

Report of the Directors

The Directors submit their report together with the audited accounts for the year ended 31 December 2014.

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 Continuing Operations' turnover and contribution to operating profit of the Group for the year by segments 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 pages 118 to 119.

The Directors declared an interim dividend of HK\$0.13 (equivalent to US\$0.017) per ordinary share, totalling US\$140,158,000 which was paid on 19 September 2014.

The Directors recommend the payment of final dividend and special dividend of HK\$0.21 (equivalent to US\$0.027) and HK\$0.07 (equivalent to US\$0.009) per Share, respectively totalling US\$300,117,000.

Reserves

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

Distributable Reserves

At 31 December 2014, the reserves of the Company available for distribution as dividends amounted to US\$3,158,841,000, comprising retained earnings of US\$2,184,652,000 and the contribution surplus of US\$974,189,000 arising from: (i) the exchange of shares for the acquisition of Li & Fung (B.V.I.) Limited; (ii) the issuance of shares for the acquisition of Colby Group Holdings Limited; (iii) transfer from share premium of US\$3,000,000,000 (*Note 27(b)*); and (iv) the distribution in specie of US\$2,290,000,000 (*Note 27(b)*).

Under the Companies Act 1981 of Bermuda (as amended), the contribution 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\$1,840,000.

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 2014 and for the previous nine financial years are set out in the Ten-Year Financial Summary section on pages 216 to 217.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws though 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 its expiration.

As at 31 December 2014, there were Share Options relating to 41,698,000 Shares granted by the Company representing 0.5% of the issued Shares of the Company as at the date of this Report pursuant to the Option Scheme which were valid and outstanding.

At the 2014 annual general meeting of the Company held on 15 May 2014, the New Option Scheme was adopted by the Shareholders. No option has been granted by the Company pursuant to the New Option Scheme for the year ended 31 December 2014.

Details of the Share Options granted under the Option Scheme that remain outstanding as at 31 December 2014 are as follows:

	Number of Share Options				Exercise Price (HK\$)	Grant Date	Exercisable Period
	As at 1/1/2014	Cancelled	Lapsed	As at 31/12/2014			
William Fung Kwok Lun	540,000	(128,000)	–	412,000	16.90 ¹	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	360,000	(86,000)	–	274,000	16.90 ¹	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	12.12 ¹	22/12/2011	01/5/2013 – 30/4/2015
	1,000,000	–	–	1,000,000	12.12 ¹	22/12/2011	01/5/2014 – 30/4/2016
	1,000,000	–	–	1,000,000	12.12 ¹	22/12/2011	01/5/2015 – 30/4/2017
	1,000,000	–	–	1,000,000	12.12 ¹	22/12/2011	01/5/2016 – 30/4/2018
	1,000,000	–	–	1,000,000	12.12 ¹	22/12/2011	01/5/2017 – 30/4/2019
	1,000,000	–	–	1,000,000	12.12 ¹	22/12/2011	01/5/2018 – 30/4/2020
	1,000,000	–	–	1,000,000	12.12 ¹	22/12/2011	01/5/2019 – 30/4/2021
	1,000,000	–	–	1,000,000	12.12 ¹	22/12/2011	01/5/2020 – 30/4/2022
1,000,000	–	–	1,000,000	12.12 ¹	22/12/2011	01/5/2021 – 30/4/2023	

	Number of Share Options			As at 31/12/2014	Exercise Price (HK\$)	Grant Date	Exercisable Period
	As at 1/1/2014	Cancelled	Lapsed				
Marc Robert Compagnon	360,000	(86,000)	–	274,000	16.90 ¹	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	12.12 ¹	22/12/2011	01/5/2013 – 30/4/2015
	1,000,000	–	–	1,000,000	12.12 ¹	22/12/2011	01/5/2014 – 30/4/2016
	1,000,000	–	–	1,000,000	12.12 ¹	22/12/2011	01/5/2015 – 30/4/2017
	1,000,000	–	–	1,000,000	12.12 ¹	22/12/2011	01/5/2016 – 30/4/2018
	1,000,000	–	–	1,000,000	12.12 ¹	22/12/2011	01/5/2017 – 30/4/2019
	1,000,000	–	–	1,000,000	12.12 ¹	22/12/2011	01/5/2018 – 30/4/2020
	1,000,000	–	–	1,000,000	12.12 ¹	22/12/2011	01/5/2019 – 30/4/2021
	1,000,000	–	–	1,000,000	12.12 ¹	22/12/2011	01/5/2020 – 30/4/2022
	1,000,000	–	–	1,000,000	12.12 ¹	22/12/2011	01/5/2021 – 30/4/2023
Continuous contract employee	31,600,000	(9,968,000)	(274,000)	21,358,000	16.90 ¹	11/4/2011	01/5/2012 – 30/4/2015
	32,144,000	(32,144,000)	–	–	20.21	11/4/2011	01/5/2013 – 30/4/2015
	80,076,000	(80,076,000)	–	–	20.21	11/4/2011	01/5/2014 – 30/4/2016
	2,033,000	(653,000)	–	1,380,000	12.71 ¹	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
	1,000,000	–	(1,000,000)	–	12.12 ¹	22/12/2011	01/5/2013 – 30/4/2015
	1,000,000	–	(1,000,000)	–	12.12 ¹	22/12/2011	01/5/2014 – 30/4/2016
	1,000,000	–	(1,000,000)	–	12.12 ¹	22/12/2011	01/5/2015 – 30/4/2017
	1,000,000	–	(1,000,000)	–	12.12 ¹	22/12/2011	01/5/2016 – 30/4/2018
	1,000,000	–	(1,000,000)	–	12.12 ¹	22/12/2011	01/5/2017 – 30/4/2019
	1,000,000	–	(1,000,000)	–	12.12 ¹	22/12/2011	01/5/2018 – 30/4/2020
	1,000,000	–	(1,000,000)	–	12.12 ¹	22/12/2011	01/5/2019 – 30/4/2021
	1,000,000	–	(1,000,000)	–	12.12 ¹	22/12/2011	01/5/2020 – 30/4/2022
	1,000,000	–	(1,000,000)	–	12.12 ¹	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	208,134,000	(157,162,000)	(9,274,000)	41,698,000			

NOTES:

(1) Following the spin-off and separate listing of Global Brands, the exercise price applicable to the Share Options outstanding on the record date for the distribution in specie (i.e. 7 July 2014) was adjusted from HK\$20.21 to HK\$16.90, from HK\$14.50 to HK\$12.12 and from HK\$15.20 to HK\$12.71 with effect from 31 August 2014.

(2) 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.

The major terms of the Option Scheme and the New Option Scheme (collectively, the “Schemes”) are summarized as follows:

(i) Purpose

The purpose of the Schemes is to attract and retain the best quality personnel for the development of the Group’s businesses; to provide additional incentives to the selected qualifying participants; and to promote the long-term financial success of the Group 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 Group or any affiliate under the Schemes.

(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 and New Option Scheme must not in aggregate exceed 10% of the issued share capital of the Company at the respective date of approval of each of the Schemes. Following the expiration of the Option Scheme, no further share options can be granted under the Option Scheme.

The New Option Scheme was adopted by an ordinary resolution passed at the 2014 annual general meeting of the Company held on 15 May 2014. The number of Shares available for issue under the New Option Scheme is 836,039,830 Shares representing 10% of the issued Shares of the Company as at the date of this Report.

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 Schemes 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 Schemes do 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 Schemes

The Option Scheme had been expired on 11 May 2013 and all outstanding Share Options granted under the Option Scheme and yet to be exercised shall remain valid.

Under the New Option Scheme, the Board is entitled at any time within 10 years between 15 May 2014 and 14 May 2024 to offer the grant of an option to any qualifying participants.

Subsidiaries

Details of the Company's principal subsidiaries at 31 December 2014 are set out in *Note 43* to the accounts.

Associated Companies

Details of the Company's principal associated companies at 31 December 2014 are set out in *Note 43* to the accounts.

Major Customers and Suppliers

During 2014, the Continuing Operations of the Group purchased less than 30% of its goods and services from its five largest suppliers. The percentage of sales attributable to the largest customer and the five largest customers combined for the Continuing Operations of the Group were 14% and 35% respectively.

Each of Dr Victor Fung Kwok King, Dr William Fung Kwok Lun and Mr Spencer Theodore Fung was deemed to have more than 5% interests in Global Brands Group, which is one of the Group's five largest customers.

Save as disclosed above, during 2014, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had a material interest in the Group's five largest customers.

During 2013, the Continuing Operations of the Group purchased less than 30% of its goods and services from its five largest suppliers. The percentage of sales attributable to the largest customers and the five largest customers combined for the Continuing Operations of the Group were 14% and 35% respectively.

Connected Transactions and Continuing Connected Transactions

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

- (i) The Group entered into a distribution and sale of goods agreement (the "Existing Distribution and Sale of Goods Agreement") with FH (1937) and its associates on 19 January 2012 for a term of three years from 1 January 2012 to 31 December 2014. In view of the expiry of the Existing Distribution and Sale of Goods Agreement, the Company has renewed the distribution and sale of goods agreement (the "Renewal Distribution and Sale of Goods Agreement") on 5 December 2014 for a term of three years commencing on 1 January 2015 and ending on 31 December 2017. FH (1937) and its associates are connected persons of the Company and the transactions contemplated under the Existing Distribution and Sale of Goods Agreement and the Renewal Distribution and Sale of Goods Agreement constituted continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group recorded sales of US\$24,092,000 for the year ended 31 December 2014. On 24 June 2014, the Discontinued Operations entered into another new master distribution agreement with FH (1937) and its associates for the period from 9 July 2014 to 31 December 2016. Distribution and sale of goods from this new master distribution agreement do not constitute to continuing connected transactions of the Group.
- (ii) 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"). No management services fee was recognized by the Group in 2014 as the management agreement had been terminated based on mutual agreement.
- (iii) On 21 August 2013, a subsidiary of the Group's Discontinued Operations formed a business co-operation arrangement with Heritage Global Partners, LLC ("Heritage") and Trinity International Brands Limited, an associate of FH (1937), for launching the Kent & Curwen brand in the United States, which is conducted under British Heritage Brands, Inc. ("BHB"), a wholly-owned subsidiary of Heritage. Pursuant to the arrangement, the subsidiary 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. The convertible promissory note carries interest at 5% per annum maturing on 31 December 2027 with a right of conversion up to 51.1% equity interest of BHB. The interest income recognized by the Group of US\$315,000 for the period from 1 January 2014 to 8 July 2014, the date upon which the spin-off of the Group's Discontinued Operations became effective, constituted connected transactions of the Company under the Main Board Listing Rules.
- (iv) Pursuant to the master agreement for leasing of properties (the "Master Lease Agreement") that the Company entered into with FH (1937) on 6 December 2013, the Group leased certain properties from FH (1937) and its associates for a term of three years from 1 January 2014 to 31 December 2016. The transactions contemplated under the Master Lease Agreement constituted continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group paid rental expenses of US\$24,549,000 for the year ended 31 December 2014.
- (v) On 26 December 2013, a subsidiary of the Company entered into a sales and purchase agreement with Fung Retailing Limited, an associate of FH (1937) for the sale of the Roots License Rights at the consideration of US\$18 million. The Group's Discontinued Operations may entitle 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. This transaction is no longer regarded as connected transaction of the Company after the spin-off of the Group's Discontinued Operations on 8 July 2014.

- (vi) On 24 June 2014, a subsidiary of the Company entered into the buying agency agreement with a subsidiary of Global Brands, an associate of FH (1937), for the sourcing and supply chain management services for a term of three years from the listing date of Global Brands. Global Brands Group is a connected person of the Company after its spin-off from the Group on 8 July 2014 and the transactions contemplated under the buying agency agreement thereafter constituted continuing connected transactions of the Company under the Main Board Listing Rules. For the period from 9 July 2014 to 31 December 2014, the Group provided buying agency services to Global Brands Group with an aggregate turnover of approximately US\$891,587,000 at a commission not exceeding 7% of the FOB price on all products and components sourced through the Group. The aggregate commission payable to the Group under the buying agency agreement did not exceed the 2014 annual cap of US\$125 million.
- (vii) On 24 June 2014, the Company entered into the master property agreement with Global Brands, an associate of FH (1937), for the sub-lease and license offices to and from Global Brands Group from the listing date of Global Brands to 31 December 2016. Global Brands is a connected person of the Company after its spin-off from the Group on 8 July 2014 and the transactions contemplated under the master property agreement thereafter constituted continuing connected transactions of the Company under the Main Board Listing Rules. For the period from 9 July 2014 to 31 December 2014, aggregate rental and license fee paid to and from one another approximated to US\$5,217,000 which did not exceed the 2014 annual cap of US\$12 million.

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 favorable 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 the 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.

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 requirements.

In China, the Group participates in defined contribution retirement schemes operated by the local authorities for employees. Contributions to these schemes are pursuant to the statutory requirements.

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

Contributions to the various arrangements of 2014 were:

	US\$'000
Contributions to the MPF Scheme	5,868
Contributions forfeited by employees	(2,033)
Contributions to the defined contribution provident scheme and defined benefits plan in Taiwan	554
Contributions pursuant to the statutory requirements in Korea	1,440
Contributions to the defined contribution provident scheme and defined benefits plan in Indonesia and Thailand	2,415
Contributions pursuant to the statutory requirements in China	32,992
Contributions pursuant to local requirements in other overseas regions	19,034
	60,270

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 (*retired on 15 May 2014*)
 Fu Yuning* (*resigned on 31 December 2014*)
 Margaret Leung Ko May Yee*

Executive Directors:

William Fung Kwok Lun (*Group Chairman*)
 Bruce Philip Rockowitz (*Group President & Chief Executive Officer*)
 (*resigned on 1 July 2014*)
 Spencer Theodore Fung (*Group Chief Executive Officer*)
 Marc Robert Compagnon (*appointed on 1 July 2014*)

* 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.

Mr Spencer Theodore Fung, Professor Franklin Warren McFarlan and Mr Martin Tang Yue Nien will retire by rotation at the forthcoming annual general meeting. Mr Spencer Theodore Fung and Mr Martin Tang Yue Nien, being eligible, will offer themselves for re-election while Professor Franklin Warren McFarlan will retire from the Board with effect from the conclusion of the forthcoming annual general meeting.

In accordance with bye-law 101 of the Company's bye-laws, Mr Marc Robert Compagnon who was appointed by the Directors during the year, will retire and, being eligible, offer himself for re-election.

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. 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 Our board and management team section on pages 54 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 save as disclosed under the Connected Transactions and Continuing Connected Transactions section stated above and *Note 38* "Related Party Transactions" to the accounts.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

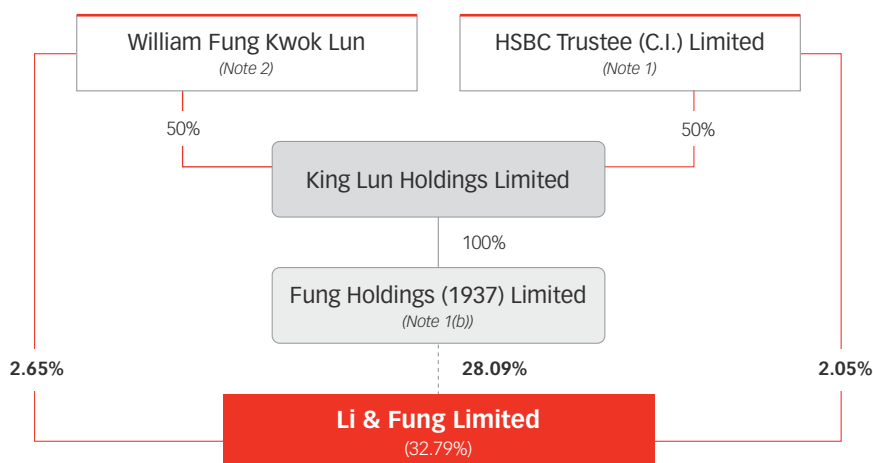
As at 31 December 2014, the Directors and chief executives of the Company and their associates had the following interests in the Shares and underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required 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				Total	Percentage of Issued Share Capital
	Personal Interest	Family Interest	Trust/ Corporate Interest	Equity Derivatives (Share Options)		
Victor Fung Kwok King	2,814,444	–	2,520,188,580 ¹	–	2,523,003,024	30.17%
William Fung Kwok Lun	144,342,660	108,800	2,425,362,472 ²	412,000 ³	2,570,225,932	30.74%
Spencer Theodore Fung [#]	1,408,000	–	2,520,188,580 ¹	9,274,000 ³	2,530,870,580	30.27%
Marc Robert Compagnon	900,000	–	12,289,780 ⁴	9,274,000 ³	22,463,780	0.26%
Paul Edward Selway-Swift	36,000	60,000	16,000 ⁵	–	112,000	0.00%
Franklin Warren McFarlan	–	–	114,400 ⁶	–	114,400	0.00%
Martin Tang Yue Nien	–	–	60,000 ⁷	–	60,000	0.00%

[#] Son of Dr Victor Fung Kwok King

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 2014,

(1) Each of Dr Victor Fung Kwok King and Mr Spencer Theodore Fung was deemed to have interests in 2,520,188,580 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"); and
 - (b) 2,195,727,908 Shares were directly held by Fung Holdings (1937) Limited ("FH (1937)"), a wholly-owned subsidiary of King Lun Holdings Limited ("King Lun"), and 153,225,964 Shares were indirectly held by FH (1937) through its wholly-owned subsidiary, Fung Distribution International Limited ("Fung Distribution"). King Lun is a company owned as to 50% by HSBC Trustee as trustee of the Trust and 50% by Dr William Fung Kwok Lun.
- (2) Out of 2,425,362,472 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 2,348,953,872 Shares were indirectly held by King Lun as mentioned in Note (1)(b) 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) 12,289,780 Shares were held by Profit Snow Holdings Limited, a company beneficially owned by Mr Marc Robert Compagnon.
- (5) 16,000 Shares were held by a trust of which Mr Paul Edward Selway-Swift is a beneficiary.
- (6) 114,400 Shares were held by a trust established for the benefit of Professor Franklin Warren McFarlan.
- (7) 60,000 Shares 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

As at 31 December 2014, 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 2014, 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
Long Positions			
King Lun Holdings Limited	Interest of controlled corporation	2,348,953,872 ¹	28.09%
HSBC Trustee (C.I.) Limited	Trustee	2,520,188,580 ²	30.14%
The Capital Group Companies, Inc.	Interest of controlled corporation	833,229,518	9.97%
Sun Life Financial, Inc.	Investment manager	501,101,712 ³	5.99%
Massachusetts Financial Services Company	Investment manager	501,101,712 ³	5.99%
Veritas Asset Management LLP	Investment manager	423,309,009	5.06%
Aberdeen Asset Management Plc and its associates (together "the Aberdeen Group")	Investment manager	418,666,345 ⁴	5.00%

NOTES:

As at 31 December 2014,

(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 501,101,712 Shares are duplicated in the interest of SLF.

(4) The Aberdeen Group held the shares on behalf of accounts managed by the Aberdeen Group.

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 2014.

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 Our board and management team section on pages 54 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 Our commitment to good governance section on pages 29 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 2014, 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, 19 March 2015