board-level responsibility for ethical issues in the supply chain - The CSR department reports to the Vice Chairman and one of Esquel's external independent directors overseeing all company audit issues to ensure Esquel's commitment and compliance with responsible business practices (http://www.esquel.com/en/index4.html).	66.7	40
1.2 Reporting of labour standards issues in the supply chain as a risk factor - The CSR department is also responsible for advising the CEO and other senior managers on risks inside our business related to the lack of adherence to international labor standards (http://www.esquel.com/en/index4.html).	33.3	30
1.3 Risk analysis of ethical issues in the company's supply chain - No reported evidence	0	30
SECTION TOTAL SCORE / SECTION WEIGHTING	36.67	X 10%
2. Code for Labour Standards in the Supply Chain		
2.1 Quality and score of the code for labour standards in the supply chain - Esquel commits to certify its factories under the Worldwide Responsible Apparel Production (WRAP) standards. It is also one of the first 10 factories in the textile and garment industry to publicly commit and support the China Social Compliance standard (CSC9000T) (http://www.esquel.com/en/index4.html).	100	60
2.2 Publication and availability of the code for labour standards in the supply chain - The WRAP Code of Conduct and CSC9000T are available to the public (http://www.wrapapparel.org/modules.php?name=Content&pa=showpage&pid=3 , http://www.csc9000.org.cn/en/CSC9000T.asp?DID=233&DT=CSC900T%20Documents).	100	20
2.3 Application of the code for supply chain labour standards - At Esquel, we also expect our suppliers to share our commitment to operate in a legal and ethical manner and include this conversation in our business discussions. Our code of conduct covers the behavior of our suppliers, as well as all Esquel owned facilities (http://www.esquel.com/en/index4.html).	100	20
SECTION TOTAL SCORE / SECTION WEIGHTING	100	X 20%
3. Stakeholder Engagement		
3.1 Membership of multi-stakeholders process - Esquel indicates that it is a Participating Supplier Affiliate of the Fair Labor Association (FLA) on its corporate website: http://www.esquel.com/en/index4.html	100	50
3.2 Engagement with NGOs and/or trade unions relating to labour standards in the supply chain - Esquel management engages in trade union discussions and negotiations through the formal independent trade unions existing in its Sri Lanka factories, the in house union at its Malaysia factory, the VCGL in Vietnam, and the ACFTU in China (http://www.esquel.com/en/index4.html).	100	50
SECTION TOTAL SCORE / SECTION WEIGHTING	100	X 20%

NOTES OF FINDINGS	COMPANY SCORE	QUESTION WEIGHTINGS (% OF SECTION)
4. Management		
4.1 Resource commitment - Esquel formally established a dedicated Corporate Social Responsibility department in 2004, headed by a Director of Corporate Social Responsibility who reports directly to the Vice Chairman and CEO (http://www.esquel.com/en/index4.html).	100	30
4.2 Training for buying agents - Ongoing training is conducted for Esquel employees on labor, environment, health and safety standards (http://www.esquel.com/en/index4.html).	100	25
4.3 Training for factory management personnel and workers - This department works together with customers to continuously improve the workplace through trainings on labor standards for management, staff, and our most important asset, workers (http://www.esquel.com/en/index4.html).	66.7	25
4.4 Reward and incentives - No reported evidence	0	20
SECTION TOTAL SCORE / SECTION WEIGHTING	71.675	X 20%
5. Supply Chain Auditing and Reporting		
5.1 Commitment to auditing labour standards in the supply chain - Esquel commits to certify its factories under the Worldwide Responsible Apparel Production (WRAP) standards. It is also one of the first 10 factories in the textile and garment industry to publicly commit and support the China Social Compliance standard (CSC9000T). (http://www.esquel.com/en/index4.html).	100	15
5.2 Status of audit schedule - No reported evidence	0	5
5.3 Public disclosure of manufacturing sites - No reported evidence	0	10
5.4 Transparency of the labour standards auditing methodology - The publicly available CSC9000T includes relevant policies for monitoring compliance with the Code (p.16-17, section 1.4.1, Monitoring and measurement, 1.4.2 Evaluation of legal compliance and 1.4.3 Non-conformity, corrective and preventive action (http://www.csc9000.org.cn/PDF/CSC9000T_ENG_2005.pdf).	100	15
5.5 External verification of labour standard audits - No reported evidence	0	20
5.6 Reporting of the results of audit of labour standard in the supply chain - No reported evidence	0	20
5.7 Dealing with non-compliance - The CSC9000T includes a non-compliance policy but there is no indication of a staged approach to dealing with violations at Esquel (p. 15-17, section 1.3.7 Addressing Concerns and Taking Corrective Actions and section 1.4.3 Non-conformity, corrective and preventive action http://www.csc9000.org.cn/PDF/CSC9000T_ENG_2005.pdf).	66.7	15
SECTION TOTAL SCORE / SECTION WEIGHTING	40.005	X 30%
TOTAL SCORE	70	/100

LI & FUNG LIMITED

NOTES OF FINDINGS	COMPANY SCORE	QUESTION WEIGHTINGS (% OF SECTION)
1. Governance and Risk Management		
1.1 Board-level responsibility for ethical issues in the supply chain - No reported evidence	0	40
1.2 Reporting of labour standards issues in the supply chain as a risk factor - No reported evidence	0	30
1.3 Risk analysis of ethical issues in the company's supply chain - No reported evidence	0	30
SECTION TOTAL SCORE / SECTION WEIGHTING	0	X 10%
2. Code for Labour Standards in the Supply Chain		
2.1 Quality and score of the code for labour standards in the supply chain - The Supplier Code of Conduct covers all ILO core conventions including a living wage and hours of work provision	100	60
2.2 Publication and availability of the code for labour standards in the supply chain - The complete Code of Conduct is available to the public on the company's website (http://www.lifung.com/eng/business/responsible.php)	100	20
2.3 Application of the code for supply chain labour standards - The Code of Conduct applies to the entire breadth of its supply chain as well as its own procurement (see Vendor Agreement section of Code of Conduct)	100	20
SECTION TOTAL SCORE / SECTION WEIGHTING	100	X 20%
3. Stakeholder Engagement		
3.1 Membership of multi-stakeholders process - No reported evidence	0	50
3.2 Engagement with NGOs and/or trade unions relating to labour standards in the supply chain - No reported evidence	0	50
SECTION TOTAL SCORE / SECTION WEIGHTING	0	X 20%

NOTES OF FINDINGS	COMPANY SCORE	QUESTION WEIGHTINGS (% OF SECTION)
4. Management		
4.1 Resource commitment - The Group's Vendor Compliance (VC) division is organized independently of our sourcing/merchandising divisions and focuses on improving suppliers' labor, health and safety, environmental and security standards (see Investor Relations, CSR and Sustainability section of the website: http://www.lifung.com/eng/ir/governance.php).	50	30
4.2 Training for buying agents - Li & Fung provides systematic training internally to its employees on social compliance requirements (see Annual Report 2007, p.32, para. 4)	100	25
4.3 Training for factory management personnel and workers - There is training for factory management personnel on labour standards in the supply chain, but no reference to training of factory workers (see Annual Report 2007, p.32, para. 4)	33.3	25
4.4 Reward and incentives - No reported evidence	0	20
SECTION TOTAL SCORE / SECTION WEIGHTING	48.325	X 20%
5. Supply Chain Auditing and Reporting		
5.1 Commitment to auditing labour standards in the supply chain - There is evidence of a policy committing the company to auditing labour standards across the supply chain although the level of commitment to auditing labour standards in the supply chain is unclear (see Annual Report 2007, p.32, para. 3)	50	15
5.2 Status of audit schedule - The VC division conducts evaluations of approved suppliers on a routine and systematic basis. In 2007, approximately 8,500 facility inspections and verification audits were performed around the globe (see Investor Relations, CSR and Sustainability section of the website: http://www.lifung.com/eng/ir/governance.php).	100	5
5.3 Public disclosure of manufacturing sites - No reported evidence	0	10
5.4 Transparency of the labour standards auditing methodology - No reported evidence	0	15
5.5 External verification of labour standard audits - No reported evidence	0	20
5.6 Reporting of the results of audit of labour standard in the supply chain - No reported evidence	0	20
5.7 Dealing with non-compliance - No reported evidence	0	15
SECTION TOTAL SCORE / SECTION WEIGHTING	12.5	X 30%
TOTAL SCORE	33	/100

GLORIOUS SUN ENTERPRISES LIMITED

NOTES OF FINDINGS	COMPANY SCORE	QUESTION WEIGHTINGS (% OF SECTION)
1. Governance and Risk Management		
1.1 Board-level responsibility for ethical issues in the supply chain - The corporate website illustrates the Vice Director's role in addressing ethical issues in the supply chain (See last paragraph: http://www.glorisungroup.com/tc/csc9000.html).	33.3	40
1.2 Reporting of labour standards issues in the supply chain as a risk factor - No reported evidence	0	30
1.3 Risk analysis of ethical issues in the company's supply chain - No reported evidence	0	30
SECTION TOTAL SCORE / SECTION WEIGHTING	13.32	X 10%
2. Code for Labour Standards in the Supply Chain		
2.1 Quality and score of the code for labour standards in the supply chain - Glorious Sun is listed as an implementing enterprise of the China Social Compliance standard (CSC9000T) in the Annual Report on Social Responsibility of the Chinese Textile and Apparel Industry, p.42 and 64, http://www.csc9000.org.cn/PDF/Report/2007_en.pdf .	75	60
2.2 Publication and availability of the code for labour standards in the supply chain - The CSC9000T is available to the public (http://www.csc9000.org.cn/en/CSC9000T.asp?DID=233&DT=CSC900T%20Documents).	100	20
2.3 Application of the code for supply chain labour standards - No reported evidence	0	20
SECTION TOTAL SCORE / SECTION WEIGHTING	65	X 20%
3. Stakeholder Engagement		
3.1 Membership of multi-stakeholders process - No reported evidence	0	50
3.2 Engagement with NGOs and/or trade unions relating to labour standards in the supply chain - No reported evidence	0	50
SECTION TOTAL SCORE / SECTION WEIGHTING	0	X 20%

NOTES OF FINDINGS	COMPANY SCORE	QUESTION WEIGHTINGS (% OF SECTION)
4. Management		
4.1 Resource commitment - The CSC9000T includes a policy for senior management accountability (p.13, 1.3.1 Resources, roles, responsibilities and authorities http://www.csc9000.org.cn/PDF/CSC9000T_ENG_2005.pdf).	50	30
4.2 Training for buying agents - The CSC9000T includes a policy for training of relevant staff (p. 13-14, 1.3.2 Competence, training and awareness http://www.csc9000.org.cn/PDF/CSC9000T_ENG_2005.pdf).	50	25
4.3 Training for factory management personnel and workers - The CSC9000T includes a policy for training of relevant staff (p. 13-14, 1.3.2 Competence, training and awareness http://www.csc9000.org.cn/PDF/CSC9000T_ENG_2005.pdf).	33.3	25
4.4 Reward and incentives - No reported evidence	0	20
SECTION TOTAL SCORE / SECTION WEIGHTING	35.825	X 20%
5. Supply Chain Auditing and Reporting		
5.1 Commitment to auditing labour standards in the supply chain - The Vice Director commits the company to regular auditing of supply chain labour standards although the level of commitment is unclear (See last paragraph: http://www.glorisungroup.com/tc/csc9000.html).	50	15
5.2 Status of audit schedule - No reported evidence	0	5
5.3 Public disclosure of manufacturing sites - Under the Group Members section of its website http://www.glorisun.com/ , Glorious Sun links to its manufacturer Advancetex Fashion Garment Manufacturing (HuiZhou) Co. Ltd. website, where the factory's address can be found: http://www.advgm.com.cn/eninfo_Show.asp?ArticleID=423	33.3	10
5.4 Transparency of the labour standards auditing methodology - The publicly available CSC9000T includes relevant policies for monitoring compliance with the Code (p.16-17, section 1.4.1, Monitoring and measurement, 1.4.2 Evaluation of legal compliance and 1.4.3 Non-conformity, corrective and preventive action (http://www.csc9000.org.cn/PDF/CSC9000T_ENG_2005.pdf).	100	15
5.5 External verification of labour standards audits - No reported evidence	0	20
5.6 Reporting of the results of audit of labour standards in the supply chain - No reported evidence	0	20
5.7 Dealing with non-compliance - The CSC9000T includes a non-compliance policy but there is no indication of a staged approach to dealing with violations at Glorious Sun (p. 15-17, section 1.3.7 Addressing Concerns and Taking Corrective Actions and section 1.4.3 Non-conformity, corrective and preventive action http://www.csc9000.org.cn/PDF/CSC9000T_ENG_2005.pdf).	66.7	15
SECTION TOTAL SCORE / SECTION WEIGHTING	35.835	X 30%
TOTAL SCORE	32	/100

ESPRIT HOLDINGS LIMITED

NOTES OF FINDINGS	COMPANY SCORE	QUESTION WEIGHTINGS (% OF SECTION)
1. Governance and Risk Management		
1.1 Board-level responsibility for ethical issues in the supply chain - No reported evidence	0	40
1.2 Reporting of labour standards issues in the supply chain as a risk factor - No reported evidence	0	30
1.3 Risk analysis of ethical issues in the company's supply chain - No reported evidence	0	30
SECTION TOTAL SCORE / SECTION WEIGHTING	0	X 10%
2. Code for Labour Standards in the Supply Chain		
2.1 Quality and scope of the code for labour standards in the supply chain - No reported evidence	0	60
2.2 Publication and availability of the code for labour standards in the supply chain. - the code of conduct is referred to in Esprit's website	66.7	20
2.3 Application of the code for supply chain labour standards - the code of conduct applies to the entire supply chain as well as the company's own procurement	100	20
SECTION TOTAL SCORE / SECTION WEIGHTING	33.34	X 20%
3. Stakeholder Engagement		
3.1 Membership of multi-stakeholders process - the company adheres to Business Social Compliance Initiatives and is a member of the organisation's Board of Directors (see BSCI section, CSR Report 2007)	100	50
3.2 Engagement with NGOs and/or trade unions relating to labour standards in the supply chain - No reported evidence	0	50
SECTION TOTAL SCORE / SECTION WEIGHTING	50	X 20%
4. Management		
4.1 Resource commitment - No reported evidence	0	30
4.2 Training for buying agents - No reported evidence	0	25
4.3 Training for factory management personnel and workers - No reported evidence	0	25
4.4 Reward and incentives - No reported evidence	0	20
SECTION TOTAL SCORE / SECTION WEIGHTING	0	X 20%

NOTES OF FINDINGS	COMPANY SCORE	QUESTION WEIGHTINGS (% OF SECTION)
5. Supply Chain Auditing and Reporting		
5.1 Commitment to auditing labour standards in the supply chain - there is a policy committing the company to auditing labour standards across at least part of the supply chain (see BSCI section, CSR report 2007)	50	15
5.2 Status of audit schedule - No reported evidence	0	5
5.3 Public disclosure of manufacturing sites - No reported evidence	0	10
5.4 Transparency of the labour standards auditing methodology - No reported evidence	0	15
5.5 External verification of labour standards audits - No reported evidence	0	20
5.6 Reporting of the results of audit of labour standards in the supply chain - No reported evidence	0	20
5.7 Dealing with non-compliance - No reported evidence	0	15
SECTION TOTAL SCORE / SECTION WEIGHTING	7.5	X 30%
TOTAL SCORE	19	/100

GIORDANO INTERNATIONAL LIMITED

NOTES OF FINDINGS	COMPANY SCORE	QUESTION WEIGHTINGS (% OF SECTION)
1. Governance and Risk Management		
1.1 Board-level responsibility for ethical issues in the supply chain - No reported evidence	0	40
1.2 Reporting of labour standards issues in the supply chain as a risk factor - No reported evidence	0	30
1.3 Risk analysis of ethical issues in the company's supply chain - No reported evidence	0	30
SECTION TOTAL SCORE / SECTION WEIGHTING	0	X 10%
2. Code for Labour Standards in the Supply Chain		
2.1 Quality and score of the code for labour standards in the supply chain - No reported evidence	0	60
2.2 Publication and availability of the code for labour standards in the supply chain. - The complete Code of Conduct is available to the public in the company's Annual Report 2007, p.44 and on its website: http://www.giordano.com.hk/web/hk/investors/social-requirements.html)	100	20
2.3 Application of the code for supply chain labour standards - The Code of Conduct applies to the entire breadth of the supply chain and the company's own procurement (see Ethical Sourcing http://www.giordano.com.hk/web/hk/investors/social-statement.html)	100	20
SECTION TOTAL SCORE / SECTION WEIGHTING	40	X 20%
3. Stakeholder Engagement		
3.1 Membership of multi-stakeholders process - No reported evidence	0	50
3.2 Engagement with NGOs and/or trade unions relating to labour standards in the supply chain - No reported evidence	0	50
SECTION TOTAL SCORE / SECTION WEIGHTING	0	X 20%

NOTES OF FINDINGS	COMPANY SCORE	QUESTION WEIGHTINGS (% OF SECTION)
4. Management		
4.1 Resource commitment - No reported evidence	0	30
4.2 Training for buying agents - No reported evidence	0	25
4.3 Training for factory management personnel and workers - No reported evidence	0	25
4.4 Reward and incentives - No reported evidence	0	20
SECTION TOTAL SCORE / SECTION WEIGHTING	0	X 20%
5. Supply Chain Auditing and Reporting		
5.1 Commitment to auditing labour standards in the supply chain - There is evidence of a policy committing the company to auditing labour standards across its supply chain (see last point of Code http://www.giordano.com.hk/web/hk/investors/social-requirements.html and Ethical Sourcing para. http://www.giordano.com.hk/web/hk/investors/social-statement.html)	100	15
5.2 Status of audit schedule - No reported evidence	0	5
5.3 Public disclosure of manufacturing sites - No reported evidence	0	10
5.4 Transparency of the labour standards auditing methodology - No reported evidence	0	15
5.5 External verification of labour standards audits - No reported evidence	0	20
5.6 Reporting of the results of audit of labour standards in the supply chain - No reported evidence	0	20
5.7 Dealing with non-compliance - No reported evidence	0	15
SECTION TOTAL SCORE / SECTION WEIGHTING	15	X 30%
TOTAL SCORE	13	/100

NOTES OF FINDINGS	COMPANY SCORE	QUESTION WEIGHTINGS (% OF SECTION)
1. Governance and Risk Management		
1.1 Board-level responsibility for ethical issues in the supply chain - No reported evidence	0	40
1.2 Reporting of labour standards issues in the supply chain as a risk factor - There is mention on the Social Responsibility section of the corporate website of labour standards in the supply chain as a risk factor (http://www.chickeeduck.com.hk/eng/responsibility.php).	33.3	30
1.3 Risk analysis of ethical issues in the company's supply chain - No reported evidence	0	30
SECTION TOTAL SCORE / SECTION WEIGHTING	9.99	X 10%
2. Code for Labour Standards in the Supply Chain		
2.1 Quality and score of the code for labour standards in the supply chain - No reported evidence	0	60
2.2 Publication and availability of the code for labour standards in the supply chain. - The complete code of conduct is available in the Social Responsibility section of the corporate website: (http://www.chickeeduck.com.hk/eng/responsibility.php).	100	20
2.3 Application of the code for supply chain labour standards - No reported evidence	0	20
SECTION TOTAL SCORE / SECTION WEIGHTING	20	X 20%
3. Stakeholder Engagement		
3.1 Membership of multi-stakeholders process - No reported evidence	0	50
3.2 Engagement with NGOs and/or trade unions relating to labour standards in the supply chain - No reported evidence	0	50
SECTION TOTAL SCORE / SECTION WEIGHTING	0	X 20%
4. Management		
4.1 Resource commitment - No reported evidence	0	30
4.2 Training for buying agents - No reported evidence	0	25
4.3 Training for factory management personnel and workers - No reported evidence	0	25
4.4 Reward and incentives - No reported evidence	0	20
SECTION TOTAL SCORE / SECTION WEIGHTING	0	X 20%

NOTES OF FINDINGS	COMPANY SCORE	QUESTION WEIGHTINGS (% OF SECTION)
5. Supply Chain Auditing and Reporting		
5.1 Commitment to auditing labour standards in the supply chain - There is a policy committing the company to auditing of its supply chain although the level of commitment is unclear (Social Responsibility section of the corporate website: http://www.chickeeduck.com.hk/eng/responsibility.php).	50	15
5.2 Status of audit schedule - No reported evidence	0	5
5.3 Public disclosure of manufacturing sites - No reported evidence	0	10
5.4 Transparency of the labour standards auditing methodology - No reported evidence	0	15
5.5 External verification of labour standards audits - No reported evidence	0	20
5.6 Reporting of the results of audit of labour standards in the supply chain - No reported evidence	0	20
5.7 Dealing with non-compliance - There is reference to handling non-compliance with the code of conduct but there is no indication of a staged approach to dealing with violations of the code (Social Responsibility section of the corporate website: http://www.chickeeduck.com.hk/eng/responsibility.php).	66.7	15
SECTION TOTAL SCORE / SECTION WEIGHTING	17.505	X 30%
TOTAL SCORE	10	/100

HEMBLY INTERNATIONAL HOLDINGS LIMITED

NOTES OF FINDINGS	COMPANY SCORE	QUESTION WEIGHTINGS (% OF SECTION)
1. Governance and Risk Management		
1.1 Board-level responsibility for ethical issues in the supply chain - No reported evidence	0	40
1.2 Reporting of labour standards issues in the supply chain as a risk factor - The company considers social issues as a risk but there is no explicit mention that labour standards are considered a risk.	0	30
1.3 Risk analysis of ethical issues in the company's supply chain - No reported evidence	0	30
SECTION TOTAL SCORE / SECTION WEIGHTING	0	X 10%
2. Code for Labour Standards in the Supply Chain		
2.1 Quality and score of the code for labour standards in the supply chain - No reported evidence	0	60
2.2 Publication and availability of the code for labour standards in the supply chain. - No reported evidence	0	20
2.3 Application of the code for supply chain labour standards - No reported evidence	0	20
SECTION TOTAL SCORE / SECTION WEIGHTING	0	X 20%
3. Stakeholder Engagement		
3.1 Membership of multi-stakeholders process - No reported evidence	0	50
3.2 Engagement with NGOs and/or trade unions relating to labour standards in the supply chain - No reported evidence	0	50
SECTION TOTAL SCORE / SECTION WEIGHTING	0	X 20%
4. Management		
4.1 Resource commitment - No reported evidence	0	30
4.2 Training for buying agents - No reported evidence	0	25
4.3 Training for factory management personnel and workers - Training is provided to production staff in the PRC on company compliance (see Prospectuses, June 2006, http://www.hkexnews.hk/listedco/listconews/sehk/20060630/03989/EWP117.pdf , Directors, Senior Management and Staff section, p.7, Other Benefits section, bullet point 1).	33.3	25
4.4 Reward and incentives - No reported evidence	0	20
SECTION TOTAL SCORE / SECTION WEIGHTING	8.325	X 20%

NOTES OF FINDINGS	COMPANY SCORE	QUESTION WEIGHTINGS (% OF SECTION)
5. Supply Chain Auditing and Reporting		
5.1 Commitment to auditing labour standards in the supply chain - No reported evidence	0	15
5.2 Status of audit schedule - No reported evidence	0	5
5.3 Public disclosure of manufacturing sites - Hembly has operation arms in China, including Nanjing, Yangzhou (see website, About us, Company background: http://www.hembly.com/ziye1_1.htm and Brand Management, Supply Chain Services: http://www.hembly.com/ziye6_3.htm); the addresses of Hembly's wholly-owned manufacturing facilities in Nanjing and Yangzhou are disclosed on its website (see Office Locator site: http://www.hembly.com/ziye4.htm).	33.3	10
5.4 Transparency of the labour standards auditing methodology - No reported evidence	0	15
5.5 External verification of labour standards audits - No reported evidence	0	20
5.6 Reporting of the results of audit of labour standards in the supply chain - No reported evidence	0	20
5.7 Dealing with non-compliance - No reported evidence	0	15
SECTION TOTAL SCORE / SECTION WEIGHTING	3.33	X 30%
TOTAL SCORE	3	/100

ENDNOTES AND REFERENCES

Endnotes

1. ILO (2008). *Global Employment Trends January 2008*. p.10. Full report is available at <http://www.ilo.org/public/english/employment/strat/download/get08.pdf>
2. The analysis uses a scoring system based on AccountAbility's online tool, the Gradient Index, available at <http://www.gradient-index.net>
3. AccountAbility is an international not-for-profit professional institute based in the UK dedicated to the promotion of organisational accountability for sustainable development through the development of innovative and effective accountability tools. For more information, visit www.accountability.org.uk
4. Ethical Trading Action Group (ETAG) in association with AccountAbility, *Coming Clean on the clothes we wear: Transparency Report Card*, downloaded from http://en.maquilasolidarity.org/sites/maquilasolidarity.org/files/ComingClean_Complete.pdf, December 2005. ETAG is a coalition of faith, labour and non-governmental organisations in Canada advocating for government policies, voluntary codes of conduct and purchasing policies that promote humane labour practices based on accepted international labour standards. The Maquila Solidarity Network is the secretariat of the ETAG. ETAG includes: Canadian Council for International Cooperation, Canadian Labour Congress, Canadian Auto Workers, KAIROS Canadian Ecumenical Justice Initiatives, Maquila Solidarity Network, Ontario Secondary School Teachers Federation, Oxfam Canada, Steelworkers Humanity Fund, and UNITE HERE.
5. With the courtesy of Maquila Solidarity Network (MSN), the section is taken from this MSN's report, Maquila Solidarity Network (2007). *The Next Generation of CSR Reporting: Will better reporting result in better working conditions?* p.4 & p.11. Full report is available at this location: <http://en.maquilasolidarity.org/sites/maquilasolidarity.org/files/CodesMemo22.pdf>
6. Nike, *FY05-06 Corporate Responsibility Report*, p.17
7. The section is also taken from the MSN's report, Maquila Solidarity Network (2007) pp.15-16.
8. Gap Inc. *2005-2006 Social Responsibility Report*, pp.84-85.
9. Business for Social Responsibility (2007). *Beyond Monitoring: A New Vision for Sustainable Supply Chains*, p. 5. For details, please refer to the full report at this location: http://www.bsr.org/reports/BSR_Beyond-Monitoring-Report.pdf
10. Nike, *FY05-06 Corporate Responsibility Report*, p.18

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