

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 December 2003.

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 the Principal Subsidiaries and Associated Companies section on pages 95 to 103.

Details of the analysis of the Group's turnover and contribution to operating profit for the year by geographical segments and business segments are set out in *note 2* to the accounts.

Share Capital

Details of the movements in share capital of the Company are set out in *note 21* to the accounts.

Results and Appropriations

The results for the year are set out in the consolidated profit and loss account on page 50.

The directors declared an interim dividend of HK\$0.1 per ordinary share, totalling HK\$289,343,000, which was paid on 5 September 2003.

The directors recommend the payment of a final dividend of HK\$0.25 per ordinary share, totalling HK\$726,977,000.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in *note 22* to the accounts.

Distributable Reserves

At 31 December 2003, the distributable reserves of the Company available for distribution as dividends amounted to HK\$3,060,667,000, comprising retained earnings of HK\$999,994,000 and contribution 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 22(b)* to the accounts, amounting to HK\$2,060,673,000.

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 realisable 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 HK\$1,036,000.

Fixed Assets

Details of the movements in fixed assets of the Group are set out in *note 12* 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 2003 and for the previous nine financial years are set out in the Ten-Year Financial Summary section on page 104.

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

Old Share Option Scheme

The share option scheme of the Company being adopted on 2 June 1992 (the "Old Scheme") has expired on 1 June 2002. Despite the fact that no further options may be granted under the Old Scheme, all its terms will remain in force to govern the exercise of all the options previously granted. As at 31 December 2003, there are options relating to 13,471,000 shares of HK\$0.025 each ("Shares") granted by the Company pursuant to the Old Scheme which are valid and outstanding.

Details of the Old Scheme are as follows:

(i) Purpose

The Old Scheme was designed to give executive directors and senior employees holding an executive, managerial or supervisory position in the Company or any of its wholly-owned subsidiaries an equity interest in the Company in order to enhance long-term shareholder value. The granting of options would also help the Company to attract and motivate individuals with experience and ability and to reward individuals for past and future performance.

(ii) Qualifying participants

Any employee including any executive director of the Company or any of its wholly-owned subsidiaries.

(iii) Maximum number of shares

The maximum number of shares subject to the Old Scheme must not when aggregated with any shares subject to any other share option schemes exceed 10% of the shares in issue from time to time (excluding any shares which have been duly allotted and issued upon the exercise of options granted pursuant to the Old Scheme and any other schemes). No further option may be granted under the Old Scheme as it has expired on 1 June 2002.

No qualifying participant was granted an option which, if exercised in full, would result in such person's maximum entitlement exceeding 25% of the aggregate number of shares for the time being issued and issuable under the Old Scheme.

(iv) Option period

In respect of any particular option, such period the Board might in its absolute discretion determine, save that such period should not commence earlier than one year nor more than 10 years from the date on which an option was granted and accepted by the grantee.

(v) Amount payable on application or acceptance

An offer of the grant of an option should remain open for acceptance for a period of 28 days from the date on which an option was offered to the grantee (the "Offer Date"). An offer of the grant of the option should be deemed to have been accepted and to have taken effect when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance in favour of the Company of HK\$1 by way of consideration of the grant thereof was received by the Company.

(vi) Exercise price

The exercise price in respect of any particular option should be (i) not more than 20% less than the average closing price of the shares for the five business days immediately preceding the Offer Date on which there were dealings in shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange") or (ii) the nominal value of a share (whichever is the greater).

Effective from 1 September 2001, the exercise price must be at least the higher of (i) the closing price of the shares on the date of grant, which must be a business day, and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant in accordance with the rule 17.03 of the Listing Rules.

(vii) The remaining life of the Old Scheme

The Board was entitled at any time within 10 years between 2 June 1992 and 1 June 2002 to offer the grant of an option to any qualifying participants.

Details of the share options granted under the Old Scheme and remain outstanding as at 31 December 2003 are as follows:

	Options held at 1 January 2003	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 31 December 2003	Exercise Price HK\$	Grant date	Exercisable from	Exercisable until
Dr William FUNG	480,000	-	-	480,000	-	15.26	7 July 2000	7 July 2001	6 July 2003
Kwok Lun	480,000	-	480,000 ¹	-	-	10.50	18 July 2001	18 July 2002	17 July 2004
	480,000	-	480,000 ¹	-	-	7.98	28 August 2001	28 August 2003	27 August 2005
Mr Henry CHAN	240,000	-	-	240,000	-	15.26	7 July 2000	7 July 2001	6 July 2003
	240,000	-	-	-	240,000	10.50	18 July 2001	18 July 2002	17 July 2004
	240,000	-	-	-	240,000	7.98	28 August 2001	28 August 2003	27 August 2005
Mr Danny LAU	240,000	-	-	240,000	-	15.26	7 July 2000	7 July 2001	6 July 2003
Sai Wing	240,000	-	-	-	240,000	10.50	18 July 2001	18 July 2002	17 July 2004
	240,000	-	-	-	240,000	7.98	28 August 2001	28 August 2003	27 August 2005
Ms Annabella LEUNG	240,000	-	-	240,000	-	15.26	7 July 2000	7 July 2001	6 July 2003
Wai Ping	240,000	-	-	-	240,000	10.50	18 July 2001	18 July 2002	17 July 2004
	240,000	-	-	-	240,000	7.98	28 August 2001	28 August 2003	27 August 2005
Mr Bruce Philip ROCKOWITZ	240,000	-	-	-	240,000	7.98	28 August 2001	28 August 2003	27 August 2005
Continuous contract employees	7,872,000	-	-	7,872,000	-	15.26	7 July 2000	7 July 2001	6 July 2003
	9,320,000	-	2,882,000 ¹	288,000	6,150,000	10.50	18 July 2001	18 July 2002	17 July 2004
	10,164,000	-	4,387,000 ¹	136,000	5,641,000	7.98	28 August 2001	28 August 2003	27 August 2005

New Share Option Scheme

At the 2003 Annual General Meeting of the Company held on 12 May 2003, a new share option scheme (the "New Scheme") of the Company was adopted by the shareholders of the Company to comply with the new requirements of Chapter 17 of the Listing Rules of the Stock Exchange. As at 31 December 2003, there are options relating to 51,092,000 Shares granted by the Company pursuant to the New Scheme which are valid and outstanding.

Details of the New Scheme are as follows:

(i) Purpose

The purpose of the New Scheme is 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 of the Company.

(ii) Qualifying participants

Any employee including any executive or non-executive director and officer 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 New Scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the New Scheme or 30% of the issued share capital of the Company from time to time. No options may be granted under the New Scheme if this will result in such limit exceeded. As at 31 December 2003, the number of Shares available for issue in respect thereof is 238,454,200 Shares.

(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 New 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 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 a share.

(viii) Remaining life of the New 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.

Details of the share options granted under the New Scheme and remain outstanding as at 31 December 2003 are as follows:

	Options held at 1 January 2003	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options cancelled during the year	Options held at 31 December 2003	Exercise Price HK\$	Grant date	Exercisable from	Exercisable until
Dr William FUNG	-	800,000 ²	-	-	-	800,000	9.20	23 May 2003	23 May 2004	22 May 2007
Kwok Lun	-	800,000 ²	-	-	-	800,000	9.20	23 May 2003	23 May 2005	22 May 2008
	-	800,000 ²	-	-	-	800,000	9.20	23 May 2003	23 May 2006	22 May 2009
Mr Henry CHAN	-	400,000 ²	-	-	-	400,000	9.20	23 May 2003	23 May 2004	22 May 2007
	-	400,000 ²	-	-	-	400,000	9.20	23 May 2003	23 May 2005	22 May 2008
	-	400,000 ²	-	-	-	400,000	9.20	23 May 2003	23 May 2006	22 May 2009
Mr Danny LAU	-	400,000 ²	-	-	-	400,000	9.20	23 May 2003	23 May 2004	22 May 2007
Sai Wing	-	400,000 ²	-	-	-	400,000	9.20	23 May 2003	23 May 2005	22 May 2008
	-	400,000 ²	-	-	-	400,000	9.20	23 May 2003	23 May 2006	22 May 2009
Ms Annabella LEUNG	-	400,000 ²	-	-	-	400,000	9.20	23 May 2003	23 May 2004	22 May 2007
Wai Ping	-	400,000 ²	-	-	-	400,000	9.20	23 May 2003	23 May 2005	22 May 2008
	-	400,000 ²	-	-	-	400,000	9.20	23 May 2003	23 May 2006	22 May 2009
Mr Bruce Philip ROCKOWITZ	-	400,000 ²	-	-	-	400,000	9.20	23 May 2003	23 May 2004	22 May 2007
	-	400,000 ²	-	-	-	400,000	9.20	23 May 2003	23 May 2005	22 May 2008
	-	400,000 ²	-	-	-	400,000	9.20	23 May 2003	23 May 2006	22 May 2009
Continuous contract Employees	-	14,390,000 ²	-	45,000	673,000	13,672,000	9.20	23 May 2003	23 May 2004	22 May 2007
	-	15,360,000 ²	-	250,000	-	15,110,000	9.20	23 May 2003	23 May 2005	22 May 2008
	-	15,360,000 ²	-	250,000	-	15,110,000	9.20	23 May 2003	23 May 2006	22 May 2009

Notes:

- (1) The weighted average closing market price per Share immediately before the dates on which the share options were exercised was HK\$13.17.
- (2) The closing market price per Share at the date preceding the date on which the share options were granted was HK\$9.00.
- (3) The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of options granted to participants as referred to in (i) to (v) of Rule 17.07 during the financial year. The Directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to the shareholders. The Directors therefore consider the disclosure of only the relevant market price and exercise price, which are readily ascertainable, will be appropriate.

Subsidiaries

Details of the Company's principal subsidiaries at 31 December 2003 are set out in the Principal Subsidiaries and Associated Companies section on pages 95 to 103.

Associated Companies

Details of the Company's principal associated companies at 31 December 2003 are set out in the Principal Subsidiaries and Associated Companies section on pages 95 to 103.

Major Customers and Suppliers

During 2003, 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 largest customer and the five largest customers combined were 16.2% and 32.2% respectively. 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 an interest in the customers noted.

During 2002, 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 largest customer and the five largest customers combined were 16.5% and 33.8% respectively.

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 the earlier.

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

In the United Kingdom, the Group participated in a defined benefit scheme for its employees. Under which, the Group and its employees made monthly contributions to the scheme based on 12.5% to 19% and 5% to 7% of the employees' salary respectively.

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.

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

The Group's pension scheme contributions charged to the consolidated profit and loss account for the year are as follows:

	HK\$'000
Contributions to the MPF Scheme	22,632
Contributions forfeited by employees	(1,482)
Contributions to the defined contribution provident scheme and defined benefit plan in Taiwan	8,221
Contributions to the defined benefit scheme in the United Kingdom	6,272
Contributions pursuant to the statutory requirements in Korea	9,747
Contributions pursuant to local requirements in other overseas regions	20,766
	66,156

Directors

The directors during the year were:

Non-Executive Directors:

Dr Victor FUNG Kwok King, *Chairman*

Mr Paul Edward SELWAY-SWIFT*

Mr Allan WONG Chi Yun*

Professor Franklin Warren McFARLAN*

Mr Makoto YASUDA*

Mr LAU Butt Farn

Mr Leslie BOYD

(Mr Steven Murray SMALL –
alternate to Mr Leslie BOYD)

Executive Directors:

Dr William FUNG Kwok Lun, *Managing Director*

Mr Henry CHAN

Mr Danny LAU Sai Wing

Ms Annabella LEUNG Wai Ping

Mr Bruce Philip ROCKOWITZ

* *independent non-executive directors*

In accordance with bye-law 110 of the Company's bye-laws, Mr Danny LAU Sai Wing, Ms Annabella LEUNG Wai Ping and Mr Paul Edward SELWAY-SWIFT retire and, being eligible, offer themselves for re-election.

Independent non-executive directors are subject to retirement by rotation in Annual General Meetings in accordance with bye-law 110 of the Company's bye-laws.

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 26 to 31.

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

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 except as disclosed under Connected Transactions stated below.

Connected Transactions

- (i) During the year, the Group had ongoing connected transactions on normal commercial terms with certain subsidiaries and associates of Li & Fung (Distribution) Limited ("Li & Fung Distribution"). Li & Fung Distribution is an indirect non-wholly owned subsidiary of Li & Fung (1937) Limited ("Li & Fung 1937") which owns approximately 51.4% of Li & Fung Distribution in terms of attributable beneficial interest. As Li & Fung 1937 is the controlling shareholder of the Company, Li & Fung Distribution is a connected person of the Company for purposes of the Listing Rules.

The nature and reasons for the above connected transactions have previously been disclosed in the Company's announcements dated 14 April 2003 and 23 September 2003. Details of the transactions are disclosed as below:

	Notes	2003 HK\$'000
Commission income	1	1,930
Service fee	2	1,417

Notes:

- (1) The Group, since September 2002, acted as a buying agent for Li & Fung Distribution Group in the purchase of consumer goods for a commission income calculated as a percentage of the purchase price. The terms of the transactions were negotiated on an arm's length basis and were no less favourable than those to or from existing customers of the Group.
- (2) The Group has in the ordinary and usual course of its business, since September 2001, requested Li & Fung Distribution Group to export consumer goods sourced by the Group from the PRC to overseas customers of the Group at a service fee calculated as a percentage of the purchase price. Such percentage was arrived at after consulting independent professional advisers. The terms of the transactions were negotiated on an arm's length basis and were no less favourable than those available from existing service providers of the Group.

All of the independent non-executive directors of the Company have reviewed the above transactions and confirmed that these were conducted in the manners as stated in the two waivers granted by the Stock Exchange on 17 April 2003 and 7 October 2003.

- (ii) On 18 August 2003, the Group entered into a sale and purchase agreement with Mr Alan Chartash to acquire from him the remaining one-third of the equity interest in International Sourcing Group, LLC ("ISG"), a New York limited liability company and a non-wholly owned subsidiary of the Company at a consideration of HK\$40,695,000. Two-third of the equity interest of this non-wholly owned subsidiary is already indirectly owned by the Company. Mr Alan Chartash, the Chief Executive Officer and a substantial shareholder of ISG, was a connected person as defined under Chapter 14 of the Listing Rules at the time of the acquisition.

The nature and reasons for the above connected transaction have previously been disclosed in the Company's announcement dated 18 August 2003.

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

As at 31 December 2003, 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 Securities and Futures Ordinance ("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 for Securities Transactions by Directors of Listed Companies ("Model Code"):

(A) Long Position in Shares and Underlying Shares of the Company

	Number of Shares				Number of underlying shares under derivatives equity (share options)	Total interests	Percentage of issued share capital
	Personal interest	Corporate interest	Family interest	Trust/similar interest			
Dr Victor FUNG Kwok King	-	1,045,950,800 ¹	-	50,750,000 ²	-	1,096,700,800	37.79%
Dr William FUNG Kwok Lun	69,462,300	1,045,950,800 ¹	4,000	-	2,400,000	1,117,817,100	38.51%
Mr Henry CHAN	3,280,000	-	-	-	1,680,000	4,960,000	0.17%
Mr Danny LAU Sai Wing	7,240,000	-	-	-	1,680,000	8,920,000	0.30%
Ms Annabella LEUNG Wai Ping	3,200,000	-	-	-	1,680,000	4,880,000	0.16%
Mr Bruce Philip ROCKOWITZ	8,000	-	-	50,374,100 ³	1,440,000	51,822,100	1.78%
Mr LAU Butt Farn	2,200,000	-	-	-	-	2,200,000	0.07%
Professor Franklin Warren McFARLAN	-	-	-	52,000 ⁴	-	52,000	0.00%
Mr Leslie BOYD	-	-	-	10,000 ⁵	-	10,000	0.00%

Notes:

(1) As at 31 December 2003,

- (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.

Dr Victor FUNG Kwok King and Dr William FUNG Kwok Lun are deemed to have interests in the 1,045,950,800 Shares, i.e. the total number of Shares mentioned in notes (1)(a) and (b) 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 J.P. Morgan Trust Company (Jersey) 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 J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family of Dr Victor FUNG Kwok King.
- (3) 50,374,100 Shares in the Company are held by Hurricane Millennium Holdings Limited, a company beneficially owned by a trust which has been set up for the benefit of family members of Mr Bruce Philip ROCKOWITZ.
- (4) 52,000 Shares in the Company are held by a trust established for the benefit of Professor Franklin Warren McFARLAN and managed by Fleet Bank, Boston.
- (5) 10,000 Shares in the Company are held by Maitland Trustees Limited, the trustee of a trust, in respect of which the family of Mr Leslie BOYD are potential discretionary beneficiaries.

(B) Short Positions in Shares and Underlying Shares of the Company

None of the directors and chief executive 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 Mode.

(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.

Interests and Short Positions of Substantial Shareholders

At 31 December 2003, other than the interests of the directors or chief executive 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:-

(A) Long Positions in Shares of the Company

	Capacity	Number of Shares	Percentage of issued share capital
King Lun Holdings Limited	Beneficial owner (49,950,800) Interest of controlled corporation (996,000,000) ¹	1,045,950,800 ²	36.04%
J.P. Morgan Trust Company (Jersey) Limited	Trustee (50,750,000) Interest of controlled corporation (1,045,950,800) ²	1,096,700,800 ³	37.79%
The Capital Group Companies, Inc.	Investment manager	348,203,691	11.99%
J.P. Morgan Chase & Co.	Beneficial owner (3,504,000) Investment manager (42,146,101) Lending pool (124,447,895)	170,097,996	5.86%

Notes:

- (1) 996,000,000 Shares are held by Li & Fung (1937) Limited which is a wholly owned subsidiary of King Lun Holdings Limited.
- (2) (i) 50% of issued share capital of King Lun Holdings Limited is owned by J.P. Morgan Trust Company (Jersey) Limited and its interests in 1,045,950,800 Shares of the Company is duplicated in the interests of J.P. Morgan Trust Company (Jersey) Limited.

(ii) By virtue of the SFO, each of Dr Victor FUNG Kwok King and Dr William FUNG Kwok Lun is deemed to be interested in 1,045,950,800 Shares of the Company held by King Lun Holdings Limited as described in Note (1) under the above section of Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures.
- (3) By virtue of the SFO, Dr Victor FUNG Kwok King is deemed to be interested in 1,096,700,800 Shares held by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family of Dr Victor FUNG Kwok King.

(B) Short Positions in Shares and Underlying Shares of the Company

As at 31 December 2003, 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.

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 26 to 31.

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 16 to 25.

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 2003, the Directors have selected suitable accounting policies and applied them consistently; made judgements 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.

Auditors

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

On behalf of the Board
Victor FUNG Kwok King
Chairman

Hong Kong, 24 March 2004