

Corporate Governance

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 with their respective responsibilities endorsed by the Board in writing.

The Board has established the Nomination Committee, the Audit Committee, the Risk Management Committee and the Compensation Committee 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Corporate governance practices adopted by the Company during the six-month period to 30 June 2005 are in line with those practices set out in the Company's 2004 Annual Report.

Nomination Committee

The Nomination Committee was established in August 2001 and is chaired by the non-executive Group Chairman to make 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. No meeting has been held to date in 2005, 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 was established in 1998 to review the Group's financial reporting, internal controls and corporate governance issues and make relevant recommendations to the Board. 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 professional qualifications, accounting or related financial management expertise as required under the Listing Rules.

The Audit Committee met three times to date in 2005 (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 controls, risk management and financial reporting matters (including the interim financial report for the six months ended 30 June 2005 before recommending it 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. A policy of non-audit services from external auditors was established since 2004 and 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.

Risk Management Committee

The Risk Management Committee was established in August 2001 to review the Group's risk management and internal control systems and make relevant recommendations to the Board. The Committee reports to the Board in conjunction with the Audit Committee. The Risk Management Committee met twice to date in 2005 (with an average attendance rate of 90%) to review risk management procedures pertinent to the Group's significant investments and new acquisitions. Its current members include:

Dr Victor FUNG Kwok King – *Committee Chairman*

Dr William FUNG Kwok Lun

Mr Bruce Philip ROCKOWITZ

Mr James SIU Kai Lau (Group Chief Compliance Officer)

Mr Robert Ernest ADAMS (Chief Operating Officer and Chief Financial Officer)

Compensation Committee

The Compensation Committee was formed in 1993 and is being chaired by an independent non-executive director. The Committee's responsibility is approving the remuneration policy for all directors and senior executives, including annual allocation of Share Options to employees under the Company's Share Option Scheme. The Compensation Committee met three times to date in 2005 (with an average attendance rate of 89%) 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 and as a constant reminder, 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. 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. The Group's **Corporate Governance Division**, under the supervision of our Group 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 Group's Corporate Governance Division/Internal Audit for the six months ended 30 June 2005, 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, material transactions are executed in accordance with management's authorization and the accounts are reliable for publication.
- there is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

Compliance with the Model Code of the Listing Rules

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. 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. Specific confirmation has been obtained from all directors and relevant employees to confirm compliance with the Model Code throughout the six months ended 30 June 2005. No incident of non-compliance was noted by the Company to date in 2005.

Compliance with the Code on Corporate Governance Practices of the Listing Rules

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in full compliance with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six-month period to 30 June 2005.

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 and expectations based on national labor laws, International Labor Organization (ILO)'s conventions and treaties, and international best practices. The Group works in close partnership with all its vendors in mutual effort to meet compliance requirements under the Code. A copy of the Code is available at our corporate website (www.lifung.com).

The Group is a member of Business for Social Responsibility (BSR), an international non-profit organization based in the US that works with companies to promote respect for ethical values, people, community and the environment. The Group 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 Group is also a participant of the United Nation's Global Compact initiative, which embraces and supports its Ten Principles which are based on certain universal social and environmental principles derived from international conventions and declarations. These cover the respect of and support for the protection of human rights, abstinence 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.

In 2005, the Company continues to be included 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 Communications

The Company continues to pursue a proactive policy of promoting investor relations and communications by maintaining regular meetings with institutional shareholders and analysts. As a channel to further promote effective communication, the corporate website is maintained to disseminate shareholder information and other relevant financial and non-financial information electronically on a timely basis.

Community Service

The Company and its offices, as an integral part of various communities where the businesses operate, contribute to the well-being of the societies and provide support to people in need. The Group endorses senior executives in accepting public offices, 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.

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.