

Environmental Policy

Li & Fung is committed to be an active and responsible business leader in the supply chain solutions industry, to adopt best environmental practices and promoting the global sustainability agenda to create positive values for our customers, society and planet. The present policy aims to provide a comprehensive approach to avoid damaging the environment, harming biodiversity and communities.

Li & Fung will review and update this policy at regular intervals to ensure compliance with changing laws and regulations.

OUR COMMITMENT

Li & Fung recognizes the impact our actions and business operations have on the planet. We are committed to reduce our environmental footprint by leveraging our convening power to collaborate with stakeholders along the value chain.

This policy will be clearly communicated to all employees, suppliers and supply chain partners in a manner which can be understood.

SCOPE

This policy applies to all companies and undertakings of Li & Fung and is mandatory for all supply chain suppliers involved in the production of merchandise or any materials for Li & Fung and our customers.

LI & FUNG'S POSITION, GOALS & EXPECTATIONS

Responsible Sourcing Practice

Li & Fung and its suppliers should ensure their practices do not cause unnecessary damages to the environment, and must ensure compliance to applicable local, national, regional, and international Laws and Regulations.

Greenhouse Gases

Climate change is a major environmental issue that affects the planet and all living creatures on it. It refers to the long-term changes in the Earth's average climate patterns caused by human activities, such as burning fossil fuels, deforestation and industrial processes. The consequences of climate change include rising temperatures, changing rainfall patterns, melting of glaciers and ice caps, rising sea levels, and an increased frequency of extreme weather events such as hurricanes, droughts, and floods, drastically affecting people across the world.

Science Based Targets

➤ Scope 1 & 2

At Li & Fung, we are committed to addressing this global issue by pursuing a holistic and science-based approach in all our efforts. In 2022, we developed our 1.5°C aligned targets to the Science Based Target initiative (SBTi). Our targets have been subsequently verified and approved by SBTi in 2023. Our 2030 goals are to reduce Scope 1 and 2 emissions by 42% compared to our 2021 baseline.

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➤ Scope 3

Supplier Engagement: Li & Fung (Trading) Limited commits that 80% of its suppliers by emissions covering purchased goods and services, will have science-based targets by 2026. Li & Fung (Trading) Limited also commits that 67% of its suppliers by emissions covering upstream transportation and distribution, will have science-based targets by 2026. Li & Fung (Trading) Limited further commits that 90% of its customers by emissions covering downstream transportation and distribution, will have science-based targets by 2026.

Internal commitment

- Reduce scope 1 & 2 greenhouse gas emissions by 42% by 2023.
- Report progress externally.
- Support our supply chain partners and stakeholders in their journey towards carbon reduction, by increasing awareness and facilitating the access to the relevant technologies where feasible.

Expectations from the supply chains*

- Quantify, monitor, manage and disclose Greenhouse Gas emissions annually.
- Set baseline and identify areas of improvement.
- Set SBT by the end of 2026 (latest).

Energy

While energy is vital for the development of our communities across the world, the many sources of energies present very different profiles and impacts. Li & Fung aims to leverage its convening power to accelerate and facilitate the use of renewable energy sources and technologies, and phase out the energy sources presenting the most harmful characteristics.

Internal commitment

- Increase the portion of renewable energies where financially viable and technically feasible (e.g. renewable energy contracts, or on-site renewable energy production).

Expectations from the supply chains

- Quantify, monitor and disclose energy consumption annually.
- Set baseline and identify areas of improvement.
- Striving to phase out coal and peat from energy sources by 2030*.

Water

Access to clean water is a fundamental human right. Every individual and community within our value chain is, or will shortly be, affected by issues related to water scarcity and quality. We are committed to enhancing water management practices in the regions where we operate. We firmly believe that responsible water stewardship is key to ensuring the long-term sustainability of both our business and society at large.

Internal commitment

- Reduce water consumption by 50% by 2030 (2021 baseline).
- Report progress externally.

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Expectations from the supply chains*

- Quantify, monitor, manage and disclose water consumption annually.
- Set baseline and identify areas of improvement.
- Reduce freshwater intake by 50%* by 2030.
- Increase water recycling by 33%* by 2030.

Chemicals

At Li & Fung, we are unwavering in our commitment to ensuring our supply chains are devoid of hazardous chemicals, prioritizing compliance and safety above all. Our strategy encompasses both: regulatory mandates and voluntary initiatives, focusing on two primary levels of compliance: upstream and endpoint.

Expectations from the supply chains*

- Maintain a clear inventory of chemicals present on site, together with MSDS available in English and local language.
- Ensure safe chemical storage area to prevent spills.
- Provide regular trainings on chemical management and safety to all relevant workforce.
- Ensure compliance to customers' RSL and MRSL requirements.
- Strive to identify chemicals potentially harmful for humans and the environment, and prepare plan to replace it with safer alternatives.
- Ensure compliance with relevant national regulations regarding wastewater and sludge discharge (treatment, composition, and temperature).

Raw Materials & Products

The environmental impacts of raw material extractions are by far the largest impact across the lifecycle of a product. Different strategies can be preferred to reduce these hazards: from sourcing specific materials presenting lower environmental footprints than conventional options, or by improving the efficiency of current products and operations.

It is critical for Li & Fung to ensure the authenticity of the alternative options, by preferring recognized certifications or branded materials, rely on science and metrics to quantify footprints, and comply with regulations to always provide accurate information about products and supply chains. Our teams of merchandisers and customers are trained on materials, certifications standards and Life Cycle Assessment data to better understand the footprint of raw materials used and work with the supply chain stakeholders to offer the right options.

Internal commitment

- Support our supply chain partners and stakeholders in their journey towards more sustainable raw materials and products, by increasing awareness and facilitating the accessibility to the materials and certifications.

Expectations from the supply chains

- Ensure compliance with relevant certifications.
- Ensure compliance with relevant EU regulations, and disclose necessary related information.
- Maintain updated list of suppliers certified to provide more sustainable materials.

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Packaging

Packaging is a critical element of supply chain management. If delivering the goods while maintaining their integrity is essential, there is a balance between ensuring quality and minimizing the environmental impacts. The use of quality and sustainable materials from controlled and known sources, added to maximizing efficiency participate greatly to reducing the overall footprints.

Expectations from the supply chains*

- Factories must maintain an updated list of suppliers certified to provide more sustainable packaging, including natural and synthetic materials, as well as glue and inks.
- All packaging products must be fully recyclable by 2030.

Waste and Circularity

Waste is accumulating at a speed beyond what our environment can handle. By properly categorizing, sorting, and directing the streams to the right stakeholders, we can minimize its impacts on the environment, but also participate to create the right ecosystem to increase circularity across supply chains.

Internal commitment

- Waste should be categorized and segregated at the point of generation.
- Data of waste should be collected and reported.
- Waste should be properly stored onsite and tracked for recycling/downcycling/disposal to eliminate and/or reduce environmental risks.
- All wastes (hazardous and non-hazardous) should be compliance to regulations/law.

Expectations from the supply chains*

- Categorize and segregate waste streams.
- Quantify, monitor and disclose waste generation and disposal annually.
- Set baseline and identify areas of improvement: volume reduction and recycling.
- Ensure safe storage onsite.
- Ensure compliance to national regulations on waste management and disposal.
- Phase out onsite burning of any non-hazardous waste and hazardous waste.
- Set up target to achieve zero landfill/incineration for non-hazardous waste by 2030.

Biodiversity

As a leading supply chain management player, our value chain is highly dependent of nature and its services. Our ambition is to contribute to protecting of nature and biodiversity, and supporting environmental restoration. Our strategy revolves around the use of more sustainable raw materials, better manufacturing processes (including chemicals), quality and durability of the products, and finally product's end of life.

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TRAININGS & COMMUNICATION

Regular on-site trainings, live webinars, and e-learning materials will be provided by the sustainability team on the topics covered by this policy.

The progresses against the goals are presented annually in the Li & Fung (Trading) Ltd ESG report.

MONITORING

Li & Fung continuously monitors and analyses the risks further down the supply chain. Apart from regular audits, Li & Fung performs unannounced spot-checks as part of its ongoing due diligence efforts. Spot-checks may take place in factories and locations with a heightened risk of environmental issues. Li & Fung also trains its own employees in relation to international environmental standards and practices, and to raise awareness on environmental protection practices and misconduct in the supply chain. Li & Fung is also engaged in conducting similar training courses with suppliers and in establishing control mechanisms for deeper tiers.

- **Externally**

Our business connects with global suppliers, vendors and customers across the globe. We aspire to collaborate with stakeholders in our supply chain to reduce our global environmental footprint. Here is a non-exhaustive list of preferred partners for environmental monitoring:

Higg FEM (Facility Environment Module ; Cascale + Worldly)

As one of the founding members of the Sustainable Apparel Coalition, now known as Cascale, we prefer the Higg FEM tool to monitor practices and performances.

Over the coming years, we will gradually request more factories/suppliers having direct business relation with Li & Fung Trading Ltd, its subsidiaries and/or its customers to participate to the Higg FEM and share their results annually.

BEPI (Business Environmental Performance Initiative; amfori)

BEPI is recognized as a secondary way to monitor factories practices, when expressly requested by customers.

IPE (Institute of Public and Environment affairs)

All factories producing in China are monitored monthly on the IPE platform.

Factories listed have the responsibility to take corrective measure(s) and communicate with IPE to remediate to non-compliance(s) issues identified.

EIM (Environment Impact Measure ; Jeanologia)

All active laundries must have a valid EIM licence and be able to provide EIM scores for products and developments upon request.

Bhive (Goblu) ; **BV3** (Bureau Veritas)

Li & Fung encourages suppliers to use recognized digital chemical monitoring tools such as Bhive or BV3 to monitor, benchmark and share the chemicals used by factories.

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INDUSTRY COLLABORATIONS

Li & Fung engages with policymakers and social partners and participates in industry consortiums to share best practices and collaborate with other parties such as Textile Exchange, Cascale and Canopy.

BUSINESS IMPLICATIONS

Li & Fung will take appropriate action against any suppliers who fail to comply with this policy or the applicable laws, which may include putting on hold any order with the suppliers until all parties reach an agreement on the remediation plan and until all remediation costs are settled. Based on the Li & Fung Supplier Code, failure to comply may result in suppliers being suspended or permanently prohibited from producing merchandise for Li & Fung and its customers.

Anyone who observes violations of this Supplier Code may contact Li & Fung anonymously by e-mail to our Compliance and Risk Management team (CorpGov@lifung.com), or through Li & Fung designated third-party whistleblowing channel by scanning the QR code and enter access code: **lifung**



Please refer to the Li & Fung company website to access our guidelines on [Reporting of Concerns and Misconduct in our Code of Conduct and Business Ethics](#) for more details.