

# Disclosure statement on modern slavery **2023**

Li & Fung (Trading) Limited



## Our Commitment

We are delighted to share Li & Fung's seventh Modern Slavery statement that highlights our activities and accomplishments during the financial year of January to December 2023, in compliance with the regulations under the UK Modern Slavery Act (2015) and the SB657 California Transparency in Supply Chains Act (2012).

Li & Fung's supply chain moves millions of consumer goods every year, positioning us to serve as a positive change catalyst and convenor of supply chain partners. The need for joint action amongst governments, buyers, suppliers, and workers on this subject has never been more significant. The 2023 Global Slavery Index by Walk Free illustrates how climate change has forced millions of people to migrate in unplanned ways, resulting in a higher risk of exploitation. These vulnerabilities are exacerbated by a cost-of-living crisis, an increase in regional conflicts, and an overall decline in human development after decades of progress.

It is now a moral and legal obligation to proactively assess and address critical human rights risks, with governments steadily introducing regulations to hold companies accountable. Li & Fung commits to meeting these requirements by using our leverage to take real action in combating modern slavery. Our response is guided by the OECD Due Diligence Guidance, which necessitates companies to establish robust policies and systems, conduct continuous risk assessments, undertake preventative and mitigation measures, monitor the effectiveness of actions, communicate results publicly and adopt a rights-based approach to remediation.

In this statement, we present essential updates, actions, and outcomes focusing primarily on forced labor and modern slavery, with a secondary focus on child labor. Moreover, we look forward by setting new objectives for 2024 that aim to increase transparency to better identify and address risks in the upstream supply chain and focus more heavily on directly engaging and building the capacity of rights-holders and their representatives while improving adherence to international and national norms on Responsible Recruitment in our own operations.

Our Board of Directors completely supports and approves this statement, which has been reviewed by the Mekong Club, a Hong Kong-based non-governmental organization devoted to ending modern slavery through collaborative engagement.

A handwritten signature in black ink that reads "Joseph Phi". The script is fluid and cursive, with the first letters of each word being capitalized and prominent.

Joseph Phi, Group Chief Executive Officer  
Li & Fung Limited  
May, 2024

## The Issue

According to the latest global estimates by the International Labour Organization (ILO), 49.6 million people are in modern slavery globally, with some 28 million people in forced labor. Of the total in forced labor, 17.3 million are working in the private economy sector. Those already in situations of greatest vulnerability – including the socially excluded, informal economy workers, migrant workers, and people subject to discrimination – are most affected. 3.3 million are children. Ongoing economic instability – including fluctuating consumer demand, high global inflation, and the impact of the climate crisis and conflict – mean forced labor risks are increasing globally.

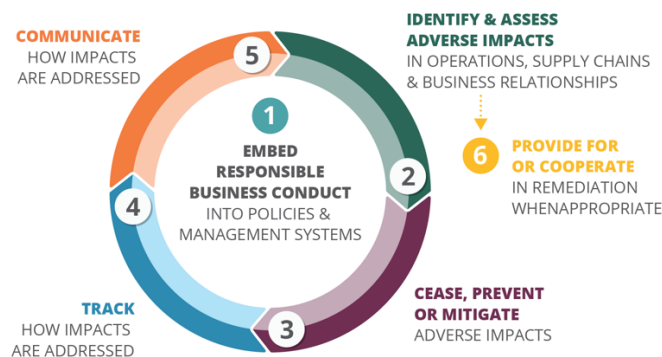
Modern slavery exists in every region and every country, yet its manifestations depend on the unique combination of drivers, the size and distribution of vulnerable groups within a population, and the way in which governments respond to vulnerability.

Certain sectors are also at a higher risk with the following five sectors accounting for almost 90% of total adult forced labor cases: services, manufacturing, construction, agriculture, and domestic work. Within the manufacturing sector, apparel, footwear and textiles remain high-risk for both private and state-imposed forced labor. Apparel, footwear and textiles accounted for 17 percent of shipments impacted by Customs Border Protection's enforcement actions under The Uyghur Forced Labor Prevention Action (UFLPA). Most of the detained shipments originated from China, Vietnam, and Malaysia.<sup>1</sup>

Improving our understanding of the sectors, regions and factors linked to modern slavery is essential to developing and implementing successful interventions. Li & Fung uses this data to inform our risk assessment as well as help shape our focus areas for 2024 to proactively identify and mitigate the risk in high-risk countries, enhance due diligence on product risk through technology and building capacity in the supply chain directly exposed to the risk.

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 and is risk-based, meaning companies must prioritize their most severe risks and impacts, regardless of where they sit in the supply chain.

### OECD Due Diligence Guidance for RBC



<sup>1</sup> <https://www.cbp.gov/newsroom/stats/cbp-public-data-portal> data as of December 2023

In 2023, the OECD updated their Guidance to call for better protection for at-risk persons and groups, including those who raise concerns regarding the conduct of businesses. Li & Fung has taken note of these changes and is taking steps to incorporate them into key processes in the systems, particularly around the topic of grievance mechanisms (see Section 3B on Risk Monitoring for details).

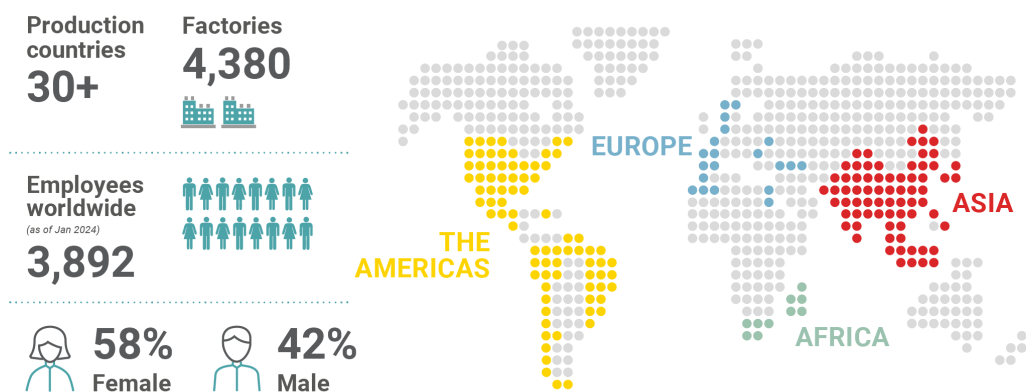
The trend of transposing the Guidance into law has also continued with the long-awaited EU Corporate Sustainability Due Diligence Directive (CSDDD) adopted by the European Parliament in April 2024. The legislation complements the Corporate Sustainability Reporting Legislation (CSRD), which provides a harmonized framework for non-financial reporting. On April 23, 2024, the European Parliament approved the proposed EU Forced Labor Regulation. The Regulation will prohibit the sale, import and export of goods made using forced labor.

Trade-related and disclosure legislation on forced labor is also on the rise in other parts of the world with Canada adopting the *Fighting Against Forced Labour and Child Labour in Supply Chains Act* (S.C. 2023, c. 9) in May 2023. That same month, Mexico’s Ministry of Economy published an administrative regulation prohibiting imports of goods produced with forced labor. The regulation implements Mexico’s obligation under the United States–Mexico–Canada Agreement requiring each country to prohibit the import of goods into its territory from sources produced, in whole or in part, by forced or compulsory labor.

Li & Fung’s approach to tackling modern slavery, and the goals set out in this statement, considers these new and forthcoming legislative requirements, which may affect our clients or suppliers. It is also built upon the OECD Due Diligence Framework and findings from the ILO Global Estimates and other relevant sources of information on the issue. The 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

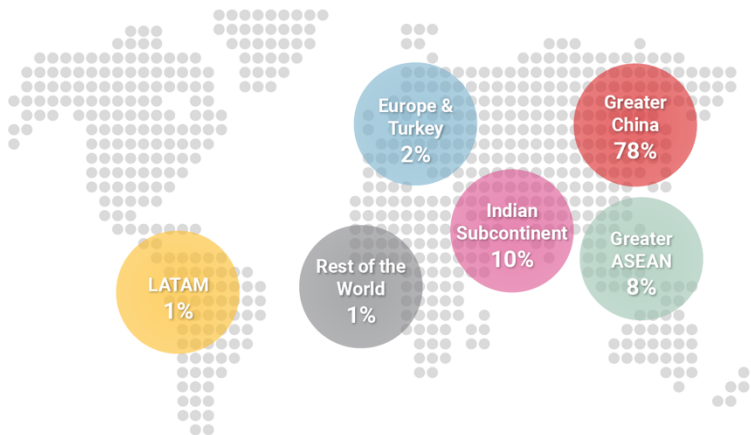
Li & Fung is a privately held company headquartered in Hong Kong and a member of the Fung Group of Companies. We have offices and operations across the globe.





We design, source and deliver a diverse range of products including apparel, footwear, accessories, and household products for global brands and retailers. In 2023, we sourced goods from 4380 Tier 1<sup>2</sup> factories in 30 production markets, with 783 factories contributing 80% of the value of goods shipped to our customers. These 783 factories represent 18% of our total active factories.

Factory Distribution



Li & Fung regularly collects anonymized, sex-disaggregated data to better understand the demographics and employment types of workers in the supply chain. This helps to proactively identify potential risk factors of forced labor including marginalization based on gender, identity, employment, and migration status. Table 1 outlines the 2023 statistics from Li & Fung’s supply chain.

<div>Workers</div> <div></div>	<div>There is an equal percentage of female and male workers.</div> <div><ul style="list-style-type: none"><li>• 50% female workers and 50% male workers.</li><li>• Myanmar, Cambodia, and Jordan have the highest percentage of female workers.</li><li>• Pakistan and Indonesia have the highest percentage of male workers</li></ul></div>
<div>Management</div> <div></div>	<div>Women are underrepresented in management positions, particularly in South Asian countries.</div> <div><ul style="list-style-type: none"><li>• 32% of management are women.</li><li>• 68% of management are men.</li><li>• Women in Bangladesh, Egypt, India, and Pakistan are most underrepresented in management positions.</li></ul></div>
<div>Contracts</div> <div></div>	<div>Workers on temporary contracts have less stability.</div> <div><ul style="list-style-type: none"><li>• 94% are permanent workers and 6% are contract workers.</li><li>• Jordan and Indonesia have the highest percentage of contract workers.</li></ul></div>

<sup>2</sup> Li & Fung defines Tier 1 factories as the facility that undertakes the final product assembly.

---

## Migrants



### **Migrant workers are more vulnerable to forced labor.**

- 92% are local workers and 8% are migrant workers.
  - Jordan has the highest percentage of migrant workers.
- 

Li & Fung is acting upon this data by taking a stronger focus on combatting gender discrimination and gender-based violence & harassment in high-risk regions such as South Asia (see Section 5 on Partnerships and our latest ESG Report for details). In addition, we continue to provide training to suppliers on how to ensure responsible recruitment, focusing on countries with a higher percentage of foreign migrant workers (see Section 4B on Supplier Training for details). We continue to engage closely with industry partners such as the ILO Better Work Program to address systemic issues, including the high usage of contract workers in Jordan and Indonesia.

## **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) was established in 2001 and is chaired by the Group Chairman. Its written terms of reference include offering recommendations to the Board on the company's risk management and internal control systems and reviewing practices and strategies on corporate responsibility and sustainability.

In 2023, the RMSC met twice and discussed topics relevant to modern slavery, including ESG Governance, corporate reporting and upcoming changes to the legal and regulatory landscape that may impact Li & Fung, its customers or suppliers. The discussions led to the establishment of an ESG Committee, which reports to the RMSC to include greater ESG oversight and clear roles and responsibilities for the ESG Committee, and provide recommendations on how the company can better prepare and equip itself to meet upcoming legislation. In addition, the RMSC approved Li & Fung's 2022 ESG Report, which was prepared in accordance with the Hong Kong Stock Exchange's reporting requirements and partially aligned with GRI Reporting Standards, included a refreshed materiality assessment, progress reports and case studies, including those covering the company's efforts to assess and address modern slavery.

The Vendor Compliance and Sustainability (VCS) 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 44 colleagues based in over 13 markets across the globe, from 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 have been instrumental in devising and implementing new guidelines on responsible recruitment that will be rolled out to all labor recruiters used by the company in 2024.

## **B. Company policies & commitments**

The company has publicly demonstrated its commitment to addressing modern slavery and human trafficking in our supply chains and in all parts of our business. These commitments are incorporated into our policies and implemented through our management approach. We ensure our policies are easily accessible, updated regularly, and communicated to staff and suppliers.

In 2023, our Supplier Code of Conduct (Supplier Code) was updated to include four main sections on Workplace Safety & Health, Fundamental Rights, Environmental Performance and Governance Systems. Key changes include more stringent requirements on Supply Chain Mapping, Supplier Due Diligence and Grievance Mechanisms.<sup>3</sup>

The update added new requirements for suppliers to ensure workers receive a timely refund of fees and costs paid to obtain or maintain their job; stronger wording around due diligence over recruitment and employment agencies; and more stringent policies around low performing suppliers, ensuring sustainable improvement over time.



The updated Supplier Code also cross-references other key policies on forced labor and child labor including:

### **Code of Conduct & Business Ethics**

- Certification Letter for Global Trade Regulations Compliance
- Child Labor Policy<sup>4</sup>
- Combatting Forced Labor Policy<sup>5</sup>
- Responsible Recruitment Policy<sup>6</sup>

---

<sup>3</sup> The Supplier Code is available at [www.lifung.com/Li-Fung-Supplier-Code-of-Conduct.pdf](http://www.lifung.com/Li-Fung-Supplier-Code-of-Conduct.pdf)

<sup>4</sup> Child Labor Policy is available at [www.lifung.com/Li-Fung-Child-Labor-Policy.pdf](http://www.lifung.com/Li-Fung-Child-Labor-Policy.pdf)

<sup>5</sup> Forced Labor Policy is available at [www.lifung.com/Li-Fung-Combatting-Forced-Labor-Policy.pdf](http://www.lifung.com/Li-Fung-Combatting-Forced-Labor-Policy.pdf)

<sup>6</sup> Responsible Recruitment Policy is available at [www.lifung.com/Li-Fung-Responsible-Recruitment-Policy.pdf](http://www.lifung.com/Li-Fung-Responsible-Recruitment-Policy.pdf)

A director of each supplier must sign the above policies on the company's Total Sourcing Platform as a condition for doing business with Li & Fung. In 2023, four policies (Supplier Code of Conduct, Responsible Recruitment Policy, Certification Letter for Global Trade Regulations Compliance and the Child Labor Policy) were updated or rolled out on the Total Sourcing Platform. To date, 3,727 of 4,380 factories have signed the four policies, representing 85% of the total with the remainder being required to sign in 2024.

To support supplier understanding of the policies, suppliers are required to complete mandatory e-learning training. For details on training completion rates, please see Section 4B on Supplier Training.

A detailed list of all key policies that aim to address the risk of forced labor in our operations and supply chain is provided below. The table also outlines these policies' contents, communication and awareness-methods.

Name	Description	Languages	Training & Communication
<b>Code of Conduct &amp; Business Ethics (The Code)</b>	Applies to all employees, officers, and directors of the company. The Code requires all employees to work with suppliers to ensure human and labor rights are upheld throughout the supply chain.	English Chinese	All new employees learn about the Code during orientation, supported by additional training. Policies and training are implemented with new business acquisition, recruitment, training, performance assessment, and disciplinary and grievance processes.
<b>Supplier Code of Conduct (Supplier Code)</b>	The Supplier Code contains the following provisions against Forced Labor: <ul style="list-style-type: none"> <li>• Responsible sourcing</li> <li>• Responsible recruitment</li> <li>• Responsible wages, benefits, working hours and termination practices</li> <li>• Responsible living &amp; working conditions</li> <li>• Prohibition of prison labor and state-imposed forced labor</li> <li>• Functioning grievance mechanism</li> </ul>	Full: English Short: Bengali, Chinese, English, Hindi, Indonesian, Kannada, Khmer, Korean, Spanish, Tamil, Thai, Turkish, Vietnamese	In October 2023 Li & Fung launched its updated Supplier Code.
<b>Combating Forced Labor Policy</b>	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.	English	This policy was sent out to all suppliers in June 2022.



<b>Responsible Recruitment Policy</b>	<p>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.</p> <p>The updated policy requires that workers:</p> <ul style="list-style-type: none"> <li>• Do not pay for their jobs;</li> <li>• Retain control of their travel documents and have full freedom of movement;</li> <li>• Are informed of the basic terms of their employment before joining the workforce;</li> <li>• Receive a timely refund of any fees and costs paid to obtain or maintain their job.</li> </ul>	English	<p>In October 2023, Li &amp; Fung launched its updated Responsible Recruitment Policy.</p> <p>The policy was also extended to cover Li &amp; Fung’s own operations, starting with training of staff in the human resources team. In 2024, the policy will be communicated and rolled out to all recruitment and labor agencies used by the company.</p>
<b>Certification Letter for Compliance with Global Trade Regulations</b>	<p>This policy highlights to suppliers, 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 &amp; Fung and/or our customers upon request.</p> <p>This includes a requirement to put in place appropriate policies and procedures and to conduct due diligence to identify any business connections to sanctioned entities, and to detect and prevent forced labor.</p>	English	<p>This letter was sent to all suppliers in June 2022.</p> <p>To help staff and suppliers know how to implement this policy, Li &amp; Fung provided awareness and capacity building on transparency and traceability in key countries/regions. Please see Section 3A on Identifying and Assessing Adverse Risks and Impacts for details.</p>
<b>Child Labor Policy</b>	<p>This policy complements the requirements on underage labor set out in the Supplier Code. The policy provides a comprehensive approach to preventing child labor in the supply chain, supporting suppliers to implement corrective action plans if child labor is identified, protecting children from hazardous work and working with key stakeholders to promote education and sustainable solutions to address the root causes of child labor.</p>	English	<p>To help staff and suppliers learn how to implement this policy, Li &amp; Fung provided e-learning training and in-person training in partnership with The Centre for Child Rights &amp; Business (see Section 4 on Training and Section 5 on Partnerships for details).</p>

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. We undertake a comprehensive risk assessment annually, 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

As a sector heavily reliant on human resources, the apparel industry’s potential for human harms is enormous. The issues listed below are some of the known risks in the apparel & footwear sector reported by *Know the Chain*.<sup>7</sup>

- Precarious employment and a lack of a social safety net
- Growing restrictions on workers’ rights
- Exploitation of workers in vulnerable positions

Li & Fung understands the importance of these risks and takes preventative actions to reduce the risk of harm. The company also commits to taking mitigation and remedial actions if issues are ever identified in the company’s operations or supply chain.

ii. Country/region risks

Through data analytics, Li & Fung identifies and dissects likely forced labor risks at a country/region or sub-country level. According to the 2023 Global Slavery Index, the largest estimated number of people in modern slavery are found in key garment producing and importing countries — including India, China, Pakistan, Indonesia, Turkey, Bangladesh, and the United States.<sup>8</sup> This list broadly corresponds to Li & Fung’s risk assessment data – although we see additional risks in markets such as Thailand and Taiwan that employ a higher percentage of foreign migrant workers.

<sup>7</sup> Know the Chain, 2023 Apparel & Footwear Benchmark, available at <https://knowthechain.org/>

<sup>8</sup> Global Slavery Index 2023, available at [www.walkfree.org/global-slavery-index/](http://www.walkfree.org/global-slavery-index/)

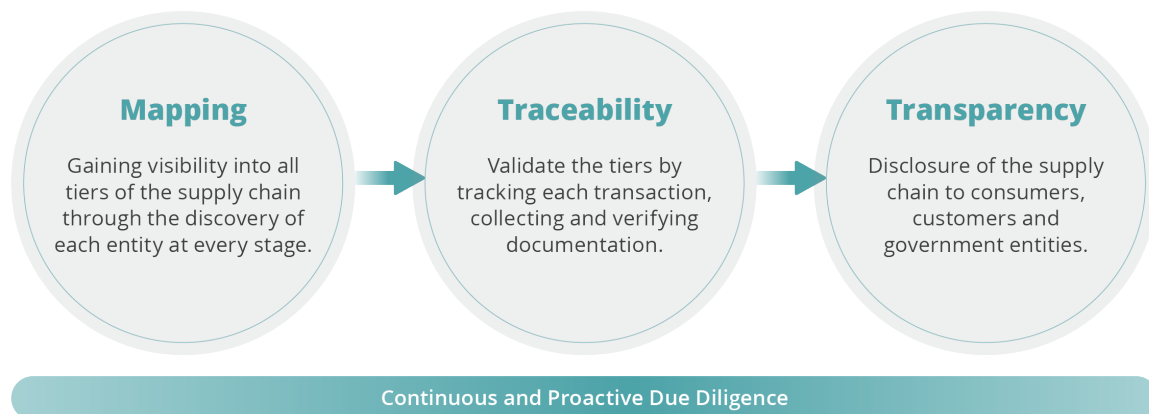
### iii. Salient product risks

The raw materials that are used in the products we help to source are both natural (cotton, wool and natural rubber etc.) and synthetic (rayon, nylon, polyester etc.). We identify product risk with guidance provided by the American Apparel and Footwear Association (AAFA), Mekong Club, Know the Chain and the Trafficking Victims Protection Reauthorization Act (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.

- Cotton
- Man-made cellulosics
- Polyester

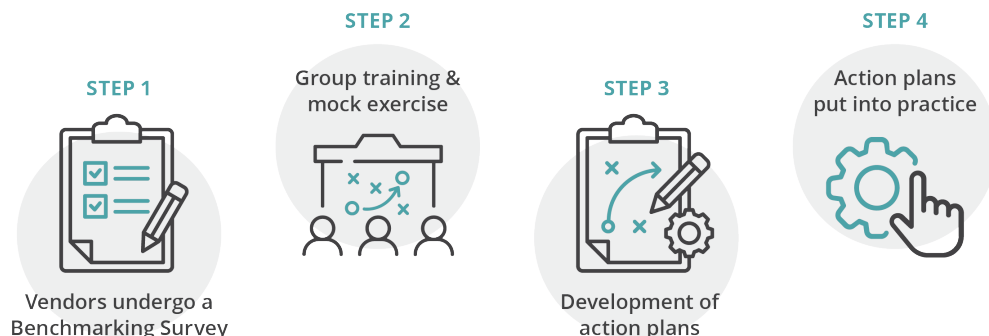
With new legislative requirements and the increased focus on supply chain transparency and traceability, Li & Fung requires suppliers to provide critical information related to a product's life cycle, and to provide specific documentation upon request. This includes conducting due diligence to identify all business connections in respect to sanctioned entities, and to put appropriate policies and procedures in place to better detect and prevent forced labor.

Yet achieving end-to-end traceability is extremely complex and requires a holistic approach, which includes three key steps:



Li & Fung formed a Traceability Working Group that included representation from senior management and different business units to help guide and plan the program activities and to ensure learnings from a pilot project were accurately captured. 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. The Traceability Working Group had 14 meetings in 2023 to discuss key internal and external issues, including the development of a traceability platform called T4S, transparency for supply chain. This platform was put into practice for a limited number of Purchase Orders in 2023 with further expansion planned in 2024.

Last year, Li & Fung reported that it kicked off several traceability projects. One project kicked off in mid-2022 with two trainings for suppliers and mills in China, Greater ASEAN, Bangladesh, and India. In 2023, the project was extended to cover Home Textile vendors. It includes four key steps:



As of December 2023, 34 vendors completed the training and at least 14 action plans have been received.

#### *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 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 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 2023, we had maintained long-term business relationships (six years or more) with just over half of the Tier 1 factories in our supply chain. We had business relationships of 1-5 years with almost 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 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 nine recognized social and/or environmental compliance standards bodies that meet our requirements as part of our audit “equivalency” program. This mutual recognition program has significantly 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 help identify any concerns.

In 2023, we conducted spot checks on high-risk parts of the supply chain. An entity may be considered high-risk owing to a variety of factors including its location, worker demographics, and compliance history. In total, there were 773 spot checks carried out in 12 countries/regions by the Li & Fung Compliance team and third parties, including 101 factories in the lower tiers. Li & Fung also worked with a third-party audit firm to audit 24 factories and 6 mills using a specialized forced labor audit program across seven high-risk markets.

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 Certification Letter for Global Trade Regulations Compliance 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 to 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*

Li & Fung uses new technology to identify, prevent, and monitor prioritized risk. In line with this approach, Li & Fung leverages several tools to manage the risk of forced labor more effectively. In 2023, Li & Fung subscribed to a new commercial risk intelligence provider, Sayari, that can help the company screen for various ESG risks, including forced labor. Sayari’s dataset is searchable by company or individual’s name and business license number, which allows Li & Fung to identify whether there are any connections with key risks such as the entity being linked to Withhold Release Orders or being named in CBP’s restricted entity list. The tool is currently being used to screen business partners on a quarterly basis and for newly onboarded factories. Depending on the severity of any identified risks, Li & Fung may take the decision not to engage with the concerned company and/or its subsidiaries.

#### *iginexAPPRISE (APPRISE)*

We also make sure to consult with potentially affected stakeholders when identifying impacts and defining mitigation measures. Potentially affected groups can be both internal (e.g. workers) and external (e.g. local communities, consumers). This is in line with a human rights’ due diligence approach, requiring us to pay specific attention to and engage affected groups, in particular the more vulnerable amongst them.



One example of this is our use of APPRISE, a worker voice tool that was originally developed by United Nations University (Macau) and the Mekong Club, and now run by diginex, a technology-services provider. APPRISE allows us to hear from workers directly to better understand their experiences on key topics such as responsible recruitment, forced labor and gender equality. All data is collected on an aggregate and anonymized basis to address risks of retribution or retaliation.

In 2023, we used APPRISE in three main ways. First, we deployed surveys as part of our recruitment due diligence process via LUMEN (see below section on LUMEN for details). Second, we rolled out the surveys as part of our regular spot-check process, targeting businesses that may be at a higher risk of labor exploitation because of their compliance history, location, business model or worker demographics. This includes using APPRISE as part of initial pre-visits to a facility or as a remediation follow-up visit. Third, we request factories outside of the audit cycle to undertake standalone surveys in which the factory will post the survey QR code for at least 3 months and encourage workers to take the survey through regular communication.

The most raised potential risks from APPRISE are related to withholding of identity documents, abuse of vulnerability, intimidation and threats, working and living conditions, 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. Since we started surveying workers through APPRISE in 2019, we have received 48,987 responses.



In 2023, Li & Fung used APPRISE in 13 key sourcing markets - Bangladesh, Cambodia, China, India, Indonesia, Philippines, Turkey, Vietnam, Taiwan, Thailand, Jordan, Macau, and Malaysia. A total of 29,422 responses were received from 947 factories.

In line with our commitment to responsible recruitment, Li & Fung uses LUMEN, a third-party platform, to map its labor supply chain and ensure stronger due diligence over the recruitment process. The platform includes a detailed review of recruitment and employment policies and processes for suppliers and labor recruiters, and an integration with the worker-voice tool, APPRISE, to hear directly from workers whether they have experienced any forced labor red flags. The data collected from these three parties is then triangulated to identify risk areas. Longer-term, the data from LUMEN also helps to measure effectiveness of our strategy and progress on key areas such as worker payment of recruitment fees and costs.

This work started on a pilot basis in 2022 and was expanded in 2023 to cover new sourcing markets. Li & Fung also learned from the pilot the importance of enhancing communication with participating factories, to share and explain findings more effectively, and to work with factories to develop an improvement plan.

In 2023, Li & Fung used LUMEN in 5 key sourcing markets – Jordan, Macau, Malaysia, Taiwan and Thailand. A total of 32 factories and 35 labor recruiters were monitored. As a result of our proactive screening, 160 workers across 3 factories were reimbursed a total of USD 51,848.

#### *Grievance channels*

Within our operations, we encourage our employees to report to senior management any actual or potentially illegal or unethical behavior or material violation of our Code of Conduct, including human rights violations and modern slavery concerns.

In late 2023, Li & Fung initiated the FaceUp platform, which facilitates reporting on key issues such as harassment, discrimination and safety risks, for employees in our own operations and workers in the supply chain.

In our own operations, the roll out of the FaceUp platform has been led by the Company CEO and the Human Resources team. The guidelines around how to report grievances through the FaceUp platform, along with the QR Code on how to access it was communicated to staff through an email as well as through One Family, the company's internal communication platform. In our supply chain, suppliers are asked to post the QR code and encourage workers to report any case of employee rights violation. The channel was also promoted by many Li & Fung customers to ensure a wider reach. As the FaceUp platform was only launched at the end of the year, no grievances were submitted in 2023 through FaceUp for either our own operations or in our supply chain.

Li & Fung employees can also report complaints or concerns anonymously to the Group Chief Compliance Officer. The Audit Committee of the Board retains overall responsibility for ensuring that employees can report concerns in confidence and without fear of recrimination or retaliation, for a fair and independent investigation and the appropriate follow-up action.

In our supply chain, we understand that grievance mechanisms are also essential for early detection and mitigation of forced labor risk. As such, we have been supporting our different industry partnerships to provide trusted grievance mechanisms for workers in our supply chain.

For example, Better Work Jordan (BWJ) has developed a reporting system between the trade union and the Ministry of Labor BWJ unit (BWJ Worker’s Voice Project). This reporting system is currently being used by all factories in Jordan having active business with Li & Fung.

In December 2023, BWJ also conducted a meeting together with the Arab Renaissance for Democracy and Development (ARDD) to facilitate stakeholder consultations around the development of a worker grievance mechanism. Although this work is still in its initial stages, it is an important development that we will follow closely. According to the 2023 annual report of Better Work Jordan, 22 percent of factories in Jordan lack effective grievance handling processes. In contrast, factories with established dialogue and grievance mechanisms are more adept at pre-emptively addressing worker concerns, thereby fostering a more productive and harmonious work environment.<sup>9</sup>

We are also working with amfori’s Supply Chain Grievance Mechanism, “Speak for Change”, which operates in Bangladesh, India, Turkey and Vietnam. The mechanism allows workers to submit anonymous complaints through one of three different channels (telephone, website or app). No grievances were received through this channel in 2023.

In addition, we receive grievances from country-specific hotlines such as the Amader Kotha Helpline in Bangladesh and from trade unions (e.g. the Akota Garment Workers Federation and the National Garments Worker Federation). In 2023, 9 grievances were received via these channels that involved active factories covering several topics such as fire and building safety, harassment and abuse, freedom of association, payment of wages and benefits. There were no confirmed cases of forced labor that came through these channels.

### ***C. Steps the company has taken to address and remedy modern slavery, and the effectiveness of actions***

In 2023, there were two confirmed cases of forced labor in our supply chain. The first case was at an apparel factory in Indonesia and involved one strong indicator of involuntariness (forced overtime without payment) and at least two indicators of penalty (threats and verbal abuse). This case was remediated by Better Work Indonesia and the Central Java Manpower and Transmigration Agency, and the affected workers were paid back wages owed for the overtime.

The second case was at an apparel factory in the Philippines and involved one strong indicator of involuntariness (forced overtime) and one indicator of penalty (restrictions on freedom of movement). The case has undergone remediation by a qualified third-party and workers are now free to leave the facility without restriction.

In addition to the above cases, there were several instances of worker payment of recruitment fees and costs identified by Li & Fung or its partners in 2023. The below table summarizes the cases and the amounts that were repaid.

---

<sup>9</sup> <https://betterwork.org/stakeholders-collaborate-on-draft-grievance-mechanism-in-jordans-garment-sector/>

Market	Type of Payment	Total Amount (USD)	Status of Repayment
Macau, SAR	Recruitment Fee (labor agency)	\$51,500	Partial repayment with outstanding balance to be paid in 2024
Philippines	Costs (medical)	\$51	Completed
Taiwan	Recruitment Fee	\$5,194	Partial repayment with outstanding balance to be paid in 2024
Thailand	Costs (medical)	\$192	Completed
Thailand	Recruitment fees and costs (transportation and administrative)	\$1,148	Investigation ongoing

Li & Fung has a remediation program to continuously improve performance in our supply chain. When non-compliance with our Supplier Code of Conduct 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 and Business). 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.

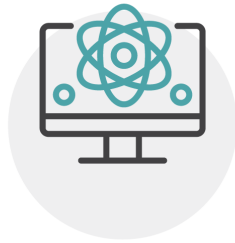
In practice, remediating cases of forced labor is challenging given the severity of the issue, the time needed for sustainable improvement, and the need to balance the consequences arising from termination of any supplier business and remediation needs (which may require continuous factory support). 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](#) and responding to indicators of forced labor.

## 4. Training

### A. Staff training

Li & Fung proactively and regularly provides training for its staff on responsible sourcing and human rights to raise awareness on key issues. At present, staff are required to take six mandatory e-learning trainings as part of their employment with the company, including two related to forced labor and child labor. The overall completion rate is 80%, with efforts to maximize training completion rates continuing into 2024.

#### Mandatory e-learning topics



- Child Labor Remediation
- Recognizing Forced Labor
- Supplier Code of Conduct
- Code of Conduct & Business Ethics
- Code of Conduct & Business Ethics (Refresher)
- Anti-Harassment & Anti-Discrimination

In addition to the e-learning trainings, Li & Fung's VCS Team held three blended learning (in-person and online) trainings for 150 Managers operating in Hard Goods lines in China. This training used case studies and provided practical tips on the Supplier Code and the Code of Conduct & Business Ethics, focussing on child labor and unauthorized subcontracting. An additional training was held with 291 merchandisers covering the Greater ASEAN region on Code of Conduct & Business Ethics.

### B. Supplier training

#### Webinar and In-Person Training

In 2023, Li & Fung's VCS Team helped foster greater supplier awareness on forced labor and child labor through e-learning, webinars and in-person training. In total, VCS conducted 127 training sessions in 11 markets<sup>10</sup> for 8,916 participants and 5,562 suppliers on key human rights issues. According to a virtual survey deployed after the training, 92% provided a feedback score above 8 out of 10 stating the training was helpful to their role in compliance.

**Table 1:** VCS Provided Supplier Training

Training Topic	Mode	# of Participants	# of suppliers	# of Sessions
Supplier COC	Webinar	1,497	1,179	56
Labor practices	Webinar	3,003	2,076	26
Health & Safety	Webinar	1,958	1,152	17
CTPAT	In-person	17	1	1
Traceability	Webinar and in-person	553	218	6

<sup>10</sup> Bangladesh, Cambodia, China, Hong Kong, India, Indonesia, Korea, Taiwan, Thailand, Turkey and Vietnam



Other	Webinar and in-person	1,888	936	21
Total		<b>8,916</b>	<b>5,562</b>	<b>127</b>

As part of the Labor Practices training outlined above, the VCS Team provided 11 sessions of Responsible Recruitment training to 915 participants from 558 factories from Bangladesh, Cambodia, China, Jordan, Malaysia, India, Indonesia, Pakistan, Taiwan, Thailand, and Vietnam.

### *Mandatory E-Learning*

Suppliers were also required to undertake mandatory e-learning on Li & Fung's Total Sourcing Platform as part of their acceptance of the Updated Supplier Code of Conduct, Child Labor Policy and Updated Responsible Recruitment Policy. In total, 85% or 3,727 suppliers completed the training.

Li & Fung's industry partners, such as the ILO-IFC Better Work Programme, amfori, BV and others provided additional training for suppliers on key areas such as labor practices and Health & Safety. Better Work also provided four sessions of training on the building of effective grievance mechanisms for five suppliers with a total of 20 participants.

**Table 2:** Supplier Trainings by Industry Partners

Training Topic	# of Participants	# of suppliers	# of Sessions
Labor practices	593	255	80
Health & Safety	478	292	67
Other	372	164	93
Total	1,443	711	240

## **5. 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, The Centre for Child Rights and Business, American Apparel and Footwear Association (AAFA) and the ILO-IFC Better Work Programme.

### *American Apparel and Footwear Association (AAFA)*

Li & Fung is a member of the American Apparel & Footwear Association (AAFA), which represents more than 1,000 famous brands, retailers, and manufacturers. The company engages with two Committees on the topic of forced labor: the Social Responsibility Committee and the Forced Labor Working Group.

In March 2023, the AAFA and the Fair Labor Association re-launched The Commitment to Responsible Recruitment - an enhanced, proactive industry effort to address potential forced labor risks for migrant

workers in the global supply chain. Li & Fung is a signatory to the revised Commitment, which requires the company to work with our global supply chain partners to create conditions so that:

- No workers pay for their job;
- Workers receive a timely refund of fees and costs paid to obtain or maintain their job;
- 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 of origin.

It also requires signatories to incorporate the Commitment to Responsible Recruitment into their company social compliance standards as well as to periodically report on what actions have been undertaken to implement it. Li & Fung updated its Responsible Recruitment policy to be in line with the updated Commitment.

#### *ILO-IFC Better Work Programme*



We engage closely with Better Work, a partnership between the ILO and the International Finance Corporation (IFC), to support improved social impact in our supply chain. Better Work offers a comprehensive program for its member factories that includes an in-depth social compliance assessment with regular advisory services to support the sustainable improvement of key findings. Better Work's program engages closely with workers throughout its assessment and advisory process. A total of 230 factories in our supply chain engaged with the Better Work program in 2023.

Through the Better Work Programme, we are working on areas critical to the prevention of forced labor risks, including the development of effective grievance mechanisms (see Section 3B on Risk Monitoring & Mitigation for details) as well as the promotion of gender equality. For example, in Bangladesh, women are still under-represented in management positions, making up 53% of the workforce but only 9% of management. ILO and IFC run the Gender Equality and Returns (GEAR) program to advance gender equality and productivity within the ready-made garment (RMG) industry. GEAR provides women with the skills and expertise they need to thrive in supervisory roles and to contribute to higher levels of productivity. Through capacity building sessions focused on technical and soft skills, women can develop leadership capabilities that enable them to effectively lead and manage the workforce. In Li & Fung's supply chain, 32 workers from 5 factories participated in the program and 19 workers were promoted to supervisors in 2023.

#### *The Centre for Child Rights and Business*

Li & Fung also continued to work with the Centre for Child Rights and Business to ensure respect for Child Rights and eliminate child labor in global supply chains. As a member of The Centre's Business Working Group, Li & Fung works with other members companies to discuss and identify common challenges, share resources, and implement best practices regarding children, young persons and working migrant parents in the industry. In 2023, Li & Fung worked closely with the Centre to develop a new Child Labor Policy (see Section 2 on Policies for details). Li & Fung also scored in the level of Achiever on the 2023 Global Child Rights Benchmarking. The result is higher than the sector, region, and average companies score on children's rights protection and its positive impact on children's lives. We are proud of this achievement and commit to improving this score in the next benchmark.

We also reported that in 2022 that Li & Fung had partnered with the Centre for Child Rights and Business (The Centre) on a Child Labor Due Diligence Project that includes both a Child Labor Rapid Risk Assessment and Child Labor Prevention and Remediation (CLPR) Training. The project has yielded the following results:

<p><b>Child Labor Rapid Risk Assessment</b></p> 	<ul style="list-style-type: none"> <li>• 30 factories</li> <li>• 1,409 informants (workers &amp; management)</li> <li>• 30 sets of corrective action plans</li> </ul>
<p><b>Child Labor Prevention and Remediation Training</b></p> 	<ul style="list-style-type: none"> <li>• 1,409 informants (workers &amp; management)</li> <li>• 30 sets of corrective action plans</li> <li>• 176 participants</li> <li>• 6 rounds of intensive, all-day CLPR training</li> <li>• 4 countries (Bangladesh, Cambodia, China, and India)</li> </ul>

Following the training 99% of participants agreed that the training helped change how they think and handle child labor related issues and 96% of participants agreed that the measures discussed were helpful for them to tackle child labor-related issues.

### *The Mekong Club*

In 2023, Li & Fung remained an active participant in the Mekong Club's Manufacturing & Retail Working group meetings, where companies share best practices, discuss the challenges facing their operations and industry and contribute to the Mekong Club's tool & resource development. The Working Group worked to develop a Toolkit to help suppliers to develop more robust strategies to tackle modern slavery and improve human rights outcomes. In 2023, the Mekong Club launched four tools for suppliers to identify and mitigate risks of forced labor. These tools are the Forced Labor Indicators Guide; the Guide to Transparency Legislation; a Self-Assessment Questionnaire on Forced Labor Indicators and a linked FAQ Forum. Most tools are available in Bengali, Hindi, Malay, Mandarin, Thai, Vietnamese and English. Li & Fung is in the process of reviewing these tools for potential integration into the supply chain due diligence process, particularly to facilitate supplier capacity building. The Mekong Club also reviewed the labor section of our updated Supplier Code of Conduct. Furthermore, they presented on Human Rights Due Diligence Legislation to management level of Li & Fung attended by 93 participants.

## 6. Effectiveness, measured against appropriate KPIs

### A. Progress against the 2023 key performance indicators (KPIs)

Goal	Indicator	Target	Achieved
Objective 1: Enhance governance of modern slavery issues			
<b>Development, rollout and strengthening of the Responsible Recruitment Policy</b>	# of suppliers signing policy	Update policy to apply to internal Human Resources and to reflect new AAFA commitment wording.	3,727 of 4,380 factories have signed the updated Responsible Recruitment Policy, representing 85% of the total.  Policy is updated to align with the refreshed AAFA Pledge and to apply to internal Human Resources.
<b>Updated Li &amp; Fung Supplier Code of Conduct modern slavery</b>	# of suppliers accepted LF Supplier Code of Conduct	Update and strengthen the code	3,727 of 4,380 factories have signed the updated Supplier Code, representing 85% of the total.  Supplier Code updated to strengthen provisions around forced labor and related areas such as the provision of grievance and remedy.
Objective 2: Strengthen risk assessment and due diligence in the supply chain around modern slavery issues			
<b>Increase the quality &amp; scope of risk assessment and data collection using new technology</b>	# of countries/regions covered by programs to monitor responsible recruitment	Update policy to apply to internal Human Resources and to reflect new AAFA commitment wording.	5 countries  Policy is updated to align with the refreshed AAFA Pledge and adopted by internal Human Resources.
	# of factories and agencies monitored	20 factories and their recruitment agencies	32 factories and 35 agencies monitored
<b>Strengthened voices of workers</b>	# of high-risk factories in high-risk countries/regions covered by APPRISE	200 factories	947 factories
	Quality of data collected	Deployment of recruitment survey to all key "migrant" markets	Recruitment survey deployed to all key migrant markets (Jordan, Macau, Malaysia, Taiwan and Thailand).

<b>Undertake unannounced spot-checks by qualified third parties in high-risk countries/regions</b>	# of third-party spot checks per high-risk countries/regions covered	30 spot checks in 6 markets	30 third-party audits focussing on forced labor in 7 high-risk markets (6 in the lower tiers). 773 internal and third-party spot checks in 12 countries with (101 lower tier)
Objective 3. Suppliers are educated on how to prevent and mitigate modern slavery issues			
<b>Roll out modern slavery e-training and virtual training for all core suppliers in high-risk countries / regions</b>	% of factory completion rate per participated countries/regions	100% completion for all core factories in 5 countries/regions (Bangladesh, China, Malaysia, Taiwan, and Thailand)	454/488 or 93% have completed e-learning or virtual training on forced labor

## 2024 Goals

Goal	Indicator	Target
Objective 1. Enhance governance of modern slavery issues		
<b>Development and rollout of a new policy on Responsible Exit policy and Guidelines to Remediate Recruitment-Related Violations</b>	# of suppliers signing each Policy and set of Guidelines	Roll out Policy and Guidelines to 100% suppliers and factories.
Objective 2. Strengthen risk assessment and due diligence in the supply chain around modern slavery issues		
<b>Increase the quality &amp; scope of risk assessment and data collection using technology</b>	# of factories and agencies in high-risk markets covered by programs to monitor recruitment practices	100% of active factories and their recruitment agencies in Jordan, Macau, Malaysia, Taiwan, Thailand,
<b>Suppliers have enhanced recruitment due diligence</b>	# of factories implementing responsible recruitment	100% factories employing foreign migrant workers and its licensed agencies have a no fee charging policy
<b>Strengthened voices of workers</b>	# of high-risk factories in high-risk countries/regions covered by APPRISE	100% of high-risk factories that are selected by spot check are also covered by APPRISE
	Enhanced effectiveness of workers voice tool to identify forced labor violations	Upgrade Conditions of Work survey questions by including more questions and edit translation for better understanding



<b>Proactively identify all instances of forced labor in the supply chain through unannounced spot-checks of qualified third parties or Li &amp; Fung</b>	# of third-party spot checks for high-risk factories in high-risk countries (inc. those identified via our annual risk assessments, LUMEN or APPRISE)	30 of high-risk factories in high-risk countries
<b>Objective 3. Suppliers are educated on how to prevent and mitigate modern slavery issues</b>		
<b>Improved awareness on modern slavery and forced labor for all core suppliers in high-risk countries / regions</b>	% of factory completion rate per participated countries/regions	100% completion all core factories trained in 6 countries/regions (Bangladesh, China, Malaysia, Taiwan, Thailand, and India)
<b>Educate LF suppliers on the existence and importance of grievance mechanisms and channels for all core suppliers</b>	% of factory completion rate per participated countries/regions	100% completion for all core factories in 6 countries/regions (Bangladesh, China, Malaysia, Taiwan, Thailand, and India)
<b>Objective 4. Enhancing responsible recruitment in LF operations</b>		
<b>Improved adherence to international and national norms on Responsible Recruitment in our own operations</b>	% of all recruitment agencies that sign the Responsible Recruitment Policy	100% recruitment agencies sign the policy and start to implement it in their own operations
<b>Li &amp; Fung's Vendor Compliance and Sustainability Team with improved capability on identification of forced labor risks</b>	% of Vendor Compliance team trained	100% vendor compliance team trained