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

**The Board**

The Board is composed of the Group Non-Executive Chairman, the Group Executive Managing Director, four Executive Directors and five Non-executive Directors (of whom four are independent), whose biographical details and relevant relationships are set out in the Directors and Senior Management section on pages 38 to 41.

In order to reinforce their respective independence, accountability and responsibility, the role of the Group Chairman is separate from that of the Group Managing Director. Their respective responsibilities are clearly established and defined by the Board in writing. The Group Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures, whilst the Group Managing Director, supported by the Executive Directors, is responsible for managing the Group’s business, including the implementation of major strategies and initiatives adopted by the Board.

The Non-executive Directors (the majority of whom are independent), 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. The Board has received from each independent Non-executive Director written annual confirmation of their independence and satisfied that independence up to the approval date of this report in accordance with the Listing Rules of The Stock Exchange of Hong Kong Limited.
The Board held seven meetings in 2006 with an average attendance rate of 87% to discuss the overall strategy as well as 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. Board meetings are scheduled one year in advance to facilitate maximum attendance of Directors. The meeting agenda is set by the Group Non-Executive Chairman in consultation with members of the Board.

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 2006, a Directors’ briefing session by PricewaterhouseCoopers on the latest accounting standards impacting the Group was conducted. In addition, forming part of the Group’s continuing programme since 2003 of updating 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 Thailand colleagues was conducted in Thailand. A similar session was at our New Delhi office last year.

To maximize the contribution from non-management Directors, a separate meeting was held in December 2006 between the Group Chairman and 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 during the year.

The Board has established four committees with specific responsibilities as described later in this report. Major matters that are specifically delegated by the Board to management 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, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

The Board also recognizes the importance of the independent reporting of the corporate governance function. The Group’s Chief Compliance Officer, as appointed by the Board, attends all Board and committee meetings to advise on corporate governance matters covering risk management and relevant compliance issues relating to mergers and acquisitions, accounting and financial reporting.

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.

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 on an annual basis.
A summary of attendance of Board and Committee meetings in 2006 are detailed in the following table:

### Board and Committee meetings for Year 2006

<table>
<thead>
<tr>
<th>Board</th>
<th>Nomination Committee</th>
<th>Audit Committee</th>
<th>Risk Management Committee</th>
<th>Compensation Committee</th>
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<tr>
<td>Non-executive Directors</td>
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<tr>
<td>Dr Victor FUNG Kwok King¹</td>
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<td>Mr LAU Butt Farn</td>
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<td>Mr Leslie BOYD</td>
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<td>Independent Non-executive Directors</td>
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<tr>
<td>Mr Paul Edward SELWAY-SWIFT²</td>
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<td>Mr Allan WONG Chi Yun³</td>
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<td>Professor Franklin Warren McFARLAN</td>
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<td>Mr Makoto YASUDA</td>
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<tr>
<td>Executive Directors</td>
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<td>Dr William FUNG Kwok Lun</td>
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<td>Mr Bruce Philip ROCKOWITZ</td>
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<td>Mr Henry CHAN</td>
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<td>Mr Danny LAU Sai Wing</td>
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<tr>
<td>Ms Annabella LEUNG Wai Ping</td>
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<tr>
<td>Group Chief Compliance Officer</td>
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<tr>
<td>Mr James SIU Kai Lau</td>
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<tr>
<td>Chief Operating Officer and Chief Financial Officer</td>
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<tr>
<td>Mr Robert Ernest ADAMS</td>
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Dates of meeting:

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<tr>
<th>22/03/2006</th>
<th>18/05/2006</th>
<th>21/03/2006</th>
<th>17/03/2006</th>
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<td>05/07/2006</td>
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<td>29/09/2006</td>
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<td>12/12/2006</td>
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</table>

¹: Chairman of 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

Note: All Committee chairmen attended the Annual General Meeting held on 18 May 2006.
In 2006, the Group’s commitment to excellence and high standards in corporate governance practices continued to earn market recognition from stakeholders including bankers, analysts and institutional investors such as:

- The Gold Award in the Hang Seng Index Category of the Best Corporate Governance Disclosure Awards 2006 for the fifth consecutive year organized by the Hong Kong Institute of Certified Public Accountants;
- Corporate Governance Asia Recognition Awards 2006 by Corporate Governance Asia Journal;
- 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);
- "Hong Kong Best Managed Company – No.1" and "Best Corporate Governance – No.2" by FinanceAsia magazine;
- One of "Asia’s Best Managed Companies in Hong Kong 2006" by Asiamoney magazine.

**Board Committees**

The Board has established the following committees (all chaired by Non-executive Directors) with defined terms of reference (available to shareholders upon request), which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the Listing Rules: the Nomination Committee, the Audit Committee, the Risk Management Committee and the Compensation Committee. Minutes of all committees meetings are circulated to all Board members. To further reinforce independence, the Nomination, Audit and Compensation Committees have been structured to include a majority of independent Non-executive Directors since 2003.
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 and the management of board succession with reference to certain guidelines as endorsed by the Committee. These guidelines include appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills, and time commitments of members. The Nomination Committee carries out the process of selecting and recommending candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary. There was no nomination of Directors to fill board vacancies in 2006.

The Committee met twice in 2006 (with a 100% attendance rate) to review and recommend the reappointment of retiring Directors for shareholders’ approval at the Annual General Meeting and to discuss potential candidates for nomination as new board member as part of succession planning for the Board.

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 Audit 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 2006 (with an average attendance rate of 90%) 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. 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, listing rules and statutory compliance, internal controls, risk management and financial reporting matters (including the interim and annual accounts for the Board’s approval).

Following international best practices, the Committee had conducted a self-review of its effectiveness for 2005 by completing a detailed questionnaire on the effective running of an audit committee. The self-assessment indicated a good rating was achieved in 2005. A similar exercise will be conducted for 2007.

Under the Group’s Policy on Reporting of Concerns, employees can report any concerns, including misconduct, impropriety or fraud in financial reporting matters and accounting practices, to either senior management or the Audit Committee through the Group Chief Compliance Officer in confidence and without fear of recrimination. 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 2006, 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 Auditors’ Independence

In order to further enhance independent reporting by external auditors, part of our Audit Committee meetings were attended only by independent Non-executive Directors and external auditors. In addition, the external audit engagement partner is subject to periodical rotation, and the nature and ratio of annual fees to external auditors for non-audit services and for audit services are subject to scrutiny by the Audit Committee (refer to details of fees to auditors on page 82 of the accounts). A policy on provision of non-audit services by the external auditors 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. In addition, a policy restricting the employment of employees or former employees of external auditors at senior executive and financial positions with the Group has also been in place. Prior to the commencement of the audit of 2006 accounts of the Company, the Committee received written confirmation from the external auditors on their independence and objectivity as required by the Hong Kong Institute of Certified Public Accountants.

Members of the Committee are 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 2007 as the Company’s external auditors at the forthcoming Annual General Meeting.

Risk Management Committee

The Risk Management Committee was established in August 2001 and is chaired by the Group’s 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 from January 1, 2006 to the date of this report (with a 100% attendance rate) to review risk management procedures pertinent to the Group’s significant investments and operations.

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 annual allocation of share options to employees under the Company’s Employee Share Option Scheme. It annually reviews the Group’s remuneration policy. The Committee met once in 2006 (with an attendance rate of 67%) to review and approve all Executive Directors’ (including the Group Managing Director) remuneration packages for 2007 including the granting of share options.
Remuneration Policy for Executive Directors

The primary goal of the remuneration policy on executive remuneration packages is to enable Li & Fung to retain and motivate Executive Directors by linking their compensation with performance as measured against corporate objectives. Under the policy, a Director is not allowed to approve his own remuneration.

The principal elements of Li & Fung’s executive remuneration package includes basic salary, discretionary bonus without capping and a share 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 businesses.

Basic Salary

The Group Managing Director annually reviews and approves the basic salary of each Executive Director in accordance with the Group’s remuneration policy. Under the service contracts between the Group and the Group Managing Director as disclosed under Directors’ Service Contracts section on page 51, the Group Managing Director is entitled to an aggregate fixed basic salary which is subject to annual review by the Committee without his attendance.

Discretionary Bonus

Li & Fung implements a performance-based discretionary bonus scheme for each Executive Director (excluding the Group Managing Director). Under this scheme, the computation of discretionary bonus (without capping) is based on measurable performance 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 Committee approves all grants of share options under the Company’s 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 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 86 to 88.

Code of Conduct and Business Ethics

The Group’s reputation capital is built on its long-established standards of ethics in conducting business. Guidelines of the Group’s core business ethical practices as endorsed by the Board are set out in the Company’s Code of Conduct and Business Ethics for all Directors and staff. For ease of reference and as a constant reminder, a copy of the latest guidelines is posted in the Company’s internal electronic Bulletin Board and is available to all staff.
Directors’ 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 2006. No incident of non-compliance was noted by the Company in 2006. 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.

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 51 to 53. 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 2006.

Directors’ and Auditors’ Responsibilities for Accounts

The Directors’ responsibilities for the accounts are set out on page 55, and the responsibilities of the external auditors to the shareholders are set out on page 56.

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 through the Audit Committee. 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 implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures. 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.

Li & Fung’s internal control framework is designed to achieving:

- Effective & efficient operations
- Compliance with laws & regulations
- Reliable financial reporting
- Corporate initiatives & Sustainable growth
- Performance & Compliance
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 guidelines tailored to the need of respective business units in the countries where the Group operates.

Financial Control 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.

The Group adopts a principle of minimizing financial risks. Details of the Group’s financial risk management covering foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk respectively are set out in Note 37 to the accounts on page 116.

Operational Control Management

The Group establishes and implements written Key Operating Guidelines (KOG) and corporate policies encompassing key risk and control standards for the Group’s operations worldwide. Control procedures are in place to approve our major investment and acquisition activities by our Investment Committee and global property renovation and leasing arrangement by the Global Properties Committee.

Management also monitors the integration process of the newly acquired companies through a post-acquisition integration programme 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 the 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 risk. Key risk areas identified by the Committee 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.
Corporate Governance (continued)

Internal and External Audit

The Group’s Internal Audit team within the Corporate Governance Division independently reviews these 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 Audit Committee endorses the current Three-Year Internal Audit Plan (2005-2007) of Corporate Governance Division that is strategically linked to the Group’s Three-Year Plan. The Audit Plan is prepared under a risk based assessment methodology and covers the Group’s significant operations over a three-year cycle period. The scope of the work performed covers all material controls including financial, operational and compliance controls, and risk management policies and procedures. Major audit findings and recommendations are presented at the Audit Committee meetings. The implementation of all agreed recommendations is being followed up on a three-month basis.

In 2006, as part of the annual review of the effectiveness of the Group’s internal control and risk management systems, the Group’s Corporate Governance Division independently performs post-assessment review on the findings noted on the Control Self-Assessment Programmes for the trading operation and relevant accounting functions conducted by the Management.

Our external auditors, PricewaterhouseCoopers, perform independent statutory audits on the Group’s financial statements. As part of their audit engagement, our external auditors also report to the Audit Committee in addition to the Management any significant weaknesses in the Group’s internal control system which might come to their notice during the course of audit. PricewaterhouseCoopers noted no significant internal control weaknesses in their audit for 2006.

Overall Assessment

Based on the assessments made by senior management, the Group’s Internal Audit team and the external auditors in 2006, and up to the approval date of the Company’s 2006 Annual Report and accounts, the Audit Committee was satisfied that:

- the internal controls and accounting systems of the Group have been 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.

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 compliance with 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 2006.
Corporate Social Responsibility and Sustainability

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. A copy of the Code is available at our corporate website (www.lifung.com).

In 2006, the Group employed more than 100 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 vendor compliance division is organized independently of our sourcing/merchandising divisions and focuses on improving suppliers’ labor conditions and working standards.

The vendor compliance division aims to conduct evaluations of those approved suppliers at least once every 12 months. In 2006, approximately 8,000 facility inspections and verification audits were performed around the globe.

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 meet compliance requirements.

Li & Fung is a member of Business for Social Responsibility (BSR), an international US-based non-profit organization whose mission is to promote socially responsible business practices, innovation and collaboration that demonstrate respect for ethical values, people, community and the environment. Li & Fung is also an active member of BSR’s Labor Standards Working Group, a sector-specific working group that focuses on supply chain labor standards issues. The working group meets periodically to address common industry challenges and work on collaborative projects.

Li & Fung also enforces its customers’ environmental purchasing policies with respect to recycling, package waste minimization and sustainable development initiatives. By adopting 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.

In 2006, the Group’s Hong Kong and overseas offices in Taiwan and Vietnam renewed its “Chain of Custody” certification in trading of indoor and outdoor home-used wood products certified by The Forest Stewardship Council (FSC), an international non-profit organization based in Germany whose mission is to promote environmentally and socially responsible forest management worldwide. FSC Chain of Custody certification is independently verified and provides assurance to our committed customers that the forest products bearing the FSC trademark label were produced from certified well-managed forests in all stages of processing, manufacturing and distribution.
Li & Fung is also a participant in the United Nation’s Global Compact initiative, which embraces and supports a set of core values in the areas of human rights, labor standards, the environment and anti-corruption. The initiative achieves this through the dissemination of good practices based on certain universal principles derived from international conventions and declarations – the Ten Principles. These cover the respect of and support for the protection of human rights, abstention from human rights abuses, freedom of association, elimination of all forms of forced and child labor, elimination of discrimination in employment, promotion of environmental responsibility, and the elimination of corruption.

During 2001-06, Li & Fung was included as a component of the Dow Jones Sustainability World Indexes, the world’s first global indexes tracking the performance of companies worldwide in three main dimensions of corporate sustainability: social, economic and environmental responsibilities. Since 2005, Li & Fung has also been included as a constituent member of the FTSE4Good Index Series from FTSE Group (UK) recognizing Li & Fung’s commitment to high corporate social responsibility standards.

Investor Relations and Communications

The Company continues to pursue a proactive policy of promoting investor relations and communications by maintaining regular meetings with institutional shareholders and analysts. Webcasts of results presentations given to analysts have also been made available on our corporate website (www.lifung.com). All shareholders have 21 days’ notice of the Annual General Meeting at which Directors and Committee Chairmen or members are available to answer questions on the business. The results of the voting by poll are declared at the meeting and are published on the Company’s website together with details of the meeting, including the time and venue and major resolutions.

As a channel to further promote effective communication, the Company has launched a newly designed corporate website in 2006 with a fresh look. The website continues to disseminate shareholder information and other relevant financial and non-financial information electronically on a timely basis.

During 2006, the Board confirmed that there were no significant changes made in the Company’s bye-laws affecting Li & Fung’s operation and reporting practices. Details of the last shareholders’ meeting, key calendar events for shareholders’ attention and share information including market capitalization as of 31 December 2006 are set out in Information for Investors section on page 44 and on our corporate website.

In 2006, Li & Fung’s continuing commitment to enhancing investor relations and communications gained further recognition from the wider business community when the Company was awarded “Best Investor Relations in Hong Kong” by FinanceAsia magazine and Dr William Fung, the Company’s Group Managing Director, was awarded “Best Investor Relations by a CEO or Chairman at a Hong Kong Company” by IR magazine.

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 upon the passing of a special resolution 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 Vice President – Investor Relations, whose contact information is detailed on page 44.

**Corporate Communications**

In 2006, the Company held quarterly Policy Committee Meetings for senior executives to formulate company-wide policies and practices, and to report and discuss significant issues affecting the Group.

As part of Li & Fung’s entrepreneurial corporate culture and business policy, semi-annual retreats, with active participation of the Group Chairman, the Group Managing Director, Executive Directors and senior managers of all business streams worldwide as well as guest speakers, are held in Hong Kong to create a sense of staff ownership of the Company’s strategic objectives and to foster effective communications across the Group.

Senior executives also travel frequently to different country offices to reinforce staff commitment to Li & Fung’s business culture and the Group’s established corporate initiatives. 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.

In 2006, the Group published a centennial newsletter to commemorate our Group’s special celebration activities. The “Staff Communications” e-mail box was established on our intranet to disseminate Li & Fung Group news and announcements for staff globally. The Company also published a regular newsletter to provide staff with reports on the Group’s latest directives and initiatives and staff recreational activities.

**Information Technology**

To support the continuous growth of the Company, Li & Fung adopts the latest information technology for enhancing efficiency and effectiveness of the business processes and activities of the Company.

**Network and Infrastructure Expansion**

Li & Fung’s global sourcing network is *interlinked electronically through the intranet for prompt sharing of information among employees worldwide*. The Company has also established direct electronic linkage with regulatory bodies through the internet to disseminate corporate information in a timely manner. The internet was fully utilized for communication of electronic documents and information.

In 2006, the Company has further strengthened the security measures across the worldwide offices in order to protect company information.
Electronically Linkages with Supply Chain Partners

Besides of providing an efficient and stable network for its external and internal communications, Li & Fung’s IT infrastructure focuses on improving our global infrastructure including shared applications, platforms and extranet for connecting our supply chain partners more efficiently and closely.

The IT infrastructure established by the Company enables the sharing of dedicated extranet sites with technologically advanced customers and other key partners of the supply chain network, such as vendors and freight forwarders, to facilitate speedy dissemination of business information and better management of supply chain activities.

Global System Upgrade and Implementation

In 2006, our intranet connecting all worldwide offices was further upgraded to meet increasing data transfer requirements and communications needs of the implementation of global systems within Finance and Accounting, Human Resources and Quality Assurance functions. These global systems are implemented to support the business growth and acquisition of the Company. The systems provide the central platform for improving the efficiency and productivity of the Company’s Finance and Accounting services, Human Resources processes and manpower planning, quality control and factory compliance processes. Not only these systems can help connect Li & Fung staff in global offices to save processing time, co-ordination and documentation efforts, it also helps standardize and streamline the processes and activities which enable the management to acquire accurate reports for decision-making anytime when needed.

Service Improvements

The IT Division of Li & Fung (Trading) Limited has been certified in ISO 9001:2000 quality management system standards applicable to the provision of in-house IT products and services since the end of 2001. With the ISO quality management system in place, the performance of IT services is measured regularly for achieving the target service levels and continuous improvement.

Staff 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 Programme in 2003 with an aim of nurturing young talented professionals to accommodate business growth of the Group. The programme is a structured career development and intensive training programme 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 programme.
In 2006, Li & Fung had two intakes of more than 50 trainees in its Merchandising Development Programme which aimed to attract new recruits to the Company and build its merchandising resource pool. The programme was tailor-made for the Company’s new merchandising staff and covered a mix of in-house and external training programmes. These included practical skills-based, structured on-the-job training, factory attachments and e-learning modules. As part of the programme, 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.

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.

People Development and Retention

Li & Fung places due emphasis and investment on providing learning and development opportunities to our staff such that they are equipped with expected competencies and skills to effectively perform their roles and responsibilities. In this respect, the Group implements a policy of sponsoring staff to attend job-related training and self-improvement programmes. Management development programmes are also in place for senior employees. Contents of the Group’s in-house programmes cover management skills, technical competencies, compliance and social ethics, business etiquette, language skills, occupational health and safety, and industry-related seminars for all levels of staff in our Group’s Hong Kong and overseas offices.

In 2006, the Company conducted a comprehensive analysis of the core leadership competencies of our senior management team following the completion of a thorough global review of key strategic job profiles. Based on the review results and analysis, the Company can further develop more tailor-made and effective tools applicable to recruitment, training and development, performance management, leadership development and succession planning purposes.

In addition to these development initiatives, Li & Fung has focused on providing adequate incentives and rewards to retain staff based on the evaluation of their performance and contributions. Following our comprehensive compensation and benefits review conducted for Hong Kong head office in 2005, the Group conducted a similar review for our China offices and made further upgrades and adjustments of local staff benefits in 2006. Ongoing review is also planned for other overseas offices in the coming years.

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. In 2006, Li & Fung 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.
The Group’s Global Property Committee comprising senior executives was established in 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.

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 currently include various government and non-government advisory boards and professional associations promoting Hong Kong’s exports, the advancement of international trade, community quality-housing solutions and best corporate governance practices. Executives’ participation includes 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, and 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 2006 included the Standard Chartered Hong Kong Marathon in which the Group was presented the “Most Supportive Group Award”, blood donations for Hong Kong Red Cross, Walk for Nature in Sai Kung organized by World Wide Fund for Nature Hong Kong, and World Vision – Skip-A-Meal event. The Group also registered its volunteer work team comprising the employees and their family members as a Volunteer Movement Participating Organization certified by the Hong Kong Social Welfare Department. In 2006, for the fifth consecutive year, these efforts and contributions toward a better society were recognized by the “Caring Company Award” presented by The Hong Kong Council of Social Service for the Group’s caring culture and good corporate citizenship.

In 2006, Li & Fung (1906) Foundation was established by the Company’s controlling shareholders to commemorate the centenary of the Li & Fung Group of companies including the Company and publicly listed Integrated Distribution Services Group and Convenience Retail Asia Group. This is 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. The principles for the Foundation follow our longstanding commitment to building human capital, strengthening local communities and caring for the environment. Significant community contributions by the Foundation in 2006 included the creation of the Li & Fung Scholarships Programme (with endowment grant of HK$100 million) for eligible undergraduates in Hong Kong and China, and monetary assistance to support the Indonesian Earthquake Emergency Project in which the Group collaborated with Yayasan Nurani Dunia, a reputable local non-governmental organization, to build multi-purpose shelters for the earthquake victims of Yogyakarta and Central Java in Indonesia.