

LIFUNG Toy





Our commitment to good governance

We are committed to the principles of transparency, accountability and independence to enhance shareholder value.

Our commitment to good governance

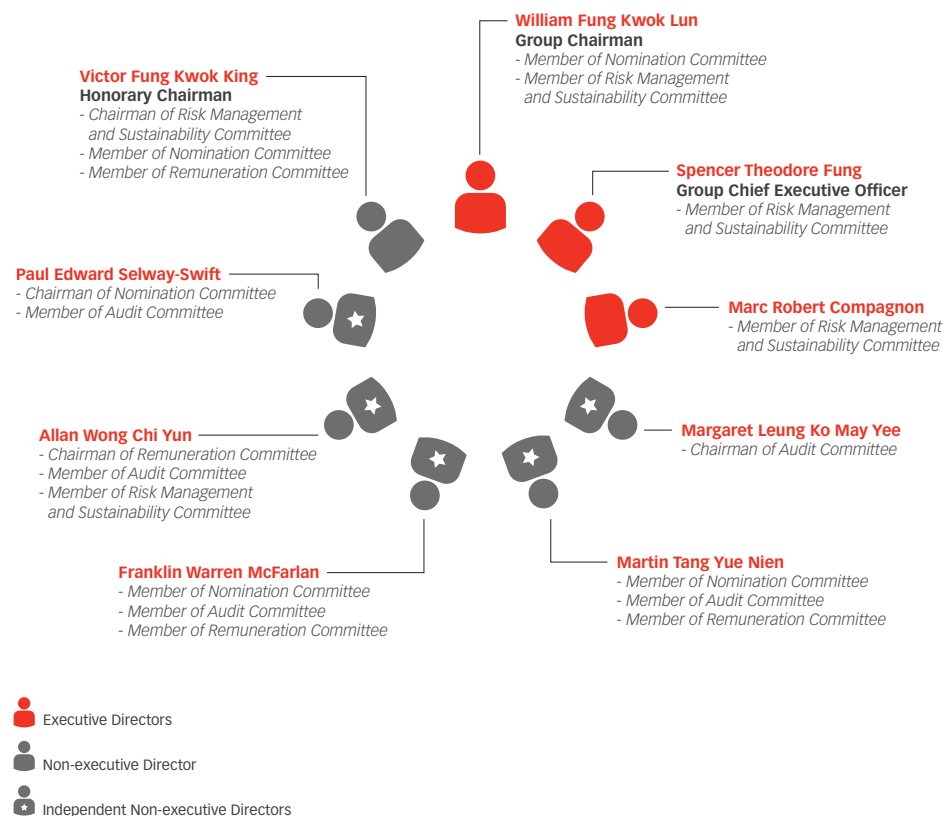
The Board and management are committed to principles of good corporate governance consistent with prudent management and enhancement of shareholder value. These principles emphasize transparency, accountability and independence. Set out below is how we uphold these principles of corporate governance.

The Board

Board Composition

The Board is currently composed of three Executive Directors, one Non-executive Director and five Independent Non-executive Directors. The Board considers this composition remains balanced and able to reinforce a strong independent review and monitoring function on overall management practices. Directors' biographical details and relevant relationships are set out in Our board and management team section on pages 54 to 63.

List of Directors and their Roles and Functions



Board Diversity

The Company sees increasing diversity at the Board level as an essential element in supporting its strategic objectives and sustainable development and we adopted a Board Diversity Policy in 2013 which sets out the approach to diversify the Board.

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

In designing the Board's composition, the Nomination Committee considers 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.

Group Chairman and Group Chief Executive Officer

Spencer Theodore Fung assumed the role as the Group Chief Executive Officer of the Company on 7 July 2014, succeeding Bruce Philip Rockowitz who ceased to be the Group President and Chief Executive Office of the Company. The role of the Group Chairman remains separate from that of the Group Chief Executive Officer to enhance their respective independence, accountability and responsibility. Their respective responsibilities are clearly established and defined in writing by the Board.

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| Group Chairman | <ul style="list-style-type: none">• Responsible for ensuring the Board is functioning properly, with good corporate governance practices and procedures. |
| Group 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 reserves for its decision or consideration matters covering overall strategy, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointment or reappointment, approval of major capital transactions and commitments, and other significant operational and financial matters.

The Non-executive Directors (the majority of whom are independent) bring diverse industry expertise and serve the important function of advising the management on strategy, ensuring that the Board maintains high standards of financial and other mandatory reporting requirements, and providing adequate checks and balances to safeguard 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, including:

- Preparation of the 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; and
- Compliance with relevant statutory requirements, rules and regulations.

Board Evaluation

The Board recognizes the importance and benefits of conducting regular evaluations of its performance to ensure its effectiveness. Since 2013, an annual questionnaire is sent to each Director to seek their views on the overall performance of the Board, composition of the Board, conduct of Board meetings and provision of information to the Board. The responses are then analyzed and discussed at the Board meeting and suggestions have been incorporated as further improvements to the overall corporate governance regime.

Independence of Non-executive Directors

Each year the Board receives a written confirmation from each Independent Non-executive Director of their independence and is satisfied of their independence up to the approval date of this Report. The assessment of the independence of Independent Non-executive Directors follows the terms set out in Chapter 3 of the Listing Rules and 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 in line with the Board Diversity Policy. The 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 at a general meeting. If a Shareholder 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 must serve 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 by Shareholders are available on our corporate website (www.lifung.com).

Except for Paul Edward 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 the 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 each 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 following annual general meeting 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 Board for more than nine years will be subject to separate resolution to be approved by Shareholders.

Induction 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.

All Directors were informed on a timely basis of major changes that may have affected the businesses, including relevant rules and regulations. In addition, we have implemented an annual Board training program since 2003 to update the Directors (in particular Independent Non-executive Directors) on the macro economics, business environment and regulatory requirements relevant to our operations. Board meetings outside of Hong Kong, coupled with briefings and office tours have been regularly conducted since 2004. In 2014, a Board meeting and business briefing was conducted in Vietnam with a visit to our sourcing office in Ho Chi Minh City.

In addition, each newly-appointed Director receives a tailored induction program, which includes an overview of the Company by the Group Chairman, and meetings with management and the Company's external legal adviser on Directors' legal role and responsibilities.

All Directors are required to provide their training records on an annual basis. For the year ended 31 December 2014, all Directors have attended the arranged training sessions and given, or attended, speeches at external seminars/training sessions.

Independent Reporting of Corporate Governance Matters

The Board recognizes the importance of independent reporting of corporate governance matters. The Group Chief Compliance Officer, as appointed by the Board, was invited to attend Board and committee meetings in 2014 to advise on corporate governance matters covering risk management and relevant compliance issues relating to business operations, mergers and acquisitions, accounting and financial reporting.

To further enhance communication between the Group Chairman and the Non-executive Directors, three separate meetings between the Group Chairman and Non-executive Directors were held in 2014 without other Executive Directors present. 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 2014.

Liability Insurance for the Directors

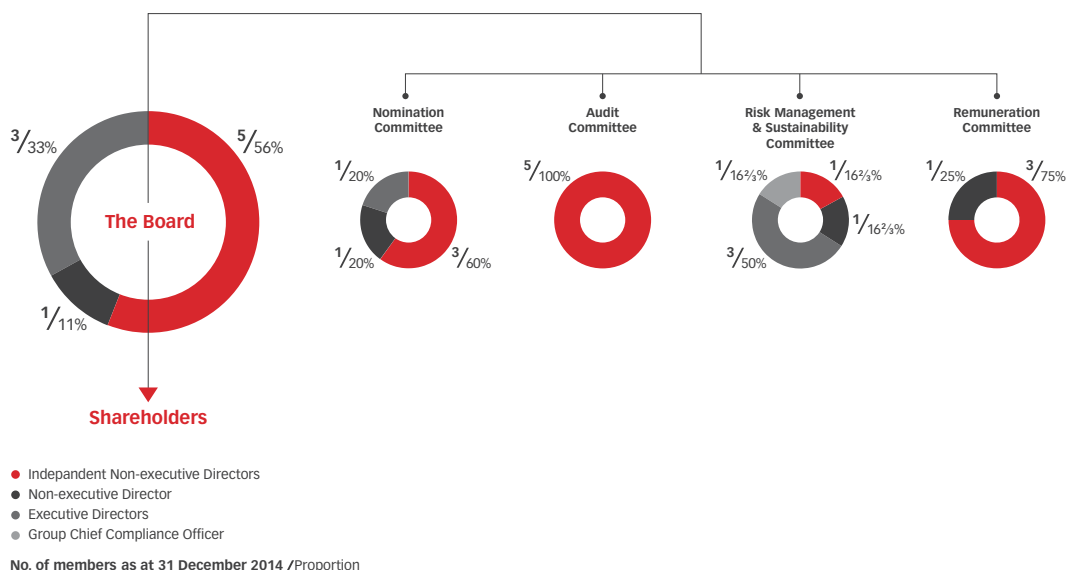
Since 2002 appropriate liability insurance has been in place to indemnify the Directors for their liabilities arising out of corporate management activities. The insurance coverage is reviewed with advice from an external consultant on an annual basis.

Board and Committee Meetings

Regular Board and Board Committee meetings are scheduled one year in advance to facilitate maximum attendance by Directors. The Board meeting agenda is set by the Group Chairman in consultation with members of the Board and the Board Committee meeting agenda is set by the respective Board Committee chairman. Senior management is typically invited to join Board meetings to enhance communication between the Board and management. The external auditor attended the 2014 annual general meeting to answer any questions from the Shareholders on the audit of the Company.

In 2014, the Board held five physical meetings and two phone conferences (with an average attendance rate of 88%). A summary of the Board and Board Committee composition, and meetings held in 2014, is set out below.

The Board and Shareholders



Our commitment to good governance (continued)

Board and Committee Meetings for Year 2014 – Number of Meetings Attended/Held

	Board	Nomination Committee	Audit Committee	Risk Management and Sustainability Committee	Remuneration Committee	Annual General Meeting
Victor Fung Kwok King ¹	7/7	4/4	N/A	4/4	3/3	1/1
Benedict Chang Yew Teck ²	3/3	N/A	N/A	N/A	N/A	1/1
Paul Edward Selway-Swift ³	7/7	4/4	4/4	N/A	N/A	0/1
Allan Wong Chi Yun ⁴	7/7	N/A	4/4	2/2	3/3	1/1
Franklin Warren McFarlan	7/7	4/4	4/4	N/A	3/3	1/1
Martin Tang Yue Nien ⁵	6/7	2/2	4/4	2/2	3/3	1/1
Fu Yuning ⁶	1/7	2/4	2/4	N/A	N/A	0/1
Margaret Leung Ko May Yee ⁷	7/7	N/A	4/4	N/A	N/A	1/1
William Fung Kwok Lun ⁸	6/7	1/2	N/A	3/4	N/A	1/1
Bruce Philip Rockowitz ⁹	4/4	N/A	N/A	1/2	N/A	1/1
Spencer Theodore Fung ¹⁰	7/7	N/A	N/A	4/4	N/A	1/1
Marc Robert Compagnon ¹¹	2/3	N/A	N/A	2/2	N/A	N/A
Srinivasan Parthasarathy	7/7 ¹²	4/4 ¹²	4/4 ¹²	4/4	2/3 ¹²	1/1
Average Attendance Rate	88%	88%	92%	92%	100%	82%

Dates of Meetings	6/1/2014 ¹³ 20/3/2014 15/5/2014 1/7/2014 21/8/2014 23/11/2014 19/12/2014 ¹³	19/3/2014 14/5/2014 1/7/2014 22/11/2014	19/3/2014 14/5/2014 20/8/2014 22/11/2014	23/1/2014 15/4/2014 28/7/2014 15/10/2014	19/3/2014 20/8/2014 22/11/2014	15/5/2014
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1. Honorary Chairman, and Chairman of Risk Management and Sustainability Committee
2. Retired by rotation on 15 May 2014
3. Retired as Chairman of Audit Committee and remains as a member of Audit Committee with effect from 15 May 2014. Chairman of Nomination Committee
4. Chairman of Remuneration Committee. Appointed as a member of Risk Management and Sustainability Committee on 15 May 2014
5. Appointed as a member of Nomination Committee and resigned as a member of Risk Management and Sustainability Committee on 15 May 2014
6. Resigned as Independent Non-executive Director and a member of Audit Committee and Nomination Committee on 31 December 2014
7. Appointed as Chairman of Audit Committee on 15 May 2014
8. Chairman of the Board. Appointed as a member of Nomination Committee on 15 May 2014
9. Resigned as Executive Director, member of Risk Management and Sustainability Committee on 1 July 2014, and ceased to be Group President and Chief Executive Officer on 7 July 2014
10. Appointed as Group Chief Executive Officer on 7 July 2014
11. Appointed as an Executive Director and a member of Risk Management & Sustainability Committee on 1 July 2014; and attended annual general meeting and Board meetings in March, May and July by invitation before becoming a Director
12. Attended Board and Committee meetings as a non-member
13. Held by telephone conference

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 our corporate website under the Corporate Governance section), which are in line with 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 its responsibilities. Minutes of all committee meetings are circulated to all Board members. To further reinforce independence and effectiveness, since 2003, 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. Details and reports of the Committees are below.

Nomination Committee

The Nomination Committee was established in 2001 and has been chaired by an Independent Non-executive Director since 2011. Its 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 four times in 2014 (with an average attendance rate of 88%) to review the Board composition, including Board diversity, the retirement of Directors by rotation, the re-appointment of retiring Directors at the 2014 annual general meeting and the nomination of Directors to fill Board vacancies in 2014, 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. The Committee includes members who possess appropriate accounting or related financial management expertise as required under the Listing Rules.

The Audit Committee met four times in 2014 (with an average attendance rate of 92%) to review, with management and the Company's internal and external auditors, the internal controls and financial matters as set out in the Committee's written terms of reference and make relevant recommendations to the Board.

In 2014, 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, risk management and internal controls, 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 employees of the Group's accounting and financial reporting team as well as its training programs and budget.

Following international best practices, the Committee conducted a regular review of its effectiveness by completing a detailed audit committee best practices checklist to review its current practices. Similar self-assessment exercises have been conducted every two years since 2005. Based on the latest results of these assessments, the Committee believes it is functioning effectively.

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 a fair and independent investigation of such matters and the appropriate follow-up action. Under the 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. In 2014, no incident of fraud or misconduct was reported from employees, Shareholders or stakeholders that had a material effect on the Company's accounts or overall operations.

EXTERNAL AUDITOR'S INDEPENDENCE

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 the external auditor as necessary.

A policy on the provision of non-audit services by the external auditor has been established since 2004. Under this policy, certain specified non-audit services are prohibited and 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 2014, the external auditor provided permitted non-audit services mainly in due diligence reviews of acquisitions and tax compliance services. The nature and ratio of annual fees to the external auditor for non-audit services and for audit services in 2014 have been scrutinized by the Audit Committee (refer to details of fees to auditor in *Note 4* to the accounts on page 152).

The external audit engagement partner is also subject to periodical rotation of not more than seven years. In addition, we have adopted the policy that subject to prior approval by the Audit Committee, no employees or former employees of the external auditor can be appointed as a Director or senior executive of the internal audit or finance division of the Group, within 12 months of his/her employment by the external auditor.

Prior to the commencement of the audit of 2014 accounts, the Committee received written confirmation from the external auditor as to 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 2015 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 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 its 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 2014 (with an average attendance rate of 92%) 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, post-acquisition integration, other operational and financial risk management, significant non-compliance with our policies and Code of Conduct as well as corporate responsibility and sustainability.

In addition to this review scope, over 2014, the Committee specifically discussed compliance with Li & Fung's Supplier Code of Conduct and health and safety requirements by suppliers in Bangladesh, information technology and data security.

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 terms of reference include making recommendations to the Board on the remuneration policy for all Directors and senior management, including the granting of share options to employees under the Company's Option Scheme, determining the remuneration packages of individual Executive Directors and senior management. It also reviews the Group's remuneration policy on an annual basis.

The Committee met three times 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 current Three-Year Plan 2014–2016.

Details of Directors' and senior management's emoluments of the Company are set out in *Note 11* to the accounts on pages 156 to 158.

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, the Committee refers to remuneration surveys conducted by independent external consultants on companies of similar industry and scale.

Basic Salary

All Executive Directors' and senior management's remuneration packages including their basic salary were approved by the Remuneration Committee at the beginning of the current Three-Year Plan 2014–2016. Under the service contract between Li & Fung and the Group Chairman as disclosed under Directors' Service Contracts section on page 111, the 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 the 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. The Group Chairman is entitled to a profit share of the Company's consolidated results after adjustment of interest, tax and non-controlling interests under the service contracts between Li & Fung and the Group Chairman.

Share Options

The Remuneration Committee approves all grants of Share Options under the Shareholders' approved Option Scheme to Executive Directors and senior management, based on the Company's performance and achievement of business targets in accordance with the Company's objectives of maximizing long-term shareholder value.

REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

The remuneration, comprising Directors' fees, of Non-executive Directors is subject to regular assessment with reference to such fees 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.

Company Secretary

The Company Secretary reports to the Group Chairman on Board governance matters and is responsible for ensuring that Board policies and procedures are followed. All Board members have access to her advice and services. She arranges the comprehensive and tailored induction program for new Directors prior to their appointment and provides timely updates to the Directors on relevant new legislation or regulatory requirements. Director training has been organized on a regular basis by the Company Secretary to assist Directors' continuous professional development. In 2014, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge. Biographical details of the Company Secretary are in Our board and management team section on pages 54 to 63.

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. Details of our awards are set out on pages 100 to 101.

Directors' and Relevant Employees' Securities Transactions

The Company 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 in line with the Model Code. For 2014, 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 in 2014.

We have also established a Policy on Inside Information to comply with our obligations under the SFO and the Listing Rules.

Directors' and Senior Management's 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 111 to 113. The Shares held by each member of senior management are less than 2% of the issued share capital for the year ended 31 December 2014.

On 11 April 2014, King Lun through an indirect, wholly-owned subsidiary acquired an additional 5,000 shares which together with its existing 16,667 shares represents a total of 10% of the issued capital of Pure International Holdings (BVI) Limited ("Pure"). 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 218. HVL is a company beneficially owned by a trust which has been set up for the benefit of the family members of Bruce Philip Rockowitz who resigned as a director of the Company with effect from 1 July 2014.

Directors' Responsibility for Accounts and Auditor's Responsibility

The Directors' responsibility for preparing the accounts is set out on page 114, and the auditor's reporting responsibility is on page 115.

Compliance with the Corporate Governance Code

The Board has reviewed the Company's corporate governance practices and is satisfied that it 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 2014.

Shareholders' Rights

Under the Company's Bye-laws, in addition to regular Board meetings, the Board, on the requisition of Shareholders holding not less than 10% of the paid-up capital of the Company, can convene a special general meeting to address specific issues 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, since 2003, we have adopted the policy of voting by poll for all resolutions put forward at the 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. Other general enquiries can be directed through the Investor Relations team. Their contacts are in the Information for investors section on page 102.

Changes in Constitutional Documents

There is no significant change in the Company's constitutional documents during the year ended 31 December 2014.

Investor Relations and Communications

As part of Li & Fung's efforts in upholding a high standard of corporate governance, we strive to maintain effective communications with the investment community by disseminating information in a timely and accurate manner. Our Investor Relations (IR) team seeks to maintain regular dialogue with institutional investors and research analysts through one-on-one meetings and conference calls, participating in investment conferences and attending non-deal road shows both in Hong Kong and overseas. To address the wider investment community, our corporate website (which was fully refreshed in 2014) contains comprehensive information about the Company. Under the Investors page, viewers can find our financial reports and presentation materials, recent announcements and circulars, as well as IR's contact details. In addition, the annual general meeting is another platform that allows effective communication between senior management, Board members and shareholders.

We are committed to complying with disclosure rules and regulations stipulated by the relevant regulatory bodies, and to communicating the Group's business strategies, development and goals to investors and analysts. Being a market leader, we constantly share our market insights and industry developments with the investment community. From time to time, we also invite our senior management to meet with investors and analysts to share their latest views on the business and further explain our business model.

A new Director of Investor Relations was hired in late 2014. Together with her team, we endeavor to increase the level of interaction with the investment public. The team strives to better collect and reflect feedback to facilitate greater understanding between senior management and the investment community.