



**LI & FUNG**

# **Disclosure statement on modern slavery**

**Li & Fung Trading Limited**

**Published June 2021**

## Section 1. Structure, Business and Supply Chains

The International Labour Organization (ILO) estimates that 40.3 million people are victims of modern slavery with 16.5 million victims in Asia-Pacific alone. Of the 24.9 million people trapped in forced labor, the majority (16 million) work in the private sector, including across global supply chains. Health implications of COVID-19, the resulting global economic crisis, and subsequent disruptions to those supply chains have presented unprecedented challenges for the world's most vulnerable workers.<sup>1</sup> Beyond the risk of infection, many have faced layoffs, lockdowns, homelessness and food shortages; and are now at increased risk of discrimination and abuse.

The speed and scale of COVID-19 revealed the fragility of business and jobs across many sectors, including the garment sector. These conditions are exacerbated for those in bottom tier employment and particularly those in countries with lower labor protections. We know from research coming out of the last Global Estimates that the combination of a crisis with the absence of social security creates the perfect storm for heightening the risk of forced labor.

Li & Fung also grappled with an unprecedented number of supply chain disruptions in 2020, including factory closures and disruption in production. In the Ready-Made Garment sector, only 3 in 5 workers returned to factory jobs, and women have been disproportionately affected.<sup>2</sup> To mitigate these challenges, we continued to convene different parts of the supply chain, working with customers to replan production, re-instating orders that were cancelled during economic lockdown due to the pandemic, and helping factories pivot to the manufacturing of personal protective equipment. We also worked through our industry partners such as the ILO/International Finance Corporation Better Work Program – to offer support to factories and workers on crucial health and safety issues and help bring partners together to develop joint responses to the pandemic at the national and international levels.<sup>2</sup>

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<sup>1</sup> Modern slavery covers a variety of legal concepts. It refers to situations of exploitation that a person cannot refuse or leave because of threats, violence, coercion, deception and/or abuse of power. ILO Estimates of Modern Slavery, International Labour Office (2017) Geneva.

<sup>2</sup> Better Work – a collaboration between the United Nation's International Labour Organization (ILO) and the International Finance Corporation (IFC), a member of the World Bank Group – is a comprehensive program bringing together all levels of the garment industry to improve working conditions and respect of labour rights for workers, and boost the competitiveness of apparel businesses.

**5** GENDER EQUALITY



## **SDG 5: Achieve gender equality and empower all women and girls**

Target 5.2: Eliminate all forms of violence against all women and girls in the public and private spheres, including trafficking and sexual and other types of exploitation.

**8** DECENT WORK AND ECONOMIC GROWTH



## **SDG 8: Decent Work and Economic Growth**

Target 8.7: Take immediate and effective measures to eradicate forced labor, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labor, including recruitment and use of child soldiers, and by 2025 end child labor in all its forms.

**10** REDUCED INEQUALITIES



## **SDG 10: Reduced Inequality**

Target 10.7: Facilitate orderly, safe, and responsible migration and mobility of people, including through implementation of planned and well-managed migration policies.

Combatting modern slavery against the backdrop of a worsening global crisis requires proactive action and collaboration among a variety of stakeholders including governments, international organizations, civil society, and the private sector. The Sustainable Development Goals (SDG) including the adoption of three specific targets related to forced labor, human trafficking and safe migration represented in the above diagram, are an opportunity for Li & Fung to work in partnership with stakeholders across the globe.<sup>3</sup>

Our disclosure statement on modern slavery is published in accordance with the UK Modern Slavery Act (2015) and the SB657 California Transparency in Supply Chains Act. It sets out the steps taken from Jan – Dec 2020 to meet commitments made in our earlier statements and outlines our 2021 modern slavery strategy and commitments.

The statement is fully supported and approved by our Board of Directors and signed by Group Chief Executive Officer (CEO), Joseph Phi. It was reviewed externally by the Mekong Club, a Hong Kong-based, non-governmental organization committed to ending modern slavery within the private sector through collaborative engagement.

<sup>3</sup> The SDGs supplement the existing international framework on forced labor and child labor, including: Child Labour Conventions and Recommendations (C138 and R46; C182 and R190); United National Convention on the Rights of the Child; Buenos Aires Declaration on Child Labour, Forced Labour and Youth Employment (2017); ILO Forced Labour Conventions, Recommendations and Protocols (C29, P29, R35 and R203; C105); and The Palermo Protocol to Prevent, Suppress and Punish Trafficking in Persons, especially Women and Children.

**A. Li & Fung: Structure & Business**

Li & Fung is a formerly publicly traded company, which was privatized at the end of May 2020, headquartered in Hong Kong, and a member of the [Fung Group of Companies](#).

- Our **Trading segment** consists of the Supply Chain Solutions and Onshore Wholesale business in the Americas, Europe, and Asia. We provide end-to-end supply chain solutions, from product design, raw material procurement, to production and quality control.
- Our **Logistics segment** delivers fast, reliable, and cost-effective solutions for the Fast Moving Consumer Goods, Food & Beverage, Footwear & Apparel and Retail sectors. LF Logistics runs warehouse management, freight management, and in-country transportation. LF Logistics offers a suite of integrated logistics and supply chain management services through its comprehensive distribution network in Asia and collaborates closely with over 400 brand owners and retailers.

**Li & Fung Limited Structure**



Production countries  
**40+**

Factories  
**5,635**

Employees worldwide  
(as of 31 Dec 2020)  
**15,124**



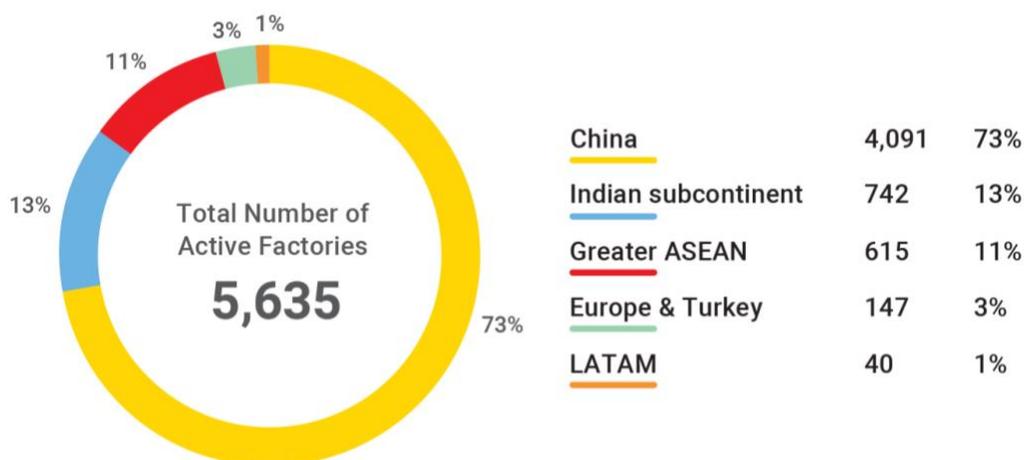
**49%**  
Female

**51%**  
Male



## B. The Supply Chain – Tier 1

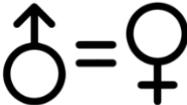
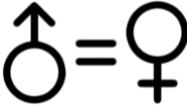
We design, source and deliver a diverse range of products including apparel, footwear, accessories, and household products for global brands and retailers. In 2020, we sourced from over 5,600 factories in over 40 production markets with 977 factories contributing 80% of the value of goods shipped to our customers. These 977 factories represent 17% of our total active factories.



We expect our suppliers to continuously improve their performance and provide safe and fair workplaces for all workers. We believe that long-term relationships with suppliers can enhance sustainability performance along the supply chain. While the trade landscape continues to change, we make every effort to strengthen relationships with existing factories rather than onboard new ones. In 2020, we maintained long-term relationships (five years or more) with approximately 47% of the factories in our supply chain.

Understanding worker demographics is necessary to building appropriate due diligence processes, better responding to the needs of different groups of vulnerable workers and helping to ensure that if an issue does arise, grievance mechanisms are accessible to all workers along the supply chain. Li & Fung is committed to progressively building a complete picture of our supply chain that identifies and prioritizes areas at risk of modern slavery.

Table 1: Worker Demographics in the Li & Fung Supply Chain<sup>4</sup>

<p><b>Workers</b></p> 	<p><b>There are more female than male workers</b></p> <ul style="list-style-type: none"> <li>• 58% female workers and 42% male workers</li> <li>• Myanmar, Cambodia and Indonesia have the highest percentage of female workers</li> <li>• Pakistan and India have the highest percentage of male workers</li> </ul>
<p><b>Management</b></p> 	<p><b>Women are underrepresented in management positions particularly in South Asian countries</b></p> <ul style="list-style-type: none"> <li>• 41% of management are women</li> <li>• 59% of management are men</li> <li>• Through our partnership Better Work we encouraged factories in Bangladesh to join the GEAR women in leadership program</li> </ul>
<p><b>Contracts</b></p> 	<p><b>Most workers are on permanent contracts</b></p> <ul style="list-style-type: none"> <li>• 94% of workers are on permanent contracts</li> <li>• Permanent contract rates are the lowest in Indonesia and Cambodia where there are continuing industry-wide challenges regarding the use of temporary or fixed-term contracts.</li> </ul>
<p><b>Migrants</b></p> 	<p><b>Migrant workers make up a significant portion of the workforce</b></p> <ul style="list-style-type: none"> <li>• 60% are local workers and 40% are migrant workers</li> <li>• Of the migrant workers, 39.5% are internal migrant workers whereas 0.5% are foreign migrant workers</li> <li>• Malaysia, Jordan, Thailand and Taiwan have higher percentages of foreign migrant workers</li> <li>• Myanmar, China, Vietnam and Pakistan have higher percentages of internal migrant workers.</li> </ul>

<sup>4</sup> These statistics are based on a sampling of audit data from 2019.

## Section 2. Policies in relation to Modern Slavery and Human Trafficking

### *A. Cross-Departmental Senior Leadership for Modern Slavery*

Engagement of senior leadership across the company is crucial to drive effective corporate responses and policies to end modern slavery.

At Li & Fung, several different departments contribute to the company's efforts to end modern slavery, with the involvement and oversight of senior leadership. The Risk Management and Sustainability Committee (RMSC) for example was established in 2001 and is chaired by the Honorary Chairman; its written terms of reference include offering recommendations to the Board on the company's risk management and internal control systems and reviewing practices and strategies on corporate responsibility and sustainability. The Committee reports to the Board of Directors and specific topics discussed in 2020 included looking at how to better identify and prevent forced labor risks in the lower tiers of the supply chain.

The Vendor Compliance and Sustainability team is responsible for overseeing our vendor compliance operations and working with customers to strengthen compliance and sustainability performance – including overseeing risk assessments and due diligence measures to end modern slavery. The team maintains its independence from external and internal stakeholders by reporting to the Group CEO. The team has over 45 colleagues based in over 11 markets across the globe, from North and Central America, Europe and the Middle East to Asia.

Human Resources (HR), Procurement and Legal also play an important part. Our HR professionals help raise awareness by rolling-out our e-learning training on modern slavery for colleagues and by ensuring responsible recruitment within our own organization.

### *B. Codes of Conduct for: Employees, Suppliers, Contractors, Business Partners*

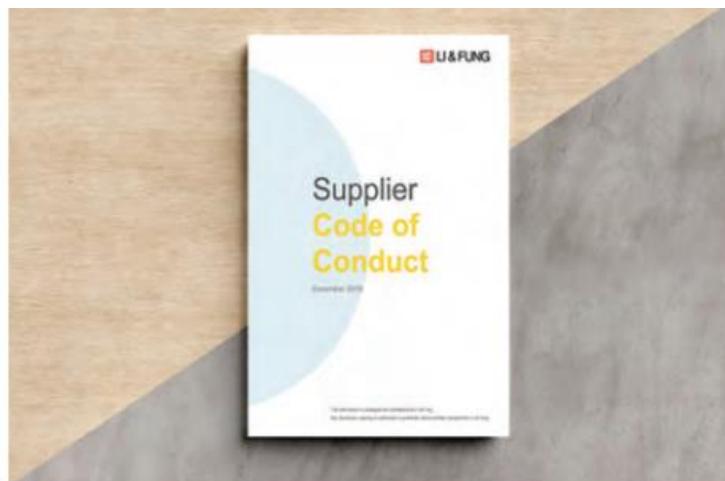
The **Li & Fung Code of Conduct and Business Ethics (the Code)** requires all employees and Directors to adhere to the ten principles of the UN Global Compact and the principles contained in the ILO's Declaration on Fundamental Principles and Rights at Work, including the elimination of forced labor.

All new employees learn about the Code during orientation, supported by additional training during the course of their employment. Policies and guidelines for addressing the Code are implemented in the acquisition of any new businesses and through our ongoing recruitment, training, performance assessment, disciplinary and grievance processes.

The Code also requires all employees to work with suppliers to ensure human and labor rights are upheld throughout the supply chain. For ease of reference and as a constant reminder, the Code and its accompanying policies and guidelines are available on One Family, our internal communications platform, and externally on our website. Compliance with the Code is overseen by the HR, Legal and Corporate Governance divisions.

Managing supply chain risk starts with **Li & Fung's Supplier Code of Conduct (Supplier Code)**. The principles enshrined in the Supplier Code are grounded in the United Nations Universal Declaration of Human Rights and the ILO's Declaration on Fundamental Principles and Rights at Work, as well as local law.

The Supplier Code is available to suppliers in multiple languages and incorporates guidelines on social, environmental and security standards as well as practical resources for implementing standards within factory operations. All suppliers must commit to adhere to these minimum standards as a condition of doing business with us.



Li & Fung supports the Commitment to Responsible Recruitment, spearheaded by the American Apparel and Footwear Association (AAFA) and Fair Labor Association (FLA).<sup>5</sup>

In accordance with this commitment and recognizing the adoption of new International Guidance and Standards on responsible recruitment and combatting violence and harassment at work,<sup>6</sup> we updated the Supplier Code to include stronger provisions on both topics.

To introduce the updated version, we have hosted 56 training sessions in key sourcing countries for colleagues and suppliers, with more planned. The training highlights all key changes, their potential impact and requirements for adherence. To date, 3805 factories have signed their acceptance of the new Code. While the pandemic delayed the signing of the remaining factories, we will ensure that the majority have signed in 2021.

### ***C. Responsible Recruitment Policies***

The private sector – alongside governments and other stakeholders – will have a vital role to play in safeguarding the rights and wellbeing of the estimated 164 million international migrant workers and their communities around the world. An increase in overseas migrants attempting to secure work abroad due to instability in their own countries brought about by the pandemic may leave workers vulnerable to increased debt bondage through unscrupulous recruitment agencies and employers; further justifying the private sector’s ongoing responsibility to promote responsible recruitment.<sup>7</sup>

Migrant workers often incur financial debt to pay for recruitment and therefore depend on regular and timely income during employment abroad. Non-payment of wages due to production stoppage or layoffs can have severe negative impacts on the livelihood of migrants and their families. The United Nations’ International Organization for Migration (IOM) currently advises global brands and buyers to

<sup>5</sup> See below section on Responsible Recruitment for details.

<sup>6</sup> In 2019, the ILO released its General Principles and Operational Guidelines for Fair Recruitment and adopted Convention No. 190 and Recommendation No. 206 recognizing the right of everyone to a world of work free from violence and harassment, including gender-based violence and harassment.

<sup>7</sup> “Labor Migration in Asia: Impacts of the COVID-19 Crisis and the Post-Pandemic Future,” *ADB Institute, OECD, ILO* (April 2021) <https://www.adb.org/sites/default/files/publication/690751/adb-book-labor-migration-asia-impacts-covid-19-crisis-post-pandemic-future.pdf>

reinforce their existing responsible recruitment and due diligence processes, ensuring supplier adherence and implementation.<sup>8</sup> It is critically important that measures are in place to ensure the ethical recruitment of migrant workers even in times of crisis.

Li & Fung, along with another 152 brands, retailers and suppliers, is a signatory to the [AAFA and FLA Commitment to Responsible Recruitment](#).<sup>9</sup> Signatories agree to:

- Incorporate principles of Responsible Recruitment, including the employer pays principle into their Supplier Codes of Conduct.
- Report on actions to embed Responsible Recruitment in policies and processes through sustainability reporting and legally required modern slavery disclosure statements.

**The Responsible Recruitment Policy for Li & Fung and its supply chain was launched in November 2020. Since its adoption, 2265 suppliers have signed the policy with the remainder to sign in 2021.**

## Key Highlights – Li & Fung Responsible Recruitment Policy



**Employer Pays Principle:** Suppliers shall take steps to ensure that workers do not pay recruitment fees or related costs to get a job. Suppliers shall ensure that where employees have paid recruitment fees or related costs, that workers are reimbursed. In the first year of implementation, the focus is on illegal recruitment fees and costs with the goal to progressively cover all fees and costs. The progressive implementation gives suppliers time to prepare for the changes and to put the systems in place to recruit responsibly.



**Due Diligence:** Prior to selection, suppliers shall undertake a formal screening of labor recruiters to assess commitment and capacity to meet the requirements set forth in the policy. Suppliers shall also have a written contract with labor recruiters incorporating all principles of responsible recruitment and shall conduct ongoing risk assessments and audits, including interviews with migrant workers to evaluate adherence to the contract.



**Dialogue and Training:** The policy was developed based on dialogue with workers, management and industry partners. In-person consultations took place in Taiwan, Thailand and Malaysia to better understand the different stakeholder perspectives on responsible recruitment. The policy is being coupled with in-person training and e-learning for colleagues and suppliers to better understand how to implement the policy.

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<sup>8</sup> “COVID-19: Guidance for employers and business to enhance migrant worker protection during the current health crisis” *International Organization for Migration (IOM)* (May 2020) [https://iris.iom.int/sites/iris/files/documents/IOM-COVID19\\_Employer\\_Guidance\\_V2\\_Final%28English%29.pdf](https://iris.iom.int/sites/iris/files/documents/IOM-COVID19_Employer_Guidance_V2_Final%28English%29.pdf)

<sup>9</sup> Sourced from AAFA and FLA Apparel & Footwear Industry Commitment to Responsible Recruitment [https://www.aafaglobal.org/AAFA/Solutions\\_Pages/Commitment\\_to\\_Responsible\\_Recruitment](https://www.aafaglobal.org/AAFA/Solutions_Pages/Commitment_to_Responsible_Recruitment)

## Section 3: Risk Assessment, Prevention and Mitigation

### A. Overview of Existing Risk Assessment Policies and Procedures

We acknowledge there are modern slavery risks that exist in our industry and in the markets where we operate. The challenge is to proactively identify and dissect modern slavery risks at various levels (country, region, product, tier, facility and worker) so they can be effectively mitigated and addressed. Risk assessment cannot be a static exercise. As modern slavery risks evolve and emerge in response to changing social, economic and political trends, it is important that we use knowledge from our industry partnerships together with own supply chain insights to actively stay on top of developments.

Our approach is to undertake regular mapping of our supply chain to review high-level risks along with mitigation and prevention strategies. These findings are then presented to the Li & Fung's RMSC, which reports to the Board of Directors. In 2020, our risk assessment included the following key sources of information:

**The Mekong Club's Modern Slavery Risk Map Toolkit** amalgamates key data sources related to global modern slavery risk into one central location, allowing us to filter and search by country to view the most up-to-date figures on modern slavery risk taken from the publicly available sources:

- **Global Slavery Index:** Provides a country by country ranking of the number of people in modern slavery, as well as an analysis of the actions that governments are taking to respond, and the factors that make people vulnerable.
- **US State Department's Trafficking in Person's Report:** This report is produced on an annual basis by the US State Department and ranks country responses to modern slavery on a tiered basis. The report also includes narrative and recommendations on the trafficking situation in each country globally.
- **Department of Labor's List of Good Produced by Child Labor or Forced Labor:** This annual publication is issued by the United States Government's Bureau of International Labor Affairs at the U.S. Department of Labor. It provides a list of known commodities and goods that have forced and child labor issues as well as details on the locations where the risk is highest.
- **Verité Commodity Atlas:** This resource, maintained by Verité, helps explore and understand the connection between specific commodities and forced labor (and other forms of exploitation). It is updated regularly with respect to all 43 commodities mentioned in the report.

**The Mekong Club's Risk Assessment Matrix (RAM)** also combines a series of standardized indicators to better understand our risk associated with raw materials and supply chain processes by product, process and region. The RAM aggregates multiple sources of audit data associated with specific materials and processes from different companies gathered in different formats. The matrix is currently based on the analysis of 70,000 data points and the latest dataset available.

**Mekong Club Knowledge Hub** provides regular and up-to-date digests of the most relevant and prevalent news stories related to modern slavery, and can be filtered by country, commodity, and industry. This allows us to have a continual view of ongoing and emerging risks as they happen and adjust our approaches accordingly. Li & Fung have access to this tool as part of our membership to the Mekong Club's business association.

**ELEVATE Intelligence (EIQ) – EIQ** harnesses one of the best audit datasets in the industry and couples this top-down compliance data with risk analytics by country, region and sector and bottom-up worker information. It allows companies to gain a holistic view of performance, impact and improvement potential by site, sector, province or country.

**B. Map of the apparel supply chain highlighting key mitigation measures**

<p><b>Tier 1 Suppliers - Product + Finishing</b></p>		<p><b>Salient risks:</b></p> <ul style="list-style-type: none"> <li>• Non-payment of minimum wages</li> <li>• Payment of recruitment fees and other forms of debt-bondage</li> <li>• Violence in the workplace</li> <li>• Limitations on freedom of movement</li> <li>• Forced overtime</li> <li>• Contract substitution</li> <li>• Document retention</li> <li>• Exploitation and/or discrimination of migrant workers and other ethnic minorities</li> </ul>	<p><b>Prevention and mitigation measures:</b></p> <p>We take a comprehensive approach to monitoring and building the capacity of Tier 1 factories. For more information, please see the section on due diligence and remediation.</p>
<p><b>Tier 2 Suppliers - Textile Manufacturing: spinning, weaving, dyeing and printing</b></p>		<p><b>Salient Risks:</b></p> <p>In countries with weaker labor market governance, there are risks of the worst forms of child labor owing to the large amount of chemicals used to dye and finish fabrics.</p> <p>As many spinning mills are still labor intensive – young women or migrant workers may experience delayed-payment schemes and/or limited freedom of movement. The other issues listed above in Tier 1 factories also remain a concern.</p>	<p><b>Prevention and mitigation measures:</b></p> <p>We are starting to build stronger relationships with our wet processing units (dyeing houses) and spinning mills including under-taking environmental and social assessments. Li &amp; Fung is using its corporate leverage to encourage its clients to nominate more mills for certification. Internal discussions of greater consolidation over raw materials purchasing to give Li &amp; Fung greater leverage are ongoing.</p> <p>In 2020 we audited several Tier 2 suppliers in strategic, high-risk countries.</p>
<p><b>Tier 3 Suppliers - Raw Materials and Processing</b></p>		<p><b>Salient Risks:</b></p> <p>Traceability to the raw material level is difficult as both the cotton and polyester supply chains are highly fragmented and opaque. Key risks include:</p> <ul style="list-style-type: none"> <li>• Under-age seasonal harvest work (cotton)</li> <li>• Forced and trafficked labor, including state imposed (cotton)</li> <li>• Modern slavery risks in conflict regions as well as transport (polyester)</li> </ul>	<p><b>Prevention and mitigation measures:</b></p> <p>We recognize the proven intersections between modern slavery, raw materials processing, and social compliance monitoring, particularly for suppliers on the lowest tiers. Expansion of existing innovative technology tools such as Apprise Audit could allow for greater traceability at the raw material level and assurance on compliance for both social and environmental standards across Li &amp; Fung’s Supply Chains. The company is beginning to engage industry partners on the development of best practices.</p>

### C. Modern Slavery Risks, Mitigation and Prevention Measures in Production Markets

We used the Mekong Club’s Risk Map Toolkit and RA, to analyze key sourcing countries including China, Vietnam, Bangladesh, India, Thailand, Indonesia, and Turkey.

<b>CHINA</b>	<p><b>Relevant High-risk Products:</b> Cotton, footwear, garments, gloves, thread/yarn, textiles, toys, artificial flowers</p> <p><b>Risk Assessment Matrix Data Indicators:</b></p> <ul style="list-style-type: none"> <li>• Deprivation of liberty</li> <li>• Overtime issues</li> <li>• Migrant labor issues</li> <li>• Contract issues</li> <li>• Payment issues</li> <li>• Accommodation issues</li> <li>• Child labor</li> </ul>	<p><b>Completed actions:</b></p> <ul style="list-style-type: none"> <li>• Distributed “A Quick Guide on Child Labor and Child Protection in China”.</li> <li>• Conducted a Vulnerable Worker Survey in 2020.</li> <li>• Mandatory training for all new factories and quarterly training to existing factories. Both sets of training include addressing and preventing forced and child labor risks.</li> <li>• Conducted a virtual COVID-19 spot-check and implemented Apprise Audit tool to collect direct feedback from workers in 9 factories.</li> </ul>
<b>VIETNAM</b>	<p><b>Relevant High-risk Products:</b> Footwear, garments, leather, textiles, furniture</p> <p><b>Risk Assessment Matrix Data Indicators:</b></p> <ul style="list-style-type: none"> <li>• Overtime issues</li> <li>• Deprivation of liberty</li> <li>• Payment issues</li> <li>• Contract issues</li> <li>• Child labor</li> <li>• Migrant labor issues</li> </ul>	<p><b>Completed actions:</b></p> <ul style="list-style-type: none"> <li>• Implemented Apprise Audit tool to collect direct feedback from workers in 39 factories.</li> <li>• Conducted 17 virtual COVID-19 spot-checks.</li> </ul>
<b>BANGLADESH</b>	<p><b>Relevant High-risk Products:</b> Footwear, garments, leather, textiles</p> <p><b>Risk Assessment Matrix Data Indicators:</b></p> <ul style="list-style-type: none"> <li>• Overtime issues</li> <li>• Deprivation of liberty</li> <li>• Payment issues</li> </ul>	<p><b>Completed actions:</b></p> <ul style="list-style-type: none"> <li>• Implemented Apprise Audit tool to collect direct feedback from workers in 28 factories.</li> <li>• Conducted 71 virtual COVID-19 spot-checks.</li> <li>• Worker helpline was active and made available during the worst periods of the 2020 pandemic.</li> </ul>

INDIA	<p><b>Relevant High-risk Products:</b> Cotton, embellishments, footwear, garments, leather, silk, thread/yarn</p>	<p><b>Completed actions:</b></p> <ul style="list-style-type: none"> <li>Conducted 5 virtual COVID-19 spot-checks in factories and spinning mills focused on forced labor.</li> </ul>
THAILAND	<p><b>High-risk Products:</b> Garments</p> <p><b>Risk Assessment Matrix Data Indicators:</b></p> <ul style="list-style-type: none"> <li>Deprivation of liberty</li> <li>Overtime issues</li> <li>Payment issues</li> <li>Accommodation issues</li> <li>Migrant labor issue</li> </ul>	<p><b>Completed actions:</b></p> <ul style="list-style-type: none"> <li>Implemented Apprise Audit tool to collect direct feedback from workers in 11 factories.</li> </ul>
TURKEY	<p><b>High-risk Products:</b> Cotton, garments</p> <p><b>Risk Assessment Matrix Data Indicators:</b></p> <ul style="list-style-type: none"> <li>Overtime issues</li> <li>Payment issues</li> <li>Contract issues</li> <li>Child Labor</li> <li>Deprivation of liberty</li> </ul>	<p><b>Completed actions:</b></p> <ul style="list-style-type: none"> <li>Turkish language was integrated into the Apprise Audit platform, which will enable the app's rollout with Turkish factories and suppliers.</li> <li>Despite COVID-19 hindering programing in 2020, the Turkey team is committed to deepening existing partnerships with United Work on responsible recruitment.</li> </ul>



## Section 4: Due diligence processes

### A. *Monitoring and Grievance Mechanisms*

Compliance with the Supplier Code is assessed by a designated third-party audit firm. All of our direct suppliers (Tier 1) are audited according to a timeline, which varies according to their level of risk. The performance of our third-party audit firms is monitored by a robust system of key performance indicators covering areas such as integrity, performance and accuracy. We also rotate the audit firms who conduct our onsite audits to maximize the strengths of each firm and to reduce the risk of collusion with factory management.

Li & Fung accepts audits from twelve recognized social and/or environmental compliance standards that meet our requirements as part of our audit “equivalency” program. This mutual recognition program has drastically reduced audit duplication and allows supplier resources to be reallocated to the sustainable improvement of critical issues.

As part of our assurance program on factories audited against industry and customer standards, Li & Fung and designated third-party audit firms conduct unannounced, risk-based spot checks on factories, with a particular focus on factories in countries where there are increased risk factors, such as a lack of transparency, or presence of vulnerable groups of workers. When a spot check focuses on forced labor, we use third parties to engage with both factory management and workers to ascertain the findings.

Where data from a spot check suggested a critical compliance issue that had been systemically missed by an industry standard, we shared information with the industry standard for improvement. Due to the COVID-19 pandemic, Li & Fung adapted existing protocols to conduct a high-quality COVID-19 virtual spot check addressing indicators of modern slavery, health, and safety risks. In 2020, Li & Fung conducted COVID-19 virtual spot checks in a total of 161 factories across 11 countries.

Grievance mechanisms are essential processes that provide access to remedy for workers and a critical component of ensuring factories achieve sustainable improvement. In 2020, we worked towards building more efficient and effective grievance mechanisms in our supply chain through our industry partnerships.

Better Work Bangladesh (BWB) continues to provide training to workers and management of factory employees to build their capacity, strengthen existing grievance mechanisms and ensure that all local

laws are followed in the process. In addition, in 2020 BWB arranged the Integrated Advisory Workshop on Grievance Mechanisms. The workshop aimed to identify the means to systematically and preemptively manage grievances in the workplace e.g. preventing, mitigating and addressing issues at factory level. Also in 2020, BWB in partnership with Li & Fung facilitated two interactive virtual training sessions with local trade union representatives. In total, 82 trade union members attended. The meeting increased understanding of compliance risks and accomplished its goal of building upon constructive labor relations grounded in using social dialogue as a crisis mitigation tool.

### Partnership on the Apprise Audit Platform



#### *Using New Technology for Due Diligence*

As a member of the Mekong Club's Manufacturing & Retail Working Group, we leverage its expertise, platform, tools and strategies to improve due diligence and risk assessment and educate key stakeholders on how to address the root causes of modern slavery.

The Apprise platform, developed by the Mekong Club and the United Nations University Institute in Macau (UNU) is an innovative platform that enables more workers to be engaged during an audit in a safe, effective and anonymous way. During a typical factory audit, the auditor has limited time to interview workers. There may also be confidentiality concerns from workers, or there may be language barriers between workers and auditors. This is even more challenging in the engagement of migrant workers, who are often more vulnerable to exploitation and coercion and at risk of being trapped in forced labor. Apprise uses a mobile app to ask workers questions in their local language via a headset, which have been specially developed to uncover any red flags for forced labor in line with the ILO indicators.

Li & Fung have been partners on the Apprise Audit platform from its early development. In 2020, Li & Fung has provided ongoing translation support for the platform, developing additional language capabilities. These languages included Turkish, Kannada, and Tamil.

After COVID-19 hit in 2020, Apprise also adopted a remote feature to be utilized during remote audits or situations where physically reaching factories becomes challenging. Workers can scan a QR code that takes them to a URL version of the app's interface and answer the very same questionnaire in their own language via a headset. This has allowed users of the platform to reach workers where they otherwise would have been unable and continue to collect valuable worker voice driven data in a time of particular need. Li & Fung were part of the initial working group to develop this functionality, and have been early adopters, providing insights and feedback to inform the development of a functionality that now is available to all users of the platform.

Between January 2020 and April 2021, Li & Fung implemented Apprise Audit in 131 factories in Vietnam, Indonesia, Taiwan, Malaysia, Cambodia, India, Bangladesh, China, and Thailand and is **now actively testing ways to scale it in the supply chain**. Li & Fung's team who were involved in the Apprise Audit pilot stated that they are able to reach more workers in a shorter time period. They also reported that

Apprise Audit omits critical language barriers for collecting migrant workers' grievances, while giving them the ability to reach workers who have never before been interviewed. They mentioned that the tool is easy to scale in large factories and can be used to accurately collect information during COVID-19 and despite restrictions. Li & Fung's in-kind support to Apprise Audit's various language translations revealed the company's commitment to finding new and improved ways of using technology along their global supply chains.

"We greatly value Li & Fung's partnership on the Apprise Audit project. They have supported us in providing feedback and support throughout the development, piloting, and scaling of the platform and have also helped us to continually add new languages and reach many more workers as a result."  
(Phoebe Ewen, Programme Director, Mekong Club)

## ***B. Remediation***

Li & Fung has a remediation program to continuously improve performance in our supply chain. When non-compliances are identified through audits, the non-compliance is recorded into a standardized monitoring system and discussed with the factory. The factory then develops a corrective action plan with a root cause analysis and focus on prevention. When critical or zero-tolerance issues are identified, the factory is required to remediate violations with progress monitored by Li & Fung or one of our partners (such as Better Work).

As modern slavery is both complex and serious, such cases are generally handled by a specialist third-party that discusses the case with the factory, provides capacity building and victim assistance, and helps monitor the factory improvement process. If the violations have not been systematically remediated, business is discontinued after agreeing on a responsible exit plan. We have developed remediation guidance on modern slavery in line with the UN Guiding Principles on Business and Human Rights, as well as the Mekong Club Remediation Toolkit.

Remediation guidance includes:

- Information on immediate corrective action to be taken in cases of non-compliance, including providing assistance to the affected persons (the rights' holder) and paying back any outstanding wages or fees (where relevant)
- Preventative action, including the use of third-party experts to assist the factory in changing its management systems or policies that may have contributed to the violation
- Business consequences as needed related to both the non-compliance and any failure to remediate

In practice, remediating cases of forced labor is challenging given the severity of the issue, the time needed for sustainable improvement, and the need to balance consequences for zero-tolerance findings (termination) with remediation needs (which may require factory support). Remediation may also be unsuccessful where there is no or insufficient leverage or in cases where the affected person(s) refuse remediation support. In such cases, we do engage our customers and industry partnerships to place additional pressure on the supplier and to generate the best possible outcome for impacted worker(s).

We also continue to engage with industry initiatives that encourage workers to report on critical fire and safety risks. In 2020, we received 10 alerts from industry hotlines. One of these alerts involved indicators of modern slavery; Li & Fung's remediation efforts regarding this case are described in Section C.

We acknowledge that in mitigating the ongoing consequences of the coronavirus pandemic, we must continue to explore ways on how to effectively use new technology and digitalization to continue remediation efforts despite restrictions on travel and social interaction.

### *C. Responding to Incidents and/or Indicators of Modern Slavery*

In 2020, there were two cases involving indicators of modern slavery in the supply chain. The first case involved two indicators of modern slavery, including abuse of vulnerability and delayed wage payments. Workers in the factory were unable to resign in their own dialect and consequently could not receive the resignation letters necessary to access termination benefits. To remediate this issue, Li & Fung worked with the factory to ensure resignation forms were made available in multiple dialects, ensuring workers received all legally entitled benefits upon termination of employment. In the same factory, disruptions caused by COVID-19 meant that some workers experienced delayed wage payments. To remediate this issue, Li & Fung ensured the factory paid wages monthly through a more formalized payroll system.

In a second case, Li & Fung received a notification from an industry group that workers were experiencing intimidation and threats from factory management. As part of the investigation and remediation process we used a qualified third-party to undertake an unannounced investigation at the factory. Once the issues were confirmed, Li & Fung trained the factory in responsible management practices, including how to create an atmosphere of respect in the workplace.

We continue to document our best practices from these examples and share them with our industry initiatives so we can collectively improve on how we engage with suppliers and impact workers. One example of such industry-sharing efforts includes our participation in a jointly hosted IOM and Global Fund to End Modern Slavery (GFEMS) webinar titled "Promoting Responsible Recovery: Detecting, Mitigating, & Remediating Modern Slavery in Supply Chains." Alongside representatives from prominent United Nations agencies and local NGOs, Li & Fung spoke on using employee feedback to assess working conditions and mitigating risks through worker engagement.

We also support Better Work Jordan (BWJ)'s efforts to increase compliance with the ILO's General Principles and Operational Guidelines for Fair Recruitment in the Jordanian apparel industry. According to the latest BWJ annual report, 32 per cent of factories employed workers who paid recruitment fees. In 2020, BWJ and the Jordanian Labor Ministry carried out 53 joint inspection and advisory visits across affiliated garment and non-garment factories with a total of 17 factories found non-compliant for migrant workers' payment of recruitment fees in their countries of origin. During their assessments, BWJ detected some severe violations, including forced labor and inaccurate and late payment of wages, although none were factories in Li & Fung's supply chain. In 2020, Li & Fung has continued to support Better Work on moving Jordan's apparel industry towards complete implementation of a no fee charging standard.

## Section 5: Training and capacity building

Due to the ongoing COVID-19 pandemic, in-person trainings and capacity building continue to be limited. However, Li & Fung adapted to these challenges by moving many of our key efforts digitally, including the Mekong Club Business Association working group meetings and launching our responsible recruitment trainings online.

### *A. Mekong Club*

We participate in the Mekong Club's regular Business Association working group meetings. These sessions bring together member companies spanning across industries including financial services, hospitality, retailing, and manufacturing with the shared goal of combatting modern slavery and improving industry-wide and cross-sector responses. We are regular participants in these sessions, where companies share best practice, discuss the challenges facing their operations and industry, and help to shape the Mekong Club's tool & technology development. Through these sessions, we have had the opportunity to collaborate with other brands in our industry on solutions such as the Apprise Audit app, as well as learn and share with our peers. We have also contributed to ad-hoc focus sessions run by the Mekong Club on particular topics, to discuss topics such as raw material risk, responsible recruitment, and technology-based solutions.

We invite the Mekong Club to deliver ad-hoc specialist modern slavery training to our teams, to add to our ongoing modern slavery awareness raising activities. On other occasions, we have invited the Mekong Club team to our Hong Kong offices to conduct trainings on raw material risk, as well as encouraging our teams to join the regular webinars and online sessions hosted by the NGO.

### *B. Responsible Recruitment Training*

**Malaysia & Singapore:** In July 2020, we conducted online workshops with a focus on responsible recruitment in Malaysia and Singapore for LF Logistics' HR team. This 4-day event included expert guest speakers and included country and industry-specific case studies, legal frameworks, best practice examples, as well as analysis on the emerging impacts of Covid-19 on recruitment processes. Prior to the training, HR representatives filled out a "checklist for addressing compliance" and a pre-course knowledge test. Pre-reading included guides on how to eliminate worker-paid recruitment fees and related costs. The training concluded with a final examination to ensure that all stakeholders were well-informed on the material. By the end of the training, participants were able to identify the main abusive and fraudulent practices that can occur throughout the recruitment process and the risks they pose for forced labor and human trafficking, become familiar with the legal instruments related to fair recruitment, and understand the responsibilities of key stakeholders and actors in promoting fair recruitment and preventing abuses in recruitment.

**Turkey:** Due to risks posed by the COVID-19 pandemic, no sessions were held via United Work in 2020. However, Li & Fung's Turkey team still works closely with and hopes to maintain monitoring visits with United Work as a part of internal assessment processes for suppliers in Turkey.

**Jordan:** All Jordanian factories in our supply chain are part of the ILO/IFC BWJ program. In 2019, BWJ held various training sessions with the Ministry of Labor and its labor inspectors to ensure better

identification of non-compliances related to fee-charging. As of December 2020, none of our Jordanian suppliers had recruitment fees or forced labor findings.

### C. Li & Fung Training on Modern Slavery

#### 1. Modern Slavery eLearning

We developed an e-learning training to educate colleagues on modern slavery. The e-learning runs through key concepts of modern slavery, risk indicators, best practices and prevention and remediation. It was rolled out to all apparel and footwear sourcing teams as mandatory training throughout 2020, reaching a total of 368 factories. The e-learning is available in English, Chinese, and was translated this year into Bengali. 134 factories in Bangladesh have already completed the e-learning in Bengali. In 2021, the team will also continue to conduct virtual training and ensure capacity for online registration. These methods will help Li & Fung track the training efficacy and allow feedback for future training.

#### Modern Slavery e-Learning Platform Interface:



As of December 2020, over 2,680 colleagues from LF Logistics have completed the e-learning, which represents a 66% completion rate. The slower completion rate was due to the diversity of languages spoken by employees, and the need to find alternative materials in those languages. COVID-19 lockdowns also disrupted the rollout and implementation of the trainings. In 2021, we hope to continue translating for the required languages that will allow us to achieve the 100% completion rate across LF Logistics.

#### 2. Training Sessions on Modern Slavery

We hosted a three-hour training on modern slavery, which included online and in-person sessions across Malaysia, Taiwan, Vietnam and Thailand for Li & Fung Suppliers (photo below). The training covered key areas for how suppliers can prevent modern slavery including: Recruitment, Wages, Working Hours, Freedom of Movement Harassment, Abuse and Threats, Grievance Handling, Remediation.

#### Modern Slavery Training in Vietnam on March 30, 2021



## Section 6: Effectiveness, measured against appropriate KPIs

Li & Fung set 2020 KPI goals covering policy, risk assessment, due diligence, remediation and training (see table below for details). Despite global economic and social upheaval, our team mobilized resources, staff, and drew on our existing partnerships to achieve the 2020 KPI goals.

Looking ahead to 2021, we hope to expand upon the work already done across those categories with an enhanced focus on three themes whose urgency has been exacerbated by the pandemic: responsible recruitment practices, ethical raw materials sourcing, and the use of technology to combat modern slavery:

### 2021 Focus Areas

#### 1. Policy

While private recruitment agencies hold enormous potential to combat modern slavery across global supply chains, when done right, the recruitment process can help – rather than hinder – decent work outcomes. When labor shortages are faced in a country, private recruitment agencies are uniquely poised to re-balance information asymmetries and connect with willing and able professionals in a way that promotes Li & Fung’s values of decent work. In 2021, Li & Fung will continue engaging with industry partners to find, document and share best practices on promoting responsible recruitment in the supply chain. The company will also continue its roll out of the Responsible Recruitment Policy and continue to support suppliers and recruitment actors through training to be able to implement its principles in practice.

#### 2. Risk Assessment

The process of sourcing raw materials required for the garment sector risks exposing workers to situations of forced labor. Because procurement of raw materials raises both environmental and social risks across a broad geographic and material scope, companies must identify and assess raw materials risks internally so as to promote transparency across their broader supply chain. In combination with our commitments to meeting global environmental standards, Li & Fung commits in 2021 to expand beyond Tier 1 suppliers to identify situations of forced or exploitative labor practices across the supply chain.

#### 3. Due Diligence and Remediation

COVID-19 has deepened global reliance on technological resources as tools of enhancing existing due diligence and remediation. KPIs that increase Li & Fung’s spot-checks across lower tiers in Asia will ensure Li & Fung continues taking a proactive approach to due diligence. Specifically, integrating advanced technology into these processes allows Li & Fung to aggregate more and better employment and payment data while protecting worker privacy, leading to better solutions for complex problems along global supply chains. Technology solutions integrated in 2021 will focus on encouraging implementation of Li & Fung’s now-adopted Responsible Recruitment practices. Li & Fung also hopes to diversify the types of technology that it integrates into existing operating procedures as well as scale-up

those already in use, including expansion of its existing Apprise Audit partnership with the Mekong Club, keeping its business at the cutting edge of eradicating modern slavery.

#### **4. Training**

Due to the COVID-19 pandemic, planned in-person trainings were stalled or shifted online. 2021 revealed that many of Li & Fung's Suppliers still require in-person training because of internet connectivity or other technical difficulties. However, the pandemic also showed our staff that online training is an effective mechanism to train suppliers in certain countries. Under the umbrella of modern slavery, Li & Fung's training will specifically focus on issues of recruitment, wages, working hours, freedom of movement, harassment, abuse and threats, grievance handling, and remediation. Trainings in 2021 will both show an existing industry shift towards virtual training methods while maintaining in-person opportunities where possible.

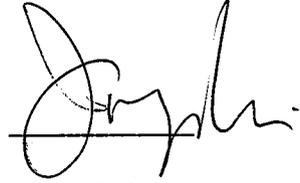
2019-2021 KPI Progress Table				
Goal	Indicator	2019 KPIs (Achieved)	2020 KPIs (Achieved)	2021 Target
<b>Policy:</b> Enhanced Governance on Responsible Recruitment	# corporate policies on responsible recruitment	Update Supplier Code of Conduct with strengthened provisions on responsible recruitment and modern slavery  Responsible Recruitment Policy drafted based on consultations with key stakeholders	Company-wide adoption of Responsible Recruitment Policy launched in November 2020, 4,079 suppliers have signed  3,768 Suppliers signed Supplier Code of Conduct	100% of Responsible Recruitment Policy violations identified and subsequently remediated.  100% signature of both Supplier Code of Conduct and Responsible Recruitment policy across Li & Fung's Factories and Suppliers
<b>Risk Assessment:</b> Improved risk assessment using more and better data and new technology	Quality of risk assessment	No 2019 KPIs	Improved quality of the annual risk assessment by using industry risk tools and guidance. <sup>10</sup>	Increase the percentage of spot checks undertaken using risk assessment technology

<sup>10</sup> Risk assessment will analyze the impacts of COVID-19 on modern slavery.

2019-2021 KPI Progress Table				
Goal	Indicator	2019 KPIs (Achieved)	2020 KPIs (Achieved)	2021 Target
<b>Due Diligence:</b> Proactive monitoring and use of new technology	# of countries / regions with proactive measures taken to identify modern slavery	Six countries (Bangladesh, India, Malaysia, Thailand, Turkey, Vietnam)	Six countries including monitoring across lower tiers.	Six countries including monitoring across lower tiers (focus on Asia)
	# facilities audited and countries covered using Apprise Audit	22 facilities in four countries (Bangladesh, Malaysia, Thailand and Vietnam)	131 facilities in nine countries (Cambodia, Malaysia, Indonesia, India, China, Bangladesh, Thailand, Vietnam, and Taiwan)	200 factories using Apprise Audit across the global supply chain
<b>Training:</b> Colleagues and suppliers trained on modern slavery	% Li & Fung colleagues trained on the modern slavery e-learning	100% completion rate for Li & Fung sourcing colleagues	100% completion rate for Li & Fung Logistics Staff – 66% achieved <sup>11</sup>	100% completion rate for Li & Fung Logistics Staff
	% core factories trained on the modern slavery e-learning	100% completion rate for core factories in Malaysia and 54% in Taiwan.	100% completion rate for core factories in Taiwan, Vietnam, Cambodia, Indonesia, South Korea, Malaysia, Philippines, and Thailand  E-learning launched in 100% of factories in China and Bangladesh	100% completion rate for all new factories in Li & Fung's Supply Chain

<sup>11</sup> The discrepancy was due to COVID-19 restrictions hindering the digital training rollout for our sourcing colleagues (see Section 5A).

Li & Fung will continue to evaluate the effectiveness of our efforts to eradicate modern slavery. We are committed to expand and look for new industry collaboration and to equip factories in our supply chain with the necessary tools to identify and prevent all forms of modern slavery.

A handwritten signature in black ink, appearing to read 'Joseph Phi', written over a horizontal line.

**Joseph Phi**

Group Chief Executive Officer (CEO)

June 30, 2021