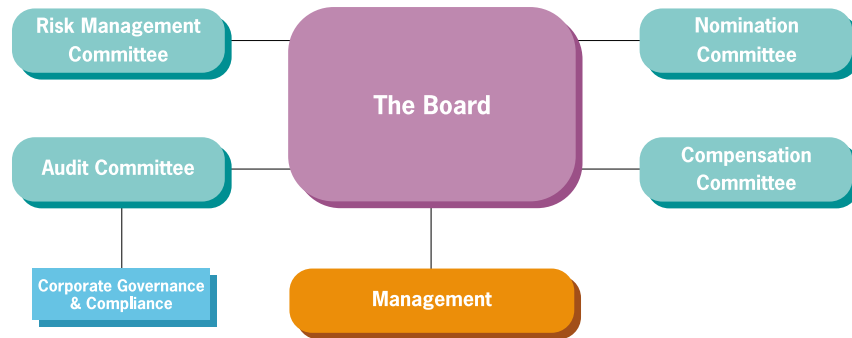


# Corporate Governance

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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) whose biographical details are set out in the Directors and Senior Management section on pages 26 to 31.

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 are 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 a 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 other significant operational and financial matters. Board meetings are scheduled one year in advance to facilitate maximum directors' attendance. The meeting agenda is set by the Non-Executive Chairman in consultation with members of the Board. 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, mergers and acquisitions, and accounting and financial matters. The Board held three meetings in 2003 and the average attendance rate was 89%.

Attendance at regular Board Meetings for Year 2003	No. of meetings attended
<b>Non-executive Directors</b>	
Dr Victor FUNG Kwok King ( <i>Chairman</i> )	2
Mr LAU Butt Farn	3
Mr Leslie BOYD	2
<b>Independent Non-executive Directors</b>	
Mr Paul Edward SELWAY-SWIFT	2
Mr Allan WONG Chi Yun	3
Professor Franklin Warren McFARLAN	3
Mr Makoto YASUDA	3
<b>Executive Directors</b>	
Dr William FUNG Kwok Lun ( <i>Managing Director</i> )	3
Mr Henry CHAN	2
Mr Danny LAU Sai Wing	3
Ms Annabella LEUNG Wai Ping	3
Mr Bruce Philip ROCKOWITZ	3

Note: Three regular Board Meetings were held on 24 March 2003, 13 August 2003 and 14 November 2003 respectively.

All directors, apart from the Group Chairman and Group Managing Director, are subject to retirement by rotation at the Annual General Meeting. To further enhance accountability, the Company's bye-laws are being amended to include the Group Chairman and Group Managing Director under the rotation plan at the forthcoming Annual General Meeting.

Management's commitment to excellence and high standards in corporate governance practices has achieved following market recognition from different stakeholders including bankers, analysts and institutional investors in recent years.

Year 2003:

- Gold Award in the Hang Seng Index Category of the Best Corporate Governance Disclosure Awards 2003 organised by the Hong Kong Society of Accountants ("HKSA"); and



Best Corporate Governance Disclosure Awards 2003



Best Corporate Governance Disclosure Awards 2002



Directors of the Year Awards 2001

- “Best in Corporate Governance, Hong Kong and Pan-Asia” The Asset Benchmark 2003 Survey

Year 2002:

- Gold Award in the Hang Seng Index Category and first time Significant Improvement Award of the Best Corporate Governance Disclosure Awards 2002 organised by HKSA
- One of the best Hong Kong companies in the category of “Asia’s Best Company 2002” by *Euromoney* magazine; and
- One of the “Best Managed Company 2002” and as a “Company most committed to Corporate Governance” by *Finance Asia* magazine

Year 2001:

- “Directors of the Year Awards 2001” by the Hong Kong Institute of Directors

### 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. To further reinforce independence, the Nomination, Audit and Compensation Committees were restructured in 2003 to comprise a majority of independent non-executive directors.

### 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** with reference to certain guidelines as endorsed by the Committee. These guidelines include the professional knowledge and industry experience, personal ethics, integrity and personal skills of members. During the last 12 months, the Nomination Committee met once (with an attendance rate of 100%).

Nomination Committee meeting attendance in the last 12 months	No. of meeting attended (1 meeting in total)
Dr Victor FUNG Kwok King – <i>Committee Chairman</i>	1
Mr Paul Edward SELWAY-SWIFT*	1
Dr William FUNG Kwok Lun – <i>retired on 15 November 2003</i>	–
Mr Makoto YASUDA* – <i>appointed on 15 November 2003</i>	1

Note: Nomination Committee meeting was held on 24 March 2004.

## Audit Committee

The Audit Committee has been established since 1998 to provide advice and recommendations to the Board. The majority of the Committee members are independent non-executive directors. To further reinforce independence, the Audit Committee was restructured in 2003 to be chaired by an independent non-executive director. All Committee members possess appropriate industry and financial experience to advise on Company's strategy and other matters.

The Audit Committee met three times in 2003 (with an average attendance rate of 81%) 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, listing rules and statutory compliance, and to discuss auditing, internal control, risk management and financial reporting matters (including the interim and annual financial statements for each financial year 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 to external auditors for non-audit services and for audit services is subject to close scrutiny by the Audit Committee (refer fee disclosure in page 69 of the accounts).

Audit Committee meeting attendance for Year 2003	No. of meetings attended (3 meetings in total)
Mr Paul Edward SELWAY-SWIFT* – <i>Committee Chairman</i> – <i>appointed as Committee Chairman on 15 November 2003</i>	2
Dr Victor FUNG Kwok King – <i>retired as Committee Chairman on 15 November 2003</i>	2
Mr Allan WONG Chi Yun*	2
Professor Franklin Warren McFARLAN*	3
Mr Leslie BOYD	2
Mr Makoto YASUDA*	3
Mr James SIU Kai Lau (Chief Compliance Officer) – <i>Secretary</i> – <i>retired as a member on 15 November 2003</i>	3

Note: Audit Committee meetings were held on 24 March 2003, 13 August 2003 and 14 November 2003.

### 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 Risk Management Committee met once in 2003 (with an attendance rate of 100%). It reports to the Board in conjunction with the Audit Committee.

Risk Management Committee meeting attendance for Year 2003	No. of meeting attended (1 meeting in total)
Dr Victor FUNG Kwok King – <i>Committee Chairman</i>	1
Dr William FUNG Kwok Lun	1
Mr James SIU Kai Lau (Chief Compliance Officer)	1
Mr Frank LEONG Kwok Yee (Chief Financial Officer)	1

Note: Risk Management Committee meeting was held on 19 March 2003.

### 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. It annually reviews the existing remuneration policy. The Compensation Committee met once in 2003 (with an attendance rate of 100%).

Compensation Committee meeting attendance for Year 2003	No. of meeting attended (1 meeting in total)
Mr Allan WONG Chi-Yun * – <i>Committee Chairman</i>	1
Dr Victor FUNG Kwok King	1
Dr William FUNG Kwok Lun – <i>retired on 15 November 2003</i>	1
Professor Franklin Warren McFARLAN * – <i>appointed on 15 November 2003</i>	–

Note: Compensation Committee meeting was held on 24 March 2003.

\* 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, a 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 section on page 42, the Group Managing Director is entitled to an aggregate fixed basic salary which is subject to 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.

### Code of Conduct and Business Ethics

The Group's **reputation capital** is built on its long established standards of ethics in conducting business. Guidelines of the Group's core business ethical practices as endorsed by the Board are set out in the Company's Code of Conduct and Business Ethics for all directors and staff. For ease of reference, a copy of the latest guidelines is posted in the Company's internal electronic Bulletin Board to be accessible by all staff.

### Internal Control

The Board is responsible for maintaining an adequate system of internal controls in Li & Fung and reviewing its effectiveness through the Audit Committee. It has delegated to executive management the implementation of such system of internal controls and reviewing of relevant financial, operational and compliance controls and risk management procedures.

The Group maintains a tailored governance structure with defined lines of responsibility and appropriate delegation of authority. It is characterized by establishing an operation support group, under the supervision of the Group's Chief Financial Officer, to centralize the function and control exercised over global treasury activities, financial and management reporting, human resources functions and computer systems, and supplemented by policies and guidelines tailored to the need of respective business units in the countries where the Group operates.

Qualified personnel throughout the Group maintain and monitor these systems of 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, and evaluates their adequacy, effectiveness and compliance, and **reports directly to the Audit Committee** on a regular basis.

Based on the assessment made by senior management and the internal and external auditors for 2003 and up to the approval date of this report, the Audit Committee is satisfied that the internal controls and accounting systems of the Group are designed to provide reasonable assurance for assets to be safeguarded against unauthorized use or disposition, transactions are executed in accordance with management's authorization and the accounting records are reliable for preparing financial information used within the business or for publication.

### 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 2003.

## 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 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 respect for ethical values, people, community and the environment.

Li & Fung is a founding member of the Global Labor Law Database, organized by BSR, and funded by the member companies. This project has translated labor laws and regulations of over 60 countries and posted them on-line to ensure that the member's compliance staff have ready access to the most current data when auditing production facilities around the world.

Li & Fung, in partnership with several well-known US branded companies, continued its association in 2003 with China based Institute for Contemporary Observation on a workers right's guide entitled Guangdong Labor Law Manual. The manual explains the law provisions on working hours, wages and compensation, and gives migrant workers guidance on what to do in the event of labor dispute or the occurrence of an industrial injury or accident.

In 2003, Li & Fung also collaborated with the U.K. based Ethical Trading Initiative (ETI) on a social development project in Tamil Nadu, India. The project aims to seek solutions on how to tackle child labor within the Indian textile and garment industry supply chain. In September 2003, a formal project was launched in Tamil Nadu and a local tripartite group was established to carry this project forward.

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 2003, Li & Fung was again included, for the third 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 headquarters building non-smoking office.



Best Investor Relations in Hong Kong 2003



Best Communications During a Takeover 2003

### 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.

In 2003, Li & Fung's continuing commitment to enhancing investor relations and communication has gained further recognition from the wider business community. For the fourth consecutive year, the Company has been awarded "Best Investor Relations in Hong Kong" by *Asiamoney* magazine. A survey by *Investor Relations* magazine also ranked the Company first place in the category of "Best Communications During a Takeover".

### 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 mature 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 certification in 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 2003, a total of 3,740 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 2003 included the Standard Chartered Hong Kong Marathon, blood donation for Hong Kong Red Cross, elderly home visits for St. James' Settlement, and gift donation for Heep Hong Society. In 2003, for the second consecutive year since 2002, these efforts and contribution to a better society were recognized by the "Caring Company Award" presented by The Hong Kong Council of Social Service for the Group's caring culture and good corporate citizenship.