

# Our Supply Chain

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We partner with our customers and suppliers to raise the sustainability performance of the supply chain.



# Our Supply Chain

We are building a digital platform with end-to-end visibility for customers and suppliers, a key element of the supply chain of the future.

## Top five sourcing countries

-  China
-  Vietnam
-  Bangladesh
-  India
-  Indonesia

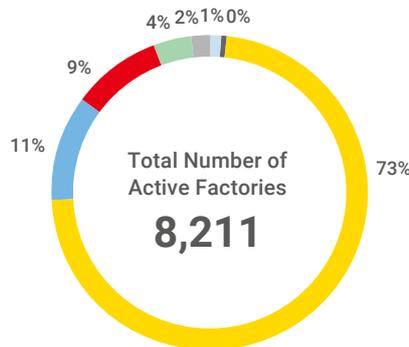
We convene the global supply chain, creating customized end-to-end supply chain and logistic solutions for global brands and retailers. We design, source and deliver a diverse range of products – including apparel, beauty, accessories, furniture and household products, among others – from a network of 15,000 suppliers in 40 economies, to over 8,000 customers globally.

Our priority is to develop and operate responsible, sustainable and agile supply

chains that meet the demands of a dynamic global retail sector while safeguarding and enhancing the lives of all those who are touched by it. We aim to make lives better for a billion people along the supply chain.

In 2017, we sourced from 8,211 factories. 80% of our sourcing unit volume is concentrated in 20% of these factories, with whom we have long-term relationships. Our key sourcing markets remain: China, Vietnam, Bangladesh, India and Indonesia.

Number and Percentage of Active Factories<sup>1</sup> by Region



<sup>1</sup> Active factories had orders shipped within 24 months prior to 31 December 2017.

## Our Approach

We manage a wide range of requirements as a result of dealing with thousands of customers, suppliers, product categories and geographies. In some cases, customers have specific social and environmental compliance requirements, whereas others ask us to guide them in determining the most relevant standards and practices. This diversity must be managed within the overriding context of our supply chain sustainability initiatives that focus on:

- Monitoring compliance with basic requirements related to health and safety, labor and the environment, while managing risk in supply chains that run through economies with varied developmental conditions, including extreme poverty, weak institutions and governance, and stressed ecosystems
- Improving the sustainability performance of our suppliers to meet changing demands from global retailers and consumers, evolving laws and regulations, and emerging aspirations of workers and communities along the supply chain

Our social and environmental standards are aligned with the United Nations (UN) Universal Declaration of Human Rights, and the International Labour Organization (ILO)'s Core Conventions and legal requirements. Meeting these is not enough, given mounting global expectations around the implementation of actions to address the Paris Climate Agreement on Climate Change, the UN 2030 Agenda for Sustainable Development and other international and industry frameworks. We recognize our supply chain strategies must be geared to manage risk and compliance reflected in today's standards, but also to drive continuous improvement in supply chain sustainability.

Addressing the challenges and opportunities in our supply chain is therefore integral to Li & Fung's Sustainability Strategy. Our supply chain initiatives focus on three areas:

- Managing risk and furthering compliance in our supply chains
- Raising sustainability performance
- Collaborating with industry

Li & Fung is committed to the principles of good governance with an emphasis on risk mitigation, transparency and independence. Our Vendor Compliance and Sustainability (VCS) team leads supply chain compliance and preserves its independence from our sourcing teams by reporting directly to the Group Chairman. The team is responsible for aligning supply chain management with industry standards, protocols and methodologies, and for tracking and reporting on social and environmental compliance. The data generated guides sourcing teams on factory selection and risk elimination. The team also works in conjunction with the Corporate Compliance team to ensure the consistent application of protocols and approaches to assurance, reporting and transparency.

Increasingly, we are using data and advanced analytics as well as new technologies to manage risk and drive improvements along the supply chain. Our Three-Year Plan's focus on speed, innovation and digitalization also underpins our initiative to improve our visibility into the supply chain as well as accelerate our efforts to further sustainability.

## Managing Risk and Compliance

We manage supply chain risk through a process of risk assessment and strategic decision making whereby we direct and develop business with suppliers who have greater capability and reduced risks, while supporting other suppliers to improve their performance.

Supplier risk assessment starts with Li & Fung's Supplier Code of Conduct. This is our supplier engagement document and it outlines the minimum standards required in accordance with the ILO's Core Conventions, the California Transparency in Supply Chains Act, the UK Modern Slavery Act and local laws, for human and labor rights, safety, environment and security, as well as transparency and ethics. All suppliers must accept these minimum standards as a condition of doing business with us. The Supplier Code of Conduct is supported by a package of information available in multiple languages, including Guidelines on social, environmental and security standards as well as practical resources for implementing standards within factory operations. Globally, we offer regular onboarding training to new factories and our own business units to ensure they understand the Code of Conduct and the consequences of non-compliance.

[Visit our website to learn more about our Supplier Code of Conduct.](#)

Factories in our supply base, or those wishing to join, are assessed through a global process that includes an audit and monitoring against the requirements of our Code of Conduct. They are required to address timebound corrective actions if necessary, and commit to make technical improvements to production, improve the sustainability of their operations and operate in a transparent manner at all times.

Compliance against the Code of Conduct is assessed by Li & Fung as well as external audit firms approved by us or our customers and/or independent industry organizations. The audits may be unannounced, semi-announced or announced, depending on the requirements of our customers. Adding the capabilities and resources of our appointed third-party audit firms to our own has increased our visibility into our supply chain. We are also establishing a stronger and more consistent methodology in our auditing program by regularly hosting joint training sessions with our third-party auditors.

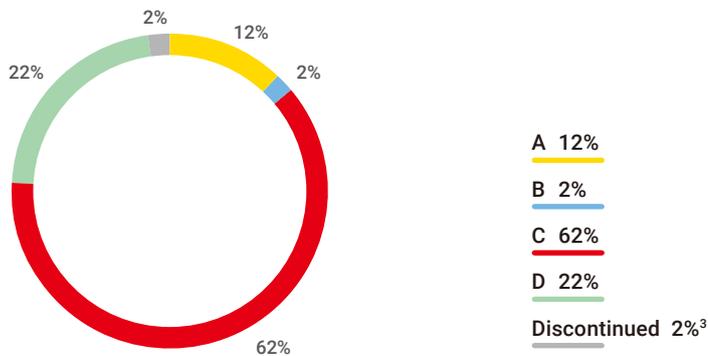
Li & Fung measures overall supplier performance through our internal rating system for tracking improvement. When non-compliance issues are identified, the factory is required to commit to rectifying the issue through a Corrective Action Plan, with varying timelines for remediation from immediately to three or six months, depending on the severity of the issue. Our rating criteria and related approval periods for conducting business with Li & Fung are outlined on the next page.

- A-and B-rated factories may have one or more non-critical issues identified; A-rated issues are “approaching compliance” and those that are B-rated have “improvement required”. Both have approval periods of 24 months with spot checks conducted in between approval periods
- C-rated factories have one or more critical issues identified and have an approval period of 12 months; generally, C issues are those identified issues which require financial investment or a longer period to remediate and sustain
- D-rated factories have one or more severe issues identified and have an approval period of six months
- Factories that have one or more zero tolerance issues identified are discontinued; business is terminated with a responsible exit plan

Globally, our data show the most frequent areas of non-compliance relate to the payment of social benefits and safety, as well as excessive overtime and chemical management, which are common issues in Asia, and China in particular, where a large part of our sourcing is conducted.

In 2017, we expanded our global audit equivalency program, which allows factories to submit a single audit report to us from a list of certified standards (including Better Work, Fair Labor Association and Business Social Compliance Initiative). This program aims to reduce the resources allocated by suppliers on duplicative audits and follow up for multiple customers in the same factory and supports factories to focus on improving their compliance based on one, widely-accepted standard. Factories approved under the audit equivalency program receive an increased number of unannounced spot checks through our assurance program. As of December 2017, of the 234 factories identified to have critical issues during the year, 98 factories have completed remediation, and 136 are in progress. This has led to a higher-than-average factory downgrading in ratings in 2017 compared to previous years<sup>4</sup>.

**Factory Compliance Ratings Aggregated Globally<sup>2</sup>**



2 Based on active factories rated by Li & Fung and third parties with orders shipped within 24 months prior to 31 December 2017.  
 3 Represents the percentage of factories with whom we discontinued business in 2017.  
 4 As a result of these initiatives, our factory compliance rating results in 2017 are not directly comparable with our 2016 global compliance ratings, which were disclosed in Annual Report 2016.

While auditing is a widely accepted and important tool for monitoring factory compliance, it must go hand-in hand with other tools such as remediation, with a focus on prevention, strong management systems and continuous improvement. This 'equal partnership' approach encourages factories to be open and transparent on their issues and engage in joint-problem solving and capacity building.

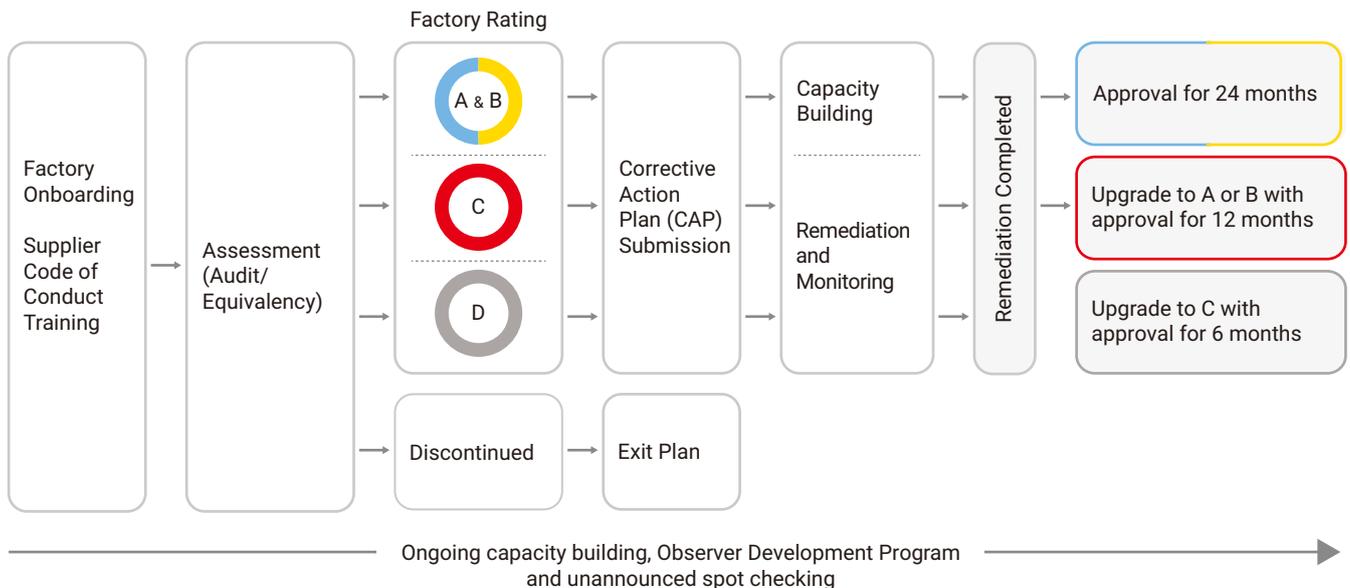
With our ongoing commitment to improve the quality of our factory base, we developed a policy to steer business towards higher-performing factories and to adopt more robust entry requirements for new factories, requiring an audit rating of C or higher. To support this policy, we broadened our audit-based model to include a stronger focus on remediation that allows longer timelines to address the root-causes of noncompliance issues and the adoption of preventive measures.

We also revised our Guidelines for meeting our Supplier Code of Conduct to reflect this policy and our more stringent rating system, as well as our commitment to building and

fire safety under the Bangladesh Accord on Fire and Building Safety (the Accord) and the Alliance for Bangladesh Worker Safety (the Alliance). Furthermore, any new factory entering our supply chain in Bangladesh must now also have prior approval by the Accord or the Alliance.

The specific steps of the remediation process vary according to the severity of the issue. In general, non-compliances are identified through audits or other means and then discussed with the factory. The factory develops a corrective action plan with a root-cause analysis and focus on prevention. We monitor and support the factory improvement progress and verify the remediation of issues. The factory undergoes a final audit and must achieve a C-rating or higher to receive new business with Li & Fung. Where zero tolerance issues are identified, we terminate business with the factory and agree on a responsible exit plan with the customer. The diagram below outlines the key elements of our audit, remediation and continuous improvement process.

**Our Continuous Improvement Model**



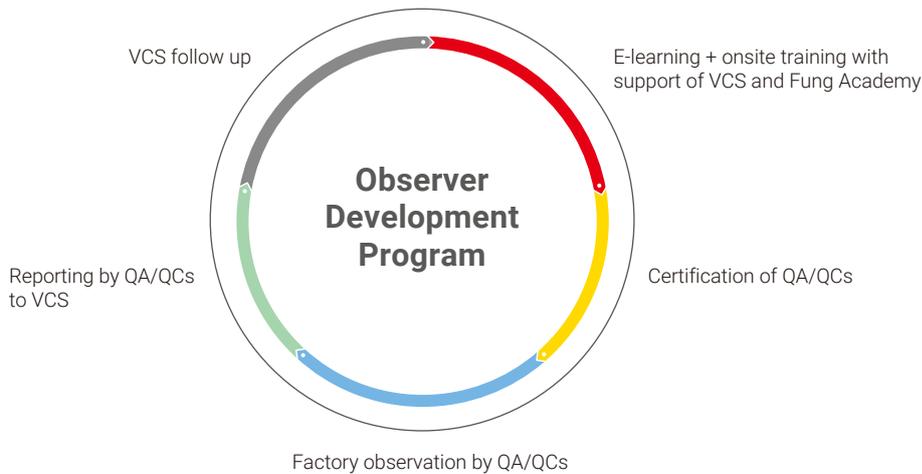
**Observer Development Program**

Part of our continued focus on deepening our audit and assessment process includes our Observer Development Program (ODP). The program trains and certifies our quality assurance and control (QA/QC) teams – many of whom visit suppliers daily or weekly in the normal course of their duties – to identify signs of flagrant non-compliance issues. The QA/QC teams also work with factory management to follow up on remediation measures, and their presence onsite supports both the factory and the vendor compliance team.

To scale the training coverage of our QA/QC personnel, we launched a new e-learning program in 2017, allowing participants to learn at their own pace and participate in the training from anywhere in the world. The e-learning is combined with two to three days of onsite, practical training in identifying observable, flagrant non-compliance issues. The program is also open to Li & Fung business leaders as part of owning and integrating compliance into responsible sourcing. More than half of our global QA/QC staff have been certified by this program at the close of 2017.

Continuous monitoring through our ODP, by our sourcing and compliance teams, provides factories with ongoing support to remediate other issues and also helps us to identify one-off incidents that may occur outside of the assessment cycle. When such issues occur, an investigation and remediation process is launched. At all times our overriding concern is to protect the workers in the factory, reduce the risk, and responsibly support the factory for business continuity.

**Observer Development Program**



**Total Number  
of Colleagues  
Trained**  
**1,629**

To support our efforts in managing risk and compliance, we renewed our partnership agreement with the ILO and the International Finance Corporation (IFC)'s Better Work program to cover 160 factories in Vietnam, Cambodia, Haiti, Indonesia and Nicaragua. Independent assessments by Better Work indicate this program has helped to prevent abusive practices (e.g. forced labor, verbal abuse, sexual harassment), curb excessive overtime and close the gender pay gap.

As we progressively digitize our supply chain, and aggregate more reported, streamed and third-party data from our supplier network, we are in a better position to use advanced and predictive analytics in factory selection, monitoring and follow-up processes. Working with the Fung Academy, we have developed tools that use both internal and external data to identify supply chain risk, and that will help to increasingly predict incidents in the supply chain before they occur. Our objective is that improved data will deliver a more accurate picture of supply chain risk and opportunity, while helping suppliers and customers proactively address risk points and raise sustainability performance.

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**Internal Awareness Training**

In 2017, we launched a new e-learning tool for our employees to raise awareness on the value-add of sustainability with country and product specific examples. 80% of mid to senior level employees in key business units in Hong Kong and China were trained and the program is now being extended to other sourcing markets. We also worked closely with our human resource teams to ensure our sustainability initiatives are part of the new employee orientation. The long-term aim of the training is to better harmonize business and sustainability performance along the supply chain.

In 2017, we trained 1,629 of our colleagues on topics related to:



Labor Practices



Health and Safety



Environmental Sustainability



Security Compliance

### Capacity Building

To support factories in their efforts to improve performance, we offer tailored programs to meet their needs for training and capability building on a variety of social, environmental and other topics. Our goal is to equip suppliers with the skills to develop their businesses sustainably and drive their own continuous improvement.

Of the over 500 training sessions organized in 2017, the following number of sessions were held per topic area:



**105** sessions for Labor Practices



**30** sessions for Health & Safety



**58** sessions for Environmental Sustainability



**24** sessions for Security Practices



**7** sessions for Risk Assessment

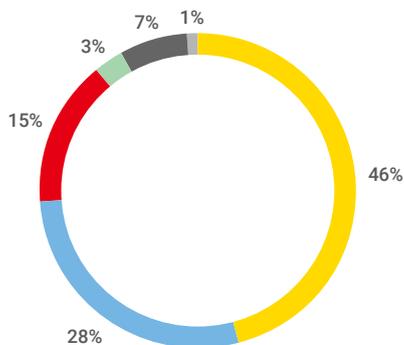


**279** sessions on Other topics<sup>5</sup>

Training was attended by 4,984 suppliers and 1,629 colleagues.

This year we updated our capacity-building programs to offer a more modular training package that can respond to specific factory needs. Based on a personalized, pre-training assessment, factories can choose and combine services from a menu of 22 shorter training modules directed at the root of non-compliance issues, or from a list of six programs that more extensively cover a specific issue. These focus on labor practices, human resource management systems, health and safety, environmental sustainability, risk assessment and security.

### Regional Distribution of Training Participants in 2017<sup>6</sup>



<b>South Asia</b>	<b>3,030</b>	<b>46%</b>
<b>China</b>	<b>1,881</b>	<b>28%</b>
<b>Southeast Asia</b>	<b>1,019</b>	<b>15%</b>
<b>Europe</b>	<b>194</b>	<b>3%</b>
<b>North Asia</b>	<b>432</b>	<b>7%</b>
<b>Americas</b>	<b>57</b>	<b>1%</b>

<sup>5</sup> Includes training on supplier onboarding, human resource management, conflict minerals, social dialogue, etc.

<sup>6</sup> Includes training for suppliers, factories and Li & Fung colleagues on general topics as well as specialized training provided at cost to suppliers.

**Total Number of Training Sessions**

**503**

**Total Number of Participants**

**6,613**

### Sustainability Resource Center

The Li & Fung Sustainability Resource Center is an online platform open to all our suppliers and factories, providing them with access to an extensive library of compliance improvement programs, toolkits and sustainability training and resources.

🔗 The website houses all our learning videos, including the core compliance videos that are also publicly available on YouTube<sup>7</sup>.



**4,714**  
Website Visits



**25,962**  
Page Views



**3,562**  
Resource Downloads



**1,432**  
Document/  
Video Views

**2,130**  
Document/  
Video Downloads

14 videos are available in multiple languages, covering the following topics:

- Good Governance
- Manufacturing Excellence
- Underage Labor Management
- Working Hours Management

Separate videos targeted to Managers and to Workers include:

- Fire Safety
- Chemical Safety
- Electrical Safety
- Worker-Management Relationship
- Energy Efficiency

Toolkits on how to improve key areas of business operations are also available on the website and cover topics such as:



Occupational Health  
and Safety



Building Safety  
Management



Fire Safety  
Management



Hazard Identification  
and Risk Assessment



Employee  
Relations



Workforce  
Planning

<sup>7</sup> [https://www.youtube.com/channel/UcaIV\\_MGCKl0prY88YhpEaLg](https://www.youtube.com/channel/UcaIV_MGCKl0prY88YhpEaLg)

## Raising Sustainability Performance

We work with our customers, suppliers and industry partners to further sustainability by focusing on managing risk and improving performance in the supply chain, adopting standards and best practices<sup>8</sup>, and providing sustainable design, manufacturing, product and packaging options. We aim to meet customer requests for sustainably-sourced materials and products with reduced environmental impact from well-managed factories.

Accelerating the adoption of virtual design and sampling into our sourcing processes is critical to transforming our supply chain to achieve our Three-Year Plan priorities of speed, innovation, and digitalization. Not only are these innovations helping us to share concepts, perfect designs, select materials and tweak product attributes quickly, we also avoid environmental impacts from travel and transportation and reduce wastage from sample and product production. We have introduced virtual design and sampling to key customers and look forward to expanding this innovative, effective and sustainable sourcing solution going forward.

Some of the ways we help customers source items with sustainability attributes include:

- garments that meet environmental or organic standards or comprise materials that are recycled or meet sustainable sourcing standards
- beauty products that are biodegradable, not tested on animals and free of silicones, sulphates, parabens and colorants, and/or incorporate ingredients that are certified to organic, community trade, HALAL or RSPO<sup>9</sup> standards
- household items, furniture and packaging made from natural materials and fibers or that are recycled, Forest Stewardship Council™ (FSC™)<sup>10</sup> or Programme for the Endorsement of Forest Certification (PEFC)-certified, and meet the chain-of-custody requirements where applicable<sup>11</sup>
- packaging that is Forest Stewardship Council™ (FSC™)-certified<sup>12</sup> or made of recycled materials

[Visit our website to download more examples and details of how we source items with sustainability attributes.](#)

We are actively engaged with factories in our supply chain to support them in their journey to further the sustainability of their operations. As outlined below, this ranges from enhancing dialogue between management and workers to engaging directly with workers through smartphone applications to our lean manufacturing program designed to enhance efficiencies and improve productivity in factories. We are also taking increased steps to address and reduce the impact of our supply chain's environmental footprint with a focus on energy efficiency, reducing emissions, water and resource conservation and waste management. Our environmental program targets both impacts at the facility and supplier level, as well as at the product level.

<sup>8</sup> This includes monitoring compliance with relevant health and safety, advertising, labelling and privacy requirements relating to products sourced for our customers and following up on any matters of redress.

<sup>9</sup> Palm oil derivatives certified under the Roundtable for Responsible Palm Oil (RSPO)'s mass balance or segregated models.

<sup>10</sup> FSC™ license numbers FSC-C016335, FSC-C114681, FSC-C116575 and FSC-C129309.

<sup>11</sup> Relevant legislative requirements include the European Timber Regulation (EUTR), the United States' Lacey Act of 1900, the United States' Dodd – Frank Wall Street Reform and Consumer Protection Act of 2010 and required testing standards, such as Business and Institutional Furniture Manufacturers Association (BFMA).

<sup>12</sup> FSC™ license number FSC-C113132.

### Social Dialogue in Bangladesh

We continue to implement our social dialogue program to raise awareness of and improve the relationship between factory management and workers in Bangladesh at factories located outside the Export Promotion Zones (EPZ). The program trains middle management on topics such as freedom of association, participation committees, safety committees and grievance mechanisms. The program was developed in partnership with Just Solutions, a UK-based organization with extensive experience in improving industrial relationships in Bangladeshi factories. Phase I of the project was completed in December 2017, engaging 232 factories and 301 members of factory management. The program will be expanded in 2018 to cover other factory managers and workers.

Initial results of the program, based on the project's key performance indicators show:

- Monthly average turnover rate reduced to 3.16% from 4.13%
- Monthly average unauthorized absent days reduced to 256 days from 278 days
- Monthly average re-work rate reduced to 0.09% from 4.50%

### LF Workers' App

Working with the Fung Academy, we launched the LF Workers' App beta version on a pilot basis in Vietnam. Our aim is to use mobile technology to enable suppliers to engage and educate their workers on issues related to their work as well as their personal development and wellbeing. The app grew out of the recognition that factory workers increasingly have smartphones, which could provide a platform for factories to improve their engagement, human resource (HR) management and retention efforts, while allowing workers access to a much wider set of educational tools. We want to provide a factory-driven tool that improves factories' HR management, educates workers and builds a more inclusive supply chain.

### Mobile Environmental Data Platform

As much of the supplier network has yet to be covered by the Sustainable Apparel Coalition (SAC)'s Higg Index, and there is an urgent need for environmental efficiency on a product and factory level, we developed a number of auxiliary tools to assess and benchmark suppliers' environmental performance.

A mobile environmental data platform, developed through our partnership with the Leaders for Global Operations program at the Massachusetts Institute for Technology (MIT) and the Fung Academy, enables suppliers to undertake a simple environmental assessment using a web-based tool. Data from the tool is aggregated centrally and analyzed to enable factories to become more energy and resource efficient, and also to drive environmental efficiency at the product level.

At the factory level, we use our data to help suppliers pinpoint where they can improve. A separate but linked pilot adopts wireless and wired sensors in individual factories to help suppliers gain a more granular picture of electricity and resource usage, as a way to measure and drive efficiencies, while also moving to real-time data streaming. This builds on a pilot exercise, supported by the Fung Academy, at Li & Fung's manufacturing facility in Trowbridge, UK. Beyond factory-level efficiency, data from the various environmental tools are aggregated in a product environmental footprinting tool that aims to make product assessments accessible to a wide range of suppliers regardless of their affiliation with the SAC. These tools are currently in pilot stages and will be progressively rolled out as they are refined.

### The Fung Manufacturing Excellence Program: practising business sustainability

Today's factories are faced with the rising cost of materials and labor, pressure from retailers for lower pricing, tougher business regulations and more exacting social and environmental requirements. The Fung Manufacturing Excellence Program (FMEP) aims to equip suppliers with leading manufacturing concepts, helping them become more competitive, responsible and sustainable.



After an initial assessment, leadership training is offered to instill a renewed mindset of excellence among factory leaders and operators. Through real-life improvement projects, factory leaders and operators directly implement lean manufacturing methodologies and are coached to achieve project goals. Between 2016 and 2017, the program was piloted in five factories in India, Indonesia and China.

Successful implementation of the program has resulted in:

- Higher productivity – higher quality products with less defects/rework
- Lower cost – reduction and elimination of non-value add activities and waste
- Improved lead time – faster delivery to the customer
- Improved working conditions - safer working environment
- Increased motivation among employees

### Testimonial

"Joining the FMEP journey and working with their team has been wonderful. We learnt a lot from them and improved a lot. I clearly remember being advised to be patient and coach my people to be able to think, not just to follow my orders. Now I have more patience and more influence on my teams to continuously improve themselves and our processes."

### Wendy Wu

General Manager, home textile product factory in China



The factory's pilot production line reduced their workspace needs by 50% and increased productivity by 30%.

### **Hazardous Chemical Use Reduction**

The use of hazardous chemicals in the global textile, apparel and footwear industry can have negative impacts on both the environment and workers' health and wellbeing. To address this risk, we launched an initiative in 2017 to monitor, reduce and ultimately eliminate hazardous chemicals in the supply chain. As an initial step, we are using industry-developed detox guidelines for our private label group's apparel and footwear suppliers, to systemically monitor, reduce and eliminate hazardous chemical substances. Initial results of the program will be released at the end of 2019.

### **Collaborating with Industry**

Li & Fung is involved in key industry initiatives that bring our customers and industry partners together to effect change. Our collaboration efforts are focused on implementing programs that address the particular challenges of our industry and specific production countries where we operate.

We collaborate with our industry partners and implement a number of initiatives that aim to address specific health and safety, labor and environmental issues in the supply chain, as well as educate and empower workers, thereby creating a more socially-inclusive business, all with the aim of raising sustainability performance.

### **Bangladesh Building and Fire Safety**

We are advisors to two initiatives working to improve factory safety, the Bangladesh Accord on Fire and Building Safety (the Accord) and the Alliance for Bangladesh Worker Safety (the Alliance), which principally comprise brands and retailers from Europe and North America, respectively.

As of December 2017, the overall remediation of safety issues identified in initial inspections in Bangladesh under the Accord has reached a completion rate of 82%. A total of 654 Accord factories have completed at least 90% or more of these remediation actions. The Government of Bangladesh confirmed it will extend the permission of the Accord to continue beyond the initial end date of May 2018. A joint monitoring committee, comprising Accord brand and trade union signatories, the Bangladesh Garment Manufacturers and Exporters' Association (BGMEA), ILO and the Bangladeshi government, has agreed that the stated conditions for a handover will have been met by 2021.

The overall remediation of safety issues identified in active factories under the Alliance has reached a completion rate of 86% as of December 2017. A total of 286 Alliance factories have achieved all material components of their Corrective Action Plans.

As part of our commitments to the Alliance, we participated in the post-2018 working group, which submitted a recommendation that includes a transition period from July to December 2018, after which a lean organization will oversee the factory approval process, inspections, training and the worker helpline, all of which will be conducted by nominated third parties.

The results for both the Accord and the Alliance show the value of collective action and suggest factory owners are taking the remediation process seriously and fulfilling their commitment to provide safer work environments for their employees.

### **Social & Labor Convergence Project**

Li & Fung is actively supporting the Social & Labor Convergence Project as it complements our goals of industry alignment and reduction of audit fatigue. The project, launched in 2016, seeks to develop a single, unified assessment framework and data collection system covering critical issues including child labor, forced labor, occupational health and safety and wages in the apparel and footwear industry. We represent the agent seat on the project's steering committee and we continue to participate in the working groups for tool development and verification. The first version of the framework has been created and is being piloted from November 2017 to January 2018. We look forward to sharing results from the three participating factories in our supply chain in China, Cambodia and Guatemala.

### **Sustainable Apparel Coalition**

We continue to be a member of the Sustainable Apparel Coalition (SAC), the apparel, footwear and textile industry's leading alliance for sustainable production. Our partnership with SAC initially revolved around the development of the Higg Index – a series of facility, brand and product tools that measure environmental and social/labor impacts across the supply chain.

SAC and Li & Fung signed a strategic training partnership in 2017 to increase SAC member access to experienced, in-person trainers. In total, 21 of our employees are SAC-approved trainers and 17 are verifiers for Higg 2.0. We trained 108 facilities and factories this year through webinars or onsite training.

In addition, we have continued to contribute to SAC's working groups to make further updates to the tool. This year's focus was primarily to help factories transition from the Higg's earlier tool (version 2.0) to Higg 3.0. Li & Fung and SAC are currently collaborating to retrain our own trainers and verifiers on Higg 3.0 so we can continue to help our customers and factories measure their sustainability impact on an industry-wide scale.

## Business for Social Responsibility (BSR)

In 2017, we continued to implement the HERproject in partnership with BSR, involving 84 factories and over 175,000 workers in Bangladesh, Cambodia, India and Vietnam. Since launching the program in 2014, over 1,000 training sessions were held with 12 sessions per factory over a period of 14 to 18 months. As the last factories finish their training in 2018 and the program concludes,

the over 5,000 peer educators that were trained will continue to share the skills and knowledge learned within the factories. Interim results from the program show significant health and business benefits, including increased health knowledge and productivity, and reduced absenteeism and turnover over the course of the program's duration.

📺 A video of the program in Cambodia is available on our YouTube channel: <https://www.youtube.com/watch?v=eGWYP0fF5n8>

Country	Program	No. of Factories	No. of Workers	Interim Program Impacts
Bangladesh	HERhealth	37	86,000+	• Under measurement
Cambodia	HERhealth + Nutrition	11	17,000+	• 18% increase in productivity • 10% decrease in female resignations
India	HERhealth + HERfinance	21	41,000+	• 11% increase in productivity • 20% decrease in female resignations
Vietnam	HERhealth	15	31,000+	• 3% decrease in female resignations • 13% decrease in females taking sick leave
<b>TOTAL AS OF 2017<sup>13</sup></b>		<b>84</b>	<b>175,000+</b>	

## Ethical Trade Initiative (ETI)

In 2017, Li & Fung signed a partnership with ETI, a leading alliance of companies, trade unions and nongovernmental organizations that promotes respect for workers' rights. The partnership will focus on key themes such as modern-day slavery and social dialogue as well as participation in ETI projects in sourcing countries.

## The Center for Child Rights and Corporate Social Responsibility (CCR CSR)

We engage with CCR CSR's working group to better understand how supply chain management impacts children and how we can better use our leverage to eliminate child labor in our supply chain. We are helping our employees to have an increased understanding of emerging risks, newly-available data and legal updates. In 2017, we signed an MOU to engage CCR CSR's remediation service in cases where child labor is detected. This ensures any cases of identified child labor will be remediated in the best interests of the child.

<sup>13</sup> Represents the total number of factories and their workers who completed or remained active in the program since 2014.

## The Mekong Club

Li & Fung is a member of The Mekong Club, a not-for profit organization that aims to inspire and support the private sector to lead in the fight against modern slavery. In 2017, through our engagement in the Apparel & Footwear Working Group, we contributed to the development of a new remediation tool and The Business Pledge against Modern Day Slavery. We worked closely with the Mekong Club to further our e-learning training on forced labor for both our suppliers and our employees.

## Strategic Advisor to the Global Fashion Agenda

To deepen the scale and impact of our supply chain sustainability programs, we entered into a strategic advisor role with the Global Fashion Agenda (GFA), a fashion-focused initiative designed to educate and drive change towards a sustainable fashion industry. It mobilizes the international fashion

industry to transform the way we produce and consume fashion, and hosts a flagship event, the Copenhagen Fashion Summit, which is the largest event convening the major fashion industry decision makers at a global scale. In 2017, GFA released the Pulse of the Fashion Industry report<sup>14</sup>, to provide a common baseline and framework to address the industry's environmental, social and ethical footprint and present pragmatic and economic actions to produce sustainable change.

Through its advisory role in the GFA, Li & Fung is positioned to contribute substantively to change in the industry on key issues such as the circular economy, as well as bridge the gaps that exist between producers, brands and retailers. In November 2017, we hosted the first ever GFA Pulse Supplier Forum in Asia to provide a platform for action along with resources and networks for the supplier community to make changes for a more sustainable supply chain.

14 [http://globalfashionagenda.com/wp-content/uploads/2017/05/Pulse-of-the-Fashion-Industry\\_2017.pdf](http://globalfashionagenda.com/wp-content/uploads/2017/05/Pulse-of-the-Fashion-Industry_2017.pdf)