

Disclosure statement on modern slavery **2022**

Li & Fung (Trading) Limited



Our commitment

We are pleased to share Li & Fung's sixth Modern Slavery statement, which covers our activities for the financial year ended 31 December 2022, in respect of the requirements under the UK Modern Slavery Act (2015) and the SB657 California Transparency in Supply Chains Act (2012). Modern slavery is a prominent human rights risk for Li & Fung and all companies reliant on global supply chains. It is also a growing risk with the latest Global Estimates from the International Labour Organization (ILO) showing a significant increase in cases of modern slavery over the past five years.

Our commitment to eliminating modern slavery within our sphere of influence is clear. We take a zero-tolerance approach and address the issue through our supply chain due diligence framework, which includes strong company management systems, frequent risk assessments and monitoring, prevention strategies such as training and industry collaboration, and remediation where instances of modern slavery are identified. Our response to managing modern slavery risks in our operations and supply chains continues to be guided by the United Nations Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Supply Chains.

In this statement, we outline how we are "operationalizing" these frameworks to tackle forced labor and other forms of labor exploitation, to ensure our business model is sustainable for all. It also outlines our ambitious commitments for 2023, which include a focus on identifying and addressing risks in the upstream supply chain through stronger chain of custody controls and specialized monitoring over high-risk locations and suppliers.

The statement is fully supported and approved by our Board of Directors. 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.



Joseph Phi
Group Chief Executive Officer
Li & Fung Limited
June 6, 2023

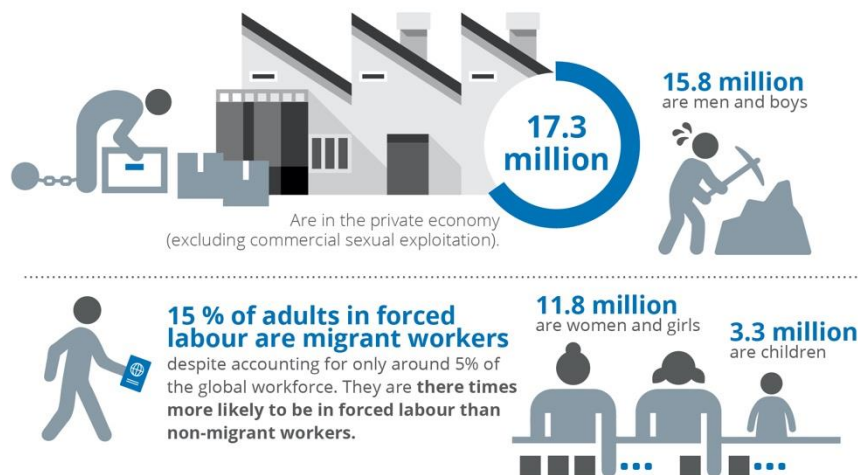
The issue

Modern slavery is the antithesis of responsible business practices and decent work. The 2021 ILO global estimates indicated there were almost 50 million people living in situations of modern slavery on any given day, with nearly 28 million in forced labor. The estimates suggested the situation was deteriorating – with around 10 million more men, women, and children in a situation of modern slavery since the last estimates were published in 2017. Compounding global crises – including armed conflicts and climate change – have led to unprecedented disruption to employment and education, whilst increases in extreme poverty, forced migration and gender-based violence, have heightened the risk of all forms of modern slavery.

Those who are already in situations of greatest vulnerability – including socially excluded, informal economy workers, migrant workers and people subject to discrimination – are most affected. The labor prevalence of forced labor among migrant workers is three times higher than non-migrant workers and much higher than the share of migrants in the overall labor force. Certain sectors are also at a higher risk with the following five sectors accounting for almost 90% of the total adult forced labor cases: services, manufacturing, construction, agriculture and domestic work. This data

How many people are trapped in forced labour?

27.6 million people are in situations of forced labour.
That's 3.5 people for every thousand in the world.



provides more support for the understanding that a significant share of child labor and human trafficking in global supply chains occurs at their lower tiers, in activities such as raw material extraction and agriculture.

Source: ILO Business Network on Forced Labor

Under the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct (RBC), companies have a responsibility to undertake human rights due diligence to identify, prevent and mitigate modern slavery risks and adverse impacts. The OECD due diligence framework includes six-key steps (see Figure 1) and is risk-based, meaning companies must prioritize their most severe risks and impacts—regardless of where they sit in the value chain.

Figure 1: OECD six-step due diligence framework



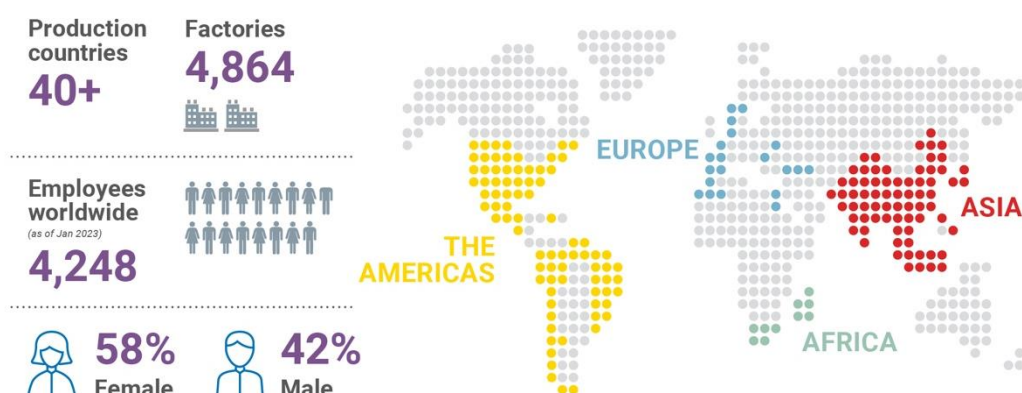
As the momentum around human rights due diligence grows, many governments are embedding the OECD’s due diligence framework into legal requirements for companies. In 2022 and early 2023, for example, the European Commission presented its proposal for a Corporate Sustainability Due Diligence Directive and both Norway’s Transparency Act and Germany’s Act on Corporate Due Diligence in Supply Chains came into force.

Trade-related legislation on forced labor is also on the rise. In June 2022, the Uyghur Forced Labor Prevention Act (UFLPA) became law in the United States, which is an extension to section 307 of the Tariff Act of 1930.

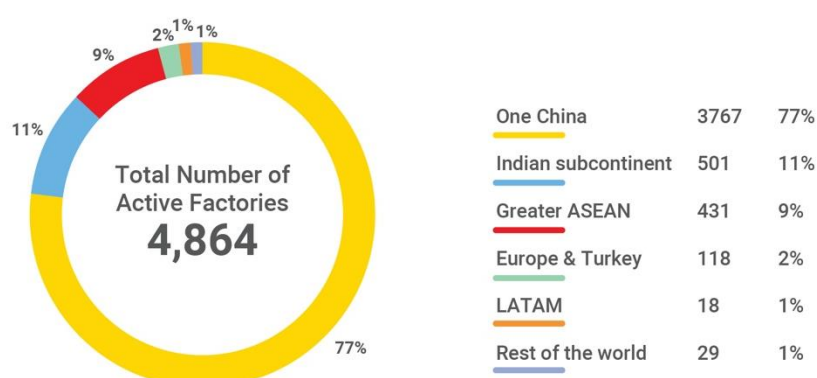
Li & Fung’s approach to tackling modern slavery, and the goals set out in this statement, has been designed taking into account any new applicable legislative requirements, the OECD Due Diligence Framework, and findings from the ILO Global Estimates. Our modern slavery strategy remains risk-based - focusing attention and resources on where they are most urgently needed (for example, engaging with high-risk actors beyond Tier 1 suppliers) and proactive – identifying and preventing modern slavery risks before they materialize into actual harm.

1. About us and our supply chain

Li & Fung is a privately held company and a member of the Fung Group of Companies. We have offices and operations across the globe.



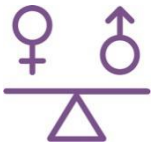



We design, source and deliver a diverse range of products including apparel, footwear, accessories and household products for global brands and retailers. In 2022, we sourced goods from 4,864 Tier 1¹ factories in 35 production markets, with 849 factories contributing 80% of the value of goods shipped to our customers. These 849 factories represent almost 17% of our total active factories.



Understanding worker demographics is necessary for 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. Li & Fung is committed to progressively work towards the lower tiers in the supply chain that identifies and prioritizes areas at risk of modern slavery and identifies vulnerable groups. The table below outlines the key demographics of workers in our supply chain.

¹ Li & Fung defines Tier 1 factories as the facility that undertakes the final product assembly.

Table 1: Worker Demographics in the Supply Chain

<p>Workers</p> 	<p>There are marginally more female than male workers</p> <ul style="list-style-type: none"> • 53% female workers and 47% male workers • Cambodia, Indonesia, Jordan, Myanmar and Vietnam have the highest percentage of female workers • India and Pakistan have the highest percentage of male workers
<p>Management</p> 	<p>Women are underrepresented in management positions, particularly in South Asian countries</p> <ul style="list-style-type: none"> • 32% of management are women • 68% of management are men • Women in Bangladesh, India and Pakistan are most underrepresented compared with the workforce demographic
<p>Contracts</p> 	<p>Workers on temporary contracts have less stability</p> <ul style="list-style-type: none"> • Most workers are on permanent contracts • 85% of workers are on permanent contracts and 15% are contract workers • Jordan and the Philippines have a higher percentage of contracted workers than permanent workers, which reflects continuing industry-wide challenges in securing permanent contracts in both countries
<p>Migrants</p> 	<p>Migrant workers are more vulnerable to forced labor</p> <ul style="list-style-type: none"> • 88% are local workers and 12% are migrant workers • Of the migrant workers, 97% are domestic migrant workers whereas 3% are foreign migrant workers • Jordan has a higher percentage of foreign migrant workers than domestic migrant workers

2. Policies in relation to modern slavery and human trafficking

A. Cross-Departmental Senior Leadership for Modern Slavery

Engaging senior leadership across the company is crucial in driving 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 Board's Risk Management and Sustainability Committee (RMSC) for example was established in 2001 and is chaired by the Group Executive Chairman. They meet twice a year and 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 specific topics relating to modern slavery that were discussed in the 2022 RMSC meetings included mandatory human rights and environmental due diligence legislation, forced labor import bans and how these may impact customers and the supply chains; and how to operationalize supply chain mapping and product traceability to better identify, prevent and mitigate risks beyond Tier 1 suppliers.

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 has 46 colleagues based in over 12 markets across the globe, from North and Central America, Europe, and the Middle East to Asia. The Human Resources (HR), Procurement, and Legal teams also play an important role. For example, our HR professionals help raise awareness by rolling out our e-learning training on modern slavery for colleagues and by overseeing key policies such as the Code of Ethics.

B. Company Policies & Commitments

The Company has publicly demonstrated its commitment to addressing modern slavery and human trafficking in our supply chains and any part of our business. These commitments are incorporated into our policies and implemented throughout our course of business. We ensure our policies are easily accessible, updated regularly, and communicated to staff and suppliers in a timely manner.

Our key policies related to forced labor include:

- Code of Conduct & Business Ethics
- Supplier Code of Conduct
- Combatting Forced Labor Policy
- Responsible Recruitment Policy
- Certification letter for compliance with global trade regulations

A detailed list of key policies, their contents, communication and training methods, and signature completion rates are provided below.

Name	Description	Languages	Training & Communication
Code of Conduct & Business Ethics (The Code)	<p>Applies to all employees, officers and directors. Based on the UN Global Compact and ILO Declaration on Fundamental Principles and Rights at Work, including the elimination of all forms of forced labor.</p> <p>The Code also requires all employees to work with suppliers to ensure human and labor rights are upheld throughout the supply chain.</p>	<p>English Chinese</p>	<p>All new employees learn about the Code during orientation, supported by additional training during their employment.</p> <p>Policies and guidelines for addressing the Code are implemented in the acquisition of any new businesses and through our ongoing recruitment, training, performance assessment, and disciplinary and grievance processes.</p> <p>2,604 employees completed the initial training, and 3,085 employees completed the Code of Conduct and Business Ethics Refresher Training, including Anti-Harassment & Anti-Discrimination Policy-related content.</p>
Supplier Code of Conduct (Supplier Code)	<p>The Supplier Code is based on the United Nations Universal Declaration of Human Rights, OECD Responsible Business Conduct, and the ILO's Declaration on Fundamental Principles and Rights at Work, as well as local law.</p> <p>The Supplier Code contains the following provisions against Forced Labor:</p> <ul style="list-style-type: none"> • Responsible Sourcing • Responsible Recruitment • Responsible Wages, Benefits, Working Hour and Termination Practices • Responsible Living & Working Conditions 	<p>Full: English</p> <p>Short: Bengali, Chinese, English, Hindi, Indonesian, Kannada, Khmer, Korean, Spanish, Tamil, Thai, Turkish, Vietnamese</p>	<p>All suppliers must commit to adhering to the minimum standards as a condition of doing business with us. Suppliers must also do their utmost to ensure our standards are communicated to and respected by next-tier suppliers that produce parts or materials for Li & Fung and its customers.</p> <p>To continue supporting suppliers to understand and comply with the Supplier Code, we hosted 54 training sessions attended by 1,148 suppliers (1,695 participants) in key sourcing countries/regions in 2022.</p>

	<ul style="list-style-type: none"> • Prohibition of Prison Labor • Prohibition of State-Imposed Forced Labor • Responsible Employees Treatment • Responsible Employment & Termination Practices • Functioning Grievance Mechanism 		
Combatting Forced Labor Policy	<p>This policy specifically references the risk of state-imposed forced labor and seeks explicit confirmation from suppliers that they do not engage in such practices.</p>	English	<p>All suppliers must commit to adhering to the policy provisions and sign this policy as a condition of doing business with us.</p> <p>This policy was distributed to the suppliers through Li & Fung's Total Sourcing platform.</p>
Responsible Recruitment Policy	<p>Launched in November 2020, this policy sets out requirements for suppliers on responsible recruitment in line with International Standards and Guidance and the refreshed American Apparel and Footwear Association (AAFA) Pledge on Responsible Recruitment which states:</p> <ul style="list-style-type: none"> • No workers pay for their job; • Workers receive a timely refund of fees and costs paid to obtain or maintain their job; 	English	<p>All suppliers must adhere to its principles and sign this policy as a condition of doing business with us. Suppliers are also responsible for ensuring the policy is communicated to labor recruitment and outsourcing partners.</p> <p>To support the launch of this policy, we hosted internal training for suppliers in high-risk countries/regions. ²</p> <p>We plan to update this policy in 2023 to extend its applicability to our internal human resources practices, and to reflect the AAFA's refreshed Pledge on Responsible Recruitment of which Li & Fung is a signatory.</p>

² Refer to section 4B - Supplier Training for 2022 training details.

	<ul style="list-style-type: none"> Workers retain control of their travel documents and have full freedom of movement; and All workers are informed, in a language they understand, of the basic terms of their employment before leaving their country/region of origin. 		
Certification letter for compliance with global trade regulations	<p>This letter was sent to all suppliers in June 2022. It sensitizes suppliers to new legislation on transparency and traceability. It requires suppliers to provide supply chain information and documentation and to keep good records which are accessible to Li & Fung and/or our customers upon request.</p> <p>This includes a requirement to put in place appropriate and verifiable policies and procedures and to conduct due diligence to identify all business connections to sanctioned entities, to detect and prevent forced labor.</p>	English	<p>All suppliers must sign this policy as a condition of doing business with us. In tandem, Li & Fung provided awareness and capacity building for staff and suppliers on transparency and traceability in key countries/regions.</p> <p>Please see section 3A (Identifying and Assessing Adverse Risks and Impacts) for details.</p>

Li & Fung's [Code of Conduct and Business Ethics](#) and [Supplier Code of Conduct](#) are available on its website a One Family, our internal communications platform

3. Human rights and modern slavery due diligence

A. Identifying and assessing adverse risks and impacts

We acknowledge there are modern slavery risks that exist in the sectors and markets in which we operate. Every two years, we undertake a comprehensive risk assessment, led by third-party labor and human rights experts, and with the participation of Li & Fung's Vendor Compliance and Sustainability team.

In line with the OECD Due Diligence Guidance for Responsible Business Conduct, our supply chain risk assessment includes supply chain mapping and traceability and an in-depth review of five risk components:

Sector	Country	Product	Business Model	Sourcing Model
				

i. Sector risks

The global apparel sector employs around 60 million people. According to the 2021 Know the Chain Report, workers in global apparel and footwear supply chains are exposed to exploitative conditions and forced labor risks. The issues listed below are some of the known risks in the apparel & footwear sector reported by Know the Chain. Li and Fung understands the importance of these risks and is continuously undertaking preventative actions to reduce the risk of harm. The company also commits to taking mitigation and remedial actions, if they are ever identified in the company's operations or supply chain.

Abuse of Vulnerable Conditions	<p>Approximately 80% of all garment workers are women. Women workers in the sector are more likely to be exposed to vulnerable conditions due to high levels of gender discrimination, sexual harassment, and abuse.</p> <p>Migrant workers in the sector are also vulnerable to exploitation due to the risk of being charged extortionate recruitment-related fees, the presence of labor mobility restrictions and a heavier reliance on their employer.</p> <p>Ethnic minorities may also be forced to work in the apparel sector through state-sponsored employment schemes.</p>
Lack of Freedom of Association &	<p>It is reported that only "a small percentage of all garment workers are actually unionised" or covered by a collective bargaining agreement. This makes it difficult for workers to organize for better working conditions and wages. For</p>

Collective Bargaining	instance, India and Bangladesh, which are two of the largest garment exporters in Asia, are reported to be among the world's ten worst countries/regions for workers' rights.
Precarious Employment Conditions	Workers in the sector are often informal and do not have employment contracts, leaving them without legal protection or a means to enforce their rights. Such workers may be at a higher risk for forced labor.
Debt Bondage	Some workers are indebted before they even begin work as they pay high fees for their recruitment following false promises by recruitment agents of higher-than-actual wages. Debt bondage can also occur at the raw material level, including in cotton production in South Asia.
Low Wages or Non-Payment of Wages	<p>Pay in the apparel sector may be quota-based, meaning that workers must complete a certain amount of work before they will get paid. To meet these quotas, workers may need to work overtime without pay.</p> <p>Workers may also not be paid the wages owed to them by their employer – a scenario which is increasingly referred to as “wage theft”.</p>
Poor Living and Working Conditions	Employer or third-party provided accommodations in the apparel sector may be crowded or unhygienic. In addition, workers have alleged physical and verbal abuse by their supervisors and other indicators of exploitative working conditions. Occupational safety and health issues, particularly in the lower tiers, such as the raw material harvesting and spinning mills remain a concern.

ii. Country/region risks





A coarse-grained assessment at a country/region or sub-country level can help identify and dissect where forced labor risks are most likely to be present. Country/region indicators may include:

Large Governance Gaps & Inequalities	High Forced Labor Prevalence Rates	Dependency on Vulnerable Workers	Prone to Conflict or Natural Disasters
			

Based on the above and combined with a review of historical compliance data, Li & Fung has identified the following production markets as high risk for forced labor: *Bangladesh, Cambodia, China, India, Malaysia, Taiwan, Thailand and Vietnam*.

iii. Salient product risks

Our raw materials are both natural (cotton, wool and natural rubber etc.) and synthetic (rayon, nylon, polyester etc.). We identify product risk with guidance provided by the AAFA, Mekong Club and the TVPRA Lists. Below is a list of materials that have been identified as having a higher risk and where Li & Fung has put in place a higher-level of due diligence including traceability to identify the product's origins.

Raw Material	Linked Products	Forced Labor Risk
Cotton 	Cotton yarn and fabric and downstream products (garments, towels, bedsheets)	The 2022 TVPRA lists eight countries/regions as high risk for forced labor in cotton or cottonseed production. This includes alleged links with state-imposed forced labor.
Rubber 	Footwear soles, rubber gloves	The 2022 TVPRA lists two countries/regions as high risk for rubber production and rubber processing. This includes the use of forced child labor and abuse of vulnerability and debt bondage of migrant workers.
Rayon/Viscose 	Dresses, shirts and other apparel items. Used as lining in jackets.	Viscose products often originate in China but may pass through multiple countries/regions (including Bangladesh and Vietnam) before distribution. Evidence suggests that this material may be linked to forced labor.
Polyvinyl Chloride (PVC) 	As one of the most widely used polymers, PVC is used as a base material across a broad range of products and applications, including footwear soles and everyday household items, etc.	PVC products may pass through multiple countries/regions before distribution and evidence suggests that this material may be linked to forced labor. ³

Source: 2022 TPVRA and 2021 Know the Chain Report (Apparel)

³ AAFA Webinar

With new legislative requirements and the increased focus on supply chain transparency and traceability, Li & Fung requires suppliers to provide supply chain information and documentation, and to keep good records accessible upon request. This includes establishing appropriate and verifiable policies and procedures and for the supplier to conduct due diligence to identify all business connections in respect to sanctioned entities, and to detect and prevent forced labor.

We recognize end-to-end traceability from raw material to finished products is extremely complex and our goal is to educate suppliers and enhance their tracing skills through training and tracing exercises. In 2022, Li & Fung initiated three pilot programs on traceability related to legislation on human rights due diligence and forced labor import bans. We held training sessions with a total of 553 suppliers and 566 Li & Fung colleagues on key traceability concepts, related regulations and real-life business cases of product traceability and conducted traceability mapping involving a total of 33 suppliers and 100 purchase orders. In addition to educating our suppliers on their responsibilities, we also provided support to our customers, as they expand their supply chain disclosure policies beyond Tier 1 suppliers.

Key results from traceability activities throughout 2022



To help guide and plan the program activities and to ensure learnings from the pilot activities were accurately captured, Li & Fung formed a Traceability Working Group that meet at least monthly. Members of the Working Group include senior management and representatives from different business units from Li & Fung. Representatives within the Working Group act as the gatekeeper for all traceability projects within the Group, and share customer/industry practices and traceability-related product information.

At the start of the first traceability program, Li & Fung educated key internal stakeholders such as production country/region management leaders, customer account managers and merchandisers on key concepts, upcoming regulations, responsible business conduct standards and the business case for product traceability. The training was also conducted externally with suppliers, in their own language, with participants from Tier 1 suppliers and factories, mills and other Tier 2 level facilities in Bangladesh, China, India and Vietnam. The aim was to identify and map the various tiers and key business players, and to collect documentation (direct and supporting) to validate each transaction. Suppliers were also trained on key terms, concepts and drivers for traceability to enable them to

better carry out the pilot activities. Following the training, Li & Fung piloted a project with suppliers to collect the required documentation for selected purchase orders (products) per supplier in each of the four countries/regions named above. From this pilot, Li & Fung was able to map some of the products down to the cotton merchants with country/region of origin while suppliers learned how to strengthen their chain of custody systems and knowledgebase.

In the second traceability program, Li & Fung initiated a pilot initiative with a leading traceability solutions provider to trace four products from two business units within our company. Around half of the participating suppliers mapped all subcontractor facilities, collected, and verified the different chain of custody documents. Participating vendors also completed the mapping for purchase orders down to the cotton merchants (including traders). All key chain of custody documents were also collected through the platform and verified by the Fung Group Transaction Services (FGTS). However, some suppliers in the program were not able to map their supply chain or collect the required documents due to lack of resources and manpower within the suppliers' organization.

In the third traceability program, Li & Fung gathered the learnings from the earlier pilots and initiated a traceability initiative with a larger scope involving suppliers and mills in China, Greater ASEAN, Bangladesh, and India. As part of the pilot kick-off, VCS met with internal customer account management and key production country/region management leaders as well as key vendors and mills. FGTS conducted four training sessions (in Chinese and English) that were attended by 84 participants on how to undertake supply chain mapping and how to establish a robust chain of custody documentation and verification system (e.g., document checklists, supply chain mapping forms and cotton document preparation). Suppliers were required to put their learnings into action, submit results for both the mapping and chain of custody and develop internal action plans on how to incorporate learnings into everyday practice. This third pilot program will continue in 2023 and we will report on the results and lessons learned in the next modern slavery statement.

iv. Business model

Customers' business models, such as the number of product lines, and how often those product lines are changed (e.g. seasons per year), may lead to an increased risk of forced labor. For example, customers with numerous product lines are generally more exposed to a wider range of risks of harm in their supply chain due to the variety of materials, production processes, etc. In addition, short lead times and order changes can increase the risk of suppliers relying on outsourced or contract labor and trigger other risks such as forced overtime and even child labor. As a mitigation measure, we work closely with industry partners such as the ILO/IFC Better Work Programme to encourage better purchasing practices and with our customers and suppliers to increase the level of due diligence where needed.

v. Sourcing model

Due to the size of its supply chain and influence of customer sourcing practices, Li & Fung's trading model may be exposed to fluctuating risks. In addition, the length of business relationships with suppliers and leverage can also play a key role. While the trade landscape continues to change, we make every effort to strengthen existing business relationships with factories with satisfactory track records rather than to onboard new ones. In 2022, we had maintained long business relationships (six years or more) with almost half of the Tier 1 factories in our supply chain. We had business relationships of 1-5 years with a little over half of the Tier 1 factories.

B. Risk monitoring and mitigation

The Li & Fung Supplier Code of Conduct emphasizes that we have a zero-tolerance approach to all forms of forced labor. Compliance with the Supplier Code is assessed by a designated third-party audit firm. All of our Tier 1 suppliers are audited according to a timeline, which varies according to their level of risk. In the case of a forced labor finding, orders are immediately suspended and would only be reinstated where we see genuine commitment and efforts to improve with meaningful remediation by the supplier.

Li & Fung accepts audits from twelve recognized social and/or environmental compliance standards bodies 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 the assurance program on factories approved through the equivalency program, Li & Fung and designated third-party audit firms conduct unannounced spot checks on factories. Factories are selected based on different risk criteria including country/region, red flags (identified through technology risks tools), compliance history, and the presence of vulnerable groups of workers. When a spot check focuses on forced labor, we use third parties trained on the issue to engage with both factory management and workers to ascertain the findings. In 2022, we expanded the spot checks from Tier 1 to upstream suppliers and a total of 725 spot checks in 13 countries/regions were carried out by the Li & Fung Compliance team and third-party audit firms. Li & Fung also worked with a third-party audit firm to audit 29 Tier 1 factories and 1 mill using a specialized forced labor audit program.

Suppliers are responsible for ensuring robust due diligence on their next-tier suppliers (Tier 2 and beyond) and complying with Li & Fung's required standards. The recently released Certification Letter for Global Trade Regulations Compliance (see section 2) also requires that suppliers map, trace and monitor their own supply chain to identify all locations involved in producing raw materials, inputs or finished products for Li & Fung and its customers; and ensure that no forced, indentured or child labor is used. Finally, suppliers must confirm and collect documentation to show that materials and goods were not mined, produced, or manufactured wholly or in part using forced labor.

Using new technology

In 2022, Li & Fung developed a new ESG Strategy which included a focus on using new technology to help identify, prevent, and monitor risks, including the risk of forced labor. In line with this approach, Li & Fung leverages several technology tools as described below.

diginexAPPRISE (APPRISE)



"APPRISE is an innovative app designed to identify forced labor indicators. It enables more workers to be engaged during an audit in a safe, effective, and anonymous way."



APPRISE was initially developed through a partnership between the United Nations University (Macau) and the Mekong Club, and was later acquired by diginex, a technology-services provider based in Hong Kong. It is a multilingual application that collects standardised, actionable data related to working conditions directly from workers in global supply chains. Through tailored question sets, companies can deploy surveys directly to workers in their supply chain on a variety of topics such as responsible recruitment, gender equality and pulse check living and working conditions.

The innovative approach has been recognised as an effective toolkit for companies looking to enable and scale proactive worker-led due diligence. APPRISE was developed in response to significant challenges faced during social audits, such as language barriers, lack of privacy, and lack of coverage of key social indicators - particularly to identify forced labor. The data collected increases transparency in organisations and reduces the chances of those raising concerns being identified, minimizing the risk of retaliation.

Workers can scan a QR code posted in the factory or be sent a link directly to their mobile phones to answer the questions. In 2022, Li & Fung worked with diginex to create a special questionnaire focused on recruitment practices. The tool now allows us to collect itemized breakdowns on worker payment of recruitment fees and costs paid in both countries/regions of origin and destination. Li & Fung uses APPRISE both in its 'virtual format' via QR codes as well as during factory spot checks.

Li & Fung used APPRISE in **14 key sourcing countries/regions** - Bangladesh, Cambodia, China, Egypt, India, Indonesia, Jordan, Malaysia, Myanmar, Philippines, Taiwan, Thailand, Turkey and Vietnam. A total of **14,894 worker responses** were received in 2022.

APPRISE interviews helped us identify potential risk factors. The most commonly raised risk factors were related to working and living conditions, withholding wages, freedom of movement, and isolation. We are taking steps to investigate, address, and remediate these issues and have set targets to scale APPRISE even further across our supply chain, while working with diginex to add new topics and languages.

diginexLUMEN (LUMEN)

In line with our commitment to responsible recruitment, Li & Fung is using LUMEN, a third-party platform to map its labor supply chain and ensure stronger due diligence over the recruitment process.

The platform triangulates data from due diligence assessments filled out by suppliers, labor recruiters and worker surveys to identify forced labor red flags. Longer-term data can also help us to measure effectiveness of our strategy and progress on our goals.

In 2022, Li & Fung used LUMEN in Taiwan and Thailand which are **significant foreign migrant workers receiving countries/regions**. A total of **20 factories and 19 labor recruiters** were monitored and **2,765 workers** were interviewed.

Grievance channels

Within our operations, we encourage our employees to report actual or potentially illegal or unethical behavior or material violation of our Code of Conduct, including human rights violations and modern slavery concerns to appropriate senior management. Li & Fung employees can also report complaints or concerns anonymously to the Group Chief Compliance Officer. The Audit Committee of the Board ensures that proper whistleblowing arrangements are in place so that employees can report concerns in confidence and without fear of recrimination and retaliation, for a fair and independent investigation and the appropriate follow-up action.

In our supply chain, we understand that grievance mechanisms are essential. They support the identification of concerns or complaints in the factory before they escalate, while ensuring proper procedures for dispute settlement, allowing workers to seek remedies should they have had their rights exploited at work. In 2022, we worked towards building worker-led grievance mechanisms in our supply chain through our industry partnerships. For example, Better Work Jordan (BWJ) developed a reporting system between the trade union and the Ministry of Labor BWJ unit (BWJ Worker's Voice Project) which started in early 2022. This reporting system is currently being used by all factories in Jordan having active business with Li & Fung. We are also working with amfori's Supply Chain Grievance Mechanism, "Speak for Change". The mechanism allows workers to submit anonymous complaints through one of three different channels (telephone, webform or app). Five Li & Fung factories participated in the initial pilot, ending in the first half of 2022.

In addition, at least four factories in Li & Fung's supply chain in Cambodia and Vietnam engaged in the Mekong Sustainable Manufacturing Alliance (MSMA) with Elevate, a global market leader in sustainability and supply chain services, the Asian Institute of Technology, and the Institute for Sustainable Communities. The three-year program provides technical assistance and capacity building, including strengthening operational-level grievance mechanisms through the use of new technology. To date, all four factories have completed training on effective communication and grievance and conducted an initial Worker Sentiment Survey.

We received information on workers' grievances from customers and industry hotlines such as Amader Kotha Helpline, Nirapon and the RMG Sustainability Council (RSC) and from trade unions (Akota Garment Workers Federation and the National Garments Worker Federation). In 2022, 16 incidents were received via these channels that involved active factories covering various topics such as fire and building safety, harassment and abuse, freedom of association and payment of wages and benefits. No cases of forced labor were identified through these external channels in 2022.

Responding to indicators of forced labor

In 2022, there were five cases with one or more confirmed forced labor indicators in our supply chain.

For example, we identified two factories in Taiwan and one factory in Thailand with indicators of workers paying recruitment fees and related costs, which were subsequently confirmed through a follow up audit. The two factories reimbursed a total of 94 workers more than US\$20,000 to cover the workers' recruitment fees and costs. All factories have initiated remediation with the support of VCS and/or third parties with forced labor expertise. Four have completed the initial remediation and one is still in progress.

The below table lists key forced labor indicators identified in 2022 along with the countries/regions where they were identified.

Indicator	Weighting	Dimension	Markets where indicators are found
Recruitment linked to debt (advance or loan)	Strong	Involuntariness - Unfree recruitment	China, Malaysia, Taiwan, Thailand
Confiscation of identity papers or travel documents	Strong	Penalty - Work and life under the duress of adults	Malaysia
Excessive Overtime	Strong	Involuntariness – Work and life under the duress of children	Bangladesh

Case 1: Migrant workers in Malaysia

During an unannounced spot check, it was noted that 18 newly hired workers had paid recruitment fees and costs despite the facility having a policy, which required the employer to bear the cost of recruitment. Although there was evidence showing the facility was repaying a portion of that cost, it only covered a portion of the total amount paid. In addition, it was noted that foreign migrant workers did not have free access to their identity documents (passports).

To address the situation, Li & Fung worked with the facility to ensure full reimbursement of more than US\$ 11,000 to cover fees and costs paid by workers over three installments/per month. The factory also amended their internal policies to ensure workers had free access to their passports, without the need for prior notice. We also raised the workers' awareness of their right to having free access to their passports through additional training. Li & Fung verified that the remediation of the issues was completed through its third-party auditor in December 2022 and continues to engage this supplier to safeguard their workers' rights through our responsible recruitment program.

Case 2: Child labor, young workers, and excessive overtime in Bangladesh

Li & Fung engaged the Centre for Child Rights and Business (The Centre), a civil society organization to do unannounced child labor spot checks on higher-risk facilities in Bangladesh. During one of the spot checks, one child and several young workers were identified. All of them worked overtime beyond the applicable legal limits.

The Centre worked with the child's family and the supplier to set up a remediation plan, which includes removing the child from employment and finding a school or vocational training program. The child's salary will be paid until they turn legal working age. Furthermore, the Centre is providing training to facilities on how to responsibly hire and employ young workers. The training will help the facility to further understand laws and guidelines on child labor, overtime, and hazardous work.

Remediation

Li & Fung has a remediation program to continuously improve performance in our supply chain. When non-compliance with our Supplier Code is identified through audits, incident reports or spot checks, the non-compliance is then recorded into a standardized monitoring system and discussed with the factory. The factory must then develop a corrective action plan with a root cause analysis and a remedial plan focusing on remediating any harm done and preventing future re-occurrence. When critical or severe 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 or The Centre for Child Rights). 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.

As modern slavery and child labor are complex and serious issues, such cases are generally handled by a specialist third party who will discuss the case with the factory, provide capacity building and victim assistance, and help to monitor the remediation process. Business with a supplier will be discontinued in cases of repeated non-compliances of the same issue or where the supplier refuses to engage in remediation in a meaningful way.

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 the consequences arising from termination of any supplier business and remediation needs (which may require continuous factory support). Remediation may also be difficult where there is 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 the impacted worker(s). For concrete examples on the outcomes of our recruitment-related remediation, including worker-reimbursement of fees and costs, please see our section on [diginexLUMEN](#).

4. Training and partnerships

A. Staff training

Li & Fung developed its own 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 is available in English, Chinese and Bengali. In 2022, 74.52% (2,705 out of 3,630) of Li & Fung employees completed the Modern Slavery e-learning.⁴ The remaining employees will take the training to ensure 100% awareness of the issue.

B. Supplier training

In 2022, VCS conducted online training for modern slavery, including responsible recruitment for 630 factories through 11 sessions in thirteen countries/regions including those at higher risk of modern slavery. 885 participants attended the training.

In addition, VCS and Better Work conducted in person and online training on child labor for 253 factories and was attended by 310 factory representatives in seven countries/regions.

Furthermore, Li & Fung partnered with the Centre for Child Rights and Business (The Centre) to undertake child labor rapid assessments in 15 factories in five high-risk countries/regions (4 Bangladesh; 2 Cambodia; 5 China; 2 India; 2 Pakistan). The assessment, which was conducted over a multi-day period for each factory, includes both desk research and a site visit, covering the following key areas:

- Child labor risk (children's involvement at work, access to education, management system including prevention and remediation, young workers management, responsible recruitment).
- Working conditions (work hours, income including wage & debt, social protection, OSH, grievance mechanism, and forced labor).
- Vulnerable groups (migrant workers, young workers, student workers and apprentices).

Following a factory site visit and rapid assessment report, factories designed their own action plans to improve management systems. To support this exercise, Li & Fung carried out training on child

⁴ These figures do not include LF Logistics employees as LF Logistics was acquired by Maersk in August 2022.

labor prevention and remediation in Bangladesh, Cambodia and China through The Centre. In total, 55 factories and 100 participants attended the six-hour training.

Given the high-degree of intersection between modern slavery and gender-based violence, 107 factories with 132 participants in India and Turkey attended training sessions conducted by Li & Fung's VCS team. 226 participants from 162 factories across seven countries/regions attended sessions of training by ILO/ILC Better Work and amfori on gender-based violence and respect, inclusion & diversity. This work supplements ongoing participation by 10 factories in Bangladesh and 4 factories in Vietnam in the ILO/IFC GEAR Programme. GEAR aims to promote career progression opportunities for women working in the ready-made garment (RMG) factories through a 10-day training program on soft skills and technical skills so that female operators are equipped with the skills that they can use to progress into supervisory roles, contribute to increased line-level productivity, and develop leadership capabilities for leading and managing the workforce.

C. Partnerships

We recognize that tackling forms of modern slavery, including the worst forms of child labor, requires all key actors- government, businesses, and civil society, to work together in a cohesive manner. Li & Fung participates in several different industry initiatives to engage in joint learning and to build common resources and tools to better address the issues. These partnerships include the Mekong Club, AAFA and The Centre.

Li & Fung participates in the Manufacturing & Retail Working group meetings, where companies share best practices, discuss the challenges facing their operations and industry and contribute to Mekong Club's tool & resource development. In 2022, the working group continued to discuss practical solutions to comply with the UFLPA and other upcoming legislation.

Advocating for the rights of children and ending child labor, including child forced labor, is of critical importance to Li & Fung, which is why we are working with The Center to ensure children's rights are protected throughout our business and to prevent and eliminate child labor in the supply chain. As a member of The Centre's Business Working Group, we work with other members to discuss and identify common challenges, share resources, and implement best practices regarding children, young persons and working migrant parents in the industry.

The Centre assessed Li & Fung's program and provided a Child Labor Remediation Feedback Report for 2022 with an average score of "strong" across the five measurement areas of policy, case detection and reporting, rapid assessment support, accountability, and linkages to sourcing decisions. The report commends "Li & Fung for proactively assessing child labor risks and expanding audit protocols to lower tiers... and taking responsibility and using its business leverage to ensure child labor cases are remediated."

5. Effectiveness, measured against appropriate KPIs

A. Progress against the 2022 key performance indicators (KPIs)

In our previous modern slavery statement for 2021, Li & Fung set goals and KPIs covering policy, risk assessment, due diligence, remediation, and training. The following table sets out our progress against these measurable KPIs:

Goal	Indicator	Target	Achieved
Enhanced governance of modern slavery issues	Development, roll out and strengthening of the Responsible Recruitment Policy	100% of suppliers accept the Responsible Recruitment policy	Yes
	Supplier Code with strengthened provisions & requirements on responsible recruitment and modern slavery	100% of suppliers accept the Supplier Code	Yes
	Develop and roll out the Combatting Forced Labor Policy	100% of suppliers accept the Forced Labor Policy	Yes
Strengthened risk assessment and due diligence in the supply chain around modern slavery issues	Increase the quality and scope of risk assessment and data collection using new technology focusing on the strengthened voice of vulnerable workers	2 countries/regions covered by programs to monitor responsible recruitment	Yes
		20 factories and 30 agencies monitored	Partial** ⁵
	Strengthened voices of migrant workers	200 high-risk facilities in high-risk countries/regions covered by APPRISE	Yes
		Development of recruitment survey for APPRISE	Yes
	Undertake unannounced spot-checks by qualified third parties in high-risk countries/regions	30 spot checks, in 5 high-risk countries/regions (including lower tiers) undertaken by third parties	Yes
Suppliers are educated on how to prevent and	Roll out modern slavery virtual training for all core	100% completion rate for all core factories in 4 countries/regions	Partial** ⁶

⁵ 20 factories and 19 labor agencies monitored

⁶ 100% completion for Bangladesh, Malaysia, and Taiwan while for China 50% factories covered

mitigate modern slavery issues	suppliers in high-risk countries/regions
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B. 2023 Key Performance Indicators

Li & Fung, with support from diginex, developed a *four-year operational strategy on Human Rights Due Diligence (HRDD)* to address gaps in existing systems and processes that can be improved to embed respect for human rights throughout the supply chain into our company management systems. We are now in the second year of that strategy.

The 2022 – 2025 ESG Strategy on Modern Slavery and Responsible Recruitment guides our goals and KPIs for 2023 and centers around three strategic priorities to address gaps in existing systems and processes.

Strategic priorities

- 1 Enhanced and data-driven due diligence and human rights assessments with the use of new technology
- 2 Collaborating the industry initiatives for sustainable change
- 3 Continuous improvement through supplier education and worker engagement

The strategy consists of three focus areas as described below:

1. Responsible Recruitment
2. Worker-led due diligence
3. Monitoring modern slavery risks

Focus area 1: Responsible recruitment

Recruitment-related debt is one of the most common indicators of contemporary forms of forced labor. A high proportion of victims of forced labor are supplied through labor supply chains created by recruiters and other intermediaries. Workers are often charged fees for jobs and cover costs for transportation, passports, medication checks, training and other expenses.

According to ILO, it is estimated that migrant workers pay between USD 5 to 10 billion in illegal recruitment fees every year.⁷ Lacking funds to cover these costs, workers usually need to borrow money – often at very high interest rates that surpass the legal limits. Abuse at the hands of the recruitment industry is not sporadic – it is endemic. The private sector, therefore – alongside governments and other stakeholders – have a vital role to play in safeguarding the rights and

⁷ ILO, 'Training toolkit on establishing fair recruitment processes; Module 1 – Why fair recruitment matters' (2018)

wellbeing of the estimated 169 million international migrant workers who move to find or secure work.

Li & Fung is working to promote fair recruitment through a series of measures aligned with the International Organization for Migration (IOM's) Migrant Worker Guidelines and the OECD Due Diligence Framework (see Figure 1). This includes policy commitments, human rights due diligence and remediation.

Policy commitment: In 2019, for instance, Li & Fung, along with over 130 other brands, retailers and suppliers, became a signatory to the AAFA and FLA Commitment to Responsible Recruitment. In line with this commitment, Li & Fung developed and rolled out a Responsible Recruitment Policy with suppliers and combined it with capacity building to ensure suppliers understood how to comply with the policy provisions. In February of this year, AAFA/FLA launched a revised Commitment to Responsible Recruitment (see section 2B on Company Policy and Commitments for details). Li & Fung is a signatory to the revised Commitment and is updating its own policy this year to be in line with the updated provisions.

Human rights due diligence: Focused risk assessment and monitoring will also play a key role in identifying recruitment-related risks. We will expand LUMEN to two additional countries (Jordan and Malaysia) to ensure suppliers have not only the knowledge but also the tools to undertake stronger due diligence over their recruitment partners. Unannounced spot checks combined with recruitment-related worker surveys will also be undertaken in high-risk countries/regions. We will continue to train suppliers and workers to ensure prevention of forced labor remains a key part of our due diligence strategy.

Remediation: Li & Fung will continue to work with qualified experts to assist us in the remediation of complex cases. This includes ensuring repayment happens in a timely manner, in line with both the AAFA Commitment and in line with Impactt's Principles and Guidelines for the Repayment of Migrant Worker Recruitment Fees and Related Costs. We will also continue to monitor the implementation of remediation and apply learnings from our various pilot initiatives to achieve continuous improvement.

Focus Area 2: Worker-led due diligence (APPRISE)

Li & Fung will continue to leverage scalable technology tools to enable worker-led due diligence to better detect the risk of modern slavery.

Worker voice tools provide invaluable insights into the working conditions and labor practices at factories that social audits, by their nature, are unable to capture. The APPRISE tool is an innovative platform that enables more workers to be engaged during an audit in a safe, effective, and anonymous way.

In 2023, we will continue working towards our goals and objectives, ensuring APPRISE is deployed to an additional 200 facilities and that the recruitment survey is deployed to all migrant-rich countries/regions.

Focus Area 3: Monitoring and mitigating modern slavery risks

Li & Fung will continue to undertake unannounced spot-checks by qualified third parties in high-risk countries/regions to better identify both recruitment-related and general modern slavery risks. In high-risk countries/regions for migrant labor, such as Taiwan, assessments will focus heavily on migrant worker interviews, conducted in a confidential setting in the migrant workers' own language. These interviews are yielding significant insights into recruitment-related fees and cost-charging, which do not always show up in regular audits.

As part of the 2022 - 2025 ESG Strategy, Li & Fung will work with companies that have expertise in the identification of forced labor (as well as child labor) risk, to undertake unannounced spot checks in high-risk countries/regions. The target in 2023 is to undertake 30 unannounced spot checks in 6 countries/regions. As training is one of the best strategies to prevent and mitigate forced labor risk, Li & Fung will also train all core factories in Bangladesh, China, Malaysia, Taiwan, and Thailand.

2023 Goal, indicators and targets

Goal	Indicator	Target
Objective 1. Enhance governance of modern slavery issues		
Development, rollout and strengthening of the Responsible Recruitment Policy	# of suppliers signing policy	Update policy to apply to internal Human Resources and to reflect new AAFA commitment wording.
Updated Li & Fung Supplier Code of Conduct modern slavery	# of suppliers accepted LF Supplier Code of Conduct	Update and strengthen the code
Objective 2. Strengthen risk assessment and due diligence in the supply chain around modern slavery issues		
Increase the quality & scope of risk assessment and data collection using new technology	# of countries/regions covered by programs to monitor responsible recruitment	4 countries/regions (Taiwan, Thailand, Malaysia, and Jordan)
	# of factories and agencies monitored	20 factories and their recruitment agencies
Strengthened voices of workers	# of high-risk facilities in high-risk countries/regions covered by APPRISE	200 facilities
	Quality of data collected	Deployment of recruitment survey to all key "migrant" countries/regions

Goal	Indicator	Target
Undertake unannounced spot-checks by qualified third parties in high-risk countries/regions	# of 3P spot checks per high-risk countries/regions covered	30 spot checks in 6 countries/regions
Objective 3. Suppliers are educated on how to prevent and mitigate modern slavery issues		
Roll out modern slavery virtual training for all core suppliers in high-risk countries / regions	% of factory completion rate per participated countries/regions	100% completion for all core factories in 5 countries/regions (Bangladesh, China, Malaysia, Taiwan, and Thailand)