



Li & Fung (1937) Limited

United Nations Global Compact
Communication On Progress 2010

Li & Fung (1937) Limited on behalf of the Li & Fung Group of Companies (hereafter the “Group”), is pleased to publish our first Communication on Progress.

This report outlines the steps that we have taken in 2010 to promote the UN Global Compact principles within our Group companies, as well as throughout our supply chains and amongst our stakeholders.

Foreword

On behalf of Li & Fung (1937) Limited, I reiterate my support for the Principles of the United Nations Global Compact. When Li & Fung Limited endorsed the principles in 2002, it was clear that concerted action amongst the global business community was critical to achieving the Millennium Development Goals.

Nearly ten years on, we are indeed closer to meeting the MDGs, but we also recognize that the grounds have shifted. Today it will take much more than the MDGs to ensure that people everywhere are able to participate in the global economy as stakeholders bearing the reigns of their own growth and prosperity. At the same time, our global community encounters new challenges, such as climate change, resource scarcity, demographic change, and economic instability.

More than ever, companies, civil society, and governments everywhere need to do more and collaborate more to address our collective challenges. The UNGC principles remain an excellent and relevant framework for these actions.

As such, in mid-2010, we decided to extend our commitment to the UNGC principles to all operating companies in the Group—including Li & Fung Limited, Trinity Limited, Convenience Retail Asia Limited, and Toys (Labuan) Holding Limited. This is our first Communication on Progress as a Group, and for the sake of clarity, we provide further information on our companies and our approach to sustainability and social responsibility, in the first section of our report.

In laying out our actions and efforts to continue to improve our performance under the UNGC framework, we share our experiences and invite others to join us in partnership.

Yours sincerely,



Victor Fung
Group Chairman

The Li & Fung Group of Companies

Who We Are

Li & Fung (1937) Limited is a privately held business entity headquartered in Hong Kong, is the controlling shareholder of the Li & Fung group of companies, whose four operating companies are engaged in sourcing, distribution and retailing of consumer products.

Li & Fung Limited (hereafter “Li & Fung (Trading)”) operates two core businesses: on the one hand, it designs, develops and sources consumer products for retailers and brands worldwide, and on the other, it operates an extensive distribution and logistics network serving major brands in Asia and beyond. Our three other Group companies are engaged in retailing: we offer convenience stores and bakeries through Convenience Retail Asia Limited, luxury menswear through Trinity Limited, and toys and children’s products through Toys (Labuan) Holding Limited.

Li & Fung (Trading), Trinity Limited and Convenience Retail Asia Limited are listed on the Hong Kong Stock Exchange, while Toys (Labuan) Holding Limited remains a privately held entity. In sum, the four companies employ approximately 37,000 men and women across 40 economies worldwide, with total revenue of over US\$18.5 billion in 2010.

Our Approach to Sustainability

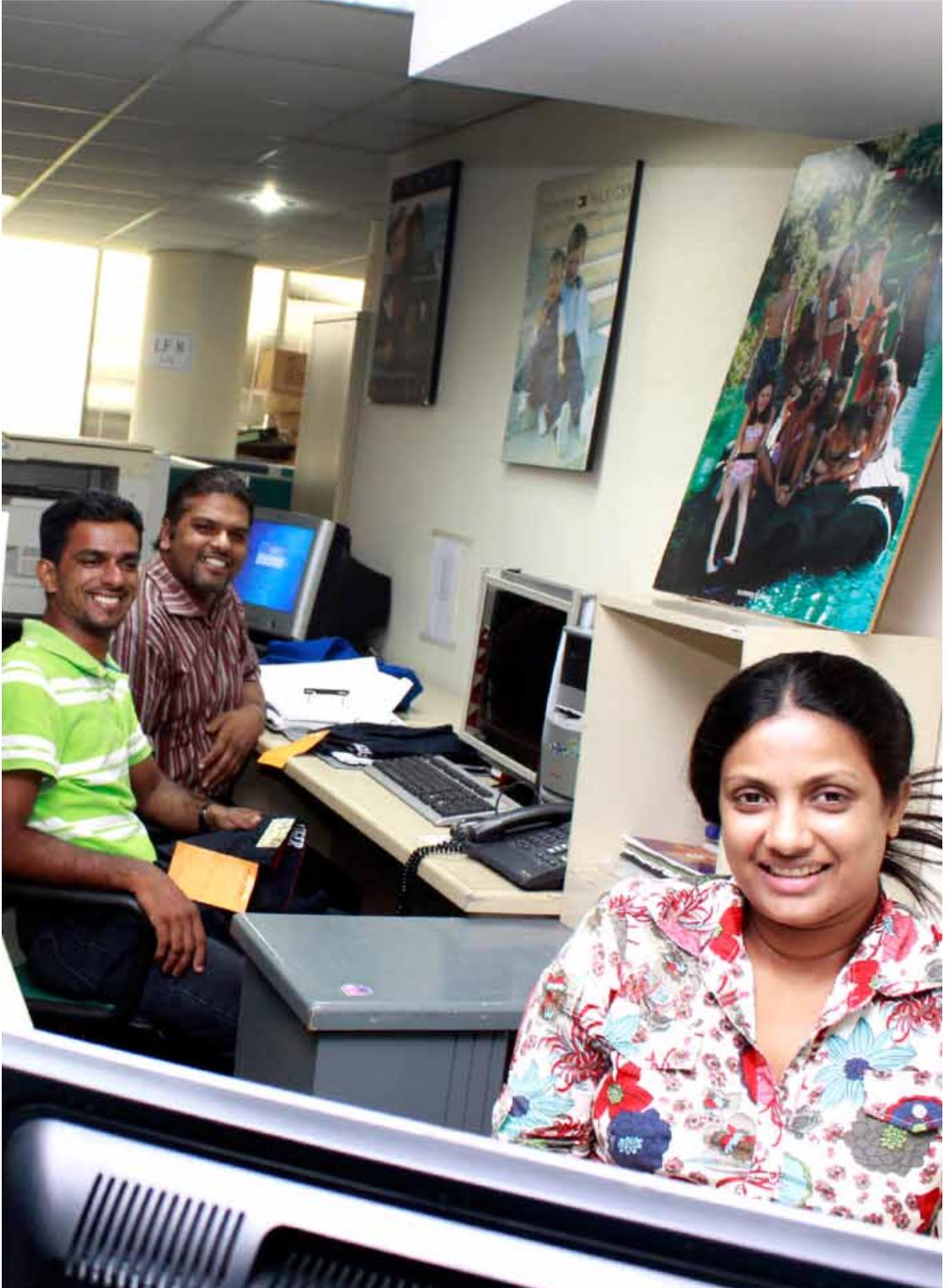
As members of the Group, the four operating companies share a common set of values and approach to sustainability. These reflect the belief that we are an agent of change with a duty to contribute positively to the economic and social development of societies and communities in which we operate. These are reflected in our corporate policies and guidelines that govern operating practices, and are seen most directly in our employment practices, community outreach, and environmental initiatives.

Each of the four operating companies has a corporate sustainability task force comprised of managers across key functions and geographies to set strategies, coordinate actions, and drive the sustainability agenda within the organization. These task forces are typically headed by a senior executive responsible for sustainability, who reports directly to the CEO, who is then accountable to the Board of Directors. For Li & Fung (Trading), this process is reinforced by the additional governance structure of a Risk Management and Sustainability Committee within the Board of Directors.

At the Group level, we operate an additional sustainability working group which draws together the heads of the respective sustainability task forces in each of the operating companies, plus key other functions such as communications, IT, properties, and philanthropy, to coordinate actions and strategies and facilitate best practices and resource sharing.

In this report, we aim to highlight our policies and actions to carry out the UNGC principles, and invite anyone with further interest to explore the public disclosures and websites of our respective group companies. These may all be accessed through our Group website: www.lifunggroup.com .

Human Rights



Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Actions to promote the principles

The Li & Fung Group of Companies is committed to upholding internationally proclaimed human rights in our own operations and externally in our supply chains and relations with key stakeholder groups. Each of our group companies has in place a Code of Conduct and Business Ethics which covers human rights. New employees are briefed on the code and must agree to abide by it before starting employment. The code is published on employee intranets and in handbooks.

Employees are encouraged to report any violations under a written policy to their direct line senior management and failing which, they should direct their concerns or complaints with relevant information and supporting documents by email or fax to the Group Chief Compliance Officer.

Group companies operate in over 40 economies worldwide, including many developing countries and countries where the rule of law may not be strong in the public domain. In doing business, we are conscious of the need to avoid complicity with human rights abuses of the need to comply with local legislation and international norms of behavior with respect to human rights.

We also recognize that our responsibility extends also to relations with key stakeholders, and therefore, each Group company also has in place a Code of Conduct for Vendors that requires suppliers to respect and uphold internationally proclaimed human rights. Any vendor trading with our Group must indicate acceptance of the Code and remains contractually bound by it during the course of his or her business with us.

Compliance with the code is assured by regular announced and unannounced audits by an in-house Vendor Compliance team of over 130 auditors within Li & Fung (Trading), or by approved third-party auditors. Li & Fung (Trading) holds training seminars, workshops and sessions in order to build awareness and understanding of the principles contained in the code and the benefits of compliance. Where violations occur, our compliance teams work with the vendor concerned to address the problem so that the vendor is able to raise its performance and become compliant.

With increasing knowledge about the interface between human rights and business operations and rising expectations from consumers and stakeholders worldwide, we are currently upgrading our Code of Conduct and Business Ethics as well as our Code of Conduct for Vendors.

The process will take into account the guidelines laid out in ISO26000 and in the Guiding Principles on Business and Human Rights by the Special Representative of the UN Secretary-General. Launch of the revamped Codes will be accompanied by training on human rights and labour issues, for group employees and selected vendors and business partners.

Human Rights

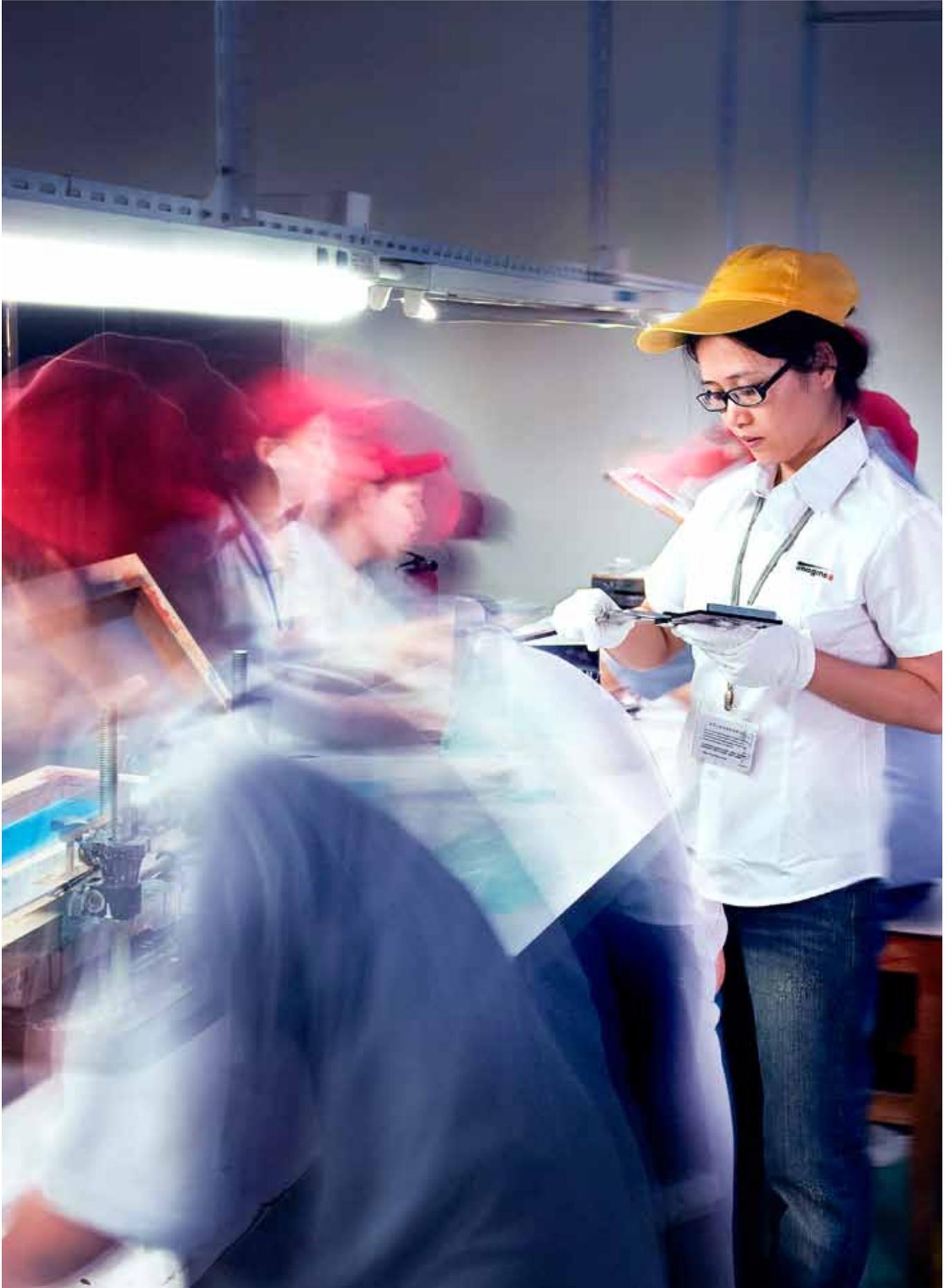
Progress and Outcomes

During 2010, over 9,200 audits to ensure compliance of third-party vendors with the Code of Conduct for Vendors were conducted by our in-house staff. The compliance staff also work with vendors to address issues of non-compliance through capacity-building and education on a continuous basis.

In addition, monthly meetings of the Sustainability Working Group focused on various human rights issues, with the intent to give senior executives responsible for sustainability knowledge and guidance on how to ensure that our operations and stakeholder relations continue to promote human rights.

Lastly during 2010, the Group organized over 80 training sessions, workshops or seminars targeting third party vendors and business partners.

Labour Standards



Labour Standards

Principle 3: Businesses should 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 labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Actions To Promote The Principles

The Group supports and actively promotes the four UNGC Labour principles in our own operations and externally with our business partners and stakeholders.

Internally, each of our group companies has in place a Code of Conduct and Business Ethics which binds all employees to upholding Principles 4, 5, and 6 and specifically refers to these principles in our operations, for instance, in recruitment, training, review and promotion, remuneration, and so on. On top of these principles, we strive to create a workplace and working environment known for diversity, respect, collaboration and equal opportunity.

Each new colleague is briefed on the Code and must agree to abide by the code before joining the group. The Code is published on employee intranets and in employment handbooks. Human resources staff are given training and provided resources to allow them to continuously upgrade their knowledge and practices for carrying out these principles in their work.

With regard to Principle 3 on collective bargaining and freedom of association, the Group follows the employment regulations or labour codes of the jurisdictions in which it operates. As part of the overhaul and upgrading of our Code of Conduct and Business Ethics taking place within 2011, we will uphold the right to collective bargaining and freedom of association in all cases, even when not protected by local law or in practice.

The revision of our Code of Conduct and Business Ethics for employees will take into account guidelines in the ISO26000 and in the Guiding Principles on Business and Human Rights by the Special Representative to the UN Secretary-General. Launch of the revamped codes will be accompanied by trainings on human rights and labour issues, for group employees, particularly those in the areas of human resources, vendor compliance, and corporate compliance.

Labour Standards

Employees are encouraged to report any violations of the Code of Conduct under a written policy to their direct line senior management and failing which, they should direct their concerns or complaints with relevant information and supporting documents by email or fax to the Group Chief Compliance Officer.

Externally, we recognize our responsibility to promote the UNGC labour principles throughout our supply chain and relations with key stakeholders. As such, each Group company also has in place a Code of Conduct for Vendors that binds suppliers to uphold all four UNGC labour principles. Any vendor trading with our Group must indicate acceptance of the Code and remains contractually bound by it during the course of his or her business with us.

Compliance with the Code is assured by regular audits by team of over 130 auditors within Li & Fung (Trading), or by approved third-party auditors. Li & Fung (Trading) holds training seminars, workshops and sessions in order to build awareness and understanding of the principles contained in the Code and the benefits of compliance.

The Group recognizes that compliance in itself is insufficient as the sole means to raise labour standards and working conditions globally. It is only a starting point for further action to raise labour standards, working conditions, and productivity, which remain our ultimate objectives guiding our strategy and initiatives on labour issues.

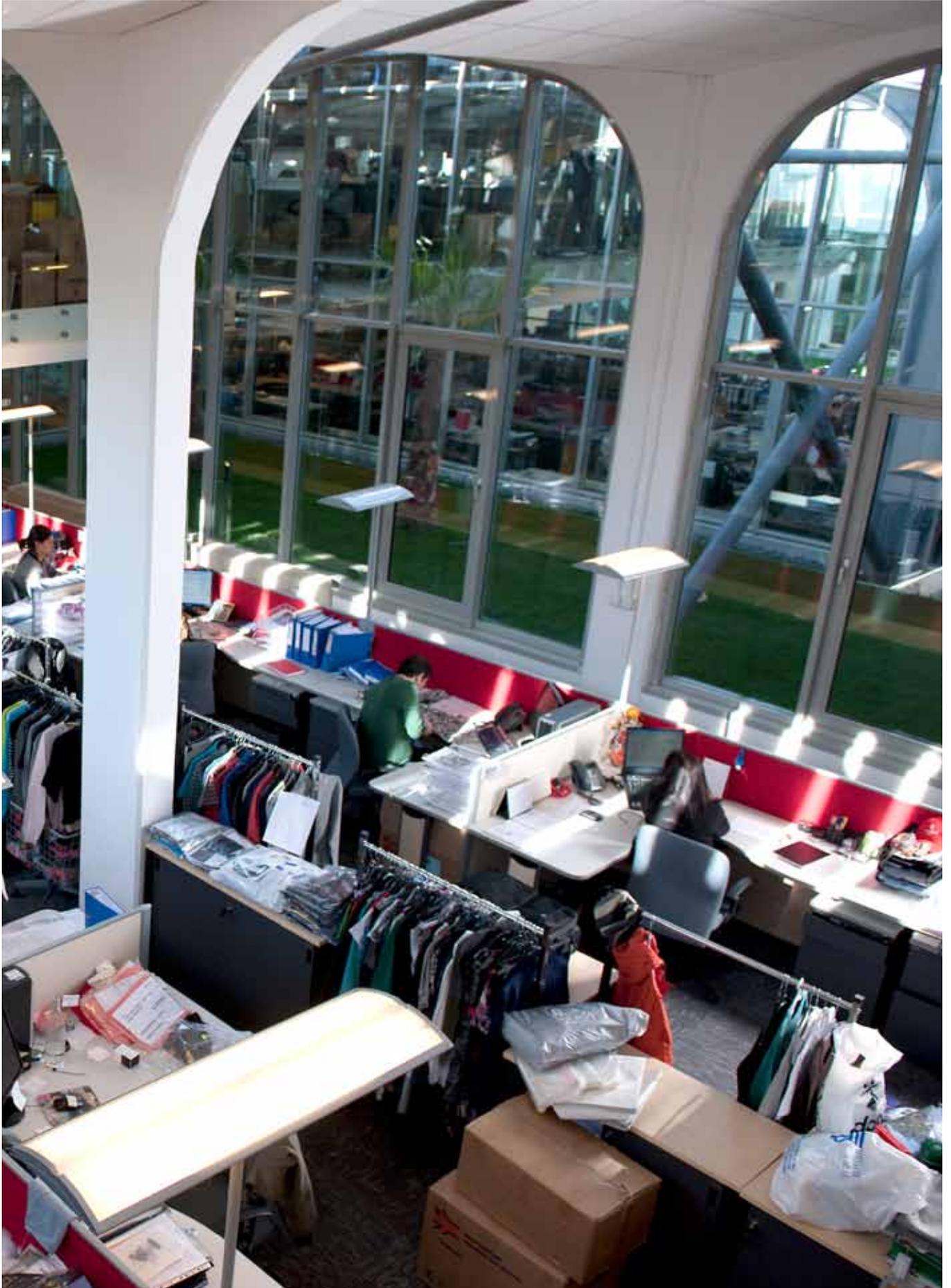
Progress And Outcomes

During 2010, over 9,200 audits to ensure compliance of third-party vendors with the Code of Conduct for Vendors were conducted by our staff. In addition, monthly meetings of the Sustainability Working Group addressed labour issues, with the intent to give senior executives responsible for sustainability information and operational guidelines for respecting and promoting fair working practices including the four UNGC principles, within our operations and stakeholder relations.

Lastly during 2010, the Group organized over 80 training sessions, workshops or seminars targeting third party vendors and business partners.

Our Group companies have been repeatedly recognized under the Caring Company Scheme, by the Hong Kong Council of Social Service.

Environment



Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Actions To Promote The Principles

Our companies have always endeavored to operate responsibly with regard to the environment, but today more than ever, we recognize that climate change represents a serious challenge and risk for the global community. We therefore redouble our commitment to environmental responsibility in operations, while continually seeking new ways to upgrade the environmental sustainability of our operations.

As a baseline, our Code of Conduct and Business Ethics references the need for all employees to protect the environment in line with the precautionary principle, in our operations and supply chain. This message is reiterated and reinforced through a number of means including internal meetings, the staff intranet, employee outings, and Group promotion of activities such as Earth Hour.

In our own operations:

We have committed to measure our energy consumption, greenhouse gas emissions, and paper usage in our own facilities and offices, and to make reductions across all of these areas. In Hong Kong, this is done in partnership with the Clinton Climate Initiative and Honeywell, to manage and reduce our energy consumption in a number of our largest offices, an experience which will yield valuable knowledge as we scale the effort to our offices globally.

We endeavor to increasingly build and operate green offices and facilities, and where possible to achieve recognized industry standards in these areas, including

- LEED or BREEAM certification for buildings and offices
- The Wastewise and Energywise labeling schemes run by the Hong Kong Environmental Protection Department
- LOOP office operations program under the World Wide Fund for Nature
- In the United States, the Environmental Protection Agency's Climate Leaders program

Lastly, in view of concerns of natural resource scarcity and the need to protect endangered species, we have implemented "no shark's fin" policy in our operations. Moreover, our internal conference unit has begun to pilot various "green meeting" practices, which will soon comprise part of a group policy on green offices and meetings.

Environment

In our supply chains and stakeholder relationships:

We enjoin our vendors to abide by all local environmental legislation, and where appropriate we require that they avoid the use of ozone depleting chemicals, certain toxics in production processes, and all trade in endangered species. We also encourage and provide technical support to suppliers on energy efficiency, environmental protection and sustainable production and facilitate the sharing of best practices across our supplier network.

In keeping with our role as a responsible employer and corporate citizen, we have also introduced programs to raise and encourage greater environmental awareness amongst employees and the community at large.

Progress and outcomes

As outlined above, the Group has initiated diverse streams of action in view of our commitment to implement the principles on the Environment. While we have made noticeable progress, our challenge is to ensure that our approach is comprehensive, harmonized, and focused. Some of our progress indicators are outlined below.

In our own operations:

Li & Fung (Trading) has recorded a total global energy consumption of 187,099 GJ (51,972,203 kWh) and a global emissions of 37,614 tons of CO₂ equivalent in 2010, data which has been reported to the Carbon Disclosure Project. Li & Fung (Trading) comprises the bulk of the Group's emissions from our own facilities, and we expect that in our next COP, we will be in a position to report Group totals for these two factors, and for our water consumption.

In addition, throughout our offices, stores and facilities, the Group has taking the following measures to increase energy efficiency:

- Replacement of T8 and halogen lights with T5, CFL or LED energy-efficient lights, and de-lamping where possible;
- Installation of recycling bins for paper, bottles, and cans, and contracting with relevant waste handlers for recycling;
- Progressive conversion of all trucks to Euro IV standard or better, and abiding by fuel efficiency guidelines in vehicle procurement;
- Observing firm-wide air conditioning thermostat setting of 24 degrees C in Hong Kong (in the summer)

In 2010, Li & Fung (Trading) globally and Trinity Limited's Hong Kong offices consumed a total of 106,279 reams of A4 paper, which constitutes a reduction of 20.9% for the former and 10% for the latter on 2009 consumption. Our paper reduction campaign is ongoing throughout the Group, supported by progressive migration of paper processes to electronic and online platforms. In addition, both Li & Fung (Trading) and Trinity Limited earned Wastewise and Energywise labels under the Hong Kong EPD scheme.

Environment

With regard to certification of our offices:

- Approx 25,000 sq ft of offices at 1372 Broadway, New York, were certified LEED Silver
- Approx 59,000 sq ft of offices at 1333 Broadway, New York, were certified LEED Silver
- Approx 59,000 sq ft of our Istanbul office were certified LEED Silver
- Approx 20,000 sq ft of offices in our Shanghai Campus were certified LEED Silver
- Approx 60,000 sq ft of our offices in the Shatin LiFung Centre, Hong Kong, were certified LEED Gold
- Approx 14,000 sq ft of our offices at LiFung Tower, Cheung Sha Wan, Hong Kong, were certified LEED Silver
- We expect to report further certifications for our ongoing office renovation programs in New York, Bangladesh, London, and Hong Kong, when these projects are completed.

The Group actively promotes environmental awareness amongst employees through formal training, a sustainability speaker series, and informal engagement activities. In 2010, throughout our Group in Hong Kong there were over 25 environmental awareness programs such as sustainability focused talks or educational excursions.

To promote the Environmental Principles in our supply chains and relations with stakeholders, we were active in a number of non-governmental organizations, industry associations, foundations, and academic organizations in 2010, including:

- Business for Social Responsibility – where we are a member of the Apparel Mills and Sundries working group that seeks to engage suppliers on a common set of environmental principles
- Supplier Ethical Database Exchange – with which we share data and knowledge to improve the ethical performance of our supply chain
- Sustainable Fashion Business Consortium—to increase sustainable practices across the supply chain
- The Natural Resources Defense Council – on the Responsible Sourcing Initiative
- The World Wide Fund for Nature (WWF) – to promote environmental awareness amongst our employees
- Business Environment Council of Hong Kong and Environmental Sustainability Committee of the Hong Kong General Chamber of Commerce, both of which aim to raise awareness of environmental issues in the local community as well as share best practices amongst companies
- Green Economy Task Force and Energy and Environment Commission of the International Chamber of Commerce, which provide business input on environmental issues to global policy and multilateral groups

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Actions To Promote The Principles

We recognize that corruption and bribery are serious threats to the integrity of markets and rule of law, undermine fair competition, destroy trust within business and society, and represent added costs to doing business. We thus support a strict anti-corruption and anti-bribery policy as a part of our employee Code of Conduct and Business Ethics, and as part of our continuous effort to operate according to the highest principles of accountability, transparency and good governance across all our operations and supply chain.

The Employee Code of Conduct contain strict guidelines on corruption, bribery, gift-giving, gratuities, kick-backs and other favors, and all employees must sign and abide by the Code at all times and without exception.

In addition, we regularly review our policies to ensure compliance with relevant laws and regulations of the jurisdictions in which we operate.

Employees are also encouraged to report violations of the Code, including for corruption and bribery, through a dedicated whistleblowing channel and email to the Group Chief Compliance Officer.

Li & Fung (Trading) has been recognized for its achievements in the area of corporate governance, including in 2010:

- Hong Kong's Best Corporate Governance, #4 ranking, in a FinanceAsia Magazine poll
- Best Corporate Governance – No #5 in Hong Kong, in a Euromoney Magazine poll
- Corporate Governance Asia Recognition Awards – by Corporate Governance Asia Journal
- The Asset Corporate Platinum Award 2010, for all around excellence in financial performance, corporate governance, environmental responsibility and investor relations, by the Asset Magazine

Lastly, and in recognition of achievements in all areas reflected in the Ten UNGC Principles, and based on a rigorous third-party ESG analysis, LI & Fung (Trading) is a constituent of the Dow Jones Sustainability Index, the FTSE4Good Index and the Hang Seng Sustainability Index.