

Corporate Governance

The Board of Directors and Management are 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. Their respective responsibilities are clearly established and defined by the Board in writing.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"): the Nomination Committee, the Audit Committee, the Risk Management Committee and the Compensation Committee. To further reinforce independence, the Nomination, Audit and Compensation Committees have been structured to include a majority of independent non-executive directors since 2003.

Corporate governance practices adopted by the Company during the six-month period to 30 June 2006 are in line with those practices set out in the Company's 2005 Annual Report.

Nomination Committee

The Nomination Committee was established in August 2001 and is chaired by the Group Non-Executive 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. The Nomination Committee met twice to date in 2006 (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 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 – *retired on 18 May 2006*

Mr Makoto YASUDA*

The Audit Committee is 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 three times to date in 2006 (with an average attendance rate of 93%) 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 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 accounts for the six months ended 30 June 2006).

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 once to date in 2006 (with an attendance rate of 100%) to review risk management procedures pertinent to the Group's operations. 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)
– *retired on 30 June 2006*

Corporate Governance (continued)

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 Employee Share Option Scheme. It annually reviews the existing remuneration policy. No meeting has been held to date in 2006, 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 and Risk Management

The Board is responsible for maintaining a sound and effective system of internal controls in the Company 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. The Group's Internal Audit Team within the **Corporate Governance Division**, under the supervision of our Group Chief Compliance Officer, 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.

Based on the assessment made by senior management and the Group's Internal Audit team for the six months ended 30 June 2006, the Audit Committee is satisfied that:

- the internal controls and accounting systems of the Group have been in place and function effectively and 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. Specific confirmation has been obtained from all directors to confirm compliance with the Model Code throughout the six months ended 30 June 2006. No incident of non-compliance was noted by the Company to date 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 during the six-month period to 30 June 2006.

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 compliance with all applicable 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 2006.

Corporate Social Responsibility and Sustainability

The Group has developed a Vendor Code of Conduct to be observed by its approved vendors around the world. The Code is a set of rigorous labor, health, safety and environmental standards 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).

Corporate Governance (continued)

The Group 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.

The Group 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 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, 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 2006, 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**. Since 2005, the Company is also included as a constituent member of the FTSE4Good Index Series from FTSE Group (UK) recognizing the Company'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. Since 2004, webcasts of results presentations at press conference have also been made available at our corporate website (*www.lifung.com*). As a channel to further promote effective communication, the corporate website is maintained to disseminate Company announcements and presentations and shareholder information and other relevant financial and non-financial information (including a separate Corporate Governance section) electronically on a timely basis.

Staff and Community

As a global Supply Chain Management service provider, the Group recognizes that human capital is a key asset to the sustained growth and profitability of the Company. The Group therefore places due emphasis and investment on resourcing, development and retention of our staff, the details of which are set out in the Company's 2005 Annual Report.

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 continues to provide charitable support by direct donation or direct employee involvement in fundraising activities organized by leading charitable organizations.