

# Disclosure statement on modern slavery

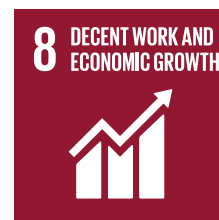
## Introduction

An estimated **40.3 million** people are victims of modern slavery. Of these, **24.9 million** people are in forced labor. Asia Pacific has the highest numbers of victims with **16.5 million** in situations of forced labor, and over **28 million** children in the worst forms of child labor.<sup>1</sup>

While modern slavery is commonly found in the informal economy, small businesses and even private households, there is growing acknowledgment that modern slavery is also present in global supply chains and that no country, sector or business is immune.

Given its complexity and pervasiveness, ending modern slavery requires coordinated action between a range of actors, including governments, civil society and the private sector. The Sustainable Development Goals (SDGs) were adopted in 2015 with a specific target (Target 8.7) focused on the eradication of modern slavery and child labor.<sup>2</sup> The SDGs and Target 8.7, represent an opportunity for Li & Fung to work in partnership to ensure stronger due diligence over our supply chains, and to encourage stronger labor market and migration governance in the countries where we operate.

This statement is published in accordance with the UK Modern Slavery Act (2015) and the SB657 California Transparency in Supply Chains Act. It builds on the commitments detailed in our Modern Slavery Statement 2017 to prevent modern slavery in our business operations and supply chains and sets out the steps taken during 2018 and outlines our future commitments. This important statement is fully supported and approved by our Board of Directors.



### 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

<sup>1</sup> *Global estimates of modern slavery: Forced labour and forced marriage*, International Labour Office (ILO), Geneva, 2017. Definitions: 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. Hazardous work by children is often treated as a proxy category for the worst forms of child labor as children in hazardous work account for the overwhelming majority of those in the worst forms of child labor.

<sup>2</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.

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## About Li & Fung

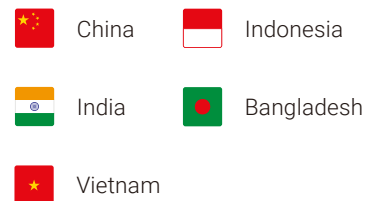
Li & Fung, a Hong Kong-headquartered, multinational group, is the world's leading supply chain solutions partner for foremost brands and retailers worldwide. We design, source and deliver a diverse range of products – including apparel, accessories and household items – from a network of 10,000 suppliers in over 50 production countries, to over 2,000 customers globally. With over 16,800 people in over 230 offices and 280 distribution centers, we are an asset-light organization using our extensive reach, depth of experience, market knowledge and digital solutions to enable our customers to respond quickly to evolving consumer and production trends.

We are focused on digitalizing our global supply chain, to create an end-to-end stream of synchronized supply chain data, that will allow us to improve speed, cost, working capital, inventory, sustainability and traceability for all partners in our ecosystem. Our priority is developing and operating responsible, agile supply chains that meet the demands of a dynamic retail sector, while protecting and improving the lives of all those who are touched by it.

## Our Supply Chain



## Top five sourcing countries



## Production countries

50+

Employees worldwide

16,840



We operate an extensive global supply chain network in over 230 offices and 280 distribution centers around the world, working with our vendor base of 10,000 suppliers to add value to our global brand and retail customers.



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## Policies and Governance

Li & Fung is committed to the principles of good governance both at the corporate level and in our supply chain.

### Corporate Policies and Governance

The Li & Fung [Code of Conduct and Business Ethics \(the Code\)](#) requires all employees to embed in business operations the ten principles of the UN Global Compact and the principles contained in the International Labor Organization'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, including the elimination of forced labor.

### Supplier Policies and Governance

Our **Corporate Sustainability and Compliance (CSC) team** is responsible for developing and monitoring Li & Fung's Modern Slavery strategy, including implementation of supply chain policies addressing modern slavery. CSC maintains its independence from external and internal stakeholders by reporting directly to the Group Chairman. The CSC team sits across 14 countries with the central governance team based in Hong Kong, our global headquarters.

Our principles addressing modern slavery are primarily enshrined in the [Li & Fung Supplier Code of Conduct \(Supplier Code\)](#). The Supplier Code, which is accessible via Li & Fung's corporate website and available in multiple languages, is built upon key international standards, including the International Labour Organization (ILO)'s 1998 Declaration on Fundamental Principles and Rights at Work (including the Supplementary Protocol to C. 29), as well as local laws. All forms of modern slavery are considered zero-tolerance issues and carry with it the need for full remediation along with potential termination of business.

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Rigorous **factory onboarding** is a crucial step in mitigating the risk of modern slavery. We provide onboarding training to new factories and our internal business units to ensure they understand the Supplier Code and the consequences of non-compliance. Li & Fung requires understanding of, and compliance with, the Supplier Code as a condition of doing business with us. Each supplier must sign a copy of the Supplier Code and participate in the onboarding process before production begins.

## **Strategy on Responsible Recruitment**

Abusive recruitment practices are the most common gateway to modern slavery. Recent reports from the ILO and World Bank show that payment of recruitment fees and related costs by workers significantly increases the risk of modern slavery.<sup>5</sup> The higher the costs paid by the worker, the higher the worker's risk of being trapped in modern slavery. Low-skilled workers tend to be particularly vulnerable to high recruitment costs. The ILO found that illegal recruitment fees amount to more than US\$1.4 billion annually. Survey data has shown that recruitment costs can amount to nine months or more of average yearly earnings in some migration corridors.

Li & Fung supports the AAFA and Fair Labor Association (FLA) Commitment to Responsible Recruitment, which includes commitments to:

- i. Incorporate the Commitment to Responsible Recruitment into our social compliance standards, including our Supplier Code, before end of 2019
- ii. Periodically report our actions to imbed elements of the Commitment to Responsible Recruitment in our policies and processes through sustainability reporting and modern slavery legal disclosures

Li & Fung has developed a comprehensive Responsible Recruitment strategy to support our AAFA commitment with a focus on strengthened policy, due diligence, technological innovation, training and remediation.

## **Due Diligence and Risk Mitigation**

### **Audits and Unannounced Spot Checks**

Li & Fung assesses compliance against our Supplier Code through audits conducted by one of three designated third-party audit firms. Third-party audit firm performance is monitored by a robust system of key performance indicators covering areas related to integrity, performance and accuracy. Li & Fung also accepts audits conducted against industry standards that meet our requirements as part of our audit "Equivalency" Program, including Better Work, Fair Labor Association, Sedex, Responsible Business Alliance and Amfori.

All direct suppliers are audited according to a schedule, which varies according to their level of risk (higher risk suppliers are audited more frequently). Each audit includes interviews with workers, including at least five migrant workers (where relevant). Audits also include visits to associated production facilities and dormitories. Nearly 100% of our audits that take place following a critical violation are conducted on a semi-announced<sup>6</sup> or unannounced basis. Audit data is then combined with industry and country data to provide an overall understanding of risk.

Li & Fung also conducts unannounced spot checks on factories, with a focus on those with longer approval periods or factories located in regions with increased risk factors, including potential indicators of forced labor. In 2018, we completed 400 unannounced spot checks in 15 countries, including some spot checks focused on recruitment practices. The recruitment-related spot checks included migrant worker interviews conducted in a confidential setting in the workers' own language.

<sup>5</sup> For recent information on the link between recruitment costs and modern slavery, see ILO and WB - KNOMAD publications <https://www.knomad.org/thematic-working-group-single/2#publications>

<sup>6</sup> Semi-announced means a factory will know an audit will happen but not the exact day it will occur. Most semi-announced visits have an announcement window of two weeks or more.

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We are also advocating for harmonization and improvement in the way our audit “Equivalency” industry standards measure, identify and report on modern slavery. In 2018, we provided verbal or in-person feedback to a number of industry standards on this issue, including participation in the Sedex Risk Assessment Project Advisory Group.

## Monitoring Beyond the First Tier and Worker Voice

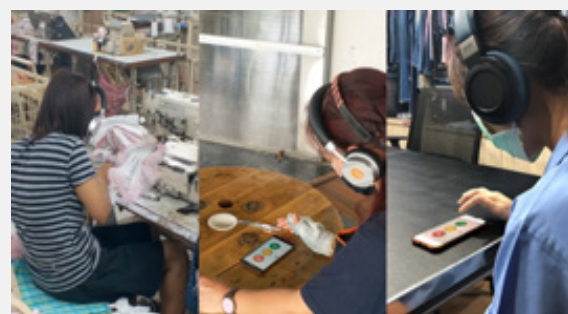
Li & Fung audits beyond tier 1 when requested to do so by our customers or where there is a high risk of issues such as child or forced labor. For example, we conduct unannounced checks in some mills in South India approximately every six months. The checks include interviews with management and workers. We also require written declaration from the mills that they do not engage in modern-slavery practices.

Li & Fung joined forces with The Mekong Club and the United Nations University’s Institute on Computing and Society (UNU-CS), a UN research think tank, to test an innovative workers’ voice app - Apprise Audit. We are piloting the **Apprise Audit app** in factories in Thailand and Vietnam.

The app 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, and they may be afraid of speaking out, or there may be a language barrier. This is even more challenging in the engagement of migrant workers, who are often more vulnerable and at risk of being trapped in forced labor.

The Apprise Audit uses an app on a smartphone or tablet with headphones to ask workers questions in their own language (through an audio recording that no one else can hear) to discover any red flags for forced labor. The app’s questions cover several aspects of exploitation, ranging from retention of identity documents and contract switching, to nonpayment of wages or excessive overtime, to threats and violence.

The app is a powerful and effective tool in the process of identifying and remediating cases of modern slavery, which supports the sustainable transformation of the supply chain and making life better for those most vulnerable.



## Addressing Country Risk

In 2018, we conducted a detailed due diligence assessment to better understand modern slavery risks in all our production markets. Based on the Mekong Club’s Risk Matrix and other internal and external data, we identified Bangladesh, China, India and Malaysia as our key risk countries for modern slavery. Other parts of Southeast Asia and the Middle East and North Africa region were also identified as having forced labor risks. Refer to [Li & Fung’s Annual Report 2018](#) and [website](#) for further detail.



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## ***Country Case Study: Innovative Training for Factory Managers in China***

In 2018, the Ethical Trading Initiative (ETI) partnered with the Swedish-based training company, QuizRR, to pilot a modern slavery digital education package targeting factory management in China.

The training capitalizes on ETI's expertise and material related to modern slavery and QuizRR's innovative digital platform. The digital training solutions are based on customized film dramas followed by quiz questions. Participants conduct the training individually or in groups in a fun, fast and engaging way to learn about employment rights and responsibilities. The training is part of ETI's efforts to use digital technology to scale-up awareness of modern slavery and recruitment practices in China's supply chains.

We engaged our suppliers to join the pilot and worked closely with ETI and QuizRR to facilitate effective implementation in the factories. The pilot is progressing well and will end in the first quarter of 2019. Initial feedback is positive, indicating that the training is "vivid, flexible and easy to understand." Its digital and modular format means suppliers are even able to train workers on the production floor during down time. We look forward to the next adaptation of this digital training solution and to scaling its use in more diverse contexts.

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## ***Country Case Study: Eradicating Child Labor and Hazardous Forms of Work for Young Workers in Bangladesh and China***

Li & Fung's Supplier Code prohibits the employment of children younger than 15 years of age, or younger than the age of completion of compulsory education, or legal employment age of the relevant country, depending on which is higher. The Supplier Code also prohibits the Worst Forms of Child Labor as defined by the ILO Convention No. 182. In 2018, a specialized Standard Operating Procedure (SOP) was developed to improve and standardize internal processes for identifying and remediating cases of child labor. We held in-person training for our colleagues regularly visiting factories to ensure they understand how to communicate the relevant Supplier Code requirements to factories, and know how to identify, respond and escalate suspected cases in accordance with the SOP.

In 2018, China and Bangladesh remained our highest risk countries for both child labor and hazardous forms of work for young workers. We worked closely with the Center for Child Rights and Corporate Social Responsibility to train select factories in our supply chain in these two countries and to ensure that identified cases were remediated in line with international best practices and the best interests of the child. Refer to [Li & Fung's Annual Report 2018](#) and [website](#) for further detail on our work related to hazardous forms of work.

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## Risk Mitigation in Key Markets

Market	Risk Mitigation and Partners	Future Actions
Bangladesh	<ul style="list-style-type: none"> <li>• Unannounced spot checks to detect forced labor</li> <li>• Membership of Alliance for Bangladesh Worker Safety, which provides a hotline for workers to report abuse</li> </ul>	<ul style="list-style-type: none"> <li>• Continue unannounced spot checks</li> <li>• Roll-out new e-learning tool for factory managers on combatting modern slavery</li> <li>• Centre for Child Rights and Corporate Social Responsibility (CCR CSR) to execute in-person training for tier 1 and 2 factories on prevention of hazardous forms of work for children and adolescents</li> </ul>
China	<ul style="list-style-type: none"> <li>• Unannounced spot checks in factories to detect forced labor</li> <li>• In partnership with the Mekong Club, shared e-learning on the risk of North Korean forced labor to Liaoning, Jilin, and Shandong provinces</li> <li>• In partnership with Ethical Trade Initiative (ETI) and QuizRR, trained select factories and workers on forced labor risks</li> </ul>	<ul style="list-style-type: none"> <li>• Continue unannounced spot checks</li> <li>• Further roll out of the e-learning to other provinces</li> <li>• Develop and execute prevention strategy for all forms of child labor using education materials prepared by CCR CSR</li> </ul>
India	<ul style="list-style-type: none"> <li>• Unannounced spot checks in factories and mills to detect forced labor</li> </ul>	<ul style="list-style-type: none"> <li>• Continue unannounced spot checks, with a focus on women</li> <li>• In collaboration with the Mekong Club and United Nations University, translate, refine and roll-out the Apprise Audit to factories in South India</li> <li>• In partnership with Association for Stimulating Know-how (ASK), undertake factory assessments on forced labor</li> </ul>
Jordan	<ul style="list-style-type: none"> <li>• ILO/IFC Better Work Jordan (BWJ) Program organized meetings on responsible recruitment, which led to a commitment by the BWJ Project Advisory Committee that no recruitment fees should be paid by workers. This commitment will be implemented in BWJ factories starting January 2019</li> </ul>	<ul style="list-style-type: none"> <li>• Further partnership with BWJ to encourage suppliers to recruit responsibly</li> </ul>
Thailand	<ul style="list-style-type: none"> <li>• Conducted visits to factories to better understand recruitment practices related to migrant workers</li> <li>• Partnered with the Mekong Club and United Nations University to test the Apprise Audit in Thailand</li> </ul>	<ul style="list-style-type: none"> <li>• In collaboration with the Mekong Club and United Nations University, further refine and roll-out the Apprise Audit to more factories</li> <li>• Participate in the Global Forum on Responsible Recruitment and incorporate learnings</li> </ul>
Malaysia	<ul style="list-style-type: none"> <li>• Partnering with AAFA as it rolls out its Action Plan on Responsible Recruitment in Malaysia</li> </ul>	<ul style="list-style-type: none"> <li>• Roll out of e-learning tool on modern slavery, with a strong focus on recruitment</li> <li>• Conduct unannounced spot checks in factories with a focus on recruitment practices</li> <li>• Offer in-person training for suppliers on how to implement responsible recruitment</li> </ul>

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Market	Risk Mitigation and Partners	Future Actions
Taiwan	<ul style="list-style-type: none"><li>• Developed e-learning tool on modern slavery, with a strong focus on recruitment. The tool is currently being rolled out to all factories in Taiwan</li><li>• Partnered with the Research and Communications Group (RCG) to conduct assessments of recruitment practices</li></ul>	<ul style="list-style-type: none"><li>• Conduct a two-day supplier training with the NGO Verité to build awareness of the nature, causes, manifestations and common risks of third-party recruitment and employment of foreign migrant workers</li><li>• Continue to partner with the AAFA as it engages with key stakeholders on Responsible Recruitment</li></ul>
Turkey	<ul style="list-style-type: none"><li>• Conducting semi-announced checks on factories in Turkey in partnership with ELEVATE</li></ul>	<ul style="list-style-type: none"><li>• Continue unannounced spot checks in factories</li><li>• Collect more and better data on the impact of the Syrian refugee crisis on our supply chain and explore opportunities for industry engagement</li></ul>
Vietnam	<ul style="list-style-type: none"><li>• Unannounced spot checks to detect forced labor</li><li>• Partnership with the ILO/IFC Better Work Vietnam (BWV) Program</li><li>• Partnered with the Mekong Club and United Nations University to test Apprise Audit</li></ul>	<ul style="list-style-type: none"><li>• Continue unannounced spot checks</li><li>• Continue collaboration with Better Work Vietnam and other stakeholders</li></ul>

## Remediation

In 2017, Li & Fung launched its remediation program to continuously improve performance in our supply chain. In general and when non-compliances are identified through audits, the non-compliance is recorded into a standardized monitoring system and discussed with the factory during the closing meeting. 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 a complex and serious issue, 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 victims and paying back any outstanding wages or fees (where relevant)
- Preventative action, including the use of third-party experts to assist the factory to change 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). In 2018, at least two factories provided compensation to victims of modern slavery; in first instance by paying back wages owed to workers and in the second case by returning deposits and identity documents to workers.



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## Enabling Factors to Eradicate Modern Slavery

In addition to our due diligence process to identify modern slavery risks, we have also identified two key factors which help our efforts to identify and eradicate modern slavery.

### Leverage

Modern slavery is a global challenge that requires the collaborative efforts of governments, civil society and business. Despite Li & Fung's expertise in global supply chains and our global reach, we accept we cannot solve this problem alone.

We rely on partnerships to build the required leverage to impact this issue. We work closely with organizations such as the Mekong Club, the Ethical Trade Initiative, Better Work and the American Apparel and Footwear Association (AAFA) to drive change.

### Tracking Progress

As we advance our agenda to abolish modern slavery, we will monitor our progress against the following targets and report on our progress in our next modern slavery statement:

Category	Indicator	KPI Description
Due diligence	# of countries/regions with proactive measures taken to identify modern slavery	We recognize that traditional tools for supply chain due diligence are not always effective in identifying cases of modern slavery. We will use our compliance and factory data to proactively identify risk and undertake focused investigations on modern slavery.
Training	% Li & Fung employees trained	We developed an e-learning on modern slavery, which has been rolled out to our colleagues. Every employee is required to complete this training so all relevant decision makers are trained on risks, policies and standards related to human trafficking and forced labor.
Training	% core factories trained	Our e-learning on modern Slavery has been rolled out to all direct, core factories in China, Malaysia and Taiwan.
Responsible recruitment	% core factories implementing responsible recruitment practices	In line with the AAFA Action Plan, our Responsible Recruitment strategy prioritizes Taiwan and Malaysia as markets with risk of high recruitment fees. We intend to support our core factories in these markets to implement responsible recruitment practices.

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 that help them identify and prevent all forms of modern slavery.



**Spencer Fung**  
Group CEO, Li & Fung



**William Fung**  
Group Chairman, Li & Fung