

United Nations: Global Compact
COMMUNICATION ON PROGRESS
2007

Li & Fung Limited

Statement of Continued Support

Li & Fung reaffirms its support for the ten principles of the Global Compact in respect to human rights, labor rights, the protection of the environment, and combating corruption.

This Communication on Progress (COP) provides an overview of the various activities and initiatives we have undertaken throughout the year in upholding the ten principles of the Global Compact.

From its very inception, Li & Fung has endeavored to embed the Compact's principles into our day-to-day operations, organizational culture, and relationships that we maintain with our various stakeholders.

Li & Fung is committed to working in partnership with our stakeholders as an agent of change to transform the supplier network and the markets we serve. By working together to develop solutions, we build sustainable relationships that generate economic, social, and environmental value.

We will continue to strive to improve our performance in upholding the Compact's ten principles.

William Fung
Group Managing Director

Human Rights

Principle 1

Businesses should support and respect the protection of internationally proclaimed human rights

Principle 2

Make sure their own corporations are not complicit in human rights abuses

Actions Taken to Integrate Principles

Li & Fung has developed a strict vendor compliance program to ensure the highest ethical sourcing standards. The Group enforces a rigorous Vendor Code of Conduct, which incorporates the principles of Human Rights.

Through an independent team of 119 dedicated compliance staff based in 18 economies, Li & Fung verifies and monitors compliance to its customers and Company Code of Conduct.

In addition, Li & Fung merchandising teams undergo extensive training to gain awareness, knowledge and necessary skills to meet compliance requirements. Regular vendor compliance training, education and workshops are also held throughout the year to promote and build awareness for compliance.

Measurement of Expected Outcomes

In 2007 the Vendor Compliance Division evaluated more than 8,000 vendors in 40 economies around the world.

Subsequent to the completion of each evaluation, factories were issued an evaluation report in the form of Corrective Action Plans (CAP). Facility re-evaluations were then re-scheduled based on initial evaluation outcomes and pre-defined cycles to verify issue rectification and corrective action improvement. Results from these factory evaluations determined qualification, certification and vendor approval periods.

Internal and external trainings promoting compliance were also held throughout the year targeted at merchandisers and vendor partners. Feedback from the various awareness sessions and trainings proved positive and resulted in marked improvements in actions, behaviors and compliance outcomes.

Labour Standards

Principle 3

Businesses are asked to uphold the freedom of association and the effective recognition of the right to collective bargaining.

Principle 4

The elimination of all forms of forced and compulsory labor.

Principle 5

The effective abolition of child labor.

Principle 6

The elimination of discrimination in respect to employment and occupation.

Actions Taken to Integrate Principles

Li & Fung supports and promotes the four Labor Standards principles, internally and externally, to its various stakeholders.

Internally, the Company's Code of Conduct covers policies on equal employment opportunity and non-discrimination. We adopt an equal opportunity policy in connection with all human resource matters including recruitment, training and development, promotion, transfer, compensation and benefits, redundancy and dismissal, etc., without any form of discrimination such as race, colour, religion, sex (including pregnancy), marital status, family status, sexual orientation, national origin, ancestry, age, disability and veteran status.

There is also a Key Operation Guide (KOG) on Recruitment, which clearly states the principles that as an equal opportunity employer, we treat all staff and candidates fairly. We consider all applicants regardless of race, colour, religion, creed, sex, marital status, age, social status, national origin, and disregard all factors deemed inappropriate by laws. All hiring processes and employment practices fully comply with equal opportunity legislative requirements. All newly joined staff will be briefed the details of the Code of Conduct and the KOG.

The KOG also emphasizes the mutual respect in workplace. Harassment including verbal (e.g. derogatory comments, offensive remarks), physical (e.g. assault, impeding movement), visual (e.g. derogatory posters, drawings and graphics), and sexual (e.g. unwelcome sexual advances, requests for sexual favours), intimidation and threat are not allowed.

Staff are represented by independent trade unions / commerce sectors in some offices. In case of any labour disputes, staffs reserve the rights of collective bargaining.

Externally, Li & Fung promotes the four Labor Standards principles via its Vendor Code of Conduct. Freedom of association, the right to collectively bargain, the elimination of all forms of forced / involuntary labor, the effective abolition of child labor, and the elimination of discrimination in respect to employment and occupation are critical elements contained within our Code. The Vendor Compliance Division assesses compliance with these and other labor standards in order to verify and determine adherence to applicable laws and regulations.

The Corporate Governance Division regularly conducts internal audits of our global operations to ensure that good corporate governance practices are in place.

Measurement of Expected Outcomes

In 2007 we are not aware of any cases of discrimination in respect of employment and occupation reported from our staff, or any other concerned parties. Through our internal HR audit on conformance of the Recruitment KOG, no cases have been reported for non-compliance on discrimination.

Throughout the year we conducted more than 8,000 vendor evaluations. A number of evaluations resulted in findings of labor standards non-compliance. Vendors that were not willing or not committed to remediating such issues were disengaged while those vendors that demonstrated an open and committed approach to solving such issues were placed on Corrective Action Plan's and monitored for performance improvement and issue rectification.

Environment

Principle 7

Businesses are asked to support precautionary approach to environmental changes.

Principle 8

Undertake initiatives to promote a precautionary approach to environmental changes.

Principle 9

Encourage the development and diffusion of environmentally friendly technologies.

Actions Taken to Integrate Principles

Li & Fung complies with all applicable environmental laws & regulations in the countries in which it operates. We also uphold our customers' environmental policies in regards to their supply chains and the products and packaging that we source on their behalf. Through our vendor compliance program, vendors are assessed according to their compliance with applicable laws and regulations in regards to the handling, treatment and disposal of wastes, effluents and emissions.

Since our last COP, a number of environmental initiatives have been undertaken as a precautionary approach to environmental changes and in support of environmentally friendly technologies. From driving education and awareness within our organization and supply chain, to partnering with stakeholders such as The Asia Foundation and Hong Kong Productivity Council to focus on water, waste and energy conservation initiatives, Li & Fung is building symbiotic relationships to find solutions to our shared environmental problems. A number of initiatives are highlighted here a follows:

Climate Change

Managing Carbon in China's Supply Chains – participant of the China Climate Change Training Initiative (CCCTI). Partnering with WWF on a Low Office Carbon Office Operation Program.

Air Pollution

Guangdong Pearl River Delta Clean Air Charter. Developed by the Hong Kong and the China government, the Group supports this initiative and actively promotes its principals to our vendor / factories – over 200 factories signed up.

Energy

Promoting Cleaner Production within the supply chain through the Environmental Protection Department and Hong Kong Productivity Council. Supplier education and awareness seminars with Hong Kong Bank's Living Business unit where SME's can get practical advice on sustainable business practices.

Water

Contributing funding and staff time to the Pearl River Delta (PRD) Environment Program launched by the Asia Foundation. A collaborative multi-stakeholder project to reduce water pollution through preventative approaches. Participant of BSR's Water Quality Initiative in China.

Waste

Supporter of Hong Kong's Wastewi\$e label, a waste management certification system. The system includes setting targets and benchmarking commitment to waste reduction. Our headquarters in Hong Kong has set an office waste management system in pursuit of the Gold Wastewi\$e label.

Product stewardship

Committed to inspiring innovation and creative design aimed at reducing our customer's environmental impacts. We are also evaluating the life cycle of a number of products to better understand their underlying impacts and to educate our stakeholders to effect buying decisions and behavior. We continue to increase our sourcing and development of eco-friendly products and packaging in organic cotton, alternative fibers, and certified timber. Our Taiwan and Vietnam offices maintained their FSC "Chain of Custody" certification to trade in indoor and outdoor home-use wood products certified by The Forest Stewardship Council (FSC).

Measurement of Expected Outcomes

In 2007 we endeavored to make a contribution towards minimizing our environmental impacts while formulating a more sustainable approach to our business. A number of environmentally related initiatives were launched involving various stakeholders. We now can begin to see incremental benefits being realized and their expected outcomes have resulted in greater awareness and understanding our business activities. As we develop our eco-logical approach, we will be in a position to reduce our environmental impacts and thus serve as a continued agent of change.

Corruption

Principle 10

Businesses should work against all forms of corruption, including extortion and bribery.

Actions Taken to Integrate Principles

Li & Fung's Code of Conduct and Business Ethics covers policies on prohibiting corruption and bribery. All Directors and staff can access to the ethical code through the Company's internal electronic Bulletin Board.

Staff induction program is organized for all new joined staff (including staff from acquisitions) covering all areas of our ethical code. In addition, all newly joined staff need to sign a declaration form for the compliance of the Code upon employment.

To reinforce the conformance of our ethical Code, members of the Corporate Governance Division conduct regular interactive forums with staff members worldwide including senior management to ensure that good corporate governance practices are embedded in the Group's operations.

Under the Group's Policy on Reporting of Concerns (a whistle-blowing policy), staff can report any concerns, including misconduct, impropriety or fraud in financial reporting matters and accounting practices to either senior management or the Audit Committee through our Group Chief Compliance Officer in confidence. Any shareholders or stakeholders can also report similar concerns by writing in confidence to our Group Chief Compliance Officer.

Measurement of Expected Outcomes

In 2007, Management and the Company's Corporate Governance Division reported to the Audit Committee proven fraud/corruption/bribery cases, if any, on periodic basis.

Based on the assessment by Management and the Audit Committee, there were no significant misconduct or business ethics issues (e.g. bribery, fraud, criminal acts, in breach of Li & Fung's Code of Conduct and Business Ethics) reported from staff, shareholders or stakeholders that have material effect on the Company's overall operations and financial performance.