

Our Supply Chain

We are building a digital platform with end-to-end visibility for customers and suppliers.



DAVICOM_D15B

Stretch Test (cont)

The stretch test will allow you to measure the extensibility and strength of which a fabric will no longer stretch. To do this you will require the following: Specimen length of stretch and force meters in the SAE, One record and target your findings into the provided template of 1 m². The reading from the length gauge and Superforce gauge contained will be used for measurement. You will need a minimum of 3 sets and a maximum of 5 sets for each stretch. When testing, you will need to determine which sets of length will be your control.

1. Mount the Specimen and the stretch gauge with it on the length gauge to the top mark the Superforce and Superforce gauge will be the test for the specimen.
2. Lock the Specimen at each end of the force bar.
3. Stretch both ends of the stretch between the Superforce gauge, along the same marks.
4. Adjust the force of each end to secure the stretch ends.
5. Turn on the Superforce gauge.

6. Measure length specimen

7. High Stretch Gauge: Turn the Superforce gauge and Superforce gauge with 100. If the marks along the force bar are not clear, use the force bar to mark the specimen.

8. Low Stretch Gauge: Turn the Superforce gauge and Superforce gauge with 100. If the marks along the force bar are not clear, use the force bar to mark the specimen.

9. Stretch: Increase the length. When the Superforce gauge is increased by 100 to complete your 3 to 5 sets of measurements. Stretch each set and then release the stretch. If you are unable to stretch the Superforce gauge, it is between your stretch and the Superforce gauge will be the test for the specimen.

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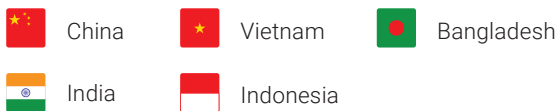
34. Stop the test by turning off the Superforce gauge.

Our Supply Chain

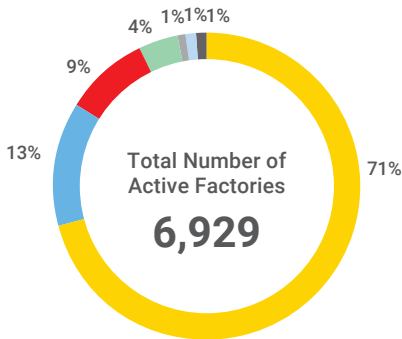
We design, source and deliver a diverse range of products – including apparel, footwear, accessories, furniture and household products – from a network of 10,000 suppliers in over 50 production countries to over 2,000 customers globally.

We believe that long-term relationships with suppliers enhances sustainability performance along the supply chain. While the trade landscape continues to change, we make every effort to place orders with existing factories rather than onboard new ones. In 2019, we sourced from over 6,900 factories with 1,146 factories contributing 80% of the value of goods shipped to our customers. These 1,146 factories represent 17% of our total active factories. We maintain long-term relationships (five years or more) with approximately 45% of our suppliers.

Top Five Sourcing Countries



Number and Percentage of Active Factories by Region



China	4,935	71%
South Asia	881	13%
Southeast Asia	649	9%
Europe and Turkey	270	4%
North Asia	83	1%
Americas	65	1%
Others	46	1%

Our Approach

Li & Fung is committed to driving responsible practices across our Company and supply chain. We support our suppliers to continuously improve their performance by providing tools, training and guidance to further safe workplaces, respect for fundamental rights, environmental resilience and a high-level of business transparency and ethics along the supply chain.

The Supply Chain pillar of our Sustainability Strategy has three focus areas: safe workplaces, human rights and environmental resilience.

These focus areas have performance indicators that support our contribution to the following UN Sustainable Development Goals (SDGs):



2019 Highlights

- Safe Workplaces**
 191 supplier factories scored 100% on worker safety under the Bangladesh Accord or Alliance
- Human Rights**
 We updated our Supplier Code of Conduct to strengthen provisions on labor and human rights, with more stringent ratings related to environmental compliance
- Environmental Resilience**
 We are one of the largest adopters of the Higg Facility Environmental Module (FEM) with 1,023 suppliers reporting environmental data

Industry Leadership for Change

Li & Fung is a member of several global industry initiatives to further sustainability in the supply chain.

Global Fashion Agenda

Since 2016, Li & Fung has been a Strategic Partner to the Global Fashion Agenda (GFA). We support this leading organization in its mission for the fashion industry to prioritize sustainability. We also contribute supply chain expertise to GFA's thought leadership, including input to the Pulse of the Fashion Industry performance updates, and the CEO Agenda that sets priorities to align the industry towards a more sustainable future. In turn, we leverage these materials to evolve our sustainability strategy. We also support GFA's Policy Engagement work, which advocates for practical, effective policy solutions to accelerate the shift to a circular economy in the EU.

GFA's CEO Agenda outlines the following key sustainability priorities for the fashion industry.

Four core priorities for immediate implementation:

- Supply chain traceability
- Reversing climate change
- Efficient use of water, energy and chemicals
- Respectful and secure work environments

Four transformational priorities for fundamental change:

- Sustainable material mix
- Circular fashion system
- Promotion of better wage systems
- Fourth Industrial Revolution

Li & Fung leaders engage in GFA's annual Copenhagen Fashion Summit, which convenes industry leaders and experts to set bold sustainability goals and drive solutions forward. The 2019 Summit began with a call to action which led to the launch of the Fashion Pact in August 2019.



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The Fashion Pact

As part of the Fung Group, we joined forces with 250 of world's biggest fashion and textile brands to sign The Fashion Pact in August 2019 at the G7 summit. The signatories have committed to improving sustainability standards in the fashion industry by taking action to stop global warming, restore biodiversity and protect the oceans.

Ocean Conservancy Arctic Shipping Pledge

Our Logistics business signed the Arctic Shipping Corporate Pledge in October 2019, launched by Nike and the Ocean Conservancy. As a signatory, we are one of 20 consumer goods and shipping logistics companies that commit to not intentionally ship goods through the Arctic Passage. We are proud to join the global movement to avoid shipping through this environmentally-sensitive route.



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Ellen MacArthur Foundation (EMF)

The EMF launched in 2010 with a mission to accelerate the transition to a circular economy. The Fung Group has been part of EMF's Make Fashion Circular initiative since it launched in 2017. The initiative drives collaboration and innovation between industry leaders and other stakeholders to create a new textile economy aligned with the principles of a circular economy — one that ensures clothes are made from safe and renewable materials, new business models increase their use, and old clothes are turned into new.

Managing Risk and Furthering Compliance in our Supply Chain

Structure and Governance

Our Compliance & Sustainability team, which is responsible for overseeing our vendor compliance operations and working with customers to strengthen compliance and sustainability performance, maintains its independence from external and internal stakeholders by reporting to the Group Chief Executive Officer. Further oversight is provided by Fung Group's Vendor Compliance and Sustainability teams, which retain responsibility for governance, policy, internal audit and industry partnerships. Li & Fung's Risk Management and Sustainability Committee, a Board-level committee led by the Honorary Chairman, meets quarterly to review the Company's management of supply chain and other risks and provide recommendations for improvement, and to report on performance to the Board.

The Compliance & Sustainability team has over 30 employees based in 12 markets globally. This team is supported by a business risk and supply chain compliance company, ELEVATE, that executes activities such as equivalency, auditing and remediation (see the 'Monitoring and Due Diligence' section).

Supplier Code of Conduct and Onboarding

Managing supply chain risk starts with Li & Fung's Supplier Code of Conduct (Code). The principles enshrined in the Code are grounded in the UN Universal Declaration of Human Rights and the International Labour Organization (ILO)'s 1998 Declaration on Fundamental Principles and Rights at Work, as well as local law.

The Code is available to suppliers in multiple languages, and its accompanying standards incorporate guidelines on social, environmental and security standards as well as practical resources for implementing standards within factory operations. All suppliers must commit to adhere to these minimum standards as a condition of doing business with us.

Rigorous factory onboarding is a crucial step in mitigating risk. We provide regular onboarding training to new factories and our own business units so they understand the key principles of the Code and the consequences of non-compliance.

In 2019, we updated the Code to incorporate emerging requirements, including strengthened standards related to safe workplaces, labor, human rights and environmental resilience. In 2019, new provisions were also added for responsible recruitment in line with ILO general principles and operational guidelines for fair recruitment, as well as more stringent requirements on responsible chemical management and the treatment of hazardous wastewater. To introduce the updated Code, we have so far hosted 51 training sessions in key sourcing countries for colleagues and suppliers, with more planned. The training highlights all key changes, their potential impact and requirements for adherence. To date, 2,487 factories have signed their acceptance of the new Code with a deadline for the remainder by 31 March 2020.

[Visit our website to download the Code and detail on our compliance standards, requirements and ratings, and approach to remediation.](#)

Monitoring and Due Diligence

Compliance with the Code is assessed by a designated third-party audit firm. All of our direct suppliers (tier 1) are audited according to a timeline, which varies according to their level of risk. The performance of our third-party audit firms is monitored by a robust system of key performance indicators covering areas such as integrity, performance and accuracy. We also rotate the audit firms who conduct our onsite audits to maximize the strengths of each firm and to reduce the risk of collusion with factory management.

Li & Fung accepts audits from twelve recognized social and/or environmental compliance standards that meet our requirements as part of our audit "equivalency" program. This mutual recognition program has drastically reduced audit duplication and allows supplier resources to be reallocated to the sustainable improvement of critical issues. We also accept audit reports from over 140 customer-specific programs.

As part of our assurance program for factories audited against industry and customer standards, Li & Fung and designated third-party audit firms conduct unannounced spot checks, with a particular focus on factories in countries where there are increased risk factors, such as a lack of

transparency, presence of vulnerable groups of workers, or factories that are operating under long approval periods based on their compliance rating. Where data from a spot check suggests a critical compliance issue has been systemically missed by an industry standard, we share that information with the industry standard for improvement. In 2019, there were unannounced spot checks in 424 factories across 14 countries.

To further support efforts to reduce duplicative audits, Li & Fung has been involved in the Social & Labor Convergence Program (SLCP) since 2016 and on its Steering Committee since 2017. The SLCP's aim is to implement 'one single assessment for all, more resources and improvements for everyone' through a Converged Assessment Framework (Assessment). In 2019, we introduced the Assessment in several of our Logistics' distribution centers. We also engaged in a joint pilot with ILO Better Work and SLCP in our supply chain in Indonesia that identified improvement opportunities that will be reflected in the next iteration of the Assessment.

Since 2014, the Observer Development Program remains an important part of managing supply chain risk with our quality assurance and quality control (QA/QC) teams identifying critical, observable non-compliances when visiting factories and immediately raising them to the Sustainability & Compliance team for action. By the end of 2019, 90% of our QA/QCs have been trained.

Regional and Country Risks

We combine audit data from over 12 different industry standards with spot check and incident data to provide a more accurate picture of risk by country and region. Some of the challenges identified in 2019 are listed below. Our risk and compliance management focuses on proactively identifying non-compliances, capacity building and industry collaboration, as well as remediation to address these challenges.

- Globally, the main zero-tolerance risks in 2019 related to health and safety and transparency and ethics. Many of these issues were identified through unannounced spot checks, which remain a key tool for identifying risk in the supply chain. Zero-tolerance issues are remediated with additional risk-mitigation and capacity-building measures undertaken through our industry partnerships (see the Partnerships and Capacity Building section).

- In China, as observed widely in the industry, there continue to be issues regarding employer payment of social security for workers and payment for overtime that exceeds legal limits. Other issues are related to health and safety, the incorrect use of Personal Protective Equipment (PPE) and chemical management systems that require improvement. China also has a high number of cases of illegal hazardous waste disposal. We regularly review the Institute of Public & Environmental Affairs' (IPE) Blue Map Database to track environmental violations and emission data and as needed require suppliers to take the necessary actions bring their operations into compliance.
- In the Indian Subcontinent, while there have been improvements in aspects of health and safety, many factories continue to be cited for incorrect use of PPE, chemical management systems that need improvement and lack of proper fire certificates.

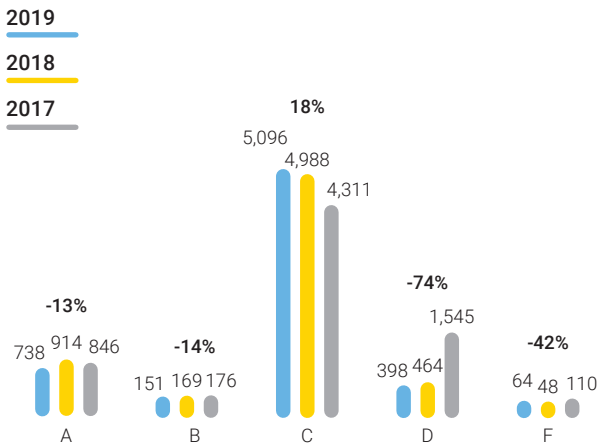
Rating Suppliers

Li & Fung measures factory performance in accordance with our internal rating system. Factory approval is linked to ratings, with higher performing factories approved for longer periods. When non-compliances are identified, this negatively impacts factory approval periods and factories must commit to remediating the issue. For more information on remediation please refer to the section on 'Continuous Improvement'.

Overall factory ratings in 2019 remained comparable to those in 2018 with C-rated factories remaining stable and D-rated factories decreasing by 14% owing to the remediation program as well as policy restrictions for not onboarding new D-rated factories¹. The number of A- and B-rated factories decreased with a marginal increase in zero-tolerance findings. This is the result of a rationalization of the supply chain and also an increased number of spot checks on A- and B-rated factories – the latter of which led to a greater percentage of downgrades. In addition, in 2019, we connected our supply base to industry standard platforms, such as amfori BSCI and Sedex, which increased our visibility regarding zero-tolerance findings identified through those platforms and their members. The substantive changes in factory ratings between 2017 and 2019 is a positive result of our strategic factory rationalization, the implementation of our remediation program and our more robust entry requirements for new factories, which has led to the reduction in the number of factories in the D and F categories.

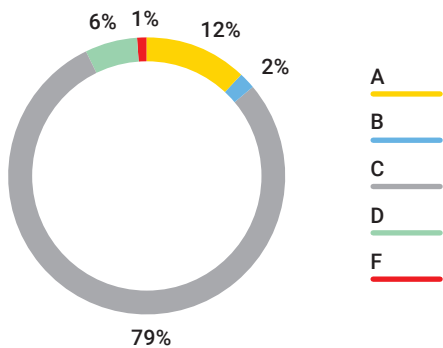
1 The substantive change in D ratings between 2017 and 2018 is attributed to the introduction of our remediation program and the policy restriction for not onboarding new D-rated factories in 2018.

2019/2018/2017 Rating Trends² and Change 2019/2017



2019 Rating Distribution

Factory Compliance Ratings Aggregated Globally



Refer to our website for a definition of Li & Fung’s compliance ratings.

Continuous Improvement

Li & Fung continues to engage suppliers to improve performance through a mix of capacity building and remediation and to evolve our remediation to be more in line with international standards, including the UN Guiding Principles on Business and Human Rights.

Non-compliances may be identified through an audit, a spot-check or other sources. As long as there is no immediate threat to workers or other concerned parties, the non-compliance is discussed with the factory representative who then develops a Corrective Action Plan (CAP) with a focus on root cause analysis and prevention. For D- and F-rated issues, we closely monitor and support the factory improvement process and verify remediation. If zero-tolerance issues are not systematically remediated, business is terminated with a responsible exit plan. In 2018, Li & Fung partnered with ELEVATE to execute our remediation program, including CAP follow-up and onsite visits for remediation verification. Throughout 2019, more than 1,300 factories participated, leading to upgrades where sustainable improvements were made or deactivation in cases of insufficient progress.

For non-compliances that involve underage workers, we work in partnership with the Center for Child Rights and Corporate Social Responsibility to develop a responsible solution that is in the best long-term interests of the child. Remediation follows available best practice and will seek to meet the educational, social and economic needs of any child concerned.

Child labor remediation is usually accompanied by in-factory responsible recruitment training for factory management. To date, this program has increased factories’ awareness of, and ability to prevent, child labor from occurring. Through this multi-layered approach, we have been able to build sustainable management practices for recruitment. Additionally, we supported CCR CSR’s Child Friendly Spaces program in 2019, collaborating with two factories in China that employed a high percentage of migrant worker parents. The project created a childcare room inside the facility and CCR CSR helped to identify and train the childcare providers. The program was a win-win for everyone; parents were able to work knowing their children were in a safe environment, children had the opportunity to their spend summer vacation close to their parents and factory owners noticed that they had a happier and more productive workforce.

² Rating data has been restated for 2018 and 2017 as data previously included data for Li & Fung’s three Product Vertical businesses, Furniture, Beauty and Sweaters. The strategic divestment of these businesses was announced in December 2017 and completed in April 2018.

Grievance Mechanisms

Grievance mechanisms are essential processes that provide access to remedy for workers and a critical component of ensuring factories achieve sustainable improvement. In 2019, we worked towards building more efficient and effective grievance mechanisms in our supply chain through our industry partnerships.

- In Bangladesh, ILO-Better Work organized a two-day workshop in June 2019, which provided factory management participants with the opportunity to develop systems that underpin the resolution of conflict through grievance procedures, while enhancing the capacity of both workers and management to create a culture where workplace issues and conflicts can be addressed.
- In Bangladesh, we continue to work with the Alliance helpline, Amader Kotha, which encourages workers to engage outside help for critical fire and safety risks. In 2019, we responded to five alerts from the hotline either through our remediation program or via partnerships such as Better Work. We also responded to five incidents raised through our ongoing interaction with participants in the Accord.

- In Vietnam, we work with the Life and Building Safety (LABS) Initiative, an industry-driven program to mitigate preventable fire, electrical and structural safety risks. The program includes a safety hotline for workers to report on possible workplace safety risks directly to LABS. While the helpline is primarily intended to focus on workplace safety, we are also alerted of other critical non-safety issues in factories. We take immediate steps to verify and remediate these cases.

Addressing Systemic Issues through Capacity Building

The Li & Fung Sustainability Resource Center is a free, online platform open to all our suppliers and factories, providing them with access to an extensive library of sustainability training, resource materials and toolkits and all our learning videos, which are also publicly available on YouTube³. In 2019, the platform had 4,097 hits, 21,320 page views and 1,504 resource downloads.

In 2019, we offered general compliance training, training on our updated Supplier Code of Conduct and training on zero-tolerance issues and other specialized topics for over 2,100 suppliers and over 100 colleagues in 14 different countries.

Compliance Capacity-building Training Sessions in 2019

Hub Location	General Compliance	Updated Supplier Code of Conduct	Training on Rating and Remediation, Zero Tolerance and Critical Issues ⁴
Americas	0	3	6
Europe	3	3	3
Hong Kong	0	2	6
China	7	12	6
Indian Subcontinent	31	13	9
Southeast Asia	44	18	13
Total	85	51	43

³ https://www.youtube.com/channel/UcaIV_MGCKI0prY88YhpEaLg

⁴ Topics included child labor prevention, unauthorized subcontracting and environmental resilience (e.g. Higg FEM, chemical management).

Partnerships and Capacity Building



Safe Workplaces

We work closely with our suppliers, industry peers and external partners to maintain safe workplaces for the people who work in our supply chain.

We continue to partner with critical stakeholders to promote workplace safety in Bangladesh. The results achieved by the Accord and Alliance, highlighted below, demonstrate the value of collective action, which has driven measurable improvements in safety through in-depth assessment and remediation of findings, supplemented with worker empowerment and worker safety training programs.

ALLIANCE/NIRAPON

From 2013 to 2018, we engaged closely with the Alliance to conduct detailed engineering inspections in the areas of structural, electrical and fire safety to assess risk at factories in our supply chain and support remediation of issues in alignment with the industry. In addition, via the Alliance, safety training for workers, managers and security guards was provided, as well as a worker helpline.

The Alliance completed its mandate in 2018, with a majority of factories, including 118 in our supply chain, having completed full remediation of critical issues. However, the industry recognized the need to ensure progress would be maintained. In 2019, Nirapon was launched to support the ongoing industry effort to conduct safety monitoring and training of suppliers and oversee helpline activities. As Nirapon members, we support its efforts and look forward to continued collaboration with Nirapon and other stakeholders towards sustainable solutions that ensure worker safety is prioritized.

ACCORD

While the Accord's initial tenure in Bangladesh finished in May 2018, Li & Fung remains committed to the safety of the people who work in our supply chain and continue to offer on-the-ground support to factories in the Accord program. Currently, Accord factories in our supply chain have remediated an average of 93% of findings identified in

initial inspections, with 53 factories (33%) achieving 100% remediation. As the Accord is set to transfer all current activities over to the Readymade Sustainability Council (RSC)⁵ by June 2020, Li & Fung will maintain close dialogue with all stakeholders as the future of the RSC is clarified.

LIFE AND BUILDING SAFETY (LABS)

We are a founding member and sit on the steering committee of LABS, an industry-driven initiative by multiple brands and retailers to mitigate preventable fire, electrical and structural buildings safety risks in key apparel and footwear producing countries. IDH, The Sustainable Trade Initiative, facilitates the establishment and operational setup of LABS in targeted countries to work towards a harmonized safety standard for apparel and footwear factories.

Since August 2019, we have been supporting IDH's rollout of the program in Vietnam to both mitigate risk and to encourage a safety mindset within factories. It includes an initial safety assessment to identify risk and provide factories with a clear, timebound CAP, and access to a safety hotline. Though the program does not include setting up Occupational Health and Safety (OHS) committees, factories must establish a functioning OHS committee, in compliance with local legislation, in order to graduate from the program. These committees empower worker and employer representatives to identify and solve health and safety problems at the factory together.



Human Rights

Our human rights framework is guided by the UN Guiding Principles on Business and Human Rights. We define human rights as those identified in the International Bill of Human Rights and the ILO's 1998 Declaration on Fundamental Principles and Rights at Work. These principles, and in particular, their application to national law and real-life contexts, help inform and shape our own human rights policies and processes.

5 <https://apparelresources.com/business-news/sustainability/readymade-sustainability-council-set-up-in-bangladesh-to-ensure-workers-safety/>

In 2019, we advanced human rights in our supply chain through key areas related to social dialogue, gender, worker empowerment and wellbeing, modern slavery, child labor and digital wages. We also publish an annual statement⁶ on our efforts to address and eliminate modern slavery and human trafficking in compliance with the regulations of the California Transparency in Supply Chains Act (SB 657) and the UK Modern Slavery Act of 2015.

SOCIAL DIALOGUE PROJECT

In partnership with Just Solutions, we developed the Social Dialogue 2.0 program to strengthen the relationship between factory workers and management through constructive dialogue. Running since 2018 in 20 factories in Bangladesh, it builds on the success of the first version of the program, which yielded a reduction in employee turnover rate to 3.16% from 4.13%, a decline in absenteeism by 8%, and 96% positive feedback from participants.

Training has since been provided to over 700 participants that aims to evolve the dialogue a step further by creating an atmosphere of trust between employees and management. Social Dialogue 2.0 will run through to November 2020 to help ensure the benefits of social dialogue are realized in accordance with the Bangladesh Labor Act and Labor Rules. An impact assessment is planned for March 2020 to review the progress made by the participating factories.

ILO/IFC BETTER WORK

We engage closely with Better Work, a partnership between the ILO and the International Finance Corporation (IFC), to support improved social impact in our supply chain. Better Work offers a comprehensive program for its member factories that includes an in-depth social compliance assessment with regular advisory services to support the sustainable improvement of key findings. Better Work's program engages closely with workers throughout its assessment and advisory process. A total of 192 factories in our supply chain engaged with the Better Work program in 2019.

Country	Factories Engaged in Better Work's Program	
	2019	2018
Bangladesh	26	32
Cambodia	38	21
Egypt	1	0
Haiti	1	1
Indonesia	37	53
Jordan	11	7
Nicaragua	4	3
Vietnam	74	69
Total Factories	192	186

In addition to assessment and advisory services at a factory level, we participate in Better Work's Building Bridges program. This program acknowledges that factory level engagement and training are important, but that legislative change is also required. The Building Bridges program is designed to support governments to more effectively drive improvement through capacity building and knowledge sharing, as well as facilitate deeper engagement and collaboration between brands, retailers, local governments and other national stakeholders.

Through the Building Bridges program, our team in Vietnam engaged with Vietnamese government officials to share practical insights on effective approaches for proactively identifying and addressing industrial relations risk. Better Work will establish a monitoring system and platform for sharing resources, and new topics for the program will include industrial relations and worker organizations, gender and implementation of the planned, new labor law.

In Nicaragua, our Central America team also engaged with Ministry of Labor and other governmental representatives via the Building Bridges program, with the aim of improving social dialogue in the country's workplaces.

6 <https://www.lifung.com/wp-content/uploads/2019/08/LF-Modern-Slavery-Statement-2019-FINAL.pdf>

ETHICAL TRADING INITIATIVE (ETI)

ETI is an alliance of companies, trade unions and NGOs working collaboratively through projects, research and advocacy to drive the application of ETI’s principles in international supply chains. Headquartered in the UK, ETI is one of the leading multi-stakeholder initiatives operating in the area of human rights at work. Its Base Code is an internationally-recognized set of labor standards founded on the conventions of the ILO. A critical aspect of ETI membership is reporting on progress in implementing the ETI Base Code and principles across our supply chain, so that ETI can monitor our progress over time and ensure continuous improvement. As a new Foundation member of ETI, we submitted our first report in January 2020.

WORKERAPP

The WorkerApp, created by Li & Fung and the Fung Academy and launched in 2018, aims to improve the lives of factory workers through technology. It is a free, digital platform that enables two-way communication between workers and factory management and engages workers through surveys, announcements and educational content about finance, gender, personal hygiene, wellbeing and other topics. It also helps factory management better understand workers’ needs and expectations of the work environment so that the factory can improve conditions and ultimately, workers’ loyalty and satisfaction. To date, we have successfully launched the LF WorkerApp to 57 factories in four production countries, reaching over 20,800 workers in English, Vietnamese, Bahasa, Hindi, Kannada, Tamil and Bengali.



The app aims to help factory management engage workers through surveys, announcements and educational content on health, safety and productivity topics.

2019 key achievements include:

- Number of average monthly active users in 2019 has increased by 433% over 2018
- Partnered with MasterCard to offer financial literacy lessons to workers using the app, accumulating over 3,000 views in the last 3 months
- Enhanced the app’s functionality by adding survey tools and dashboards to allow for enhanced communication between workers and management

ENDING MODERN SLAVERY

Li & Fung supports the Commitment to Responsible Recruitment, spearheaded by the American Apparel and Footwear Association and Fair Labor Association. In response to this commitment, we updated the Li & Fung Supplier Code of Conduct to include a stronger commitment to Responsible Recruitment.

In January 2019, we developed an e-learning training, which shares best practices and case studies on identifying and preventing modern slavery. It was rolled out to all of our apparel and footwear sourcing teams and, as of December 2019, 100% of these colleagues have completed the training. We also partnered with Verité to organize a two-day training for factory staff in Taiwan. A total of 16 factories attended the workshop to learn about the common risks and challenges in third-party recruitment and the employment of foreign migrant workers, and shared experiences and best practices on how to improve visibility and minimize risk in the recruitment process.

In November 2019, as a part of the “Ethical Recruitment as Prevention of Involuntary Work” project, ETI piloted a Learning Map with various resources, as well as its China Recruitment Practice Survey, which are all easily accessible via a smart phone. To date, over 170 of our suppliers have participated and feedback on the training content and approach has been positive:

“The training materials provide great detail on modern slavery, which help us to understand the requirements of relevant regulations and laws as well as expectations of brands,” Factory Manager, 2019.

“Learning Map is very well designed. Videos and pictures are more interesting and easier to understand than reading words only”, Factory Compliance Officer, 2019.

We will continue to work closely with ETI to scale the pilot, and to develop other effective training approaches to equip factories in our supply chain with hands-on knowledge and toolkits to combat modern slavery.



We updated the Li & Fung Supplier Code of Conduct to include a stronger commitment to responsible recruitment in 2019.

MEKONG CLUB AND APPRISE AUDIT

The Mekong Club mobilizes the private sector to disrupt and end modern slavery. As a member of the Mekong Club's Apparel and Footwear Working Group we leverage the organization's expertise, platform, tools and strategies to improve due diligence and risk assessment, and educate key stakeholders on how to address the root causes of modern slavery. In 2019, Mekong Club and the United Nations University Institute in Macau developed the Apprise Audit tool (Apprise). Apprise is an innovative voice app that enables more workers to be engaged during an audit in a safe, effective and anonymous way. During a typical factory audit, the auditor has limited time to interview workers who may be afraid to speak out, or there may be a language barrier. This is even more challenging in the engagement of migrant workers, who are often more vulnerable and at risk of being trapped in forced labor. Apprise uses a mobile app to ask workers questions in their local language to discover any red flags for forced labor. We provided funding for the Apprise question set to be translated into three local Indian languages and have also tested it in 22 factories in Bangladesh, Malaysia, Thailand and Vietnam.

DIGITAL WAGES

In 2019, we updated our Supplier Code of Conduct to include a provision that suppliers should commit to progressively implementing a digital wage/remuneration policy and system to ensure transparency of wage payments.

We continued to work closely with Business for Social Responsibility (BSR) to roll-out the HERfinance Digital Wages program in Bangladesh with support from the Bill & Melinda Gates Foundation. Since 2015, 64 factories in Bangladesh (nine of which are in our supply chain) have been engaged in the program. As a result, 148,954 workers, with 57 percent of them being female, have adopted digital wages, and more than 100,400 workers, with the majority of them also being women, are being paid via a digital payroll account.

Read more about the digital wages programs, including testimonials from beneficiaries, on our website.



Environmental Resilience

Li & Fung recognizes that the state of our natural environment means that we cannot continue to conduct business as usual. We understand that we all have a responsibility to address our contribution to climate change and environmental degradation and that through working together, our industry will be better equipped to drive the necessary change.

We focus on identifying environmental risk in our supply chain, reducing environmental impact along the supply chain and developing and implementing solutions for improved environmental performance at scale. We partner with thought leaders, brands, retailers and suppliers to support industry-wide improvement. Key environmental risks in the supply chain include:

- wastewater and chemical pollution from fabric production, dyeing and finishing
- water scarcity, which is intensified by raw material sourcing and processing and fabric production
- energy consumption, greenhouse gas and air emissions, and climate change related impacts at all levels of the supply chain

Extreme weather induced by climate change has the potential to physically impact and disrupt different points in the supply chain, from the harvesting of natural materials/inputs and the production of goods by our suppliers, to the storage and delivery of final products to our customers. Managing these risks is incorporated into our risk assessment process.

We increasingly source goods from suppliers that operate energy-efficient factories and support our suppliers' transition to become leading facilities, in terms of environmental performance and automation technology. Examples of our actions are outlined below.

ENVIRONMENTAL ATTRIBUTES IN SOURCING AND THE ADOPTION OF VIRTUAL 3D DESIGN

We are committed to meeting and encouraging customer-requests for sustainably sourced materials and products with reduced environmental impact from well-managed factories.

Virtual 3D design and sampling for our customers not only enables us to quickly share concepts, perfect designs, select materials and tweak product attributes, but to avoid environmental impacts from travel and transportation and reduce wastage from the sample and product production processes. In 2019, the Fung Academy and Masters' students from the Hong Kong University of Science and Technology studied the economic, environmental and social impact of 3D design technology for two garments, from initial design to the final sample stage. Results showed that the use of digital sampling reduces the overall lead time by 45%, reduces cost by 69%, and reduces environmental impact by 55% with substantive reductions in GHG emissions and water consumption.

For another customer, our sourcing team undertook an analysis of all the fiber materials sourced for the customer's garments to identify the impacts along its supply chain and alternatives that could be sourced with reduced environmental and/or social impacts. Each material was prioritized based on the results of lifecycle assessments using resources and data available on various low impact fibers through the Textile Exchange, certification schemes such as GOTS⁷ and BCI⁸, and the Higg Material Sustainability Index.

This work was done in close collaboration with our technical teams to ensure that the sustainable options were viable and met the customers' pricing and quality requirements. Once alternatives were validated and confirmed, education and support on adopting certification schemes and related Standard Operating Procedures were provided to our colleagues, customer and suppliers. This was important as every supply chain actor needed to have a comprehensive understanding of both certification and related legal requirements.



3D virtual design avoids environmental impacts from travel and transportation and reduces wastage from the sampling and product production processes.

[↗](#) Visit our website to view examples and details of how we source items with environmental attributes.

SUSTAINABLE APPAREL COALITION (SAC)

As a founding member of the SAC, we have been pleased to collaborate with industry leaders towards a more sustainable industry and contribute to the rollout of the Higg Index. We continued to focus on broad adoption of the Higg Environmental Module in 2019, with 1,023 suppliers reporting, recognizing that measuring supply chain environmental impacts at scale via the Higg Index is critical to driving continuous improvement among our supply base. This was achieved with support throughout the organization: business leaders were engaged in the process and were critical partners to communicate our commitment to our suppliers. In addition, the data we collect via the Higg Index continues to improve our understanding of our indirect environmental impacts to support the development of a baseline for our own continuous improvement.

7 Global Organic Textile Standard (GOTS).
 8 Better Cotton Initiative (BCI).

ENERGY SENSOR PROGRAM

The Energy Sensor Program, now in its second year, is designed to help suppliers reduce their energy consumption and drive efficiency through. Packages, comprising electricity sensors, a web-based tool and a mobile app, are implemented in factories. Data is then collected to pinpoint how energy can be used more efficiently. After encouraging trials conducted in China and India, Li & Fung is looking to expand the program amongst interested suppliers, which is part of a larger program to build supply chain capabilities around digitization and IoT to further sustainable improvements in factories across the region.

LI & FUNG BETTER CHEMICAL MANAGEMENT PROGRAM

The use of hazardous chemicals in the global textile, apparel and footwear industry affects the health and wellbeing of the people who wear clothing, those who produce it, and the environment. To address this risk, we launched the Better Chemical Management Program (BCM) to monitor, reduce and ultimately eliminate hazardous chemicals in our supply chain. We partnered with sustainability accelerator GoBlu on a pilot program to eliminate key chemicals from wet processing facilities in the supply chains of our private label business.

The program, which was initiated in 2017, focuses on tracking and managing chemical inventories using GoBlu’s digital platform, The BHive. The BHive platform allows a facility to efficiently upload its chemical inventory on a mobile device. The platform provides feedback on the risk of these chemicals including whether they meet leading chemical standards such as ECO PASSPORT⁹, GOTS, bluesign[®] and the ZDHC MRSL¹⁰. This information can be shared with brands and retailers for full visibility into a facility’s chemical inventory without the need for testing.

In 2019, the results of the pilot included:

- Chemicals at high risk of containing restricted substances or with no proof of chemical compliance were reduced by 23%
- Chemicals certified/accepted by a leading chemical standard increased by 22%

- Suppliers improved their chemical management practices by implementing recommendations in the areas of chemical management systems, chemical compliance assurance, awareness and knowledge of restricted chemical requirements, sustainability capabilities, and overall environmental management practices

As brands, retailers, end consumers and stakeholders increasingly demand cleaner fashion and reasonable prices, the BCM program enables Li & Fung to build a supply chain that can meet these needs.



The Better Chemical Management Program focuses on tracking and managing chemical inventories using GoBlu’s digital platform, providing full visibility on chemical risk to brands and retailers.

9 ECO PASSPORT by OEKO-TEX[®].

10 ZDHC (Zero Discharge of Hazardous Chemicals) Manufacturing Restricted Substances List (MRSL).