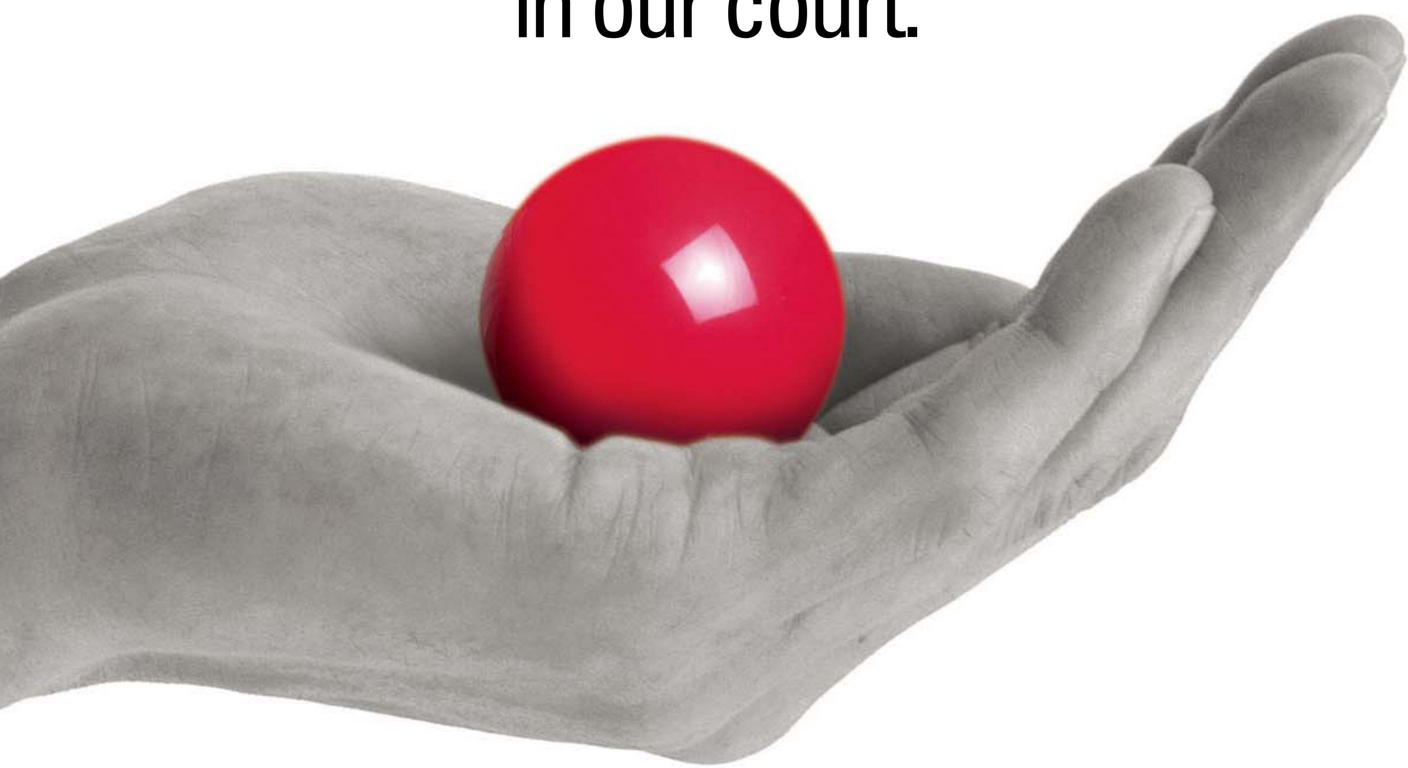
Annual Report 2005

Integrated Distribution Services Group Limited

(Incorporated in Bermuda with limited liability)

At IDS, we
never lose sight of
Our Customers' Business.
The ball is always
in our court.



Our eyes on the ball.
All the time.

Our whole organization, our processes, the technology we use and the skills and expertise of our people are all geared towards one single-minded objective: Our Customers' Business. We embrace it, we nurture it, and we deliver value every single step of the way. Relentlessly. Our unique approach to bringing products to market integrates our Core Businesses of Marketing, Logistics and Manufacturing into one seamless end-to-end Value Chain. Which means we never take our eyes off the ball.
Ever.

Contents

Our Asia Pacific Network

The IDS Group has built an extensive Asian network of offices and operations covering our three core businesses of Marketing, Logistics and Manufacturing. Behind this business network, it is our People and Technology Infrastructure that drives Visibility, Velocity and Value. Our business model is designed for scalability and reliability, and capable of supporting rapid business expansion.

- In Logistics we have a comprehensive network which includes more than 50 strategically located distribution centers and depots across Asia. This is well complemented by our deep and extensive in-country transportation and international logistics network.
- In Marketing we have well established multi-channel distribution networks across Asia covering hypermarkets, supermarkets, convenience stores, as well as mom-and-pop stores and corner groceries. Our healthcare channels cover hospitals, pharmacies and clinics.
- In Manufacturing we have centers of excellence that produce Food & Beverage, Home & Personal care and Health & Beauty products. We focus on responsive, demand-driven production and provide manufacturing know-how with stringent quality control and assurance.

Member of Li & Fung Group

Integrated-Distribution Services

Our Value Proposition

A Menu of Services along the Value-Chain

marketing ‹ logistics ‹ manufacturing

- A strong Logistics offering as the fundamental enabler, integrating the Value-Chain from Manufacturing to Marketing Services

- A Menu of Services along the Value-Chain underpinned by a deep and extensive Asia-Pacific Logistics and Technology Infrastructure

- A One-Stop Solution of Flexible & Responsive "Plug & Play" from our Menu of Services enabling us to customize services for the local, regional or global needs of our customers

We see distribution not just as the marketing and selling of brands but more as a "Menu of Services" comprising clearly defined, distinct and tangible offerings of value-add. This means that we position our deep and extensive Asia-Pacific Logistics Network as the fundamental enabler of our business. Coupled with our sophisticated regional IT infrastructure, Logistics connects seamlessly with our other two core businesses of Marketing and Manufacturing to form an end-to-end Value-Chain that covers the entire process from procurement of raw materials to delivery of finished goods to end consumer.

In working with our customers, we keep a flexible and responsive "Plug & Play" approach, allowing IDS to customize meaningful offerings from our Menu of Services to meet the local, regional or global needs of our customers. We can provide one or more services to our customers, and at the same time integrate them together when any customer requires a one-stop integrated-distribution solution. We call our holistic approach Value-Chain Logistics.

Dr. Victor Fung Kwok King
Chairman

Growing exactly how we planned

At IDS, we see a world of opportunities. We are confident of the growth prospects of the Group and will regularly review and refine our strategy and service offerings to ensure that we are keeping up with the constantly changing environment and customer needs.

Dear Shareholders,

I am pleased to report the year-end results of Integrated Distribution Services Group Limited (the "Company") and its subsidiaries (collectively the "Group" or "IDS") for the fiscal year ended 31 December 2005. This past year was the beginning of the new Three-Year Strategic Planning cycle of 2005–2007 for the Group. Despite rising fuel prices leading to a slowdown in consumption in some Asian markets, the Group nevertheless delivered very solid growth in 2005, and is on track to achieve its Strategic Plan target of doubling 2004 profit to US$21.2m by 2007.

The Group made substantial progress on various fronts during 2005, most notably our remarkable growth in China and the expansion of our Logistics business, which we consider the fundamental enabler of our business. We continued to build on the successful listing of the Company in late 2004 and saw increasing awareness of our Integrated-Distribution Services business model as it continued to gain traction. Overall, the Group has gained a firm foothold in the region as a leading provider of Marketing, Logistics and Manufacturing services.

Performance

The Group's profit attributable to shareholders of US$13.3 million in 2005 reflected a 25.3% growth over the 2004 figure of US$10.6 million. Earnings per share were US4.31 cents. The Board of Directors has proposed a final dividend of HK14 cents per share. Together with an interim dividend of HK6 cents per share, the total dividend for the whole year would amount to HK20 cents per share, equivalent to a payout ratio of approximately 60%.

Among our three core businesses, Logistics continued to deliver the strongest growth accompanied by improvement in margin, mainly attributable to the smooth implementation of the major contracts won in late 2004. Marketing also reported strong growth as a result of impressive performances in China and Brunei, as well as improvements in Singapore and Thailand subsequent to the portfolio rationalization program where we have exited from marginal or loss-making accounts. The commencement of Marketing operations in the Philippines made a substantial contribution to the top line, but the operation is still in its investment phase and hence impacted overall Marketing operating margin. The Manufacturing business was affected by the soft customer demand in Malaysia. Compared to the first half of the year, we experienced a stronger second half largely

Chairman's Statement

2005 Highlights

- Profit attributable to shareholders showed a solid 25.3% growth over 2004.
- A final dividend of HK14 cents per share proposed, bringing total dividend for the year to HK20 cents per share.
- Overall performance tracking well against the Group's Three-Year Strategic Plan 2005-2007 target.
- Strong growth maintained in Logistics business, complemented by impressive performance of Marketing in China.

2006 Prospects

- Continue to focus on expanding relationships with key customers.
- Aggressively grow our business in China.
- Pursue strategic M&A activities to build scale of existing business or gain entry into new markets.

brought about by the signing of several new contracts as well as the commencement of the production of Listerine mouthwash in Thailand for Pfizer.

Market Overview

The Asian economy in general maintained consistent and sustainable growth, which was underpinned by favorable macroeconomic conditions. The lowering of tariffs between ASEAN and China and the growing trend towards outsourcing fit well with our business model. Although rising oil prices and the possible outbreak of Avian Flu remain serious threats, we are confident of the long-term growth potential for the region.

We anticipate that the Chinese economy will continue to grow from strength to strength. Recently implemented policies have reflected a gradual shift in the government's emphasis from an "investment-led" to a "consumption-led" economy. One of the key highlights of the 11th Five-Year Plan is the pursuit of "common prosperity" which encourages the expansion of the middle class. We expect that supporting measures including tax reduction will be implemented to maintain a buoyant consumer market. Considering these factors, China is becoming increasingly attractive for global brand owners to leverage the country's rising consumption.

While we are excited about the vast opportunities in China, we will continue to consciously manage the risks, especially those related to accounts receivable, and contain our cost base to ensure sustainable and profitable growth.

Future Growth Strategies

At IDS, we see a world of opportunities. We are confident of the growth prospects of the Group, and will regularly review and refine our strategy and service offerings to ensure that we are keeping up with the constantly changing environment and customer needs. The Group has enjoyed a great start to its Three-Year Strategic Plan 2005-2007 and will stay focused towards achieving its target in the next two years.

One of the most valuable assets of the Group is our solid customer base. We have made good progress in 2005 establishing regional or cross-stream relationships with customers who originally engaged us only in one country or one business, including Nestlé, Carrefour, Maxxium, Hershey and others. We will continue to nurture our customer base and extend our partnerships through cross-stream selling and by offering customized solutions. Efforts in regional business development will be stepped up in 2006 to enhance our success rate in contract bidding, as well as to strategically identify opportunities to help us expand our relationships with our key customers.

China will continue to emerge and become our fastest-growing geography. With a comprehensive logistics and distribution network covering 100 cities and 6,000 outlets, including the majority of hypermarkets, supermarkets and department stores, the Group has become one of the largest wholly-owned non-local third-party distributors of consumer products in China. Our strategy of leveraging the customer base of Hong Kong and expanding our service to China has been successful. For the next phase, we will leverage our leadership position and proactively promote our China solution to potential customers in other parts of the region.

The Group is actively studying several opportunities for acquisitions across the three businesses, and we are hopeful that several will come to fruition in 2006. The purpose is not only to complement our organic growth, but more importantly to acquire the talent required to drive our business in the future. The targets we are focusing on are small-sized, profitable companies engaged in the same core businesses of marketing, logistics and manufacturing that may allow us to enhance the scale of an existing business or to gain a strategic entry into a new market.

2006 is a special year for the entire family of companies in the Li & Fung Group as we are celebrating the 100th Anniversary of Li & Fung. Whilst we are proud of our achievements over the past century, we are more focused on building the future and hence our centennial theme of "Building for the next 100 Years".

On behalf of the Directors, I would like to thank the management team and all colleagues within the IDS Group for their effort during the year and their determination to succeed.

Victor FUNG Kwok King
Chairman

Hong Kong, 20 April 2006

Celebrating the opening of the new Nike Distribution Center in Shanghai.

The opening of one of several new Marketing offices in China.

IDS and the entire Li & Fung family of companies kicked off our 100th Anniversary celebrations in Hong Kong early this year.

LI & FUNG GROUP
Building for the next
100 Years
利豐集團 再創百年佳績

GMD's Report

Ben Chang Yew Teck
Group Managing Director

An unwavering focus

Our success in 2005 is a tribute to our people. Their single-minded focus on service excellence makes the difference. By partnering with IDS, our customers know they are dealing with a safe pair of hands.

The first year of our Three-Year Strategic Plan 2005–2007 finished strongly driven by all round organic growth. Our results demonstrate our ability to sustain the trend of solid profitable growth while living up to our asset light model. Yet what is even more exciting is the crystallization of our business model to remake the traditional distribution industry. By championing Logistics as our fundamental enabler and connecting our Marketing and Manufacturing businesses to form an end-to-end value chain, IDS now has a unique offering of integrated-distribution services, from procurement of raw materials to delivery of finished goods to the end consumer. With our deep and extensive infrastructure network supported by a robust regional technology platform, we are beginning to unveil the potential of Integrated-Distribution through driving visibility, velocity and value along the value chain.

Overall, revenues grew by 40.5% to US$821.5 million compared to last year. Core operating profit increased by 25.7% to US$16.0 million and operating profit at US$19.0 million was higher by 42.4% benefiting from other gains. Profit attributable to shareholders rose to US$13.3 million, growing 25.3% over last year. Cash flow generated from operations was a healthy US$19.7 million which was in line with last year.

Performance in China was stellar in 2005, primarily driven by the impressive growth of the Marketing business following its inception in April 2004. Compared with 6.8% Group share in 2004, revenue from our China operations contributed 12.2% in 2005. Operating profit increased by 80.4% during the period. By leveraging on our CEPA status, our distribution network expanded quickly to cover over 100 cities, thus becoming the first wholly-owned non-local distributor of consumer products to establish a major nation-wide presence.

The Group enjoyed remarkable success in business development in 2005. We won 77 new contracts, about half of which were through service or geographical extension with existing customers. As of the end of 2005, our customer base has grown to over 390 brand owners and retail chains, about 20% of which are regional customers engaging with us in more than one country or business. We will continue to expand the number of regional customers as well as the scope of services with them.

As a result of closer collaboration among our core businesses, we see an increasing awareness of our proposition of integrated-distribution services. A case in point is Philip Morris. Initially a Logistics customer in Singapore and the Philippines, Philip Morris has started to engage us in sales and distribution in the Philippines and Brunei. Other examples include Nestlé and Pfizer. Both began commissioning us for the first time to manufacture some of their core products for domestic as well as export markets, on top of their existing relationships with our Marketing business.

The Group continued to enhance its “Menu of Services” through the unbundling of clearly defined, distinct and tangible value-added offerings along the value chain. This differentiates us from the “one-size-fits-all” traditional distribution approach, and appeals to customers who want to control their sales and marketing functions by

GMD's Report

2005 Highlights

- The Group's strategy of Value-Chain Logistics to reinvent traditional distribution continues to gain momentum.
- Stellar performance in China helps establish IDS as a leading wholly-owned non-local distributor of consumer products.
- The Group achieved strong organic growth with 77 new contracts in 2005, about half with existing customers.
- Unbundling of distinctive new services enhances the Group's ability to provide customized solutions.

2006 Prospects

- The Group will continue to extract value from investments made in technology and expanded infrastructure.
- We will continue to add value through new service offerings.
- Newly formed Regional Business Development team will drive expansion of customer base.
- Our Country Resource Team (CRT) structure will enhance in-country cooperation and help build a scalable organization.
- The Group will step up its efforts to secure M&A targets to complement our strong organic growth.

selectively outsourcing certain parts of the distribution process like Credit & Cash Management or Merchandising. Customers can pick and choose the services they require according to their needs and strategy. Our flexible and responsive "Plug & Play" approach was instrumental in winning Wyeth in Hong Kong and Ferrero in Singapore.

Financial Overview

	2005 US$ million	2004 US$ million	Change %
Revenue	821.5	584.9	40.5%
Core operating profit	16.0	12.7	25.7%
Operating profit	19.0	13.3	42.4%
Profit attributable to shareholders	13.3	10.6	25.3%

Revenue

The Group reported revenue of US$821.5 million for 2005, an increase of 40.5% compared with 2004. The increase in revenue was driven by both Logistics and Marketing. Logistics grew by 34.8% on the back of new contracts won from both existing as well as new customers. Marketing business grew by 51.6%. This was mainly attributed to the commencement of Marketing business in the Philippines in April 2005 and the rapid expansion of the China Marketing business since its inception in April 2004.

Gross profit

Gross profit increased by 31.5% in 2005 to US$217.0 million. The increase in gross profit was in line with the strong growth in revenue. Gross profit margin decreased from 28.2% in 2004 to 26.4% in 2005. The reason for the decrease was the change in revenue mix with a higher proportion of new Marketing business delivering lower gross profit margin compared to the overall gross margin of the Group.

Expenses

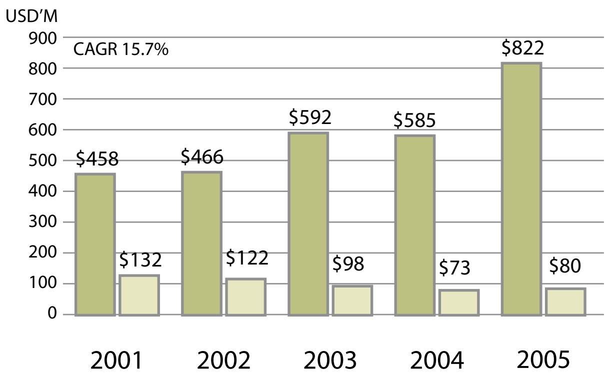
The combined marketing and logistics expenses increased by 37.8% in 2005 to US$168.3 million. The former was largely attributed to the expansion of our distribution network in China and the entry into the Philippines. The latter was primarily due to the strong growth of our Logistics business. Due to our scalable business model, administrative expenses increased by only 8.1% in 2005 to US$32.7 million.

Core operating profit

As a result of increase in gross profit from higher revenues and benefit of operating leverage, core operating profit increased by 25.7% in 2005 to US$16.0 million.

Operating profit

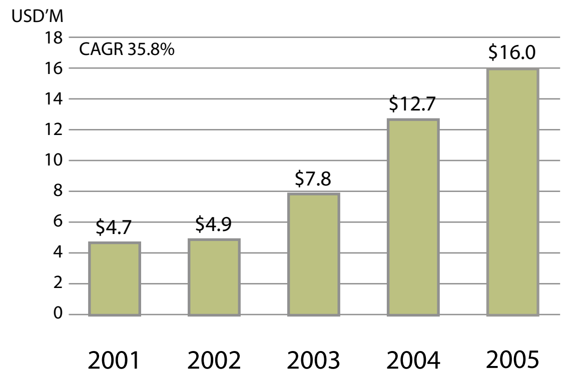
With the growth in core operating profit and other gains arising mainly from sale of surplus properties in Indonesia, operating profit increased by 42.4% in 2005 to US$19.0 million.



Revenue Growth

An Asset Light Business Model

Business Assets represents the sum of trade working capital, tangible assets, intangible assets and rental deposits.



Core Operating Profit

Strong Operating Leverage

Core Operating Profit represents Operating Profit excluding other material gains and expenses of a capital or non-recurring nature.

Net profit

Taxation increased from US$1.1 million in 2004 to US$3.8 million in 2005 primarily due to the write back of deferred tax liabilities arising from disposal of a property in the previous year. Taking the above into account, profit attributable to shareholders grew 25.3% to US$13.3 million.

Segmental Analysis

Logistics

The Group's Logistics business continued its growth momentum in 2005. Revenue and segment results increased by 34.8% and 55.9% respectively, compared with last year. These were driven mainly by new contract wins as well as growth in existing business in all economies.

Marketing

As a result of the expansion of distribution network in China, the strategic entry into the Philippines as well as strong revenue growth driven by new contracts from other economies, revenue and segment results of Marketing business increased by 51.6% and 30.2% to US$575.9 million and US$11.9 million in 2005, respectively.

Manufacturing

Revenue increased by 8.5% to US$134.3 million in 2005 but segment results decreased by 10.6% to US$3.9 million in 2005. The decrease in segment result is primary attributable to soft demand in Malaysia due to poor retail sentiment combined with start-up costs related to investment in a new plant in Thailand for Pfizer.

Geographical Analysis

Geographically, Hong Kong is still the Group's largest market, accounting for 27.9% of revenue. All economies continued their growth momentum in 2005. As a result of the launch of our Marketing business in the Philippines in the second quarter of 2005 and the expansion of our distribution network in China, revenue from the Philippines and China increased by 837.0% to US$137.2 million and by 153.5% to US$101.2 million, respectively. Singapore, Taiwan and Brunei also recorded more than 30% revenue growth driven by new contracts won in 2005.

Liquidity and Financial Resources

As at 31 December 2005, the Group is in a strong financial position with no net borrowings, and with a net cash position amounting to US$6.8 million. Hence, no gearing ratio is presented. In addition, the Group has available bank loans and overdraft facilities of US$180 million of which only US$50.7 million have been utilized.

Charges on Group Assets

As at 31 December 2005, there were no charges on the Group's assets.

Foreign Exchange Risk Management
The Group operates regionally in nine economies in Asia and is thus exposed to foreign exchange risk. Fluctuations in exchange rates in these economies can affect the earnings and net assets of the Group.

In addition, certain purchase transactions are not conducted in the respective local currencies of our operations. The foreign currencies involved in these transactions include mainly U.S. Dollars, Euro, Japanese Yen and Pounds Sterling. The Group purchases foreign currency contracts to protect against the adverse effect of such exchange fluctuations on the foreign currency. Our Group policy is to hedge all material purchases transacted in foreign currencies and restrict from engaging in speculative foreign exchange transactions.

Contingent Liabilities
As at 31 December 2005, the Group has the following outstanding bank guarantees issued by banks in the ordinary course of business:

	2005 US$'000	2004 US$'000
As security in favor of local tax and customs authorities in accordance with local regulations	9,032	9,201
For purchase of goods in favor of suppliers	9,145	7,756
Performance bonds and others	566	155
For rental payment in favor of the landlords	4,665	3,456
	23,408	20,568

Human Resources
As at 31 December 2005, the Group employed 5,000 (vs. 4,400 in 2004) permanent employees and 4,000 (vs. 2,900 in 2004) contract/ temporary employees. They were located throughout our operations in the nine economies in Asia, namely Hong Kong, Taiwan, Thailand, Malaysia, Singapore, the Philippines, Indonesia, China and Brunei. Total staff costs in 2005 amounted to US$90.3 million (vs. US$74.4 million in 2004).

The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses and share options are granted to eligible staff based on individual and Group performance. The Group is committed to nurturing a learning culture in the organization.

Information Technology & Business Applications
The Group has always placed great importance on leveraging technology as a competitive advantage. To this end, in 2005 we successfully launched our standard regional Enterprise Resources Planning (ERP) system, JD Edwards Enterprise One, in China to improve the visibility of business-critical information. This follows a similar rollout of the same system in the other economies in the previous years. At the Group level, we also implemented Hyperion Financial Management Reporting to improve the efficiency of the Group Finance consolidation and reporting process. In addition, we are upgrading our network infrastructure in China to support the explosive business growth in our fastest growing market in Asia.

Enhancement programs for our Warehouse Management System (WMS) commenced in 2005 with the installation of a Remote Data Terminal (RDT) to capture and update warehouse transaction data in real time. This project was conducted on a customer-specific basis focusing on mutually agreed processes. Subsequent to implementation, these customers were able to dramatically improve efficiency through reduced processing time and enhanced accuracy. For 2006 we plan to further roll out RDT in Taiwan, the Philippines and China.

The Group also completed its implementation of the sales force automation module of Road Warrior in Hong Kong and Thailand in 2005. Over 100 sales people in each market are now equipped with Personal Digital Assistants (PDAs) to handle order processing. The project is going to be rolled out to the rest of the region, starting with China in the first half of 2006.

Prospects for 2006
The Group will continue to focus on our Three-Year Strategic Plan 2005 –2007 target of delivering US$21.2 million profit by the end of the Plan period. To achieve this, we need to ensure that we can put our strategy of Value-Chain Logistics into action and keep our services relevant to the ever-changing business environment and customer needs. New service offerings that have been identified and

tested with success in 2005, including Credit & Cash Management and Export Logistics, will be promoted further. Other services like Transportation and Network Management will be rolled out in 2006. The unbundling process will continue across our three core businesses. The over-riding goal is to enhance our menu of services so that we are able to appeal to a larger variety of potential customers by offering distinct value-added solutions.

To fully realize the potential of our strong customer base in Asia, the Group will intensify its regional business development efforts to expand our customer relationships in terms of both service scope and geographical coverage. To this end, we will form a dedicated team comprising business development personnel from each of our core businesses backed by technology support. This team will be responsible for sharing best practices and market intelligence, which should enhance our success rate for new contract bids.

While the Group adopts a Business Stream structure to ensure that each business builds on its own strength, we encourage cross-stream cooperation within each country to drive organizational effectiveness and facilitate business development. Along this direction, a Country Resource Team (CRT) structure was put in place in late 2005 centralizing in-country support functions of Finance, Human Resources and Information Technology. Simply put, this strategic move provides all business units the platform for scalable growth.

Since 2005 we have been actively identifying, evaluating and scrutinizing various potential acquisition targets. We have also been weighing up our options on geographical expansion. These important initiatives are going to help us "fill in the mosaic", and in the process complement our organic growth.

Our success in 2005 is a tribute to all our people. Their single-minded focus on service excellence makes the difference. By partnering with IDS, our customers know they are dealing with a safe pair of hands.

Ben CHANG Yew Teck
Group Managing Director

Hong Kong, 20 April 2006

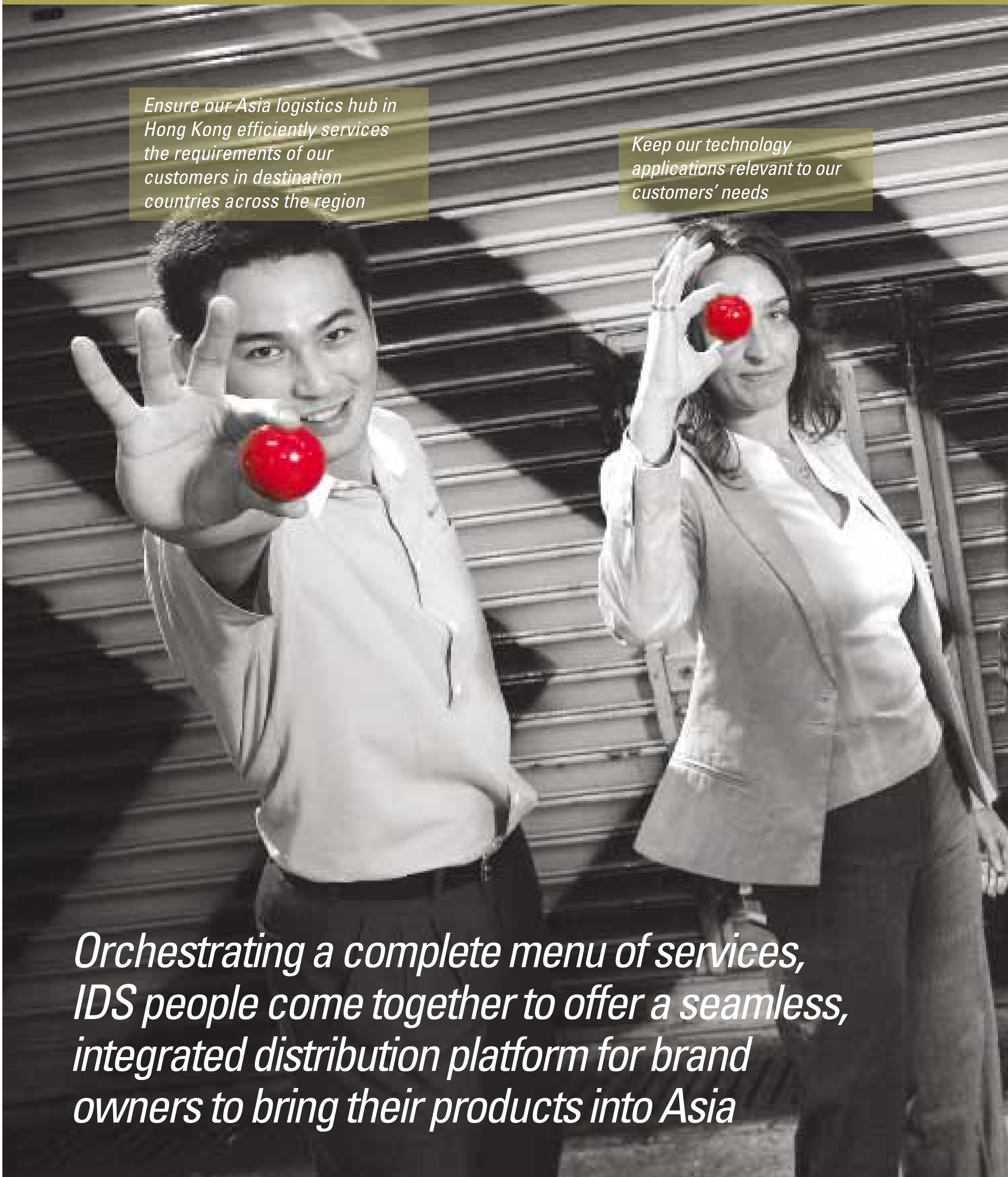
Celebrating successful partnerships with our customers in the Philippines.

A fun night out at the Leadership Council Meeting in Thailand.

Our senior management worked hard and played hard.

Our people is the main driving force behind our success.

A Diverse Team With A Unified Focus



Ensure our Asia logistics hub in Hong Kong efficiently services the requirements of our customers in destination countries across the region

Keep our technology applications relevant to our customers' needs

Orchestrating a complete menu of services, IDS people come together to offer a seamless, integrated distribution platform for brand owners to bring their products into Asia

Kim Chan
Distribution Center Manager
Logistics Hong Kong

Pauleen Lucus-Tooth
Regional Applications Manager
Corporate IT

Manage diverse beverage lines to exacting specifications of multinationals for regional export

Develop trade marketing concepts and channel relationships to help brands penetrate the consumer market in China

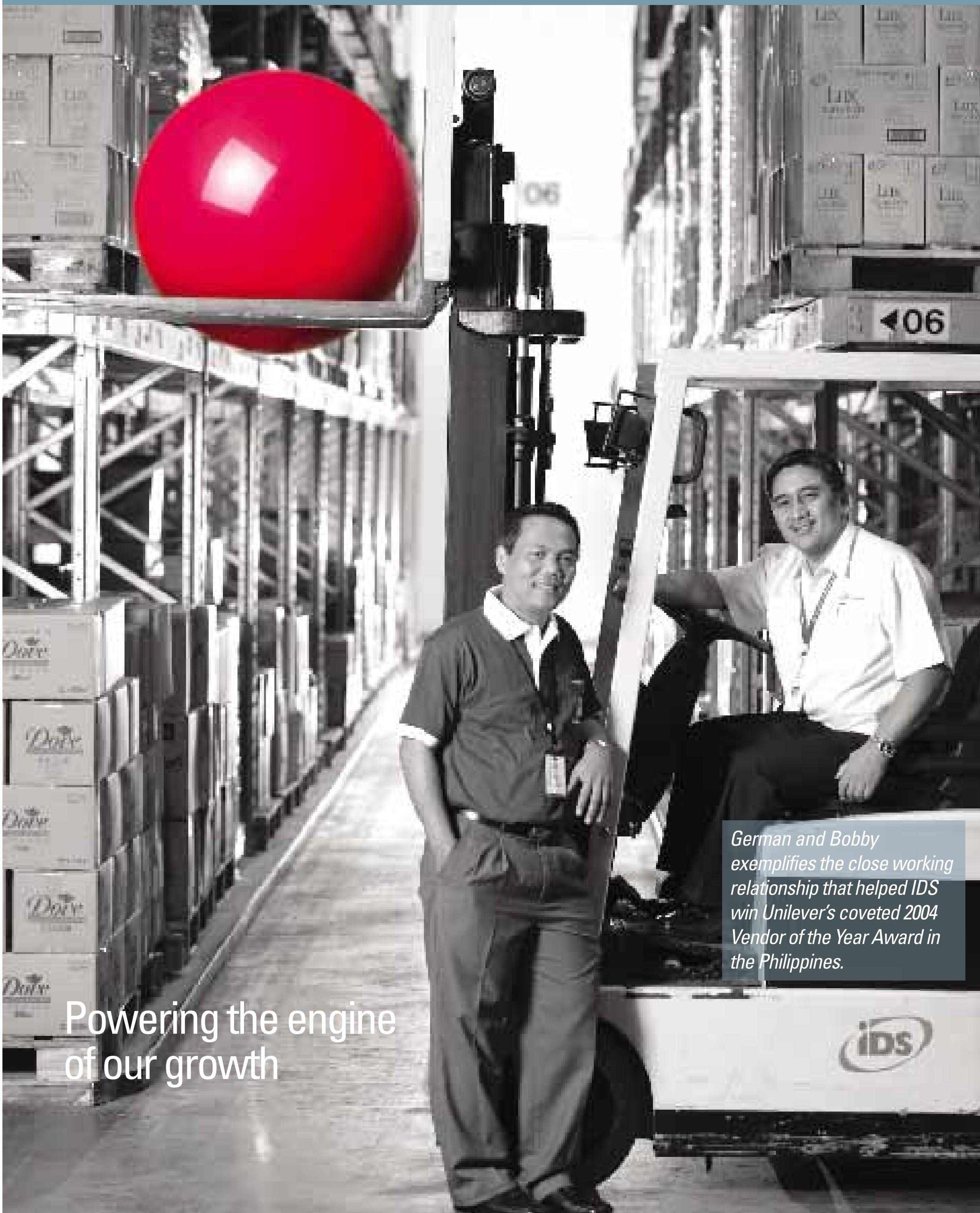
Design customized supply chain solutions to optimize product flow from manufacturer to consumer

Jessie Chan,
Regional Manager
Marketing China

Verasagaran
Assistant Plant Manager
Manufacturing Malaysia

Low Mun Kong
Senior Manager
Supply Chain Integration

Logistics



Powering the engine of our growth

German and Bobby exemplifies the close working relationship that helped IDS win Unilever's coveted 2004 Vendor of the Year Award in the Philippines.

German Martizano
Customer Logistics Development Manager
Unilever Philippines

Bobby Prieto
Operations Manager
Logistics Philippines

Moving from strength to strength

Our logistics relationships with our regional customers continue to grow. Thirty new contracts were signed during the year. Prospects for 2006 remain strong with new wins with P&G in Taiwan, Johnson Diversey in China and Diageo in Singapore.

Logistics continued to deliver solid growth in 2005 with revenue increasing 34.8% to US$127.0 million in 2005. Operating profit surged 55.9% to US$10.4 million, representing an improvement in operating margin from 7.1% in 2004 to 8.2% in 2005. Over a five-year period, our revenue grew at a CAGR of 26.9% whilst operating profit grew at a CAGR of 68.2%.

Our logistics relationships with our regional customers continue to grow. Thirty new contracts were signed during the year. Out of these, over half were either geographical expansion or service scope extension with existing customers. Subsequent to the period under review, Logistics has concluded a number of major contracts including Procter & Gamble in Taiwan, Johnson Diversey in China and Diageo in Singapore. The contract with Procter & Gamble, already a Manufacturing customer, is scheduled for commencement in July 2006. This is another typical example of how we extend our service from one business stream to another. Together with Unilever, L'Oréal, Fonterra, Ferrero, Reckitt Benckiser, Kellogg's, amongst others, under its fold, our Taiwan Logistics operation has ascended to an unparalleled market leadership position in the highly competitive Fast Moving Consumer Goods (FMCG) sector. In China, the contract with Johnson Diversey will become a launch pad for us to aggressively expand our network, further cross-leveraging the growth of our Marketing business.

Across the region, our infrastructure network has continued to expand in tandem with business growth. As

Logistics

2005 Highlights

- Achieved strong operating leverage with revenue and operating profit growth registering at 34.8% and 55.9%, respectively.
- Improved operating margin from 7.1% in 2004 to 8.2% in 2005.
- Signed over 30 new contracts, more than half were either geographical expansion or service scope extension with existing customers.
- Commenced new service offering of Transportation and Network Optimization Management with several projects commissioned by major customers in China and the Philippines.
- Made substantial progress in our hubbing and export logistics businesses under International division.

of 31 December 2005, Logistics operated more than 50 Distribution Centers, compared with 42 at the end of 2004. Our first cold storage, dedicated to Carrefour operations in Thailand, commenced operation in May 2005, while another facility dedicated to the cross-docking operation of Watsons in Hong Kong opened in June 2005.

Our focus on operational excellence and partnership was widely recognized by our partners and the industry in 2005. In April, IDS Logistics Philippines won the much-coveted Unilever 2004 Vendor of the Year Award for our excellent service by consistently exceeding all Key Performance Indicators (KPIs). In September, IDS Logistics International won the SCM Logistics Excellence Award 2005 in Singapore for Best Young Asian Integrated Logistics Service Provider. Meanwhile, our Nike operations in China received the Best Solution for Garments at the 1st China Supply Chain Management Awards in December 2005.

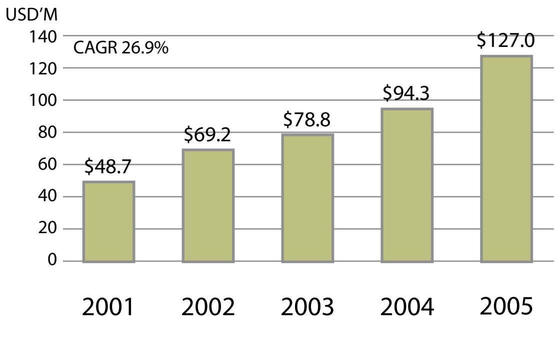
Our new ventures in the automotive parts sector and export logistics continued to make encouraging progress. During the year, we signed a new contract with Yokohama tires in the Philippines, while Thailand secured further businesses from General Motors and Michelin.

IDS Logistics International also made major headway in implementing its business model. In addition to new projects with customers of Li & Fung Trading, IDS

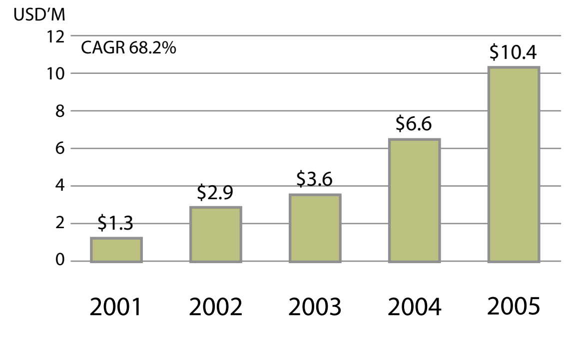
The IDS cold storage facility in Thailand dedicated to the Carrefour operations was opened in May 2005.

Logistics International also commenced export logistics projects with several third party customers. These projects offer enormous potential. One of our key imperatives for 2006 is to further develop the International division to reach the next phase of aggressive growth.

As a consequence of rising fuel prices, more and more customers are looking for ways to optimize their transportation costs through improved routing and a rationalized depot network. We clearly see the potential of offering sophisticated Transportation and Network Management solutions as another value-added service. Using the latest mapping technology and operations research methodology, we have been commissioned by some of our major customers to conduct studies in China and the Philippines. We are confident that our continuous enhancement of service offerings will further differentiate us from our competitors, thus strengthen our partnerships with customers.



Logistics Revenue



Logistics Operating Profit

IDS Singapore was awarded the 2005 SCM Logistics Excellence Award for Best Young Asian Integrated Logistics Service Provider.

IDS also won the much-coveted Unilever 2004 Vendor of the Year Award in the Philippines.

Marketing

Together with their colleagues, Noel and Tim are now helping to expand the 20-year partnership between IDS and Cerebos in Hong Kong into China.

Building brand equity

Noel Ng
Marketing Manager
Marketing Hong Kong

Tim Cheung
Senior Sales Manager
Cerebos Hong Kong

Strong all round growth across Asia

China registered stellar growth. The Philippines was successfully launched. Throughout South East Asia, our Marketing business made solid progress. Distribution network expansion, technology and new innovative services will drive profitable growth in 2006.

Marketing enjoyed an outstanding year in 2005 with revenue surging 51.6% from US$379.9 million in 2004 to US$575.9 million in 2005, while operating profit increasing 30.2% from US$9.1 million to US$11.9 million during the same period. We saw steady all round growth across Asia, most notably in China, Brunei and the Philippines. Our China Marketing operations, which commenced business in April 2004, has in a short span of less than two years, surpassed expectation and begun delivering sustainable profit.

As of 31 December 2005, our distribution network in China covers over 100 top-tier cities, underpinned by 45 sales offices and six branch offices. These branch offices are strategically located in Shenzhen, Guangzhou, Shanghai, Chengdu, Nanjing and Beijing. Our reach covers 6,000 modern trade outlets, which include the majority of hypermarkets, supermarkets and department stores. With the full implementation of our regional Enterprise Resources Planning (ERP) system, JD Edwards Enterprise One in October 2005, we have now put in place a scalable technology infrastructure that will support our aggressive expansion and pave the way for the rollout of other business application projects. Most importantly, with our CEPA status, we are now one of the leading wholly-owned non-local distributors of consumer goods in China.

In 2006, our key imperative in China is to further expand our direct sales coverage to exceed 20 cities, and our reach to cover 10,000 outlets. We will be vigilantly managing credit risk through strong sales operations management. We will also be tightly managing our cost base to ensure sustained profitability. Our strength in China will allow us to rapidly build scale by attracting customers with whom we have existing relationships in other markets or streams.

The Brunei operations had a stellar year on the back of important new business wins which included Nestlé and more recently Philip Morris giving us market leadership in FMCG distribution.

Marketing

2005 Highlights

- Strong revenue growth of 51.6% versus last year mainly attributed to the expansion and full year impact of our China business, and commencement of our Philippines operations in April 2005.
- Operating profit grew 30.2% largely due to better-than-planned results in China.
- Newly unbundled Credit & Cash Management service offering positively received by existing and potential customers.
- Slumberland continued to expand in China; started exports to Vietnam, the Philippines and India.

Our operations in the Philippines was successfully launched in April 2005. It has since contributed immensely to Marketing's solid revenue growth in 2005. By joining force with our highly successful Logistics operations, our Marketing operations has embarked on an aggressive business expansion program, the effort of which will reap enormous benefits in 2006. We expect to achieve breakeven by 2007.

Throughout South East Asia, we saw steady growth with Thailand and Singapore benefiting from portfolio rationalization where we have exited from marginal or loss-making accounts. We have strengthened the organization by bringing in new and experienced management at the local level in Singapore, Thailand, Malaysia and Indonesia whose main focus will be on rebuilding the business and driving growth in each of these markets.

We continued to roll out our new Credit & Cash Management service in 2005, and the response was encouraging. This service encompasses credit control, billing & collection, and claims & return processing. This service offering gives flexibility to brand owners who prefer to conduct selling and marketing operations in-house but choose to leverage our experience and expertise in managing their sales-to-cash conversion cycle more efficiently.

Our new Marketing offices in Shenzhen (left) and Guangzhou (right) is representative of our rapid distribution network expansion in China.

The Slumberland bedding business continued to make steady progress with double-digit growth recorded in China and Hong Kong. The retail network in China continued to expand in 2005 with new outlets in Tianjin, Changchun and Mudanjiang in the north, and Xiamen, Taichang and Haimen along the east coast. At the end of 2005, there were 131 Slumberland retail outlets in China, compared to 104 at the end of 2004.

In 2005 we made significant progress in aggressively developing export markets for Slumberland. Through active participation in furniture fairs, market visits and discussions with hotel groups, we were able to appoint new distributors in Sri Lanka, the Maldives, Vietnam, the Philippines and India in 2005. To cater for the increasing export demand, Slumberland completed a major manufacturing plant expansion in March 2005. The two-storey extension has a production area of over 3,000 square meters, increasing our production capacity by 50%.

We foresee that the prices of raw materials will continue to be highly volatile in 2006. We will strive to maintain Slumberland's market leadership position by launching innovative and differentiated products, and by strengthening our brand image through creative marketing programs.

Our Marketing operations co-located with our Logistics operations in Thailand in July 2005.

IDS and Abbott has forged a strong partnership in China and pioneering new distribution strategies.

The newly completed Slumberland plant extension project in Malaysia will drive production efficiencies and increase the throughput.

Creating manufacturing centers of excellence

Vicha and Chana have championed the strong business partnership that has developed between IDS and Pfizer for the regional supply of Listerine from Thailand.

Vicha Chongboonprasert
General Manager
Manufacturing Thailand

Chana Watnakornbancha
Site Leader
Pfizer Global Manufacturing

Riding the trend of outsourcing

Manufacturing is on track to achieve a major rebound in 2006 riding on a clear trend by multinational brands towards outsourcing. New and expanded relationships established in 2005 includes Pfizer, Nestlé, Johnson & Johnson and Kimberly Clark.

Manufacturing performance was severely affected by the weak customer demand in Malaysia. The poor market sentiment resulted in downward adjustments in sales forecasts by brand owners, and order volume came in lower than expected. The Hot PET line installed in the fourth quarter of 2004 had a slow off-take as brand owners delayed their new product launches in view of the soft market conditions. As a consequence, operating profit declined 10.6%, from US$4.4 million in 2004 to US$3.9 million in 2005.

During 2005, Manufacturing added four production lines to bring its total to 123 lines, while annual total production capacity increased from approximately 210,500 tons at the end of 2004 to 228,000 tons in 2005, mainly due to the completion of the Pfizer plant in Thailand.

Despite the softness in domestic markets, our upside potential remains strong. Starting in 2005, we have observed a clear trend by multinational brand owners towards outsourcing their manufacturing operations to serve multiple markets. This regional outsourcing strategy is a far cry from the past when these brand owners operate themselves a multitude of small local plants. Of the 15 new contracts won in 2005, a good number of them are for regional export, including Listerine mouthwash for Pfizer, powdered beverages for Nestlé, skin care products for Johnson & Johnson, hair care products for Procter & Gamble, and liquid hand-wash for Kimberly Clark.

Manufacturing

2005 Highlights

- Operating profit for 2005 dropped 10.6% compared with 2004; performance adversely impacted by weak customer demand in Malaysia.
- Growing trend among multinational brand owners towards outsourcing their manufacturing operations; secured new businesses from Nestlé, Johnson & Johnson, Procter & Gamble, Pfizer, among others.
- Pfizer plant for Listerine mouthwash in Thailand commenced operation in third quarter with production ramping up quickly for regional export.
- Turned around Thailand operations resulting in improved efficiency; poised for strong growth in 2006.

The plant dedicated to the production of Listerine mouthwash for Pfizer commenced operation in the third quarter of 2005. From a single production line catering only to the Thai domestic market, the scale was quickly expanded to three lines producing for various markets in the region. We are working closely with Pfizer on ways to further enhance capacity to achieve aggressive volume growth targets.

During the year, we strengthened the management team in Thailand and implemented efficiency improvement programs. Coupled with the transfer of best practices from Malaysia, we began to see improvements in terms of operational efficiency and quality standards. We are confident that our Thailand operations is now well positioned for the next phase of strong growth.



Our Manufacturing stream is riding on a clear trend by brand owners towards production outsourcing.

For 2005 we increased our resources dedicated to business development, with focus on expanding the scale and scope of our business with existing customers as well as developing business with new customers. In 2006 we will explore opportunities to increase regional presence by collaborating with third-party owned factories especially in China. We view this as a win-win approach. On one hand, our extensive experience in running world-class manufacturing operations will certainly allow us to add enormous value to these factories by improving their operational efficiency and upgrading their quality standards. On the other hand, we will be able to increase production capacity while minimizing capital expenditure outlay.

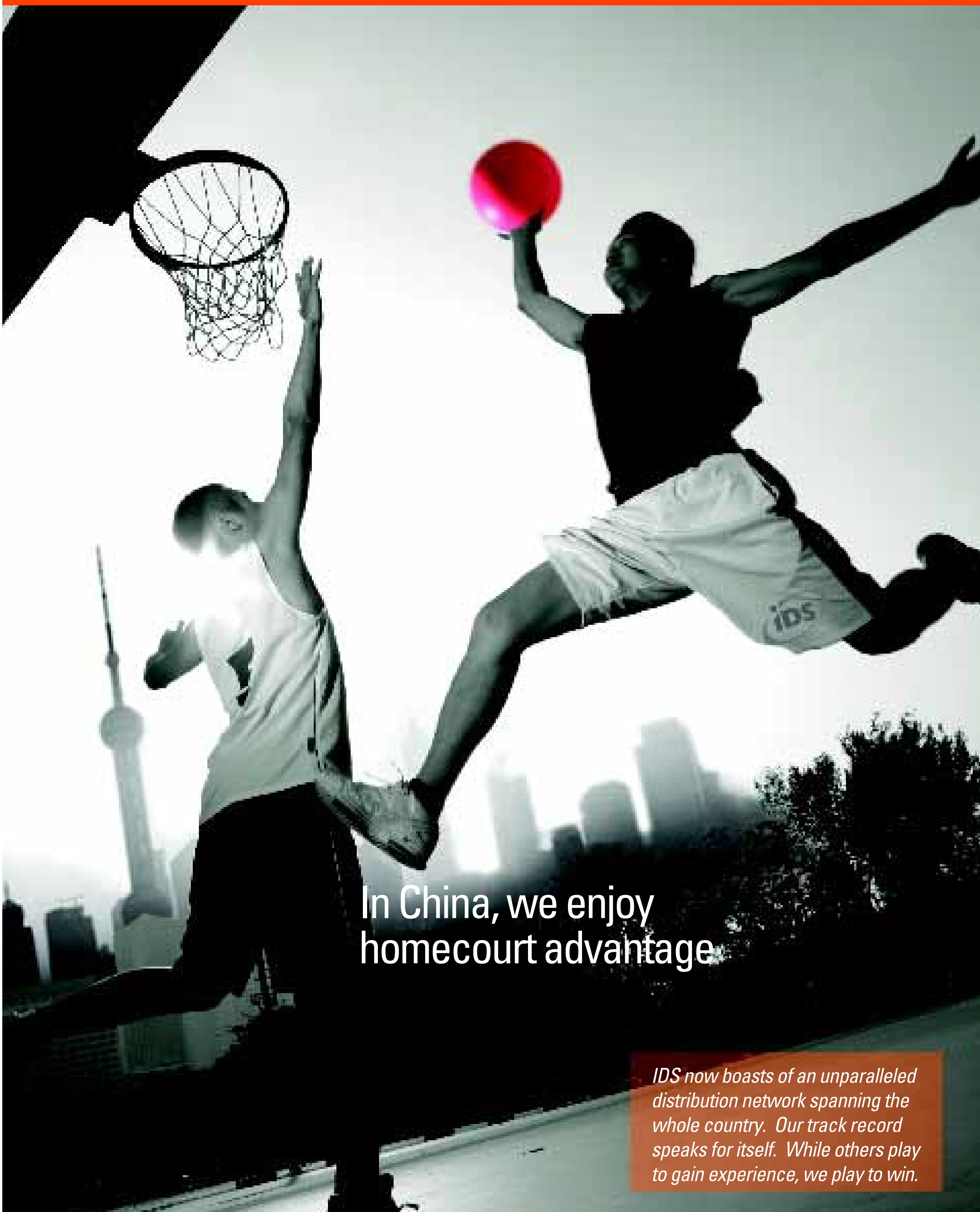
From all the various indicators we see, Manufacturing is on track to achieve a rebound in 2006.

IDS and Pfizer celebrate the opening of the regional Listerine plant in Thailand.

Our plant in Thailand manufactures health & beauty care products that meet the stringent quality standards of countries like Japan and South Korea.

Our high-speed TetraPak line in Malaysia is attracting new business for IDS.

China

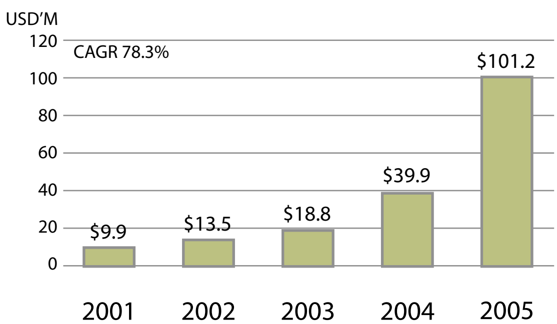


In China, we enjoy homecourt advantage

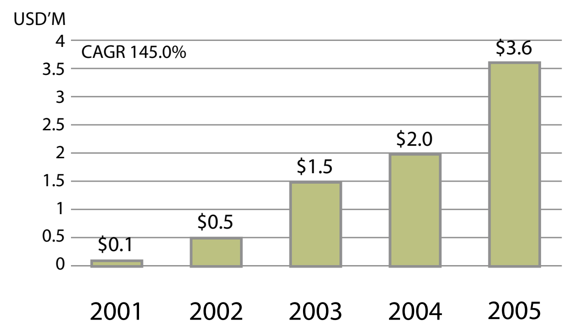
IDS now boasts of an unparalleled distribution network spanning the whole country. Our track record speaks for itself. While others play to gain experience, we play to win.

Poised for aggressive expansion

China was our fastest growing market in 2005 with all our business units achieving strong profitable growth. Our deep and extensive logistics and distribution network covering over 120 cities with full branch status in over 20 cities positions IDS well for aggressive expansion in 2006.



China Revenue
Achieving Critical Mass

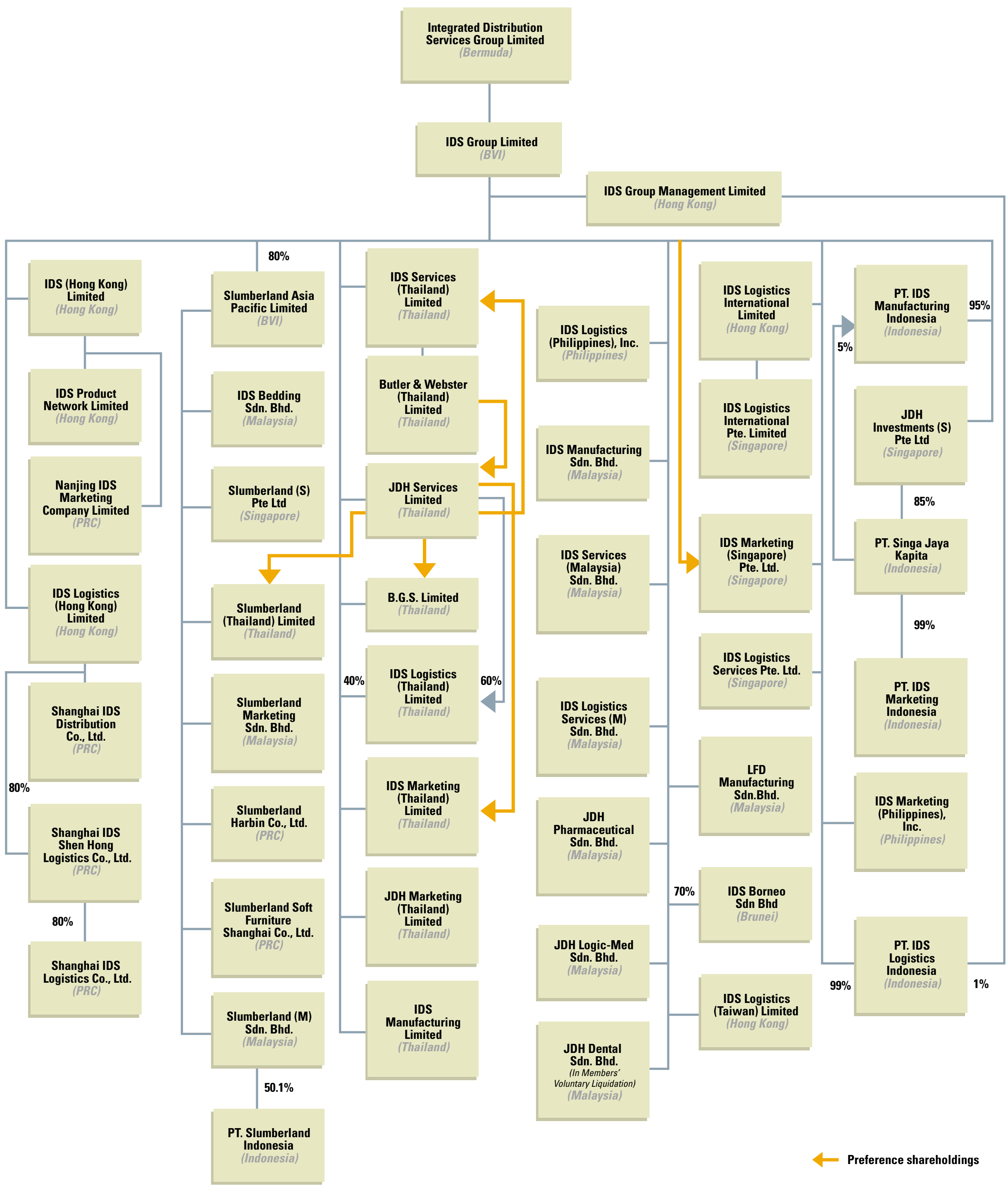


China Operating Profit
Emerging as major driver of the Group's growth

China Facts & Highlights

- Revenue from China represented 12.2% of Group revenue in 2005, up from 6.8% in 2004.
- First mover advantage gained from April 2004 CEPA approved wholly-owned nation-wide distribution license. IDS will establish distribution leadership in over 120 cities with direct key account sales in over 20 cities by end 2006.
- Extensive Logistics network with a complete set of operating licenses to conduct in-country and export logistics, including bonded warehousing, storage and transportation of dangerous goods.
- Business supported by unparalleled IT infrastructure using Group-wide standardized systems i.e. JD Edwards Enterprise One ERP system for Marketing and EXceed 4000 Warehouse Management System for Logistics.
- Blue-chip customer base which includes Abbott, Cerebos, Pfizer, Kellogg's, Alberto Culver, Nike, Adidas, Elizabeth Arden, DOW, Amway, Levis, Exxon Mobil Chemical.
- Strong Chinese heritage through parent company Li & Fung; deep-rooted local knowledge and a long and successful on-the-ground experience of doing business in China.

Corporate Structure



As at the date of this Report, the corporate structure of the Group is as above.

Corporate Information

Non-executive Directors
Dr. Victor FUNG Kwok King
William Winship FLANZ*
John Estmond STRICKLAND*
Dr. FU Yu Ning*
Prof. LEE Hau Leung*
Dr. William FUNG Kwok Lun
Jeremy Paul Egerton HOBBINS
LAU Butt Farn
Derrick LEE Meow Chan
* *Independent Non-executive Director*

Executive Directors
Benedict CHANG Yew Teck
Joseph Chua PHI
Rajesh Vardichand RANAVAT

Group Chief Compliance Officer
James SIU Kai Lau

Company Secretary
YUEN Ying Kwai

Qualified Accountant
Edward POON Che Man

Legal Advisors
Johnson Stokes & Master
17th Floor, Prince's Building, 10 Chater Road
Hong Kong

Registered Office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Bankers
The Hongkong and Shanghai Banking
Corporation Limited
Standard Chartered Bank (Hong Kong) Limited

Principal Place of Business
15th Floor, LiFung Centre
2 On Ping Street
Siu Lek Yuen, Shatin, N.T.
Hong Kong

Auditors
PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building, Central
Hong Kong

Directors and Senior Management

Executive Directors

Benedict CHANG Yew Teck, aged 52, is the Group Managing Director of the Company. He has been a director of Li & Fung (Distribution) Limited and an Executive Director of the Company since April 1999 and October 2003 respectively. He is a graduate of the University of Surrey, United Kingdom, with a Bachelor of Science degree in Marine Engineering. From 1984 to 1996, Mr. Chang held various senior executive positions with the HAVI Group LP. He was Group Managing Director of the HAVI Group LP's Asia Pacific operations, providing logistics, supply chain management, manufacturing and purchasing services to McDonald's in Asia Pacific. He was also Senior Vice-President and Partner of the HAVI Group LP and sat on the Executive Team of the HAVI Group LP. Mr. Chang spent his early career as Ship Repair Manager with Keppel Corporation Limited. From 1980 to 1984, Mr. Chang was the Project Director of the Allied Food Group and then the Director of Manufacturing at Allied Cocoa Industries, a subsidiary of the Cocoa Division of W.R. Grace. In 1997, Mr. Chang founded Domino's Pizza in Malaysia and is currently a Director of Dommal Food Services Sdn. Bhd., the company with the country development rights to operate and franchise Domino's in Malaysia. He is also a director of Li & Fung (Gemini) Limited.

Joseph Chua PHI, aged 43, is the Regional Managing Director of IDS Group. He joined IDS Logistics (Hong Kong) Limited in 1999 and has been an Executive Director of the Company since August 2004. He graduated magna cum laude from the University of the Philippines with a Bachelor of Science degree in Industrial Engineering, and attained an MBA degree with top honours from the same university. Between 1984 and 1995, Mr. Phi worked with Colgate-Palmolive Company in a number of Asian locations covering the areas of purchasing, production planning, manufacturing, logistics and supply chain management. Between 1995 and 1999, he worked with HAVI Food Services as General Manager and later Managing Director of its Taiwan subsidiary. He is a member of Phi Kappa Phi and Phi Gamma Mu international honour societies. He also holds directorships in various subsidiaries of the Company.

Rajesh Vardichand RANAVAT, aged 46, is the Chief Financial Officer of the Group. Mr. Ranavat is a Commerce graduate from the University of Poona and a Chartered Accountant from India and is an associate of the Institute of Chartered Accountants of India. Mr. Ranavat joined Li & Fung Distribution ("LFD") group in 1999 as Group Development Director. Mr. Ranavat assumed the position of Commercial Director of Li & Fung Industries group effective from June 2001 until April 2003. Mr. Ranavat was promoted as the Chief Financial Officer of the Group on 1 May 2003 and has been an Executive Director of the Company since August 2004. Prior to joining LFD, Mr. Ranavat had been working with Inchcape plc in various positions since 1991 which included regional Financial Controller in the Middle East, worldwide Financial Controller for the Marketing Services Stream based in London, Chief Financial Officer of the Marketing Services business in Japan, and Director of Corporate Finance, Asia-Pacific based in Singapore. Before joining Inchcape plc, Mr. Ranavat worked with Price Waterhouse in India and Coopers & Lybrand in the Middle East.

Non-executive Directors

Dr. Victor FUNG Kwok King, aged 60, brother of Dr. William FUNG Kwok Lun, is the Group Chairman of the Li & Fung Group of companies including publicly listed Li & Fung Limited, Convenience Retail Asia Limited and the Company. Dr. Fung has been a Non-executive Director of the Company since October 2003. He is also a director of the substantial shareholders of the Company, namely: King Lun Holdings Limited, Li & Fung (1937) Limited, Li & Fung (Gemini) Limited and Li & Fung (Distribution) Limited. Dr. Fung holds Bachelor and Master Degrees in Electrical Engineering from the Massachusetts Institute of Technology and a Doctorate in Business Economics from Harvard University. Dr. Fung is an independent non-executive director of Bank of China (Hong Kong) Limited, PCCW Limited, Sun Hung Kai Properties Limited, Orient Overseas (International) Limited, CapitaLand Limited in Singapore and Baosteel Group Corporation in the People's Republic of China. Dr. Fung is currently Chairman of the Hong Kong Airport Authority, the Hong Kong University Council, the Greater Pearl River Delta Business Council and the Hong Kong – Japan Business Co-operation Committee. He is a member of Chinese People's Political Consultative Conference. He is also a member of the Executive Committee of the Commission on Strategic Development and Judicial Officers Recommendation Committee of the Hong Kong Government. From 1991 to 2000, Dr. Fung was Chairman of the Hong Kong Trade Development Council and from 1996 to 2003, he was the Hong Kong representative on the APEC Business Advisory Council. In 2003, the Government awarded Dr. Fung the Gold Bauhinia Star for distinguished service to the community.

Directors and Senior Management

Dr. William FUNG Kwok Lun, OBE, JP, aged 57, brother of Dr. Victor FUNG Kwok King, has been a director of Li & Fung (Distribution) Limited and a Non-executive Director of the Company since January 1999 and August 2004 respectively. Dr. Fung is Group Managing Director of Li & Fung Limited and has held key positions in major trade associations. He is a past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Pacific Economic Cooperation Committee. He is currently a member of the Hong Kong Trade Development Council. He graduated from Princeton University with a Bachelor of Science degree in Engineering and holds an MBA degree from the Harvard Graduate School of Business. He was conferred the degree of Doctor of Business Administration, *honoris causa*, by the Hong Kong University of Science & Technology. Dr. Fung is an independent non-executive director of HSBC Holdings PLC, CLP Holdings Limited, Bank of Communications Co., Ltd. and VTech Holdings Limited. Dr. Fung is also a non-executive director of Convenience Retail Asia Limited and a director of King Lun Holdings Limited, Li & Fung (1937) Limited and Li & Fung (Gemini) Limited.

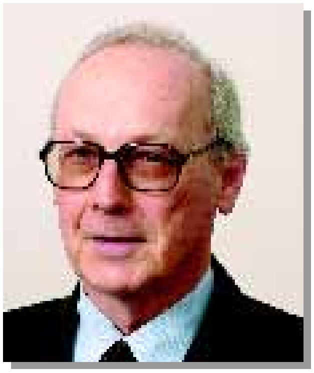
Jeremy Paul Egerton HOBBINS, aged 58, has been a director of Li & Fung (Distribution) Limited and a Non-executive Director of the Company since April 1999 and October 2003 respectively. He is also a director of Li & Fung (Gemini) Limited. He was the Chief Executive of Inchcape Marketing Services-Asia Pacific and was also the Chief Executive Officer of Inchcape Marketing Services Limited which was listed in Singapore, from 1997 to 1998. In addition, he served as a member of the Group Management Board of Inchcape plc and a director of Inchcape NRG, a business machines joint-venture with Ricoh. Previously, he was the Chief Executive Officer of Inchcape Buying Services from 1993 to 1996. Before joining the Inchcape group in 1993, he was the President and Chief Executive Officer of the Campbell Soup Company, UK and Ireland, and previously was President of the Dairy Division of Ault Foods, Canada. He has also held senior positions at Procter & Gamble, Hutchison Whampoa and Cadbury Schweppes where he started his career in brand management. He is a non-executive director of Convenience Retail Asia Limited.

LAU Butt Farn, aged 58, has been a Non-executive Director of the Company since October 2003. He graduated from the University of London with a Bachelor of Science degree in Physics and is a fellow of the Institute of Chartered Accountants in England and Wales. He joined the Li & Fung Group in 1981 as financial controller. Between 1985 and 1998, he was the Operations Director for Li & Fung (Retailing) Limited (the retailing arm of the Li & Fung group of companies) with operations in Circle K Convenience Stores (HK) Limited and Toys "R" Us-Lifung Limited. He was then the Chief Financial Officer of Li & Fung (Distribution) Limited until 2004. Mr. Lau is also responsible for the merger and acquisition and other corporate finance activities of Li & Fung Group. He is a non-executive director of Li & Fung Limited. He is also a director of the substantial shareholders of the Company, namely: Li & Fung (Distribution) Limited, Li & Fung (1937) Limited and Li & Fung (Gemini) Limited.

Derrick LEE Meow Chan, aged 53, has been a Non-executive Director of the Company since August 2004. He is a fellow of the Association of Chartered Certified Accountants and an associate of the Chartered Institute of Taxation. Early in his career, he was the Financial Controller of a leading dairy product manufacturer and was an auditor with Coopers & Lybrand in Singapore. In 1984, Mr. Lee joined Seavi Advent Group where he had responsibility for the firm's investment activities in South East Asia. Currently, Mr. Lee is the Managing Director of Seavi Advent Group where he is responsible for its Asian investment activities.

Independent Non-executive Directors

William Winship FLANZ, aged 61, has been an Independent Non-executive Director of the Company since August 2004. He was an independent director of Li & Fung (Distribution) Limited from 30 June 1999 to 1 June 2005. He is a private investor and serves as Advisor to Sterling Enterprises, Limited and Senior Advisor to Baring Private Equity Asia, Limited and JW Childs, LLC. He graduated from New York University with Bachelor of Arts degree in Economics, and also holds an MBA from the University of Michigan. Mr. Flanz began his career with Chase Manhattan Bank N.A., where he served as Country Manager for Japan, Area Director for the Middle East and North Africa, and later was appointed Area Director, responsible for all of Chase's activities in Asia Pacific. He was a founding partner of Prudential Asia Investments Limited, and subsequently a member of the Management Committee of Investcorp International Limited, and then Chairman and CEO of Gucci Group, N.V, before returning to Hong Kong and becoming CEO of Sterling Enterprises, Limited, a Hong Kong based investment company. Mr. Flanz is an independent non-executive director of Kerry Properties Limited.



John Estmond STRICKLAND, GBS JP, aged 66, has been an Independent Non-executive Director of the Company since October 2004. He spent most of his working career with HSBC. From 1996 to 1998 he was chairman of HongkongBank, which has responsibility for HSBC's operations in Asia Pacific. Presently he is chairman of Hong Kong Cyberport Management Co Ltd, a director of Hong Kong Exchanges and Clearing Limited, Esquel Holdings Inc and Yoma Strategic Investments Ltd. He is a member of the Council of The University of Hong Kong, President of the Outward Bound Trust, and a member of the boards of a number of non-government organizations. He has honorary doctorates awarded by City University of Hong Kong and the Hong Kong Polytechnic University.

Dr. FU Yu Ning, aged 49, has been an Independent Non-executive Director of the Company since November 2004. Dr. Fu graduated from Dalian Institute of Technology in the PRC with a Bachelor Degree in Port and Waterway Engineering. He also obtained a Doctorate Degree in Mechanical Engineering from Brunel University, United Kingdom and worked as a Post-Doctorate research fellow thereafter. Dr. Fu is the Chairman of China Merchants Holdings (International) Company Limited and China Merchants China Direct Investments Limited, Non-Executive Director of Sino Land Company Limited, all Hong Kong listed companies. He is also the Chairman of Shenzhen Chiwan Petroleum Supply Base Co., Ltd., a company listed in the Shenzhen Stock Exchange, and a Director and the Chairman of Executive Committee Member for board of directors of China Merchants Bank, listed in Shanghai Stock Exchange. Dr. Fu is now Director and President of China Merchants Group Ltd., and also holds directorship in some social associations, including a Director of the Hong Kong General Chamber of Commerce and Hong Kong Port Development Council.

Professor LEE Hau Leung, aged 53, has been an Independent Non-executive Director of the Company since November 2004. He is the Thoma Professor of Operations, Information and Technology at the Graduate School of Business at Stanford University. His areas of specialization are in supply chain management, global logistics system design, inventory planning, and manufacturing strategy. He is the founding and current Director of the Stanford Global Supply Chain Management Forum, an industry-academic consortium to advance the theory and practice of global supply chain management. Professor Lee was elected a Fellow of Manufacturing and Service Operations Management in 2001; a Fellow of INFORMS in 2005; and a Fellow of the Production and Operations Management Society in 2005. Professor Lee has consulted extensively for companies such as LG, KLA-Tencor, Hewlett-Packard Company, Savi Technology, Nortel Networks, SUN Microsystems, Apple Computer, IBM, Lucent Technologies, General Motors, Xilinx Corp., Accenture, Eli Lilly and Company, Microsoft, Nokia, and Motorola. He is a co-founder of Evant, DemandTec, SignalDemand and TrueDemand, all supply chain software companies. Professor Lee obtained his Bachelor of Social Science degree in Economics and Statistics from the University of Hong Kong in 1974, his Master of Science degree in Operational Research from the London School of Economics in 1975, and his Master of Science and a Doctorate Degree in Operations Research from the University of Pennsylvania in 1981 and 1983 respectively.

Directors and Senior Management

Group Chief Compliance Officer

James SIU Kai Lau, aged 61, joined the Group in 2005. He first joined the Li & Fung Limited Group in 1993 as Chief Financial Officer until 1996. He is an Executive Director of Li & Fung (1937) Limited, the controlling shareholder of the Li & Fung Group of companies including publicly listed Li & Fung Limited and Convenience Retail Asia Limited of which he is also their Group Chief Compliance Officer. Prior to joining Li & Fung Group, Mr. Siu was the partner-in-charge (1981-1989) of the Hong Kong audit practice of Coopers & Lybrand (currently PricewaterhouseCoopers) specializing in advising corporate clients on mergers, acquisitions, finance and on public listings. His current community work includes serving as member of the Supervisory Board of the Hong Kong Housing Society and Chairman of its Audit Committee (2001 to present). Mr. Siu is a member of the Securities and Futures Commission Dual Filing Advisory Group. He is also a member of the Corporate Governance Committee and Professional Accountants in Business Committee of the Hong Kong Institute of Certified Public Accountants. He is a Fellow of both the Institute of Chartered Accountants in Australia and the Hong Kong Institute of Certified Public Accountants. He is also a Fellow member of the Hong Kong Institute of Directors. Mr. Siu holds a Bachelor of Economics degree from Australia.

Senior Management

ONG Chong Beng, FCA, aged 52, is the Regional Managing Director of IDS Manufacturing and also the responsibility overseeing IDS Marketing in Malaysia, Indonesia and Brunei. Mr. Ong is a fellow member of the Institute of Chartered Accountants in England and Wales and a member of the Malaysian Institute of Accountants. Mr. Ong joined the Group on 13 March 1995 and held various senior positions including Finance Director of Inchcape Timuran Bhd, which was listed on the Kuala Lumpur Stock Exchange, and Chief Operating Officer of Inchcape Holdings Sdn Bhd, the holding company for Inchcape's operations in Malaysia, and Stream Finance Director for LFD Manufacturing Sdn. Bhd. Prior to joining Inchcape, Mr. Ong was the General Manager of Finance & IT in UMW Toyota (M) Sdn Bhd from 1985 to 1994. Between 1978 and 1985, Mr. Ong held various senior positions including General Manager of Wendco Pacific (Malaysia & Singapore), the franchise holder for Wendy's Hamburger and Partner of Ong & Co, an auditing firm.

TAN Kim Tai, aged 56, is the Regional Managing Director of Slumberland Asia Pacific responsible for the management and development of Slumberland Asia Pacific's operations in Asia Pacific region. Mr. Tan graduated with a Bachelor of Science (Honours) degree in Physics from the University of Malaya, Malaysia, in 1974. He also holds a Master of Science degree in Production Management and Manufacturing Technology from the University of Strathclyde, Scotland and a Master of Business Administration degree from Cranfield School of Management, England. He is also a Chartered Engineer with The Engineering Council, United Kingdom, and a Professional Engineer with The Board of Engineers, Malaysia. He joined Slumberland (M) Sdn. Bhd. as its Factory Manager on 19 May 1981 to start up the first manufacturing plant for Slumberland brand products of the Group, and was appointed as the General Manager and the Managing Director of Slumberland Business in 1984 and 1989, respectively. Subsequently, he was actively involved in acquiring the operations of Slumberland Business in the Mainland of China, and setting up the Slumberland Business' operations in Indonesia and Thailand. He has 25 years' of experience in the manufacturing, sales, marketing and distribution of bedding products in the region.

Gerard Jan RAYMOND, aged 49, is the Regional Managing Director of IDS Marketing in Hong Kong and the Mainland of China. He is fully responsible for leading the business of sales and marketing of consumer and healthcare global brands in Hong Kong and leads the strategy development for the Mainland of China. Mr. Raymond has over 20 years' experience in consumer marketing business and been involved in a broad spectrum of senior management roles including sales and marketing and general management. He has had extensive fast moving consumer goods industry experience in growing sales and building brand presence for a wide range of product categories including food and beverage, footwear, bath and shower and insecticides products. Prior to joining the Group, Mr. Raymond held the position of Managing Director of Danone Group, Malaysia and Singapore, and was responsible for the overall business performance covering the Hong Kong and South East Asian markets. Before Danone Group, Mr. Raymond had a successful track record in his earlier career as President of Sara Lee (M) Sdn Bhd for its Malaysia, Thailand and Singapore's operations including implementing business strategies. Mr. Raymond is a director of IDS (Hong Kong) Limited and IDS Product Network Limited. He joined the Group on 31 May 2003. Mr. Raymond was educated in Australia with a Bachelor's degree in Business and is a Fellow of the Australian Marketing Institute.

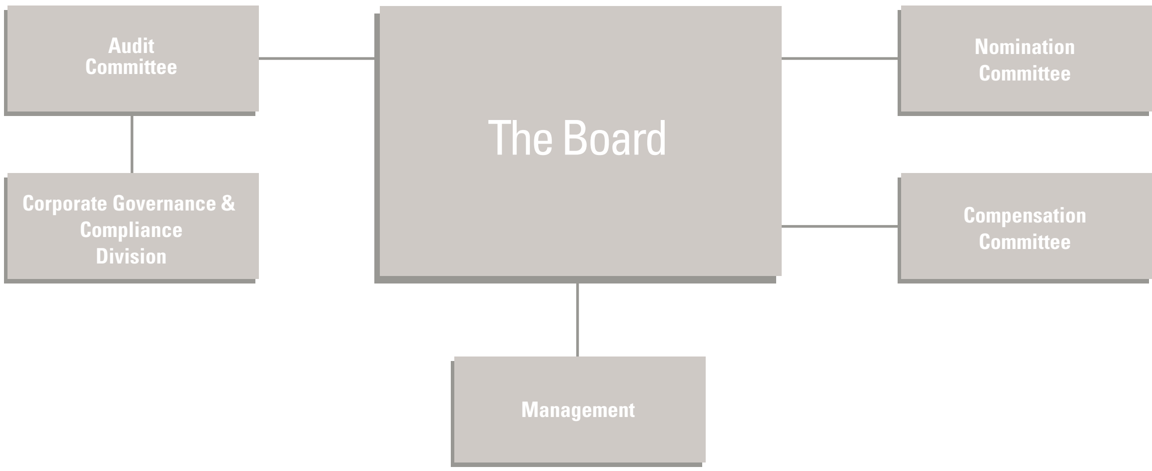
Edward POON Che Man, aged 43, is the Group Financial Controller and the qualified accountant of the Company. He has over 20 years' experience in auditing, accounting and financial management. Before joining the Group in February 2006, Mr. Poon was the Group Finance Director of Neonlite International Holdings Limited for two years and the Regional Finance Director of ASSA ABLOY AB's business in Asia for three years. Prior to the acquisition by ASSA ABLOY AB in 2000, Mr. Poon was the Finance Director of Yale Security Products' manufacturing joint venture in China for five years. Mr. Poon started his career with Peat Marwick (currently KPMG) and then worked with Coopers & Lybrand (currently PricewaterhouseCoopers) where he specialized in audit, due diligence, mergers and acquisitions, and public listings. Mr. Poon holds a Bachelor Degree of Financial Management and Economics from the University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants, and an associate member of the Hong Kong Institute of Certified Public Accountants.

Company Secretary

YUEN Ying Kwai, aged 40, is the Company Secretary of the Company. She joined Li & Fung (1937) Limited as Company Secretary in 1995 and has become Company Secretary of Li & Fung (Distribution) Limited, the controlling shareholder of the Company, since 1998. She has over 17 years of experience in the company secretarial field. She holds a Masters degree in Business Administration (Executive) from City University of Hong Kong. She is also a Fellow of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

Corporate Governance Report

The Board of Directors and Management are committed to principles of good corporate governance consistent with prudent enhancement and management of shareholder value. These principles emphasize transparency, accountability and independence. Set out below are those principles of corporate governance as adopted by the Company.



The Board

The Board is composed of the Group Non-executive Chairman, the Group Executive Managing Director, two Executive Directors and eight Non-executive Directors (of whom four are independent), whose biographical details and relevant relationships among them are set out in the Directors and Senior Management section on pages 34 to 39.

In order to reinforce their respective independence, accountability and responsibility, the role of the Group Chairman is separate from that of the Group Managing Director with their respective responsibilities endorsed by the Board in writing. The Group Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures, whilst the Group Managing Director, supported by the Executive Directors and senior management, is responsible for managing the Group's business, including the implementation of major strategies and initiatives adopted by the Board.

The Non-executive Directors, with diversified industry expertise are not involved in the day-to-day management of the Group, serve the important function of advising the management on strategy development, and ensure that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole. The Board has received from each Independent Non-executive Director an annual written confirmation of their independence in accordance with the Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The Board meets regularly throughout the year to discuss the overall corporate strategic direction and objectives, operational and financial performance (including annual budget, annual and interim results), recommendations on Directors' appointment or reappointment, approval of major capital transactions and other significant matters of the Group as well as major investment opportunities. Board meetings are scheduled one year in advance to facilitate maximum attendance of Directors. All Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. Written procedures are also in place for Directors to seek independent professional advice in performing their Directors' duties at the Company's expense. No request was made by any Director for such independent professional advice in 2005.

The Board has established three committees with specific responsibilities as described in the Board Committees below.

The Board makes decisions on major operational and financial matters as well as investments. The general management and day-to-day decisions and matters (including preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the Board, monitoring of operating budgets, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations) are delegated to the management team.

Our Group Chief Compliance Officer also attends all Board and Committee meetings to give recommendations on corporate governance, risk management, statutory compliance, mergers and acquisitions, accounting and financial matters. The Board held four regular meetings and a special meeting in 2005 and the average attendance rate was 98%.

At the Annual General Meeting held on 30 May 2005, a special resolution was passed to amend the Bye-laws of the Company so that every Director (including the Chairman of the Board and Group Managing Director of the Company) is subject to retirement by rotation at least once every three years. All Directors are appointed for a set term of three years and will continue thereafter subject at all times to termination by not less than three months' prior notice in writing by either parties.

The Company has arranged for appropriate liability insurance since 2004 to indemnify its Directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

The attendance rates of individual members at Board and Committee meetings in 2005 are detailed in the following table:

Attendance of Board and Committee Members for Year 2005

Directors	Board	Audit Committee	Compensation Committee	Nomination Committee
	No. of meetings **attended**/**held**			
Non-executive Directors				
Dr. Victor FUNG Kwok King *(Group Chairman and Chairman of Compensation Committee)*	5/5	–	1/1	–
Dr. William FUNG Kwok Lun	5/5	–	–	–
Mr. Jeremy Paul Egerton HOBBINS	4/5	–	–	1/1
Mr. LAU Butt Farn	5/5	3/3	–	–
Mr. Derrick LEE Meow Chan	5/5	–	–	–
Independent Non-executive Directors				
Mr. John Estmond STRICKLAND *(Chairman of Audit Committee)*	5/5	3/3	–	–
Mr. William Winship FLANZ *(Chairman of Nomination Committee)*	5/5	–	1/1	1/1
Dr. FU Yu Ning	5/5	2/3	–	1/1
Prof. LEE Hau Leung	5/5	3/3	1/1	–
Executive Directors				
Mr. Benedict CHANG Yew Teck *(Group Managing Director)*	5/5	–	–	–
Mr. Joseph Chua PHI	5/5	–	–	–
Mr. Rajesh Vardichand RANAVAT *(Chief Financial Officer)*	5/5	–	–	–
Average attendance rate	98%	92%	100%	100%
Dates of Meeting	22/2/2005 7/4/2005 30/5/2005 18/8/2005 16/12/2005	31/3/2005 23/6/2005 17/8/2005	30/5/2005	16/12/2005

Board Committees

The Board has established the following committees (all chaired by Non-executive Directors) with defined written terms of reference (available to shareholders upon request), which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the Listing Rules: the Audit Committee, Compensation Committee and Nomination Committee. Minutes of all committees meetings are circulated to all Board members. To further reinforce independence, all committees include a majority of Independent Non-executive Directors since 2004.

Audit Committee

The Audit Committee was established in November 2004 to review the Group's financial reporting, internal controls and corporate governance issues and to make relevant recommendations to the Board. The Audit Committee comprises three Independent Non-executive Directors, namely Mr. John Estmond STRICKLAND (Chairman of the Committee), Dr. FU Yu Ning and Prof. LEE Hau Leung, and a Non-executive Director, Mr. LAU Butt Farn. All committee members possess appropriate industry and financial expertise to advise on the above matters.

The Audit Committee met three times in 2005 (with an average attendance rate of 92%) to review with senior management and the Company's internal and external auditors, the significant internal and external audit findings, the audit plans for the internal and external auditors, the accounting principles and practices adopted by the Group, Listing Rules and statutory compliance, and to discuss auditing, internal controls, risk management and financial reporting matters (including the interim financial report and annual financial statements for 2005 before recommending them to the Board for approval).

External Auditors' independence

The Audit Committee also reviews annually the nature of the service fees and independence of the external auditors. The external audit engagement partner is subject to periodical rotation, and the ratio of annual fees for audit services and non-audit services (including review of interim financial report and tax services for 2005) have been scrutinized by the Audit Committee. To further enhance Auditors' independence, fees for non-audit services other than tax advice require prior approval of the Audit Committee. Prior to the commencement of the audit of 2005 financial statements of the Company, the Audit Committee had received written confirmation from the external auditors on their independence as required under the Professional Ethics Statement 1.203A "Independence for Assurance Engagements" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee is satisfied with the review of audit fees and scope, effectiveness of the audit process, independence and objectivity of the external auditors, PricewaterhouseCoopers, and has recommended to the Board their reappointment as the Company's external auditors for the year ending 31 December 2006 at the forthcoming Annual General Meeting.

Compensation Committee

The Compensation Committee was established in November 2004, comprising the Group Non-executive Chairman, Dr. Victor FUNG Kwok King (being the Chairman of the Committee), Mr. William Winship FLANZ and Prof. LEE Hau Leung (being Independent Non-executive Directors). The written terms of reference of the Compensation Committee cover the review of the Group's remuneration policy and the approving of the remuneration policy for all Executive Directors and senior management, including the allocation of share options to employees under the Company's Employee Share Option Scheme. It annually reviews the existing remuneration policy. The Compensation Committee met once in 2005 (attendance rate: 100%) to review and approve the Directors' and senior executives' remuneration for 2005.

Remuneration for Executive Directors

Remuneration of Executive Directors includes basic salary, other allowance and bonus based on performance together with share options that are designed to align Directors' interest to maximizing the Company's long term shareholder value. No Executive Director is allowed to approve his own remuneration.

Remuneration for Non-executive Directors

Remuneration for Non-executive Directors comprises Directors' fees that are subject to assessment and recommendation by the Compensation Committee for shareholders' approval at the Annual General Meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at Company meetings.

Details of Directors' remuneration of the Company are set out in the note 21(a) to the financial statements.

Nomination Committee

The Nomination Committee was established in November 2004, comprising the Non-executive Directors, Mr. William Winship FLANZ (being the Chairman of the Committee), Dr. FU Yu Ning and Mr. Jeremy Paul Egerton HOBBINS (being Non-executive Director). The written terms of reference of the Nomination Committee cover the recommendations to the Board on the appointment of Directors, evaluation of board composition and the management of board succession with reference to certain guidelines as endorsed by the Committee. These guidelines include appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills, and time commitments of members. The Nomination Committee carries out the process of selecting and recommending candidates for Directorship including the consideration of referrals and engagement of external recruitment professionals when necessary. There was no nomination of Directors to fill board vacancies in 2005. The Nomination Committee met once in 2005 (with an attendance rate of 100%) to review and recommend the reappointment of retiring Directors for shareholders' approval at the Annual General Meeting.

Code of Conduct and Business Ethics

Whistle blowing policy, guidelines on business conduct and leaflet of the Group's business ethics policy are sent to all staff.

Directors' Securities Transactions

The Group has adopted procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Specific enquiries have been made to all Directors to confirm compliance with the Model Code. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code. No incident of non-compliance was noted by the Company in 2005.

Directors' and Senior Management Interest

Details of Directors' interests in the shares of the Company are set out in the Report of the Directors section on pages 58 to 61. The shares held by each member of senior management are less than 0.1% of the issued share capital of the Company for the year ended 31 December 2005.

Directors' and Auditors' responsibilities for Financial Statements

The Directors' responsibilities for the financial statements and the responsibilities of the external auditors to the shareholders are set out on page 66.

Internal Control and Risk Management

The Board recognizes the importance of internal controls to safeguard shareholders' interests and investments, Company's assets and managing business risks. The Board assumes the overall responsibility for reviewing the adequacy and integrity of the Group's system of internal controls and risk management through the Audit Committee.

The Board has delegated to executive management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls, and risk management procedures. Qualified personnel throughout the Group maintain and monitor these systems of control on an ongoing basis

The Group's Internal Audit team within the Corporate Governance and Compliance Division, under the supervision of our Group Chief Compliance Officer, independently reviews these controls and evaluates their adequacy, effectiveness and compliance, and reports regularly to the Audit Committee. The Audit Committee approved a 3-year Audit Plan that is linked to the Group's 3-year Strategic Plan. The Audit Plan is business risk driven and covers the Group's significant operations over a three-year cycle period. The scope of the audit review covers all material controls including financial, operational and compliance controls, and risk management procedures. Regular internal audit reports including management's specific actions and agreed implementation dates to address internal controls and risk management matters are sent to the Group Managing Director, Chief Financial Officer, and the relevant management. The Group Chief Compliance Officer reports all the major findings at the Audit Committee Meetings. Follow up on all recommendations is also performed on a periodic basis to ensure all agreed recommendations have been satisfactorily implemented in a timely manner.

Based on the assessments made by senior management, the Group's Internal Audit team and the external auditors in 2005, and up to the date of the approval of this report; the Audit Committee is satisfied that:

- the internal controls and accounting systems of the Group have been in place and function effectively and are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorisation and the financial statements are reliable for publication.

- there is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

Compliance with the Code on Corporate Governance Practices of the Listing Rules

The Hong Kong Stock Exchange has promulgated a new Code on Corporate Governance Practices (the "Code"), which came into effect in January 2005, and replaced the "Code of Best Practices" as set out in Appendix 14 to the Listing Rules. The Company has put in place corporate governance practices to meet the provisions as set out in the Code.

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the Code as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2005.

Investor Relations and Communication

The Company continues to pursue a proactive policy of promoting investor relations and communications by conducting analysts' briefings and road shows after the interim and final results announcement, participating in investors' conferences and making corporate presentations during the conferences, arranging company visits to the Company and maintaining regular meetings with institutional shareholders and analysts. Since 2005, webcasts of results presentations at press conferences have also been made available at our corporate website *(www.idsgroup.com)*.

All shareholders receive proper notice of the Annual General Meeting at which Directors and Committee Chairmen or members are available to answer questions on the business. The results of the voting by poll on all the resolutions at the Annual General Meeting are published in the newspapers as well as on the Company's website. As a channel to further promote effective communication, the Company maintains a website *(www.idsgroup.com)* to disseminate the Company's announcements and presentations and shareholder information and other relevant financial and non-financial information electronically on a timely basis.

Except for the amendments made to the Company's bye-laws on retirement by rotation of every Director once every three years, additional provision on the demanding of a poll and disclosure of voting figures on a poll, the Board confirmed that there were no changes in 2005 to the Company's Bye-laws affecting Company's reporting practices. Details of the key calendar events for shareholders' attention and share information including market capitalisation as of 31 December 2005 are set out in Information for Investors section on page 51.

Shareholders' Rights

Under the Company's Bye-laws, in addition to regular Board meetings, Directors of a company, on the requisition of shareholders of the Company holding not less than 10% of the paid-up capital of the Company, can convene a special general meeting to address specific issues of the Company upon the passing of a special resolution by at least 21 days' written notice deposited to the registered office of the Company. The same procedure also applies to any proposal to be tabled at shareholders' meetings for adoption. To further enhance minority shareholders' rights, the Company has since 2005 adopted the policy of voting by poll for all resolutions put forward at Annual General Meeting and Special General Meeting.

Specific enquiries by shareholders requiring the Board's attention can be sent in writing to our Group Company Secretary at the Company's business address in Hong Kong. Other general enquiries can be directed to the Company through our Corporate Affairs Manager, whose contact information is detailed on page 51.

Corporate Communications

In 2005, the Group held monthly Executive Group Meetings for senior executives to formulate company-wide policies and practices, and to report and discuss significant issues affecting the Group.

As part of the Group's entrepreneurial corporate culture and business policy, semi-annual Leadership Council Meetings are held to review business performance and strategic issues with active participation of the Group Chairman, the Group Managing Director, executive Directors and heads of all business units across the region.

The Group also maintains IDSlink, our intranet, to publish messages from the Group Managing Director to update staff on the latest news about the Group

Human Resources

The Group is guided by the underlying principles of its corporate Values and adopts an equal opportunity policy without any form of discrimination on the grounds of race, marital status, sex, age or disability in connection with all human resource matters. This covers selection and recruitment practices, training and development, appraisal and promotion, compensation and benefits, dismissal, and lastly, retirement.

The Group is fully committed to investing in the growth and development of its people, especially in their Leadership skills. The Group's human resource development initiatives are designed to nurture staff to their fullest potential to ensure that the Group continues to remain ahead, even in the most challenging business environment. The Group also has a policy of sponsoring staff to take on job-related training courses and self-improvement programmes.

To instill a high work performance culture across the Group, the Group's remuneration philosophy is to provide employees with a consistent, fair and transparent package, where the total cash remuneration is competitive in the market. Both the short and long-term incentive plans which have been put in place, ensure that the staff understand that a profit, or a return on all funds invested in the business, must be achieved. Such incentives drive the behaviours necessary to help achieve the Group's 3-year strategic plans.

Complementing the thrust on business performance are the twin areas of Corporate Conduct and Ethics that the Group treasures and fully embraces. All staff are required to be committed to continuously uphold the Code of Conduct and Ethics guidelines.

Information for Investors

Listing Information

Listing: Hong Kong Stock Exchange
Stock code: 2387

Key Dates

20 April 2006
Announcement of 2005 Final Results

19 May 2006 to 25 May 2006 (both days inclusive)
Closure of Register of Members

On or about 25 May 2006
Proposed Payment of 2005 Final Dividend

25 May 2006
Annual General Meeting

Share Registrar & Transfer Offices

Principal:
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

Hong Kong Branch:
Abacus Share Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Share Information

Board lot size: 1,000 shares

Shares outstanding as at 31 December 2005:
309,000,000 shares

Market Capitalization as at 31 December 2005:
HK$2,719,200,000

Earnings per share (equivalent to) for 2005

Interim:	HK18.6 cents
Full year:	HK33.6 cents

Dividend per share for 2005

Interim:	HK6 cents
Final:	HK14 cents

Enquires Contact

Mr. Stewart Kwok
Corporate Affairs Manager

Telephone:	(852) 2686 3317
Fax:	(852) 2686 3320
Email:	stewart.kwok@idsgroup.com

Integrated Distribution Services Group Limited
15th Floor, LiFung Centre
2 On Ping Street
Siu Lek Yuen, Shatin, N.T.
Hong Kong

Website

www.idsgroup.com
www.irasia.com/listco/hk/ids

Raymond and Clara work closely with all IDS business units to monitor our financial performance and ensure proper control measures are in place.

Financial integrity & sound governance

Raymond Chiu
Finance Manager
Group Finance

Clara Wong
Accountant
Group Finance

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2005.

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 31 to the financial statements.

Details of the analysis of the Group's performance for the year by business segments and geographical segments are set out in note 5 to the financial statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 69.

The directors declared an interim dividend of HK6 cents per share, totalling HK$18,540,000, which was paid on 23 September 2005.

The directors recommended the payment of a final dividend of HK14 cents per share, absorbing HK$43,260,000.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 14 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to approximately HK$62,000.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 8 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 13 to the financial statements.

Distributable Reserves

As at 31 December 2005, the Company did not have any reserves available for distribution to shareholders under the Companies Act 1981 of Bermuda (as amended).

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 135.

Pre-emptive Rights

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

Purchase, Sale or Redemption of the Company's Listed Shares

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

Share Option Scheme

By the written resolutions of the then sole shareholder of the Company dated 4 November 2004 and amended by a committee of the Board on 22 November 2004, the Company had adopted a share option scheme (the "Scheme").

(i) Purpose

The purpose of the Scheme is to enable the Company to grant options to selected eligible participants as incentives or rewards for their contributions to the Group and those companies in the equity share capital of which the Company, directly or indirectly, has a 20% or greater beneficial interest but excluding the Company's subsidiaries ("Associated Companies").

(ii) Qualifying participants

Any employee including Executive Director, Non-executive Director (including Independent Non-executive Director) and officer of the Group or any Associated Companies, any business partner, agent, consultant or representative of the Group or any Associated Companies, a person who is seconded to work for any member of the Group and Associated Companies, where at least 40% of his time is devoted to the business of a member of the Group and Associated Companies (collectively referred to as Eligible Person), and any trust for the benefit of an Eligible Person or his immediate family members and a company controlled by an Eligible Person or his immediate family members.

(iii) Maximum number of shares

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and other schemes must not exceed 30% of the shares in issue from time to time. Subject to the aforesaid limit, the total number of shares available for issue under options which may be granted under the Scheme and any other schemes must not, in aggregate, exceed 30,000,000 shares unless separate shareholders' approval has been obtained.

As at 31 December 2005, the number of shares available for issue under the Scheme is 92,700,000 shares representing 30% of the issued share capital of the Company of which 17,770,500 share options were granted and outstanding.

(iv) Limit for each participant

The total number of shares of the Company issued and to be issued upon exercise of options (including exercised, cancelled and 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 under 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 be exercised. The Scheme itself does not specify any minimum holding period.

(vi) Payment on application and 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 other period as the Board may specify in the offer and acceptance letter ("Offer Letter")).

HK$1 is payable by the grantee to the Company on acceptance of the offer.

(vii) Subscription price

The exercise price shall not be less than 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 the shares.

(viii) Remaining life of the scheme

The Board may at any time within 10 years commencing on 7 December 2004 make offers for the grant of options under the Scheme.

Details of the share options granted under the Scheme and remain outstanding as at 31 December 2005 are as follows:

	Number of Share Options						
Name	**As at 1/1/2005**	**Granted *(Note 1)***	**Lapsed *(Note 2)***	**As at 31/12/2005**	**Exercise price HK$**	**Grant date**	**Exercise period**
Benedict CHANG Yew Teck	750,000	–	–	750,000	4.825	14/12/04	01/01/07-31/12/08
	750,000	–	–	750,000	4.825	14/12/04	01/01/08-31/12/09
	750,000	–	–	750,000	4.825	14/12/04	01/01/09-31/12/10
	–	380,000	–	380,000	8.600	16/12/05	01/01/08-31/12/09
	–	380,000	–	380,000	8.600	16/12/05	01/01/09-31/12/10
	–	380,000	–	380,000	8.600	16/12/05	01/01/10-31/12/11
Joseph Chua PHI	375,000	–	–	375,000	4.825	14/12/04	01/01/07-31/12/08
	375,000	–	–	375,000	4.825	14/12/04	01/01/08-31/12/09
	375,000	–	–	375,000	4.825	14/12/04	01/01/09-31/12/10
	–	210,000	–	210,000	8.600	16/12/05	01/01/08-31/12/09
	–	210,000	–	210,000	8.600	16/12/05	01/01/09-31/12/10
	–	210,000	–	210,000	8.600	16/12/05	01/01/10-31/12/11
Rajesh Vardichand RANAVAT	345,000	–	–	345,000	4.825	14/12/04	01/01/07-31/12/08
	345,000	–	–	345,000	4.825	14/12/04	01/01/08-31/12/09
	345,000	–	–	345,000	4.825	14/12/04	01/01/09-31/12/10
	–	135,000	–	135,000	8.600	16/12/05	01/01/08-31/12/09
	–	135,000	–	135,000	8.600	16/12/05	01/01/09-31/12/10
	–	135,000	–	135,000	8.600	16/12/05	01/01/10-31/12/11
Continuous contract employees	3,030,000	–	243,000	2,787,000	4.825	14/12/04	01/01/07-31/12/08
	3,030,000	–	243,000	2,787,000	4.825	14/12/04	01/01/08-31/12/09
	3,030,000	–	243,000	2,787,000	4.825	14/12/04	01/01/09-31/12/10
	–	941,500	–	941,500	8.600	16/12/05	01/01/08-31/12/09
	–	941,500	–	941,500	8.600	16/12/05	01/01/09-31/12/10
	–	941,500	–	941,500	8.600	16/12/05	01/01/10-31/12/11

Notes:

(1) The closing price per share immediately before the date on which the options were granted was HK$8.60.

(2) 729,000 options lapsed following the cessation of employment of certain grantees.

(3) During the year, no options were exercised or cancelled.

(4) The average fair value of the options granted during the year is HK$2.12 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK$8.60 at the grant date, exercise price shown above, standard deviation of expected share price returns of 34%, expected life of options from 4 to 6 years, expected dividend yield of 3% and average annual risk-free interest rate of 4.11%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last year. The Black-Scholes Valuation model is developed to estimate the fair value of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

Directors

The directors during the year were:

Non-executive Directors

Dr. Victor FUNG Kwok King *(Chairman)*
William Winship FLANZ *
John Estmond STRICKLAND *
Dr. FU Yu Ning*
Prof. LEE Hau Leung*
Dr. William FUNG Kwok Lun
Jeremy Paul Egerton HOBBINS
LAU Butt Farn
Derrick LEE Meow Chan

Executive Directors

Benedict CHANG Yew Teck
Joseph Chua PHI
Rajesh Vardichand RANAVAT

** Independent Non-executive Director*

In accordance with Bye-law 87 of the Company's Bye-laws, Dr. Victor FUNG Kwok King, Mr. Rajesh Vardichand RANAVAT, Mr. Derrick LEE Meow Chan and Mr. William Winship FLANZ will retire at the forthcoming annual general meeting. All retiring directors, being eligible, will offer themselves for re-election except Mr. Derrick LEE Meow Chan who does not offer himself for re-election.

The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such directors to be independent.

Directors' Service Contracts

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 and note 30 to the financial statements.

Biographical Details of Directors and Senior Management

Brief biographical details of the directors and senior management are set out on pages 34 to 41.

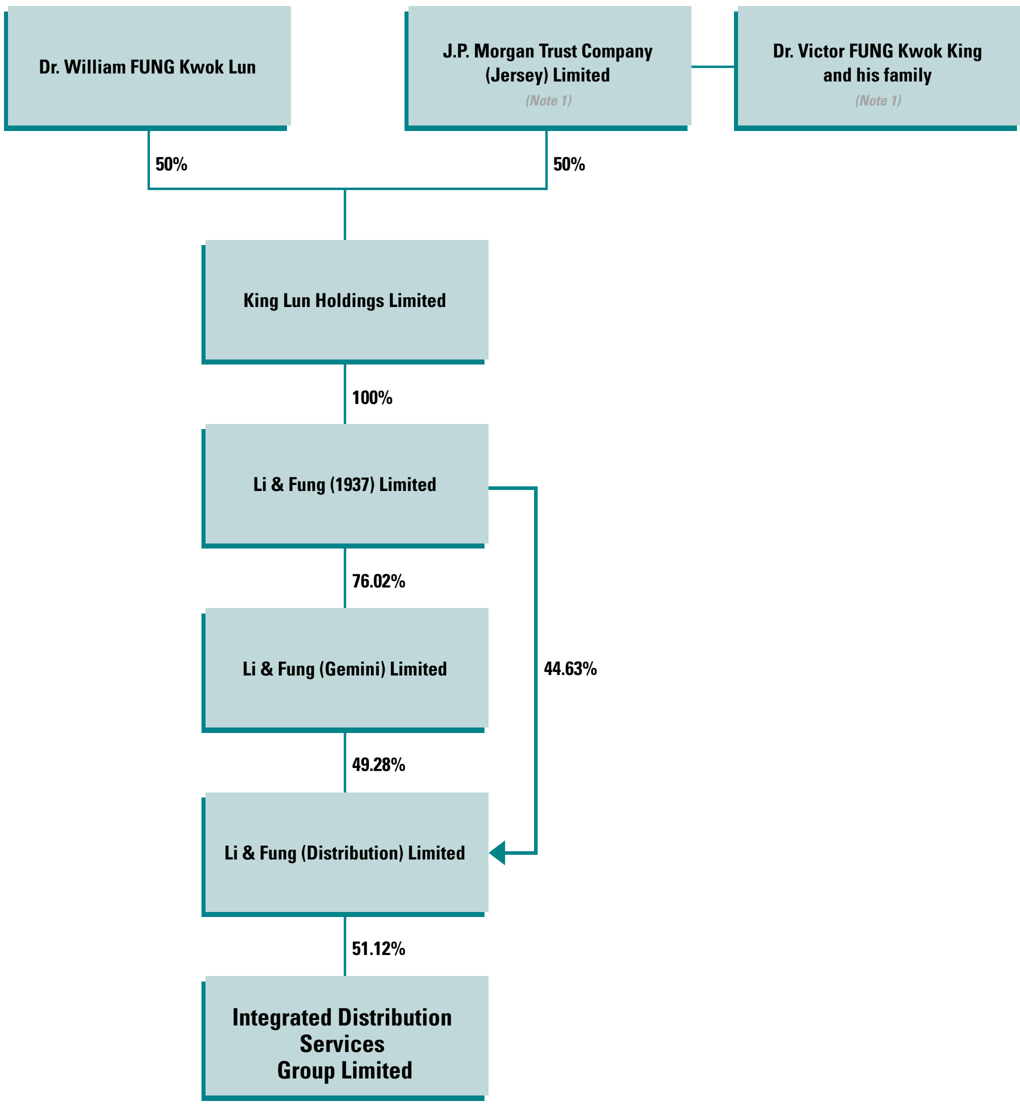
Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2005, the directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning 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 Issuers ("Model Code"):

(A) Long position in shares and underlying shares of the Company

	Number of shares				Number of underlying shares under equity derivatives		Approximate percentage of issued share capital
Name of Director	Personal interest	Family interest	Corporate/ trust interest	Other interest	(Share Options)	Total interest	(%)
Dr. Victor FUNG Kwok King	2,405,509	–	157,960,917 *(Note 1)*	–	–	160,366,426	51.90
Dr. William FUNG Kwok Lun	–	–	157,960,917 *(Note 1)*	–	–	157,960,917	51.12
Benedict CHANG Yew Teck	1,412,573	–	–	–	3,390,000	4,802,573	1.55
Joseph Chua PHI	1,047,632	–	–	–	1,755,000	2,802,632	0.91
Rajesh Vardichand RANAVAT	305,375	–	–	–	1,440,000	1,745,375	0.56
Jeremy Paul Egerton HOBBINS	1,202,754	–	–	–	–	1,202,754	0.39
LAU Butt Farn	610,549	–	–	–	–	610,549	0.20
John Estmond STRICKLAND	–	–	–	22,000 *(Note 2)*	–	22,000	0.00

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. *King Lun Holdings Limited ("King Lun") through its indirect non-wholly owned subsidiary, Li & Fung (Gemini) Limited ("LFG"), held a 49.28% interest in Li & Fung (Distribution) Limited ("LFD"). In addition, King Lun also through its wholly owned subsidiary, Li & Fung (1937) Limited, held 44.63% interest in LFD. LFD held 157,960,917 shares, representing 51.12% of the issued share capital of the Company. King Lun are owned (a) as to 50% by J.P. Morgan Trust Company (Jersey) Limited (which also indirectly held 8.77% of the issued share capital of LFG), the trustee of a trust established for the benefit of the family members of Dr. Victor FUNG Kwok King and (b) as to 50% by Dr. William FUNG Kwok Lun. Dr. Victor FUNG Kwok King and Dr. William FUNG Kwok Lun are deemed to have interests in these shares through their respective interests in King Lun and indirect interests in LFD as set out above.*

2. *Mr. John Estmond STRICKLAND and his wife, Mrs. Anthea Evadne STRICKLAND are joint beneficial owners of these shares.*

(B) Long position in shares and underlying shares of major associated corporations

Name of Director	Name of associated corporation	Class of shares	Number of shares	Nature of interest	Approximate percentage of interests (%)
Benedict CHANG Yew Teck	Li & Fung (Gemini) Limited	Ordinary shares	462,018	controlled corporation *(Note 1)*	6.73
Dr. Victor FUNG Kwok King	King Lun Holdings Limited	Ordinary shares	1,332,840	beneficiary of a trust	50
	Li & Fung (Gemini) Limited	Ordinary shares	5,825,438	as above	84.80
Dr. William FUNG Kwok Lun	King Lun Holdings Limited	Ordinary shares	1,332,840	controlled corporation	50
	Li & Fung (Gemini) Limited	Ordinary shares	5,222,807	as above	76.02
Jeremy Paul Egerton HOBBINS	Convenience Retail Asia Limited	Ordinary shares	180,000	beneficial owner	0.03
	Li & Fung (Gemini) Limited	Ordinary shares	462,018	controlled corporation *(Note 2)*	6.73
LAU Butt Farn	Convenience Retail Asia Limited	Ordinary shares	2,390,000	beneficial owner	0.36
Rajesh Vardichand RANAVAT	Convenience Retail Asia Limited	Ordinary shares	26,000	beneficial owner	0.004

* *Dr. Victor FUNG Kwok King and Dr. William FUNG Kwok Lun, by virtue of their interests in King Lun Holdings Limited ("King Lun") and the Company, are deemed to be interested in the shares and underlying shares of certain associated corporations of the Company under the SFO. A waiver from full compliance with the Listing Rules for the disclosure of Directors' interests in the shares and underlying shares of the associated corporations was granted by the Stock Exchange on 6 April 2006. Accordingly, the companies under the section headed "Long position in shares and underlying shares of major associated corporations" are only the major associated corporations of the Company and are not intended to be exhaustive.*

Notes:

1. *462,018 shares in Li & Fung (Gemini) Limited, representing 6.73% of its issued share capital, are held by Mikenwill Investments Limited which is owned by Mr. Benedict CHANG Yew Teck.*

2. *462,018 shares in Li & Fung (Gemini) Limited, representing 6.73% of its issued share capital, are held by Martinville Holdings Limited which is owned by Mr. Jeremy Paul Egerton HOBBINS.*

(C) Short positions in shares and underlying shares of the Company and associated corporations

Save as disclosed above the grant of Waiver by Stock Exchange from full compliance with the disclosure of interest and short positions of Dr. Victor FUNG Kwok King and Dr. William FUNG Kwok Lun in the shares and underlying shares of the Company and associated corporations, 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 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.

(D) 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 Option Scheme section stated above.

Save as disclosed above, at no time during the year, the directors and chief executives (including their spouse and children under the age of 18) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company or its associated corporations required to be disclosed pursuant to the SFO.

Interests and Short Positions of Substantial Shareholders

As at 31 December 2005, other than the interests of the directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

(A) Long positions in shares of the Company

Name	Capacity	Number of Shares	Approximate percentage of issued share capital (%)
Li & Fung (Distribution) Limited	Beneficial owner	157,960,917	51.12
Li & Fung (Gemini) Limited	Interest of controlled corporation	157,960,917	51.12
Li & Fung (1937) Limited	Interest of controlled corporation	157,960,917	51.12
King Lun Holdings Limited	Interest of controlled corporation	157,960,917	51.12
J.P. Morgan Trust Company (Jersey) Limited	Interest of controlled corporation	157,960,917	51.12
Matthews International Capital Management, LLC	Registered Investment Advisor	18,845,000	6.10

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

As at 31 December 2005, the Company had not been notified of any short position being held by any substantial shareholder in the shares or underlying shares of the Company.

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.

Major Customers and Suppliers

During 2005, the Group sold less than 30% of its goods and services to its 5 largest customers.

The percentage of purchases attributable to the Group's largest supplier and the 5 largest suppliers are as follows:

– the largest supplier	19%
– the five largest suppliers combined	47%

None of the directors, their associates or any shareholder (which to the knowledge of the directors own more than 5% of the Company's share capital) held more than 0.1% of the issued share capital of the five largest customers or suppliers noted above.

Connected Transactions

(A) Connected transaction

On 9 March 2005, IDS Marketing (Philippines), Inc. ("IDS Marketing (Philippines)"), a subsidiary of the Company entered into an acquisition and service agreement with JDH (Philippines), Inc. ("JDH (Philippines)"), a member of Li & Fung (Distribution) Limited, pursuant to which IDS Marketing (Philippines) has conditionally agreed to acquire from JDH (Philippines) certain inventory, motor vehicles and IT equipment ("the Assets") and to provide certain services to JDH (Philippines) ("the Service"). The aggregate purchase price for the acquisition of the Assets will not exceed US$2,520,000 and the service fees payable by JDH (Philippines) for the Service will be not more than US$1,293,000.

During the year, the Group had the following connected transactions with JDH (Philippines):

	US$'000
Purchases of goods and materials	1,097
Purchase of fixed assets	248
Continuing connected transactions	
Information Technology fee recharge to	288
Fee for collection service	611

The nature and reasons for the above connected transaction have previously been disclosed in the Company's announcement dated 9 March 2005.

(B) Continuing connected transactions

Save as disclosed above, during the year, the Group had the following non-exempt continuing connected transactions, details of which were disclosed in the prospectus of the Company dated 24 November 2004:

(a) Distribution and sale of goods

The Group distributes consumer and healthcare products to the retail operations of the members of Li & Fung (1937) Limited ("LF 1937"), a substantial shareholder of the Company, at market rates.

(b) Provision of shipping, handling and other logistics services

Members of the Group have been providing shipping, handling services and a variety of other logistics services, including storage, cargo handling, container devanning, administration, labelling, goods return sorting and delivery to subsidiaries of LF 1937 and companies controlled by LF 1937 ("Parent Group"). The fees charged by the Group to members of the Parent Group are either at market rates or at rates similar to those offered to third party clients.

(c) Lease arrangements

The Group has been leasing certain office and warehouse premises to and from members of the Parent Group. Rental for the lease arrangements were negotiated between parties with reference to the then prevailing market rates.

Below is a table setting out the aggregate value for each of the non-exempt continuing connected transactions for the year ended 31 December 2005:

		US$'000
(a)	Distribution and sale of goods	
	– members of Convenience Retail Asia Limited ("CRA Group")	870
	– other members of the Parent Group	67
(b)	Provision of shipping, handling and other logistics services	
	– members of Li & Fung (Distribution) Limited ("LFD Group")	662
	– members of Li & Fung Limited	464
	– other members of the Parent Group	1,945
(c)	Rental recharge	
	(i) received from	
	– members of CRA Group	342
	– members of LFD Group	202
	– other members of the Parent Group	787
	(ii) paid to	
	– members of LFD Group	2,671
	– other members of the Parent Group	161

In respect of the above continuing connected transactions, the Stock Exchange has granted a waiver to the Company from strict compliance with the announcement and independent shareholders' approval requirements subject to some conditions.

The Independent Non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of business of the Company;

(ii) either on normal commercial terms or, on terms no less favourable to the Company than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Directors of the Company have engaged the auditors to perform certain agreed-upon procedures on the aforesaid continuing connected transactions on a sample basis and the auditors have, based on the work performed, provided a letter to the Directors of the Company stating that:

1. the transactions have been approved by the Company's Directors;

2. the transactions were entered into in accordance with the pricing policies of the Company;

3. the transactions were entered into in accordance with the terms of the relevant agreements governing such transactions; and

4. the transactions did not exceed the relevant annual limits as set out in the prospectus of the Company dated 24 November 2004 and as disclosed in the announcement of the Company dated 9 March 2005, respectively.

Sufficiency of Public Float

Based on 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.

Auditors

The financial statements 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, 20 April 2006

Auditors' Report

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

TO THE SHAREHOLDERS OF
INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 67 to 134 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The directors of the Company are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 20 April 2006

Consolidated Balance Sheet

As at 31 December 2005

	Note	**2005 US$'000**	2004 US$'000 (Restated)
ASSETS			
Non-current assets			
Intangible assets	6	**6,852**	5,485
Lease premium for land	7	**395**	416
Property, plant and equipment	8	**39,351**	33,880
Other long-term investments		**–**	16
Other non-current assets	11	**4,858**	3,031
Surplus on pension schemes	17	**546**	370
Deferred tax assets	16	**4,546**	1,951
		56,548	45,149
Current assets			
Inventories	10	**91,074**	78,081
Trade and other receivables	11	**167,503**	137,075
Taxation recoverable		**692**	566
Time deposits	12	**37,039**	24,858
Bank balances and cash	12	**20,446**	28,108
		316,754	268,688
Total assets		**373,302**	313,837
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	13	**30,900**	30,900
Reserves	14	**56,364**	45,825
		87,264	76,725
Minority interest	27(b)	**5,058**	4,371
Total equity		**92,322**	81,096
LIABILITIES			
Non-current liabilities			
Unsecured bank loan	15	**30,174**	30,110
Obligations under finance leases	15	**42**	138
Deficit on pension schemes	17	**1,244**	1,064
Post employment benefit liabilities	17	**1,850**	902
Other non-current liabilities	18	**2,762**	476
Deferred tax liabilities	16	**1,123**	834
		37,195	33,524
Current liabilities			
Trade and other payables	18	**217,486**	181,003
Bank loans and other borrowings	15	**20,444**	15,185
Taxation payable		**5,855**	3,029
		243,785	199,217
Total liabilities		**280,980**	232,741
Total equity and liabilities		**373,302**	313,837
Net current assets		**72,969**	69,471
Total assets less current liabilities		**129,517**	114,620

On behalf of the Board

Victor FUNG Kwok King
Director

Benedict CHANG Yew Teck
Director

The notes on pages 72 to 134 are an integral part of these financial statements

Balance Sheet

As at 31 December 2005

	Note	**2005 US$'000**	2004 US$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	9	**40,290**	34,050
Current assets			
Other receivables		**53**	23
Time deposits	12	**12,393**	17,859
		12,446	17,882
Total assets		**52,736**	51,932
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	13	**30,900**	30,900
Reserves	14	**21,555**	20,922
Total equity		**52,455**	51,822
Current liabilities			
Other payables		**281**	110
Total equity and liabilities		**52,736**	51,932
Net current assets		**12,165**	17,772
Total assets less current liabilities		**52,455**	51,822

On behalf of the Board

Victor FUNG Kwok King
Director

Benedict CHANG Yew Teck
Director

The notes on pages 72 to 134 are an integral part of these financial statements

Consolidated Income Statement

For the year ended 31 December 2005

	Note	2005 US$'000	2004 US$'000 (Restated)
Revenue	5	**821,530**	584,876
Cost of sales		**(604,568)**	(419,825)
Gross profit		**216,962**	165,051
Marketing and logistics expenses		**(168,272)**	(122,083)
Administrative expenses		**(32,738)**	(30,280)
Core operating profit		**15,952**	12,688
Other gains	19	**3,011**	860
Other expenses	20	**–**	(227)
Operating profit	20	**18,963**	13,321
Finance costs, net	22	**(856)**	(687)
Operating profit after finance costs		**18,107**	12,634
Share of profit of a jointly controlled entity		**–**	25
Profit before taxation		**18,107**	12,659
Taxation	23	**(3,828)**	(1,096)
Profit for the year		**14,279**	11,563
Profit attributable to:			
Shareholders of the Company		**13,333**	10,640
Minority interest		**946**	923
		14,279	11,563
Dividends	26	**7,961**	21,958
Earnings per share for profit attributable to the shareholders of the Company during the year	25		
Basic		**US4.31 cents**	US4.35cents
Diluted		**US4.27 cents**	US4.35cents

The notes on pages 72 to 134 are an integral part of these financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Attributable to shareholders of the Company				
	Share capital US$'000	**Other reserves** US$'000	**Retained earnings/ (accumulated losses)** US$'000	**Minority interest** US$'000	**Total** US$'000
At 1 January 2004, previously reported as equity	24,000	75,053	(35,427)	–	63,626
At 1 January 2004, previously reported as minority interest	–	–	–	4,272	4,272
Effect of adopting HKAS 17	–	(2,281)	555	(112)	(1,838)
Effect of adopting HKAS 19	–	–	(1,076)	–	(1,076)
At 1 January 2004, as restated	24,000	72,772	(35,948)	4,160	64,984
Exchange differences	–	103	–	63	166
Actuarial losses from post employment benefits recognized in equity	–	–	(803)	–	(803)
Profit for the year	–	–	10,640	923	11,563
Total recognized income for 2004	–	103	9,837	986	10,926
Transfer to accumulated losses	–	(11,400)	11,400	–	–
Issue of shares by placing and public offer	6,900	21,019	–	–	27,919
Acquisition of additional interest in a subsidiary	–	–	–	(750)	(750)
Dividends	–	–	(21,958)	(25)	(21,983)
At 31 December 2004	30,900	82,494	(36,669)	4,371	81,096
Opening adjustment for adoption of HKAS 39	–	–	(118)	–	(118)
At 1 January 2005, as restated	30,900	82,494	(36,787)	4,371	80,978
Exchange differences	–	(783)	–	(26)	(809)
Actuarial losses from post employment benefits, net of deferred tax recognized in equity	–	–	(44)	–	(44)
Profit for the year	–	–	13,333	946	14,279
Total recognized (expenses)/income for 2005	–	(783)	13,289	920	13,426
Employee share option benefits	–	537	–	–	537
Transfer to accumulated losses	–	(43,000)	43,000	–	–
Dividends	–	–	(2,386)	(233)	(2,619)
At 31 December 2005	30,900	39,248	17,116	5,058	92,322

The notes on pages 72 to 134 are an integral part of these financial statements

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	**2005 US$'000**	2004 US$'000
Cash generated from operations	27(a)	**19,676**	20,764
Interest paid		**(2,792)**	(2,428)
Overseas tax refund		**351**	159
Overseas tax paid		**(3,622)**	(3,199)
Net cash generated from operating activities		**13,613**	15,296
Dividends received from unlisted investments		**–**	27
Interest received		**1,936**	1,741
Net (increase)/decrease in time deposits		**(264)**	2,344
Net changes in the non-trade amounts due from related companies		**–**	86
Purchase of property, plant and equipment		**(13,466)**	(14,268)
Purchase of intangible assets		**(2,274)**	(2,772)
Transfer of plant and equipment from related companies		**–**	(970)
Transfer of property, plant and equipment to related companies		**–**	6,366
Disposal of a subsidiary	27(c)	**–**	(370)
Acquisition of a subsidiary	27(d)	**–**	(979)
Acquisition of additional interest in a subsidiary		**–**	(750)
Sale of property, plant and equipment		**2,313**	30,098
Sale of long-term investments		**5**	–
Net cash (used in)/generated from investing activities		**(11,750)**	20,553
Net cash generated before financing activities		**1,863**	35,849
Dividends paid to minority shareholders of subsidiaries	27(b)	**(233)**	(25)
Dividends paid	14	**(2,386)**	(21,958)
Proceeds from shares issued, net	27(b)	**–**	27,919
New loans raised	27(b)	**14,080**	48,002
Repayment of loans	27(b)	**(7,559)**	(47,132)
Capital element of finance lease payments	27(b)	**(138)**	(139)
Net cash generated from financing activities		**3,764**	6,667
Increase in cash and cash equivalents		**5,627**	42,516
Cash and cash equivalents at 1 January		**50,612**	8,303
Effect of foreign exchange rate changes		**(254)**	(207)
Cash and cash equivalents at 31 December	12	**55,985**	50,612

The notes on pages 72 to 134 are an integral part of these financial statements

Notes to the Consolidated Financial Statements

1 General Information

Integrated Distribution Services Group Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the provision of logistics services, the marketing and distribution of consumer and healthcare products and manufacturing. The Group operates mainly in geographical areas of Hong Kong, Taiwan, Thailand, Malaysia, Singapore, the Philippines, Indonesia, Mainland China ("PRC ") and Brunei.

The Company is a limited liability company incorporated in Bermuda on 25 September 2003. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to a group reorganization (the "Reorganization") in preparation for the listing of the shares of the Company on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 20 November 2004. The Reorganization involved companies under common control and the Company and its subsidiaries resulting from the Reorganization are regarded as a continuing group. Accordingly, the Reorganization has been accounted for on the basis of merger accounting, under which consolidated financial statements have been prepared as if the Company had been the holding company of the companies comprising the Group throughout the accounting years presented.

The consolidated financial statements have been approved for issue by the Board of Directors on 20 April 2006.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated due to the adoption of new/revised accounting standards as set out below.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS), under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

2.1 Basis of preparation (continued)

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations and effective for the financial year beginning 1 January 2005

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The Group has elected to adopt Amendment to HKAS 19, Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures, ahead of its effective date of 1 January 2006. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 21, 23, 24, 27, 33 and 37 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest and other disclosures.
- HKASs 2, 8, 16 and 21 affect certain disclosures in the financial statements.
- HKASs 7, 10, 12, 14, 18, 23, 27, 33, 37 and HKAS-Int 15 do not have any impact as the Group's accounting policies already comply with the standards.
- HKAS 24 has affected the identification of related parties and some other related party disclosures.

2.1 Basis of preparation (continued)

The adoption of new/revised HKFRS (continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is immediately expensed in the income statement. In prior years, leasehold land was accounted for at valuation less accumulated depreciation and accumulated impairment.

The early adoption of revised HKAS 19 provides an option of recognizing actuarial gains and losses in full in the period in which they occur, outside profit or loss, in equity. The Group has elected to take the option to recognize all actuarial gains and losses, including those actuarial gains and losses previously included as part of the transitional unrecognized liabilities. In prior years, cumulative unrecognized net actuarial gains and losses, to the extent of the amount in excess of 10% of the greater of the present value of the plan obligations and the fair value of plan assets, were recognized in the financial statements over the average remaining service lives of employees.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Prior to this:

– the fair value of derivative financial instruments was not recognized in the balance sheet; and
– the trade and other receivables are initially recognized without discounting to the net present value at the effective interest rate.

In accordance with the provisions of HKAS 32 and HKAS 39:

– the fair value of derivative financial instruments is recognized in the balance sheet and any change in the fair value is recorded in the income statement; and
– Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

The adoption of HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for trademarks. Prior to this, trademarks were:

– amortized on a straight-line basis over a period of not exceeding 20 years; and
– assessed for impairment at each balance sheet date.

In accordance with the provisions of HKAS 36 and HKAS 38:

– the Group ceased amortization of trademarks with indefinite useful lives from 1 January 2005;
– from the year ended 31 December 2005 onwards, such trademarks are tested annually for impairment, as well as when there are indications of impairment.

2.1 Basis of preparation (continued)

The adoption of new/revised HKFRS (continued)

The adoption of HKFRS 2 has resulted in a change in accounting policy for share-based payment. Prior to this, the provision of share options to employees did not result in a charge to the income statement. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortized over the relevant vesting periods to the income statement.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Prior to the change, the Group did not have any goodwill recorded. Following the adoption, goodwill is not required to be amortized but is tested annually for impairment, as well as when there are indications of impairment.

All relevant changes in the accounting policies have been made in accordance with the transitional provisions of the respective standards, which require retrospective application to prior year comparatives other than:

- HKAS 36 and HKAS 38 – prospective accounting for trademarks from 1 January 2005.
- HKAS 39 – recognizes all derivatives at fair value in the balance sheet on 1 January 2005 and adjusts the balance to retained earnings as at that date.
- HKAS-Int 15 – does not require recognition of incentives for leases commencing before 1 January 2005.
- HKFRS 3 – prospective from 1 January 2005.

2.1 Basis of preparation (continued)

Effect of changes in accounting policies on consolidated income statement

	Effect of adopting					
	HKAS 17 US$'000 (a)	HKAS 19 US$'000 (a)	HKFRS 2 US$'000 (a)	HKAS 36 & HKAS 38 US$'000 (b)	HKAS 39 US$'000 (b)	Total US$'000
Year 2005						
Increase in other gains	975	–	–	–	–	975
Decrease in cost of sales	42	–	–	–	–	42
Decrease/(increase) in administrative expenses	33	106	(537)	62	54	(282)
Increase in taxation	(297)	–	–	–	–	(297)
Total increase/(decrease) in profit	753	106	(537)	62	54	438
Increase/(decrease) in earnings per share						
Basic	0.24 cents	0.03 cents	(0.17 cents)	0.02 cents	0.02 cents	0.14 cents
Diluted	0.24 cents	0.03 cents	(0.17 cents)	0.02 cents	0.02 cents	0.14 cents
Year 2004						
Decrease in cost of sales	42	–	–	–	–	42
Decrease in administrative expenses	33	43	–	–	–	76
Increase in taxation	(24)	–	–	–	–	(24)
Total increase in profit	51	43	–	–	–	94
Increase in earnings per share						
Basic	0.02 cents	0.02 cents	–	–	–	0.04 cents
Diluted	0.02 cents	0.02 cents	–	–	–	0.04 cents

(a) adjustments which take effect retrospectively

(b) adjustments which take effect prospectively from 1 January 2005

2.1 Basis of preparation (continued)

Effect of changes in accounting policies on consolidated balance sheets

	Effect of adopting					
	HKAS 17 US$'000 (a)	HKAS 19 US$'000 (a)	HKFRS 2 US$'000 (a)	HKAS 36 & HKAS 38 US$'000 (b)	HKAS 39 US$'000 (b)	Total US$'000
At 1 January 2004 (Equity only)						
Increase/(decrease) in equity:						
Properties revaluation reserve	(2,281)	–	–	–	–	(2,281)
Accumulated losses	555	(1,076)	–	–	–	(521)
Minority interest	(112)	–	–	–	–	(112)
At 31 December 2004						
Increase/(decrease) in assets:						
Lease premium for land	416	–	–	–	–	416
Property, plant and equipment	(2,879)	–	–	–	–	(2,879)
Surplus on pension schemes	–	(1,150)	–	–	–	(1,150)
Deferred tax assets	132	–	–	–	–	132
Increase/(decrease) in equity/liabilities:						
Properties revaluation reserve	(1,961)	–	–	–	–	(1,961)
Accumulated losses	286	(1,836)	–	–	#	(1,550)
Minority interest	(112)	–	–	–	–	(112)
Deferred tax liabilities	(544)	–	–	–	–	(544)
Deficit on pension schemes	–	592	–	–	–	592
Post employment benefit liabilities	–	94	–	–	–	94

(a) adjustments which take effect retrospectively

(b) adjustments which take effect prospectively from 1 January 2005

 # Adjustment for the adoption of HKAS 39 amounted to US$118,000 (note 14) has been debited to accumulated losses at 1 January 2005 in accordance with the HKFRS

2.1 Basis of preparation (continued)

Effect of changes in accounting policies on consolidated balance sheets (continued)

	Effect of adopting					
	HKAS 17 US$'000 (a)	HKAS 19 US$'000 (a)	HKFRS 2 US$'000 (a)	HKAS 36 & HKAS 38 US$'000 (b)	HKAS 39 US$'000 (b)	Total US$'000
At 31 December 2005						
Increase/(decrease) in assets:						
Intangible assets	–	–	–	62	–	62
Lease premium for land	395	–	–	–	–	395
Property, plant and equipment	(1,808)	–	–	–	–	(1,808)
Surplus on pension schemes	–	(823)	–	–	–	(823)
Deferred tax assets	138	186	–	–	–	324
Increase/(decrease) in equity/liabilities:						
Employee share-based compensation reserve	–	–	537	–	–	537
Properties revaluation reserve	(986)	–	–	–	–	(986)
Retained earnings	64	(1,774)	(537)	62	(64)	(2,249)
Minority interest	(112)	–	–	–	–	(112)
Deferred tax liabilities	(241)	–	–	–	–	(241)
Deficit on pension schemes	–	622	–	–	–	622
Post employment benefit liabilities	–	515	–	–	–	515
Trade and other payables	–	–	–	–	64	64

(a) adjustments which take effect retrospectively

(b) adjustments which take effect prospectively from 1 January 2005

2.1 Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted. The new HKFRS expected to be applicable to the Group's operations are as follows:

HKAS 1 (Amendment), Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)

The revised standard will affect the disclosures of qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; compliance with any capital requirements; and the consequences of any non-compliance. The Group will apply this amendment from annual periods beginning 1 January 2007.

HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006)

This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1 January 2006.

HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006)

This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognized at their fair value, and subsequently measured at the higher of (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management is currently assessing the impact of HKAS 39 and HKFRS 4 on the Company's and the Group's operations.

HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006)

HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

HKFRS 7, Financial Instruments: Disclosures (effective from 1 January 2007)

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The Group will apply HKFRS 7 from annual periods beginning 1 January 2007.

2.1 Basis of preparation (continued)

Management has considered the following new standards, amendments and interpretations and concluded that they are not relevant to the Group:

HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6 and Amendment	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A segment is a distinguishable component of the Group that is engaged and operated either in providing particular products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), and which is subject to risks and returns that are different from those of other segments.

In accordance with its internal financial reporting, the Group has determined that business segment information be presented as the primary reporting format and geographical segment information as the secondary reporting format.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

2.5 Property, plant and equipment

Buildings comprise mainly factories and offices. Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Depreciation of property, plant and equipment is calculated using the straight-line method over their estimated useful lives, as follows:

Buildings	shorter of the period of the leases or 2%
Warehouse automated storage retrieval system	5% -25%
Furniture, plant and machinery	6.7% -33.3%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Change in accounting estimates

According to HKAS 16, the useful life of an asset shall be reviewed at least at each financial year-end. A revision of the useful lives of certain property, plant and equipment was carried out during the year by management. The change in accounting estimates on the useful lives of fixed assets has decreased the depreciation charge by US$520,000 and increased in the deferred tax charge by US$140,000 for the current year and is expected to have similar impact for each subsequent financial year.

2.6 Intangible assets

Trademarks

Trademarks have an indefinite useful life. They are tested annually for impairment and carried at cost less accumulated impairment losses.

Computer software

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs are amortized over the estimated useful life of the software (not exceeding seven years).

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Investments

From 1 January 2004 to 31 December 2004:

Other long term investments represented investments in securities, other than subsidiaries, associates and jointly controlled entities. Investments were stated at cost less any provision for impairment losses.

The carrying amounts of individual investments were reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary had occurred, the carrying amount of such securities was reduced to the fair value. The impairment loss was recognized as an expense in the consolidated income statement. Reversal of impairment loss was credited to the consolidated income statement when the circumstances and events that led to the write-downs or write-offs ceased to exist and there was persuasive evidence that the new circumstances and events would persist for the foreseeable future.

From 1 January 2005 onwards:

The Group classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of the Group's investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

2.8 Investments (continued)

From 1 January 2005 onwards: (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (note 2.10).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. During the year, the Group did not hold any investments in this category.

Purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

2.8 Investments (continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

2.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined principally using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within bank loans and other borrowings in current liabilities on the balance sheet.

2.12 Share capital

Ordinary shares are classified as equity.

2.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

All borrowing costs are charged to the income statement in the year which they are incurred.

2.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 Employee benefits

(a) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

2.15 Employee benefits (continued)

(a) Pension obligations (continued)

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in full in the period in which they occur, outside profit or loss, in equity. Past-service costs are recognized immediately as income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as employee share option expense in income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to employee share-based compensation reserve over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(c) Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit-sharing. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.16 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognized as follows:

(a) Sales of goods

Sales of goods are recognized when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Sales of services

Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(c) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

2.17 Leases

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

(b) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings, as appropriate. The interest element of the finance cost is recognized in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The asset acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

2.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

2.19 Core operating profit

Core operating profit is the recurring profit generated from the Group's business which comprises profit before interest income, finance costs and tax, and excludes material gain or loss which are of capital nature or non-recurring nature (such as gain or loss on disposal or impairment provision of fixed assets or other assets).

2.20 Comparatives

As further explained in note 2.1, due to the adoption of the new/revised HKFRS during the current year, the accounting treatment and presentation of certain items in the accounts have been revised to comply with the new requirements. Accordingly, certain comparatives have been restated to conform with the current year presentation.

3 Financial risk management

The Group's activities expose it to a variety of financial risks including foreign exchange risk, credit risk and interest rate risk. The Group's overall risk management program focuses on minimizing potential adverse effects of these risks on the Group's financial performance. The Group uses derivative financial instruments to manage certain risk exposures.

(a) Foreign exchange risk

The Company operates in nine economies in Asia and is thus exposed to foreign exchange risk. Fluctuations in exchange rates in these economies can affect the earnings and net assets of the Group. This risk is managed on a global basis by utilizing a number of techniques, including working capital management and selective borrowings in local currencies.

In addition, certain purchase transactions are not conducted in the respective local currencies of the operations. The Group purchases foreign currency contracts to protect against the adverse effect of such exchange fluctuations on the foreign currencies. The Group's risk management policy is to manage all material purchases transacted on foreign currencies and restrict from engaging in speculative foreign exchange contracts.

(b) Credit risk

Credit risk arises when sales are made on deferred credit terms. The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

3 Financial risk management (continued)

(c) Cash flow and fair value interest rate risk

The Group's interest-rate risk arises from time deposits, bank balances, cash and borrowings. Time deposits and bank balances deposited and borrowings issued at variable rates expose the Group to cash flow interest-rate risk. This risk is managed through the maintenance of a proper portfolio of deposit and debt composed of short- and long-term instruments with various currencies.

4 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are below.

(a) Allowance for doubtful accounts

The Group provides an allowance for doubtful accounts that represents the management's best estimate of the accounts receivable that will not be collected. The estimation based on, among other things, historical collection experience, a review of the current aging status of customer receivables, and a review of specific information for those customers that are deemed to be higher risk. The evaluation of the adequacy of allowance for doubtful accounts is performed on at least a half-yearly basis. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(b) Excess and obsolete inventory

The Group requires all excess, obsolete, damaged or off-quality inventory to be adequately reserved for or to be disposed of. This process requires an ongoing tracking of the aging and expiry date of inventories to be reviewed in conjunction with current marketing plans to ensure that any excess or obsolete inventories are identified on a timely basis. This process requires judgments be made about the salability of existing stock in relation to sales projections. The evaluation of the adequacy of provision for obsolete and excess inventories performed on at least a half-yearly basis. If actual sales are less favorable than those projected by management, additional inventory allowances may need to be recorded for such additional obsolescence.

(c) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5 Revenue and segment information

(a)

	2005 US$'000	2004 US$'000
Total invoiced amounts	**918,123**	659,734
Less: Collections on behalf of principals*	**(96,593)**	(74,858)
Revenue	**821,530**	584,876

* Among other services, the Group has provided standalone credit and cash management service to its clients who usually have their own selling and marketing capabilities. Under this arrangement, the Group generally does not bear any inventory and/or accounts receivable risks of the invoiced amount, though invoices are issued in the Group's name. The net amount paid to the Group's clients under this arrangement was recorded as collections on behalf of principals. In accordance with HKAS18 "Revenue", such collections on behalf of principals was deducted from the total invoiced amounts to arrive at the revenue earned by the Group.

(b) The Group is principally engaged in the provision of logistics services, the marketing and distribution of consumer and healthcare products, and manufacturing.

	2005 US$'000	2004 US$'000
Sales of goods	**703,579**	498,031
Rendering of services	**117,951**	86,845
Revenue	**821,530**	584,876

Primary reporting format – business segments

The Group is organized on a worldwide basis into the following business segments:

Logistics
Marketing
Manufacturing

Secondary reporting format – geographical segments

The Group operates in the following geographical areas:

Hong Kong	–	Marketing and Logistics
Taiwan	–	Logistics
Thailand	–	Marketing, Logistics and Manufacturing
Malaysia	–	Marketing, Logistics and Manufacturing
Singapore	–	Marketing and Logistics
the Philippines	–	Marketing and Logistics
Indonesia	–	Marketing and Manufacturing
Mainland China ("PRC")	–	Marketing and Logistics
Brunei	–	Marketing

5 Revenue and segment information (continued)

Primary reporting format – business segments

2005

	Logistics US$'000	Marketing US$'000	Manufacturing US$'000	Corporate (note) US$'000	Inter-segment elimination US$'000	Group total US$'000
Sales of goods	–	570,966	132,952	–	(339)	703,579
Rendering of services	127,030	4,932	1,361	–	(15,372)	117,951
Revenue	127,030	575,898	134,313	–	(15,711)	821,530
Segment results	10,365	11,856	3,928	(7,186)		18,963
Finance costs, net						(856)
Profit before taxation						18,107
Taxation						(3,828)
Profit for the year						14,279
Total assets	71,309	209,834	46,431	45,728		373,302
Total liabilities	54,779	155,911	28,274	42,016		280,980
Capital expenditure	5,681	4,243	4,303	1,534		15,761
Depreciation and amortization	4,015	2,040	1,235	1,131		8,421
Impairment of inventory	182	342	586	–		1,110
Impairment of trade receivables	7	385	5	–		397

Note: Corporate segment mainly includes head office and corporate overheads and common information technology costs which cannot be meaningfully allocated to the business segments.

5 Revenue and segment information (continued)

Primary reporting format – business segments (continued)

2004

	Logistics US$'000 (Restated)	Marketing US$'000 (Restated)	Manufacturing US$'000 (Restated)	Corporate US$'000 (Restated)	Inter-segment elimination US$'000 (Restated)	Group total US$'000 (Restated)
Sales of goods	–	375,902	122,414	–	(285)	498,031
Rendering of services	94,251	4,034	1,417	–	(12,857)	86,845
Revenue	94,251	379,936	123,831	–	(13,142)	584,876
Segment results	6,647	9,104	4,392	(6,822)		13,321
Finance costs, net						(687)
Share of profit of a jointly controlled entity	–	25	–	–		25
Profit before taxation						12,659
Taxation						(1,096)
Profit for the year						11,563
Total assets	63,702	168,996	38,940	42,199		313,837
Total liabilities	51,617	114,903	27,164	39,057		232,741
Capital expenditure	6,828	4,147	4,378	2,913		18,266
Depreciation and amortization	3,318	1,726	1,445	998		7,487
Impairment of inventory	–	1,027	46	–		1,073
Provision/(reversal) of impairment of trade receivables	22	(306)	–	–		(284)

5 Revenue and segment information (continued)

Secondary reporting format – geographical segments

	Revenue 2005 US$'000	Total assets 2005 US$'000	Capital expenditure 2005 US$'000
Hong Kong	**230,230**	**103,466**	**2,751**
Taiwan	**18,211**	**28,696**	**252**
Thailand	**121,095**	**54,704**	**4,994**
Malaysia	**131,658**	**52,724**	**2,893**
Singapore	**60,207**	**30,302**	**800**
the Philippines	**137,173**	**26,799**	**1,250**
Indonesia	**8,354**	**7,439**	**218**
PRC	**101,203**	**60,105**	**2,479**
Brunei	**18,444**	**9,067**	**124**
	826,575	**373,302**	**15,761**
Less: Inter-segment elimination	**(5,045)**	**–**	**–**
Total	**821,530**	**373,302**	**15,761**

	Revenue 2004 US$'000	Total assets 2004 US$'000 (Restated)	Capital expenditure 2004 US$'000
Hong Kong	220,503	97,691	6,425
Taiwan	12,964	29,894	2,121
Thailand	110,169	50,474	1,493
Malaysia	125,302	50,651	5,069
Singapore	44,796	25,127	257
the Philippines	14,639	6,118	242
Indonesia	8,225	5,137	114
PRC	39,921	41,831	2,476
Brunei	12,427	6,914	69
	588,946	313,837	18,266
Less: Inter-segment elimination	(4,070)	–	–
Total	584,876	313,837	18,266

6 Intangible assets

	Group		
	Software costs US$'000	Trademarks US$'000	Total US$'000
At 1 January 2004			
Cost	4,614	1,228	5,842
Accumulated amortization	(2,321)	(122)	(2,443)
Net book value	2,293	1,106	3,399
Year ended 31 December 2004			
Opening net book value	2,293	1,106	3,399
Exchange adjustment	5	–	5
Additions	2,772	–	2,772
Amortization expense (note 20)	(629)	(62)	(691)
Closing net book value	4,441	1,044	5,485
At 31 December 2004			
Cost	7,394	1,228	8,622
Accumulated amortization	(2,953)	(184)	(3,137)
Net book value	4,441	1,044	5,485
Year ended 31 December 2005			
Opening net book value	4,441	1,044	5,485
Exchange adjustment	(3)	–	(3)
Additions	2,274	–	2,274
Amortization expense (note 20)	(904)	–	(904)
Closing net book value	5,808	1,044	6,852
At 31 December 2005			
Cost	9,674	1,228	10,902
Accumulated amortization	(3,866)	(184)	(4,050)
Net book value	5,808	1,044	6,852

Software costs include internally generated capitalized software development costs and other costs.

Amortization of US$55,000 (2004: US$35,000) is included in the marketing and logistics expenses; and US$849,000 (2004: US$656,000) in administrative expenses in the consolidated income statement.

7 Lease premium for land

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analyzed as follows:

	Group	
	2005	2004
	US$'000	US$'000
Outside Hong Kong, held on:		
Leases of over 50 years	**269**	271
Leases of between 10 to 50 years	**126**	145
	395	416

	2005	2004
	US$'000	US$'000
Opening	**416**	431
Exchange difference	**1**	–
Disposals	**(7)**	–
Amortization of prepaid operating lease payment (note 20)	**(15)**	(15)
	395	416

8 Property, plant and equipment

	Group			
	Buildings US$'000	**Warehouse automated storage retrieval system** US$'000	**Furniture, plant and machinery** US$'000	**Total** US$'000
At 1 January 2004				
Cost	24,105	15,494	63,280	102,879
Accumulated depreciation	(2,575)	–	(40,032)	(42,607)
Net book value	21,530	15,494	23,248	60,272
Year ended 31 December 2004				
Opening net book value	21,530	15,494	23,248	60,272
Exchange adjustment	(193)	114	277	198
Acquisition of a subsidiary	–	–	2	2
Additions	475	–	14,049	14,524
Transfer from related companies	–	–	970	970
Transfer/disposals to related companies	(4,524)	–	(982)	(5,506)
Reclassification	–	(449)	449	–
Disposals	(14,611)	(14,874)	(314)	(29,799)
Depreciation	(236)	(285)	(6,260)	(6,781)
Closing net book value	2,441	–	31,439	33,880
At 31 December 2004				
Cost	3,070	–	76,791	79,861
Accumulated depreciation	(629)	–	(45,352)	(45,981)
Net book value	2,441	–	31,439	33,880

8 Property, plant and equipment (continued)

	Group			
	Buildings US$'000	Warehouse automated storage retrieval system US$'000	Furniture, plant and machinery US$'000	Total US$'000
Year ended 31 December 2005				
Opening net book value	2,441	–	31,439	33,880
Exchange adjustment	8	–	(191)	(183)
Additions	492	–	12,995	13,487
Disposals	(35)	–	(296)	(331)
Depreciation	(90)	–	(7,412)	(7,502)
Closing net book value	2,816	–	36,535	39,351
At 31 December 2005				
Cost	3,528	–	78,015	81,543
Accumulated depreciation	(712)	–	(41,480)	(42,192)
Net book value	2,816	–	36,535	39,351

Furniture, plant and machinery includes the following amounts where the Group is a lessee under a finance lease:

	2005 US$'000	2004 US$'000
Cost – capitalized finance leases	**530**	506
Accumulated depreciation	**(318)**	(192)
Net book value	**212**	314

Depreciation expense of US$1,477,000 (2004: US$1,579,000) has been expensed in cost of sales, US$4,235,000 (2004: US$3,272,000) in marketing and logistics expenses and US$1,790,000 (2004: US$1,930,000) in administrative expenses.

9 Interests in subsidiaries

	Company	
	2005	2004
	US$'000	US$'000
Unlisted shares, at cost (note (a))	**23,988**	23,988
Amount due from a subsidiary (note (b))	**16,302**	10,062
	40,290	34,050

(a) Particulars of principal subsidiaries are set out in note 31 to the consolidated financial statements.

(b) The amount due from a subsidiary is unsecured, interest-free and have no fixed terms of repayment.

10 Inventories

	Group	
	2005	2004
	US$'000	US$'000
Finished goods and merchandise	**84,022**	70,584
Raw materials	**8,498**	8,706
Work in progress	**1,435**	1,542
	93,955	80,832
Less: Provision for obsolescence	**(2,881)**	(2,751)
	91,074	78,081

The cost of inventories recognized as expense and included in cost of sales amounted to US$592,932,000 (2004: US$405,002,000).

The Group recognized an inventory write-down of US$1,110,000 (2004: US$1,073,000). The amount has been included in cost of sales in the consolidated income statement.

11 Trade and other receivables

	Group	
	2005 **US$'000**	2004 US$'000 (Restated)
Trade receivables	**134,792**	114,291
Less: provision for impairment of receivables	**(1,498)**	(1,799)
Trade receivables, net (note (a))	**133,294**	112,492
Other receivables, prepayments, and deposits	**37,768**	24,501
Due from related companies (note (b) and note 30(c))	**1,299**	3,113
	172,361	140,106
Less: non-current portion: prepayments and deposits	**(4,858)**	(3,031)
	167,503	137,075

The fair values of trade and other receivables are approximate to their book value.

Notes:

(a) The Group normally granted credit terms to its customers ranging from 30 to 90 days. In certain circumstances, longer credit terms are given based on negotiated contract terms. At 31 December, the aging analysis of the Group's trade receivable based on invoice date was as follows:

	Group	
	2005 **US$'000**	2004 US$'000
Less than 90 days	**124,552**	103,984
91-180 days	**6,165**	6,248
181-360 days	**1,788**	2,096
Over 360 days	**789**	164
	133,294	112,492

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

The Group has recognized a loss of US$397,000 (2004: reversal of provision for impairment loss of US$284,000) for the impairment of its trade receivables during the year ended 31 December 2005. The loss has been included in marketing and logistics expenses in the consolidated income statement.

11 Trade and other receivables (continued)

(b) The amounts due from related companies can be analyzed as follows:

	Group	
	2005 US$'000	2004 US$'000
Trade (i)	**1,299**	1,995
Non-trade (ii)	**–**	1,118
	1,299	3,113

(i) the trade balances were aged less than 90 days and the credit terms granted to related companies were no more favorable than those granted to other third party customers.

(ii) the balances were unsecured, interest-free and had no fixed terms of repayment. The non-trade balance at 31 December 2004 represented recoverable expenses from LFD incurred for Global Offering which was subsequently settled in 2005.

12 Cash and cash equivalents

	Group		Company	
	2005 US$'000	2004 US$'000	**2005 US$'000**	2004 US$'000
Bank balance and cash	**20,446**	28,108	**–**	–
Short-term bank deposits	**37,039**	24,858	**12,393**	17,859
	57,485	52,966	**12,393**	17,859

The effective interest rate on short-term bank deposits was 3.86% (2004: 0.73%); these deposits have an average maturity of 32 days.

12 Cash and cash equivalents (continued)

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	Group		Company	
	2005	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000
Bank balances and cash	**20,446**	28,108	**–**	–
Deposits with maturity less than three months	**35,745**	23,828	**12,393**	17,859
Bank overdrafts (note 15)	**(206)**	(1,324)	**–**	–
	55,985	50,612	**12,393**	17,859

13 Share capital and options

	Ordinary shares	
	No. of shares (thousands)	**US$'000**
Authorized:		
At 1 January 2004	12	12
Increase in authorized ordinary share capital (note (a)(i))	99,988	99,988
Sub-division of shares (note (a)(ii))	900,000	–
At 31 December 2004 and at 31 December 2005	1,000,000	100,000
Issued and fully paid:		
At 1 January 2004	12	12
Sub-division of shares (note (a)(ii))	108	–
Issue of shares arising from the reorganization (note (b))	239,880	23,988
Issue of shares by placing and public offer (note (c))	69,000	6,900
At 31 December 2004 and at 31 December 2005	309,000	30,900

13 Share capital and options (continued)

Details of the changes in the Company's share capital are as follows:

(a) Pursuant to the written resolutions of the shareholder of the Company on 4 November 2004

(i) the authorized share capital for the Company was increased from US$12,000 to US$100,000,000 divided into 100,000,000 shares of US$1.0 each.

(ii) each issued and unissued share of US$1.0 each was sub-divided into ten shares of US$0.1 each.

As a result, the authorized share capital of the Company is US$100,000,000 divided into 1,000,000,000 shares of US$0.1 each.

(b) On 20 November 2004, a total of 239,880,000 shares of US$0.1 each were allotted and issued to LFD, all credited as fully paid, as consideration for the acquisition by the Company from LFD of its entire interest in IDS Group Limited (other than one issued share already owned by the Company) pursuant to the share swap agreement signed on the same date.

(c) Pursuant to the written resolutions of the shareholder of the Company passed on 4 November 2004, the global offering was approved. The Company completed its global offering and issued the shares as follows:

(i) Issued 60,000,000 shares of US$0.1 each at a price of HK$3.50 per share on 7 December 2004, and

(ii) Issued 9,000,000 shares of US$0.1 each at a price of HK$3.50 per share on 9 December 2004, upon the full exercise of an over-allotment option.

The listing proceeds of the aforementioned shares, net of direct listing expenses, amounted to approximately US$27.9 million. The resulting share premium amounted to approximately US$21,019,000.

(d) The share capital presented in the consolidated balance sheet as at 1 January 2004 represented the share capital of the Company, arising from the transactions as described in note (b) above, which is deemed to have been in issue throughout the accounting periods presented in these financial statements in accordance with the reorganization as set out in note 1.

Shares options are granted by the Company pursuant to the Share Option Scheme. Options are conditional on the employee completing certain years of service (the vesting period). The Group has no legal or constructive obligation to repurchase or settle the options in cash.

13 Share capital and options (continued)

Movements in the number of share options outstanding and the exercise prices are as follows:

	2005		2004	
	Average exercise price HK$ per share	**Share options**	Average exercise price HK$ per share	Share options
At 1 January	**4.825**	**13,500,000**	–	–
Granted	**8.600**	**4,999,500**	4.825	13,500,000
Lapsed	**4.825**	**(729,000)**	–	–
At 31 December	**5.887**	**17,770,500**	4.825	13,500,000

All outstanding options were not exercisable at 31 December 2005. No shares have been allotted and issued under the Share Option Scheme subsequent to 31 December 2005.

Share options outstanding at the end of the year have the following expiry date and exercise price:

		Share options	
Expiry date	**Exercise price HK$ per share**	**31 December 2005**	31 December 2004
31 December 2008	4.825	**4,257,000**	4,500,000
31 December 2009	4.825	**4,257,000**	4,500,000
31 December 2010	4.825	**4,257,000**	4,500,000
31 December 2009	8.600	**1,666,500**	–
31 December 2010	8.600	**1,666,500**	–
31 December 2011	8.600	**1,666,500**	–
		17,770,500	13,500,000

The fair value of options granted during the years ended 31 December 2005 and 2004 was determined using the Black-Scholes Valuation model based on the following assumptions:

Date of grant	**16 December 2005**	14 December 2004
Share price at date of grant	**HK$8.60**	HK$4.825
Exercise price	**HK$8.60**	HK$4.825
Share volatility	**34%**	30%
Average annual risk-free interest rate	**4.11%**	2.22%
Expected life of options	**4 to 6 years**	4 to 6 years
Expected dividend yield	**3%**	3%

14 Reserves

	Group					
	Share premium US$'000	**Properties revaluation reserve** US$'000	**Merger reserve (note (a))** US$'000	**Accumulated losses** US$'000	**Exchange reserve** US$'000	**Total** US$'000
At 1 January 2004, as previously reported	–	2,281	70,850	(35,427)	1,922	39,626
Effect of adopting HKAS 17	–	(2,281)	–	555	–	(1,726)
Effect of adopting HKAS 19	–	–	–	(1,076)	–	(1,076)
	–	–	70,850	(35,948)	1,922	36,824
Exchange differences	–	–	–	–	103	103
Issue of shares by placing and public offer (note (13(c))	21,019	–	–	–	–	21,019
Transfer to accumulated losses	–	–	(11,400)	11,400	–	–
Actuarial losses from post employment benefits recognized in reserve	–	–	–	(803)	–	(803)
Profit for the year	–	–	–	10,640	–	10,640
Dividends	–	–	–	(21,958)	–	(21,958)
At 31 December 2004	21,019	–	59,450	(36,669)	2,025	45,825
Company and subsidiaries	21,019	–	59,450	(36,669)	2,025	45,825

14 Reserves (continued)

	Group						
	Share premium US$'000	Employee share-based compensation reserve (note (b)) US$'000	Properties revaluation reserve US$'000	Merger reserve (note (a)) US$'000	Accumulated losses/ retained earnings US$'000	Exchange reserve US$'000	Total US$'000
At 1 January 2005	**21,019**	–	–	**59,450**	**(36,669)**	**2,025**	**45,825**
Opening adjustment for adopting HKAS 39	–	–	–	–	**(118)**	–	**(118)**
	21,019	–	–	**59,450**	**(36,787)**	**2,025**	**45,707**
Exchange differences	–	–	–	–	–	**(783)**	**(783)**
Transfer to accumulated losses/ retained earnings	–	–	–	**(43,000)**	**43,000**	–	–
Actuarial losses from post employment benefits recognized in reserve:							
– gross	–	–	–	–	**(230)**	–	**(230)**
– tax	–	–	–	–	**186**	–	**186**
Profit for the year	–	–	–	–	**13,333**	–	**13,333**
Dividends	–	–	–	–	**(2,386)**	–	**(2,386)**
Employee share option benefits	–	**537**	–	–	–	–	**537**
At 31 December 2005	**21,019**	**537**	–	**16,450**	**17,116**	**1,242**	**56,364**
Company and subsidiaries	**21,019**	**537**	–	**16,450**	**17,116**	**1,242**	**56,364**

Note:

(a) Merger reserve represented the difference between the sum of the nominal value and share premium of shares of the subsidiaries acquired from LFD for the purpose of the Reorganization as set out in Note 1 of these financial statements and the nominal value of shares of the Company issued in exchange thereof, net of subsequent transfer to accumulated losses/retained earnings.

(b) Employee share-based compensation reserve represented a corresponding entry of employee share option expenses charged to the income statement.

14 Reserves (continued)

	Company			
	Share premium US$'000	Accumulated losses US$'000	Employee share-based compensation reserve US$'000	Total US$'000
At 1 January 2004	–	–	–	–
Issue of shares (note 13(c))	21,019	–	–	21,019
Loss for the year (note 24)	–	(97)	–	(97)
At 31 December 2004	21,019	(97)	–	20,922
Profit for the year (note 24)	–	2,482	–	2,482
Dividends	–	(2,386)	–	(2,386)
Employee share option benefits	–	–	537	537
As at 31 December 2005	21,019	(1)	537	21,555

The Company did not have any reserves available for distribution to shareholders as at 31 December 2005 and 2004.

15 Bank loans and other borrowings

	Group	
	2005 US$'000	2004 US$'000
Non-current		
Unsecured bank loan	**30,174**	30,110
Obligations under finance leases	**42**	138
	30,216	30,248
Current		
Unsecured bank overdrafts (note 12)	**206**	1,324
Unsecured bank loans	**20,126**	13,728
Obligations under finance leases	**112**	133
	20,444	15,185
Total borrowings	**50,660**	45,433

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

15 Bank loans and other borrowings (continued)

The maturity of borrowings is as follows:

	Group			
	Bank loans and overdrafts		Obligations under finance leases	
	2005	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000
Within 1 year	**20,332**	15,052	**112**	133
Between 1 and 2 years	**30,174**	–	**40**	106
Between 2 and 5 years	**–**	30,110	**2**	32
Wholly repayable within 5 years	**50,506**	45,162	**154**	271

The effective interest rates at the balance sheet date were as follows:

	2005							2004						
	HK$	**NTD**	**PHP**	**THB**	**MYR**	**SGD**	**US$**	HK$	NTD	PHP	THB	MYR	SGD	US$
Bank overdrafts	**7.9%**	**–**	**–**	**–**	**6.5%**	**5.3%**	**–**	5.0%	–	–	–	6.5%	5.2%	5.3%
Bank loans	**4.9%**	**2.0%**	**10.5%**	**5.3%**	**3.8%**	**4.5%**	**–**	0.9%	2.1%	12.0%	2.9%	3.5%	2.1%	–
Obligations under finance leases	**10%**	**–**	**–**	**–**	**9.9%**	**4.5%**	**–**	10%	–	–	–	9.9%	5.9%	–

The carrying amounts of borrowings approximate to their fair value.

The carrying amounts of the borrowings are denominated in the following currencies:

	Group	
	2005	2004
	US$'000	US$'000
Hong Kong dollars	**30,234**	30,199
Taiwan dollars	**13,724**	5,537
Philippine peso	**3,301**	2,780
Thai baht	**1,537**	1,260
Malaysian ringgit	**1,427**	1,602
Singapore dollars	**437**	3,831
US dollars	**–**	224
	50,660	45,433

15 Bank loans and other borrowings (continued)

Finance lease liabilities were payable as follows:

	Group	
	2005	2004
	US$'000	US$'000
Within one year	**127**	147
In the second year	**47**	118
In the third to fifth year	**2**	39
	176	304
Future finance charges on finance leases	**(22)**	(33)
Present value of finance lease liabilities	**154**	271

16 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method. The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities:

	Group		
	Accelerated tax depreciation	**Others**	**Total**
	US$'000	US$'000	US$'000
At 1 January 2004, previously reported	6,195	589	6,784
Effect of adopting HKAS 17	(700)	–	(700)
At 1 January 2004, restated	5,495	589	6,084
Exchange differences	(9)	(1)	(10)
Credited to consolidated income statement	(3,516)	(18)	(3,534)
At 31 December 2004	1,970	570	2,540
Exchange differences	(22)	(7)	(29)
Charged/(credited) to consolidated income statement	180	(397)	(217)
At 31 December 2005	2,128	166	2,294

16 Deferred taxation (continued)

Deferred tax assets:

	Group			
	Tax losses US$'000	Decelerated tax depreciation US$'000	Provisions and others US$'000	Total US$'000
At 1 January 2004	(1,300)	(457)	(1,268)	(3,025)
Exchange differences	(31)	3	(18)	(46)
(Credited)/charged to consolidated income statement	(368)	286	(504)	(586)
At 31 December 2004	(1,699)	(168)	(1,790)	(3,657)
Exchange differences	18	8	8	34
Credited to consolidated income statement	(174)	(126)	(1,608)	(1,908)
Credited to equity	–	–	(186)	(186)
At 31 December 2005	(1,855)	(286)	(3,576)	(5,717)

The deferred taxation credited to equity during the year related to recognition of actuarial gains and losses arising in defined benefit plans through reserve.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet date:

	Group	
	2005 US$'000	2004 US$'000
Deferred tax assets	**(4,546)**	(1,951)
Deferred tax liabilities	**1,123**	834

Deferred income tax assets are recognized for tax losses carried forwards to the extent that realization of the related tax benefit through the future taxable profits is probable. As at 31 December 2005, US$35,922,000 (2004:US$59,952,000) of the Group's unrecognized tax losses is carried forward against future taxable income; of which US$1,339,000 (2004: US$30,609,000) will expire by 2010 (2004: 2009).

16 Deferred taxation (continued)

The amounts shown in the consolidated balance sheet include the following:

	Group	
	2005	2004
	US$'000	US$'000
Deferred tax assets to be received after more than 12 months	**(4,546)**	(1,951)
Deferred tax liabilities to be settled after more than 12 months	**1,123**	834

17 Pensions and other post retirement assets/(obligations)

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Assets on:		
– surplus on pension schemes – defined benefit plans (note (a))	**546**	370
Obligations on:		
– defined contribution plan payables (note 18)	**(709)**	(644)
– deficit on pension schemes – defined benefit plans (note (b))	**(1,244)**	(1,064)
– post employment benefit liabilities (note (c))	**(1,850)**	(902)
	(3,803)	(2,610)

The Group's major defined benefit retirement schemes are plans in Hong Kong, the Philippines and Taiwan. Most of the pension plans are final salary defined benefit plans. The assets of the funded plans are held independently of the Group's assets in separate trustee-administered funds or being invested through insurance companies.

The Group's post employment benefit liabilities represented the obligations in Hong Kong, Thailand and Indonesia attributed to cessation of employment in certain circumstances to certain employees. The amounts payable is dependent on the employee's final salary and years of services.

The Group's defined benefit plans and post employment benefit liabilities are valued by qualified actuaries, Watson Wyatt, annually using the projected unit credit method.

17 Pensions and other post retirement assets/(obligations) (continued)

(a) Surplus on pension schemes – defined benefit plans

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Fair value of plan assets	**3,951**	3,800
Present value of funded obligations	**(3,405)**	(3,430)
Surplus on pension schemes (note (e))	**546**	370

As at 31 December 2005, the level of funding represented 116.0% of present value of obligations.

(b) Deficit on pension schemes – defined benefit plans

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Present value of funded obligations	**(3,041)**	(2,574)
Fair value of plan assets	**1,797**	1,510
Deficit on pension schemes (note (e))	**(1,244)**	(1,064)

As at 31 December 2005, the level of funding represented 59.1% of present value of obligations.

17 Pensions and other post retirement assets/(obligations) (continued)

(c) Post employment benefit liabilities

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Present value of funded obligations	**(3,010)**	(2,462)
Unrecognized transitional liabilities (note)	**1,160**	1,560
Post employment benefit liabilities(note (e))	**(1,850)**	(902)

Note: The balances represent unfunded obligations at the time of the initial recognition of post employment benefit liabilities being amortized to the income statement over five years.

(d) The amounts recognized in the consolidated income statement:

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Surplus on pension schemes:		
Current service cost (note i)	**204**	203
Interest cost (note ii)	**116**	145
Expected return on plan assets	**(240)**	(262)
Expense on surplus on pension schemes (note (e))	**80**	86
Deficit on pension schemes:		
Current service cost (note i)	**364**	323
Interest cost (note ii)	**114**	94
Expected return on plan assets	**(75)**	(63)
Expense on deficit on pension schemes (note (e))	**403**	354
Pension costs – defined benefit plans (note 21)	**483**	440

17 Pensions and other post retirement assets/(obligations) (continued)

(d) The amounts recognized in the consolidated income statement: (continued)

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Post employment benefit liabilities		
Current service cost (note i)	**119**	41
Interest cost (note ii)	**139**	118
Amortization of transitional liability	**396**	390
Post employment benefit costs (note (e) and note 21)	**654**	549

The actual return on plan assets was US$217,000 (2004: US$82,000).

Note i Current service cost represents the increase in the defined benefit obligations resulting from employee service in the current year,
Note ii Interest cost represents the increase in the present value of the defined benefit obligations over the relevant period of time.

(e) Movement included in the consolidated balance sheet:

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Surplus on pension schemes:		
At 1 January, previously reported	**1,520**	3,366
Effect of early adoption of HKAS 19	**(1,150)**	(599)
At 1 January, restated	**370**	2,767
Total expenses – (note (d))	**(80)**	(86)
Gain/(loss) recognized through reserves	**250**	(569)
Employer's contribution/(refunded)	**6**	(1,736)
Exchange differences	**–**	(6)
At 31 December (note (a))	**546**	370

17 Pensions and other post retirement assets/(obligations) (continued)

(e) Movement included in the consolidated balance sheet: (continued)

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Deficit on pension schemes:		
At 1 January, previously reported	**(472)**	(324)
Effect of early adoption of HKAS 19	**(592)**	(477)
At 1 January, restated	**(1,064)**	(801)
Total expenses – (note (d))	**(403)**	(354)
Loss recognized through reserves	**(59)**	(140)
Employer's contribution	**277**	241
Exchange differences	**5**	(10)
At 31 December (note (b))	**(1,244)**	(1,064)
Post employment benefit liabilities:		
At 1 January, previously in trade and other payables	**(808)**	(545)
Effect of early adoption of HKAS 19	**(94)**	–
At 1 January, restated	**(902)**	(545)
Total expenses – (note (d))	**(654)**	(549)
Loss recognized through reserves	**(421)**	(94)
Benefit payment	**109**	255
Exchange differences	**18**	31
At 31 December (note (c))	**(1,850)**	(902)

17 Pensions and other post retirement assets/(obligations) (continued)

(f) The principal actuarial assumptions used were as follows:

	2005	2004
	%	%
Discount rate	**4.25-14**	3.25-10
Expected rate of future salary increases	**2.5-10**	3-8
Expected rate of return on plan assets	**6.5-12**	3.25-10

18 Trade and other payables

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Trade payable (note (a))	**161,513**	132,308
Other payables and accruals	**55,551**	46,902
Defined contribution plan payables (note 17)	**709**	644
Due to related companies (note (b) & note 30(c))	**2,475**	1,625
	220,248	181,479
Less: non-current portion: other payables and accruals	**(2,762)**	(476)
	217,486	181,003

Notes:

(a) The aging analysis of the Group's trade payable based on invoice date was as follows:

	Group	
	2005	2004
	US$'000	US$'000
Less than 90 days	**144,531**	114,418
91-180 days	**13,721**	15,969
181-360 days	**2,260**	913
Over 360 days	**1,001**	1,008
	161,513	132,308

18 Trade and other payables (continued)

(b) The amounts due to related companies can be analyzed as follows:

	Group	
	2005	2004
	US$'000	US$'000
Trade (i)	**2,475**	869
Non-trade (ii)	**–**	756
	2,475	1,625

(i) the trade balances were aged less than 90 days and the credit terms granted by related companies were no more favorable than those granted from other third party suppliers.

(ii) The balances were unsecured, interest-free and had no fixed terms of repayment. The non-trade balance at 31 December 2004 represented consideration payable for acquisition of additional interests in a subsidiary which is subsequently settled in 2005.

19 Other gains

	2005	2004
	US$'000	US$'000
		(Restated)
Gain on disposal of properties	**1,860**	860
Realized exchange gain upon settlement of long term intergroup loan	**540**	–
Service fee income	**611**	–
Other gains	**3,011**	860

20 Operating profit

Operating profit is stated after charging and (crediting) the following:

	2005 US$'000	2004 US$'000 (Restated)
Loss on disposal of a subsidiary	–	227
Other expenses	–	227
Employee benefit expense (note 21)	**90,322**	74,376
Depreciation of		
Owned property, plant and equipment	**7,376**	6,667
Leased property, plant and equipment	**126**	114
Gain on disposal of plant and equipment	**(115)**	(299)
Operating leases		
Hire of plant and machinery	**1,071**	1,130
Buildings	**21,840**	16,123
Auditors' remuneration	**831**	646
Amortization of prepaid operating lease payment (note 7)	**15**	15
Amortization of intangible assets (note 6)	**904**	691
Provision for warranty	**352**	513
Provision/(reversal of provision) for bad and doubtful debts	**397**	(284)
Provision for obsolete inventories	**1,110**	1,073
Costs of inventories sold	**592,932**	405,002
Loss on disposal of investments	**11**	–
Losses on forward contracts not qualifying as hedges	**102**	–
Exchange gain	**(84)**	(54)
Net exchange loss/(gain)	**18**	(54)

21 Employee benefit expense

	2005 US$'000	2004 US$'000 (Restated)
Wages and salaries	**85,292**	70,798
Share option expenses	**537**	–
Pension costs – defined contribution plans	**3,356**	2,589
Pension costs – defined benefit plans (note 17(d))	**483**	440
Post employment benefits (note 17(d))	**654**	549
	90,322	74,376

(a) Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 December 2005 is set out below:

Name of Director	Fees US$'000	Salary US$'000	Discretionary bonuses US$'000	Other benefits (note) US$'000	Employer's contribution to pension scheme US$'000	Total payable US$'000	Share-based compensation US$'000	Total payable and charged in the accounts US$'000
Victor FUNG Kwok King	13	–	–	–	–	13	–	13
Benedict CHANG Yew Teck	10	346	50	206	2	614	99	713
Joseph Chua PHI	10	277	236	132	2	657	50	707
Rajesh Vardichand RANAVAT	10	248	195	94	2	549	45	594
William FUNG Kwok Lun	10	–	–	–	–	10	–	10
Jeremy Paul Egerton HOBBINS	13	–	–	–	–	13	–	13
LAU Butt Farn	14	–	–	–	–	14	–	14
Derrick LEE Meow Chan	10	–	–	–	–	10	–	10
John Estmond STRICKLAND	14	–	–	–	–	14	–	14
William Winship FLANZ	15	–	–	–	–	15	–	15
FU Yu Ning	17	–	–	–	–	17	–	17
LEE Hau Leung	17	–	–	–	–	17	–	17
	153	871	481	432	6	1,943	194	2,137

21 Employee benefit expense (continued)

(a) Directors' and senior management's emoluments (continued)

The remuneration of each director for the year ended 31 December 2004 is set out below:

Name of Director	Fees US$'000	Salary US$'000	Discretionary bonuses US$'000	Other benefits (note) US$'000	Employer's contribution to pension scheme US$'000	Total payable US$'000	Share-based compensation US$'000	Total payable and charged in the accounts US$'000
Victor FUNG Kwok King	4	–	–	–	–	4	–	4
Benedict CHANG Yew Teck	4	280	239	151	1	675	–	675
Joseph Chua PHI	4	262	114	120	1	501	–	501
Rajesh Vardichand RANAVAT	4	265	83	55	2	409	–	409
William FUNG Kwok Lun	4	–	–	–	–	4	–	4
Jeremy Paul Egerton HOBBINS	4	–	–	–	–	4	–	4
LAU Butt Farn	4	–	–	–	–	4	–	4
Derrick LEE Meow Chan	4	–	–	–	–	4	–	4
John Estmond STRICKLAND	2	–	–	–	–	2	–	2
William Winship FLANZ	5	–	–	–	–	5	–	5
FU Yu Ning	3	–	–	–	–	3	–	3
LEE Hau Leung	3	–	–	–	–	3	–	3
	45	807	436	326	4	1,618	–	1,618

Note:

Other benefits include housing and other allowances.

21 Employee benefit expense (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include the three directors (2004: three) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individuals whose emoluments were the highest in the Group for the year are as follows:

	2005	2004
	US$'000	US$'000
Basic salaries and other benefits	**595**	544
Share options expenses	**49**	–
Bonuses	**135**	84
Pensions	**3**	3
	782	631

The emoluments fell within the following bands:

	Number of employees	
	2005	2004
Emolument bands		
US$260,001 – US$325,000 (HK$2,000,001 – HK$2,500,000)	**–**	1
US$325,001 – US$390,000 (HK$2,500,001 – HK$3,000,000)	**2**	1
	2	2

During the year, no emoluments have been paid to the Directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

22 Finance costs, net

	2005 US$'000	2004 US$'000
Interest expense on bank loans and overdrafts	**2,784**	2,229
Interest expense of finance leases	**8**	14
Interest expense on balances with related companies	**–**	185
	2,792	2,428
Interest income from bank deposits	**(1,936)**	(1,336)
Interest income from related parties	**–**	(405)
	856	687

The Group operates cash pooling arrangements in several economies to optimize the net finance cost on gross cash and borrowings by different subsidiaries in the same economy. A substantial portion of the interest income and expense stated above relates to such cash pooling arrangements. Accordingly, the finance cost is presented as interest expense net of interest income.

23 Taxation

Hong Kong profits tax has not been provided as the Group has no assessable profit in Hong Kong for the years ended 2005 and 2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated income statement for the year represents:

	2005 US$'000	2004 US$'000 (Restated)
Current taxation:		
– Overseas	**5,953**	5,216
Deferred taxation (note 16)	**(2,125)**	(4,120)
Taxation charges	**3,828**	1,096

23 Taxation (continued)

The differences between the Group's expected tax charge at respective domestic tax rates and the Group's tax charge for the year were as follows:

	2005 **US$'000**	2004 US$'000 (Restated)
Profit before taxation	**18,107**	12,659
Tax calculated at the domestic rates applicable to profits in the countries concerned	**5,007**	3,396
Expenses not deductible for taxation purposes	**910**	630
Eliminated income subject to tax	**124**	615
Income not subject to taxation	**(239)**	(148)
Increase in unrecognized tax losses	**455**	595
Decrease in unrecognized temporary differences	**(497)**	(200)
Utilization of previously unrecognized:		
– tax losses	**(1,081)**	(929)
– capital and reinvestment allowance	**(13)**	(785)
Recognition of previously unrecognized tax losses	**(1,097)**	(818)
Recognition of previously unrecognized deferred tax assets	**(293)**	–
Under/(over) provision in prior years	**473**	(122)
Reversal of deferred tax liabilities upon disposals of property, plant and equipment	**–**	(1,072)
Decrease in opening net deferred tax liabilities resulting from a decrease in tax rate	**–**	(66)
Others	**79**	–
Taxation charge	**3,828**	1,096

The weighted average applicable tax rate was 28% (2004: 27%). The increase is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

24 Profit attributable to shareholders

The profit attributable to shareholders included a profit of US$2,482,000 (2004: loss of US$97,000) which is dealt with in the financial statements of the Company.

25 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	2004
Profit attributable to shareholders of the Company (US$'000)	**13,333**	10,640
Weighted average number of ordinary shares in issue (thousands) (note)	**309,000**	244,488
Basic earnings per share (US$ cents per share)	**4.31**	4.35

Diluted

The diluted earnings per share is based on the weighted average number of 309,000,000 (2004: 244,488,000) shares in issue during the year plus the weighted average number of 3,060,000 (2004: Nil) shares deemed to have been issued at no consideration if all outstanding options had been exercised.

	2005	2004
Profit attributable to shareholders of the Company (US$'000)	**13,333**	10,640
Weighted average number of ordinary shares in issue (thousands) (note)	**309,000**	244,488
Effect on dilution of share options (thousands)	**3,060**	–
Adjusted weighted average number of ordinary shares (thousands)	**312,060**	244,488
Diluted earnings per share (US$ cents per share)	**4.27**	4.35

Note:

In determining the weighted average number of ordinary shares deemed to be in issue during 2004, a total of 239,880,000 ordinary shares were deemed to be in issue since 1 January 2004 after taking into consideration the effect of the Reorganization.

26 Dividends

	2005 US$'000	2004 US$'000
Interim, paid before the Reorganization (note)	–	10,558
Special, paid before the Reorganization (note)	–	11,400
Interim dividend paid of HK6.00cents (equivalent to US0.77cent)(2004:N/A)per share	**2,386**	–
Proposed dividend after balance sheet date of HK14.00 cents (equivalent to US1.8 cents) (2004:Nil) per share	**5,575**	–
	7,961	21,958

At a meeting held on 20 April 2006, the Directors proposed a final dividend of HK14 cents (equivalent to US1.8 cents) per share. The proposed dividends are not reflected as dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

Note The amounts represented dividends paid by the subsidiaries to their then shareholders before the Reorganization. The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful.

27 Notes to the consolidated cash flow statements

(a) Cash generated from operations:

	2005 US$'000	2004 US$'000 (Restated)
Operating profit	**18,963**	13,321
Amortization of intangible assets	**904**	691
Depreciation charge	**7,502**	6,781
Amortization of prepaid operating lease payment	**15**	15
Loss on disposal of long-term investments	**11**	–
Loss on disposal of a subsidiary	–	227
Gain on disposal of property, plant and equipment	**(1,975)**	(1,159)
Share option expenses	**537**	–
Dividends received from unlisted investments	–	(27)
Operating profit before working capital changes	**25,957**	19,849
Increase in inventories	**(13,449)**	(21,222)
Increase in trade and other receivables and surplus on pension schemes	**(34,129)**	(17,609)
Increase in trade and other payables, deficit on pension schemes and post employment benefit liabilities	**41,415**	39,746
Opening adjustment for HKAS 39	**(118)**	–
Net cash inflow generated from operations	**19,676**	20,764

27 Notes to the consolidated cash flow statements (continued)

(b) Analysis of changes in financing activities during the year

	Share capital US$'000	Share premium US$'000	Bank loans US$'000	Minority interest US$'000	Obligations under finance leases US$'000
At 1 January 2004	24,000	–	42,459	4,160	154
Cash inflow from bank loans	–	–	48,002	–	–
Cash outflow from bank loans and finance lease	–	–	(47,132)	–	(139)
Dividends paid to minority shareholders in subsidiaries	–	–	–	(25)	–
Net proceeds from shares issued	6,900	21,019	–	–	–
Non-cash movements:					
Inception of finance lease	–	–	–	–	256
Minority interest's share of profits	–	–	–	923	–
Exchange differences	–	–	509	63	–
Acquisition of additional interest in a subsidiary	–	–	–	(750)	–
At 31 December 2004	30,900	21,019	43,838	4,371	271
At 1 January 2005	**30,900**	**21,019**	**43,838**	**4,371**	**271**
Cash inflow from bank loans	**–**	**–**	**14,080**	**–**	**–**
Cash outflow from bank loans and finance lease	**–**	**–**	**(7,559)**	**–**	**(138)**
Dividends paid to minority shareholders in subsidiaries	**–**	**–**	**–**	**(233)**	**–**
Non-cash movements:					
Inception of finance lease	**–**	**–**	**–**	**–**	**21**
Minority interest's share of profits	**–**	**–**	**–**	**946**	**–**
Exchange differences	**–**	**–**	**(59)**	**(26)**	**–**
At 31 December 2005	**30,900**	**21,019**	**50,300**	**5,058**	**154**

27 Notes to the consolidated cash flow statements (continued)

(c) Disposal of interest in a subsidiary

	2005 **US$'000**	2004 US$'000
Net assets of a subsidiary disposed of:		
Trade and other receivables	–	9
Bank balances and cash	–	396
Taxation payable	–	(131)
Other payables	–	(21)
	–	253
Loss on disposal of interest in a subsidiary	–	(227)
	–	26
Satisfied by cash	–	26
Analysis of the net outflow in respect of disposal of interest in a subsidiary:		
Sales proceeds	–	26
Bank balances and cash disposed of	–	(396)
Net cash outflow in respect of the disposal of interest in a subsidiary	–	(370)

No disposal of subsidiaries during 2005.

27 Notes to the consolidated cash flow statements (continued)

(d) Acquisition of a subsidiary

	2005 **US$'000**	2004 US$'000
Net assets:		
Property, plant and equipment	–	2
Inventories	–	944
Trade and other receivables	–	6,129
Bank balances and cash	–	4,128
Trade and other payables	–	(1,223)
	–	9,980
Transfer from interest in jointly controlled entity	–	(4,873)
Net asset acquired	–	5,107
Satisfied by cash	–	5,107
The subsidiary acquired contributed:		
Net cash inflow from operating activities	–	2,936
Net cash outflow from investing activities	–	(829)
Analysis of the net outflow in respect of acquisitions of a subsidiary:		
Cash consideration	–	(5,107)
Bank balances and cash acquired	–	4,128
Net cash outflow in respect of acquisition of a subsidiary	–	(979)

No acquisition of subsidiary was made 2005.

(e) Included in the bank balances and cash of the Group as at 31 December 2005, US$15,885,000 (2004: US$11,670,000) were denominated in Renminbi, of which the remittance is subject to foreign exchange control.

28 Contingent liabilities

Bank guarantees

The Group has the following outstanding bank guarantees issued by banks in the ordinary course of business:

	Group	
	2005	2004
	US$'000	US$'000
As security in favor of local tax and customs authorities in accordance with local regulations	**9,032**	9,201
For purchase of goods in favor of suppliers	**9,145**	7,756
Performance bonds and others	**566**	155
For rental payment in favor of the landlords	**4,665**	3,456
	23,408	20,568

The Company has corporate guarantee in respect of banking facilities granted to subsidiaries amounted to US$40,000,000 at 31 December 2005 (2004: Nil).

29 Commitments

(a) Capital commitments contracted but not provided for in respect of:

	Group	
	2005	2004
	US$'000	US$'000
Property, plant and equipment	**150**	3,637

(b) Commitments under operating leases

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group			
	Buildings		Other	
	2005	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000
Not later than one year	**16,650**	13,807	**516**	567
Later than one year and not later than five years	**49,575**	40,998	**451**	732
Later than five years	**76,246**	70,088	**–**	75
	142,471	124,893	**967**	1,374

The Company did not have any commitments at 31 December 2005 (2004: Nil).

30 Significant related party transactions

The Group is controlled by Li & Fung (Distribution) Limited, incorporated in the British Virgin Islands which owns 51.12% of the Company's shares. The remaining shares are widely held. The ultimate parent of the Group is King Lun Holdings Limited incorporated in the British Virgin Islands.

(a) The significant transactions carried out with the related parties:

		Group	
	Note	**2005** **US$'000**	2004 US$'000
Continuing transactions with fellow subsidiaries and related companies			
– Sale of goods and materials	(i)	**937**	1,205
– Revenue from rendering of logistic services	(i)	**3,071**	5,442
– Service fee income	(ii)	**611**	–
– Rental recharge to	(iii)	**1,331**	899
– Rental expense	(iii)	**2,832**	2,460
Non-recurring transactions with fellow subsidiaries			
– Purchase of goods and materials	(i)	**1,097**	10,434
– Rental expense	(iii)	**–**	653
– Administrative overhead recharge to	(iv)	**–**	947
– Transfer of fixed assets from	(v)	**248**	970
– Transfer of fixed assets to	(v)	**–**	982
– Sales of land and buildings	(vi)	**–**	5,384
– Purchase of investments	(vii)	**–**	750
– Selling expenses recharge to	(iv)	**–**	1,065

(i) Sales/purchase of goods and revenue from rendering of logistic services were conducted in the normal course of business at prices and terms no less favorable than those charged to other third party customers/suppliers.

(ii) Service fee income was charged on normal commercial terms based on relevant agreements entered.

(iii) Rental income/expenses were charged on normal commercial terms based on relevant lease agreements entered.

(iv) Administrative overhead recharge and selling expenses recharge were charged on actual cost recovery basis.

(v) Fixed assets were transferred at a value by reference to independent valuer (2004: at net book value).

(vi) Land and buildings were sold at a value by reference to independent valuer.

(vii) Other investments were purchased at market value.

In the opinion of the Directors, the above transactions were entered into at terms as agreed with these related companies in the ordinary course of business.

30 Significant related party transactions (continued)

(b) Key management compensation

	2005 US$'000	2004 US$'000
Salaries and other short-term employee benefits	**1,937**	1,614
Share-based compensation	**194**	–
Post employment benefits	**6**	4
	2,137	1,618

(c) Year-end balances with related parties

	Note	2005 US$'000	2004 US$'000
Due from related companies			
– an immediate holding company	(i)	**–**	1,118
– fellow subsidiaries	(ii)	**1,299**	1,995
		1,299	3,113
Due to related companies			
– fellow subsidiaries	(iii)	**2,475**	1,625

(i) The previous year balance related to recharge of expense for global offering. The balances were unsecured, interest-free and had no fixed terms of repayment. They were all settled in 2005.

(ii) The balances arose from sales/services/recharge of administrative and rental expense. They were unsecured, interest-free and with terms of repayment according to the credit terms granted.

(iii) The balances arose from purchase/rental expenses/recharge of administrative expense and acquisition of additional interest in a subsidiary amounted to US$2,475,000 (2004: US$869,000) and Nil (2004: US$756,000) respectively. They were unsecured, interest-free and with terms of repayment according to the credit terms granted or the respective sales and purchase agreement.

31 Principal subsidiaries

As at 31 December 2005, the Company held interests in the following principal subsidiaries.

Name	Place of Incorporation	Principal activities	Place of operation	Particulars of issued/ paid up share capital	Interest held
Directly held:					
IDS Group Limited	British Virgin Islands ("BVI")	Investment holding	Hong Kong	949,165 ordinary shares of US$1 each	100%
Indirectly held:					
IDS Logistics (Hong Kong) Limited	Hong Kong	Provision of logistics services	Hong Kong	10,000 ordinary shares of HK$1 each	100%
IDS Logistics (Taiwan) Limited	Hong Kong	Provision of logistics and packaging services	Taiwan	2 ordinary shares of HK$100 each	100%
IDS (Hong Kong) Limited	Hong Kong	Marketing and distribution of consumer and pharmaceutical products	Hong Kong	14,600,000 ordinary shares of HK$10 each	100%
IDS Services (Malaysia) Sdn. Bhd.	Malaysia	Marketing and distribution of consumer , pharmaceutical and medical equipment products	Malaysia	14,231,002 ordinary shares of RM1 each	100%
IDS Manufacturing Sdn. Bhd.	Malaysia	Manufacturing of pharmaceutical, foods and toiletries products	Malaysia	33,000,000 ordinary shares of RM1 each	100%
IDS Logistics Services (M) Sdn. Bhd.	Malaysia	Provision of logistics services	Malaysia	2,000,000 ordinary shares of RM1 each	100%

31 Principal subsidiaries (continued)

Indirectly held: (continued)

Name	Place of Incorporation	Principal activities	Place of operation	Particulars of issued/ paid up share capital	Interest held
Slumberland (M) Sdn. Bhd.	Malaysia	Marketing, distribution and manufacturing of mattresses and bed related products	Malaysia	2,000,000 ordinary shares of RM1 each	80%
Slumberland Marketing Sdn. Bhd.	Malaysia	Marketing and distribution of mattresses and bed related products	Malaysia	2 ordinary shares of RM1 each	80%
IDS Logistics (Philippines), Inc.	Philippines	Provision of logistics services	Philippines	100,000 shares of Pesos100 each	100%
IDS Marketing (Philippines), Inc.	Philippines	Marketing and distribution of consumer products	Philippines	110,000 shares of Pesos100 each	100%
Shanghai IDS Shen Hong Logistics Co., Ltd. 上海英和申宏商業服務有限公司* (note (a))	PRC	Provision of logistics services	PRC	US$5,000,000	80%
Nanjing IDS Marketing Company Limited 南京利豐英和商貿有限公司* (note (b))	PRC	Import/export and marketing of general merchandise	PRC	US$10,000,000	100%
IDS Logistics Services Pte. Ltd.	Singapore	Provision of logistics services	Singapore	28,296,962 ordinary shares of S$1 each	100%
IDS Marketing (Singapore) Pte. Ltd.	Singapore	Marketing and distribution of healthcare products	Singapore	300,000 ordinary shares of S$1 each 60,000 preference shares of S$1 each	100%

31 Principal subsidiaries (continued)

Indirectly held: (continued)

Name	Place of Incorporation	Principal activities	Place of operation	Particulars of issued/ paid up share capital	Interest held
IDS Logistics (Thailand) Limited	Thailand	Provision of logistics services	Thailand	1,215,000 ordinary shares of Baht250 each	100%
IDS Marketing (Thailand) Limited	Thailand	Marketing and distribution of consumer and pharmaceutical products	Thailand	160,000 ordinary shares of Baht100 each 55,000 preference shares of Baht100 each	100%
IDS Manufacturing Limited (formerly known as LFD Manufacturing Limited)	Thailand	Manufacturing of household, pharmaceutical and personal care products	Thailand	4,695,000 ordinary shares of Baht100 each	100%

The above list gives the principal subsidiaries of the Company which are in the opinion of the Directors, principally affect the results and net assets of the Group. To give full details of subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

* *The legal name of the company is in Chinese.*

Notes:

(a) Shanghai IDS Shen Hong Logistics Co., Ltd. is a joint venture entity.

(b) Nanjing IDS Marketing Company Limited is a foreign-owned enterprise.

Five-Year Financial Summary

The following table summarizes the consolidated results, assets and liabilities of the Group for the five years ended 31 December:

	2005	2004	2003	2002	2001
	US$'000	US$'000	US$'000	US$'000	US$'000
		(Restated)			
Results					
Revenue	**821,530**	584,876	591,814	466,050	457,783
Core operating profit	**15,952**	12,688	7,769	4,893	4,744
Other gains/(expenses)	**3,011**	633	5,328	678	14,374
Operating profit	**18,963**	13,321	13,097	5,571	19,118
Finance costs, net	**(856)**	(687)	(1,335)	(2,054)	(3,376)
Share of profit of associated companies and jointly controlled entity	**–**	25	290	660	272
Profit before taxation	**18,107**	12,659	12,052	4,177	16,014
Taxation	**(3,828)**	(1,096)	(2,908)	(753)	(6,159)
Minority interest	**(946)**	(923)	(776)	(449)	(32)
Profit attributable to shareholders	**13,333**	10,640	8,368	2,975	9,823
Total assets	**373,302**	313,837	321,743	397,447	330,937
Total liabilities	**(280,980)**	(232,741)	(253,845)	(330,843)	(250,405)
Total assets less liabilities	**92,322**	81,096	67,898	66,604	80,532

Notes

1 *The Company was incorporated on 25 September 2003 in Bermuda and became the holding company of the Group with effect from 20 November 2004 upon completion of the Reorganization as set out in the Company's prospectus dated 24 November 2004.*

2 *The results of the Group for the years ended 31 December 2001 and 2002 and the balance sheets of the Group as at 31 December 2001 and 2002 have been prepared using merger accounting and extracted from the Company's prospectus dated 24 November 2004.*

3 *Prior year adjustments have not been made for the results extracted for the three years ended 31 December 2003, 2002 and 2001 following the adoption of new/revised HKFRS effective from 1 January 2005, as management considers not practicable to do so.*