



Production being checked by one of our suppliers in Istanbul, Turkey



Our supply chain

We partner with our customers and suppliers to create value through the supply chain.

Our supply chain

We believe in building sustainable supply chains that create value for our customers, factories, workers and communities. We partner with customers and suppliers who share this commitment and collaborate with industry stakeholders to further positive change.

15,000+
SUPPLIERS WORLDWIDE

THREE LARGEST SOURCING MARKETS



1. China



2. Vietnam



3. Bangladesh

At Li & Fung we manage complex and unique supply chains in over 40 economies around the world for our customers. Our global supplier network has been evolving for over 100 years. While over 80% of our sourcing business is with a core group of strategic suppliers, our network also allows us the flexibility to move production across markets, balance capacity constraints and respond to demand, while meeting specific customer needs, such as proximity to the end-consumer or technical expertise and distribution. By sourcing from multiple factories across multiple markets, we can also activate business contingency plans when unexpected issues occur and continue production for our customers.

Our Vendor Support Services (VSS) unit focuses on the needs of our global supplier base as it addresses the challenges facing the industry. In 2015 we developed services to support suppliers to enhance productivity, operational and resource efficiencies and product testing, and to capture performance data along the supply chain. We want to help suppliers mitigate the increasing costs of labor and other inputs by better managing material and resource usage, production swings, operations and logistics.

Addressing challenges and opportunities in our supply chain is integral to our Sustainability Strategy. Our initiatives focus on three areas:

- Managing risk and furthering compliance in our supply chains
- Sourcing responsibly
- Collaborating with customers and partners to build sustainable supply chains

Supply Chain Compliance

Improving workplace conditions and overall factory management practices brings benefits to workers, suppliers, factories and communities. Each of the locations in our supply chain has a unique set of challenges that we manage through our network of on-the-ground teams and in collaboration with industry and non-profit organizations and local authorities.

Managing our supply chain risk starts with strategic sourcing decisions by our customers and/or sourcing teams and our continuing efforts to direct business to suppliers that share our commitment to compliance and enhancing sustainability performance. Our Vendor Compliance & Sustainability (VCS) team assesses supplier risk and compliance and supports factories to continually improve performance.

Our Supplier Code of Conduct, which is based on the International Labour Organization (ILO)'s core conventions, outlines the requirements for suppliers to do business with Li & Fung. This includes compliance with relevant local laws and regulations and meeting the Code Standards related to health and safety, labor rights, environmental protection, accountability, transparency and ethics. We also support our customers to meet the requirements of the California Transparency in Supply Chains Act and the UK Slavery Act, which came into effect in 2015.

Suppliers are required to sign acceptance of our Code of Conduct and accompanying Standards. Performance against our Code is assessed through audits conducted by our VCS team, or external audit firms approved by Li & Fung or our customers. When compliance violations are identified, the factory is provided with a Corrective Action Plan including a reasonable timeline for completing the remedial actions, which also must be verified by the audit team. Any grievances that arise as part of factory incident reporting are investigated by our VCS teams and the results shared with all concerned with a response plan to address the grievance.

Our compliance monitoring program is maintained throughout the business relationship with an expectation for suppliers to continually improve compliance performance as per their Corrective Action Plan and beyond. In addition, our VCS teams have developed and marketed fee-based training modules that specifically meet factories' needs for quality, compliance-related training.

As a supply chain manager, an important task is also to ensure product quality and safety. Li & Fung has experienced quality assurance and control (QA/QC) teams that follow global procedures to provide oversight of product safety testing and inspections. In 2015, there were no recalls of products for health and safety reasons.

Recognizing that our QA/QC personnel can be our "eyes and ears" in the supply chain, we have been progressively training them to be aware of observable potential safety hazards and underage and forced labor through our Observer Development Program. As part of our ongoing factory monitoring program, our QA/QC teams proactively identify such risks and incidents and raise them directly with factory management and our sourcing and compliance teams for appropriate follow up.



We are committed to building sustainable supply chains at Li & Fung.

**Richard Darling,
Head of Government and
Public Affairs**

Review of Our Audit and Compliance Process

In 2015, we conducted a thorough review of our audit program against evolving industry standards, key industry audit frameworks, consumer expectations and our experience on-the-ground working with suppliers to further compliance and performance. We reviewed our Supplier Code of Conduct, accompanying Standards and Guidance, introduced a new audit tool, established a new rating and grading system, expanded our equivalency program and enhanced our audit scope.

These enhancements are in response to the challenges facing our industry and are part of our broader shift to focus on remediation and capacity building to ensure that factories continually improve working conditions. The standardized audit tool, which meets our customers' requirements and aligns with common industry standards, allows for consistent audit execution and reporting. Our expanded audit equivalency program saves time and resources spent on duplicate and overlapping audits and Corrective Action Plans. The enhanced audit ratings and revised approval periods provide factories with longer timeframes to make improvements and the ability to track their ongoing performance and progress.

This new approach will drive efficiencies and empower factories to take ownership of their performance. Factories will see the value of investing in an audit and be more accountable and motivated to take action to improve factory conditions and compliance. Developing, and working with, a better supplier base creates a win-win situation for every stakeholder in the supply chain. The key updates are summarized below.

Supplier Code of Conduct

The updated Code more explicitly outlines our expectations for meeting key Standards related to:

- Management systems
- Health and safety practices
- Labor practices
- Environmental practices
- Accountability, transparency and ethics

Rating and Grading

A new rating and grading system was established to:

- Reduce audit fatigue with longer approval periods to allow corrective action to be implemented
- Add a numerical grading to allow for better tracking of supplier progress over time
- Provide clearer terminology for ratings

Equivalency Program

Our equivalency program was expanded to all factories to:

- Reduce audit duplication, overlapping Corrective Action Plans and turnaround time for factory approvals
- Enable VCS to review and convert audit reports by external parties to our grading

Audit Scope

The enhanced audit scope covers:

- Management systems – governance, risk assessment, grievance process, legal disclosure
- Health and safety – fire, electrical, machine, chemical and facility safety, emergency handling, first aid response, food health and safety, ergonomics
- Labor and ethics – voluntary labor, working age, working hours, wages and benefits, fair and equal treatment, freedom of association, ethical conduct, transparency
- Environment – air emissions, wastewater, noise pollution, hazardous waste
- Security (C-TPAT) – personnel security, physical security, information access controls, shipment information controls, storage and distribution, business partner requirements, export logistics, transparency in the supply chain

Social Audit

The social audit process was enhanced with a global protocol that clearly outlines expectations for conducting audit activities. These include raising cases for special handling such as zero tolerance issues, potential building structural collapse, when access is denied and when onsite corrections are required

Security Audit

The security audit was enhanced to ensure alignment with the US Customs and Border Protection Customs-Trade Partnership Against Terrorism (C-TPAT)'s minimum criteria for Manufacturers and Best Practices

591 
TRAINING SESSIONS
 6,965 factory representatives and
 5,044 employees attended

Supplier Capacity Building

We are committed to working with our suppliers to move them up the value chain. Building capability across our supplier base helps raise compliance standards in the industry. Improving factory operations and performance is part of our long-term goal of building sustainable global supply chains.

We focus our assessment, technical support and capacity-building efforts on establishing better-managed factories and better working conditions. The enhancements made to our auditing and compliance process in 2015 enable us to deepen our focus on improving factory operations through capacity-building programs. We believe that to achieve sustained change in the supply chain, it is essential to support factories to meet our compliance Standards, and to also ensure they have the information and training to build their capacity to integrate social and environmental best practices into their day-to-day operations.

We continue to implement training programs for our own employees and factory representatives on a number of topics, including new international regulations, customer-specific standards for health and safety, and environmental and social compliance. In 2015, we held 591 sessions for 6,965 factory representatives and 5,044 of our own people. This is in addition to the 634 training sessions held in 2014 for over 12,000 factory representatives and more than 3,000 of our employees.

A Snapshot of Our Training in 2015

Training Topic	No. of Factories	No. of People Trained
Conflict Minerals, Human Trafficking and Forced Labor	1,460	2,250
Fire and Electrical Safety	450	1,000
Social Compliance	390	700
Hazard and Risk Identification	90	250
Occupational Health and Safety	80	130

In addition to updating and enhancing our audit and compliance processes in 2015, we also took steps to shift the strategic focus of our VCS team from offering largely audit-based services to remediation and capacity-building services. The aim is to provide our suppliers and factories with the education, training and tools they need to upgrade their operations and comply with our Standards, which is also critical for the success of their business.

Some examples of the training modules we offer to suppliers and factories include:

- A capacity-building course for factories to learn how to remediate zero tolerance issues identified and to implement good practices to improve their performance and related audit score and rating
- An orientation course to educate factories on Li & Fung's compliance Standards, including our Supplier Code of Conduct and accompanying Standards
- A course to introduce basic principles of safety management in factories, including the most common issues of fire, electrical, and building and structural safety

This enhanced focus on capacity building enables us to provide suppliers and factories with all-encompassing packages for total factory improvement in addition to deeper support, such as on risk identification or fire safety management.

Our Sustainability Resource Center website provides our suppliers with compliance resources and tools, industry updates and training schedules designed to help suppliers better understand key compliance and operational issues, challenges and implications so that they can identify specific areas of improvement and develop action plans to enhance their performance. Information is regularly updated and materials are available in multiple languages.

Toolkits on how to improve key areas of business operations and health and safety are available and cover topics such as, occupational health and safety, building safety management, fire safety management, hazard identification and risk assessment, employee relations, and workforce planning. A suite of short, practical videos that are available in 14 languages were developed from the point of view of managers or workers to better communicate key issues. Video topics include: underage labor, managing working hours, electrical safety, fire safety, chemical safety, good governance and manufacturing excellence. In 2015, the videos were viewed 3,298 times and downloaded 1,960 times.

 Visit our website to view the Fire Safety for Workers video.

Sustainability Resource Center
Website Metrics in 2015

 **10,601**
WEBSITE VISITS

 **66,512**
PAGE VIEWS

 **7,492**
RESOURCE
DOWNLOADS

 **5,258**
VIDEO VIEWS
AND/OR DOWNLOADS

Sustainable Sourcing

Our approach to sustainable sourcing is to work with our customers, suppliers and industry partners to further the adoption of standards and best practices. We also provide our customers with sustainable design, manufacturing, products and packaging options. We do this to meet customer requests for sustainably-sourced materials and products with reduced environmental impact from well-managed factories.

Some of the ways we helped customers source products and packaging with sustainability attributes over 2015 include:

Apparel



- Garments made of cotton from certified organic sources, such as the Global Organic Textile Standard (GOTS), that meet the Better Cotton Initiative (BCI) standard, and/or have been produced by mills that have joined Cotton LEADS™ as partners
- Garments comprising recycled yarn, polymers, leather and shearling
- Garments that are fur-free or comprise responsibly-sourced angora wool or down feathers
- Textiles that are independently tested and certified to meet the Oeko-Tex Standard 100 criteria and/or REACH requirements
- Textiles and shoes sourced from suppliers that are phasing out hazardous chemicals in production for customers committed to Greenpeace's DETOX campaign
- Leather for shoes, wallets, covers and pouches produced from tanneries that are audited against the environmental responsibility practices of the Leather Working Group

Beauty Products



- Items that are biodegradable, not tested on animals and free of silicones, sulphates, parabens and colorants
- Products that meet industry standards and incorporate ingredients such as community trade organic olive oil, community trade shea butter and organic fine sugar, soya bean oil and rosehip oil in formulation design
- Toothpaste that is the first to be certified as organic in the world under the Oregon Tilth organic certification program

**Household Items,
Furniture and
Packaging**



- Household items, furniture and packaging made from wooden/paper materials that are Forest Stewardship Council™ (FSC™)¹ or Programme for the Endorsement of Forest Certification (PEFC)-certified, and meet the chain-of-custody requirements of the European Timber Regulation (EUTR) where applicable
- Household items, utensils and furniture made from natural materials and fibres ranging from bamboo, roots and branches of organic teak wood and wood from spent rubber trees, to banana bark and water hyacinth
- Gadgets made of recycled plastic and photo frames comprising recycled polystyrene foam, with recyclable packaging
- Packaging, luggage and other items using polyethylene terephthalate (PET) instead of polyvinyl chloride (PVC), polypropylene (PP), polycarbonate (PC) or acrylonitrile butadiene styrene (ABS), as well as PVC-free packaging material for polybags, clips, gum tape, strings, collar inlays and zippers

Additional examples of how we support customers and suppliers to further environmental and social performance in the supply chain include:

- Reporting to customers on the processes in place and supplier compliance in meeting legislative requirements related to chain-of-custody requirements for wood products² and components containing reportable minerals³, and required testing standards, such as BIFMA⁴ for furniture. This includes conducting product risk and traceability assessments for customers by raw material categories
- Supporting suppliers to join tailored programs, on topics such as energy-efficiency opportunities and energy consumption reporting, or manufacturing excellence to enhance productivity and operational performance
- Sharing our Sustainable Suggestions for our Partners which provide 'how to get started' modules on energy and water efficiency, greenhouse gas reduction, sustainable buildings, waste management, lean manufacturing and human resources

¹ FSC license numbers FSC-C113132, FSC-C114681, FSC-C116575 and FSC-C129309.

² As per the United States' Lacey Act of 1900.

³ As per the United States' Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

⁴ Business and Institutional Furniture Manufacturers Association (BIFMA).

Industry Collaboration

We recognize the power of collaboration to bring about meaningful change in the industry. We are involved in key industry initiatives that bring our customers and industry partners together to set standards and effect change. We also collaborate to implement focused programs that address the particular challenges of our industry and the specific production markets we operate in.

Cambodia

To raise awareness of building safety in Cambodia, Li & Fung has been actively engaging with the Government of Cambodia since 2014. This effort has led to the establishment of an inter-ministerial Working Group to develop Cambodia's Building Safety Code. The inter-ministerial working group comprises the Ministries of Land Management, Urban Planning and Construction, Labor, Industry and Handicraft, Health, the Interior and the Environment. We have engaged the International Code Council as our technical advisor to partner with the Working Group and to draft the Building Safety Code.

Bangladesh

We remain actively engaged in Bangladesh, where we work with governmental and non-governmental organizations, industry partners and suppliers to improve safety in factories.

We work closely with the Alliance for Bangladesh Worker Safety and the Bangladesh Accord on Fire and Building Safety as an advisor to both Boards and as a fully active member. We also fund both programs at the highest level – in line with the value of our sourcing in Bangladesh. In 2015 the focus for both initiatives was on education and the remediation of safety issues that surfaced through in-depth safety audits. We jointly organized a number of activities to implement and review progress over the course of the year. Over 2015, Li & Fung representatives participated in 120 factory visits and 280 meetings to support the Alliance and the Accord. Additionally, three training sessions were held and over 170 factories attended with over 330 participants in total. This contributes to continual progress being made by factories to remediate issues identified through the onsite assessments and addressed in training.

In addition to our support of the Alliance and Accord initiatives, we conducted training sessions on fire, structural and electrical safety for factory management and workers and to strengthen the capacity of our own QA/QC and merchandising teams in Bangladesh on social, fire, electrical and structural safety compliance issues.



Better Work

Li & Fung continues to be a Buyer Partner of Better Work, a partnership between the ILO and the International Finance Corporation that brings together governments, employers, workers and buyers to improve compliance with labor standards and promote competitiveness in the supply chain. In 2015, we supported factories in Cambodia, Indonesia, Jordan and Vietnam and hosted a Better Work Asia Buyers' Forum at our Hong Kong office.



BETTER WORK

Business for Social Responsibility (BSR)

We continue our partnership with BSR to implement the HERproject, which uses impactful peer-to-peer training and a local partner network to empower primarily female workers through education on nutrition, health and finance, and on improving workplace interaction, harmony and efficiency. An early indication of positive impact from the project shows reduced absenteeism and sick leave and improved workplace communication. The program will be further expanded in 2016.



Country	Program	No. of Factories	No. of Workers
Bangladesh	HERhealth	43	90,000+
Cambodia	HERhealth + Nutrition	12	19,000+
India	HERhealth + HERfinance	18	39,000+
Vietnam	HERhealth	16	26,000+
TOTAL		89	174,000+

Sustainable Apparel Coalition (SAC)

We have been actively involved in the development of the Higg Index, a suite of sustainability tools to help organizations standardize how they measure and evaluate the environmental performance of apparel products at the brand, product and facility levels.

In 2015, Li & Fung participated in the SAC's regional and global meetings, provided input on the Higg Analytics platform and worked with a customer and the SAC to pilot Advance Analytics for Higg Index data. As SAC updates the tool, we will support its pilot testing in a number of factories in our supply chain in 2016. We also support the Natural Resources Defense Council and SAC to implement Clean by Design, an initiative to reduce environmental impacts from manufacturing, in several textile mills in China.



We will continue to work with our partners to improve working conditions together in the supply chain.