

Hon Hai

Background

Hon Hai Precision Industry Co., Ltd., trading as Hon Hai Technology Group in Taiwan, or Foxconn internationally, is a Taiwanese multinational electronics contract manufacturer. The company moved from a TV casing business to manufacturing smart devices, followed by the introduction of electric vehicle and medical hardware production in 2022.

We have engaged with Hon Hai on the topic of labour policy and practices since 2010, including improving its human capital management strategy to address labour rights concerns. Over the years of engagement, EOS has developed a good working relationship with Hon Hai's management, leading to an effective dialogue across a range of long-term sustainability drivers for the business.

In April 2023, we were invited by the company for a production campus tour in Zhengzhou, China where we could see first-hand the implementation of the company's human capital management strategy.

Our engagement

We began engaging on labour standards in 2017 after controversies surrounding working conditions. Despite being an employer of over one million people globally, Hon Hai did not appear to have a robust human capital management strategy.

It recognised that staff turnover was high, with most of its human resources work focused on administration, and it was unclear to what extent the issue was on the board's agenda. Although the company was tracking various human capital metrics, none were disclosed.

In 2017, media reports claimed that student workers aged 17 to 19 were working long hours and overtime, which violated local law¹. The company acknowledged that there were operational oversight issues. We discussed responsible remedial actions including the termination of the existing student worker programme and for the company to raise the working age to the international labour standard of 18 years old, rather than adhering to local standards in China of 16 years old.

¹ Apple's iPhone X assembled by illegal student labour | Financial Times (ft.com)

² Foxconn India's iPhone plant restarts production after December protests | Reuters

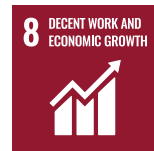
Engagement objectives:



Social:

Overtime of student workers;
Supply chain working conditions;
Human capital management

Sustainable Development Goals:



Top three successes:



Commitment to no longer employ workers under 18, with new code of conduct for student workers



Comprehensive human capital management strategy, with 2025 milestones and metrics



New value chain code of conduct to protect worker rights outside of the China

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In October 2022, our attention turned to ensuring the company demonstrates that working conditions across its supply chain outside of China meet international standards.

Media reports indicated subpar working conditions in the company's Indian iPhone plant and subsequent protests in December 2021², where the iPhone 14 was now produced. We pressed for better disclosure of audit results and actions taken to address labour standards, more emphasis on grievance mechanisms, employee engagement and welfare.

One such engagement included an exclusive virtual meeting with the head of sustainability during an EOS bi-annual client event in October 2022. The company confirmed whilst it planned to disclose ESG information outside of China on a region-by-region basis, it was still in the process of collecting and validating the data.

In addition, news reports in November 2022 showed protests at the company's Zhengzhou province factory campus³ spurred by strict Covid-19 restrictions and reported delays to bonus payments. Out of concern for worker rights, we contacted the company to understand how it would resolve these issues, gaining some reassurances following further engagement.

We pressed for better disclosure of audit results and actions taken to address labour standards.

In early 2023, EOS was invited by the company to a factory tour in Zhengzhou, the location of the aforementioned protests. One of the purposes was to understand the circumstances leading to employee protests and conduct a due diligence visit at the employee social and living facilities. Ultimately, EOS was the only investor to gain access to the site, providing a unique opportunity for direct engagement with the most senior management of the Zhengzhou plant.

Our EOS engager stayed in an employee dormitory during the two-day tour and also dined in the assembling worker canteen.

During the tour, most of the social facilities were visited, including the learning and development centre, job training centre, canteen and, most importantly, the living quarters. Positively, the company allowed EOS to select any room, floor and block of any dormitory in an effort to meet our due diligence requirements. Our EOS engager stayed in an employee dormitory during the two-day tour and also dined in the assembling worker canteen before departure.

Changes at the company

In addressing our labour rights concerns over the years, the company stated in 2020 that it had developed a labour strategy, approved by the board, which prevented students under the age of 18 from working in production.

The chair made a further statement in May 2021 that the company was committed to promoting and protecting the rights of each worker. Hon Hai also addressed our questions about student workers, sharing its updated code of conduct, which details the measures put in place to protect and monitor conditions for these workers.

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In May 2022, we were pleased to see the company's new long-term social goals as part of its ESG strategy. The ten goals include milestones to 2025 and beyond, with metrics on how these will be measured and attained. The plan addresses



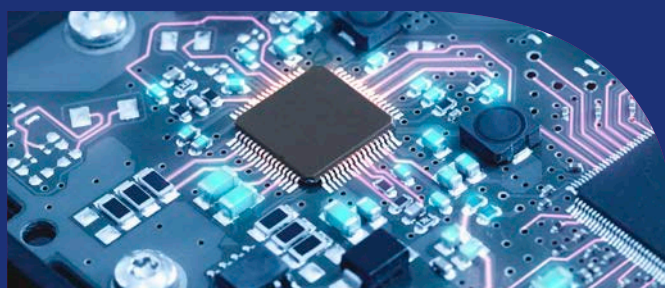
important aspects of its human capital management strategy, including human rights and labour standards, opportunities for employee feedback, and inclusion and diversity.

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In a February 2023 engagement, the company provided an update on its revised value chain code of conduct and updates on its 2022 December labour issues, which included a comprehensive update on how issues arose and were resolved.

The company added that the 100% of its production plants are internally audited before an independent third-party audit of its principle customers. It also confirmed that it would expand disclosure of data outside of China in its next ESG report, due for release in 2024.

We believe that through these measures, Hon Hai has made significant positive steps towards a more holistic human capital management strategy.



Next steps

We continue to monitor and engage on the implementation of Hon Hai's human capital management strategy and resulting working conditions, together with other important long-term sustainability drivers including its climate strategy.



This case study has been fact-checked by Hon Hai to ensure a fair representation of EOS work carried out and changes made at the company.



Kenny Tsang
Engagement
EOS

³ Huge Foxconn iPhone plant in China rocked by fresh worker unrest | Reuters

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