

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES (CONT'D)

(b) Shares options (CONT'D)

Note:

- (1) As a result of the Share Subdivision and in accordance with the terms of the Share Option Scheme, the subscription prices per Share mentioned in notes (2), (3) and (4) below were adjusted from HK\$4.315 to HK\$2.1575, HK\$8.305 to HK\$4.1525 and HK\$30.52 to HK\$15.26 respectively.
- (2) The Share Options granted on 25 July 1998 are exercisable at HK\$2.1575 per Share during the period from 25 July 1999 to 24 July 2001.
- (3) The Share Options granted on 16 July 1999 are exercisable at HK\$4.1525 per Share during the period from 16 July 2000 to 15 July 2002.
- (4) The Share Options granted on 7 July 2000 are exercisable at HK\$15.26 per Share during the period from 7 July 2001 to 6 July 2003.

During the year, a total of 2,080,000 Shares, 2,040,000 Shares and 4,560,000 Shares, as adjusted for the effect of the Share Subdivision, were issued to certain directors of the Company pursuant to the exercise of the Share Options granted on 24 June 1997, 25 July 1998 and 16 July 1999 respectively.

Save as disclosed above, at no time during the year, the directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company or its associated corporations required to be disclosed pursuant to the SDI Ordinance and the Model Code.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2000, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those of Li & Fung (1937) Limited as disclosed above.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CORPORATE GOVERNANCE

The Board of Directors is committed to principles of corporate governance consistent with prudent enhancement and management of shareholder value. The accounting systems and internal controls of the Group are designed to provide reasonable assurance that assets are safeguarded against unauthorized use or disposition, that transactions are executed in accordance with management's authorization and that the accounting records are reliable for preparing financial information used within the business or for publication and maintaining accountability for assets and liabilities. Qualified personnel throughout the Group maintain and monitor these internal accounting controls on an ongoing basis. The Group's Corporate Governance Division, under the supervision of the Chief Compliance Officer, independently reviews these controls, evaluates their adequacy, effectiveness and compliance and reports to the Audit Committee.

AUDIT COMMITTEE

An Audit Committee has been established since 1998 to act in an advisory capacity and make recommendations to the Board. Its members currently include five non-executive directors of whom three are independent directors:

Dr Victor FUNG Kwok King - *Chairman*
Mr Paul Edward SELWAY-SWIFT
Mr Allan WONG Chi Yun
Professor Franklin Warren McFARLAN
Mr Leslie BOYD
Mr James SIU Kai Lau (Chief Compliance Officer) - *Secretary*

During the last 12 months the Audit Committee met three times to review with senior management and the Company's internal and external auditors the accounting principles and practices adopted by the Group and to discuss auditing, internal control and financial reporting matters (including the interim and annual financial statements before recommending them to the Board for approval).

COMPENSATION COMMITTEE

A Compensation Committee has been formed since 1993 with responsibility for approving the remuneration policy for senior executives, including annual allocation of Share Options to employees under the Company's Employee Share Option Scheme. The Committee meets on an annual basis and its current members include Mr Allan WONG Chi Yun, an independent non-executive Director, Dr Victor FUNG Kwok King, the Group's non-executive Chairman and Dr William FUNG Kwok Lun, the Group's Managing Director.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2000.

INVESTOR COMMUNICATION AND RELATIONS

The Company has included in its current three-year plan (1999-2001) a proactive policy for promoting investor communication and relations by maintaining regular meetings with institutional shareholders and analysts. All shareholders have 21 days' notice of the Annual General Meeting at which directors and Committee chairs are available to answer business-related questions. In order to further promote effective communication, the Company maintains a website (www.lifung.com) to disseminate shareholder information electronically.

CORPORATE SOCIAL RESPONSIBILITY

The Company has adopted and implemented a Code of Conduct program for suppliers with the aim of adhering to the highest international ethical standards. Suppliers are subject to on-going compliance audits and evaluations conducted by the business units, and rigorous training initiatives are regularly undertaken to further reinforce compliance awareness amongst the staff. The Company is currently a corporate member of Business for Social Responsibility (BSR), a US based organization whose purpose is to foster high working standards amongst suppliers.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Victor FUNG Kwok King

Chairman

Hong Kong, 26 March 2001