

Corporate governance



The Board 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.

Corporate governance practices adopted by the Company during the six-month period to 30 June 2014 are in line with those practices set out in the Company's 2013 annual report and on the Company's corporate website (www.lifung.com).

The Board

The Board is currently composed of three Executive Directors, one Non-executive Director and six Independent Non-executive Directors.

The role of the Group Chairman is separate from that of the Group Chief Executive Officer. This is to enhance their respective independence, accountability and responsibility.

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board held five meetings to date in 2014 (with an average attendance rate of 91%).

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

Nomination Committee

The Nomination Committee was established to make recommendations to the Board on the appointment of Directors, evaluate the Board composition (including Board diversity), assess the independence of Independent Non-executive Directors, manage Board succession and monitor the training and continuous professional development of Directors and senior management.

The Committee met three times to date in 2014 (with an average attendance rate of 94%). Its current members include:

Mr Paul Edward SELWAY-SWIFT* – *Committee Chairman*
Dr Victor FUNG Kwok King
Dr William FUNG Kwok Lun (appointed on 15 May 2014)
Professor Franklin Warren McFARLAN*
Mr Martin TANG Yue Nien* (appointed on 15 May 2014)
Dr FU Yuning*

Audit Committee

The Audit Committee was established to review the Group's financial reporting, internal controls and corporate governance issues and make relevant recommendations to the Board. All Committee members possess appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules.

The Audit Committee met three times to date in 2014 (with an average attendance rate of 94%) 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.

The Committee's review covers 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 financial information for the six months ended 30 June 2014 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. Its current members include:

Mrs Margaret LEUNG KO May Yee* (appointed as Committee Chairman on 15 May 2014)
 Mr Paul Edward SELWAY-SWIFT* (resigned as Committee Chairman on 15 May 2014 and remains as Committee member)
 Mr Allan WONG Chi Yun*
 Professor Franklin Warren McFARLAN*
 Mr Martin TANG Yue Nien*
 Dr FU Yuning*

Risk Management and Sustainability Committee

The Risk Management and Sustainability Committee was established to make 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 three times to date in 2014 (with an average attendance rate of 89%) 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. Its current members include:

Dr Victor FUNG Kwok King – *Committee Chairman*
 Mr Allan WONG Chi Yun* (appointed on 15 May 2014)
 Dr William FUNG Kwok Lun
 Mr Spencer Theodore FUNG
 Mr Marc Robert COMPAGNON (appointed on 1 July 2014)
 Mr Srinivasan PARTHASARATHY (Group Chief Compliance Officer)

Remuneration Committee

The Remuneration Committee was established to make 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 share option scheme, and determine the remuneration packages of individual Executive Directors and senior management. It annually reviews the Group's remuneration policy. Details of the Company's remuneration policy for Executive Directors, senior management and Non-executive Directors are set out in the Corporate Governance section on the Company's corporate website (www.lifung.com).

The Committee met two times to date in 2014 (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 2014–2016. Its current members include:

Mr Allan WONG Chi Yun* – *Committee Chairman*
 Dr Victor FUNG Kwok King
 Professor Franklin Warren McFARLAN*
 Mr Martin TANG Yue Nien*

* *Independent Non-executive Director*

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. Details of the Company's risk management and internal control processes are set out in the Corporate Governance section on pages 38 to 41 of the Company's 2013 annual report.

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.

Based on the respective assessments made by management and the Group's CGD, the Audit Committee considered that for the six months ended 30 June 2014:

- 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 interim financial information 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* ("Code") (available at Li & Fung's corporate website) for all Directors and staff. 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.

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 applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2014.

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. Specific confirmation of compliance has been obtained from each Director and relevant employee for the six months ended 30 June 2014. No incident of non-compliance by Directors and relevant employees was noted by the Company for the six months ended 30 June 2014.

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

Investor Relations and Communications

Li & Fung has a proactive policy for promoting investor relations and communications by maintaining regular dialogue and fair disclosure with 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 locally and overseas. 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 Investors 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 presentation for interim and annual results briefings as well as presentations given by senior management at investor conferences have also been made available.

Information Technology

The development of the Advanced Shipping Notification (ASN) module within Total Sourcing was the logical extension of the vendor platform to leverage the confirmed shipment data not just for vendor payment and customer updates but also to use this data in the creation of packing lists, carton labels and electronic data interchange (EDI) to receiving locations for more accurate and faster receipt processes, thus supporting more efficient supply chain processes and providing the vendor network an integrated alternative to existing ASN solutions in the market. Initial pilots are underway.

Work continues to leverage data from transactions and to deliver it as management information through business intelligence dashboards internally, with plans to make such dashboards available to customers.

With the successful Spin-off and separate listing of Global Brands, focus was given to the decoupling of infrastructure and Enterprise Resource Planning (ERP) systems.

Security and Disaster Recovery Planning audits were conducted and successfully passed. Centralization and consolidation of systems to our data center continues, this together with support of the business growth has led to strategic investments in communications and storage.

Alignment with the business Three-Year Plan 2014-2016 of vendor evaluations for Freight Management and Transportation Management Systems are underway.

Infrastructure investments have been in further centralization and consolidation of servers for both production and backup in separate centers, core protection companywide and infrastructure continue to support the growth in EDI. Internet Protocol Telephony has been extended from the desk to smart devices.