Disclosure statement on modern slavery
Cobalt Fashion Holding Limited
Introduction

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.\(^1\)

Those figures are expected to rise dramatically owing to the impact of the Coronavirus pandemic, which has 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 may 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.

Against this backdrop, it is likely that many more workers will find themselves trapped in situations of modern slavery. This is especially true in economies where work is scarce or wages low; workers may be forced into situations of exploitation or coercion. There have also been serious allegations made in connection to State Imposed Forced Labor (SIFL). This includes forced labor extracted by the military, compulsory participation in public works and forced unpaid or low-paid work in internment work camps or semi or fully privatized prisons.

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\(^1\) 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.
In the global knitwear industry, there is a risk of being associated with this form of forced labor, especially in lower tiers of the supply chain where traceability and due diligence become more challenging. Given the complexity and pervasiveness of this issue, the successful abolition of all forms of modern slavery requires coordinated action between a range of actors, including governments, civil society, international organizations and the private sector.

The Sustainable Development Goals (SDGs) were adopted in 2015 and include specific targets focused on the eradication of modern slavery and child labor. The SDGs, and in particular targets 5.2, 8.7 and 10.7, represent an opportunity for Cobalt to work in partnership with other key stakeholders, towards the shared objective of tackling complex and pervasive forms of modern slavery; to this end we are working to collaboratively enhance the due diligence efforts of our industry, ensuring effective identification and resolution to any modern slavery risks and to encourage a stronger labor market, enhanced migration governance and ultimately to put a stop to the supply and demand for modern slavery in the countries where we operate.

This is Cobalt’s first Modern Slavery Statement, published in accordance with Section 54 of the UK Modern Slavery Act (2015). The statement is fully supported and approved by our Board of Directors and signed by the Company CEO, Wai Ping Leung. 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. It covers activities undertaken during our financial reporting year from March 2019 – March 2020 and outlines future commitments.

1. Cobalt Fashion Holding Limited: structure, business and supply chains

1.1 Business Structure

Cobalt Fashion Holding Limited (Cobalt), a Hong Kong-headquartered private company, is at the forefront of the global knitwear industry, working as the go-to source for global retailers and brands. Cobalt was initially formed as a joint venture between Li & Fung (SEHK: 00494) and South Ocean Knitters Holdings Limited in October 2017. In 2018, Li & Fung completed a strategic divestment of Cobalt, which is now 55% owned by the Fung Group and 45% owned by Hony Capital.

2 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.
Cobalt is made up of four distinctive knitwear teams: Brilliant Global, Fenix Fashion Limited, Ralsey Group and South Ocean Knitwear Limited. With 676 people in 7 offices, the Cobalt team comprises product specialists who create trend-driven knitwear by utilizing an extensive knowledge of yarn, experienced technical and manufacturing know-how; leveraging market intelligence and competitive sourcing capabilities.

Cobalt uses the latest in digital technology and work processes to constantly redefine the knitwear industry and is focused on digitalizing our global supply chain to create an end-to-end stream of synchronized supply chain data, that will enable improved speed, cost, working capital, inventory, and improved sustainability and traceability for all partners in our ecosystem.

1.2 Supply Chain

Key Figures: Tier-1

Our diverse range of capabilities enables us to serve customers across a wide spectrum of segments and geographies. Together we strategize and innovate, design and make, envision and execute from a network of 77 suppliers in 5 production countries, to customers globally.³

Table 1: Worker Demographics in the Supply Chain (Tier-1)

<table>
<thead>
<tr>
<th>Workers</th>
<th>Management</th>
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</thead>
<tbody>
<tr>
<td>• 55% of workers are female</td>
<td>• 26% of management are female</td>
</tr>
<tr>
<td>• 45% of workers are male</td>
<td>• 74% of management are male</td>
</tr>
<tr>
<td>There are more female than</td>
<td>Women are underrepresented in management positions particularly in South Asian countries</td>
</tr>
<tr>
<td>male workers</td>
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</table>

³ Cobalt sourced from a total of 132 facilities during this reporting year, however through a strategic sourcing program aimed at streamlining and reducing total number of suppliers used, we are now only working with the 77 facilities mentioned in this report.
100% of Cobalt’s tier-1, finished product manufacturing facilities are mapped and approved according to our minimum onboarding standards. In addition, we have been increasingly collating data on suppliers further down our value chain in response to increased business and customer need. This includes mapping tier-2 facilities (such as laundries, printers and suppliers of branded fabrics and compartments) and tier-3 facilities (such as non-branded compartment and yarn suppliers) and auditing these sites when requested to do so by our customers.

As visibility below tier-1 is becoming increasingly important to both us and our stakeholders for effective supply chain due diligence, we will continue further mapping our supply chains for improved end-to-end traceability, including by sourcing an increased amount of certified raw materials.

1.3 Governance Structure
Engagement of senior leadership across the company is crucial to drive effective corporate responses and policies to end modern slavery. At Cobalt, several different departments contribute to the company’s efforts to end modern slavery, with overall leadership from the company’s Chief Operations Officer (COO).

Cobalt’s Vendor Compliance & Sustainability team is responsible for overseeing our vendor compliance operations and working with key stakeholders to strengthen compliance and sustainability performance – including overseeing risk assessments and due diligence measures to end modern slavery.

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.

Cobalt’s Governance Committee, which includes representation from the COO, the Cobalt Vendor Compliance & Sustainability team and the Fung Group, meet quarterly to review progress on the modern slavery strategy and policy implementation, supply chain critical issue findings and factory improvement.

2. Policies in relation to slavery and human trafficking

2.1 Corporate Policies
Cobalt’s Code of Conduct and Business Ethics (the Code) requires all employees to embed in business operations the ten principles of the UN Global Compact and the principles contained in the International Labor Organization’s Declaration on Fundamental Principles and Rights at Work, including the elimination of forced labor. All new employees learn about the Code during orientation, supported by additional training during their employment in the form of e-learning.

Policies and guidelines for addressing the Code are implemented in the acquisition of new business and through our ongoing recruitment, training, performance assessment, disciplinary and grievance processes. The Code also requires all employees to work with suppliers to ensure human and labor rights are upheld throughout the supply chain, including the elimination of forced labor.

2.2 Supplier Policies
Cobalt’s principal means for addressing modern slavery in the supply chain is the Supplier Code of Conduct (the Supplier Code). The Supplier Code, accessible via Cobalt’s corporate website and available in multiple languages, is built upon key international standards, including the International Labour Organization (ILO)’s 1998 Declaration on Fundamental Principles and Rights at Work.
(including the Supplementary Protocol to C. 29), and local law. The Supplier Code incorporates guidelines on social, environmental and security standards as well as practical resources for implementing standards within factory operations and recommendations for best practice. All forms of modern slavery and child labor are considered zero-tolerance issues which require full remediation and may result in termination of business.

The Supplier Code is updated every three years, with the latest update completed in December 2019. The updates incorporate emerging requirements, including strengthened standards related to safe workplaces, labor, human rights and environmental resilience. New provisions were also added in line with the adoption of ILO General Principles and Operational Guidelines for Fair Recruitment and Convention No. 190 and Recommendation No. 206 on combatting violence and harassment at work.

To introduce the updated Supplier Code, 15 facilities in Bangladesh (89%) attended training sessions in 2019, with more training for both suppliers and colleagues planned in key countries for 2020; including the development and deployment of an e-learning program. The e-learning highlights all key changes to the Supplier Code, their potential impact and requirements for adherence to the updated Supplier Code.

We require an understanding of, and compliance with, the Supplier Code as a minimum condition of doing business with Cobalt. Each supplier must therefore sign a copy and participate in the onboarding process before production may begin. Suppliers must sign their commitment to the obligations under the updated Supplier Code before the deadline of 31 May 2020 to continue business with Cobalt. As of March 2020, 48% of the factories in our supply chain have signed the updated Supplier Code.

Cobalt’s Supplier Code prohibits the employment of children younger than 15 years of age, or younger than the age of completion of compulsory education, or legal employment age of the relevant country, depending on which is higher. The Supplier Code also prohibits the Worst Forms of Child Labor as defined by the ILO Convention No. 182. In 2018, a specialized Standard Operating Procedure (SOP) was developed to improve and standardize internal processes for identifying and remediating cases of child labor.

2.3 Responsible Recruitment Policies

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 his or her 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.\(^4\) Costs go to multiple intermediaries, which are typically not regulated by local authorities.

\(^4\) Destination country refers to the country where the migrant worker secures employment.
Workers who fall into debt may become trapped in abusive working conditions with little 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.”

**In line with those commitments, Cobalt is drafting a Policy to ensure Responsible Recruitment is implemented across our Company and in our supply chain. The Responsible Recruitment Policy (RRP) for Cobalt and its supply chain, was externally reviewed by the Mekong Club and will be launched in 2020.**

### 2.4 Key Highlights – Cobalt 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.

### 3. Risk assessment, prevention and mitigation

Rigorous factory onboarding is a crucial step in mitigating the risk of modern slavery. We provide onboarding training to new factories and our own business units to ensure they understand key principles in the Supplier Code and the consequences of non-compliance.

To date, no cases of modern slavery have been identified in Cobalt’s business or supply chains, however we understand that non-identification of cases does not equate to low risk. We acknowledge that there are modern slavery risks that exist in the sectors and markets where we operate. The challenge is to proactively identify and dissect modern slavery risks at various levels (country, region, product, facility, worker) so they can be effectively mitigated or otherwise 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. In 2019 our risk assessment included the following key sources of information:

- Mekong Club’s Risk Assessment Matrix, Quarterly Working Group and Knowledge Hub
- Centre for Child Rights and Corporate Social Responsibility’s (CCR CSR) Quarterly Working Group
- US Department of Labor’s List of Goods Produced by Child Labor or Forced Labor
- ILO Global Estimates on Modern Slavery
- Walk Free Foundation 2018 Global Slavery Index
- Foreign Migrant Worker Risk Assessment Tools
- Business and Human Rights Resource Centre – COVID-19 Outbreak: Supply Chain Workers

### 3.1 Map of the Apparel Supply Chain Highlighting Key Modern Slavery Risks, Prevention and Mitigation Measures

<table>
<thead>
<tr>
<th>Tier 1: Product + Finishing</th>
<th>Salient risks in tier 1 include:</th>
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<tbody>
<tr>
<td></td>
<td>• Non-payment of minimum wages</td>
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<td></td>
<td>• Payment of recruitment fees and other forms of debt-bondage</td>
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<td></td>
<td>• Violence in the workplace</td>
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<td></td>
<td>• Limitations on freedom of movement</td>
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<td></td>
<td>• Forced overtime</td>
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<td></td>
<td>• Contract substitution</td>
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<td></td>
<td>• Document retention</td>
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<tr>
<td></td>
<td>• Exploitation and/or discrimination of migrant workers and other ethnic minorities</td>
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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.

<table>
<thead>
<tr>
<th>Tier 2: Textile Manufacturing - spinning, weaving, dyeing</th>
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<tbody>
<tr>
<td>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. The other issues listed above in tier 1 factories also remain a concern.</td>
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<tr>
<td>As many spinning mills are still labor intensive – young women or migrant workers may experience delayed-payment schemes and/or limited freedom of movement.</td>
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<tr>
<td>We are starting to build stronger relationships with wet processing units (dying houses) and spinning mills including under-taking environmental and social assessments.</td>
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<table>
<thead>
<tr>
<th>Raw Materials and Processing</th>
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<tr>
<td>Traceability to the raw material level is difficult as both the cotton and polyester supply chains are highly fragmented and opaque.</td>
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<tr>
<td>While the Cobalt audit and remediation program does not extend to tier-3 suppliers, Cobalt is aiming to increase its percentage of bio and recycled materials. Certifications offer greater traceability at the raw material level and assurance on compliance with social and/or environmental standards.</td>
</tr>
<tr>
<td>• Under-age seasonal harvest work (cotton)</td>
</tr>
<tr>
<td>• Forced and trafficked labour, including that which is state imposed (cotton)</td>
</tr>
<tr>
<td>• Modern slavery risks in conflict regions as well as in transport (polyester)</td>
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</tbody>
</table>
3.2 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.\(^5\)

Below we have provided an example of regional and product Modern Slavery risks in two production countries as identified in the RAM tool. 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:** Garments and Cotton

**Indicators (from most to least prevalent):**
- Overtime issues
- Payment issues
- Contract issues
- Accommodation issues
- Child labor issues
- Migrant labor issues
- Deprivation of liberty

**Completed Actions:**
- Unannounced spot checks in factories to detect forced labor
- Engaged suppliers through ETI’s “Ethical Recruitment as Prevention of Involuntary Work” project
- Fung Group Modern Slavery training

**Bangladesh**

**High-Risk Products:** Garments and textiles

**Indicators (from most to least prevalent):**
- Overtime issues
- Payment issues
- Deprivation of liberty

**Completed Actions:**
- Unannounced spot checks in factories to detect forced labor
- Code of Conduct training attended by 15 facilities (89% completion rate)

4. Due diligence process

4.1 Auditing

\(^5\) Latest dataset is from March 2019

\(^6\) Products extracted from United States Department of Labor (USDOL) List of Goods Produced by Child and Forced Labor
Disclosure statement on modern slavery

Compliance with the Supplier Code is assessed by a designated third-party audit firm or through acceptance of audits from twelve recognized social compliance standards that meet our requirements, as part of our audit “Equivalency” program (EQ). This mutual recognition program has drastically reduced audit duplication and allows supplier resources to be reallocated to the sustainable improvement of critical issues. We also accept audit reports from our customer-specific programs. All our direct suppliers (tier-1) are audited according to a timeline, which varies according to their level of risk (higher-risk suppliers are audited more frequently). 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 audit firms who conduct our onsite audits to maximize the various strengths of each firm and to reduce the risk of corruption.

As part of our assurance program on factories audited against industry and customer standards, Cobalt 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. From April 2019 – March 2020, there were unannounced spot checks conducted in 29 factories from which Cobalt sourced.

This year Cobalt will be implementing a new system that can capture and store an increased amount of data on factories in our supply chain. Through this new system, factory approvals will be increasingly based on a full initial audit against the Cobalt Supplier Code, with reduced reliance on EQ and an end to approvals based only on customer-specific programs.

In addition to approval audits, Cobalt’s Vendor Compliance & Sustainability team conduct factory audits and pre-assessments to identify weakness, produce Corrective Action Plans (CAPs) and support the factory to make continuous improvements.

4.2 Partnering for Change

Modern slavery is a global challenge that requires the collaborative efforts of governments, civil society and business. Despite Cobalt’s expertise in supply chain management, we accept we cannot solve this problem alone. We believe that participating in partnerships that join key stakeholders in the fight against modern slavery, will lead to increased success in building the required leverage and impact to address the issue. To this end, Cobalt has recently joined the Mekong Club, a membership-based organization focused on working with companies that have an active passion for eradicating modern slavery. Through industry-specific networks and expert training, the club is a catalyst for change – engaging, inspiring and supporting the private sector to lead in the fight against modern slavery. As a member, we have joined the Mekong Club’s Apparel and Footwear Working Group, allowing us to leverage the organization’s expertise, platform, tools and strategies to improve our due diligence and risk assessment process, providing additional support that we can use in educating key stakeholders on how to address the root causes of modern slavery.

Cobalt is currently seeking membership in the Ethical Trade Initiative (ETI), to increase our participation in peer-learning groups and collaborative initiatives, as we believe sharing lessons learned and best practice will greatly support our work and possibly present opportunities for
collaborative participation in specific programs to better address the risk of modern slavery in our supply chains.

**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. The Apprise team also conducted a baseline survey conducted with 200 auditors to understand challenges faced during worker interviews and looked at lessons learned from a four-month pilot.7

5. Training and Capacity Building

In 2019, Cobalt delivered training on their updated Supplier Code of Conduct and training in modern slavery to 21 suppliers and over 259 Cobalt colleagues. To reach a larger number of suppliers and colleagues, we have developed two e-learning trainings to be rolled out in 2020.

**Modern Slavery e-learning:** In January 2019, our parent company - the Fung Group, 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. The e-learning is available in English and Chinese and is currently being translated into Bengali.

As of March 2020, 38% of Cobalt colleagues globally have completed the e-learning. We expect to reach a target of 100% completion by March 2021. The training will be rolled out to Cobalt’s core factories, with an anticipated 100% completion rate by core facilities, by March 2021.

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1. **Supplier Code of Conduct e-learning**: presents an overview of our updated Supplier Code and how to ensure compliance. This training will be rolled out from April 2020 to 100% of Cobalt’s sourcing colleagues and suppliers.

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**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, at least 5 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 the 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.

Once the tool has been developed from pilot phase, Cobalt will work closely with ETI to distribute the tool to additional 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.
6. Effectiveness, measured against appropriate KPIs

6.1 Our Strategy (March 2020 – March 2021)

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.

Cobalt’s focus for this coming financial year is on actively monitoring our supply chain to identify and reduce modern slavery risk, whilst collaborating with partners for sector-level change and ensuring victim-centric remediation, should any forms of modern slavery be detected. Particular attention will be paid to ensuring new risks and vulnerabilities in the supply chain, arising from COVID-19, are addressed.

We aim to achieve this through:

1. The effective implementation of our new Responsible Recruitment Policy (RRP).
2. Creating an informed and empowered cohort of employees and supply chain partners.
3. Increased transparency in high-risk areas of the supply chain through proactive investigation.
4. Front-line responders equipped with tools to screen potential victims of exploitation at the facility level.
5. All cases of modern slavery managed in compliance with our Remediation Program.

6.2 Remediation

To date, Cobalt has not identified any instances of modern slavery either in our own operations or supply chains, however all red flags for forced labor that were found were remediated in line with the Remediation Program and supporting Guidance. Launched in 2017, the Remediation Program ensures continuously improved performance in our supply chains and actively managed remediation of critical violations against our Supplier Code. When there is no immediate threat to workers or other concerned parties, non-compliances are discussed with the factory, the factory develops a Corrective Action Plan (CAP) with a focus on root-cause analysis and prevention, with progress monitored by Cobalt or through ELEVATE, a supply chain service provider who supports Cobalt’s vendor compliance team with supply chain compliance such as auditing and remediation activities.

Cobalt has developed remediation guidance on modern slavery in line with the UN Guiding Principles on Business and Human Rights and the Mekong Club Remediation Toolkit. Remediation guidance includes:

- Information on immediate corrective action to be taken in cases of non-compliance, including the provision of assistance to victims and paying back any outstanding wages or fees (where relevant).
- Preventative action, including the use of third-party experts to assist the factory to change management systems or policies that may have contributed to the violation.
- Business consequences as needed related to both the non-compliance and any failure to remediate.
Complex cases are handled by a specialist third-party, working collaboratively with Cobalt. Although this process has not yet needed to be used, our third-party partners would support in discussing the case with the factory to develop an action plan, providing capacity building and victim assistance, and assistance in monitoring the victim support and factory improvement process. If the violations cannot be confirmed as systematically remediated, business would be discontinued after agreeing on a responsible exit plan. For example, if child workers are found in our supply chain, Cobalt would work in partnership with the Centre for Child Rights and Corporate Social Responsibility, who would develop a responsible solution that is in the best long-term interests of the children. Remediation would follow available best practice and seek to meet the educational, social and economic needs of the children concerned.

Country Case Study

In 2019, at least one factory in China provided compensation to workers as a result of them not receiving wages in line with local law. Through an investigation, Cobalt learned that the factory had been underpaying workers due to a miscalculation during the monthly wage calculation process. The factory was given a guidance document to help calculate the underpaid wages correctly and all workers were paid back their missing wages. In addition, Cobalt provided the factory management with training on how to calculate workers’ wages correctly and the Cobalt Vendor Compliance & Sustainability team has subsequently been supervising the factories’ monthly wage payments, to ensure the new learnings are being implemented and that the factory is now meeting local minimum wage requirements.

6.3 Tracking Progress

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

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<thead>
<tr>
<th>Key Performance Indicators</th>
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<tr>
<td><strong>Goal</strong></td>
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<tr>
<td>1. Committed to Responsible Recruitment and the Employer Pays Principal</td>
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<tr>
<td>2. Informed and Empowered Employees</td>
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<td>3. Increased Supply Chain Transparency</td>
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<td>4. Worker Voice for Risk Identification</td>
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<td>5. Victim Centric Remediation</td>
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Cobalt will continue to evaluate the effectiveness of our efforts to eradicate modern slavery. We are committed to expand and look for new industry collaboration and to equip factories in our supply chain with the necessary tools that help them identify and prevent all forms of modern slavery.

Wai Ping Leung
CEO