

CORPORATE GOVERNANCE

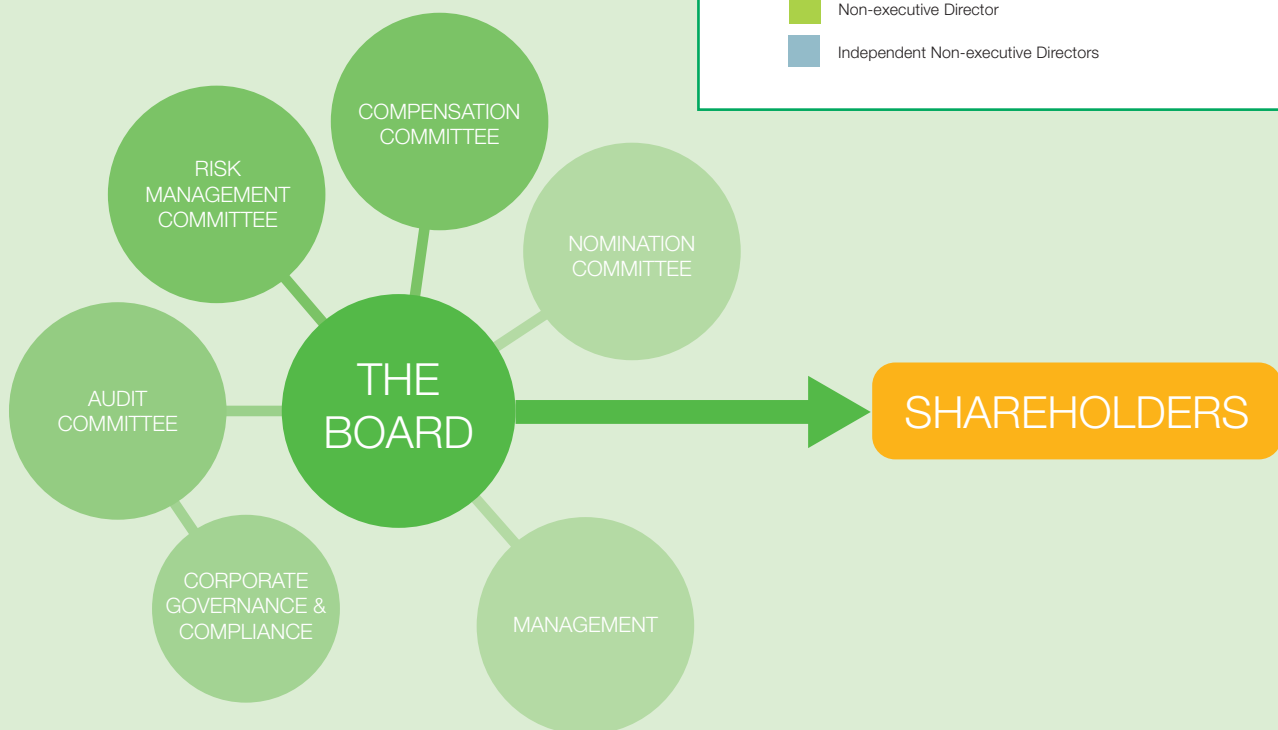
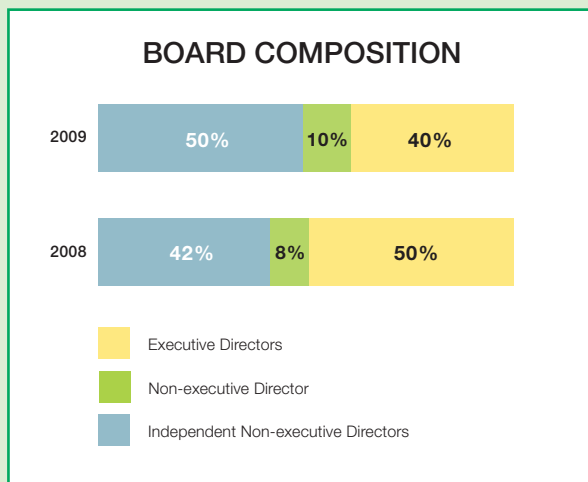
The Board of Directors and management are committed to principles of good corporate governance consistent with prudent management and enhancement of **shareholder value**. These principles emphasize transparency, accountability and independence. Set out below are those principles of corporate governance as adopted by the Company.

more balanced that reinforces a stronger independent review and monitoring function on overall management practices. Directors' biographical details and relevant relationships are set out in the Directors and Senior Management section on pages 42 to 46.

THE BOARD

BOARD COMPOSITION

Following the retirement of two Executive Directors at 2009 Annual General Meeting, the Board is currently composed of the Group Non-executive Chairman, the Group Executive Managing Director, three Executive Directors and five Independent Non-executive Directors. The Board considers this composition to be



GROUP CHAIRMAN AND GROUP MANAGING DIRECTOR

The role of the Group Chairman is separate from that of the Group Managing Director. This is to enhance their respective independence, accountability and responsibility. Their respective responsibilities are clearly established and defined in writing by the Board.

- | | |
|-------------------------|--|
| Group Chairman | <ul style="list-style-type: none"> • responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures. |
| Group Managing Director | <ul style="list-style-type: none"> • responsible for managing the Group's business, including the implementation of major strategies and initiatives adopted by the Board with the support from other Executive Directors, and within those authorities delegated by the Board. |

ROLES AND RESPONSIBILITIES OF THE BOARD

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointment or reappointment, approval of major capital transactions and other significant operational and financial matters.

The Non-executive Directors (majority of whom are independent), who combine to offer diverse industry expertise, serve the important function of advising the management on strategy and ensuring that the Board maintains high standards of financial and other mandatory reporting requirements as well as providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole.

DELEGATION TO MANAGEMENT

Day-to-day operational responsibilities are specifically delegated by the Board to management. Major matters include:

- the preparation of annual and interim accounts for Board approval before public reporting;
- execution of business strategies and initiatives adopted by the Board;
- monitoring of operating budgets adopted by the Board;
- implementation of adequate systems of internal controls and risk management procedures; and
- compliance with relevant statutory requirements, rules and regulations.

BOARD AND COMMITTEE MEETINGS

Board meetings are scheduled one year in advance to facilitate maximum attendance by Directors. The meeting agenda is set by the Group Non-executive Chairman in consultation with members of the Board. Executive Director or President of each business stream is invited to join all Board meetings to enhance the Board and management communication. In 2009, the Board held **nine** meetings (with an **average attendance rate of 87%**).

CORPORATE GOVERNANCE (CONTINUED)

A summary of Board and Committee meetings in 2009 is set out in the following table:

BOARD AND COMMITTEE MEETINGS FOR YEAR 2009

	Board	Annual General Meeting	Nomination Committee	Audit Committee	Risk Management Committee	Compensation Committee
Non-executive Director						
Dr Victor FUNG Kwok King ¹	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■	■ ■	■ ■ ■ ■	■ ■	■ ■ ■
Independent Non-executive Directors						
Mr Paul Edward SELWAY-SWIFT ²	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■	■ ■	■ ■ ■ ■		
Mr Allan WONG Chi Yun ³	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■		■ ■ ■ ■		■ ■ ■
Professor Franklin Warren McFARLAN	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■		■ ■ ■ ■		■ ■ ■
Mr Makoto YASUDA	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■	■ ■	■ ■ ■ ■		
Mr Martin TANG Yue Nien – appointed on 2 February 2009	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■		■ ■ ■ ■		■ ■ ■
Executive Directors						
Dr William FUNG Kwok Lun	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■			■ ■	
Mr Bruce Philip ROCKOWITZ	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■			■ ■	
Mr Henry CHAN – retired on 13 May 2009	■ ■ ■ ■ ■ ■	■				
Mr Danny LAU Sai Wing – retired on 13 May 2009	■ ■ ■ ■ ■ ■	■				
Ms Annabella LEUNG Wai Ping	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■				
Mr Spencer Theodore FUNG	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■				
Group Chief Compliance Officer						
Mr James SIU Kai Lau	■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ⁴	■ ⁴	■ ■ ⁴	■ ■ ■ ■ ⁴	■ ■	■ ■ ■ ⁴
Dates of meeting						
	14/01/2009	13/05/2009	14/01/2009	25/03/2009	09/02/2009	24/02/2009
	18/02/2009		25/03/2009	13/05/2009	22/10/2009	25/03/2009
	24/02/2009			13/08/2009		13/08/2009
	25/03/2009			16/11/2009		
	04/05/2009					
	13/05/2009					
	13/08/2009					
	19/10/2009					
	16/11/2009					
<p>1: Chairman of the Board, Nomination Committee and Risk Management Committee 2: Chairman of Audit Committee 3: Chairman of Compensation Committee 4: Attended Board and Committee meetings as a non-member</p>						
<p>■ MEETINGS ATTENDED ■ MEETINGS UNATTENDED</p>						

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The Board has received from each Independent Non-executive Director a written annual confirmation of their independence and satisfied that independence up to the approval date of this report. The assessment of the independence of Independent Non-executive Director is delegated by the Board to the Nomination Committee. The Nomination Committee has assessed their independence with reference to number of factors that are no less exacting than those as set in Chapter 3 of the Listing Rules of the Exchange.

Each Independent Non-executive Director is required to inform the Company as soon as practicable if there is any change that may affect his independence.

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

The appointment of new director must be approved by the Board. The Board has delegated to the Nomination Committee to select and recommend candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary. The Nomination Committee has established certain guidelines to assess the candidates. These guidelines emphasize appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills, and possible time commitments to the Board and the Company.

Under the Company's bye-laws, one-third of the Directors, who have served longest on the Board, must retire, thus becoming eligible for re-election at each Annual General Meeting. As such, no Director has a term of appointment longer than three years. To further reinforce accountability, any further reappointment of an Independent Non-executive Director who has served the Company's Board for more than nine years will be subject to separate resolution to be approved by shareholders.

INDUCTION, INFORMATION AND ONGOING DEVELOPMENT

All Directors were kept informed on a timely basis of major changes that may have affected the Group's businesses, including relevant rules and regulations. In addition, the Group has implemented a continuing programme since 2003 to update the Directors (in particular Independent Non-executive Directors) on the macro economic and sourcing environment relevant to the Group's major overseas operations. A Board Meeting coupled with office briefings and a tour by our Indonesian colleagues was conducted at our Indonesia Office in November 2009. Similar sessions were conducted at our Thailand, Shanghai and Singapore offices during the years of 2006, 2007 and 2008 respectively.

In addition to the above, each newly-appointed Director received a tailored induction programme, which covers briefing on the Company's overview by the Group Chairman, meeting with management and meeting with the Company's legal consultant on directors' legal role and responsibilities.

To further maximize the contribution from non-management Directors, a separate meeting was held in May 2009 between the Group Chairman and Independent Non-executive Directors to address business and related issues. Written procedures are also in place for Directors to seek independent professional advice in performing their Directors' duties at the Company's expense. No request was made by any Director for such independent professional advice in 2009.

INDEPENDENT REPORTING OF CORPORATE GOVERNANCE MATTERS

The Board recognizes the importance of independent reporting of the corporate governance matters of the Company. The Group Chief Compliance Officer, as appointed by the Board, attended all Board and committee meetings in 2009 to advise on corporate governance matters covering risk management and relevant compliance issues relating to business operations, mergers and acquisitions, accounting and financial reporting.

LIABILITY INSURANCE FOR THE DIRECTORS

The Company has arranged for appropriate liability insurance since 2002 to indemnify its Directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed with advice from external consultant on an annual basis.

BOARD COMMITTEES

The Board has established the following committees (all chaired by Independent Non-executive Director or Non-executive Director) with defined terms of reference (available to shareholders upon request), which are on no less exacting terms than those set out in the Code on Corporate Governance Practices of the Listing Rules:

- Nomination Committee
- Audit Committee
- Risk Management Committee
- Compensation Committee

Each Committee has authority to engage outside consultants or experts as it considers necessary to discharge the Committee's responsibilities. Minutes of all committees meetings are circulated to all Board members. To further reinforce independence and effectiveness, the Nomination, Audit and Compensation Committees have been structured to include a majority of Independent Non-executive Directors since 2003. Details and reports of the Committees are set out below.

NOMINATION COMMITTEE

The Nomination Committee was established in August 2001 and is chaired by the Group Non-executive Chairman. Its written terms of reference cover recommendations to the Board on the appointment of Directors, evaluation of board composition, assessment of the independence of Independent Non-executive Directors and the management of board succession.

The Committee met **twice** in 2009 (with a **100% attendance rate**) to review the board composition, the nomination of directors to fill board vacancies in 2009 and the retirement of directors by rotation.

AUDIT COMMITTEE

The Audit Committee was established in 1998 to review the Group's financial reporting, internal controls and corporate governance issues and make relevant recommendations to the Board. The Committee has been chaired by an Independent Non-executive Director since 2003 and the majority of the Committee members are Independent Non-executive Directors. All Committee members possess appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules.

The Audit Committee met **four times** in 2009 (with an **average attendance rate of 88%**) to review with Senior Management and the Company's internal and external auditors, the Group's significant internal controls and financial matters as set out in the Committee's written terms of reference and make relevant recommendations to the Board. An Audit Committee visit to the Group's Indonesia Office was also made in November 2009.

In 2009, the Committee's review covers the audit plans and findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, goodwill assessment, listing rules and statutory compliance, connected transactions, internal controls, risk management, financial reporting matters (including the interim and annual financial reports for the Board's approval) and the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function as well as their training programmes and budget.

Following international best practices, the Committee conducted a self-review of its effectiveness in 2009 by going through a detailed audit committee best practices checklist as against the Committee's current practices. Similar self-assessment exercises were conducted in 2005 and 2007. Based on the results of these assessments, the Committee believes it is functioning effectively although further enhancements and changes in practice have been made.

The Committee also ensures proper arrangements are in place by which employees can report any concerns, including misconduct, impropriety or fraud in financial reporting matters and accounting practices, in confidence and without fear of recrimination for fair and independent investigation of such matters and for appropriate follow-up action. Under the Group's Policy on Reporting of Concerns, employees can report these concerns to either Senior Management or the Audit Committee through the Group Chief Compliance Officer. Any shareholders or stakeholders can also report similar concerns by writing in confidence to our Group Chief Compliance Officer at the Company's business address in Hong Kong. In 2009, no incident of fraud or misconduct was reported from employees, shareholders or stakeholders that have material effect on the Company's accounts and overall operations.

EXTERNAL AUDITOR'S INDEPENDENCE

In order to further enhance **independent reporting** by the external auditor, part of our Audit Committee meetings were attended only by Independent Non-executive Directors and external auditor. The Committee also has unrestricted access to external auditor as necessary.

A policy on provision of non-audit services by the external auditor has been established since 2004. Under this policy, certain specified non-audit services are prohibited. Other non-audit services (with a fee above a threshold) require prior approval of the Audit Committee. These permitted non-audit services may be engaged only if they are more effective or economical than those available from other service providers and will not constitute adverse impact on the independence of the external auditor. In 2009, the external auditor provided permitted non-audit services mainly in due diligence review on acquisitions and tax compliance services. The nature and ratio of annual fees to external auditor for non-audit services and for audit services in 2009 have been scrutinized by the Audit Committee (refer to details of fees to auditor in *Note 4* to the accounts on page 91).

In addition, the external audit engagement partner is subject to periodical rotation of not more than 7 years, and a policy restricting the employment of employees or former employees of external auditor at senior executive and financial positions with the Group has also been enforced.

Prior to the commencement of the audit of 2009 accounts of the Company, the **Committee received written confirmation from the external auditor on its independence and objectivity** as required by the Hong Kong Institute of Certified Public Accountants.

Members of the Committee have been satisfied with the findings of their review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers (PwC), and the Committee has recommended to the Board the reappointment of PwC in 2010 as the Company's external auditor at the forthcoming Annual General Meeting.

CORPORATE GOVERNANCE (CONTINUED)

RISK MANAGEMENT COMMITTEE

The Risk Management Committee was established in August 2001 and is chaired by the Group Non-executive Chairman. Its written terms of reference include offering recommendations to the Board on the Group's risk management and internal control systems. The Committee reports to the Board in conjunction with the Audit Committee.

The Risk Management Committee met **twice** in 2009 (with a **100% attendance rate**) to review risk management procedures pertinent to the Group's significant investments and operations. The scope of review covers trade receivables management, credit risk management, inventory management, goodwill assessment, tax compliance issues, litigation exposures, acquisitions and integration as well as other operational and financial risk management.

COMPENSATION COMMITTEE

The Compensation Committee was formed in 1993 and is chaired by an Independent Non-executive Director. The Committee's responsibilities as set out in its written terms of reference include approving the remuneration policy for all Directors and senior executives, and the granting and allocation of share options to employees under the Company's Share Option Scheme. It annually reviews the Group's remuneration policy.

The Committee met **three times** in 2009 (with an **average attendance rate of 83%**) to review and approve all Executive Directors' (including the Group Managing Director) remuneration packages and the granting of share options under the current Three-Year Plan (2008-2010).

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

The primary goal of the remuneration policy on executive remuneration packages is to enable Li & Fung to motivate Executive Directors by linking their compensation to performance with reference to corporate and business streams' 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 options granted under a shareholders' approved option scheme.

In determining guidelines for each compensation element, Li & Fung refers to remuneration surveys conducted by independent external consultants on companies operating in similar industry and scale.

BASIC SALARY

All Executive Directors' remuneration packages including their basic salary were approved by Compensation Committee at the beginning of the Group's current Three-Year Plan (2008-2010). Under the service contracts between the Group and the Group Managing Director as disclosed under Directors' Service Contracts section on page 55, the Group Managing Director is entitled to a fixed basic salary which is subject to review by the Committee.

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 contributions 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 Compensation Committee approves all grants of share options under the shareholders' approved share option scheme to Executive Directors, with regard to their individual performances 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' fees, of Non-executive Directors is subject to annual assessment with reference to remuneration surveys conducted by independent external consultants and a recommendation by the Compensation 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 meetings.

Details of Directors' emoluments of the Company are set out in *Note 11* to the accounts on pages 95 to 97.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for maintaining a sound and effective system of internal controls in Li & Fung and for reviewing its effectiveness. Such system is designed to manage the risk of failure to achieve corporate objectives. It aims to provide reasonable but not absolute assurance against material misstatement, loss or fraud. The Board has delegated to executive management the design, implementation and ongoing assessment of such systems of internal controls, while the Board through its Audit Committee oversees and reviews the adequacy and effectiveness of relevant financial, operational and compliance controls and risk management procedures that have been in place. Qualified personnel throughout the Group maintain and monitor these systems of controls on an ongoing basis. Set out below are the main characteristics of our internal control framework.

CORPORATE GOVERNANCE (CONTINUED)

CONTROL ENVIRONMENT

The Group operates within an established control environment, which is consistent with the principles outlined in *Internal Control and Risk Management – A Basic Framework* issued by the Hong Kong Institute of Certified Public Accountants. The scope of internal control for the Group relates to three major areas: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

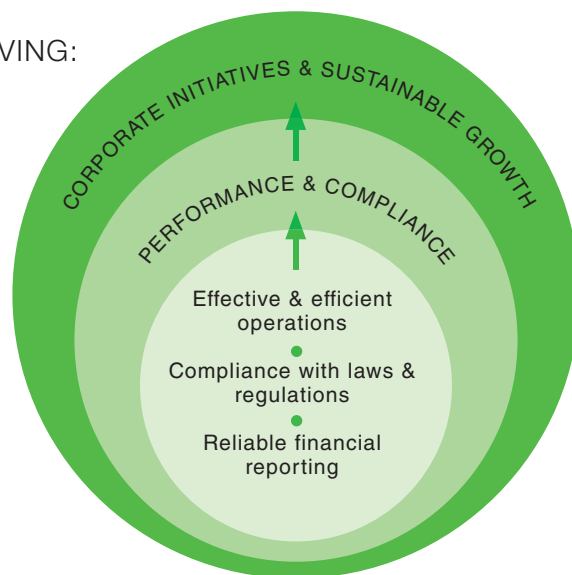
The Group maintains a tailored governance structure with defined lines of responsibility and appropriate delegation of authority. This is characterized by the establishment of an Operation Support Group centralizing the function and control exercised over global treasury activities, financial and

management reporting, and human resources functions and computer systems, and is supplemented by written policies and Key Operating Guidelines (KOG) tailored to the need of respective business units in the countries where the Group operates. These policies and KOG cover key risk management and control standards for the Group's operation worldwide.

FINANCIAL AND CAPITAL RISK MANAGEMENT

The Board approves the Group's Three-Year financial budgets and reviews the Group's operating and financial performance and key performance indicators against the budget on a semi-annual basis. Executive management closely monitors actual financial performance at the Group and business stream levels on a monthly basis.

LI & FUNG'S INTERNAL CONTROL
FRAMEWORK IS DESIGNED TO ACHIEVING:



The Group adopts a principle of minimizing financial and capital risks. Details of the Group's financial and capital risk management covering market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk are set out in *Notes 36 and 37* to the accounts on pages 125 to 128.

INVESTMENT MANAGEMENT

The Group establishes Investment Committee (comprising the Group Non-executive Chairman, Executive Directors and Senior Management) to develop investment control procedures, monitor and approve the Group's major investments and acquisitions. Significant investments and acquisitions (with consideration above a threshold as pre-set by the Board) also require Board's approval.

Management also monitors the integration process of the newly acquired companies through a post-acquisition integration program focusing on the alignment of operational and financial controls with the Group's standards and practices.

REGULATORY COMPLIANCE CONTROL MANAGEMENT

The Corporate Compliance Group (comprising Corporate Governance Division and Corporate Secretarial Division), under the supervision of the Group Chief Compliance Officer, in conjunction with our designated internal and external legal advisors regularly reviews our adherence to relevant laws and regulations, listing rules compliance, public disclosure requirements and our standards of compliance practices.

RISK MANAGEMENT FUNCTIONS

The Risk Management Committee in conjunction with the Audit Committee monitors and updates the Group's risk profile and exposure on a regular basis and reviews the effectiveness of the Group's system of internal control in mitigating risks. Key risk areas covered by the Committees include reputation, business credit and foreign exchange risks of our supply chain operations, investment and acquisitions, taxation, inventory and receivable management, Group-wide insurance, human resources and IT governance structure.

INTERNAL AND EXTERNAL AUDIT

Internal Audit

The Group's Internal Audit team within the **Corporate Governance Division** (CGD), under the supervision of the Group Chief Compliance Officer, independently reviews the internal controls and evaluates their adequacy, effectiveness and compliance. Our Group Chief Compliance Officer **reports major findings and recommendations to the Audit Committee** on a regular basis.

The current three-year Internal Audit Plan (2008-2010) of CGD is strategically linked to the Group's Three-Year Plan and was reviewed and endorsed by the Audit committee. The principal features of the tasks of CGD include:

- Internal Audit plan as prepared under a risk based assessment methodology that covers the Group's significant operations over a three-year cycle period;
- An audit scope which covers significant controls including financial, operational and compliance controls, and risk management policies and procedures;
- Unrestricted access to all the information needed for review of all operations controls and compliance with KOG and corporate policies, rules and regulations;
- Review on the special areas of concerns or risks as raised by Audit Committee, Risk Management Committee or Senior Management.

Major audit findings and recommendations from CGD, and management response to their findings and recommendations are presented at the Audit Committee meetings. The implementation of all recommendations as agreed with management is being followed up on a three-month basis and reported to the Audit Committee at each Committee meeting.

CORPORATE GOVERNANCE (CONTINUED)

As part of the annual review of the effectiveness of the Group's internal control and risk management systems for 2009, management had conducted an Internal Control Self-Assessment for the trading operations and relevant accounting functions. The Group's CGD has independently performed post-assessment review on the findings noted in the self-assessment programs and considered that sound internal control practices were in place.

External Audit

Our external auditor, PricewaterhouseCoopers, performs independent statutory audits on the Group's accounts. As part of its audit engagement, our external auditor also reports to the Audit Committee any significant weaknesses in the Group's internal control system which might come to its notice during the course of audit. PricewaterhouseCoopers noted no significant internal control weaknesses in its audit for 2009.

OVERALL ASSESSMENT

Based on the respective assessments made by Senior Management, the Group's CGD and the external auditor, the Audit Committee considered that for 2009:

- the internal controls and accounting systems of the Group were in place and functioning effectively and were designed to provide reasonable assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with management's authorization and the accounts were reliable for publication.
- there was an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

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**. All the newly-joined staff are briefed and requested to acknowledge the understanding of the Code. For ease of reference and as a constant reminder, a copy of the latest guidelines is posted in the Company's internal electronic portal for reference by all staff.

MARKET RECOGNITION

The Group's continuous commitment to excellence and **high standards in corporate governance practices continued to earn market recognition from stakeholders** including bankers, analysts and institutional investors during our previous Three-Year Plan (2005-2007) and current Three-Year Plan (2008-2010). Details of our awards are set out on page 40 to 41.

DIRECTORS' AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

The Group has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Specific confirmation has been obtained from each Director to confirm compliance with the Model Code for 2009. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code. No incident of non-compliance by Directors and relevant employees was noted by the Company in 2009.

DIRECTORS' AND SENIOR MANAGEMENT INTERESTS

Details of Directors' interests in the shares of the Company are set out in the Report of the Directors section on pages 55 to 57. The shares held by each member of Senior Management are less than 2% of the issued share capital of the Company for the year ended 31 December 2009.

DIRECTORS' RESPONSIBILITY FOR ACCOUNTS AND AUDITOR'S RESPONSIBILITY

The Directors' responsibility for preparing the accounts is set out on page 59, and the auditor's reporting responsibility is set out on page 60.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in full compliance with all of the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2009.

INVESTOR RELATIONS AND COMMUNICATIONS

Li & Fung has a proactive policy for promoting investor relations and communications by maintaining regular dialogue and fair disclosure with institutional shareholders, fund managers, analysts and the media. Management attends investor meetings on a regular basis and has participated in a number of major investor conferences in Asia and North America. The Group is followed by a large number of analysts, and many of them publish reports on it regularly.

Li & Fung's corporate website (www.lifung.com) facilitates effective communications with shareholders, investors and other stakeholders, making corporate information and other relevant financial and non-financial information available electronically and on a timely basis. This includes extensive information about the Group's performance and activities via the Annual Report, Interim Report, press releases and announcements. Webcasts of results presentations for analysts have also been made available.

The Group's Annual General Meeting (AGM) provides another principal channel for Directors to meet and communicate with shareholders, who are likewise encouraged to participate. All shareholders are provided 21 days' notice to attend the AGM, during which Directors and Committee Chairmen or members are available to answer questions. The results of the voting by poll are published on the Group's website together with details of the meeting, including the time, venue and major resolutions.

Li & Fung is aware of its obligations under the Listing Rules, including the overriding principle that information which is expected to be price-sensitive should be announced promptly. Therefore, the Group conducts the handling and dissemination of such information in accordance with the "Guide on disclosure of price-sensitive information" issued by the Hong Kong Stock Exchange in 2002. Members of senior management are identified and authorized to act as spokespersons and respond to related external enquiries.

The Group's position in the Hong Kong market as a blue chip stock with sizeable market capitalization and a high degree of liquidity is affirmed through the continued inclusion of our stock in some of the most important benchmark indices. The stock is a constituent member of the Hang Seng Index, MSCI Index, FTSE4Good Index and Dow Jones Sustainability Asia Pacific Index.

CORPORATE GOVERNANCE (CONTINUED)

In 2009, the Board confirmed that there were no significant changes made to Li & Fung's bye-laws affecting its operations and reporting practices. Details of the last shareholders' meeting, key calendar events for shareholders' attention as well as share information, including market capitalization as of 31 December 2009, are set out in the "Information for Investors" section on page 47 and on our corporate website.

The Group has received widespread acclaim from international business and financial magazines, which reflects the efforts it places on effective communications. In 2009, Li & Fung received a number of recognitions from the wider business community, including being selected as one of Hong Kong's top 10 companies in the *Wall Street Journal Asia*'s "Asia's 200 Most Admired Companies"; No. 888 in *Forbes*' "The World's 2,000 Biggest Public Companies"; and one of the top 40 companies in *BusinessWeek*'s "The World's Best Companies". The Group was also named Large-Cap Corporate of the Year, Hong Kong in *Asiamoney*'s "Asia's Best-Managed Companies 2009" awards, and it made the *Financial Times*' "FT Global 500" and *Forbes Asia*'s "Fabulous 50".

SHAREHOLDERS' RIGHTS

Under the Company's bye-laws, in addition to regular Board meetings, Directors of a company, on the requisition of shareholders of the Company holding not less than 10% of the paid-up capital of the Company, can convene a special general meeting to address specific issues of the Company by at least 21 days' written notice deposited to the registered office of the Company. The same procedure also applies to any proposal to be tabled at shareholders' meetings for adoption. To further enhance minority shareholders' rights, the Company has since 2003 adopted the policy of voting by poll for all resolutions put forward at Annual General Meeting and Special General Meeting.

Specific enquiries by shareholders requiring the Board's attention can be sent in writing to our Group Company Secretary at the Company's business address in Hong Kong. Other general enquiries can be directed to the Company through our Group's Senior Vice President – Investor Relations, whose contact information is detailed on page 47.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

SUPPLY CHAIN RESPONSIBILITY

Li & Fung has developed a Supplier Code of Conduct to be observed by its approved suppliers around the globe. The Code is a set of standards based on local and national laws and regulations, and International Labor Organization core conventions. These standards include underage labor, forced/prison labor, wages and compensation, working hours, discrimination, disciplinary practices, freedom of association, health and safety, environment, and the right of access for supplier evaluation. A copy of the Code is available at our corporate website (www.lifung.com).

In 2009, the Group employed more than 120 in-house dedicated compliance staff worldwide to conduct supplier evaluations and monitor compliance to the Code among the suppliers that produce our customers' merchandise. The Group's Vendor Compliance (VC) division is organized independent of our sourcing/merchandising divisions and focuses on improving suppliers' labor, health and safety, environmental and security standards. The VC division reports to a corporate executive who reports directly to our Group Managing Director who is also responsible for social and environmental affairs of the Company.

The VC division conducts evaluations of approved suppliers on a routine and systematic basis in accordance with industry defined and customer's specific audit standards, protocols and methodologies. The scope of an evaluation includes an opening meeting, site inspection, employee and management interview, document review, reporting, and closing meeting. Suppliers are then rated and approved based on designations ranging from Satisfactory (ST), Immediate Action (IA), Continues Improvement (CI), or Failed (Zero Tolerance) and/or customer specific designations.

Additionally, the Quality Assurance/Quality Control teams are also tasked with the responsibility of carrying out a short audit during their factory visits on an annual basis. In 2009, more than 12,000 facility inspections and verification audits were performed in 46 countries around the globe. In addition to internal evaluations, the VC division also operates in parallel to external independent third-party evaluations conducted by auditing firms commissioned by our customers.

Li & Fung also supports our many customers with their various third party auditing programs including that of Business for Social Compliance (BSCI), International Council of Toys Industry (ICTI), Fair Labor Association (FLA), Supplier Members Ethical Trade Audit (SMETA) and others.

TRAINING AND EDUCATION

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 suppliers to equip them with awareness, knowledge and the necessary skills and tools they need to understand and meet compliance requirements.

In 2009, we continued our supplier training and education efforts expanding the scope to include additional focus areas of energy efficiency, water pollution prevention and cleaner production. Continuing our partnering with WWF HK, we co-organized several seminars in Hong Kong promoting WWF's Low-carbon Office Operation Program (LOOP) and Low Carbon Manufacturing Program (LCMP).

ENVIRONMENTAL PROTECTION

In 2009, Li & Fung further enhanced its supplier environmental programs and initiatives aimed at resource conservation, environmental protection, and product stewardship. Li & Fung enforced its customers' environmental purchasing policies with respect to eco-friendly materials, package waste minimization and product stewardship. The Company also took an active role in supporting its customers in innovating and developing new tools and systems to support their sustainability programs. By adopting and promoting environmental considerations as an integral part of our business activities, the Group equates the environment to our other critical business considerations such as compliance, quality and value.

ENVIRONMENTAL AUDIT PROGRAM

Li & Fung encourages suppliers to establish and maintain environmental protection and sustainable supply chain systems. Recognizing the growing importance of assessing the environmental impacts of the global supply chain, the Group's VC division expanded its Environmental Audit Program to a wider number of customers. The scope of the program includes a review of the impacts of factory operations on the environment. The assessment contains elements pertaining to environmental project management, wastewater, air, solid and hazardous waste, chemical handling and storage, noise, resource and energy saving, and control of restricted and hazardous substances. The team continues to expand on this program in line with emerging environmental stakeholder expectations and demands from the marketplace.

CORPORATE GOVERNANCE (CONTINUED)

WASTE

In 2009, Li & Fung maintained its “Class of Excellent” Wastewise Label in recognition of the Company’s effort in reduction of solid office waste. A government initiated scheme, the objective of the scheme is to encourage businesses and organizations to adopt measures in waste reduction. The Wastewise program, together with an internal 20% paper reduction campaign, as resulted in significant reductions in office waste and cost savings of more than HK\$1,000,000 to date.

ENERGY

The Company has employed the services of an US firm Honeywell to conduct an investment grade energy audit for its Hong Kong operations. The scope of the contract also includes a global proposal for several other major offices within the Li & Fung global network. This audit is part of the Company’s support for the Clinton Climate Initiative’s (CCI) Energy Efficiency Building Retrofit Program which brings together business and energy service firms to reduce energy consumption in existing building. The investment grade audit is expected to result in an potential energy saving of approximately 20% of overall energy consumption thereby translating into carbon emissions reductions, cost saving, and improved sustainable office space for our people. Key learnings from the audit will also be used to roll-out elsewhere within the Li & Fung global office network.

In 2009, Li & Fung also maintained its “Class of Good” Energywise Label in recognition of the Company’s effort in energy savings. A government initiated scheme, the objective of the scheme is to encourage businesses and organizations to adopt measures in saving energy. The Energywise label is one of the four environmental labels under the Hong Kong Awards for Environmental Excellence (HKAEE), jointly presented by the Environmental Campaign Committee and the Environmental Protection Department.

Li & Fung was recognized in 2009 by the Hong Kong Environment Bureau for its efforts to advance cleaner production with an award entitled “Hong Kong – Guangdong Cleaner Production Partner (Supply Chain)”. The Company promotes cleaner production through the Cleaner Production Partnership Program (CP3). The program is jointly organized by the Environmental Protection Department, Guangdong Economic and Trade Commission, Hong Kong Productivity Council and business and industrial sectors. This five-year program will provide funding support to Hong Kong-owned factories in the Pearl River Delta region to engage environmental consultants to conduct on-site improvement assessment, which will propose practical solutions to achieve energy saving and emission reduction. A number of our suppliers have already signed up for this program.

Li & Fung strengthened its partnership with the World Wildlife Foundation (WWF) on an innovative energy conservation project called LOOP – Low-carbon Office Operation Program. Together with four other Hong Kong companies, Li & Fung participated in LOOP’s pilot rollout in 2008 and 2009. The program aims to provide firms with tools to measure and cut office energy use and green house gas emissions.

CARBON

Li & Fung participated in the Carbon Disclosure Project (CDP7) for the first time in 2009. CDP7 is Li & Fung’s first response and contains 2008 statistical data on its Scope 1 and Scope 2 emissions. CDP is an initiative to collect information on how companies are responding to climate change. The participation in the initiative, and the completion of the CDP7 information request, has enabled the Company to better understand the risks and opportunities of climate change. Furthermore, the process has given the Company ample ways to focus on successes and address ways to lessen its carbon footprint.

The Company's worldwide CO2 emissions for 2008 totaled 35,679 tons. The Company has set a target of 10% emissions reduction in 2010 from that of its baseline 2008 data. Its 2009 carbon emissions inventory is currently in progress.

In collaboration with two of our customers, we completed "cradle-to-gate" lifecycle assessments (LCA) of an article of apparel and another article of a toy in 2009. Both studies provided us with important insights relating to the environmental performance and impacts of the products that we source for our customers. The assessment included the raw materials, manufacturing, distribution, use, and disposal stages and examined impacts related to energy and climate change. The key learning outcomes of these two studies provided the Company with an in-depth understanding of the complexities of lifecycle analysis and carbon footprinting and how such tools may generate value for the environment, our customers and our business.

WATER

Li & Fung continued its partnership for a second year in a row with The Asia Foundation (TAF), local government agencies, and non-governmental organizations in Guangdong, China to implement an innovative pilot project that brings local governments, industry associations, enterprises, suppliers and local environmental experts together to collaborate to reduce water pollution in the textile and dyeing sector through preventative approaches. Entitled the Pearl River Delta (PRD) Environment Program, the project has three objectives: (1) Improve the policy environment for pollution prevention; (2) Develop innovative mechanisms to overcome awareness, technology and financial barriers to enterprises adopting cleaner technology; and (3) Increase business-civil society's collaboration and innovation in environmental protection initiatives. The project includes a number of program activities including seminars, grants, and workshops.

In 2009, the Foundation conducted a series of activities in partnership with local China governments, academic institutions, industry associations, and environmental experts that resulted in a number of outputs including: the organization of a stakeholder workshop, the publication of a policy research report, the creation of an on-line cleaner production directory and the provision of an environmental design award.

PRODUCT SAFETY AND TESTING

We are also working closely with our customers to design and ensure contracted manufacturers produce their products to meet or exceed all applicable product safety standards from around the world. With a dedicated Quality Assurance / Quality Control team of more than 2,300 staff, we follow rigorous internal processes and procedures to ensure product safety and compliance. This also includes internal and external product testing and certification to confirm safety, performance, and regulatory compliance. The Company is also currently pursuing national lab accreditation for its in-house testing lab located in Shenzhen, China.

CORPORATE COMMUNICATIONS

In 2009, the Company held semi-annual 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, are held in Hong Kong and overseas Hubs to create a sense of staff ownership of the Company's strategic objectives and to foster effective communications across the Group.

CORPORATE GOVERNANCE (CONTINUED)

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. Under the supervision of our Group Chief Compliance Officer, members of the Corporate Compliance Group conduct regular interactive forums 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.

With an objective to further reinforce staff awareness of risk management, relevant KOG or corporate policies are posted on the Company's Intranet to be easily accessed by all staff.

Since 2006, the "Staff Communications" e-mail box was established on our intranet to disseminate Li & Fung Group news and announcements for staff globally. In 2009, the Company has also revamped its Intranet so as to better provide staff with reports on the Group's latest directives and initiatives and staff recreational activities. In the newly launched intranet, worldwide individual staff's stories are posted daily. This has helped to connect people of different countries and created stronger sense of belonging among the staff.

PEOPLE AND COMMUNITY

As a global Supply Chain Management service provider, Li & Fung recognizes that human capital is a key asset to the sustained growth and profitability of the Company. The Group therefore places due emphasis on resourcing, development and retention of our staff.

TALENT RESOURCING

Li & Fung launched its annual Management Trainee Program in 2003 with an aim of nurturing young talented professionals to accommodate business growth of the Group. The program is a structured career development and intensive training program which consists of classroom training, job attachments, corporate projects and overseas exposure covering a wide range of management competencies and functional skills. The trainees are expected to assume managerial roles within the Company after successful completion of the program. Since 2007, the Management Trainee Program was further rolled out to overseas offices such as India and Shanghai so as to build and strengthen the Group's future leadership capability. The Company currently has more than 80 trainees participating in the program. About 30 of them had successfully completed the program and are now taking up managerial positions in different functions within the organization.

Since 2007, Li & Fung had more than 100 trainees participating in its Merchandising Development Program which aimed to attract new recruits to the Company and build its merchandising resource pool. The program was tailor-made for the Company's new merchandising staff and covered a mix of in-house and external training programs. As part of the program, the Company collaborated with the School of Professional Education and Executive Development at The Hong Kong Polytechnic University to offer a customized and recognized Professional and Continuing Education (PCE) Diploma in Merchandising for our trainees who will be awarded the PCE Diploma after completion of the two-year traineeship. Given the success of the program in Hong Kong, it has been further rolled out to Shanghai Office in 2008 with 23 trainees currently participating in the program.

In 2009, a 9-month full-time design support program was developed and launched in partnership with Hong Kong Polytechnic University, the New York Fashion Institute of Technology and Paris Institut Français De La Mode. The design support program commenced in June 2009, and 56 staff members are participating in the program and having on-the-job placement assignments in several sourcing offices globally.

Li & Fung adopts an equal opportunity policy in connection with human resource matters from selection and recruitment, through training and development, appraisal and promotion, compensation and benefits, redundancy and dismissal, and retirement without any form of discrimination on grounds such as race, marital status, sex, age and disability.

LEARNING AND DEVELOPMENT AND RETENTION

The Group believes that investing in its people is about investing in the future and that future success is dependent on the quality, breadth and depth of its learning and development programmes. During 2009, it launched a new Learning and Development Strategy aimed at delivering world-class learning programmes and focused on strengthening our people and the Company's core functional and management capabilities. Traditionally companies have focused on "training" centered in the classroom. However our programmes have evolved and are designed to be more practical, interactive and user friendly as well as delivered through multiple learning channels.

These learning programmes are based on real life scenarios and are delivered, through a variety of mediums such as intranet, videos, seminars and workshops. It's an approach we call "blended learning".

Learning in Li & Fung takes many forms from focusing on design support and merchandising where we build and strengthen technical job skills to executive education where our senior

managers "learn" to meet the challenges of our business. Our people consist of some of the industry's most highly regarded experts and a key element of our learning strategy is to engage them in teaching and leading our learning programmes.

In addition to these development initiatives, Li & Fung focuses on providing adequate incentives and rewards to retain staff based on the evaluation of their performance and contributions. As part of the people development initiatives, Li & Fung had also launched an online appraisal system for our colleagues around the globe in August 2009. Going online enabled us to reduce the time spent on paperwork and thus more time focusing on people development plans. In the end, over 10,000 of our colleagues took part in this exercise and the appraisal completion rate was close to 100%. The valuable data was then collected and analyzed for our people's development needs and enhancing personal growth.

OFFICE ENVIRONMENT, HEALTH AND SAFETY

Li & Fung strives to be environmentally responsible by adopting good environmental practices in respect of office premises, equipment and consumption of resources, and by supporting practical measures and policies aiming at protecting and preserving the environment of the countries in which it operates. As an example, Li & Fung has been committed to ensuring a healthy and clean working environment for employees by declaring its headquarters in Hong Kong a non-smoking office since 1998. Since 2006, Li & Fung has participated in the Clean Air Charter – Greater Pearl River Delta initiative launched by the Hong Kong General Chamber of Commerce and the Business Coalition on the Environment. It seeks support and endorsement from the business community, on a voluntary basis, to reduce emissions and implement air quality management. In support of the Charter, the Group has taken a proactive role in promoting the initiative to our vendors towards combating air pollution on both sides of the border and beyond.

CORPORATE GOVERNANCE (CONTINUED)

Since 2007, Li & Fung Hong Kong headquarters has enrolled in the Wastewise Scheme supported by the Environmental Protection Department and the Hong Kong Productivity Council. The Scheme recognizes businesses' efforts on reducing waste and creating a green environment. Li & Fung received the Gold Wastewise Label Award in recognition of the Company's effort in waste reduction for years 2007, 2008 and 2009. In 2009, Li & Fung also enrolled in the Energywise Scheme, which recognizes businesses' efforts on energy savings, and was awarded the Gold Energywise Label. Starting from 2008, Li & Fung launched the Green Initiatives across the Group, and worldwide Green Teams comprising members from different business units have been formed to help raising the staff awareness and reinforce behavior changes on sustainability.

The Group's Global Property Committee comprising senior executives was established since 2005 to oversee the effective planning and management of the Group's global offices and warehousing facilities. The Committee also supervises the renovation of offices in order to maintain a consistent office environment, health and safety standards, and corporate identity of the Group.

In 2009, the Group has established the global Crisis Management Team (CMT) in order to proactively handle the challenges from the outbreak of H1N1. The CMT has developed the business continuity plans and various policies such as Travel, Communications, Human Resources, Building Administration and so on in order to ensure business as usual under any circumstances. Hygiene tips and health precautionary measures have been communicated to all staff via Intranet and Staff Communications, and even reached their family members through the Company Calendar sent to individual staff's homes.

COMMUNITY INVOLVEMENT

Li & Fung and its offices, as an integral part of various communities in which it operates, contribute to the well-being of these communities and provide support to people in need. The Group endorses senior executives accepting public office roles which included various government and non-government advisory boards and professional associations promoting Hong Kong's exports, the advancement of international trade, community quality-housing solutions, best corporate governance practices and identifies new opportunities during the recent financial turmoil. Executives' participation included serving on the Committee of the Hong Kong Exporters' Association, Hong Kong Trade Development Council, Hong Kong Export Credit Insurance Corporation and Hong Kong Housing Society, on the Corporate Governance Committee of the Hong Kong Institute of Certified Public Accountants, as member on the Dual Filing Advisory Group of the Hong Kong Securities and Futures Commission.

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 2009 included the Standard Chartered Hong Kong Marathon in which the Group was presented the fourth place of "Most Supportive Group Award". We have joined the CGCC Charity Walk in Celebration of PRC 60th Anniversary and awarded Top Ninth Fund Raising Corporation. The Group continued to support blood donations for Hong Kong Red Cross, and "Job Shadowing Day" for secondary school students to simulate a work day in our Hong Kong offices with co-partnership with Junior Achievement Hong Kong. The Group also participated in the Tree-planting Challenge organized by Friend of the Earth. In 2009, for the eighth consecutive year, these efforts and

contributions toward a better society were recognized by the “5 Years+ Caring Company Award” presented by The Hong Kong Council of Social Service (“HKCSS”) for the Group’s caring culture and good corporate citizenship.

The Group continued to support community activities organized by Li & Fung (1906) Foundation, a Hong Kong registered charity whose purpose is to support the staff of the Li & Fung Group of companies around the world to engage in and contribute to the communities in which they live and work. In 2009, a campaign named “Social Angel”, run by the HKCSS in which Li & Fung (1906) Foundation is one of the sponsors, has been launched with active participation from the Li & Fung staff. It is a volunteer campaign which our staff can share their knowledge and experiences to help Social Enterprises improve their business performances. A variety of visits and business review meetings has been conducted with Li & Fung volunteers. During 2009, the Group has also raised funds for disaster relief for victims in the Taiwan Typhoon & mudslide, the Tropical Storm Ketsana Attack in Asia Pacific Region and the Indonesia Earthquake. Through Li & Fung (1906) Foundation we had matched donations from staff with a total funding of HK\$ 4 million.

INFORMATION TECHNOLOGY

The Company’s commitments to supporting Information Technology investments continued in 2009 with specific focus on application systems supporting business growth, process efficiency and business partner integrations.

SUPPLY CHAIN PARTNER COLLABORATION AND PROCESS IMPROVEMENT

In 2009, the completion rollout of the Vendor Portal enhanced all communications channels between the Company and its entire supplier base, automating all transactional processes between them and reduced significantly manual data entry and the cost per transaction. The Vendor Portal also extended to supply chain document flows, enhancing to visibility and access to physical documents and reducing the requirements to print and courier documents.

Electronic collaboration remains a high focus to increase efficiency, so the Company remains committed to extend from the collaboration with customers via EDI and suppliers via Vendor Portal, to all other supply chain partners throughout 2010, including banks, carriers, customs and forwards.

COMMUNICATIONS NETWORK AND INFRASTRUCTURE

2009 also saw the effective use and upgrade of the Company’s Voice Over IP (VoIP) and Video Conferencing facility both within the enterprise and with supply chain partners. Leveraging existing and upgraded data networks, the Company now places both audio and video calls to existing offices at no incremental or variable costs, enabling effective and fixed costs communications. Video conferencing has seen a significant increase in use also contributing significantly in reducing travel costs and time.

Corporate Governance and Best Management Company Awards / Recognitions

Current Three-Year Plan (2008-2010)

Previous Three-Year Plan (2005-2007)

2005

- The Gold Award in the Hang Seng Index Category of the **"Best Corporate Governance Disclosure Awards 2005"** organized by the Hong Kong Institute of Certified Public Accountants.
- Included as the **"Top Quartile Companies"** in Hong Kong with the highest corporate governance score surveyed by CLSA and Asian Corporate Governance Association.

- **"Highly Commended – Best Corporate Governance Awards 2005"** by *Investor Relations* magazine.

2006

- The Gold Award in the Hang Seng Index Category of the **"Best Corporate Governance Disclosure Awards 2006"** organized by the Hong Kong Institute of Certified Public Accountants.

- **"Corporate Governance Asia Recognition Awards 2006"** by *Corporate Governance Asia Journal*.

- **"Hong Kong Best Managed Company – No.1"** and **"Best Corporate Governance – No.2"** by *FinanceAsia* magazine.

- **"Asia's Best Managed Companies in Hong Kong 2006"** by *Asiamoney* magazine.

- Ranking among the top of Hong Kong public companies with the highest corporate governance score surveyed by the City University of Hong Kong (sponsored by the Hong Kong Institute of Directors).

"Corporate Governance Asia Recognition Awards 2007"
By Corporate Governance Asia Journal

"Fabulous 50"
By Forbes Asia

2007

"The Asset Corporate Governance Awards 2007"
By The Asset magazine

Ranking among the top 5 of Hong Kong large caps companies in corporate governance ranking surveyed by CLSA and ACGA survey.

"Hong Kong Best Managed Company – No.1" and **"Best Corporate Governance – No.2"**
By FinanceAsia magazine

