




# **Disclosure statement on modern slavery**

**Li & Fung Trading Limited**

<p><b>5 GENDER EQUALITY</b></p> 	<p><b>SDG 5: Achieve gender equality and empower all women and girls</b></p> <p>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.</p>
<p><b>8 DECENT WORK AND ECONOMIC GROWTH</b></p> 	<p><b>SDG 8: Decent Work and Economic Growth</b></p> <p>Target 8.7: Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms.</p>
<p><b>10 REDUCED INEQUALITIES</b></p> 	<p><b>SDG 10: Reduced Inequality</b></p> <p>Target 10.7: Facilitate orderly, safe, and responsible migration and mobility of people, including through implementation of planned and well-managed migration policies.</p>

## Section 1. Structure, Business and Supply Chains

In 2017, the International Labour Organization (ILO) estimated 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 global supply chains.<sup>1</sup> Those figures are expected to rise dramatically owing to the impact of the Coronavirus pandemic, with well over 2.5 million cases and over 177,000 deaths globally as of 24 April 2020. Besides the health implications of the disease, the economic crisis and resulting disruptions to global supply chains presents unprecedented challenges for the world's most vulnerable workers.

The coronavirus pandemic will act as a catalyst to reverse the trend of reduced poverty and erase valuable progress. The World Bank estimates that as a direct consequence of the novel coronavirus, nearly half a billion people could be pushed below the poverty line, highlighting the magnitude of this economic shock. Those in extreme poverty, or those living on less than US\$1.90 a day, could rise from 40 million to 60 million people; the number of people living on less than US\$3.20 a day from 40 million to 150 million; and those living on less than US\$5.50 a day from 70 million to 180 million.<sup>2</sup>

<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> World Bank Blog "The impact of COVID-19 (Coronavirus) on global poverty" available at <https://blogs.worldbank.org/opendata/impact-covid-19-coronavirus-global-poverty-why-sub-saharan-africa-might-be-region-hardest>

Against this backdrop, the impetus has never been greater for Li & Fung to take a proactive approach to ending modern slavery; this includes ensuring respect for workers' human rights and health and safety and working with the industry to promote adequate labor law protection, social security coverage, safe migration channels, non-discrimination and the right to freedom of association and collective bargaining.

The scale and complexity of the challenge 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, represent an opportunity for Li & Fung to work in partnership to ensure stronger due diligence over the supply chains, and to encourage robust labor market and migration governance in the countries where we operate.<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 during from Jan – Dec 2019 to meet commitments made in our earlier statements and outlines our 2020 modern slavery strategy and commitments.

The statement is fully supported and approved by our Board of Directors and signed by our Group CEO, Spencer Fung.

It was reviewed externally by the Mekong Club, a Hong Kong-based, non-governmental organization committed to ending modern slavery within the private sector by raising awareness and providing practical tools to address the problem within supply chains.

#### **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 **Services segment** consists of the Supply Chain Solutions and Logistics business. We provide end-to-end supply chain solutions, from product design, raw material procurement, production and quality control, to warehouse management and last-mile delivery to retail stores or end-consumers.
- The **Markets segment** consists of our Onshore Wholesale business in the Americas, Europe, and Asia.

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<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.

## Li & Fung Limited Structure



- Supply Chain Solutions
- Logistics Business
- Onshore Wholesale Business

Production countries  
**50+**

Factories  
**6,900**

Employees worldwide  
**16,796**



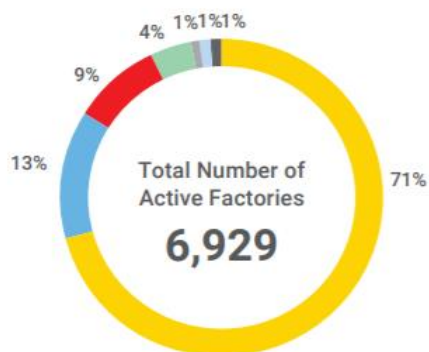
**49.6%** Female  
**50.4%** Male



### B. The Supply Chain – Tier 1

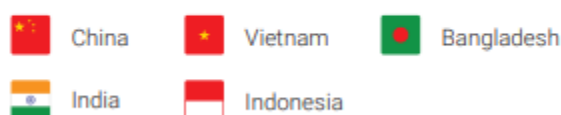
We design, source and deliver a diverse range of products including apparel, footwear, accessories, and household products for over 2,000 global brands and retailers. In 2019, we sourced from over 6,900 factories in over 50 production countries with 1,146 factories contributing 80% of the value of goods shipped to our customers. These 1,146 factories represent 17% of our total active factories.

Number and Percentage of Active Factories by Region



China	4,935	71%
South Asia	881	13%
Southeast Asia	649	9%
Europe and Turkey	270	4%
North Asia	83	1%
Americas	65	1%
Others	46	1%

Top Five Sourcing Countries







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 2019, we maintained long-term relationships (five years or more) with approximately 45% of the factories in our supply chain.

We expect our suppliers to continuously improve their performance and to provide safe and fair workplaces for all workers in the supply chain. In 2019, we extracted data from over 4,700 Assessment and Audit Reports from Better Work and AMFORI, representing 17 production markets to better understand the demographics of workers in our supply chain.

Table 1: Worker Demographics in the Supply Chain

 Workers	<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>
 Management	<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>
 Contracts	<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>
 Migrants	<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>

## 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 Group's risk management and internal control systems and reviewing the Group's practices and strategies on corporate responsibility and sustainability. The Committee reports to the Board of Directors and specific topics discussed in 2019 included risk mitigation strategies for modern slavery in the supply chain.

The Compliance & 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 Compliance & Sustainability team maintains its independence from external and internal stakeholders by reporting to the Group Chief Executive Officer, Spencer Fung. The team has over 30 colleagues based in 12 markets across the globe, from North and Central America, Europe and the Middle East to Asia and is supported by a supply chain compliance company, ELEVATE, that executes auditing, data analytics and remediation activities.

The Fung Group's Vendor Compliance and Sustainability team that sits within the Group Chairman's Office, is responsible for governance, policy, internal audit and industry partnerships including the development and mainstreaming of the Fung Group's strategy and related KPIs on ending modern slavery.

Human Resources, 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. In 2019, our Procurement team revised our standard contracts to include more robust language on modern slavery and responsible recruitment and our legal team has provided key insights on compliance with all laws related to modern slavery.

### *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 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. 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 HR, Legal and/or 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 International Labour Organization (ILO)'s 1998 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.



In 2019 we updated our Supplier Code of Conduct to include stronger provisions on responsible recruitment and combatting violence and harassment at work.

Li & Fung supports the Commitment to Responsible Recruitment, spearheaded by the American Apparel and Footwear Association and Fair Labor Association.<sup>4</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>5</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, 2,792 factories have signed their acceptance of the new Code with the remainder required to sign in 2020.

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<sup>4</sup> See below section on Responsible Recruitment for details

<sup>5</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.



### C. Responsible Recruitment Policies

**Workers have  
paid US\$ 4,200  
– 6,000 and  
even higher for  
a job.**

One of the greatest drivers of modern slavery in all economic sectors is the exploitation of migrant workers occurring at the hands of unscrupulous recruitment agencies and/or labor brokers. Abusive recruitment practices, including a worker's payment of excessive recruitment fees and related costs, are the most common entry point for modern slavery.

Even fees authorized by law can amount to over US\$6,000, burdening a worker and their family with high loan and interest payments. Migrant workers are most at risk of excessive fees as they often pay twice – both at the home country and destination country.<sup>6</sup> Costs go to multiple intermediaries, which are typically not regulated by local authorities. Workers who fall into debt may become trapped in abusive working conditions with low or no wages.

The International Labour (ILO) Organization, in its *Recommendations of Supplementary Measures for the Effective Suppression of Forced Labor*, calls out the corporate responsibility of “protecting persons, particularly migrant workers, from possible abusive and fraudulent practices during the recruitment and placement process” in combating forced labor. Additionally, the ILO issued *General Principles and Operational Guidelines for Fair Recruitment* stating that companies should include “human rights due diligence assessments of recruitment procedures and should address adverse human rights impacts with which they are involved.”

Li & Fung, along with another 140 brands, retailers and suppliers, is a signatory to the [American Apparel and Footwear Association \(AAFA\) Commitment to Responsible Recruitment](#). 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.

**In line with those commitments, Li & Fung is drafting a Policy to ensure Responsible Recruitment is implemented across our Company and in our supply chain. The Responsible Recruitment Policy for Li & Fung and its supply chain will be launched in 2020.<sup>7</sup>**

<sup>6</sup> Destination country refers to the country where the migrant worker secures employment.

<sup>7</sup> 2020 goals may need to be adjusted to account for coronavirus restrictions.

## Key Highlights – LF Responsible Recruitment Policy



**Employer Pays Principle:** Suppliers shall take steps to ensure 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.

## Section 3: Risk Assessment, Prevention and Mitigation

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

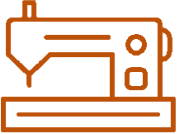


We acknowledge there are modern slavery risks that exist in our industry and in the markets where we operate. The challenge is to proactively identify and dissect modern slavery risks at various levels (country, region, product, tier, facility and worker) so they can be effectively mitigated and addressed. 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 Risk Management and Sustainability Committee, which reports to the Board of Directors. In 2019, our risk assessment included the following key sources of information:

- Mekong Club's Risk Assessment Matrix, Quarterly Working Group and Knowledge Hub
- Ethical Trade Initiative Modern Slavery Working Group and COVID-19 Resources
- Centre for Child Rights and Corporate Social Responsibility's (CCR CSR) Working Group
- US Department of Labor's List of Goods Produced by Child Labour or Forced Labour
- ILO Global Estimates on Modern Slavery
- Walk Free Foundation 2018 Global Slavery Index
- Foreign Migrant Worker Risk Assessment Tools

Mitigation and prevention strategies include undertaking specialized investigations to validate the risk, undertaking specific actions with our industry partnerships to address or raise awareness on the issue, and engaging in programs to build the capacity of suppliers and/or other actors in the supply chain.

**B. Map of the apparel supply chain highlighting key modern slavery risks, prevention and mitigation measures**

<p><b>Tier 1 Suppliers - Product + Finishing</b></p> 	<p>Salient risks in tier 1 include:</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>We take a comprehensive approach to monitoring and building the capacity of tier 1 factories. For more information please see section on due diligence and remediation.</p>
<p><b>Tier 2 Suppliers - Textile Manufacturing: spinning, weaving, dyeing and printing</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 labour 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>We are starting to build stronger relationships with our wet processing units (dyeing houses) and spinning mills including under-taking environmental and social assessments.</p> <p>In 2019 we audited several tier 2 suppliers in strategic, high-risk countries and remediated all zero-tolerance findings.</p>
<p><b>Tier 3 Suppliers - Raw Materials and Processing</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 labour, including state imposed (cotton)</li> <li>• Modern slavery risks in conflict regions as well as transport (polyester)</li> </ul> <p>While the Li &amp; Fung monitoring and remediation program does not extend to tier 3 suppliers, as part of our commitments under the Fashion Pact, we aim to increase our percentage of biodegradable and recycled materials. Certifications offer greater traceability at the raw material level and assurance on compliance with social and/or environmental standards.</p>

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

We use the Mekong Club Risk Assessment Matrix (RAM), which 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.<sup>8</sup>

Below we have provided an example of regional and product Modern Slavery risks in six production countries as identified in the RAM tool.<sup>9</sup> Red indicate states/regions where indicators and/or cases of modern slavery have been identified. Blue indicates where there is insufficient information to conclude whether modern slavery has been identified in the region, but audit data is available. Areas uncolored indicate that the RAM does not hold data on that region.

#### China

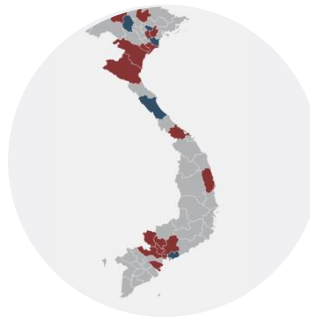


**High-risk Products:**<sup>10</sup> Cotton, footwear, garments, textiles, toys, artificial flowers

#### Completed Actions

- Engaged suppliers through ETI's "Ethical Recruitment as Prevention of Involuntary Work" project
- Raised awareness of suppliers on child labor at the China Vendor Summit and distributed "A Quick Guide on Child Labor and Child Protection in China"

#### Vietnam



**High-risk Products:** Footwear, garments, leather, textiles, furniture

#### Completed Actions

- Tested the Apprise Audit in factories<sup>11</sup>

#### Bangladesh



**High-risk Products:** Footwear, garments, leather, textiles

#### Completed Actions

- Tested the Apprise Audit in factories
- Worker helpline available via our partnership with Nirapon and support of the Accord.

<sup>8</sup> Latest dataset is from March 2019

<sup>9</sup> For information on our actions in Taiwan, Turkey and Jordan please see the section on capacity building.

<sup>10</sup> Products extracted from United States Department of Labor (USDOL) List of Goods Produced by Child and Forced Labor

<sup>11</sup> Section 4: Due diligence processes provides an explanation of Apprise Audit

## India



**High-risk Products:** Cotton, embellishments, footwear, garments, leather, silk, thread

### Completed Actions

- Unannounced spot checks in factories and spinning mills focussed on forced labor
- In collaboration with the Mekong Club translated the Apprise Audit into local Indian languages
- Undertook one forced-labor focused investigation with the Association for Stimulating Know-how (ASK)

## Malaysia



**High-risk Products:** Apparel, furniture

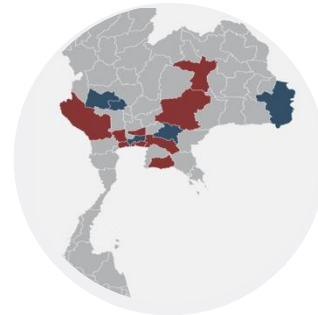
### Completed Actions

- Unannounced spot checks in factories focussed on forced labor
- Tested the Apprise Audit in factories
- Participated in the “Driving Responsible Recruitment in Asia: Malaysia Roundtable” organized by the Consumer Goods Forum (CGF), the Leadership Group for Responsible Recruitment, Humanity United, and the Responsible Labor Initiative

### Delayed Actions<sup>12</sup>

- In-person capacity-building with suppliers on responsible recruitment.

## Thailand



**High-risk Products:** Apparel

### Completed Actions

- Tested the Apprise Audit in factories
- Participated in the Global Forum on Responsible Recruitment
- Collaborated with the International Organization for Migration (IOM) to train suppliers on responsible recruitment practices

<sup>12</sup> Training planned for Q1 2020 was delayed due to coronavirus concerns.



## 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 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 particularly on forced labor, we use specialized third-parties with a focus on worker interviews to illuminate the real conditions faced by workers throughout the continuum of the supply chain.

Where data from a spot check suggests a critical compliance issue has been systemically missed by an industry standard, we share that information with the industry standard for improvement. In 2019, there were unannounced spot checks in 424 factories across 14 countries.

Grievance mechanisms are essential processes that provide access to remedy for workers and a critical component of ensuring factories achieve sustainable improvement. In 2019, we worked towards building more efficient and effective grievance mechanisms in our supply chain through our industry partnerships.

In Bangladesh, ILO-Better Work organized a two day workshop in June 2019, which provided factory management participants with the opportunity to develop systems that underpin the resolution of conflict through grievance procedures, while enhancing the capacity of both workers and management to create a culture where workplace issues and conflicts can be addressed

In Bangladesh, we continue to work with the Alliance helpline, Amader Kotha, which encourages workers to engage outside help for critical fire and safety risks. In 2019, we responded to five alerts from the hotline either through our remediation program or via partnerships such as Better Work. We also responded to five incidents raised through our ongoing interaction with participants in the Bangladesh Accord.



### *Using New Technology for Due Diligence*

As a member of the Mekong Club's Apparel and Footwear 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 voice app 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 a language barrier. 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.

In 2019 the app was enhanced to include additional data analysis features and four more languages, with Li & Fung providing funding for the question set to be translated into three of those languages. The Apprise Team also conducted a baseline survey with 200 auditors to understand challenges faced during worker interviews and looked at lessons learned from a four-month pilot conducted with Li & Fung and VF Corporation.<sup>13</sup>

In total, Li & Fung tested Apprise in 22 factories in Bangladesh, Malaysia, Thailand and Vietnam and is now actively testing ways to scale it in our supply chain.

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<sup>13</sup> Unmasking Labor Exploitation Across Supply Chains, United Nations University Institute on Computing and Society (2019) Macau, SAR available at <https://www.apprise.solutions/post/report-launch-unmasking-labor-exploitation-across-supply-chains>



## **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 acknowledge that with 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 2019, we identified four compliance issues involving multiple indicators of modern slavery in the supply chain, primarily in the lower tiers of the supply chain or in facilities where we did not have a direct business relationship.

Modern slavery indicators included hazardous forms of work, payment of recruitment fees, delayed payment of wages and/or benefits, excessive and forced overtime, contract substitution and restrictions on freedom of movement. Issues were identified through proactive spot checks or through grievance mechanisms established by our industry partnerships. Successful examples of remediation included one case of re-payment of owed wages and benefits to workers and two cases which involved providing vocational training to help workers access decent work. 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 impacted worker(s).

We also support Better Work Jordan's (BWJ) efforts to increase compliance with the ILO's General Principles and Operational Guidelines for Fair Recruitment in the Jordanian apparel industry. BWJ's Project Advisory Committee, which includes tripartite representation from government, employers and worker organizations,<sup>14</sup> agreed to start implementing 'zero-recruitment fees' policy starting January 2019. In 2019, BWJ and the Jordanian Labor Ministry carried out 73 joint inspection and advisory visits across affiliated garment and non-garment factories with a total of 20 factories found non-compliant for migrant workers' payment of recruitment fees in their countries of origin. Five factories are in Li & Fung's supply chain and we continue to support Better Work to ensure migrant workers are paid back recruitment fees and to put in place robust recruitment and human resource policies and processes.

## **Section 5: Training and capacity building**

### ***A. Ethical Trading Initiative (ETI)***

Li & Fung joined ETI as a foundation stage member in 2017, looking to gain access to the expert knowledge and support from the dedicated Modern Slavery Strategy Unit and benefitting from the peer-learning and opportunity for collaboration through its tripartite membership, made up of companies, trade unions and NGOs. Being a member of the working group allows us to keep apprised of emerging risks and best practice solutions.

As part of the working group, we provided input to the ETI's response to the UK Government's public consultation on proposed changes to the Modern Slavery Act 2015, which followed the independent review of the Modern Slavery Act. We are also exploring how we could support ETI on its migrant labor and access to remedy project in Malaysia. Although this program has initially been focused on the

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<sup>14</sup> The PAC comprises representatives from the government (Ministry of Labour and Ministry of Industry, Trade & Supply), employers (Jordan Garments, Accessories & Textile Exporters' Association, Association of Owners of Factories, Workshops and Garments, Foreign Investors Association and Jordan Chamber of Industry), and workers (General Trade Union of Workers in Textile, Garment & Clothing Industries and the General Federation of Jordanian Trade Unions).

rubber glove and condom supply chain, we are hopeful that learnings will be expanded to the garment sector.

### Capacity Building with ETI in China – Learning Map

In November 2019, as a part of the “Ethical Recruitment as Prevention of Involuntary Work” project, ETI piloted a Learning Map with various resources, including China Recruitment Practice Survey Findings, Guidelines on Ethical Recruitment and Forced Labor in China, and videos related to modern slavery. The Learning Map is easily available to suppliers via their mobile phone and to date, over 170 of our suppliers have accessed the training content and feedback has been positive:

*“The training materials provide great detail on modern slavery, which help us to understand the requirements of relevant regulations and laws as well as expectations of brands” - Factory Manager, 2019.*

*“Learning Map is very well designed. Videos and pictures are more interesting and easier to understand than reading words only” - Factory Compliance Officer, 2019*

Survey results were also used by ETI to develop a new tool, “Ethical Recruitment Practices and Forced Labour in China: Guidelines for Employers. The guidelines cover potential forced labor risks throughout the employment process, from recruitment to termination, and focuses on ethical recruitment practices.

Li & Fung will work closely with ETI to distribute the tool to factories in our supply chain and to develop and scale effective training approaches to equip factories with hands-on knowledge and toolkits to combat modern slavery in the global supply chain.

### B. Mekong Club

**Crisis Management and Modern Slavery workshop series:** In November 2019, Li & Fung participated in the CS&A Asia and Mekong Club crisis management workshop for the private sector. This workshop educates attendees on modern slavery and key crisis management principles, and included a live simulation of a modern slavery crisis for participants to experience. Five colleagues attended the training from the Vendor Compliance and the Corporate Communications teams and incorporated learnings into the development of a new crisis protocol on how to deal with modern slavery and ensure that victim protection is central to any corporate crisis management plan

### C. Responsible Recruitment Training

**Thailand:** In October 2019, the International Organization for Migration (IOM) led a labor supply chain self-assessment for 14 suppliers in Li & Fung’s supply chain operating in Thailand.



The online assessments focused on capturing information on the composition of the workforce, the recruitment and employment processes, grievance mechanisms as well as challenges and capacity building needs.

Following the assessment, 38 representatives from 22 Thai suppliers (including 14 who undertook the above self-assessment) and one Li & Fung representative attended a workshop co-hosted by IOM and Li & Fung on the topic of compliance with Thai law and international standards related to responsible recruitment and fair labor practices. The session included updates on the Thai regulatory framework following the January 2019 revision of Labor Protection Act, a key legislation outlining rights and responsibilities of employers and workers including migrant labor, as well as a session on how to better protect migrant workers from exploitative practices. Thai suppliers who attended the training admitted that the acquired knowledge helped them to improve their policies related to workers' benefits as outlined in the revised law.



**Taiwan:** We partnered with the NGO Verité to organize a two-day training for factory staff in Taiwan. 16 factories attended the workshop to learn about the common risks and challenges in third-party recruitment and the employment of foreign migrant workers, and shared experiences and best practices on how to improve visibility and minimize risk in the recruitment process.

**Turkey:** United Work, an NGO dedicated to helping Syrian refugees integrate into workforce in Turkey delivered a training session to fifteen Li & Fung suppliers about the legal requirements and applications for work permits for Syrian refugees. In 2019 Li & Fung also undertook specific monitoring visits to 56 factories to identify whether any particular risks or exploitation existed for Syrian refugees.

**Jordan:** All Jordanian factories in our supply chain are part of the ILO/IFC Better Work (BW) program. During a Project Advisory Committee meeting in early 2018, national stakeholders agreed that the industry will actively work towards implementing a zero-fee policy in BW factories. In 2019, BW held various training sessions with the Ministry of Labor and its labor inspectors to ensure better identification of non-compliances related to fee-charging.

#### ***D. E-Learning on Modern Slavery***

In January 2019, we developed an e-learning training to educate colleagues on modern slavery. The e-learning takes around 25 minutes to complete and 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. The e-learning is available in English and Chinese and is currently being translated into Bengali.



**As of December 2019, over 4,700 colleagues have completed the e-learning, which represents a 100% completion rate for our sourcing business. Roll-out to other parts of the business is planned for 2020.**

## Section 6: Effectiveness, measured against appropriate KPIs

In 2019, we made great strides towards achieving our KPIs set out in the area of policy, risk assessment, due diligence, remediation and training (see table below for details).

Looking toward 2020, we recognize there will continue to be massive health and financial challenges related to the coronavirus pandemic that cause untold disruptions to our business and supply chain and stand in the way of progress. Yet, we cannot pause our work in this important area when the need for action has never been greater, and we will need to be innovative on how make progress despite travel restrictions and physical distancing.

### *2020 Areas of Focus*

1. **Policy:** Focus on enhanced governance related to responsible recruitment and reimbursement of illegal recruitment fees, with a longer-term focus of moving towards the employer-pays principle. Develop new standard operating procedures on how to maintain supply chain visibility despite coronavirus pandemic, using new technology to regularly collect data from suppliers and workers, review of health and safety, quarantine measures, emergency policies, social security, etc.
2. **Risk Assessment:** Leverage the use of new technology to help us to better identify and act upon specific modern slavery risks by country, region, product, tier, facility and worker demographic. Ensure risks are accurately described in qualitative and quantitative degrees to decision-makers within Li & Fung.
3. **Due Diligence and Remediation:** Leverage new technology to increase the quality of worker interviews to illuminate the real conditions faced by workers throughout the supply chain and to ensure continued monitoring despite COVID-19-related restrictions. Focus on ensuring remediation processes put workers' rights at the center and are undertaken by qualified third parties – and can demonstrate the effectiveness of the responsible recruitment policy by ensuring workers are paid back illegally-procured fees.
4. **Training and participation in multi-stakeholder initiatives:** Continue to use the collective knowledge, tools and advocacy power of our industry initiatives on both a strategic and practical level with the goal of achieving positive social change. Our key topics for training will continue to be responsible recruitment and the overall risks related to modern slavery.

## Key Performance Indicators 2019 – 2020<sup>15</sup>

Goal	Indicator	2019 KPIs (Achieved)	2020 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	Adoption of Responsible Recruitment Policy
<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>16</sup>
<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 the lower tiers.
	# facilities audited and countries covered using Apprise Audit	22 facilities in four countries (Bangladesh, Malaysia, Thailand and Vietnam)	80 facilities in five countries
<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
	% 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

<sup>15</sup> 2020 goals may need to be adjusted to account for coronavirus restrictions.

<sup>16</sup> Risk assessment will analyze the impacts of COVID-19 on modern slavery.

			E-learning launched in 100% of core factories in China and Bangladesh
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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.




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**Spencer Fung**

Group CEO, Li & Fung

14 September 2020