





# 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 workers, factories, communities and our customers. We partner with customers and suppliers who share this commitment and collaborate with industry stakeholders to further positive change.

At Li & Fung we connect suppliers in over 40 markets around the world to manage our customers' unique supply chains. The scale of our global supplier network involves over 15,000 suppliers globally allowing us the flexibility to move production across markets, balance capacity constraints, respond to production and distribution trends and meet specific customer needs, such as proximity to the end-consumer or technical expertise. Within this global network, our three largest sourcing markets in 2014 were China, Vietnam and Bangladesh. China continued to be the largest. Softgoods accounted for 49% and hardgoods 51% of total production in China, whereas production in Vietnam and Bangladesh was largely apparel.

In 2014, we announced the creation of a new business unit, Vendor Support Services (VSS), to focus more intensely on the needs of our global supplier base as it addresses the challenges facing the industry. As part of our service offering we aim to help our suppliers better manage production shifts, innovate for systematic and sustainable change, improve operational efficiencies, enhance factory and worker safety and raise compliance standards in the global supply chain.

Addressing challenges and opportunities in our supply chain is integral to our Sustainability Strategy. Our initiatives focus on three areas: (1) managing risk and furthering compliance in our supply chains, (2) collaborating with customers and partners to build sustainable supply chains and (3) sourcing responsibly.



### Supply Chain Compliance

Accountability is integral to meeting our commitment to manage a sustainable global supply chain and to enhance transparency in both the monitoring and reporting of supply chain compliance and performance.

Our suppliers are expected to comply with relevant local laws and regulations and meet the obligations outlined in our Supplier Code of Conduct, which is based on the International Labour Organization's core conventions, and the California Transparency in Supply Chains Act. The Supplier Code of Conduct elements include requirements regarding human and labor rights, health and safety, environmental protection, ethical conduct and transparency. Each of the diverse locations in our supply chain has a unique set of challenges that we manage through our network of internal teams in key markets and also in collaboration with industry and non-profit organizations and local authorities.

Supplier compliance is assessed against the Supplier Code of Conduct and relevant standards to determine whether a supplier is approved to conduct business with Li & Fung. Where improvement by a supplier is required, a corrective action plan is implemented with timeframes for completion to meet compliance standards.



### **Supplier Capacity Building**

We are committed to working with our suppliers to move them up the value chain. We focus our assessment, technical support and capacity-building efforts on establishing better-managed factories and better working conditions.

Our Sustainability Resource Center website provides our suppliers access to compliance resources and tools, updated industry information, training schedules and a suite of other resources to assist them to improve their performance. Information is regularly updated and materials are available in multiple languages.

Compliance toolkits on how to improve business operations and health and safety are available for the key areas of Occupational Health & Safety, Building Safety Management, Fire Safety Management, Hazard Identification & Risk Assessment, Employee Relations and Workforce Planning. These are designed to help suppliers better understand key compliance and operational issues, challenges and implications, and identify areas where their factories can improve and develop action plans to enhance performance.

In 2014, we held 634 training sessions for over 12,000 factory representatives as well as more than 3,000 of our own people. Training is related to a number of topics ranging from customer-specific standards and compliance requirements to health and safety and environmental and social compliance, among others.

In partnership with Business for Social Responsibility (BSR) and the Fung Academy, we launched *Water Management Guidelines for Suppliers*, which provide practical guidance on effective water and wastewater management to both mitigate risk and to identify opportunities for improvements in factories. Also in collaboration with the Fung Academy and several customers, we piloted programs on wastewater management and energy efficiency. Using lessons learned from such programs, we developed educational materials and made them available for download from our supplier portal.

## 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, and to provide options in sustainable design and manufacturing, products and packaging. We do this to meet customer requests for sustainably-sourced materials and products with reduced environmental impact from well-managed factories. We also conduct material risk and traceability assessments for customers by raw material categories to meet customer requirements.

Some of the ways that we have helped customers implement more sustainable sourcing options are:

- Supporting customers to source environmentally-responsible products and use packaging made from sustainable materials. This includes: garments made of cotton from certified organic sources or cotton that meets the Better Cotton Initiative (BCI) standard; garments comprising recycled yarn, polymers, leather and shearling; household items, furniture and packaging made from materials that are Forest Stewardship Council™ (FSC™)<sup>1</sup> or Programme for the Endorsement of Forest Certification (PEFC)-certified; and beauty products that are biodegradable, not tested on animals and free of silicones, sulphates, parabens and colorants.
- Manufacturing beauty 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.
- Meeting the compliance requirements of various industry standards as part of our effort to improve working conditions and protect workers' rights according to international conventions.
- Developing 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.

---

<sup>1</sup> FSC license numbers FSC-C110207, FSC-C113132, FSC-C114681 and FSC-C116575.

## Industry Collaboration

We understand that meaningful change in our industry cannot happen overnight and we believe we have a key role in bringing about and speeding up systematic, positive change in the industry.

We are actively engaged in Bangladesh, where we work with governmental and non-governmental organizations, industry partners and suppliers to improve safety in factories. Li & Fung is a member of the Board of Advisors for both the North American-based *Alliance for Bangladesh Worker Safety* and the European-based *Bangladesh Accord on Fire and Building Safety*. Following the tragic loss of life from the Tazreen fire in November 2012 and the collapse of the Rana Plaza building in April 2013, the industry came together to implement a coordinated response to improve safety conditions in Bangladesh and build a more sustainable industry for the long term. In addition to our initiatives to support this response and over the past 18 months, Li & Fung conducted training sessions on fire, structural and electrical safety for factory management and workers. We have also enhanced the awareness of our own quality assurance and merchandising team members in Bangladesh on social, fire, electrical and structural safety compliance issues.

## Partnerships and Initiatives

We are involved in key industry initiatives that bring our customers and industry partners together to set standards and effect change. We also collaborate with our customers and NGOs to implement focused programs that address the particular challenges of our industry and the specific production markets we operate in. Some examples include the following:

Li & Fung is a Buyer Partner of Better Work (<http://www.betterwork.org>), a partnership between the International Labour Organization (ILO) and the International Finance Corporation (IFC) that brings together governments, employers, workers and international buyers to improve compliance with labor standards and promote competitiveness in the global supply chain. Throughout 2014, we continued to support factories in Cambodia, Haiti, Indonesia, Jordan and Vietnam as part of this initiative.



As a founding member of the Sustainable Apparel Coalition (SAC) we have been actively involved in the development of the Higg Index, a suite of sustainability tools designed to help organizations standardize how they measure and evaluate environmental performance of apparel products across the supply chain at the brand, product and facility levels. In addition to participating in various module working groups, Li & Fung assisted in the pilot testing of the footwear and the social and labor modules and collaborated with key customers to develop related training materials. The Higg Index is being used by hundreds of organizations, both SAC members and others.



With the support of the Fung Foundation and the Fung Academy, we are undertaking a major initiative to train and empower female workers in approximately 100 of our third-party suppliers in Bangladesh, Cambodia, India, and Vietnam, through the HERProject. Created by the Business for Social Responsibility (BSR), the HERProject trains female factory workers on health, personal hygiene and wellbeing, using an impactful peer educator methodology that improves in-factory communication and collaboration. In Cambodia, additional focus is placed on nutrition and diet to address local needs, and the program will also engage food vendors at each factory site to support better choices, nutrition and improved food hygiene. The HERHealth trainings are then followed by additional modules focusing on personal finance and access to financial services for all factory workers, for a total engagement of three years at each factory.



We have begun implementing the HERProject at 35 factories in Bangladesh, 15 factories in Cambodia, and 10 factories in Vietnam and India respectively, reaching over 50,000 workers. We will continue to roll out the program in remaining factories in 2015.



Over the past three years, we have supported the implementation of CARE International's Hemaya Project, which is focused on empowering women in select factories in the Jordanian garment sector. The project aims to improve workplace relations and improve livelihood options for local women.



We participate in the Global Social Compliance Programme™ (GSCP™), supporting its efforts to improve working and environmental conditions in the global supply chain through our participation on working committees and input to the development of GSCP's resource materials.