

# Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 December 2006.

## 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 118 to 123.

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 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 59.

The directors declared an interim dividend of HK\$0.160 per ordinary share, totalling HK\$519,252,000, which was paid on 19 September 2006.

The directors recommend the payment of a final dividend of HK\$0.39 per ordinary share, totalling HK\$1,330,754,000.

## Reserves

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

## Distributable Reserves

At 31 December 2006, the distributable reserves of the Company available for distribution as dividends amounted to HK\$4,123,996,000, comprising retained earnings of HK\$2,063,323,000 and 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 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 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 HK\$503,000.

## Fixed Assets

Details of the movements in fixed assets 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 2006 and for the previous nine financial years are set out in the Ten-Year Financial Summary section on page 124.

## Report of the Directors (continued)

### 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

At the 2003 Annual General Meeting of the Company held on 12 May 2003, a share option scheme (the "Option Scheme") of the Company was adopted by the shareholders of the Company. As at 31 December 2006, there are options ("Share Options") relating to 93,249,000 shares granted by the Company pursuant to the Option Scheme which are valid and outstanding.

Details of the Share Options granted under the Option Scheme and remain outstanding as at 31 December 2006 are as follows:

	Number of Share Options								Exercise Price HK\$	Grant Date	Exercisable Period	
	As at 1/1/2006	Granted	Exercised Before Bonus Issue	Lapsed Before Bonus Issue	Adjustment For Bonus Issue <sup>1</sup>	Exercised After Bonus Issue	Cancelled After Bonus Issue	Lapsed After Bonus Issue				As At 31/12/2006
William Fung Kwok Lun	800,000	-	-	-	80,000	880,000	-	-	-	8.36 <sup>1</sup>	23/5/2003	23/5/2006 - 22/5/2009
	800,000	-	-	-	80,000	-	-	-	880,000	13.45 <sup>1</sup>	20/6/2005	20/6/2007 - 19/6/2010
	800,000	-	-	-	80,000	-	-	-	880,000	13.45 <sup>1</sup>	20/6/2005	20/6/2008 - 19/6/2011
	800,000	-	-	-	80,000	-	-	-	880,000	13.45 <sup>1</sup>	20/6/2005	20/6/2009 - 19/6/2012
Bruce Philip Rockowitz	400,000	-	-	-	40,000	-	-	-	440,000	8.36 <sup>1</sup>	23/5/2003	23/5/2005 - 22/5/2008
	400,000	-	-	-	40,000	-	-	-	440,000	8.36 <sup>1</sup>	23/5/2003	23/5/2006 - 22/5/2009
	400,000	-	-	-	40,000	-	-	-	440,000	13.45 <sup>1</sup>	20/6/2005	20/6/2007 - 19/6/2010
	400,000	-	-	-	40,000	-	-	-	440,000	13.45 <sup>1</sup>	20/6/2005	20/6/2008 - 19/6/2011
400,000	-	-	-	40,000	-	-	-	440,000	13.45 <sup>1</sup>	20/6/2005	20/6/2009 - 19/6/2012	
Henry Chan	400,000	-	400,000 <sup>2</sup>	-	-	-	-	-	-	8.36 <sup>1</sup>	23/5/2003	23/5/2004 - 22/5/2007
	400,000	-	400,000 <sup>2</sup>	-	-	-	-	-	-	8.36 <sup>1</sup>	23/5/2003	23/5/2005 - 22/5/2008
	400,000	-	-	-	40,000	-	-	-	440,000	8.36 <sup>1</sup>	23/5/2003	23/5/2006 - 22/5/2009
	400,000	-	-	-	40,000	-	-	-	440,000	13.45 <sup>1</sup>	20/6/2005	20/6/2007 - 19/6/2010
	400,000	-	-	-	40,000	-	-	-	440,000	13.45 <sup>1</sup>	20/6/2005	20/6/2008 - 19/6/2011
400,000	-	-	-	40,000	-	-	-	440,000	13.45 <sup>1</sup>	20/6/2005	20/6/2009 - 19/6/2012	
Danny Lau Sai Wing	400,000	-	400,000 <sup>2</sup>	-	-	-	-	-	-	8.36 <sup>1</sup>	23/5/2003	23/5/2005 - 22/5/2008
	400,000	-	-	-	40,000	-	-	-	440,000	8.36 <sup>1</sup>	23/5/2003	23/5/2006 - 22/5/2009
	400,000	-	-	-	40,000	-	-	-	440,000	13.45 <sup>1</sup>	20/6/2005	20/6/2007 - 19/6/2010
	400,000	-	-	-	40,000	-	-	-	440,000	13.45 <sup>1</sup>	20/6/2005	20/6/2008 - 19/6/2011
400,000	-	-	-	40,000	-	-	-	440,000	13.45 <sup>1</sup>	20/6/2005	20/6/2009 - 19/6/2012	
Annabella Leung Wai Ping	400,000	-	400,000 <sup>2</sup>	-	-	-	-	-	-	8.36 <sup>1</sup>	23/5/2003	23/5/2005 - 22/5/2008
	400,000	-	-	-	40,000	-	-	-	440,000	8.36 <sup>1</sup>	23/5/2003	23/5/2006 - 22/5/2009
	400,000	-	-	-	40,000	-	-	-	440,000	13.45 <sup>1</sup>	20/6/2005	20/6/2007 - 19/6/2010
	400,000	-	-	-	40,000	-	-	-	440,000	13.45 <sup>1</sup>	20/6/2005	20/6/2008 - 19/6/2011
	400,000	-	-	-	40,000	-	-	-	440,000	13.45 <sup>1</sup>	20/6/2005	20/6/2009 - 19/6/2012

	Number of Share Options										Exercise Price HK\$	Grant Date	Exercisable Period
	As at 1/1/2006	Granted	Exercised Before Bonus Issue	Lapsed Before Bonus Issue	Adjustment For Bonus Issue <sup>1</sup>	Exercised After Bonus Issue	Cancelled After Bonus Issue	Lapsed After Bonus Issue	As At 31/12/2006				
Continuous Contract Employees	2,808,000	-	1,018,000 <sup>2</sup>	-	179,000	982,800 <sup>2</sup>	-	-	986,200	8.36 <sup>1</sup>	23/5/2003	23/5/2004 – 22/5/2007	
	6,772,000	-	2,369,000 <sup>2</sup>	-	440,300	1,905,100 <sup>2</sup>	-	-	2,938,200	8.36 <sup>1</sup>	23/5/2003	23/5/2005 – 22/5/2008	
	12,631,000	-	-	-	1,263,100	8,182,800 <sup>2</sup>	-	-	5,711,300	8.36 <sup>1</sup>	23/5/2003	23/5/2006 – 22/5/2009	
	300,000	-	106,000 <sup>2</sup>	-	19,400	175,600 <sup>2</sup>	-	-	37,800	9.00 <sup>1</sup>	20/8/2004	20/8/2005 – 19/8/2008	
	2,230,000	-	-	-	223,000	1,621,000 <sup>2</sup>	-	-	832,000	9.00 <sup>1</sup>	20/8/2004	20/8/2006 – 19/8/2009	
	21,053,000	-	-	230,000	2,082,300	-	188,600	442,200	22,274,500	13.45 <sup>1</sup>	20/6/2005	20/6/2007 – 19/6/2010	
	21,040,000	-	-	610,000	2,043,000	-	-	1,133,000	21,340,000	13.45 <sup>1</sup>	20/6/2005	20/6/2008 – 19/6/2011	
	21,150,000	-	-	610,000	2,054,000	-	-	1,804,000	20,790,000	13.45 <sup>1</sup>	20/6/2005	20/6/2009 – 19/6/2012	
	-	730,000 <sup>3</sup>	-	24,000	70,600	-	8,800	74,800	693,000	13.72 <sup>1</sup>	23/11/2006	20/6/2007 – 19/6/2010	
	-	1,470,000 <sup>3</sup>	-	50,000	142,000	-	-	165,000	1,397,000	13.72 <sup>1</sup>	23/11/2006	20/6/2008 – 19/6/2011	
	-	1,470,000 <sup>3</sup>	-	50,000	142,000	-	-	165,000	1,397,000	13.72 <sup>1</sup>	23/11/2006	20/6/2009 – 19/6/2012	
	-	212,000 <sup>4</sup>	-	-	-	-	-	-	212,000	15.65	19/6/2006	20/6/2007 – 19/6/2010	
	-	2,270,000 <sup>4</sup>	-	-	-	-	-	50,000	2,220,000	15.65	19/6/2006	20/6/2008 – 19/6/2011	
	-	2,350,000 <sup>4</sup>	-	-	-	-	-	50,000	2,300,000	15.65	19/6/2006	20/6/2009 – 19/6/2012	

**Notes:**

- At the annual general meeting of the Company held on 18 May 2006, a bonus issue of one new Share for every ten Shares (“Bonus Issue”) held as of that date was approved by the shareholders. All the Share Options which were granted and remained outstanding as of 18 May 2006 were adjusted with the Bonus Issue and accordingly, the number of Share Options increased by one Share for every ten Shares in the Share Options, and the exercise price per Share was adjusted from (i) HK\$9.20 to HK\$8.36, (ii) HK\$9.90 to HK\$9.00, (iii) HK\$14.80 to HK\$13.45 and (iv) HK\$15.09 to HK\$13.72 respectively.
- The weighted average closing market price per Share immediately before the dates on which the Share Options were exercised was HK\$17.32.
- The closing market price per Share as at the date preceding the date on which the Share Options were granted was HK\$13.773, as adjusted for the effect of the Bonus Issue.
- The closing market price per Share as at the date preceding the date on which the Share Options were granted was HK\$15.65.
- The above options granted are recognized as expenses in the accounts in accordance with the Company’s accounting policy as set out in *Note 1.15* to the accounts. Other details of Share Options granted by the Company are set out in *Note 26* to the accounts.

Subsequent to 31 December 2006, the following Share Options were granted by the Company pursuant to the Option Scheme:

	Number of Share Options Granted	Exercise Price HK\$	Grant Date	Exercisable Period
Continuous Contract Employees	2,127,000 <sup>1</sup>	25.50	2/2/2007	20/6/2008 – 19/6/2011
	7,425,000 <sup>1</sup>	25.50	2/2/2007	20/6/2009 – 19/6/2012

**Notes:**

- The closing market price per Share as at the date preceding the date on which the Share Options were granted was HK\$25.50.
- The above options granted are recognized as expenses in the accounts in accordance with the Company’s accounting policy as set out in *Note 1.15(c)* 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 purpose of the Option 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 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. No options may be granted under the Option Scheme if this will result in such limit exceeded. As at 31 December 2006, the number of Shares available for issue in respect thereof is 154,344,500 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 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 of Hong Kong Limited ("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 a 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 2006 are set out in the Principal Subsidiaries and Associated Companies section on pages 118 to 122.

### Associated Companies

Details of the Company's principal associated companies at 31 December 2006 are set out in the Principal Subsidiaries and Associated Companies section on page 123.

### Major Customers and Suppliers

During 2006, 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 14.6% and 30.6% 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 2005, 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 14.8% and 30.9% 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 operates a defined contribution provident scheme for its employees with the contribution 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 recognised pension cost monthly at 6% of the employees' salaries, which is contributed monthly to an independent fund.

In the United Kingdom, the Group participates in a defined benefit scheme for its employees. Under which, the Group and its employees make monthly contributions to the scheme based on 15.7% and 5% 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.

## Report of the Directors (continued)

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	30,299
Contributions forfeited by employees	(2,354)
Contributions to the defined contribution provident scheme and defined benefit plan in Taiwan	8,665
Contributions to the defined benefit scheme in the United Kingdom	3,973
Contributions pursuant to the statutory requirements in Korea	13,867
Contributions pursuant to local requirements in other overseas regions	47,506
	101,956

## Directors

The directors during the year were:

### Non-Executive Directors:

Victor Fung Kwok King, *Chairman*

Paul Edward Selway-Swift \*

Allan Wong Chi Yun \*

Franklin Warren McFarlan \*

Makoto Yasuda \*

Lau Butt Farn

Leslie Boyd

(retired on 18 May 2006)

(Steven Murray Small

– *alternate to Leslie Boyd*)

(ceased to act on 18 May 2006)

\* *Independent Non-executive directors*

### Executive Directors:

William Fung Kwok Lun, *Managing Director*

Bruce Philip Rockowitz

Henry Chan

Danny Lau Sai Wing

Annabella Leung Wai Ping

In accordance with bye-law 110(A) of the Company's bye-laws, Dr Victor Fung Kwok King, Mr Paul Edward Selway-Swift, Mr Bruce Philip Rockowitz and Ms Annabella Leung Wai Ping will retire by rotation at the forthcoming Annual General Meeting.

Independent non-executive directors are subject to retirement by rotation in Annual General Meetings in accordance with bye-law 110(A) 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 38 to 41.

### 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.

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

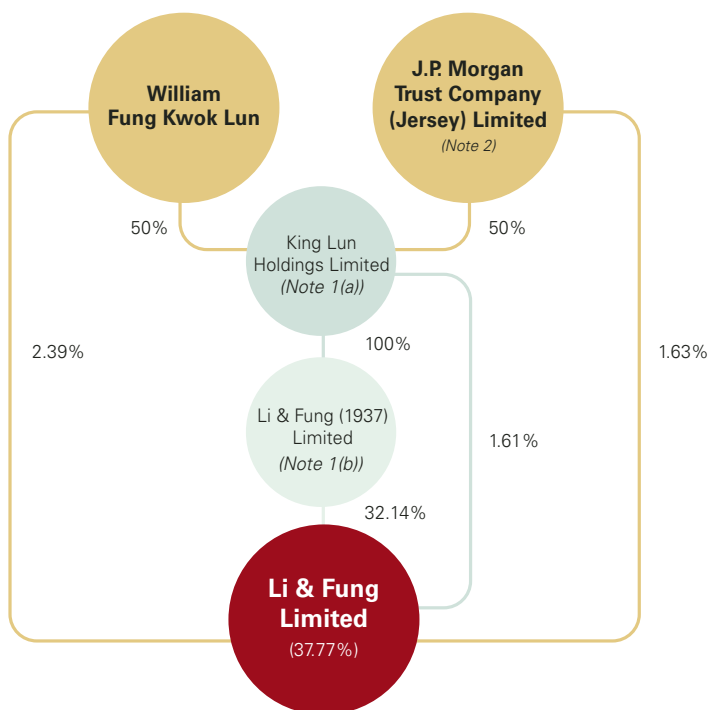
As at 31 December 2006, the directors and chief executives of the Company and their associates had the following interests in the Shares and underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) 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 ("the Model Code"):

#### (A) Long Positions in Shares and underlying shares of the Company

	Number of Shares					Total	Percentage of issued share capital
	Personal interest	Corporate interest	Family interest	Trust/Similar interest	Equity derivatives (share options)		
Victor Fung Kwok King	-	1,150,545,880 <sup>1</sup>	-	55,825,000 <sup>2</sup>	-	1,206,370,880	35.38%
William Fung Kwok Lun	79,048,530	1,150,545,880 <sup>1</sup>	4,400	-	2,640,000 <sup>3</sup>	1,232,238,810	36.14%
Bruce Philip Rockowitz	712,800	-	-	11,411,510 <sup>4</sup>	57,145,880 <sup>5</sup>	69,270,190	2.03%
Henry Chan	3,514,000	-	-	-	1,760,000 <sup>3</sup>	5,274,000	0.15%
Danny Lau Sai Wing	8,068,000	-	-	-	1,760,000 <sup>3</sup>	9,828,000	0.28%
Annabella Leung Wai Ping	3,128,000	-	-	-	1,760,000 <sup>3</sup>	4,888,000	0.14%
Lau Butt Farn	2,420,000	-	-	-	-	2,420,000	0.07%
Franklin Warren McFarlan	-	-	-	57,200 <sup>6</sup>	-	57,200	0.00%

## Report of the Directors (continued)

The interests of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun in Shares of the Company are summarized in the following chart:



### Notes:

(1) As at 31 December 2006,

- (a) King Lun Holdings Limited ("King Lun"), a private company incorporated in the British Virgin Islands, held 54,945,880 Shares.
- (b) King Lun through its wholly-owned Hong Kong incorporated subsidiary, Li & Fung (1937) Limited, held 1,095,600,000 Shares.

Dr Victor Fung Kwok King and Dr William Fung Kwok Lun are deemed to have interests in the 1,150,545,880 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) 55,825,000 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) These interests represent 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) 11,411,510 Shares in the Company are held by Hurricane Millennium Holdings Limited ("HMHL"), a company beneficially owned by a trust which has been set up for the benefit of family members of Mr Bruce Philip Rockowitz.

(5) These interests represent:-

- (a) the beneficial interest of Mr Bruce Philip Rockowitz in 2,200,000 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 54,945,880 underlying shares in the Company in respect of options granted by King Lun to HMHL to purchase such 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 pursuant to an agreement made between King Lun and HMHL.

(6) 57,200 Shares in the Company are held by a trust established for the benefit of Professor Franklin Warren McFarlan.



**(B) Short positions in Shares and underlying shares of the Company**

By virtue of the SFO, each of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun was taken as at 31 December 2006 to have short position through King Lun, in which both of them are deemed to have interests as disclosed above, in respect of an aggregate of 54,945,880 underlying shares in the Company, representing 1.61 percent 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 derivative which arise under an agreement made between King Lun and HMHL pursuant to which options were granted by King Lun to HMHL to purchase such 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 2006, 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 2006, 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:–

Name of Shareholder	Capacity	Number of Shares	Percentage of issued share capital
<b>Long Positions</b>			
King Lun Holdings Limited	Beneficial owner (54,945,880) Interest of controlled corporation (1,095,600,000) <sup>1</sup>	1,150,545,880 <sup>2</sup>	33.75%
J.P. Morgan Trust Company (Jersey) Limited	Trustee (55,825,000) Interest of controlled corporation (1,150,545,880) <sup>2</sup>	1,206,370,880 <sup>3</sup>	35.38%
Janus Capital Management LLC	Investment manager	166,039,600	4.86%
<b>Short Positions</b>			
King Lun Holdings Limited	Beneficial owner	54,945,880 <sup>4</sup>	1.61%
J.P. Morgan Trust Company (Jersey) Limited	Interest of controlled corporation	54,945,880 <sup>5</sup>	1.61%
<b>Lending Pool</b>			
State Street Corporation	Interest of controlled corporation	265,269,264	7.78%

*Notes:*

- (1) 1,095,600,000 Shares are held by Li & Fung (1937) Limited which is a wholly owned subsidiary of King Lun.
- (2) (a) 50% of issued share capital of King Lun is owned by J.P. Morgan Trust Company (Jersey) Limited and its interests in 1,150,545,880 Shares of the Company is duplicated in the interests of J.P. Morgan Trust Company (Jersey) Limited.  
 (b) By virtue of the SFO, each of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun is deemed to be interested in 1,150,545,880 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 1,206,370,880 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.
- (4) This short position represents King Lun's short position in 54,945,880 underlying shares which constitutes 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) J.P. Morgan Trust Company (Jersey) Limited is taken to have short position in the same underlying shares held by its controlled corporation, 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 2006.

### 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 38 to 41.

### 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 22 to 37.

### 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 2006 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, 21 March 2007