

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, Li & Fung (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 AND CONNECTED TRANSACTIONS

On 27 March 2000, the Group entered into an agreement (the "Agreement") to dispose of its entire interest in a subsidiary, Neptune Pacific Limited ("Neptune") to Li & Fung (1937) Limited, a substantial shareholder of the Company, at a consideration of approximately HK\$73.3 million. Neptune owns 20% interest in the share capital of LF Distribution Centers Limited which in turn holds 70% equity interest in Lifung (Panyu) DistriCenter Company Limited. Lifung (Panyu) DistriCenter Company Limited owns a warehouse and logistic center located in the Guangdong Province of the People's Republic of China. The warehouse and logistic center comprises nine warehouse blocks and a commercial block with total floor area of approximately 101,000 square metres available for leasing purposes. In light of the abundant supply of warehousing space in nearby areas which results in low leasing activities in the warehouse and logistic center, the directors consider that the Group's existing return from this non-trading related investment is low compared to its core activities and the disposal is in the interest of the Group.

As Dr Victor FUNG Kwok King and Dr William FUNG Kwok Lun, the directors of the Company, are the controlling shareholders of Li & Fung (1937) Limited, the above transaction constitutes a connected transaction under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The directors, including the independent non-executive directors, had reviewed the transaction by reference to a professional valuation of the warehouse and logistic center carried out by an independent valuer and considered the terms of the Agreement to be fair and reasonable and in the interest of the Group and its shareholders as a whole.

The Company had complied with relevant requirements under the Listing Rules. Press announcement was made and circulars were sent to the Company's shareholders in connection with this transaction.

The above connected transaction also constitutes a related party transaction and is disclosed in *note 27* to the accounts.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (CONT'D)

Save as disclosed above, no other 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 IN EQUITY OR DEBT SECURITIES

As at 31 December 2000, the directors, chief executives and their associates had the following interests in the share capital and share options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) which require notification pursuant to Section 28 of the SDI Ordinance or the Model Code for Securities Transactions by Directors of Listed Companies ("the Model Code") or as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance:

(a) Shares of HK\$0.025 each

	Number of Shares				
	Personal interest	Corporate interest	Family interest	Other interest	Total interests
Dr Victor FUNG Kwok King	—	1,180,500,000	—	50,750,000	1,231,250,000
		<i>Note (1)</i>		<i>Note (2)</i>	
Dr William FUNG Kwok Lun	68,502,300	1,180,500,000	8,000	—	1,249,010,300
		<i>Note (1)</i>			
Mr Henry CHAN	1,720,000	—	—	—	1,720,000
Mr Danny LAU Sai Wing	7,040,000	—	—	—	7,040,000
Ms Annabella LEUNG Wai Ping	2,880,000	—	—	—	2,880,000
Mr LAU Butt Farn	2,200,000	—	—	—	2,200,000
Professor Franklin Warren McFARLAN	52,000	—	—	—	52,000

Note:

(1) As at 31 December 2000,

- (a) King Lun Holdings Limited ("King Lun"), a private company incorporated in the British Virgin Islands, held 49,950,800 Shares.
- (b) King Lun through its wholly-owned Hong Kong incorporated subsidiary, Li & Fung (1937) Limited, held 996,000,000 Shares.
- (c) Li & Fung (1937) Limited, through Orient Ocean Holdings Limited ("Orient Ocean"), a private company incorporated in the British Virgin Islands, held 134,549,200 Shares. Li & Fung (1937) Limited held 50% voting rights with no beneficial interest in Orient Ocean.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES (CONT'D)

(a) Shares of HK\$0.025 each (CONT'D)

Dr Victor FUNG Kwok King and Dr William FUNG Kwok Lun are deemed to have interests in the 1,180,500,000 Shares, i.e. the total number of Shares mentioned in notes (1)(a), (b) and (c) above, through their personal or other interests in King Lun as set out below:

- (i) 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by Chase Bank & Trust Company (CI) Limited, the trustee of a trust established for the benefit of the family of Dr Victor FUNG Kwok King.
- (ii) 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by Dr William FUNG Kwok Lun.
- (2) 50,750,000 Shares in the Company are held by Chase Bank & Trust Company (CI) Limited, the trustee of a trust established for the benefit of the family of Dr Victor FUNG Kwok King.

(b) Shares options

On 2 June 1992, a share option scheme (the "Share Option Scheme") was approved by the shareholders of the Company under which its directors may, at their discretion, invite directors and employees of the Group to take up options (the "Share Options") to subscribe for Shares in the Company subject to the terms and conditions stipulated therein.

As a result of the Share Subdivision and in accordance with the terms of the Share Option Scheme, the number of Shares comprising the Share Options granted was increased by one Share for every share of HK\$0.05 each then held comprising such Share Options.

During the year, Share Options to subscribe for 1,200,000 and 8,096,000 Shares, as adjusted for the effect of the Share Subdivision, were respectively granted to the directors of the Company and certain employees including directors of the subsidiaries who are not directors of the Company. Details of the outstanding Share Options held by the directors of the Company as at 31 December 2000 are as follows:

Name	Number of Share Options outstanding		
	25 July 1998 (Note 2)	16 July 1999 (Note 3)	7 July 2000 (Note 4)
Dr William FUNG Kwok Lun	—	—	480,000
Mr Henry CHAN	360,000	1,200,000	240,000
Mr Danny LAU Sai Wing	—	240,000	240,000
Ms Annabella LEUNG Wai Ping	—	—	240,000
	<u>360,000</u>	<u>1,440,000</u>	<u>1,200,000</u>