

# REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31 December 2013.

## PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in *Note 43* to the accounts.

Details of the Group's turnover and contribution to operating profit for the year by segment are set out in *Note 3* to the accounts.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in *Note 26* to the accounts.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 80.

The directors declared an interim dividend of HK\$0.15 (equivalent to US\$0.019) per ordinary share, totalling US\$160,777,000 which was paid on 10 September 2013.

The directors recommend the payment of a final dividend of HK\$0.34 (equivalent to US\$0.044) per share, totalling US\$364,428,000.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in statement of changes in equity and *Note 27* to the accounts.

## DISTRIBUTABLE RESERVES

At 31 December 2013, the reserves of the Company available for distribution as dividends amounted to US\$831,078,000, comprising retained earnings of US\$566,889,000 and the contributed surplus arising from the exchange of shares for the acquisition of Li & Fung (B.V.I.) Limited and the issuance of shares for the acquisition of Colby Group Holdings Limited, as set out in *Note 27* to the accounts, amounting to US\$264,189,000.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus shall not be distributed to the shareholders if there are reasonable grounds for believing that:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realizable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to US\$1,490,000.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in *Note 13* to the accounts.

## TEN-YEAR FINANCIAL SUMMARY

A summary of the results for the year ended and of the assets and liabilities of the Group as at 31 December 2013 and for the previous nine financial years are set out in the Ten-Year Financial Summary section on page 174.

## REPORT OF THE DIRECTORS (CONTINUED)

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws of Bermuda.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

### SHARE OPTIONS

Pursuant to the terms of the Option Scheme, the Option Scheme is valid and effective for a period of 10 years commencing on the adoption date and expiring on the tenth anniversary of the adoption date. Accordingly, the Option Scheme had been expired on 11 May 2013, and no further options could thereafter be granted under the Option Scheme. However, all remaining provisions will remain in full force and effect to govern the exercise of all the options granted under the Option Scheme prior to its expiration.

As at 31 December 2013, there were Share Options relating to 208,134,000 Shares granted by the Company representing 2.49% of the issued shares of the Company as at the date of this Report pursuant to the Option Scheme which were valid and outstanding.

Details of the Share Options granted under the Option Scheme and remain as outstanding as at 31 December 2013 are as follows:

	Number of Share Options				As at 31/12/2013	Exercise Price HK\$	Grant Date	Exercisable Period
	As at 1/1/2013	Exercised <sup>1</sup>	Cancelled	Lapsed				
William Fung Kwok Lun	540,000	-	-	-	540,000	20.21	11/4/2011	01/5/2012 – 30/4/2015
	540,000	-	-	-	540,000	20.21	11/4/2011	01/5/2013 – 30/4/2015
	1,350,000	-	-	-	1,350,000	20.21	11/4/2011	01/5/2014 – 30/4/2016
Bruce Philip Rockowitz	900,000	-	-	(900,000)	-	12.77	24/1/2008	01/3/2011 – 28/2/2013
	540,000	-	-	-	540,000	20.21	11/4/2011	01/5/2012 – 30/4/2015
	540,000	-	-	-	540,000	20.21	11/4/2011	01/5/2013 – 30/4/2015
	1,350,000	-	-	-	1,350,000	20.21	11/4/2011	01/5/2014 – 30/4/2016
Spencer Theodore Fung	352,000	-	-	(352,000)	-	12.77	24/1/2008	01/3/2011 – 28/2/2013
	354,000	-	-	(354,000)	-	20.76	25/3/2010	01/3/2011 – 28/2/2013
	360,000	-	-	-	360,000	20.21	11/4/2011	01/5/2012 – 30/4/2015
	360,000	-	-	-	360,000	20.21	11/4/2011	01/5/2013 – 30/4/2015
	900,000	-	-	-	900,000	20.21	11/4/2011	01/5/2014 – 30/4/2016
	1,000,000	-	-	-	1,000,000	14.50	22/12/2011	01/5/2013 – 30/4/2015
	1,000,000	-	-	-	1,000,000	14.50	22/12/2011	01/5/2014 – 30/4/2016
	1,000,000	-	-	-	1,000,000	14.50	22/12/2011	01/5/2015 – 30/4/2017
	1,000,000	-	-	-	1,000,000	14.50	22/12/2011	01/5/2016 – 30/4/2018
	1,000,000	-	-	-	1,000,000	14.50	22/12/2011	01/5/2017 – 30/4/2019
	1,000,000	-	-	-	1,000,000	14.50	22/12/2011	01/5/2018 – 30/4/2020
	1,000,000	-	-	-	1,000,000	14.50	22/12/2011	01/5/2019 – 30/4/2021
	1,000,000	-	-	-	1,000,000	14.50	22/12/2011	01/5/2020 – 30/4/2022
	1,000,000	-	-	-	1,000,000	14.50	22/12/2011	01/5/2021 – 30/4/2023

# REPORT OF THE DIRECTORS (CONTINUED)

	Number of Share Options				As at 31/12/2013	Exercise Price HK\$	Grant Date	Exercisable Period
	As at 1/1/2013	Exercised <sup>1</sup>	Cancelled	Lapsed				
Continuous contract	27,084,000	(575,000)	(1,409,000)	(25,100,000)	–	12.77	24/1/2008	01/3/2011 – 28/2/2013
Employee	1,684,000	–	(118,000)	(1,566,000)	–	15.00	21/5/2008	01/3/2011 – 28/2/2013
	1,943,000	(242,400)	(61,200)	(1,639,400)	–	13.10	13/8/2008	01/3/2011 – 28/2/2013
	1,072,000	(532,000)	–	(540,000)	–	8.61	24/2/2009	01/3/2011 – 28/2/2013
	2,344,200	–	(524,350)	(1,819,850)	–	13.90	14/8/2009	01/3/2011 – 28/2/2013
	4,512,600	–	(44,450)	(4,468,150)	–	20.76	25/3/2010	01/3/2011 – 28/2/2013
	2,357,200	–	(252,800)	(2,104,400)	–	22.42	15/11/2010	01/3/2011 – 28/2/2013
	31,420,000	–	–	–	31,420,000	20.21	11/4/2011	01/5/2012 – 30/4/2015
	31,964,000	–	–	–	31,964,000	20.21	11/4/2011	01/5/2013 – 30/4/2015
	79,626,000	–	–	–	79,626,000	20.21	11/4/2011	01/5/2014 – 30/4/2016
	2,033,000	–	–	–	2,033,000	15.20	21/11/2011	01/5/2012 – 30/4/2015
	4,228,000	–	–	–	4,228,000	15.20	21/11/2011	01/5/2013 – 30/4/2015
	9,457,000	–	–	–	9,457,000	15.20	21/11/2011	01/5/2014 – 30/4/2016
	2,000,000	–	–	–	2,000,000	14.50	22/12/2011	01/5/2013 – 30/4/2015
	2,000,000	–	–	–	2,000,000	14.50	22/12/2011	01/5/2014 – 30/4/2016
	2,000,000	–	–	–	2,000,000	14.50	22/12/2011	01/5/2015 – 30/4/2017
	2,000,000	–	–	–	2,000,000	14.50	22/12/2011	01/5/2016 – 30/4/2018
	2,000,000	–	–	–	2,000,000	14.50	22/12/2011	01/5/2017 – 30/4/2019
	2,000,000	–	–	–	2,000,000	14.50	22/12/2011	01/5/2018 – 30/4/2020
	2,000,000	–	–	–	2,000,000	14.50	22/12/2011	01/5/2019 – 30/4/2021
	2,000,000	–	–	–	2,000,000	14.50	22/12/2011	01/5/2020 – 30/4/2022
	2,000,000	–	–	–	2,000,000	14.50	22/12/2011	01/5/2021 – 30/4/2023
	3,742,000	–	–	–	3,742,000	15.09	26/6/2012	01/5/2013 – 30/4/2015
	8,357,000	–	–	–	8,357,000	15.09	26/6/2012	01/5/2014 – 30/4/2016
	813,000	–	–	–	813,000	13.04	12/11/2012	01/5/2013 – 30/4/2015
	3,014,000	–	–	–	3,014,000	13.04	12/11/2012	01/5/2014 – 30/4/2016
Total	250,737,000	(1,349,400)	(2,409,800)	(38,843,800)	208,134,000			

## NOTES:

(1) The weighted average closing market price per Share immediately before the dates on which the Share Options were exercised was HK\$12.91.

(2) The value of the above options granted are recognized as expenses in the accounts in accordance with the Company's accounting policy as set out in *Note 1* to the accounts. Other details of Share Options granted by the Company are set out in *Note 26* to the accounts.

## REPORT OF THE DIRECTORS (CONTINUED)

Details of the Option Scheme are as follows:

### (i) Purpose

The purposes of the Option Scheme are to attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentive to the employees including any Executive or Non-executive Director and officer of the Company or any affiliate, consultants, agents, representatives, advisers, customers, contractors, business allies and joint venture partners; and to promote the long term financial success of the Company by aligning the interests of the option holders to the Shareholders.

### (ii) Qualifying participants

Any employee including any Executive or Non-executive Director of the Company or any affiliate, any consultant, agent, representative, adviser, customer, contractor, business ally or joint venture partner of the Company or any affiliate.

### (iii) Maximum number of Shares

The total number of Shares which may be issued upon exercise of all options to be granted under the Option Scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Option Scheme or 30% of the issued share capital of the Company from time to time. By an ordinary resolution passed at the 2010 Annual General Meeting of the Company held on 18 May 2010 relating to the refreshing of the scheme limit on grant of options under the Option Scheme and any other share option scheme(s) of the Company, the scheme limit on grant of options was refreshed. No share will be available for issue under the Option Scheme as at the date of this Report as the Option Scheme has expired on 11 May 2013. Notwithstanding the foregoing, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option scheme(s) of the Company must not, in aggregate, exceed 30% of the total number of issued shares of the Company from time to time.

### (iv) Limit for each participant

The total number of Shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the Shares of the Company in issue.

### (v) Option period

The period within which the Shares must be taken up an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

The Board has the authority to determine the minimum period for which an option must be held before it can vest. The Option Scheme itself does not specify any minimum holding period.

### (vi) Acceptance and payment on acceptance

An offer of the grant of an option shall remain open for acceptance for a period of 28 days from the date of offer (or such longer period as the Board may specify in writing).

HK\$1.00 is payable by the grantee to the Company on acceptance of the offer.

### (vii) Subscription price

The exercise price must be at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Share.

### (viii) Remaining life of the Option Scheme

The Board is entitled at any time within 10 years between 12 May 2003 and 11 May 2013 to offer the grant of an option to any qualifying participants.

### SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2013 are set out in *Note 43* to the accounts.

### ASSOCIATED COMPANIES

Details of the Company's principal associated companies at 31 December 2013 are set out in *Note 43* to the accounts.

### JOINT VENTURES

Details of the Company's principal joint venture at 31 December 2013 are set out in *Note 43* to the accounts.

### MAJOR CUSTOMERS AND SUPPLIERS

During 2013, the Group purchased less than 30% of its goods and services from its five largest suppliers. The percentage of sales attributable to the Group's five largest customers combined was also less than 30% of its total sales.

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### CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Group entered into the following new connected transactions which were subject to reporting and announcement requirements but are exempt from the independent shareholders' approval requirement.

(i) On 21 August 2013, the Group formed a business co-operation arrangement with Heritage Global Partners, LLC ("Heritage") and Trinity International Brands Limited, an associate of Fung Holdings (1937) Limited ("FH (1937)"), for launching Kent & Curwen brand in the United States, which is conducted under British Heritage Brands ("BHB"), a wholly-owned subsidiary of Heritage. Pursuant to the arrangement, the Group entered into a convertible promissory note purchase agreement (the "Note Purchase Agreement") with BHB to contribute a maximum aggregate amount of US\$32,000,000 in 6 tranches over three years with the first and second tranches of US\$6,750,000 and US\$3,250,000 already paid as at 31 December 2013. For the remaining US\$22,000,000, the Group is required to pay BHB by 31 August 2015, subject to satisfaction of the relevant benchmarks as prescribed under the Note Purchase Agreement. The convertible promissory note (the "Note") carries interest at 5% per annum maturing on 31 December 2027 with a right of conversion up to 51.06% equity interest of BHB during the period commencing on the earlier of either (i) the date on which sum of all payments made by the Group equals the maximum aggregate amount of the Note; or (ii) 1 January 2016, and ending on the date occurring 90 days following the date of delivery to the Group of the annual audited financial statements of BHB for the fiscal year 2018. Up to 31 December 2013, the Group has subscribed US\$10 million of the Note and recognized interest income thereon of US\$177,740.

(ii) On 26 December 2013, the Group entered into a sale & purchase agreement with Fung Retailing Limited for the sale of the Roots License Right at the consideration of US\$18 million. After the Completion, the Group may be entitled to contingent receivables over the seven financial years ending 31 December 2020 of up to US\$13.6 million in aggregate if certain turnover targets for the underlying business of the License Rights are achieved.

## REPORT OF THE DIRECTORS (CONTINUED)

During the year, the Group also engaged in certain continuing connected transactions as set out below:

- (i) Pursuant to the master agreement for leasing properties (the “Existing Master Lease Agreement”) that the Company entered into with FH (1937) on 13 January 2011, the Group leased certain properties from FH (1937) and its associates for the period from 1 January 2011 to 31 December 2013. In view of the expiry of the Existing Master Lease Agreement, the Company has renewed the master agreement (the “Renewal Master Lease Agreement”) on 6 December 2013 for a term of three years commencing on 1 January 2014 and ending on 31 December 2016. FH (1937) and its associates are connected persons of the Company and the transactions contemplated under the Existing Master Lease Agreement and the Renewal Master Lease Agreement constitute continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group paid rental expenses of US\$26,934,000 for the year ended 31 December 2013.
- (ii) Integrated Distribution Services Group Limited (“IDS Group”) became a wholly-owned subsidiary of the Company effective on 29 October 2010. As a result, continuing connected transactions of IDS Group, such as (a) distribution of products to; (b) purchase of various products from; and (c) provision of various logistics services to, FH (1937) and its associates may become non-fully exempt continuing connected transactions of the Company. For the year ended 31 December 2013, the applicable percentage ratios of the Company in respect of each category of these transactions were less than 0.1%.

- (iii) On 19 January 2012, the Group entered into a new distribution and sale of goods agreement with FH (1937) to set out the framework of the terms for distribution and sales of goods by the Group to the FH (1937) Group for a term of three years from 1 January 2012 to 31 December 2014. This new agreement replaced the original distribution and sale of goods agreement expiring on 31 December 2013 and covers also the scope of business contemplated under the Group’s agreements (i) to engage LiFung Kids (Holdings) Limited on 19 January 2012 as the Group’s exclusive retail distributor for certain branded children’s apparel, children’s footwear and various other related products in Hong Kong, the PRC and Macau; and (ii) as a master licensee of “Roots” Brand to appoint Branded Lifestyle Trading (Asia) Limited, a subsidiary of ILD International Corporation, as the distributor for an initial term commencing from 1 January 2013 and ending 31 January 2021, with a conditional renewable term of another ten years. Transactions contemplated under this new distribution and sale of goods agreement constitute continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group recorded sales of US\$60,947,000 for the year ended 31 December 2013.

- (iv) On 13 August 2013, the Group entered into a management agreement with Perfect Investments B.V. (“Perfect Investments”), an associate of FH (1937), to provide management services to Perfect Investments and its subsidiaries, including Suhyang Networks Co., Ltd. and Suhyang International Co. Ltd. (collectively referred to as “Suhyang Group”) for the period from 13 August 2013 to 31 December 2015. Transactions contemplated under these agreements constituted continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group recorded income of US\$1,890,000 for the year ended 31 December 2013.

## REPORT OF THE DIRECTORS (CONTINUED)

Non-exempt continuing connected transactions of the Company have been reviewed by the independent non-Executive Directors of the Company. The independent non-Executive Directors confirmed that the aforesaid non-exempt continuing connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with the Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

### PENSION SCHEME ARRANGEMENTS

With effect from 1 December 2000, the mandatory provident fund (the "MPF Scheme") was set up by the Mandatory Provident Fund Authority of Hong Kong. The MPF Scheme is a defined contribution retirement benefit scheme and administered by independent trustees. Both the employer and the employees have to contribute an amount equal to 5% of the relevant income of such employee to the MPF Scheme. Contributions from the employer are 100% vested in the employees as soon as they are paid to the MPF Scheme and subject to certain conditions being met, all benefits derived from the mandatory contributions must be preserved until the employee either reaches the normal retirement age of 65 or meets certain specified conditions whichever is earlier.

In Taiwan, the Group operates a defined contribution provident scheme for its employees with the contributions set at 6% of the employees' basic salaries. In addition, the Group also participates in a retirement benefit plan in accordance with local statutory requirements. Under this plan, the Group recognized pension cost monthly at 3% of the employees' salaries, which is contributed monthly to an independent fund.

In Korea, the Group and each of its employees are required to contribute 4.5% of the employee's monthly salary to a government established pension corporation pursuant to the statutory requirement. Upon retirement, an employee is entitled to receive a lump sum payment.

In Indonesia and Thailand, the Group participates in a defined contribution provident scheme for its employees with the contribution set at 3.7% and 7% of the employees' basic salaries respectively. In addition, the Group also participates in a defined benefit retirement scheme in accordance with local statutory requirement.

The provident fund schemes for staff of the Group in other regions follow local requirements.

## REPORT OF THE DIRECTORS (CONTINUED)

Contributions to the various arrangements of 2013 were:

	US\$'000
Contributions to the MPF Scheme	6,075
Contributions forfeited by employees	(2,412)
Contributions to the defined contribution provident scheme and defined benefits plan in Taiwan	1,565
Contributions pursuant to the statutory requirements in Korea	1,217
Contributions to the defined contribution provident scheme and defined benefits plan in Indonesia and Thailand	2,906
Contributions pursuant to local requirements in other overseas regions	48,893
	58,244

## DIRECTORS

The Directors during the year and up to the date of this Report were:

### Non-executive Directors:

Victor Fung Kwok King (*Honorary Chairman*)  
Paul Edward Selway-Swift\*  
Allan Wong Chi Yun\*  
Franklin Warren McFarlan\*  
Martin Tang Yue Nien\*  
Benedict Chang Yew Teck  
Fu Yuning\*  
Margaret Leung Ko May Yee\* (*appointed on 1 April 2013*)

\* *Independent Non-executive Directors*

All Directors of the Company, including Independent Non-executive Directors, are subject to retirement by rotation at annual general meetings in accordance with Bye-law 110(A) of the Company's Bye-laws.

Dr William Fung Kwok Lun, Mr Allan Wong Chi Yun and Mr Benedict Chang Yew Teck will retire by rotation at the forthcoming Annual General Meeting. Dr William Fung Kwok Lun and Mr Allan Wong Chi Yun, being eligible, will offer themselves for re-election while Mr Benedict Chang Yew Teck will retire from the Board with effect from the conclusion of the forthcoming Annual General Meeting.

### Executive Directors:

William Fung Kwok Lun (*Group Chairman*)  
Bruce Philip Rockowitz (*Group President & Chief Executive Officer*)  
Spencer Theodore Fung (*Group Chief Operating Officer*)

As stated in the 2012 Annual Report of the Company, Mr Paul Edward Selway-Swift will stand for re-election for a term of around one year at each annual general meeting since 2013. Accordingly, Mr Paul Edward Selway-Swift will also retire at the forthcoming Annual General Meeting and being eligible, will offer himself for re-election.

The Board has received from each Independent Non-executive Director a written annual confirmation of their independence. The Nomination Committee considers that each Independent Non-executive Director is independent to the Company.

The biographical details of the Directors as at the date of this Report are set out in the Directors and Senior Management section on pages 58 to 63.



**DIRECTORS' SERVICE CONTRACTS**

Under a service contract dated 2 June 1992 between the Company and Dr William Fung Kwok Lun and a service contract dated 2 June 1992 between Li & Fung (B.V.I.) Limited and Dr William Fung Kwok Lun, Dr William Fung Kwok Lun has been appointed to act as Managing Director of the Company, Li & Fung (Trading) Limited, LF Properties Limited and Li & Fung (B.V.I.) Limited, in each case for an initial period of five years from 1 April 1992 and thereafter unless terminated by not less than 12 calendar months' notice in writing expiring at the end of such initial period or any subsequent month.

Apart from the above, none of the Directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Group which is not determinable within one year without payment of compensation other than statutory compensation.

**DIRECTORS' INTERESTS IN CONTRACTS**

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 31 December 2013, the Directors and chief executives of the Company and their associates had the following interests in the Shares and underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

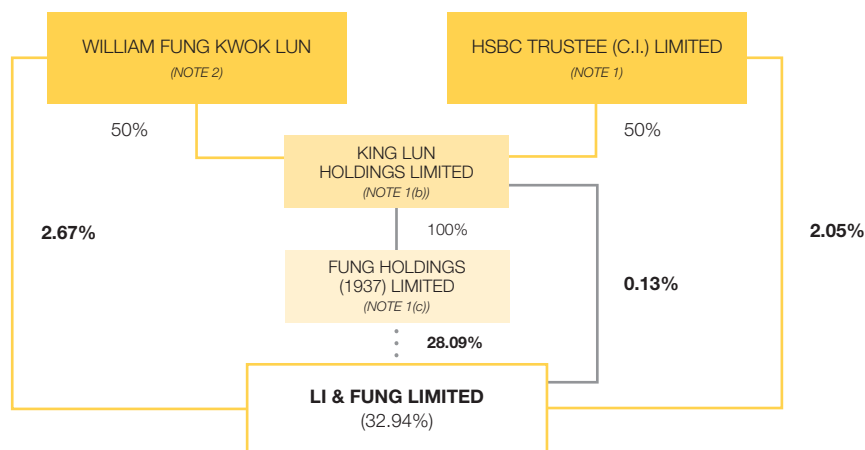
**(A) LONG POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY**

Name of directors	Number of Shares			Equity derivatives (Share Options)	Total	Percentage of issued share capital
	Personal interest	Family interest	Trust/ Corporate interest			
Victor Fung Kwok King	2,814,444	–	2,531,080,340 <sup>1</sup>	–	2,533,894,784	30.30%
William Fung Kwok Lun	144,342,660	108,800	2,436,254,232 <sup>2</sup>	2,430,000 <sup>3</sup>	2,583,135,692	30.89%
Spencer Theodore Fung*	1,408,000	–	2,531,080,340 <sup>1</sup>	10,620,000 <sup>3</sup>	2,543,108,340	30.41%
Bruce Philip Rockowitz	7,625,600	–	77,823,020 <sup>4</sup>	13,321,760 <sup>5</sup>	98,770,380	1.18%
Paul Edward Selway-Swift	36,000	60,000	16,000 <sup>6</sup>	–	112,000	0.00%
Franklin Warren McFarlan	–	–	114,400 <sup>7</sup>	–	114,400	0.00%
Martin Tang Yue Nien	–	–	60,000 <sup>8</sup>	–	60,000	0.00%
Benedict Chang Yew Teck	4,053,200	–	–	–	4,053,200	0.04%

\* Son of Dr Victor Fung Kwok King

## REPORT OF THE DIRECTORS (CONTINUED)

The following simplified chart illustrates the deemed interests of Dr Victor Fung Kwok King and Mr Spencer Theodore Fung under *Note (1)* below and the interest of Dr William Fung Kwok Lun under *Note (2)* below:



### NOTES:

As at 31 December 2013,

(1) each of Dr Victor Fung Kwok King and Mr Spencer Theodore Fung was deemed to have interests in 2,531,080,340 Shares held in the following manner:

- (a) 171,234,708 Shares were indirectly held by HSBC Trustee (C.I.) Limited ("HSBC Trustee") through its wholly owned subsidiary, First Island Developments Limited. HSBC Trustee is the trustee of a trust established for the benefit of the family members of Dr Victor Fung Kwok King (the "Trust");
- (b) 10,891,760 Shares were directly held by King Lun Holdings Limited ("King Lun"), a private company incorporated in the British Virgin Islands owned as to 50% by HSBC Trustee as trustee of the Trust and 50% by Dr William Fung Kwok Lun; and
- (c) 2,195,727,908 Shares were directly held by Fung Holdings (1937) Limited ("FH (1937)"), a wholly owned subsidiary of King Lun, and 153,225,964 Shares were indirectly held by FH (1937) through its wholly owned subsidiary, Fung Distribution International Limited ("Fung Distribution").

(2) Out of 2,436,254,232 Shares, 26,114,400 Shares and 50,294,200 Shares were held by Golden Step Limited and Step Dragon Enterprise Limited respectively, both companies were beneficially owned by Dr William Fung Kwok Lun. The balance of 2,359,845,632 Shares were directly and indirectly held by King Lun as mentioned in *Note (1)(b)* and (c) above.

(3) these interests represented the interests in underlying shares in respect of Share Options granted by the Company to these Directors as beneficial owners, the details of which are set out in the Share Options section stated above.

(4) 77,823,020 Shares in the Company were held by Hurricane Millennium Holdings Limited ("HMHL"), a company beneficially owned by a trust which had been set up for the benefit of family members of Mr Bruce Philip Rockowitz.

(5) these interests represented:

(a) the beneficial interest of Mr Bruce Philip Rockowitz in 2,430,000 underlying shares in respect of Share Options granted by the Company to Mr Bruce Philip Rockowitz, the details of which are set out in the Share Options section stated above; and

(b) the deemed interest of Mr Bruce Philip Rockowitz in 10,891,760 underlying shares in the Company in respect of options granted by King Lun to HMHL to purchase such Shares in the Company during the period from 25 December 2013 to 24 December 2019 pursuant to an agreement made between King Lun and HMHL.

(6) 16,000 Shares in the Company were held by a trust of which Mr Paul Edward Selway-Swift is a beneficiary.

(7) 114,400 Shares in the Company were held by a trust established for the benefit of Professor Franklin Warren McFarlan.

(8) 60,000 Shares in the Company were held by a trust of which Mr Martin Tang Yue Nien is a beneficiary.

**(B) SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY**

By virtue of the SFO, each of Dr Victor Fung Kwok King, Dr William Fung Kwok Lun and Mr Spencer Theodore Fung was taken as at 31 December 2013 to have short position through King Lun, in which all of them were deemed to have interests as disclosed above, in respect of an aggregate of 10,891,760 underlying shares, representing 0.13% of the total issued share capital of the Company. Such interest constitutes, for the purposes of the SFO, a short position of King Lun under unlisted physically settled equity derivatives which arise under an agreement made between King Lun and HMHL pursuant to which options were granted by King Lun to HMHL to purchase 109,891,760 Shares in the Company in ten tranches during the period from 25 December 2004 to 24 December 2019, with each tranche having an exercisable period of six years.

Save as disclosed above, as at 31 December 2013, none of the Directors and chief executives of the Company or their associates had any short position in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

**(C) SHARE OPTIONS**

The interests of the Directors and chief executives in the Share Options (being regarded as unlisted physically settled equity derivatives) of the Company are detailed in the Share Options section stated above.

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 SFO.

**SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

As at 31 December 2013, other than the interests of the Directors or chief executives of the Company as disclosed above, the following persons had interests in the Shares of the Company which fall to be disclosed to the Company under Section 336 of the SFO:

Name of Shareholder	Capacity	Number of Shares	Percentage of issued share capital
<b>Long Positions</b>			
King Lun Holdings Limited	Beneficial owner (10,891,760) Interest of controlled corporation (2,348,953,872) <sup>1</sup>	2,359,845,632	28.22%
HSBC Trustee (C.I.) Limited	Trustee	2,531,080,340 <sup>2</sup>	30.27%
The Capital Group Companies, Inc.	Interest of controlled corporation	763,360,382	9.13%
Sun Life Financial, Inc.	Investment manager	679,135,915 <sup>3</sup>	8.12%
Massachusetts Financial Services Company	Investment manager	679,135,915 <sup>3</sup>	8.12%
<b>Short Positions</b>			
King Lun Holdings Limited	Beneficial owner	10,891,760 <sup>4</sup>	0.13%
HSBC Trustee (C.I.) Limited	Trustee	10,891,760 <sup>5</sup>	0.13%

## REPORT OF THE DIRECTORS (CONTINUED)

### NOTES:

As at 31 December 2013,

- (1) 2,195,727,908 Shares were directly held by FH (1937) which also through its wholly owned subsidiary, Fung Distribution, indirectly held 153,225,964 Shares. FH (1937) is a wholly owned subsidiary of King Lun. Both of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun are directors of King Lun, FH (1937) and Fung Distribution.
- (2) Please refer to *Note (1)* under the Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures section stated above.
- (3) Massachusetts Financial Services Company ("MFS") is a subsidiary of Sun Life Financial, Inc. ("SLF") and accordingly, MFS's interest in 679,135,915 Shares are duplicated in the interest of SLF.
- (4) This short position represented King Lun's short position in 10,891,760 underlying shares which constituted unlisted physically settled equity derivatives pursuant to arrangement as described in the Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures section stated above.
- (5) HSBC Trustee was taken to have short position in the same underlying shares held by King Lun.

Save as disclosed above, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying shares of the Company as at 31 December 2013.

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as at the date of this Report, there is sufficient public float of more than 25% of the Company's issued Shares as required under the Listing Rules.

### SENIOR MANAGEMENT

The biographical details of the senior management as at the date of this Report are set out in the Directors and Senior Management section on pages 58 to 63.

### 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

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance section on pages 30 to 45.

### DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 31 December 2013, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

### AUDITOR

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

On behalf of the Board

**William FUNG Kwok Lun**

*Group Chairman*

Hong Kong, 20 March 2014