

United Nations: Global Compact

COMMUNICATION ON PROGRESS

(COP)

Li & Fung Limited.

June 2007

Statement of Continued Support

Li & Fung reaffirms its support of the 10 principles of the Global Compact in respect to human rights, labor rights, the protection of the environment and anti-corruption. From its very inception, we have endeavored to embed the Compact's principles into our day-to-day operations, organizational culture, and relationships that we maintain with our various stakeholders.

This Communication of Progress expresses herewith an overview of what we have done in upholding the principles of the Compact.

A handwritten signature in black ink, appearing to be 'W. Fung', with a long horizontal stroke extending to the right.

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 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 104 dedicated compliance staff based in 18 countries, 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 the awareness, knowledge and necessary skills to meet compliance requirements. Regular vendor compliance training, education and workshops are also held to promote and build awareness for compliance.

Measurement of Expected Outcomes

In 2006 the Vendor Compliance Division evaluated more than 6,000 vendors in 39 countries 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 all its 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 employees 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.

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 within our Vendor Code of Conduct. 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 2006, and since our initial Communication on Progress, we are not aware of any cases of discrimination in respect of employment and occupation reported from our employees, 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 6,000 vendor evaluations. A number of evaluations resulted in findings of labor standards non-compliance. Vendors which were not willing or not committed to remediating such issues were disengaged while those vendors which 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 enforce our customers' environmental purchasing policies with respect to recycling, package waste minimization and sustainable development initiatives.

The Company has instituted a number of policies and practices to facilitate and monitor environmental compliance in conjunction with our vendors and customers and is also taking a number of mandatory and voluntary measures within our operations and supply chain to contribute to the reduction of environmental impacts.

We source and develop products, which comply with relevant environmental laws and regulations such as the European Directive on Waste Electrical and Electronic Equipment (WEE) and Restricted Hazardous Substances (ROHS). These Directives restrict the use of certain hazardous substances in electrical and electronic equipment and focus on the reduction of waste of electrical and electronic equipment.

We also assist our customers in the sourcing of responsibly sourced timber including FSC timber. The Hong Kong and overseas offices in Taiwan and Vietnam are FSC "Chain of Custody" certified to trade in indoor and outdoor home-used wood products certified by The Forest Stewardship Council (FSC).

Li & Fung also works with manufacturers around the world to bring organic cotton fabric and products to its customers. We are in the process of developing internal knowledge, skills and expertise to be able to meet this new market demand and contribute to a more ecologically healthier and sustainable environment.

The Company's vendor compliance program also includes the scope of environmental protection. 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.

Measurement of Expected Outcomes

In response to the ever-growing problem of air pollution, the Company became a signatory member of the Guangdong Pearl River Delta Clean Air Charter in 2007. Developed by the Hong Kong and the China government, the Group supports this initiative and actively promotes the initiative to its vendors and customers. The Charter lists six key areas in which business can make a difference to reduce air pollution.

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 new 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, employees 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 2006, and during the last three years, we are not aware of any misconduct or business ethics issues reported from employees, shareholders or stakeholders for the Audit Committee and the Board attention. The Company's external auditors also reported no business ethics issue to the Audit Committee during the course of their audit.