

The Board of Directors is committed to principles of corporate governance consistent with prudent enhancement and management of **shareholder value**. These principles emphasize transparency, accountability and independence.

In order to reinforce independence, accountability and responsibility, **the role of the Group Chairman is separate from that of the Group Managing Director**. The Board has established the Nomination Committee, the Audit Committee, the Risk Management Committee and the Compensation Committee with defined terms of reference.

Corporate governance practices adopted by the Company during the six-month period to 30 June 2004 are in line with those practices set out in the Company's 2003 Annual Report.

Nomination Committee

The Nomination Committee was established in August 2001 and chaired by the non-executive Group Chairman to make recommendations to the Board on the **appointment of directors** and the **management of board succession** with reference to certain guidelines as endorsed by the Committee. These guidelines include the professional knowledge and industry experience, personal ethics, integrity and personal skills of members. The Nomination Committee met twice to date in 2004 (with an average attendance rate of 100%), and its current members include a majority of independent non-executive directors as follows:

Dr Victor FUNG Kwok King — *Committee Chairman*

Mr Paul Edward SELWAY-SWIFT*

Mr Makoto YASUDA*

Audit Committee

The Audit Committee has been established since 1998 to review and make recommendations to the Board on the Group's **financial reporting, internal controls and corporate governance**. Its current members include:

Mr Paul Edward SELWAY-SWIFT* — *Committee Chairman*

Dr Victor FUNG Kwok King

Mr Allan WONG Chi Yun*

Professor Franklin Warren McFARLAN*

Mr Leslie BOYD

Mr Makoto YASUDA*

The Audit Committee is chaired by an independent non-executive director and the majority of the Committee members are independent non-executive directors. All Committee members possess appropriate industry and financial experience to advise on Company's strategy and other matters.

The Audit Committee met three times to date in 2004 (with an average attendance rate of 89%) to review with senior management and the Company's internal and external auditors the internal and external audit findings, the accounting principles and practices adopted by the Group, listing rules and statutory compliance, and to discuss auditing, internal control, risk management and financial reporting matters (including the interim financial statements for the six months ended 30 June 2004 before recommending them to the Board for approval). In order to further enhance **independent reporting** by external auditors, part of the aforementioned meetings was attended only by independent non-executive directors and external auditors.

Risk Management Committee

The Risk Management Committee was established in August 2001 to review and make 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. No meeting has yet been held in 2004, and its current members include:

Dr Victor FUNG Kwok King — *Committee Chairman*

Dr William FUNG Kwok Lun

Mr James SIU Kai Lau (Chief Compliance Officer)

Mr Frank LEONG Kwok Yee (Chief Financial Officer)

Compensation Committee

The Compensation Committee has been formed since 1993 and is chaired by an independent non-executive director with the responsibility of approving the **remuneration policy for all directors and senior executives**, including annual allocation of **Share Options** to employees under the Company's Employee Share Option Scheme. The Compensation Committee met twice to date in 2004 (with an average attendance rate of 100%) and its current members include a majority of independent non-executive directors as follows:

Mr Allan WONG Chi Yun* — *Committee Chairman*

Dr Victor FUNG Kwok King

Professor Franklin Warren McFARLAN*

* *independent non-executive director*

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, a copy of the latest guidelines is posted in the Company's internal electronic Bulletin Board to be accessible by all staff.

Internal Control

The Board is responsible for maintaining an adequate system of internal controls in the Company and reviewing its effectiveness through the Audit Committee. It has delegated to executive management the implementation of such system of internal controls and reviewing 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. The Group's **Corporate Governance Division**, under the supervision of the Group's Chief Compliance Officer, independently reviews these controls, and evaluates their adequacy, effectiveness and compliance, and **reports directly to the Audit Committee** on a regular basis.

Based on the assessment made by senior management and the internal auditors for the six months ended 30 June 2004, the Audit Committee is satisfied that the internal controls and accounting systems of the Group are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored and the financial statements are reliable for publication.

Compliance with the Listing Rules

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six-month period to 30 June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules.

Corporate Social Responsibility and Sustainability

The Group has developed a Supplier Code of Conduct to be observed by all its approved vendors around the globe. The Code is a set of rigorous labor, health and environmental standards based on national labor laws, International Labor Organisation (ILO)'s conventions and treaties, and international best practices.

The Group is a member of Business for Social Responsibility (BSR), an international organization based in the US that promotes respect for ethical values, people, community and the environment.

The Group is also a participant of the United Nation's Global Compact initiative that forms a platform for the promotion of human rights, labor welfare, the environment and anti-corruption through the dissemination of good practices based on certain universal principles – the Ten Principles.

In 2004, the Company continues to be included, for the fourth consecutive year since 2001, as a component of the Dow Jones Sustainability World Indexes, the world's first global indexes tracking the performance of companies worldwide that lead their industry in three main dimensions of **corporate sustainability: social, economic and environmental responsibilities**.

Investor Relations and Communication

The Company continues to pursue a proactive policy of promoting investor relations and communication by maintaining regular meetings with institutional shareholders and analysts. In order to further promote effective communication, the Company maintains a website (www.lifung.com) to disseminate shareholder information electronically on a timely basis.

Community Service

The Company endorses senior executives in participating in community services and accepting public offices which currently include various government and non-government advisory boards and professional associations promoting Hong Kong's exports, advance of international trade, community's quality-housing solutions and best corporate governance practices.

The Company 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.