

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.

THE BOARD

BOARD COMPOSITION

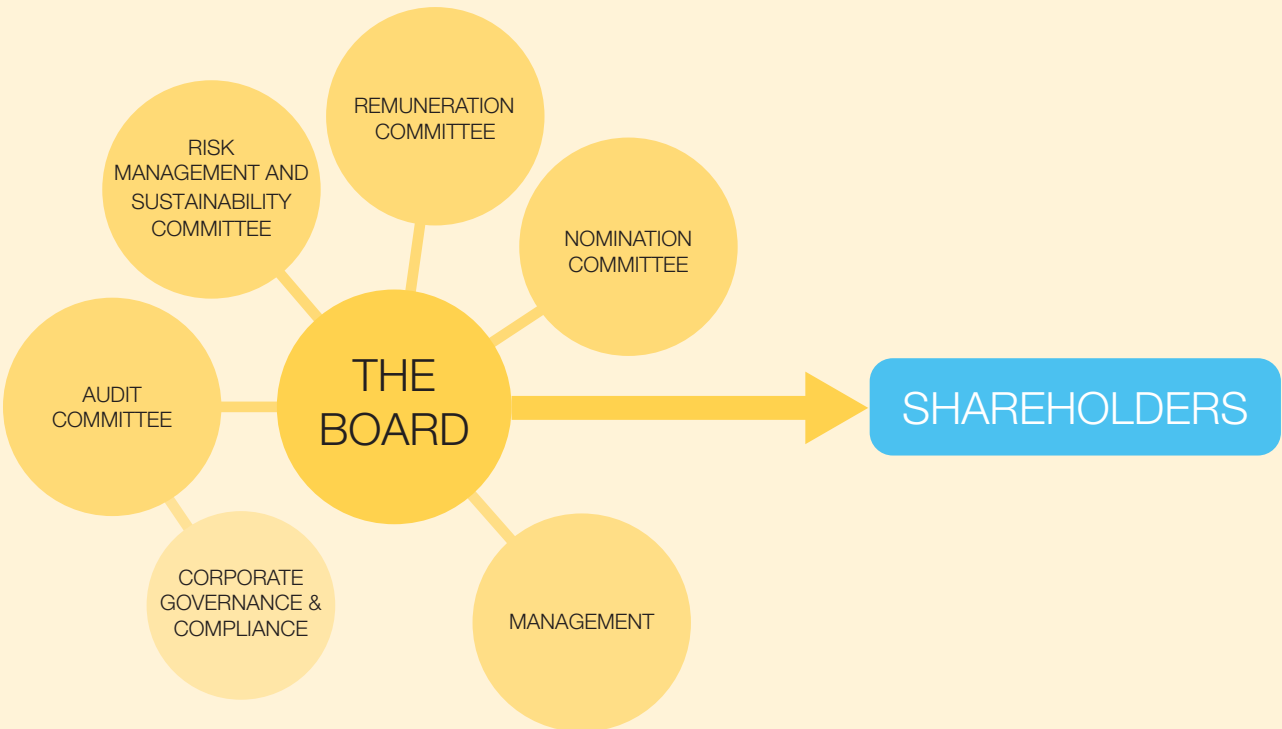
The Board is currently composed of three Executive Directors (Group Chairman, Group President and Chief Executive Officer, and Group Chief Operating Officer), two Non-executive Directors (including Honorary Chairman) and six Independent Non-

executive Directors. The Board considers this composition to be more balanced and to reinforce 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 58 to 63.

BOARD DIVERSITY

The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. In May 2013, the Company adopted a Board diversity policy (the "Policy") which sets out the approach to diversify the Board of Directors.

Under the Policy, the Nomination Committee reviews and assesses Board composition on behalf of the Board and recommends the appointment of new Director when necessary.



In designing the Board's composition, the Nomination Committee has considered a number of aspects, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service. The Nomination Committee will also consider factors based on the Company's business model and specific needs from time to time in determining the optimum composition of the Board.

The Nomination Committee recommended and the Board appointed Mrs Margaret Leung Ko May Yee as an Independent Non-executive Director and a member of the Audit Committee of the Company effected 1 April 2013.

GROUP CHAIRMAN AND GROUP PRESIDENT AND CHIEF EXECUTIVE OFFICER

The role of the Group Chairman is separate from that of the Group President and Chief Executive Officer. 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 President and Chief Executive Officer | <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 senior management, 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 risk management and internal control procedures; and
- compliance with relevant statutory requirements, rules and regulations.

BOARD AND COMMITTEE MEETINGS

Regular board meetings are scheduled one year in advance to facilitate maximum attendance by Directors. The meeting agenda is set by the Group Chairman in consultation with members of the Board. Senior management is usually invited to join Board meetings to enhance the Board and management communication. External auditor attended the Company's 2013 annual general meeting to answer any questions from the Shareholders on the audit of the Company.

CORPORATE GOVERNANCE (CONTINUED)

In 2013, the Board held four physical meetings and three phone conferences (with an average attendance rate of 91%). A summary of the meetings held in 2013 is set out in the following table:

	Board	Nomination Committee	Audit Committee	Risk Management and Sustainability Committee	Remuneration Committee	Annual General Meeting
Non-executive Directors						
Dr Victor FUNG Kwok King ¹	■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■		■ ■ ■ ■	■ ■ ■	■
Mr Benedict CHANG Yew Teck	■ ■ ■ ■ ■ ■ ■ ■					■
Independent Non-executive Directors						
Mr Paul Edward SELWAY-SWIFT ²	■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■	■ ■ ■ ■			■
Mr Allan WONG Chi Yun ³	■ ■ ■ ■ ■ ■ ■ ■		■ ■ ■ ■		■ ■ ■	■
Professor Franklin Warren McFARLAN	■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■	■ ■ ■ ■		■ ■ ■	■
Mr Martin TANG Yue Nien	■ ■ ■ ■ ■ ■ ■ ■		■ ■ ■ ■	■ ■ ■ ■	■ ■ ■	■
Dr FU Yuning	■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■	■ ■ ■ ■			■
Mrs Margaret LEUNG KO May Yee ⁴	■ ■ ■ ■ ■ ■ ■ ■		■ ■ ■			■
Executive Directors						
Dr William FUNG Kwok Lun ⁵	■ ■ ■ ■ ■ ■ ■ ■			■ ■ ■ ■		■
Mr Bruce Philip ROCKOWITZ ⁶	■ ■ ■ ■ ■ ■ ■ ■			■ ■ ■ ■		■
Mr Spencer Theodore FUNG ⁷	■ ■ ■ ■ ■ ■ ■ ■			■ ■ ■ ■		■
Group Chief Compliance Officer						
Mr Srinivasan PARTHASARATHY	■ ■ ■ ■ ■ ■ ■ ■ ⁸	■ ■ ■ ⁸	■ ■ ■ ■ ⁸	■ ■ ■ ■	■ ■ ■ ⁸	■
Dates of meeting						
	9/1/2013 ⁹	20/3/2013	20/3/2013	26/2/2013	20/3/2013	14/5/2013
	21/3/2013	13/5/2013	13/5/2013	16/4/2013	13/5/2013	
	14/5/2013	21/11/2013	12/8/2013	22/7/2013	21/11/2013	
	9/7/2013 ⁹		21/11/2013	15/10/2013		
	13/8/2013					
	22/11/2013					
	23/12/2013 ⁹					
<p>1: Honorary Chairman, and Chairman of Risk Management and Sustainability Committee</p> <p>2: Chairman of Audit Committee and Nomination Committee</p> <p>3: Chairman of Remuneration Committee</p> <p>4: Appointed as Independent Non-executive Director and a member of Audit Committee on 1 April 2013; and attended Board and Committee meetings in March by invitation before becoming a Director</p> <p>5: Chairman of the Board</p> <p>6: Group President and Chief Executive Officer</p> <p>7: Group Chief Operating Officer</p> <p>8: Attended Board and Committee meetings as a non-member</p> <p>9: Held by telephone conference</p>						
<div> <div>■ MEETINGS ATTENDED</div> <div>■ MEETINGS UNATTENDED</div> </div>						

BOARD EVALUATION

The Board recognizes the importance and benefits of conducting regular evaluations of its performance to ensure the effectiveness of its functioning. On an annual basis, a questionnaire is sent to each Director in order to enable the performance of the Board to be evaluated. The questionnaire seeks their views focusing on the overall performance of the Board, the composition of the Board, conduct of Board meetings and provision of information to the Board. In 2013, the responses to the questionnaire were analyzed and discussed at the Board meeting. Suggestions made by the Directors have been incorporated as further improvements to the overall corporate governance regime.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The Board has received from each Independent Non-executive Director a written annual confirmation of their independence and is satisfied that independence up to the approval date of this report. The assessment of the independence of Independent Non-executive Director, which is on no less exacting terms than those set out in Chapter 3 of the Listing Rules, is delegated by the Board to the Nomination Committee.

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

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

The appointment of a 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.

The Company may in general meeting by ordinary resolution of the Shareholders of the Company elect any person to be a Director either to fill a vacancy or to act as an additional Director up to the maximum number of Directors determined by the Shareholders in general meeting. If a Shareholder of the Company wishes to propose a person for election as a Director at the general meeting convened to deal with appointment/election of Director(s), he/she shall serve the Company a written notice and follow the designated procedures which are subject to the Bye-laws of the Company, the relevant laws and the Listing Rules. Details of the procedures for nomination of Directors are available on Li & Fung's corporate website (www.lifung.com).

Except for Mr Paul Selway-Swift, an Independent Non-executive Director, who has stood for re-election for a term of around one year at each annual general meeting since 2013, all other Non-executive Directors were appointed for a term of three years and all Directors are subject to retirement by rotation and re-election at annual general meeting. Under the Company's Bye-laws, one-third of the Directors, who have served longest on the Board, must retire and shall be eligible for re-election at each annual general meeting, provided that every Director is subject to retirement by rotation at least once every three years. In addition to the retirement by rotation, any Director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

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.

CORPORATE GOVERNANCE (CONTINUED)

INDUCTION, INFORMATION AND ONGOING DEVELOPMENT

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills for discharging their duties and responsibilities as Directors of the Company.

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 economics and business environment relevant to the Group's major operations. Overseas Board Meetings coupled with office briefings and a tour by the management of our overseas offices had been regularly conducted since 2004.

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 external legal adviser on Directors' legal role and responsibilities.

All Directors are required to provide the Company with their training records on an annual basis. For the year ended 31 December 2013, all Directors have attended the training sessions arranged by the Company. They have also attended and/or given speech at external seminars/training sessions.

To further maximize the contribution from non-management Directors, two separate meetings between the Group Chairman and Non-executive Directors were held in May and November 2013 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 2013.

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, was invited to attend Board and committee meetings in 2013 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 management 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 an Independent Non-executive Director or a Non-executive Director) with defined terms of reference (available on Li & Fung's corporate website), which are on no less exacting terms than those set out in the Corporate Governance Code of the Listing Rules:

- Nomination Committee
- Audit Committee
- Risk Management and Sustainability Committee
- Remuneration 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, all Audit Committee members are Independent Non-executive Directors, and the Nomination and Remuneration Committees have been structured with a majority of Independent Non-executive Directors as members since 2003. Details and reports of the Committees are set out below.

NOMINATION COMMITTEE

The Nomination Committee was established in August 2001 and has been chaired by an Independent Non-executive Director since August 2011. 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, the management of Board succession and monitoring the training and continuous professional development of Directors and senior management.

The Committee met three times in 2013 (with an average attendance rate of 83%) to review the Board composition (including Board diversity), the retirement of Directors by rotation, the re-appointment of retiring Directors at 2013 annual general meeting and the nomination of Directors to fill Board vacancies in 2013, to assess the independence of Independent Non-executive Directors, and to monitor the training and continuous professional development of Directors and senior management.

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 all 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 2013 (with an average attendance rate of 87%) to review with 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.

In 2013, the Committee's review covered the audit plans and findings of internal and external auditors, the external auditor's independence and performance, provision of non-audit services by our external auditor, the Group's accounting principles and practices, goodwill assessment, Listing Rules and statutory compliance, connected transactions, internal controls, risk management, treasury, 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 review of its effectiveness in 2013 by going through a detailed audit committee best practices checklist as against the Committee's current practices. Similar self-assessment exercises were conducted every two years since 2005. Based on the results of these assessments, the Committee believes it is functioning effectively and further enhancements and changes in practice are decided to be made.

The Committee also ensures that proper whistle-blowing 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 Guidelines on Whistle-blowing/Reporting of Concerns, employees can report these concerns to either senior management or 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 2013, no incident of fraud or misconduct was reported from employees, Shareholders or stakeholders that have a material effect on the Company's accounts and overall operations.

CORPORATE GOVERNANCE (CONTINUED)

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 the Committee 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 require prior approval of the Audit Committee if the fee exceeds certain pre-set thresholds. 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 2013, 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 2013 have been scrutinized by the Audit Committee (refer to details of fees to auditor in *Note 4* to the accounts on page 111).

In addition, the external audit engagement partner is subject to periodical rotation of not more than 7 years. Also, the Company has enforced a policy that subject to prior approval by Audit Committee, no employees or former employees of external auditor can be appointed as Director or senior executive of internal audit or finance function in the Group, within 12 months preceding their employment by the external auditor.

Prior to the commencement of the audit of 2013 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) as the Company's external auditor, and the Committee has recommended to the Board the reappointment of PwC in 2014 as the Company's external auditor at the forthcoming annual general meeting.

RISK MANAGEMENT AND SUSTAINABILITY COMMITTEE

The Risk Management and Sustainability Committee was established in August 2001 and is chaired by the Honorary Chairman. Its written terms of reference include offering recommendations to the Board on the Group's risk management and internal control systems, and review of the Group's practices and strategies on corporate responsibility and sustainability. The Committee reports to the Board in conjunction with the Audit Committee.

The Risk Management and Sustainability Committee met four times in 2013 (with an average attendance rate of 96%) to review risk management procedures pertinent to the Group's significant investments and operations. The scope of review covers receivables management, credit risk management, inventory management, goodwill assessment, tax compliance issues, litigation exposures, acquisitions and integration, other operational and financial risk management as well as corporate responsibility and sustainability.

REMUNERATION COMMITTEE

The Remuneration 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 making recommendation to the Board on the remuneration policy for all Directors and senior management, including the grant of share options to employees under the Company's Option Scheme, and determining the remuneration packages of individual Executive Directors and senior management. It annually reviews the Group's remuneration policy.

The Committee met three times in 2013 (with a 100% attendance rate) to review and determine all Executive Directors' and senior management's remuneration packages and the grant of Share Options under the Three-Year Plan 2011–2013.

Details of Directors' and senior management's emoluments of the Company are set out in *Note 11* to the accounts on pages 116 to 118.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS AND SENIOR MANAGEMENT

The primary goal of the remuneration policy on executive remuneration packages is to enable Li & Fung to motivate Executive Directors and senior management by linking their compensation to performance with reference to corporate and operating groups' objectives. Under the policy, a Director or a member of senior management is not allowed to approve his/her 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' and senior management's remuneration packages including their basic salary were approved by Remuneration Committee at the beginning of the Group's Three-Year Plan 2011–2013. Under the service contracts between the Company and Group Chairman as disclosed under Directors' Service Contracts section on page 73, Group Chairman 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 Group Chairman) and senior management. Under this scheme, the computation of discretionary bonus (without capping) is based on measurable performance contributions of operating groups headed by the respective Executive Directors and senior management. Group Chairman 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 Company and Group Chairman.

SHARE OPTIONS

The Remuneration Committee approves all grants of share options under the shareholders' approved share option scheme to Executive Directors and senior management, based on the Company's performances and achievement of business targets in accordance with the Company's objectives of maximizing long-term shareholder value.

CORPORATE GOVERNANCE (CONTINUED)

REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

The remuneration, comprising Directors' fees, of Non-executive Directors is subject to regular assessment with reference to those paid by Hang Seng Index constituent stocks and a recommendation by the Remuneration 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.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective system of risk management and 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 risk management and internal control framework.

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, human resources functions and computer systems. All these controls are supplemented with written policies and Key Operating Guidelines (KOG) tailored to the need of respective operating groups in the countries where the Group operates. These policies and KOG cover key risk management and control standards for the Group's operation worldwide.

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* (available at Li & Fung's corporate website) for all Directors and staff. A number of accompanying policies and guidelines covering anti-bribery, gifts, entertainment and hospitality, and whistle-blowing were created to set a framework to help our staff make decisions and comply with both the ethical and behavioural standards of Li & Fung. All the staff are requested to abide by the Code and regular Code of Conduct trainings are also conducted for staff to reiterate the importance and principles of proper business ethics. For ease of reference and as a constant reminder, the Code is posted in the Company's internal electronic portal for reference by all staff.

FINANCIAL AND CAPITAL RISK MANAGEMENT

The Board approves the Group's Three-Year financial budgets 2014-2016 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 operating group levels on a quarterly and monthly basis.

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 38 and 39* to the accounts on pages 155 to 159.

INVESTMENT MANAGEMENT

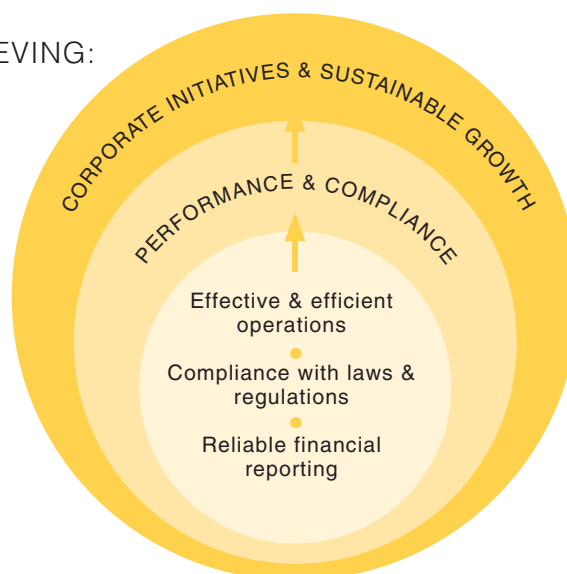
The Group Investment Committee (comprising the Honorary Chairman, Group Chairman, Executive Directors and senior management) develops investment control procedures, monitors and approves the Group's major investments and acquisitions. Significant investments and acquisitions (with consideration above a threshold as pre-set by the Board) also require Board's approval.

Management also monitors the integration process of the newly acquired businesses through a structured post-acquisition integration program focusing on the alignment of operational and financial controls with the Group's standards and practices. Any significant integration issues have to be reported to Risk Management and Sustainability Committee.

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.

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



CORPORATE GOVERNANCE (CONTINUED)

RISK MANAGEMENT MONITORING

The Risk Management and Sustainability 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, financial and operational risks of our supply chain operations, investment and acquisitions, taxation, inventory and receivable management, Group-wide insurance, human resources, contingency and disaster recovery, IT governance structure, corporate responsibility and sustainability.

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 compliance with the Group's policies and guidelines as well as legal and regulatory requirements, the internal controls and evaluates their adequacy and effectiveness. The Group Chief Compliance Officer reports all major findings and recommendations to the Audit Committee on a regular basis.

The Internal Audit Plan of CGD, which is strategically linked to the Group's Three-Year Plan, 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 and Sustainability 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.

As part of the annual review of the effectiveness of the Group's internal control and risk management systems for 2013, management had conducted an Internal Control Self-Assessment for the business 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. To facilitate the external auditor's audit of the Group, the external auditor attended all the meetings of both the Audit Committee and the Risk Management and Sustainability Committee. Our external auditor also reports to the Audit Committee any significant weaknesses in the Group's internal control procedures which might come to its notice during the course of audit. PricewaterhouseCoopers noted no significant internal control weaknesses in its audit for 2013.

OVERALL ASSESSMENT

Based on the respective assessments made by management and the Group's CGD and also taking into account the results of the work conducted by the external auditor for the purpose of their audit, the Audit Committee considered that for 2013:

- 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.
- the resources, qualifications, experience, training programmes and budget of the staff of the Group's accounting and reporting function were adequate.

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 last Three-Year Plan 2011–2013. Details of our awards are set out on page 44 to 45.

DIRECTORS' AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

The Group has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code. Relevant employees who are likely to be in possession of unpublished price-sensitive information ("Inside Information") of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code. For 2013, specific confirmation of compliance has been obtained from each Director and relevant employee. No incident of non-compliance by Directors and relevant employees was noted by the Company in 2013.

The Company has also established a Policy on Inside Information to comply with its obligations under the SFO and the Listing Rules.

DIRECTORS' AND SENIOR MANAGEMENT INTERESTS AND FINANCIAL RELATIONSHIP BETWEEN DIRECTORS

Details of Directors' interests in the Shares of the Company are set out in the Report of the Directors section on pages 73 to 75. 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 2013.

On 12 December 2013, King Lun through an indirect wholly-owned subsidiary acquired 16,667 shares representing 7.69% of the issued capital of Pure International Holdings (BVI) Limited ("Pure"), a company in which Hurricane (Venezuela) Limited ("HVL") also holds 156,875 shares representing 72.40% of the issued share capital of Pure. The ownership of King Lun is defined in the Glossary on page 175. HVL is a company beneficially owned by a trust which has been set up for the benefit of the family members of Mr Bruce Rockowitz.

DIRECTORS' RESPONSIBILITY FOR ACCOUNTS AND AUDITOR'S RESPONSIBILITY

The Directors' responsibility for preparing the accounts is set out on page 76, and the auditor's reporting responsibility is set out on page 77.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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 Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules throughout the year ended 31 December 2013.

CORPORATE GOVERNANCE (CONTINUED)

SHAREHOLDERS' RIGHTS

Under the Company's Bye-laws, in addition to regular Board meetings, the Board, 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 within 21 days from the date of deposit of written notice 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 Company Secretary at the Company's business address in Hong Kong. Other general enquiries can be directed to the Company through our Group's Investor Relations, whose contact information is detailed on page 64.

CHANGES IN CONSTITUTIONAL DOCUMENTS

There is no significant change in the Company's constitutional documents during the year ended 31 December 2013.

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), which features a dedicated Investor Relations section, facilitates effective communication 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 presentations for interim and annual results briefings as well as presentations given by senior management at investor conferences are 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 at least 20 clear business 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 date, venue and resolutions.

Li & Fung is aware of its obligations under the SFO and the Listing Rules, including the overriding principle that information which is expected to be Inside Information should be announced promptly and to prevent selective or inadvertent disclosure of Inside Information. Therefore, the Group conducts the handling and dissemination of such Inside Information in accordance with the "Guidelines on Disclosure of Inside Information" issued by Securities and Futures Commission in June 2012 and adopted the Policy on Inside Information on 1 January 2013. Members of senior management are identified and authorized to act as spokespersons and respond to related external enquiries. A Shareholders' Communication Policy has been reviewed by the Board regularly to ensure its effectiveness.

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 Series, FTSE4Good Index Series, Dow Jones Sustainability Asia Pacific Index and Hang Seng Corporate Sustainability Index Series.

In 2013, 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 2013, are set out in the "Information for Investors" section on page 64 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 2013, Li & Fung received a number of recognitions from the wider business community, including being selected as one of *Forbes'* "Global 2000: The World's Biggest Public Companies" and one of *Fortune's* "World's Most Admired Companies". The Group was also named as having "Best Investor Relations by Hong Kong Company" by *Corporate Governance Asia's* Asian Excellence Recognition Awards 2013, and it received "The Asset Corporate Platinum Award 2013" from *The Asset* magazine.

The Group values feedback from shareholders on its efforts to promote transparency and foster investor relationships. Comments and suggestions are welcome, and they can be addressed to the Group Corporate Communications and Investor Relations Department by mail or by email at ir@lifung.com.hk.

INFORMATION TECHNOLOGY

The business continued to invest in IT systems to support business growth, operations and information availability.

SUPPLY CHAIN COLLABORATION

Our vendor community supported by Total Sourcing, our Vendor portal, saw additional functional requests being added and specifically the introduction of an Advance Shipment Notice (ASN) module. The ASN module will help vendors in more rapid and accurate ASN generation by leveraging the existing data within Total Sourcing thus streamlining the processes for the vendors. The customer portal now provides tailored dashboards and online access to applications and will continue to be enhanced to provide a simple and convenient platform to access multiple assets from one place. Material Requirements Planning (MRP) upgrades for the distribution business were implemented in additional countries, while innovations such as the cluster pick and mobile picking stations were introduced along with electronic proof of delivery and web based milestone tracking. The Three-Year Plan (2014-2016) will see additional countries implementing transportation and freight management systems.

Management decision support was further supported by making information more easily accessible and by continuing to enhance dashboards for decision support were enhanced and extended to mobile platforms.

The introduction of Telepresence to complement the existing video conference and Internet Protocol Telephones broadened the scope of integration communications within the organisation and between partners and provided the full scope of user interactions from low to high definition. We will continue to invest to provide quality of communication, while leveraging our existing networks, to provide a real alternative to travel.

CORPORATE GOVERNANCE AND BEST MANAGEMENT AWARDS/RECOGNITIONS

