



United Nations Global Compact
**COMMUNICATION
ON PROGRESS 2011**
Li & Fung Group



LI & FUNG GROUP

STATEMENT OF CONTINUED SUPPORT

Li & Fung (1937) Limited on behalf of the Li & Fung Group of Companies (hereafter the “Group”), is pleased to publish our Communication on Progress. This report outlines the steps that we have taken to promote the UN Global Compact principles within our Group companies, as well as throughout our supply chains and amongst our stakeholders.

First and foremost, I would like to reiterate the support of the Li & Fung Group for the UN Global Compact principles. Since we began doing business, the Li & Fung Group has endeavored to embed the Compact’s principles into our strategies, operations, organizational culture, and relationships with our stakeholders.

2012 marks the 10th anniversary of our signing on to the Global Compact. Today, we remain as committed as ever to the UNGC principles and to promoting the Compact wherever we operate. In a world increasingly stressed by climate change and resource scarcity and facing the challenges of sustainable, inclusive development, the Compact serves as an innovative platform for collective action and engagement between business, government, and civil society.

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 TEN UNGC PRINCIPLES

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.

LABOUR

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.

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.

ANTI-CORRUPTION

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

THE LI & FUNG GROUP OF COMPANIES

Who We Are and Our Approach to Sustainability

WHO WE ARE

Li & Fung (1937) Limited is the controlling shareholder of the Li & Fung Group, a multinational group headquartered in Hong Kong, whose companies are engaged in sourcing, distribution and retailing of consumer products.

Li & Fung Limited (hereafter “Li & Fung (Trading)”) operates three distinct business networks including Trading, Distribution, and Logistics. The company designs, develops and sources consumer products for retailers and brands worldwide, and also operates an extensive distribution and logistics network serving major brands in Asia and beyond. Other Group companies are engaged in retailing: Convenience Retail Asia Limited operates convenience stores and bakeries, Trinity Limited develops and markets luxury menswear, and Toys“R”Us Asia Limited, a joint venture with Toys“R”Us, Inc, sells toys and children’s products in stores throughout Asia.

Li & Fung (Trading), Trinity Limited and Convenience Retail Asia Limited are listed on the Hong Kong Stock Exchange, while we hold a minority share in Toys“R”Us Asia Limited. In sum, the four companies employ over 41,000 men and women across 40 economies worldwide, with total revenue of over US\$21 billion in 2011.

OUR APPROACH to SUSTAINABILITY

Our operating companies share a common set of values and approach to sustainability, which reflects 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.

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 forward. 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 other key functions such as communications, IT, properties, and philanthropy, to coordinate actions and strategies and facilitate best practices and resource sharing.

In this report, we 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.funggroup.com

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 manager, or as an alternative, directly and confidentially 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 doing business, we are conscious of our dual obligation to comply with local legislation as well as to respect and follow international norms of behavior with regard to human rights.

We also recognize that our responsibility extends to relations with key stakeholders, and therefore, Li & Fung (Trading) Ltd and Trinity Limited each have in place a Code of Conduct for Suppliers that requires suppliers to respect and uphold local legal requirements and internationally proclaimed human rights.

Asia has its own Toys“R”Us Standards for Partner Conduct. Any supplier trading with these companies must indicate acceptance of these requirements for the course of his or her business with us.

Compliance with the code is verified by processes and checks within each respective company. In the case of Li & Fung (Trading), due to the scale and nature of its business, a trained, in-house supplier auditing team conducts announced and unannounced audits and works with approved third-party auditors to ensure compliance to the code. Li & Fung (Trading) holds training seminars, workshops and sessions in order to ensure understanding of the principles contained in the code and the benefits of sustainable compliance. Where violations occur, our compliance teams work with the supplier concerned to address the problem and raise its performance.

With increasing knowledge about the interface between human rights and business operations and rising expectations from consumers and stakeholders worldwide, Li & Fung (Trading) updated its standards in 2011 by revising its Code of Conduct for Suppliers and Supplier Compliance Manual. The launch of these standards, in January 2012 to all suppliers, provides a transparent framework for improving working conditions and environmental performance, and for providing more sustainable sourcing options.



The Code requires compliance with local and international regulations, including the International Labor Organization's

core conventions. Key revisions include expanded ethical conduct requirements, enhanced disclosure of suppliers' performance information and the issue of human trafficking, in support of the California Transparency in Supply Chains Act.

The Supplier Compliance Manual outlines how to meet the Code and is the first step in building competency for sustainable compliance. In parallel, a new assessment tool for suppliers was launched to identify gaps in meeting Code requirements. This information enables employees to follow-up, identify opportunities for improvement as needed, and support suppliers with training, education and tools to build management systems that support ongoing compliance. Suppliers identified as having compliance issues will have access to capacity-building resources and be required to resolve the issue(s) to continue business. Launch of the revamped codes was accompanied by an orientation and training program on human rights and labour issues, for all Li & Fung (Trading) employees along with suppliers and business partners.

Li & Fung (Trading) also reinforced its commitment to human rights both publicly on its website, as well as internally through employee education and training on its Code of Conduct and Business Ethics. This effort

will continue into 2012 with initiatives to enhance the company's sustainability programs and its management of risks.

PROGRESS AND OUTCOMES

During 2011, over 10,000 audits to assess compliance of third-party suppliers with the Code of Conduct for Suppliers were conducted by Li & Fung (Trading)'s compliance staff.

To further sustainability in the supply chain, Li & Fung (Trading) has developed tools and programs, and engaged with its partners, to improve working conditions. Over the course of 2011, it focused on enhancing its compliance tools to support its suppliers to improve their social and environmental sustainability.

In addition, monthly meetings of the Sustainability Working Group discussed human rights issues so as to give executives responsible for sustainability knowledge and guidance on how to ensure that our operations and stakeholder relations continue to promote human rights. Lastly during 2011, the Group organized over 100 trainings sessions, workshops or seminars targeting third-party suppliers and business partners.

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 internally 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 opportunity.

Each new hire is briefed on the Code and must agree to abide by it before starting employment. 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. We are currently updating the Li & Fung (Trading) Code of Conduct and Business Ethics was updated, specifically to incorporate new detail on human and labour rights. The revised

Code specifically references the UN Global Compact principles, the UN Declaration of Human Rights and the ILO's core conventions. The other group companies will progressively adopt similar approaches.

The revision of the Code of Conduct and Business Ethics also takes 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 a training program on human rights and labour issues for all Li & Fung (Trading) employees.

Employees are encouraged to report any violations of the Code under a written policy to their direct manager or alternatively directly and confidentially 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, Li & Fung (Trading) and Trinity Limited each have in place a Code of Conduct for Suppliers that binds suppliers to uphold the UNGC labour principles. Any supplier trading with our Group must accept 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 a series of processes and checks by each respective company. In the case of Li & Fung (Trading), due to the scale and nature of its business, a trained, in-house auditing



team conducts announced and unannounced audits and works with approved third-party auditors to ensure compliance to the code. In addition, Li & Fung (Trading) holds training seminars, workshops and sessions in order to ensure understanding of the principles in the code and of the benefits of compliance.

The Group recognizes that compliance with the Code of Conduct for Suppliers is necessary, but is only the first step in a process of building sustainable compliance. Compliance backed by audits must be tied to capacity building and training to ensure that suppliers have the tools and incentive to raise their performance and product while improving working conditions and being compliant.

PROGRESS AND OUTCOMES

During 2011, over 10,000 audits to assess compliance of third-party vendors with the Code of Conduct for Suppliers were conducted by compliance staff of Li & Fung (Trading).

Li & Fung (Trading) also engaged in a number of industry initiatives to improve labour standards, working conditions, and compliance, within the supply chain. These include the Better Work program under the ILO and the HER Project of the Business for Social Responsibility.

In addition, labour issues regularly discussed in monthly meetings of the Sustainability Working Group, with the intent to give executives responsible for sustainability information and operational guidelines for respecting and promoting fair working practices including the UNGC labour principles, within our operations and stakeholder relations.

Lastly during 2011, the Group organized over 100 trainings sessions, workshops or seminars targeting third-party suppliers and business partners. Internally, labour issues and social compliance were also covered in Group leadership and executive development programs as a core building block for supply chain sustainability.

ENVIRONMENT

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

PRINCIPLE 8: Businesses should undertake initiatives to promote greater environmental responsibility; and

PRINCIPLE 9: Businesses should 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. Today more than ever, we recognize that climate change and water scarcity represent serious challenges and risks for the global community. We therefore have redoubled our commitment to environmental responsibility in our operations, while continually seeking new ways to upgrade the environmental sustainability of our supply chain.

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, training, promotion through the staff intranet, employee outings, and Group promotion of activities such as Earth Hour.

In our own operations:

We measure our energy consumption, greenhouse gas emissions, water consumption, and waste throughout our own facilities and offices, and make targeted annual reductions across all of these areas. 2011 marked the first full year of implementing the energy savings initiatives recommended by the Investment Grade Audit (IGA) of our headquarters in Hong Kong and of the global campaign for our employees to adopt a range of behavioral changes. Our network of offices around the world also retrofitted existing lighting, where feasible, with more efficient LED, CFL and/or T5 fixtures in 2011.

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

- Leadership in Energy and Environmental Design (LEED) or Building Research Establishment Environmental Method (BREEAM) certification for buildings and offices; certifications achieved for 10 our offices to date.
- The Wastewi\$e and Energywi\$e labeling schemes run by the Hong Kong Environmental Protection Department
- In the United States, the Environmental Protection Agency's Climate Leaders program

Lastly, in view of concerns of natural resource scarcity and environmental stewardship, Li & Fung (Trading) has developed and implemented our Green Meeting Guidelines set of guidelines designed for in company meetings. Other Group companies are expected to adopt these whenever possible.

In our supply chains and stakeholder relationships: We expect our suppliers to abide by all local environmental legislation, and where appropriate we require that they avoid the use of ozone depleting chemicals, the use of certain toxics in production processes, and trade in endangered species. We also encourage and provide technical support to suppliers on energy and water efficiency, greenhouse gas reductions, sustainable building, lean manufacturing, health and safety and human resource management, both directly

and through recognized industry programs. Lastly, we also facilitate the sharing of best practices across our supplier network, both directly through our own programs and through industry groups.

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. For example, community clean-ups and tree-planting activities are regularly organized by our offices.

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:

In 2011, Li & Fung (Trading) recorded a total global electricity consumption of 163,461 GJ (45,405,947 KWh) compared with 171,016 GJ (47,504,489 KWh) in 2010, and our Scope 1 and 2 greenhouse gas emissions were 32,120 tons of CO₂ equivalent, compared with 35,630 of the same unit the previous year. The same 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 proactively taken the following measures to increase energy efficiency:

- Progressive commercial retrofit of chillers;
- Replacement of T8 and halogen lights with T5, CFL or LED energy-efficient lights, and de-lamping where possible;
- Adoption of an enterprise-wide environmental management and accounting software system;
- Installation of recycling bins for paper, bottles and cans, and contracting with relevant waste handlers for recycling;
- Progressive conversion of vehicle fleet to Euro IV standard or better, and abiding by fuel efficiency guidelines in vehicle procurement;
- Observing firm-wide air conditioning thermostat setting of 26.5 degrees C in Hong Kong (in the summer)

In 2011, Li & Fung (Trading) globally and Trinity Limited's Hong Kong offices consumed a total of 153,572 reams of A4 paper, which constitutes a 44% increase over the previous year. This increase was attributed to an expansion in our operations. However, we reduced our consumption per person by 10% as a result of our continued conservation efforts. Our paper reduction campaign remains an ongoing initiative 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 WasteWi\$e labels, while Li & Fung (Trading) Limited

also maintained its EnergyWi\$e label, all under the Hong Kong EPD scheme.

With regards to sustainable offices and buildings, we developed our own Sustainable Design, Construction and Renovation Guidelines for New Construction, Major Renovation and Commercial Interiors in 2011. These user-friendly guidelines support our offices and facilities around the world to adopt LEED elements whenever feasible.

The Group now has 237,000 sq ft of office space certified to LEED. Furthermore in 2011/2012, the following offices were certified:

- Approx 4,500 sq ft in our Bangladesh Office were certified LEED Gold
- Approx 8,000 sq ft in our London office were certified BREEAM Pass Rating
- Approx 50,000 sq ft in our LF Trinity office, Hong Kong, were LEED Certified

The Group actively promotes environmental awareness amongst employees through our internal intranet site, formal training, a sustainability speaker series and informal engagement activities. In 2011, throughout our Group in Hong Kong there were over 20 such environmental awareness sessions.

To promote the Environmental Principles in our supply chains and relations with stakeholders, Group companies were active in a number of non-governmental organizations, industry associations, foundations, and academic organizations in 2011, including:

- Business for Social Responsibility –through which we seek to engage suppliers on environmental and issues
- Global Social Compliance Programme – to improve working conditions and environmental practices in the global supply chain
- Sedex, the Supplier Ethical Data Exchange – with which we share data and knowledge to improve the ethical performance of our supply chain
- Sustainable Apparel Coalition – as a Founding member, we are contributing to the development of its Apparel and Footwear Index tools, which will improve our ability to measure and manage the environmental impact of products in 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 Worldwide 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 Hong Kong 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, and undermine fair competition. We thus support a strict anti-corruption and anti-bribery policy as a part of our employee Code of Conduct and Business Ethics, in line with our continuous effort to operate according to the highest principles of accountability, transparency and good governance.

Each Group company's Code contains strict guidelines on corruption, bribery, gift-giving, gratuities, kick-backs and other favors, and all full time employees must sign and abide by the Code. Since 2011, more stringent conflicts of interest policy and declaration procedures to staff are being put into place to reinforce the Group's business ethics management and monitoring.

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

Our group companies have been recognized for their achievements in ESG issues. For instance, Li & Fung (Trading) has been recognized for its achievements in the area of corporate governance, including in 2011:

- Corporate Governance Asia Recognition Awards 2011 – by Corporate Governance Asia Journal
- The Asset Corporate Platinum Award 2011, for all around excellence in financial performance, management acumen, corporate governance, social responsibility, 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) was again included in the Dow Jones Sustainability Asia Pacific Index and FTSE4Good Index Series, while both Trinity Limited and Li & Fung (Trading) were included in the Hang Seng Corporate Sustainability Index Series of the Stock Exchange of Hong Kong.



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