

Sustainability Report 2019



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1. Preface

We are delighted to present our first sustainability report to anyone who takes a close interest in HVEG Fashion Group. Our learning curve on sustainable and ethical entrepreneurship has been intricate and steep - a continuous improvement process due to the complex interaction between the environment, economy and social justice. To secure a viable future, we believe that we should not only proactively address sustainability on a Group company level, but also seek sustainable and constructive solutions in consultation with our customers and stakeholders. Only through cooperation and sharing of responsibilities can we achieve our common goals and objectives.

The first time we set group-wide sustainability goals was in 2016. In 2018 we started integrating these into the organization. Since 2019 we have also started to tackle our global environmental footprint; raw materials and chemicals that we use in our products and the water and energy required for this.

Chain transparency is one of the basic principles of our sustainability policy. It helps us to structurally build in-depth knowledge of our supply chains, to detect bottlenecks and to identify solutions. This concerns all the links in the value chain. In the past year, we have maintained close liaison with our suppliers to keep abreast of the latest developments and jointly work on the improvements needed. Our employees also play an important role in achieving our goals.

There are still many sustainability challenges that we need to tackle, but we are proud of what we have achieved in the past year and the positive impact that we have made as a group. We hope that this report provides an insight of where we are at and which obstacles we should still overcome. If you have an idea, tip, question or comment, please contact us. We would like to hear from you. Send a message to sustainability@hvegfashiongroup.com.



2. Market update 2019



Despite an increase in consumer spending in the Dutch garment and textile industry, the overall profits fell by 3 percent in 2019. Supermarkets did however see a strong growth at the beginning of the year. Another trend is the rise of online sales, which continued to increase between 2018-2019 from 12.9 percent to around 15 percent respectively.

Consumers' expectations about purchasing power fell during 2019. In the first half of the year an improvement in purchasing power was expected, but gloomy consumer sentiment weakened the demand for goods. Despite an increased willingness to purchase products, in the face of negative consumer confidence about the immediate future, the economy and the ability to secure and retain a good job, purchasing power decreased in the second half of the year.

In the Dutch apparel industry, a strong distinction is visible between winners and losers (figures 2018):

- 19 percent of fashion retailers grew by 10 percent or more;
- More than 50 percent had to deal with a decrease in turnover and 27 percent with double digits;
- Average EBITDA in Fashion retail is low at 3-4 percent (2018);
- Fashion retail with an online share below 10 percent realized a revenue decrease of -5 percent; Companies with an online share of more than 10 percent saw their turnover increase by 18 percent;
- No growth in 2019 in fashion retail (2018 + 2 percent);
- Physical stores remain the most important sales channel;
- Many online retailers are still not profitable.

In Germany - the second most important sales market - purchasing power and consumer spending increased in 2019. Even though the economy showed stable growth, consumer confidence in the economy proved to be negative and on the decline.

Due to this gloomy consumer sentiment, reselling in the Benelux and German fashion markets continues to be difficult. Because many companies store excess inventory, this has affected their buying habits whereby they now buy less and later. Moreover, important fashion accounts have also decided to do more in-house. Finally, in a short period of time both the Dutch and German fashion markets were confronted with a number of moratoriums and bankruptcies.

3. HVEG Fashion Group

HVEG Fashion Group is a group of internationally operating fashion companies specialized in designing, developing, selling and producing Private Label collections of women's and men's fashion, baby & children's clothing, leg fashion, underwear, accessories and optics. In addition, the group carries a number of licensed brands and own brands with its own product/market combinations. We produce for strong European textile brands and retail companies and for various distribution channels such as Fashion, Supermarket, Discount and Online Retail.



All HVEG Fashion Group companies have one common identity and culture, summarized in our mission statement: offering on trend lifestyle products at desired prices and being leading in sustainable product developments. The core values that are typical for each of the HVEG companies are reliability, teamwork, entrepreneurship, innovation, sustainability and open-mindedness.

Our offices can be found in the Netherlands, Germany, China and Bangladesh and are centrally managed from our office in Amersfoort. We have long-term cooperative relationships with our agents in India and Pakistan.

4. Frame of reference

Within the HVEG Fashion Group, sustainability is fully integrated into the policy and decision-making process. We are constantly looking how we can improve our production chains and have regular consultations about the steps that we have already taken and those that are still pending. In order to formulate appropriate answers to major social phenomena and the most important social themes that we as an organization have an impact on, we have aligned our CSR strategy with the 17 sustainable development goals (SDGs) of the United Nations.

These must put an end to poverty, inequality and climate change. Within the framework of this sustainability agenda, we have selected four main themes on which we as an organization think we have the most influence. These themes are: Clean water and sanitation (SDG 6), Decent work and economic growth (SDG 8), Responsible consumption and production (SDG 12) and Living on land (SDG 15).

5. Reporting - how we deal with sustainability

The responsibilities and processes in the field of sustainability are clearly regulated within the HVEG Fashion Group. The strategic responsibility for CSR lies with the CEO; our Compliance Manager is responsible for the implementation of our sustainability vision & strategy and also identifies potential for optimization. Once a month, the Compliance Manager and Buying Director will meet to discuss the factory progress and report back to the CEO.

Our global sustainability team consists of 6 experts who are jointly responsible for determining our sustainability strategies, goals, policies and follow-up procedures. These

colleagues work directly with our suppliers to check their performance against our Code of Conduct (CoC). We make use of a formalized coordinated compliance procedure, in which a mix of tools is used and both the social and ecological performance of suppliers are monitored. In addition, we support our suppliers through coaching, training and development plans.

6. Chain transparency



Transparency is the key to chain optimization. It helps us to set priorities, take smarter actions and be able to communicate with confidence about the progress made. To make more sustainable choices, our stakeholders want to know where we produce our goods and under what circumstances this happens, and how we monitor our chains. Chain transparency is therefore an important part of our sustainability policy and a strict condition before we enter into a relationship with a supplier.

To ensure that our suppliers work in a sustainable manner and take responsibility for the working conditions of their employees and the environment, they must sign our Code of Conduct (CoC). This CoC contains our rules of conduct and the norms and values on which HVEG Fashion Group is based. In the apparel industry orders are regularly outsourced - the so-called sub-contracting - so we ensure that our manufacturers comply with our policy on sub-contracting. Outsourcing is only permitted if HVEG Fashion Group has given prior approval and if the sub-contractor has signed our CoC. One hundred percent of our manufacturers have signed our code of conduct.

In addition, we monitor all our factories on the guidelines of the amfori BSCI Code of Conduct through independent social audits. Social audits are an important pillar for measuring human rights and environmental impacts; they highlight points for improvement within our supply chain. Amfori BSCI is an international Social Compliance initiative that is committed to improving working conditions within the worldwide production chain. It refers to various international declarations, including those of the United Nations (including UNGPs), conventions of the International Labor Organization (ILO) and OECD guidelines (the Organization for Economic Cooperation and Development) for multinationals.

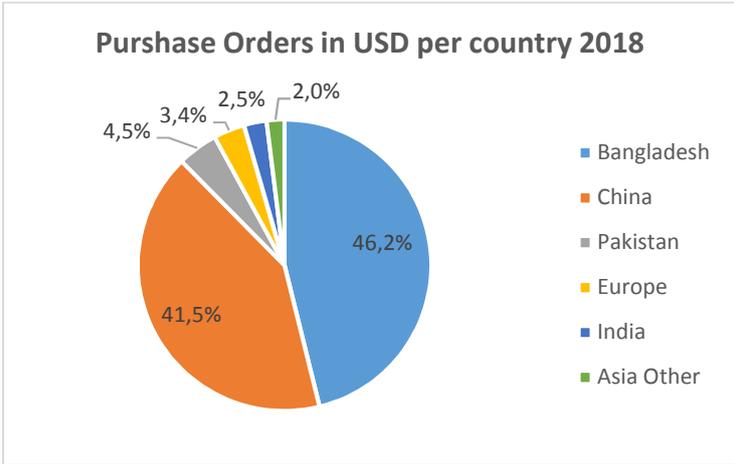


At the moment we have audit reports from 96 percent of our manufacturers in the Far East and in Turkey. The identifiable issues that emerged most often during the 432 audits in 2019 concern health & safety at work and wages & working hours. Our own audits and the BSCI audit reports showed that employers are often still to provide personal protective equipment (PPE) to their employees for free. And the standards for wearing these are not always properly complied with. Consequently, employees do not wear the correct hearing protection, face masks or hand protection. In some cases, emergency exits and emergency stairs are blocked, the fire alarm is not in order, the emergency lighting is broken, or the escape route and emergency signs are not properly indicated. Regarding wages and working hour records, these are often not kept up to date. We can therefore not always properly verify them. In addition, labor migrants sometimes work extra hours so that they can send the extra money they earn to their families at home. In order to tackle these structural problems, we support our suppliers

through coaching and extra training. All our factories must have at least a BSCI C rating; it is our goal that by the end of 2025 at least 25 percent of our factories have an amfori A or B rating. The most important core themes that we want to address at the factory level are management practices, wages & working hours and health and safety at work.

In addition to amfori BSCI, we are affiliated with the Bangladesh Safety Agreement (Bangladesh Accord on Fire and Building Safety). This is a legally binding agreement to provide safe workplaces for employees in Bangladeshi clothing factories. The Accord includes independent safety inspections of factories and public reporting of the results thereof. In addition, the Accord supports safety training for all employees and setting up safety committees within factories. This guarantees safe working conditions within our factories. The Accord was extended in 2018 and will be transferred in 2020 to a new body in Bangladesh, the RMG Sustainability Council (RSC). At the factories where we are active, by the end of 2019 96 percent of the initial points for improvement were implemented. That is above the Accord average of all factories. It is our common goal, to ensure that 100 percent of all areas of improvement have been implemented by the end of 2020.

Due to the aforementioned initiatives, we can contribute to the realization of Sustainable Development Goal 6 of the United Nations. By entering into long-term working relationships with our manufacturers and making them also responsible for implementing the HVEG Code of Conduct, we can jointly ensure better working conditions and a cleaner environment. China, Bangladesh, Pakistan, India, Vietnam, Myanmar, Turkey and the Netherlands are the countries where the textile, accessories and hardware products from HVEG are now being produced.



7. Findings per country

The risk classification of our suppliers is based on administrative indicators registered by the World Bank. These are used to determine the administrative power of a country, whereby its administration is assessed on the following six points: governance and responsibility; political stability and absence of violence or terrorism; government activity; quality of laws and regulations; and compliance with the law. Each area influences the success of BSCI participants in conducting their business activities in a socially responsible manner. In 2019, all factories except those in the Netherlands were in high-risk countries. In 2019 our teams visited and audited 432 of our textile, hardware and accessory production locations. In addition, all our factories were BSCI audited by independent 3rd parties.

Bangladesh

In 2019 we visited and audited 235 factories. During these visits, we mainly found points for improvement that were related to exceeding maximum working hours. In addition, personal protective equipment is often not used correctly or are not available. Regarding waste management, many factories do not yet have their waste separation and storage in good order. In addition, part of the factories have not yet implemented systems for purifying and/or managing (waste) water, to address energy efficiency and to reduce greenhouse emissions.

China

This year we have visited and audited 85 factories. Common areas for improvement in China are the lack or inconsistent maintenance of the administration, and in particular the inadequate documentation of the payment of wages and working hours. In addition, the insurance of workers is not always in order. We demand that 100 percent of employees must have accident insurance, including temporary employees, probationary workers and all permanent employees. If this is not the case, we will set a deadline for this issue with the factory in question. Regarding the certificates of fire and / or construction safety inspections, these have sometimes expired. Finally, we regularly make findings about environmental pollution.

India

In 2019 we visited 10 factories in India. Most of the infringements we found here concerned blocked emergency passages, fire extinguishers and reels and not using the correct safety equipment. These points for improvement could be quickly discussed and solved. One factory had not established a policy with regard to child labor.

Pakistan

We have visited and audited 80 factories in Pakistan. Improvement is needed regarding wages and working hours. In addition, personal protective equipment is sometimes not used correctly or are not available. Finally, infringements have been established with regard to blocked fire extinguishers and reels.

Turkey

We have visited and audited 22 factories in Turkey. We paid special attention to the correct treatment of any Syrian refugees and to the age verification of employees.



8. Raw materials and fabrics

If we want to keep the earth habitable in the future, we will have to change the way we work. The Intergovernmental Panel on Climate Change (IPCC) - the United Nations Climate Commission - has decreed that we must "make rapid and far-reaching transitions in land, energy, industry, buildings, transport and cities". The most important goal is therefore to reduce CO2 emissions and ultimately to be carbon neutral. As a company we can achieve better environmental outcomes by reducing the use of pesticides, chemicals, water and energy and using more sustainable materials. Below are some important steps we take to get us there.



Cotton

With regards to the use of sustainable materials, we still have a long way to go because we are highly dependent on our customers for their use. However, it is our ambition to use more sustainable cotton for our collections. To achieve this goal, we adhere to three sustainability standards; the Better Cotton Initiative (BCI), the Organic Content Standard (OCS) and the Global Organic Textile Standard (GOTS). BCI is committed to making global cotton production more sustainable; OCS and GOTS are standards for organically grown cotton. As a group we are BCI member; within our group two of our companies are OCS certified and one is GOTS certified. By purchasing more sustainably produced cotton, we contribute to minimizing pesticide use and more efficient water use. With these initiatives we contribute to the realization of Sustainable Development Goals 12 and 15 of the United Nations. It is our ambition that 25 percent of our total cotton production in 2022 will consist of sustainable cotton and that this will be 50 percent in 2025. Sustainable cotton is organically grown and so fetches a higher price; but unfortunately, our customers are not always willing to pay for this.



Bamboo

Bamboo is a particularly resilient plant that can withstand climate change and natural disasters. It is the fastest growing woody plant in the world, so it can be harvested often. Using only 10 percent of the ground surface area, bamboo delivers just as much yarn as cotton. However, unlike cotton, bamboo does not require irrigation or fertilizer at most locations where it grows, which means that most bamboo cultivation can be considered sustainable. Finally, bamboo biodegrades faster than oil-based plastics. It is our ambition to use more bamboo for our collections; with regards to our brand Bamboo Basics we intend to use a closed-loop process by end 2022 at the latest, to recover and reuse the chemicals used during the processing process. By using more sustainably produced bamboo, we reduce the erosion, deforestation and slope stability of areas and make less use of water and chemicals. And so contribute to the realization of Sustainable Development Goals 12 and 15 of the United Nations.

Polyester and acrylic

Worldwide, around 60 percent of the material from which clothing is made consists of synthetic fibers such as polyester, nylon and acrylic. The production of these substances is accompanied by high energy consumption. However, these substances offer a number of advantages because these materials lend themselves well to recycling. They can often be washed at low temperatures and dry quickly, which means they score well on energy efficiency. For this reason, we have launched an initiative at the end of 2019 with the acrylic fiber Polylana. Polylana is made from a mixture of new and recycled polyester pellets and rPET pellets. This makes this acrylic a sustainable and low-impact alternative to 100 percent virgin acrylic fibers by using less energy and water.

With regard to sustainable polyester, we have entered into a partnership with Repreve. Repreve is a family of synthetic fibers made from 100 percent recycled water bottles with fiber print technology, making them fully traceable. Repreve yarns also use less water and energy compared to virgin polyester. In both cases, fewer greenhouse gases are also emitted. It is our intention that at the end of 2022, 25 percent of our collection consists of sustainable synthetic fibers and that this will be 50 percent at the end of 2025.



Leather and animal welfare

Together with our customers, we commit ourselves to high animal welfare standards. Animals must be treated with care, respect and dignity and we do not sell exotic animal skins, fur, angora wool or down. Much water and energy is used during the production of leather. Tanning is harmful to the environment through deforestation and the harmful waste products caused by chromium during the leather tanning process. For this reason, we are a member of the Leather Working Group that sets standards for tanneries, ensuring that leather does not come from areas in Brazil where rainforests are destroyed for cattle breeding. In addition, it is working on the development of useful substitutes for chromium. In the meantime, within the HVEG Fashion Group we are also conducting research into leather substitutes based on raw materials such as fungi, vegetable fibers (fibers from pineapple leaves, apple, grape), mushrooms, seaweed etc. These are completely biodegradable. It is our intention that at the end of 2022 10 percent of our leather production will consist of vegetable leather and that this will be 20 percent at the end of 2025. This initiative contributes to the achievement of Sustainable Development Goals 6 and 15 of the United Nations.



Plastic

We all produce 311 million tons of new plastic each year. Around 5 million tons end up in the sea and contribute to the plastic soup. In addition, invisible micro plastic particles can make people and animals sick and damage ecosystems. Plastic such as polyester, polyurethane and polyethylene is not naturally degradable and is also made from petroleum - a non-renewable source. In liaison with our customers we therefore try to take measures to reduce our residual waste and reduce our footprint by using raw materials that can be recycled or reused. For our own production, it is our intention that by the end of 2022 approximately 50 percent of the packaging will be reused or biodegradable. And we have set the goal for our polyester clothing to only use recycled or renewable alternatives by 2030 at the latest. With these initiatives we contribute to the realization of Sustainable Development Goal 15 of the United Nations.

Micro plastics

99 percent of our (sun) glasses are made from polycarbonate (PC). During their production, micro plastics are released into the atmosphere. As a more responsible option, we are now developing glasses made from recycled PET bottles and conducting research into biodegradable plastics. As with other more sustainable materials, we are heavily dependent on our customers for their use. Nonetheless, it is our ambition that 20 percent of our glasses must consist of sustainable plastics by the end of 2025. Regarding our clothing and accessories that use synthetic materials, we are aware that fibrous micro plastics end up in the (aquatic) environment through washing and wear. There are currently no industry-standard tests for the release of fibers from these types of materials, so at present it is still difficult to make conscious choices between the various synthetic fibers. However, waste water treatment plants in textile factories can remove 50 to 90 percent of these micro-plastic fibers if they use filters. We therefore urge our manufacturers to use filters. More efficient filters in household washing machines and dryers can also help solve this problem. Together with our customers, industry associations and NGOs, we will ensure that we encourage individual consumers to purchase clothing that releases less fiber, to wash their clothes less often and to dry them in sunlight.



Packaging

20 percent of our waste consists of packaging, which has a major impact on the environment. Firstly, because raw materials and energy are needed to make them and secondly because packaging often ends up in the street or landfills. As a company we use different types of packaging such as plastic, paper and cardboard, both for transport to our customers and shipments via the web shop. Because we are largely dependent on the wishes of our customers, we work with them to find more sustainable alternatives that meet their technical requirements (such as recyclable packaging), but also to generate less packaging. In addition, we look at both fossil & compostable bio based alternatives such as elephant grass, but also at recycled materials in order actively inspire and advise our customers and to come together for further packaging optimization. In the meantime, we are looking into the use of thinner and lighter qualities, so that fewer raw materials are needed for their production, leading to a lower environmental pressure. Finally, we separate our paper and plastic waste for recycling at our distribution center. Our aim is that by the end of 2022 a quarter of our packaging will be made from sustainable materials and that by the end of 2025 this will be fifty percent. In so doing we contribute to the realization of Sustainable Development Goal 12 of the United Nations.



Water, chemicals and energy consumption

Water is the condition for all life on earth; access to clean water is a fundamental human right. The availability of sufficient clean water is not only essential for people's health, but also for the social and economic development of a country. As textile production uses large amounts of water, it is important that the water efficiency and waste water management in the global textile industry is improved and more water reused. To achieve this, we have joined the Detox Commitment and the ZDHC initiative (Zero Discharge or Hazardous Chemicals). These both aim to eliminate the use of chemicals having a harmful effect on health or the environment, by implementing sustainable chemistry. We are working together with our suppliers to ensure that chemicals are used correctly.

We are also mapping the sub-suppliers (2nd and 3rd tier) of our suppliers, in order to formulate clear objectives for them by 2025. Compliance with the Restricted Substances List (this is a list of chemical substances for which restrictions on use apply) and Manufacturing Restricted Substances List (a list of chemical substances that are subject to limitations within the production process) is checked and tested through a waste water test program. We also work with amfori BEPI and CPI2 on measuring the energy, water and chemical use of our producers and we help our manufacturers to optimize these. Our goal - in consultation with our customers - is that all our factories that produce more than 40,000 units per year will be obliged to join one of these two initiatives by the end of 2020. We also use the Higg Index, a tool that can be used to measure the sustainability of a supplier. Finally, to prevent potential damage to human health and the environment of our products, our suppliers must adhere to the European Reach Regulation on Chemical Production and Trade and the materials we use for our products are tested by independent and accredited external laboratories in accordance with this Restricted Substances (RSL) list. With these initiatives we contribute to the realization of Sustainable Development Goals 6 and 15 of the United Nations.

9. Highlights



Sustainability principles

To make our procurement policy more sustainable and to ensure compliance with the HVEG CoC, we have revised and institutionalized our onboarding protocol for suppliers. In addition, we have set priority sustainability goals under the supervision of the Management Team and have integrated these into the company's annual strategic planning.

Risk assessment

To get a better grip on strategic and operational business risks, we have been analyzing and assessing the social compliance performance of our suppliers on a monthly basis since January 2019. Thanks to this information, it is now easier for us to connect diverse information. The increased insight this offers to us can help us to make better decisions.

Distribution centers

In 2019 we have merged two of our distribution centers into one. This increases the efficiency within our company through optimization, coordination and internal collaboration and leads to a faster service to customers. In addition, we can reduce our CO2 emissions by making a more sustainable use of transport, materials, premises and the working environment.

OCS-certification

In 2019 Low Land Fashion and Y'Organic were OCS certified. Thanks to this certification, we can be sure that the cotton we use for our products has been grown according to the standards of organic farming and that we can trace the path it has travelled.

GOTS-certification

In 2019 Low Land Fashion and Y'Organic were GOTS certified. Thanks to this certification, we can be sure that the cotton we use for our products has been grown according to the standards of organic farming and that we can trace the path it has travelled.

Reduction of energy consumption

This year we have started a project to improve the energy consumption of our distribution center in 's-Heerenberg and our factory in Eindhoven. We want to improve the energy efficiency in these buildings through various energy-saving measures in the field of electricity, gas and fuels for heating. We now wish to switch to LED lighting, which uses a third less energy than do traditional fluorescent tubes. By the end of 2020 80 percent of our offices must have LED lighting.



10. Challenges

The negative environmental impact of the fashion industry is undeniable. The Dutch Sustainable Fashion Week, has taught us that 235 million kilos of textile are thrown away every year in the Netherlands alone. In addition, working conditions in clothing factories are often still poor and the linear business model that the industry mostly adheres to causes contamination and scarcity of materials. The biggest obstacles we encounter in our efforts to reduce this negative impact on society and the environment are the following:

Supply chain

To support our ambition to create a healthier and more sustainable world, it is our goal to make our entire supply chain more sustainable. However, the complexity of the textile chain makes it difficult to trace each product from their point of origin to their final destination. Because our production chain is large and complicated and also constantly changing, it is impossible to know where what is happening at every moment in time. With regards to the environment and obtaining reliable energy, water and chemical waste data, this too is a real challenge. For these reasons, we regularly visit and monitor our suppliers and share important findings along the way. In addition, together with our customers and stakeholders we are looking for ways to address issues that we encounter in our tier two supply chain. We strive to be fully transparent towards our customers and stakeholders, but with so much information available in so many different areas, this remains a challenge.

Supply chain risks

We want to limit the risks in our supply chain by identifying the effects of labor, human rights and the environment and understanding why they occur. We do this, among other ways, by means of audits. But there are many certification bodies and the amount of detail they present about the evidence gathered during the audits differs, as well as the basis on which decisions about compliance are made, which makes comparing reports a challenging affair. On the other hand, our customers are connected to different (social) compliance standards and often use different norms and evaluation methods. There is often a mismatch of requirements, while manufacturers are confronted with high costs. All in all, it is a major challenge to ensure that these differing regulations do not lead to "audit fatigue" among our suppliers. In order to arrive at a standard whereby suppliers are assessed and monitored in a harmonized way, we enter into a dialogue with all parties involved, hoping to achieve a fair and realistic outcome - as we continue to align our procurement policy with a responsible business policy.



Traceability of cotton

Many of our customers have prohibited the purchase of conventional cotton from Uzbekistan, Turkmenistan and/or Syria in order to ban forced labor from their supply chain. We fully support this initiative, but it has proved extremely difficult to ensure that the cotton we use does not come from one of these countries: cotton goes through so-called "clearing houses," where it is distributed on the basis of grading instead of origin. And at this point all information about the cotton is more or less removed. Without the right technology or innovation, we are often searching for a needle in a haystack. Although we have tried to set up a strong procurement policy for our contractors, their contractors and subcontractors may not have the same systems, and this can hinder our investigation. We try to bridge this gap by building strong relationships with our suppliers and partners and by constantly insisting on more information. We are now also investigating the possibilities of block chain/fingerprinting technologies, which can make the supply chain more transparent and increase consumer confidence.

Living wage

We are committed to the United Nations SDG 8, which aims to create decent jobs and economic growth. We do this, among other ways, by ensuring a living wage so that factory workers and their families can provide for their basic needs. However, the problem is that the legal minimum wage differs in every country and sometimes per region. It is also very subjective concept, since opinions about living standards differ and the number of people in a household may greatly vary. By continuing to learn more about fair wages, we hope to implement these in our supply chain in the long term.

Price and margin

Unfortunately, price and margin competition is dominant in the apparel industry. Margins are usually small, and purchasing and production are often focused on short-term results. This can lead to a reduction in social and environmental performance. We therefore continue to work on our long-term vision of sustainability to ensure a viable future and to stop this "race to the bottom".

Circular business model

Our ultimate goal is to evolve from a linear take - make - waste model to a circular business model in which clothing is made with fewer and safer chemicals, renewable energy and water. An economic system that maximizes the reusability of products and raw materials and minimizes value destruction. By working together with our customers and joining forces in the field of innovation, we hope to create support in order to ultimately achieve the desired system changes.

