

# Sustainable Sourcing

We work with our customers, suppliers and industry partners to further sustainable sourcing through a three-pronged approach that focuses on managing risk and improving performance in the supply chain, adopting standards and best practices<sup>1</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.

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.

Providing another example of supply chain leadership in 2019, our principal business in Norderstedt, Germany:

- Partnered with the non-governmental organization, STOP! MICRO WASTE, and is the exclusive supplier and legal manufacturer of the Guppyfriend<sup>®2</sup> washbag, which traps microplastics from garments that contain polyester from entering the ecosystem during the washing process
- completed the 2019 ECOVADIS<sup>3</sup> assessment, receiving a Gold rating
- successfully certified for sustainable textile sourcing under the German government's "Der Grüne Knopf"<sup>4</sup> Green Button certification scheme
- received certification to the Responsible Wool Standard, which combines aspects of animal welfare and traceability in the supply chain
- supported customers that have committed to the DETOX campaign to successfully phase out hazardous chemical groups from the production of the main material in our supply chain (see below for details)

Other examples of products and packaging that we source with environmental and health and safety attributes are outlined below.



- Garments that comprise:
  - > Cotton from traceable, certified organic sources, including the Global Organic Textile Standard (GOTS) or the Organic Content Standard (OCS), or that meets the requirements of the Better Cotton Initiative (BCI) Standard. An increasing number of customers are requiring that 100% of cotton meet these standards or are from certified sources. In 2019, over 600 tonnes of Cotton made in Africa (CmiA) was sourced through the Aid by Trade Foundation<sup>5</sup>
  - > Prepared for Dying (PFD) fabrics that avoid the impacts associated with the dying and printing process at fabric mills
  - > Denim processed in facilities that are bluesign<sup>®</sup>-certified and/or use robots to limit chemical exposure to workers with a more consistent spray execution that minimizes rework and reduces chemical and water usage. For one customer, we sourced 1.5 million meters of recycled polyester for denim in 2019
  - > Linen from certified organic sources
  - > Recycled yarn, polymers, leather and shearling. Outwear and swimwear brands are increasingly requiring polyester with 100% recycled input. Our sourcing team in Germany is leading the way with its certification to the Global Recycling Standard<sup>6</sup> in 2019
  - > Yarn comprised of a cotton/polyester blend with the polyester derived from recycled plastic bottles. For one customer alone and since 2017, we have sourced more than eight and a half million units of denim made from recycled materials comprising close to 25 million waste plastic bottles. For another customer, we will avoid the equivalent of more than three million, two-liter plastic bottles through the use of recycled polyester for outwear in 2020

<sup>1</sup> Li & Fung supports its customers to meet relevant legal requirements related to product health and safety, advertising, labelling and privacy, to follow up on any matters of redress and to respond to any product recalls.

<sup>2</sup> <https://en.guppyfriend.com/>

<sup>3</sup> <https://www.ecovadis.com/>

<sup>4</sup> <https://www.gruener-knopf.de/>

<sup>5</sup> <https://cottonmadein africa.org/en/>

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## Apparel

- > Wool from traceable sources that meet non-mulesing declaration requirements
  - > Fur-free materials and/or responsibly-sourced angora wool or down feathers
  - > EcoVero™ branded viscose fibers from traceable and sustainable wood sources (FSC® or PEFC® certified) and supply chains that generate significantly lower emissions and water impact than conventional viscose in the production process
  - > TENCEL®, a Lyocell fiber produced from sustainably-harvested wood in a closed loop, water-efficient process
  - > Teflon EcoElite™ water-repellent, a non-fluorinated fabric treatment that is manufactured with 60% renewably-sourced raw materials
  - > Hangtags made of recycled paper and care labels made of recycled tape
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- Garments that are shipped in polybags made from recycled materials and/or are shipped in a "flat pack" without the use of hangers
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- Leather for clothing, shoes, wallets, covers and pouches produced from tanneries that are audited against the environmental responsibility practices of the Leather Working Group<sup>7</sup>
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- Low-impact finishing, including durable, water-repellant finishing that is free of perfluorinated chemicals (PFCs)
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- Technical-knit footwear, which is made using a technology that reduces material wastage compared to regular cut-and-sew techniques, comprises natural and renewable merino wool fiber that is independently certified for quality and traceability by The Woolmark Company
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- Footwear comprising microfiber and lining materials and knit uppers made from recycled PET and outsoles for footwear made of bio resin from corn, replacing polyurethane
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- Wet processing facilities that are:
    - > certified to meet Appendix 6 of STANDARD 100 by OEKO-TEX®, are zero liquid discharge effluent treatment plants and/or meet the wastewater and sludge testing requirements in support of customers' commitments to Greenpeace's Detox campaign. In 2019, our sourcing team in Norderstedt, Germany worked with 75 wet-process production facilities in Bangladesh, China, India, Portugal, Turkey and Pakistan to eliminate usage of chemicals from the 11 chemical groups that are banned from production according to the Detox Commitment. Based on wastewater and sludge testing, facilities are rated as compliant, non-compliant, high-risk and/or blocked. In 2019, a 97% compliance rate was achieved with only 2% being blocked from receiving orders
    - > using ozone gas and water and reducing consumption of chemicals by 30%, water by 50% and energy by 30-40% over traditional wet processing methods
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- Using industry-developed detox guidelines for our private label group's apparel and footwear suppliers, to systematically monitor, reduce and eliminate hazardous chemical substances
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- Adopting environmental impact measuring software to assess opportunities to reduce energy, water and chemical consumption during garment processing with benefits to the environment and workers' health
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- Using 3D virtual sampling to reduce the production and shipping of physical samples by 50% for some customers, thereby reducing waste in the process and in the disposal of unsaleable products and improving customers' inventory control, as well as reducing the length of the production process by 20 to 25 days for accessories and 15 to 20 days for footwear

<sup>6</sup> <https://certifications.controlunion.com/en/certification-programs/certification-programs/grs-global-recycle-standard>

<sup>7</sup> The Woolmark Company is a not-for-profit enterprise that provides independent assurance of wool products to ensure high material quality, excellence and innovation from farm to finished product.

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## Household Items, Furniture and Packaging

- Household items, furniture and packaging made from wooden or paper materials that are recycled, Forest Stewardship Council™ (FSC™)<sup>8</sup> or PEFC-certified, and meet the chain-of-custody requirements of the European Timber Regulation where applicable
- Household items, utensils and furniture made from natural materials and fibers ranging from bamboo, roots and branches of organic teak wood and wood from spent rubber trees, to banana bark and water hyacinth
- Home textiles with bed sets that received the OEKO-TEX Made in Green®<sup>9</sup> certification
- Gadgets made of recycled plastic and photo frames comprising recycled polystyrene foam, with recyclable packaging
- Packaging, luggage and other items using polyethylene terephthalate (PET) instead of polyvinyl chloride (PVC), polypropylene (PP), polycarbonate (PC) or acrylonitrile butadiene styrene (ABS), as well as PVC-free packaging material for polybags, clips, gum tape, strings, collar inlays and zippers
- Low-impact finishing, including PFC-free, water-repellent agents, during fabric processing for camping tents and sleeping bags
- Reporting to customers on the processes in place and supplier compliance in meeting legislative requirements related to chain-of-custody requirements for wood products<sup>10</sup> and components containing reportable minerals<sup>11</sup> and required testing standards, such as BIFMA<sup>12</sup> for furniture. This includes conducting product risk and traceability assessments for customers by raw material categories

8 FSC license number FSC-C016335.

9 <https://www.oeko-tex.com/en/our-standards/made-in-green-by-oeko-tex>

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

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

12 Business and Institutional Furniture Manufacturers Association (BIFMA).