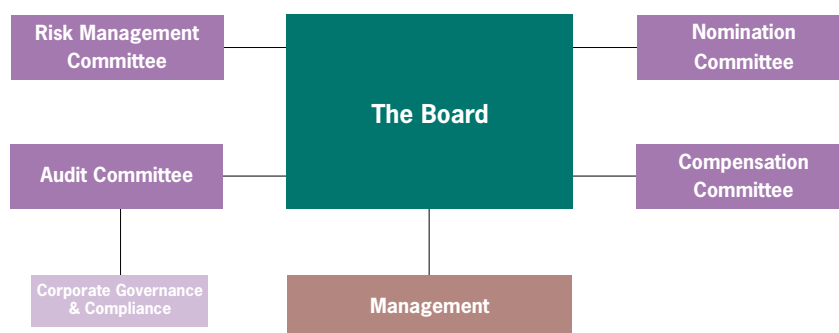


# Corporate Governance

The Board of Directors is committed to principles of corporate governance consistent with prudent enhancement and management of **shareholder value**. Set out below are the principles of corporate governance as adopted by the Company:



## The Board

The Board is composed of the Group Non-Executive Chairman, the Group Executive Managing Director, four executive directors and six non-executive directors (of whom four are independent). In order to reinforce their respective independence, accountability and responsibility, the role of the Group Chairman is separate from that of the Group Managing Director.

The Group Chairman is responsible for overseeing the functioning of the Board whilst the Group Managing Director, supported by the executive directors, is responsible for managing the Group's business, including the implementation of major strategies and initiatives adopted by the Board.

The Non-Executive Directors (the majority of whom being independent) with diversified industry expertise serve the important function of advising the management on strategy development and ensure that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole.

The Board meets regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group. Matters that require decision by the Board normally include overall group strategy, major acquisitions and disposals, annual budgets, annual and interim results, recommendation on directors' appointment or re-appointment, approval of major capital transactions and any other significant operational and financial matters. All directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. Procedures are also in place for directors to seek independent professional advice in performing their duties.

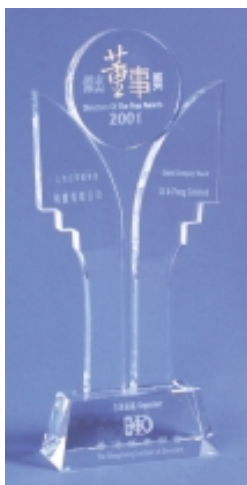
The Group's Chief Compliance Officer and Chief Financial Officer also attend all Board meetings to advise on risk management, statutory compliance, and accounting and financial matters. The Board held four meetings in year 2001 and the average attendance rate was 88%.

All directors, apart from the Group Chairman and Group Managing Director, are subject to retirement by rotation at the Annual General Meeting.

The Company was awarded the prestigious Directors of the Year Awards 2001 organized by the Hong Kong Institute of Directors under the category of Listed Company Boards in recognition of its outstanding performance in the area of Corporate Governance and the promotion of professional director practices.

### Board Committees

The Board has established the following committees (all chaired by non-executive directors) with defined terms of reference: the Nomination Committee, the Audit Committee, the Risk Management Committee and the Compensation Committee.



### Nomination Committee

The Nomination Committee was established in August 2001 to make recommendations to the Board on the appointment of directors and the management of board succession. The Committee meets as required and its current members include:

Dr Victor FUNG Kwok King - *Committee Chairman*

Mr Paul Edward SELWAY-SWIFT \*

Dr William FUNG Kwok Lun

### Audit Committee

The Audit Committee has been established since 1998 to provide advice and recommendations to the Board. Its members currently include six non-executive directors:

Dr Victor FUNG Kwok King - *Committee Chairman*

Mr Paul Edward SELWAY-SWIFT \*

Mr Allan WONG Chi Yun \*

Professor Franklin Warren McFARLAN \*

Mr Leslie BOYD

Mr Makoto YASUDA \* (appointed on 10 May 2001)

Mr James SIU Kai Lau (Chief Compliance Officer) - *Secretary*

The majority of the Committee members are independent non-executive directors. During the last 12 months the Audit Committee met three times (with an average attendance rate of 86%) to review with senior management and the Company's internal and external auditors the accounting principles and practices adopted by the Group and to discuss auditing, internal control, risk management and financial reporting matters (including the interim and annual financial statements before recommending them to the Board for approval). Part of the above two meetings was attended only by independent non-executive directors and external auditors.

### **Risk Management Committee**

The Risk Management Committee was established in August 2001 to review and make recommendations to the Board on the Group's risk management and internal control systems. The Committee meets as required and reports to the Board in conjunction with the Audit Committee. Its current members include:

Dr Victor FUNG Kwok King - *Committee Chairman*  
Dr William FUNG Kwok Lun  
Mr James SIU Kai Lau (Chief Compliance Officer)  
Mr Frank LEONG Kwok Yee (Chief Financial Officer)

### **Compensation Committee**

The Compensation Committee has been formed since 1993 with the responsibility of approving the remuneration policy for all directors and senior executives, including annual allocation of Share Options to employees under the Company's Employee Share Option Scheme. The Committee met two times during the year 2001 (with an average attendance rate of 67%). Its current members include:

Mr Allan WONG Chi Yun \* - *Committee Chairman*  
Dr Victor FUNG Kwok King  
Dr William FUNG Kwok Lun

\* *independent non-executive director*

### **Remuneration Policy for Executive Directors**

The primary goal of the remuneration policy on executive remuneration packages is to enable Li & Fung to retain and motivate executive directors by linking their compensation with performance as measured against corporate objectives. Under the policy, director is not allowed to approve his own remuneration.

The principal elements of Li & Fung's executive remuneration package include basic salary, discretionary bonus without capping and share option. In determining guidelines for each compensation element, Li & Fung refers to remuneration surveys conducted by independent external consultants on companies operating in similar businesses.

#### *Basic Salary*

The Group Managing Director annually reviews and approves the basic salary of each executive director in accordance with the Group's remuneration policy. Under the service contracts between the Group and the Group Managing Director as disclosed under Directors' Service Contracts in this report, the Group Managing Director is entitled to an aggregate fixed basic salary which is subject to the annual review by the Committee without his attendance.

#### *Discretionary Bonus*

Li & Fung implements a performance-based discretionary bonus scheme for each executive director (excluding the Group Managing Director). Under this scheme, the computation of discretionary bonus (without capping) is based on measurable performance contribution of business units headed by the respective executive directors. The Group Managing Director is entitled to a profit share of the Company's consolidated results after adjustment of interest, tax and minority interests under the above service contracts between the Group and the Group Managing Director.

#### *Share Option*

The Committee approves all grants of share options under the Company's approved share option scheme to executive directors, having regard to their individual performance and achievement of business targets in accordance with the Company's objectives of maximizing long-term **shareholder value**.

### **Remuneration Policy for Non-Executive Directors**

The remuneration, comprising directors' fee, of non-executive directors is subject to annual assessment and recommendation by the Committee for shareholders' approval at the Annual General Meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at Company's meetings.

### **Internal Control**

The internal control and accounting systems of the Group are designed to provide reasonable assurance that assets are safeguarded against unauthorized use or disposition, that transactions are executed in accordance with management's authorization and that the accounting records are reliable for preparing financial information used within the business or for publication and maintaining accountability for assets and liabilities. Qualified personnel throughout the Group maintain and monitor these internal accounting controls on an ongoing basis. The Group's Corporate Governance Division, under the supervision of the Group's Chief Compliance Officer, independently reviews these controls, evaluates their adequacy, effectiveness and compliance, and reports to the Audit Committee.

### **Code of Best Practice**

The Company complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 December 2001.

## Corporate Social Responsibility

Li & Fung has developed a Code of Conduct to be observed by all its approved vendors across the world. For example, vendors are prohibited from hiring child or involuntary labor. They are also prohibited from practicing corporal punishment or any form of discrimination. The importance of environmental protection, occupational safety and health as well as compliance with the law are also highlighted in the Code. Aside from conducting inspections and audits, Li & Fung also provides systematic training to vendors to equip them with the awareness, knowledge and skill for compliance.

Li & Fung is a member of Business for Social Responsibility (BSR), an international organization based in the US that promotes the respect for ethical values, people, community and the environment. Li & Fung is also a participant of the United Nation's Global Compact initiative that forms a platform for the promotion of human rights, labor welfare and the environment through the dissemination of good practices based on certain universal principles - the Nine Principles. These cover the respect and support for the protection of human rights, abstinence from human rights abuses, freedom of association, elimination of all forms of forced and child labor, elimination of discrimination in employment, and promotion of environmental responsibility.

Li & Fung is committed to assuring a healthy and clean working environment for employees by declaring its headquarter building a non-smoking office.

## Investor Relations and Communication

The Company continues to pursue a proactive policy of promoting investor relations and communication by maintaining regular meetings with institutional shareholders and analysts. All shareholders have 21 days' notice of the Annual General Meeting at which directors and Committee members are available to answer questions on the business. In order to further promote effective communication, the Company maintains a website ([www.lifung.com](http://www.lifung.com)) to disseminate shareholder information electronically on a timely basis.

## Corporate Communication

As part of Li & Fung's entrepreneurial corporate culture and business policy, semi-annual retreats, with active participation of the Group Chairman, the Group Managing Director, executive directors and senior managers of all business streams worldwide as well as guest speakers, are held in Hong Kong to create a sense of staff ownership of the Company's strategic objectives and to foster effective communication across the Group.

The Company also publishes a regular newsletter to provide staff with reports on the Group's latest directives and initiatives and staff recreational activities.

### **Information Technology**

Li & Fung adopts the latest information technology for enhancing efficiency and effectiveness in its external and internal communication. The IT infrastructure established by the Group includes the sharing of dedicated Extranet sites with technologically advanced customers to facilitate speedy dissemination of business information and better management of supply chain activities. Li & Fung's global sourcing network is inter-linked electronically through the Intranet for prompt sharing of information among employees worldwide. The Company has also established direct electronic linkage with regulatory bodies through the Internet to disseminate corporate information in a timely manner.

### **Commitment to Staff Development**

As the global Supply Chain Management service provider, Li & Fung fully recognizes that human capital is a key asset to the growth and profitability of the Company. The Group therefore gives due emphasis to staff training and implements a policy of sponsoring staff to attend in job-related training and self-improvement programs. Contents of these programs cover senior management development, general competency and compliance training, technical competency for softgoods and hardgoods, work safety, self development and language skills.

### **Community Service**

The Company also endorses senior executives in participating in community services accepting public offices which currently include various government advisory boards and professional associations promoting Hong Kong's exports, advance of international trade and best corporate governance practices. Executives' participation includes serving on the Committee of the Hong Kong Exporters' Association and on the Corporate Governance Committee of the Hong Kong Society of Accountants.

The Company further provides institutional support in the form of sponsorships for universities and charitable support by direct donation or direct employee involvement in fundraising activities organised by leading charitable organizations. Activities in year 2001 include the Standard Chartered Hong Kong Marathon and blood donation for Hong Kong Red Cross.