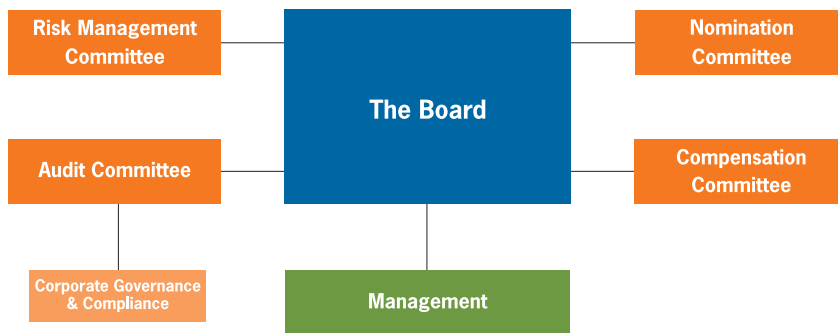


# Corporate Governance

The Board of Directors is committed to principles of corporate governance consistent with prudent enhancement and management of **shareholder value**. These principles emphasize transparency, accountability and independence. Set out below are those 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 corporate governance, risk management, statutory compliance, and accounting and financial matters. The Board held three meetings in year 2002 and the average attendance rate was 97%.

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



Directors of the Year Awards 2001



Best Corporate Governance Disclosure Awards 2002

Management's commitment to excellence has continued to gain market recognition from different stakeholders including bankers, analysts and institutional investors.

The Company was awarded the Directors of the Year Awards in 2001 and it was further:

- Awarded Gold Award in the Hang Seng Index Category and first time Significant Improvement Award of the Best Corporate Governance Disclosure Awards 2002 organised by the Hong Kong Society of Accountants.
- Voted as one of the best Hong Kong companies in the category of "Asia's Best Company 2002" by *Euromoney* magazine, and
- Voted as one of the "Best Managed Company 2002" and as a "Company most committed to Corporate Governance" by *Finance Asia* magazine.

### 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. During the last 12 months, the Nomination Committee met once (with an attendance rate of 100%) 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 current members include:

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

The majority of the Committee members are independent non-executive directors. All Committee members possess unique industry and financial experience to advise on Company's matters.

During the last 12 months, the Audit Committee met three times (with an average attendance rate of 90%) to review with senior management and the Company's internal and external auditors the internal and external audit findings, 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 for 2002 before recommending them to the Board for approval).

In order to further enhance **independent reporting** by external auditors, part of the aforementioned meetings was attended only by independent non-executive directors and external auditors. In addition, the external audit engagement partner is subject to periodical rotation and the ratio of annual fees for external auditors for non-audit services and for audit services is subject to close scrutiny by the Audit Committee (refer fee disclosure in page 58 of the accounts).

### 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. During the last 12 months, the Risk Management Committee met twice (with an average attendance rate of 88%). It 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. During the last 12 months, the Compensation Committee met twice (with an average attendance rate of 100%). In one of the aforementioned meetings, the Committee approved a new share option scheme to be adopted by shareholders at the forthcoming Annual General Meeting. It annually reviews the existing remuneration policy. 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 directly 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 2002.

## Corporate Social Responsibility and Sustainability

Li & Fung has developed a Supplier Code of Conduct to be observed by all its approved vendors around the globe. The Code is a set of rigorous labor, health and environmental standards based on national labor laws, International Labor Organisation (ILO)'s conventions and treaties, and international best practices. 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 health and safety standards as well as compliance with the law are also highlighted in the Code.

Aside from conducting supplier inspections and ongoing supplier verification audits, Li & Fung also provides systematic training both internally to its employees and externally to its vendors to equip them with the awareness, knowledge and the necessary skills to meet compliance requirements.

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. In conjunction with a BSR labor rights project in 2002, Li & Fung together with several other US branded companies created a labor rights pocket guide along with a labor law protection & aid poster specifically targeted for migrant factory workers of Guangdong, China.

At the 2002 BSR Annual Conference held in the US, Li & Fung was honored to be the corporate sponsor of the Welcoming Reception at the Conference.

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.

In 2002, Li & Fung was again included, for the second consecutive year since 2001, as a component of the Dow Jones Sustainability World Indexes, the world's first global indexes tracking the performance of companies worldwide that lead their industry in terms of corporate sustainability criteria. The inclusion acknowledges Li & Fung's continuing effort and consistent performance in three main dimensions of **corporate sustainability: social, economic and environmental responsibilities**.

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) to disseminate shareholder information electronically on a timely basis.

In 2002, Li & Fung's continuing commitment to enhancing investor relations and communication has gained further recognition from the wider business community by winning the first place in the category of "Best Investor Relations by an Asian Company in International Markets" and "Best Investor Relations in Hong Kong" as surveyed by *Investor Relations* magazine (in association with *The Asian Wall Street Journal*) and *Asiamoney* magazine respectively.

## Corporate Communication

The Company holds monthly Policy Committee Meetings for senior executives to formulate company-wide policies and practices, and to report and discuss significant issues affecting the Group.

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.

Senior executives also travel frequently to different country offices to reinforce staff commitment to Li & Fung's business culture and the Group's established corporate initiatives. **The Group's Corporate Governance Division conducts regular interactive forum with staff members** in Hong Kong and overseas to ensure that good corporate governance and company practices are reinforced and embedded in the Group's operations.

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 practicable 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 and other key partners of the supply chain network, such as vendors and freight forwarders, 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.

The IT Division of Li & Fung (Trading) Limited has obtained certificate of the ISO 9001:2000 quality management system standard applicable to provision of in-house IT products and services since end 2001.

## **Staff and Community**

As a 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 places due emphasis on staff development and implements a policy of sponsoring staff to attend job-related training and self-improvement programs. Management development programs are also in place for senior employees. Contents of these Group's programs cover general competency training, technical training, management skills, compliance and social ethics, business etiquette, occupational health and safety, language skills, and self-growth and development. In 2002, a total of 1,930 participants took part in programs organized for the Group's Hong Kong and overseas offices.

Li & Fung and its offices, as an integral part of various communities where the businesses operate, contribute to the well-being of the societies and provide support to people in need. The Group endorses senior executives in accepting public offices which currently include various government and non-government advisory boards and professional associations promoting Hong Kong's exports, advance of international trade, community's quality-housing solutions and best corporate governance practices. Executives' participation includes serving on the Committee of the Hong Kong Exporters' Association, Hong Kong Housing Society and on the Corporate Governance Committee of the Hong Kong Society of Accountants.

Li & Fung further provides institutional support in the form of sponsorships for universities and charitable support by direct donation or direct employee involvement in fundraising activities organized by leading charitable organizations. Activities in year 2002 included the Standard Chartered Hong Kong Marathon and blood donation for Hong Kong Red Cross. These genuine efforts and contribution to a better society were recognized by the 'Caring Company Award' presented in 2002 by The Hong Kong Council of Social Service for the Group's caring culture and good corporate citizenship.