The Growth Story

Annual Report 2006

Integrated Distribution Services Group Limited

(Incorporated in Bermuda with limited liability)

Stock code: 2387

The IDS story is one of growth. Over the last five years, we have grown by leaps and bounds; and this year's Annual Report traces the path we have taken to achieve industry-leading, across-the-board business growth.

We have refined our value proposition, fine-tuned our services, expanded our customer base, extended our geographical reach and strengthened our talent base – resulting in a virtuous cycle of growth.

This is our story of growth.

Episode One

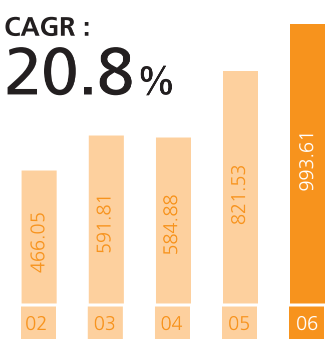
1

IDS delivers consistent, record-breaking financial performance

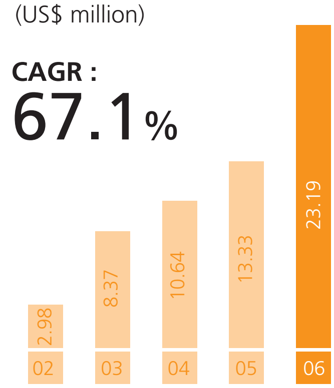
Financial Highlights

(US$ million)	**2006**	2005	Change (%)
		Full Year ended 31 Dec	
Revenue	**993.61**	821.53	20.9%
Gross Profit	**257.93**	216.96	18.9%
Core Operating Profit	**20.11**	15.95	26.1%
Operating Profit	**27.06**	18.96	42.7%
Profit Attributable to Shareholders	**23.19**	13.33	73.9%
Final Dividend	**HK28 cents**	HK14 cents	
Interim Dividend	**HK7 cents**	HK6 cents	
Full Year Dividend	**HK35 cents**	HK20 cents	75.0%

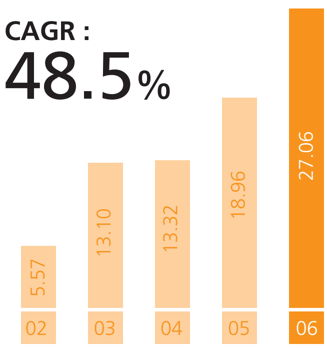
Revenue 2002-2006
(US$ million)



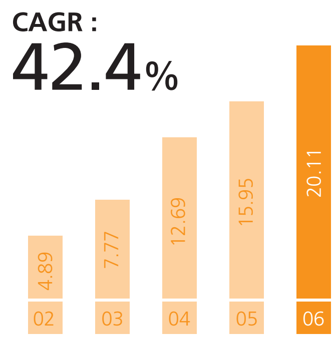
Profit Attributable to Shareholders 2002-2006
(US$ million)



Operating Profit 2002-2006
(US$ million)



Core Operating Profit 2002-2006
(US$ million)



Event Highlights

3 Mar

Infrastructure Expansion

Our network of infrastructure substantially expanded in 2006 especially in China. We first opened a branch office in Guangzhou, which was followed by another 10 new offices and 4 distribution centers in China throughout the year. We now operate over 80 distribution centers with a total floor space of over 7,000,000 square feet across eight economies.

4 Apr

Customer Wins

IDS won over 70 new contracts in 2006, both with existing as well as new customers. A contract was signed in April with Diageo in Singapore where we run a new regional hub in our Automated Storage and Retrieval System (ASRS) facility. Other major contracts during the year include Procter & Gamble in Taiwan, L'Oreal in Hong Kong, Henkel in Indonesia and a bonded off-shore regional hub for Pacific Brands in China.

5 May

Awards & Recognition

Our Logistics Philippines team won Unilever's Service Supplier Award for the Year 2005 for their outstanding service and value add to Unilever's local operations. The team also received two other awards from Unilever during the year for the effective implementation of two projects to drive efficiency enhancement. IDS continues to receive commendation and recognition from our customers in China, Hong Kong and Singapore.

6 Jun

Annual Awards & Appreciation Events

Loyalty is an important value for IDS. We kicked off our Annual Awards & Appreciation (AAA) events across the region to recognize long service colleagues in June in Hong Kong. A total of 600 employees received the Award during these events. Many have been with IDS for 30 years or more.

7 Jul

Corporate Social Responsibility

We have formally launched our Corporate Social Responsibility initiatives in 2006. Colleagues in Indonesia organized a disaster relief program in July to build shelters for victims in Yogyakarta. Other local programs aimed at helping under-privileged children were organized in Hong Kong, China, Malaysia and the Philippines. The Group also launched the inaugural Value-Chain Logistics Seminar in Thailand. Proceeds were used to support student grants and research projects.

8 Aug

Mergers & Acquisitions

IDS announced two acquisitions in August 2006 which were subsequently completed in the fourth quarter. In October, we completed the acquisition of a third-party logistics operator in Malaysia. In December, we made a key strategic acquisition of a garment logistics company in the US. The former helps to strengthen our existing local operations. The latter allows us to enter the world's largest logistics market and take the first step in establishing a global logistics network.

11 Nov

Leadership, Management & Talent Development

As part of our comprehensive Leadership, Management and Talent (LMT) development program, the Growth Leadership Seminar designed for senior management was launched in November 2006. Full roll-out of other LMT programs has been scheduled for 2007.

Li & Fung Centennial Celebration

Yearlong activities involving all IDS colleagues and their family members across the region to celebrate the 100th Anniversary of our parent, Li & Fung Group, culminated in an evening of celebration in Hong Kong in November joined by 1,500 customers, business associates and colleagues.

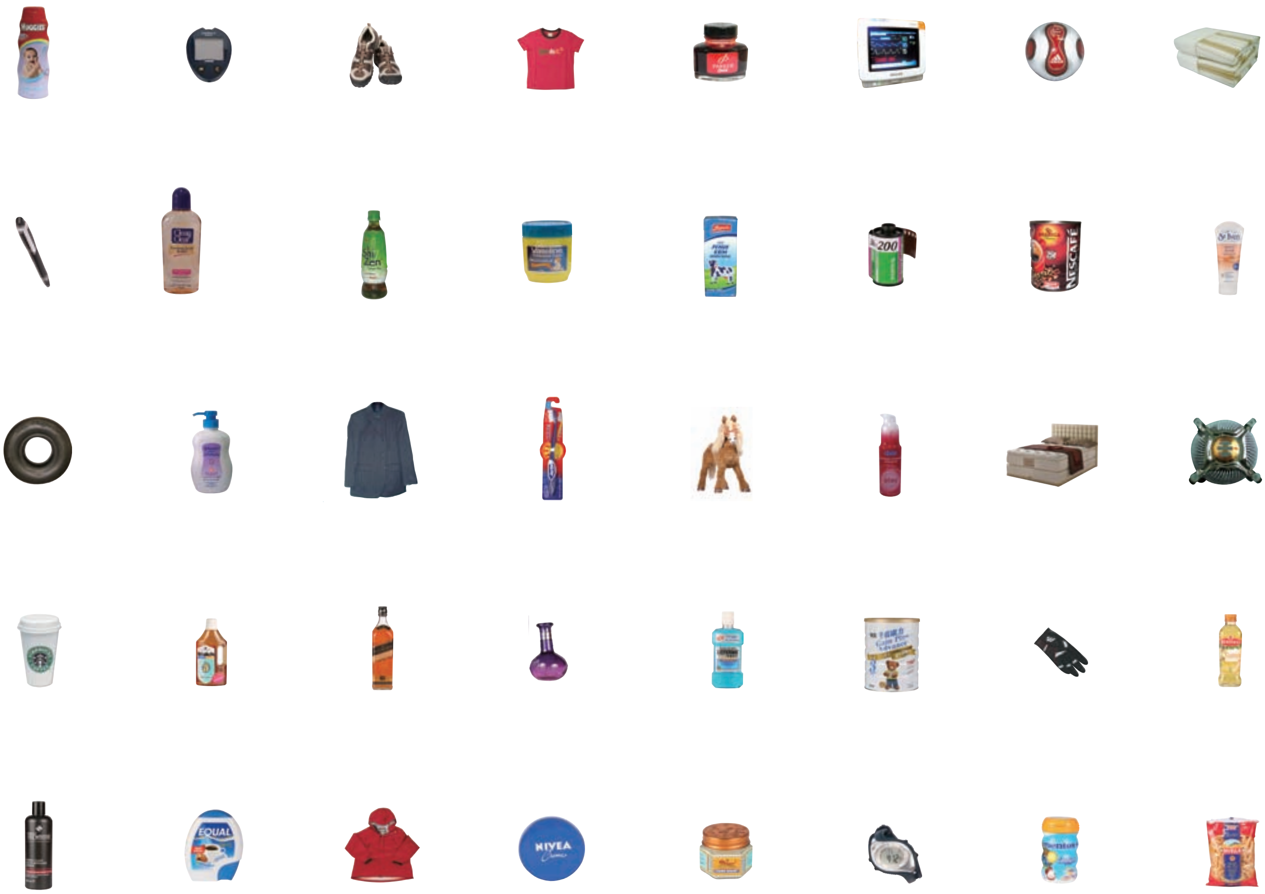
Episode Two

2

IDS strengthens its customer base

Service Excellence...

Growing customer base in different industries. From a single focus on Fast Moving Consumer Goods and Healthcare products, IDS has broadened its customer base into Footwear & Apparel, Wine & Spirits, Retailing and Automotive Parts. We are now servicing over 400 customers, including a multitude of blue-chip brands. Our uncompromising emphasis on service levels and ability in offering customized solutions enabled us to continuously expand our service scope and geographical coverage with our customers. Our customized and regional approach is the cornerstone of building long-term successful partnerships with our customers.



...and Customization

Experiencing Growth Across All Dimensions

2006 Highlights

- Profit attributable to shareholders registered strong growth of 73.9% against last year at US$23.19 million.
- Proposed final dividend of HK28 cents per share. Total dividend for the year would amount to HK35 cents per share compared to HK20 cents per share in 2005.
- Strong across-the-board organic growth, core operating profit up 26.1% to US$20.11 million.
- Continued to ride on the strong growth of the economy in China and its favorable policy of encouraging domestic consumption.
- Completed acquisitions in Malaysia and the US that will strengthen our logistics operations and extend our presence beyond Asia for the first time.

2007 Prospects

- Continue our focus on organic growth to ensure we finish our current Strategic Plan 2005-2007 strongly.
- Ensure we strengthen our leading position in China to spearhead business growth.
- Enhance current menu of services and explore new services in accordance with customer demand.
- Step up our efforts in pursuing M&A activities and ensure smooth integration of newly acquired businesses to derive synergies with current operations.
- Commence planning process for the next Three-Year Strategic Plan 2008 – 2010 to formulate the future growth strategy of the Group.

Dear Shareholders,

It gives me great pleasure 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 2006. Despite the challenges of dampened consumption and political uncertainty in several Southeast Asian markets, the Group delivered outstanding profit growth of 73.9% to US$23.19 million in 2006.

In 2006, the Group continued to pursue the two-pronged strategy of strong organic growth and strategic mergers and acquisitions. During the year, all our core businesses, namely Logistics, Marketing and Manufacturing, registered solid organic growth. Core operating profit grew 26.1% to US$20.11 million. Our efforts in identifying suitable M&A targets have resulted in the completion of two strategic logistics acquisitions. The first one was in Malaysia, which would double the current scale of our local logistics operations. This was followed shortly by a deal in the US that gave us an entry into garment logistics and allowed us to establish our local presence in the biggest market of the world.

Since its inception, IDS has been determined to tackle and dominate the traditional distribution business with an innovative business model. Through on-going improvements and refinements, our unique proposition of offering a menu of services along the value chain that can be customized according to customer needs has now been crystallized. By combining our extensive global logistics network with our Asia-wide distribution capability, we can take full control of the end-to-end supply chain and help customers move their products efficiently into, out of and around Asia.

Performance

The Group's profit attributable to shareholders in 2006 increased 73.9% to US$23.19 million, compared to US$13.33 million in 2005. This outstanding growth in earnings was mainly attributable to all-around solid organic growth and the profit recorded from the progressive divestment of Slumberland Asia Pacific shares. Earnings per share were US7.50 cents. The Board of Directors has proposed a final dividend of HK28 cents. Together with an interim dividend of HK7 cents per share, the total dividend for the whole year would amount to HK35 cents per share, or an increase of 75% against HK20 cents per share in 2005.

Our Logistics operations continued to deliver solid double-digit growth, while Manufacturing showed a strong rebound through vigilant cost control and improved operational efficiency. The Marketing operations were championed by the Group's solid growth in China. Riding the wave of buoyant consumption and increased affluence, the Group's operating profit in China grew by 102.4%

Dr. Victor FUNG Kwok King
Chairman

against 2005. China has become our second largest market in terms of profit contribution. Both our Logistics and Marketing operations expanded their infrastructure network aggressively in 2006. We now manage 14 distribution centers, transport hubs and depots, and operate 17 branch offices, fully capable of selling directly and issuing invoices to key retail chains, in major cities across China.

In November 2006, we reached an agreement to progressively divest half of our 80% shareholding in Slumberland Asia Pacific to Hilding Anders, the market leader in the European mattress and bedding business. This transaction brings substantial benefits to IDS. Firstly, it enables us to extract value from the Slumberland operations and invest in developing our core business of integrated-distribution and logistics, including the funding of future M&A activities. Secondly, we can tap into Hilding Anders' cutting-edge technology, manufacturing know-how and customer relationships to drive the strong growth of Slumberland in Asia. The divestment will take place in three tranches, and will be completed by July 2008. The first tranche of 12.5% shares were divested at US$9.69 million in December 2006, and the Group has recorded a US$8.00 million gain.

Our efforts in securing new businesses and expanding partnerships with existing customers continued to be very successful. Over 70 new contracts were secured during the year, with an estimated business size that was substantially larger than those gained in 2005. New regional partnerships established in 2006 included Diageo, Elizabeth Arden, Pacific Brands, Avon, Monde Nissin, Ecco, to name a few.

Flag raising ceremony in Malaysia to celebrate the completion of our first acquisition.

Social event for the Board of Directors during a meeting in Malaysia.

As a whole, 2006 was a momentous year for IDS. We grew across all dimensions of our business.

Market Overview

Despite the impact of escalating oil and commodity prices, as well as threats of rising interest rates, Asia as a whole maintained a strong pace of growth in 2006. However, much of this growth was driven by the burgeoning economy in China and strong exports across the region. If we focus on consumer spending in individual markets, which has a direct impact on our business, a number of economies including Malaysia, Thailand and Taiwan have actually shown signs of deterioration.

Recent forecasts have predicted slightly slower growth in the region in 2007 compared to 2006, particularly in Thailand and Malaysia. Political uncertainty and regulations on foreign investment are likely to create a further drag on growth in Thailand, while domestic consumption in Malaysia is expected to remain sluggish.

On a more positive note, oil prices have stabilized in recent months and inflation pressures are expected to ease slightly. The economy in China is expected to remain buoyant, supported by the enthusiasm associated with 2008 Beijing Olympics and increased consumer spending amidst a bullish stock market.

Avian flu remains the most unpredictable risk within the region due to its potentially severe consequences. In 2006, the threat of avian flu intensified with an increased death toll. The fact that there were several suspected cases of the virus transferring from birds to pigs is alarming. It is relatively easier for the virus to be transmitted from pigs to humans than directly from birds to humans. The Group will ensure adequate preparation and contingency plans are in place to minimize business disruption.

Future Growth Strategies

2007 will be the final year of our current Three-Year Strategic Plan. We will continue our focus on organic growth to ensure we finish the plan period strongly. The planning process for the next Strategic Plan cycle for 2008 – 2010 will commence in the first quarter. This will be an iterative exercise with full involvement of the management team and extensive consultation across all levels of the Group.

China will continue to be the main driver of our strong growth. While we shall continue to leverage our market knowledge and strengthen our leadership position, it is of equal importance that we develop our talent base and create a robust structure at the back end to support long-term, sustainable growth.

Following the establishment of our foothold in the US, we will continue to expand our logistics network on a global basis. This will enable us to have full control of the end-to-end supply chain and offer comprehensive logistics services dealing with both the import and export movements, thus further strengthening customer relationships. Once the integration of our US operations is complete, we will leverage our existing relationships with our customers in the US to offer them export logistics services and approach other potential customers to provide full-scale logistics solutions.

Our ability to offer a comprehensive menu of services with distinctive added value is our competitive edge. We will continue to enrich this menu by enhancing our existing services and providing new services as demanded by customers.

Our infrastructure in China continued to expand according to plan. The Group now runs 17 branch offices throughout China.

In 2007 we will also step up our efforts in pursuing suitable M&A deals. Our targets remain the small- to medium-sized businesses with profitable operations that can add to the scale of our current operations or enable us to gain entry into new markets.

Our International business gained many new customers in 2006, including running an off-shore logistics hub for Pacific Brands in Suzhou, China.

During the year, the IDS Group, together with other members under the Li & Fung Group, celebrated the Centenary of Li & Fung. The yearlong celebration culminated in an evening of celebration in Hong Kong joined by 1,500 customers, business associates and colleagues. I would like to express my sincere gratitude to all colleagues who were involved in making our 100th Anniversary a most memorable one.

On behalf of the Directors, I would like to thank the management team and all our colleagues at IDS for their contributions to our success in 2006. I look forward to working closely with them as they prepare for the next level of growth and development.

Victor FUNG Kwok King

Chairman

Hong Kong, 20 March 2007

Episode Three

3

IDS achieves success through people and leadership

Bold and Pragmatic...

IDS Senior Management team

(From left to right: Tan Kim Tai, Rajesh Ranavat, Gerard Raymond, Ben Chang, Ong Chong Beng, Joseph Phi)

Towards Industry Dominance

2006 Highlights

- Efforts in refining our business model and developing a comprehensive menu of services have built a strong foundation for long-term sustainable growth.
- Strengthened leadership team across the Group will drive future growth.
- Acquisition of a garment logistics company has established the Group's presence in the US, enabling us to control the end-to-end supply chain between the US and Asia.
- Formation of a dedicated Regional Business Development team will allow us to focus on aggressively identifying regional business opportunities and strengthening relationships with business partners.

2007 Prospects

- Focus on people development through full-scale implementation of Leadership, Management and Talent development programs across the Group.
- Aggressively promote our new service offerings of Export Logistics and Credit & Cash Management, and further develop new services including Transportation Management.
- Identify suitable M&A opportunities that complement our existing operations in Asia, and further extend our logistics presence on a global basis.

IDS had an eventful year in 2006 and made significant strides across all aspects of our business. Our strong focus on operations excellence, customer partnerships and cost savings has resulted in an encouraging set of financial results for the year.

Ben CHANG Yew Teck
Group Managing Director

Visiting the Urban Planning Exhibition Center in Shanghai (above) and Intramuros in Manila (below) during our Leadership Council Meetings.

IDS had an eventful year in 2006 and made significant strides across all aspects of our business. Our 2006 theme for the year – "Keeping our Eye on the Ball", with a strong focus on operations excellence, customer partnerships and cost savings has resulted in an encouraging set of financial results for the year. Our business model, which offers a comprehensive menu of services along the value chain supported by our extensive infrastructure network and a cutting-edge IT system, has resulted in the Group successfully winning new businesses and developing a vast range of customized solutions.

During the year, we completed two strategically important acquisitions in Malaysia and the US that put IDS into high gear for business expansion in 2007. Our emphasis on building a strong Country Resource Team (CRT) structure, which centralizes in-country support functions of Finance, Human Resources and Information Technology, has been instrumental in efficiently integrating the logistics acquisitions we made in Malaysia and the US.

Our acquisition in Malaysia has propelled us to become the leading third-party logistics provider in the Fast Moving Consumer Goods (FMCG) segment in the country. On the other hand, the acquisition of a garment logistics operator in the US is a milestone for our move towards establishing a global logistics network that complements our strong Asia-wide infrastructure platform. The strategic intent is to establish on-the-ground presence to handle last-mile delivery, thus extending our logistics service offering to cover the end-to-end process from manufacturing plants to retail outlets. This also supports the aggressive growth of our export logistics services and taps into the tremendous opportunities of export from Asia to the US and eventually Europe.

We also started building a stronger presence in the industry by collaborating with renowned academic institutions. In December 2006, we organized the inaugural IDS Value-Chain Logistics Seminar in Bangkok in conjunction with Chulalongkorn University. The objective is to provide a high-level and value-driven education experience to practitioners in logistics and supply chain management. Similar seminars will be held in other cities including Hong Kong, Shanghai and Singapore in 2007.

Revenue in 2006 grew 20.9% over 2005 to US$993.61 million. Core operating profit showed a stronger growth of 26.1% to US$20.11 million as a result of better operating leverage. Operating profit increased by 42.7% to US$27.06 million after taking into account the other gains that were mainly attributable to the profits realized from the progressive divestment of shares in Slumberland Asia Pacific. Profit attributable to shareholders surged 73.9% to US$23.19 million in 2006, compared to US$13.33 million in 2005. Cash flow generated from operations increased to US$49.38 million from US$19.68 million in 2005. Due to funding requirements for the acquisitions made during the year, the Group was at a net borrowing position of US$13.91 million as of 31 December 2006, compared to a net cash position of US$6.83 million at the end of 2005.

The acquisition of a garment logistics operator in the US is a milestone for our move towards establishing a global logistics network.

The buoyant consumer market in China coupled with new contract wins resulted in another remarkable year for our businesses in China. Revenue from our China operations grew by 55.2% to US$157.05 million and accounted for 15.7% of total Group revenue in 2006, compared to 12.2% in 2005. New contract wins including the distribution of Hershey chocolates, the logistics contract for Johnson Diversey and the operation of a distribution hub for Pacific Brands are going to fuel an even stronger performance in 2007.

Despite the unfavorable economic environment and political uncertainties, performance in Thailand improved substantially as a result of strengthened management team and rationalized customer portfolio. We will be closely monitoring under-performing units including the Marketing operations in Malaysia, Indonesia and the Philippines to address their respective issues and take appropriate actions to bring these units back on track.

Dedicated resources have been assigned to each business stream to spearhead regional business development. Their objective is to identify opportunities with new customers, to expand the scope and scale of services provided to existing customers, and to improve the success rate of new contract bidding. The team will also facilitate regional account management and gather market intelligence.

To cope with business expansion, during the year we continued to bring in management talents across the region, especially in China. We now have a robust structure to lead IDS towards the next level of growth.

Financial Overview

US$ million	2006	2005	Change%
Revenue	**993.61**	821.53	20.9%
Core operating profit	**20.11**	15.95	26.1%
Operating profit	**27.06**	18.96	42.7%
Profit attributable to shareholders	**23.19**	13.33	73.9%
Earnings per share	**US7.50 cents**	US4.31 cents	73.9%

The Group reported revenue of US$993.61 million, a 20.9% growth compared to 2005. The strong growth in revenue was driven by a 24.2% increase in the Marketing business and a 22.4% increase in the Logistics business. Gross profit grew by US$40.97 million, an increase of 18.9%. The gross profit margin was 26.0% in 2006, compared to 26.4% in 2005 due to business growth in the Philippines where the profit margin was relatively lower. The impact was partly offset by higher margin in Manufacturing benefiting from cost control and continued productivity improvement.

The Group's core operating profit rose 26.1% to US$20.11 million in 2006, driven by higher revenue and better operating leverage. Operating profit grew by 42.7% to US$27.06 million including a US$8.00 million gain on the progressive divestment of a 12.5% share in Slumberland Asia Pacific, our bedding business subsidiary. This was partly offset by a US$1.05 million provision for closure costs relating to the underperforming FMCG divisions in Malaysia and Indonesia. Net finance costs increased from US$0.86 million in 2005 to US$1.44 million in 2006 due to higher interest rate and the financing for two acquisitions in 2006. Taxation reduced from US$3.83 million to US$1.73 million due to the recognition of additional deferred tax credits in 2006. As a result, profit attributable to shareholders surged 73.9% to US$23.19 million.

Inventory, debtors and creditors turnover days went up proportionately reflecting the Group's strategy to increase market coverage which was largely self-financed by the principals' extended credit terms. Overall working capital performance was satisfactory.

Segmental Analysis

Logistics

Logistics revenue and segment results increased by 22.4% and 23.4% to US$155.53 million and US$12.79 million respectively. The growth in Logistics stream was mainly attributable to the strong organic growth. During the year, substantial new contracts were won from major multinationals, such as P&G and Diageo. Together with the significant growth in existing businesses, particularly in China, IDS succeeded in geographical and scope expansions for both new and existing customers. The acquisitions in Malaysia and the US in the last quarter of 2006 contributed revenue of US$10.39 million to the Logistics stream.

Opening of our regional hubbing operations for Diageo, world's leading premium beverage alcohol company, in our ASRS facility in Singapore.

Marketing

Marketing revenue and core operating profit rose by 24.2% and 9.3% to US$715.26 million and US$12.30 million respectively. The growth in Marketing was mainly attributable to the continued expansion in China. In 2006, 11 new branch offices were opened and the distribution coverage expanded to over 120 cities. The full year operations from the Philippines in 2006 also contributed to the revenue growth. Apart from this, there was good organic growth in Brunei, Thailand and Singapore from the gain of new principals and continued growth in existing business lines.

Manufacturing

Despite the high oil price and weak consumer demand, Manufacturing revenue and operating profit recorded growth of 1.8% and 29.6% compared to 2005. The growth has demonstrated our success in cost control and efficiency enhancement.

Geographically, all economies continued their growth momentum in 2006. In particular, China's revenues surged by 55.2%. Hong Kong is still the Group's largest market, accounting for 22.4% of the total revenue.

Acquisitions and Divestment

During the year, the Group completed two acquisitions. In September, the Group acquired the entire issued share capital of Sitt Tatt Logistics Sdn. Bhd., a logistics company operating in Malaysia, and two associated distribution centers for a consideration of US$25.62 million. Another acquisition was the assets and apparel logistics business of a US-based Company, Impac Logistic Services LLC and its affiliates, which was completed in December for a consideration of US$39.20 million. These acquisitions have strengthened our position in the logistics industry and will also enable the Group to develop and grow outside of Asia. The Group also divested a 12.5% share in its Slumberland business and recorded a gain of approximately US$8.00 million.

Liquidity and Financial Resources

As at 31 December 2006, the Group had a gearing ratio of 11.8%. The new loans raised were mainly for financing the acquisitions. In addition, the Group has available bank loans and overdraft facilities of US$250 million of which only US$98.32 million have been utilized.

Charges on Group Assets

As at 31 December 2006, there were no charges on the Group's assets.

Foreign Exchange Risk Management

The Group operates in ten economies over the world and is exposed to foreign exchange risk in the Asian economies. 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

The Group has counter-guaranteed the following outstanding bank guarantees issued by banks for normal business operations:

US$'000	**2006**	2005
As security in favor of local tax and customs authorities in accordance with local regulations	**9,811**	9,032
For purchase of goods in favor of suppliers	**10,052**	9,145
Performance bonds and others	**407**	566
For rental payment in favor of the landlords	**5,762**	4,665
	26,032	23,408

Human Resources

As at 31 December 2006, the Group employed 6,200 (vs. 5,000 in 2005) permanent employees and 4,700 (vs. 4,000 in 2005) contract/temporary employees. They were located throughout our operations in ten economies within the Group. Total staff costs on 31 December 2006 amounted to about US$109.92 million (vs. US$90.32 million in 2005).

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 Sales Force Automation module of Road Warrior was successfully launched in China in 2006 to fully automate the order taking process. Currently the application is being used in China, Hong Kong, the Philippines, Thailand, Malaysia and Singapore. Over 500 Personal Digital Assistants (PDAs) have been deployed in the field. Another module of Road Warrior – Field Data Automation, which was implemented in Hong Kong for the collection of product data from sales channels, has been upgraded and we are reviewing the timetable for regional roll-out.

The installation of Remote Data Terminal (RDT) was further implemented regionally in 2006. Currently, RDT has been introduced in our logistics facilities in Hong Kong, Taiwan, the Philippines and Malaysia. Based on the response from our customers, RDT has resulted in substantial improvements in productivity and accuracy.

The implementation of our standard regional Enterprise Resources Planning (ERP) system, JD Edwards Enterprise One, in Taiwan has begun in the last quarter of 2006, and is expected to complete by mid-2007.

Our CRT has played a crucial role in the integration of the newly acquired logistics businesses. The team facilitated the efficient alignment of back office systems to ensure standard financial reporting format. The immediate focus is on reviewing the operations in detail to map out the changes in work processes required to implement our standard core applications.

One of the programs during our Senior Managers Meeting in Hong Kong held in February 2006.

Our key priorities in 2007 will be to revisit our core applications of ERP and WMS to ensure the benefits of the systems are leveraged across the organization. We will also roll-out RDTs and the implementation of a Transportation Management System on a regional basis.

IDS supports education and sponsors industry seminars to raise funds for student grants and research initiatives.

To support the rapid growth of our international logistics business, we will upgrade the current system used and take a ground up approach to map the functional requirements for enhancement. We will also take the future development strategy into consideration to determine the most appropriate integrated solution.

Prospects for 2007

2007 will be the final year of our Three-Year Strategic Plan 2005–2007. Since 1999, when we embarked on our journey to re-invent the traditional distribution industry, we have exerted substantial efforts in constantly refining our business model, building our competitive edge in technology and achieving operational excellence. The next focus for us is to develop a talent base with the right skills and mindset to build a winning company and drive a quantum leap in business growth. Hence, the theme for IDS in 2007 is "Making the Difference with People".

IDS cherishes loyalty and recognizes long service employees. We have many members who have been with the Group for more than 30 years.

A winning company is characterized by a "High Performance, High Values" culture, which emphasizes not only performance measured by financial results and personal achievements, but also values driven by strong governance, teamwork and the pursuit of long-term sustainability. By striking a balance between performance and values, our company is poised for accelerated pace of profitable growth.

We have designed a comprehensive Leadership, Management and Talent (LMT) development program, including custom-made training activities for existing employees as well as new recruits, for full-scale implementation. The first activity – the Growth Leadership Seminar designed to equip our leadership team with the necessary competencies and pragmatic skills to champion growth at IDS – was conducted between November 2006 and January 2007. Other activities for middle and supervisory management as well as programs for management trainees and interns will be launched in 2007.

Our strategy of offering a full menu of services for our customers has successfully differentiated us from other logistics and distribution companies. Our ability to design customized and innovative solutions has added enormous value to our business partners. Our capability of providing full data visibility with our advanced IT systems is well recognized by our business partners.

We are on track to achieve a strong finish in 2007 for our current Strategic Plan 2005-2007. We have also set a robust foundation for us to have an even stronger beginning for our next 3-year Strategic Plan 2008-2010

Going forward, we will continue to offer new and differentiated services such as Credit and Cash Management and Export Logistics. By establishing a foothold in the US, we see tremendous potential to further grow the Export Logistics business. Since late last year, we have introduced with much success our Transportation & Network Management services, which employ operations research techniques to create optimal logistics solutions for our customers.

We are always keeping a keen eye on potential acquisition targets. We will continue to look for profitable, well-run companies with strong management team across our core businesses that can either complement our growth or give us entry into new markets. It is our strategic intent to support the establishment of a global logistics network. We will institutionalize the integration process of all our acquisitions to ensure that business processes and operating procedures are standardized to derive maximum synergies.

IDS completed the acquisition of a garment logistics operator in the US in December 2006.

We have come a long way since we began our journey towards re-inventing the traditional distribution industry. We are on track to achieve a strong finish in 2007 for our current Strategic Plan 2005-2007. We have also set a robust foundation for us to have an even stronger beginning for our next 3-Year Strategic Plan 2008-2010. With persistence and determination, we now have aggressively evolved into a leading market force on our way towards industry dominance.

Ben CHANG Yew Teck
Group Managing Director

Hong Kong, 20 March 2007

Making The Difference With People

Growing Our People to Grow Our Company

We strongly believe that the right people with the right skills and the right mindset is the fundamental building block of a winning company. To achieve sustainable long-term growth, we are creating a work environment that allows our people to tap their full potential by working with them to drive performance and helping them live our corporate values. In IDS, we call this our "High Performance, High Values" culture.

Leadership, Management & Talent Development

In a service-oriented business like ours, we are in the "People Business". Our success is anchored upon the skills, knowledge and attitude of our people. To strengthen our talent pool, we have embarked on the development of a comprehensive Leadership, Management & Talent (LMT) development program. This program was launched in the fourth quarter of 2006, and will be fully rolled out in 2007. This program comprises four major development blocks as described below.

1. Core Management Program Block – Three distinct programs were internally designed for the senior, middle and supervisory management levels. The "Growth Leadership Seminar" is designed to equip our senior management team with the necessary competencies and pragmatic wisdom to champion growth at IDS. The "Operations Excellence For Results Seminar" is targeted to enhance the execution competencies of our middle level management staff. The "Basic Management Program" focuses on providing our supervisory management staff with effective basic management skills.

In November 2006, we conducted two intensive "Growth Leadership Seminars" in Hong Kong for around 50 of our senior management staff. The feedback from the participants to this maiden program has been overwhelmingly positive. Another two such seminars were held in January 2007 in Kuala Lumpur for the rest of the senior management team. The "Operational Excellence For Results Seminar" and "Basic Management Program" will be held in 2007.

2. Individual Development Program Block – These are customized development programs tailored for each individual's training and development needs. Key objective is to accelerate the career advancement of high potential staff.

To achieve sustainable long-term growth, we are creating a work environment that allows our people to tap their full potential by working with them to drive performance and helping them live our corporate values. In IDS, we call this our "High Performance, High Values" culture.

3. Elective Program Block – These are the training modules designed to enhance the industry-specific technical, functional and/or operational competencies of our staff.

4. Accelerated Professional Program Block – This refers to the professional recruitment of management trainees and interns and the implementation of the "New IDS Manager" training and development program. Our aim is to develop a pool of young management talents with the capability of contributing significantly to the business growth over the long-term. It is also aimed at building IDS as an employer of choice not only for mid-career individuals, but also for young graduates who are keen on developing a career in the Integrated-Distribution and Logistics industry.

In 2006, IDS embarked on this long-term investment in new talent by setting up a unique program structure and establishing a number of partnerships with distinguished universities in Asia and the US. The first intake of summer interns and management trainees is expected to be in the summer of 2007.

Group discussion during one of the Growth Leadership Seminars.

A joint initiative between our Hong Kong and South China business units to visit under-privileged children in Dongguan, China.

Performance Management

IDS instills a high performance culture across the Group through the implementation of a rigorous performance goal setting and review process. We encourage our employees to partner with their immediate supervisors to drive individual and team performance. In 2006, a series of performance management workshops was held to ensure that the process is carried out in an effective and consistent manner. In addition, coaching skills workshops were held to support managers and supervisors to provide effective counseling on ways to improve performance.

Corporate Social Responsibility and Education Projects

As part of the Li & Fung Group, IDS operates according to the highest level of ethical and social standards. As good corporate citizen, we respect the environment and the community in which we live and work. We also adhere to the most stringent guidelines to protect the health and safety of our workforce.

In 2006, we formally established a company-wide structure to drive Corporate Social Responsibility (CSR) programs and activities for IDS. We are committed to making a meaningful contribution to our society by actively engaging our employees in performing voluntary social and community work. The key objective is to integrate social values into our business decision-making process and achieve a win-win-win outcome for IDS, the environment and the community at large.

We are committed to making a meaningful contribution to society by actively engaging our employees in performing voluntary social and community work.

During the period under review, we launched CSR initiatives in Hong Kong, China, Indonesia, Malaysia and the Philippines. These were met with strong support from our colleagues. Our programs included disaster relief, children welfare and education. This will be a sustained initiative throughout 2007 and beyond, and we expect to see a wider variety of local and regional initiatives.

During the year, we also began to engage with renowned academic institutions to drive collaboration between the industry and education sectors. The Group is playing an active role in the Advisory Committee of the Li & Fung Institute of Supply-Chain Management and Logistics under the Chinese University of Hong Kong, which was inaugurated in October 2006. The Institute, sponsored by Li & Fung, was established to consolidate academic and applied research on supply chain management and logistics, and promote joint projects between the industry and the Institute.


Feeding program in the Philippines for children in Pasig city.

On 14 December, IDS in conjunction with the Chulalongkorn University, Thailand, organized the inaugural Value-Chain Logistics Seminar in Bangkok to provide high-level and value-driven education in the areas of Integrated-Distribution, Logistics and Supply Chain. The seminar attracted an audience of 600. Proceeds from the event were donated to support student grants and academic research in Logistics and Supply Chain Management at the University.


Christmas party organized by our Malaysia colleagues at Rumah Shalom, a children's home.

Episode Four

4

IDS widens its geographic reach

Extensive Network & Infrastructure

Our Geographic Reach

Our Extensive Network

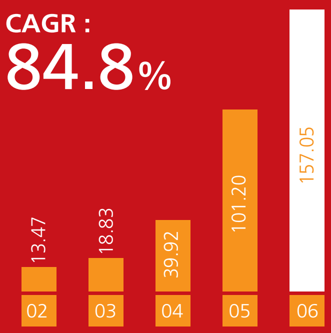
IDS has an extensive network of infrastructure covering the regions of Greater China, the ASEAN and the US. We currently operate over 80 major distribution centers and depots with total area of about 7,000,000 square feet. Our distribution coverage includes both the modern and traditional retail outlets, as well as healthcare channels of hospitals, clinics and pharmacies. Through our International division, we can optimize flows for our customers on a global basis through orchestrating and controlling the end-to-end supply chain.

After completing the acquisition of a garment logistics company in the US in 2006, IDS gained an entry into the largest logistics market in the world. We now operate 11 distribution centers in the US with total floor area of over 1,400,000 square feet.

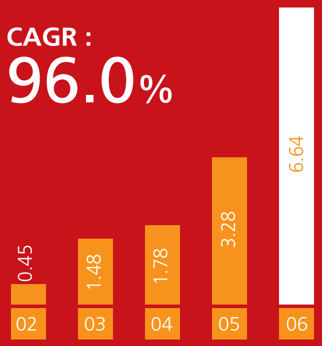
China

IDS is the leading international third-party distributor and logistics service provider in China. We hold all licenses required to conduct logistics, transportation and storage of bonded and duty paid products, as well as dangerous and non-dangerous goods. Since 2002, our operations in China have almost doubled the operating profit on a yearly basis. Our objective in 2007 is to increase our number of branch offices from 17 to over 25, covering over 130 cities to reach over 10,000 modern retail outlets.

China Revenue (US$ million)



China Operating Profit (US$ million)



Episode Five

5

IDS achieves operational excellence

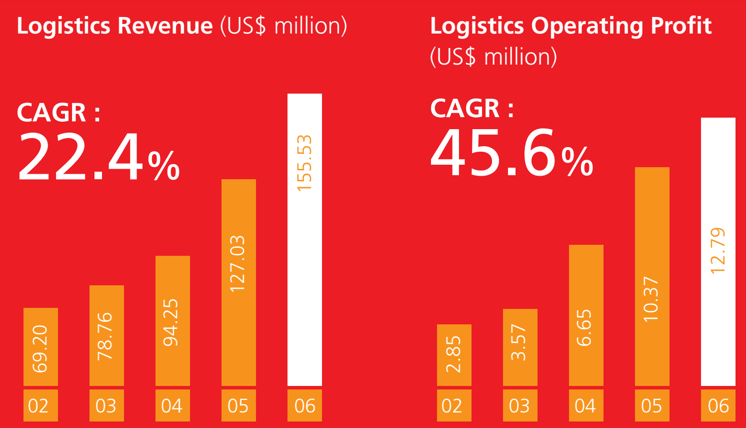

Talent &
Expertise

Efficient & Effective

Technology

Innovative Solutions

Market Intelligence



A purpose designed facility for the new logistics contract with L'Oreal in Hong Kong.

2006 Highlights

- Strong across-the-board organic growth recorded in all businesses. Core operating profit grew by 26.1% and was in line with our target of doubling profit in three years.
- 71 new contracts signed, about half of which were with existing customers to expand scope of service or geographical coverage.
- Major new contracts implemented, including Procter & Gamble in Taiwan, L'Oreal in Hong Kong, Diageo hubbing and labeling operation in Singapore and Henkel manufacturing in Indonesia, will fuel strong growth in 2007.
- Export logistics business continued to gain traction with several new contracts, including an offshore bonded distribution hub solution for Pacific Brands in China.
- Businesses in China continued to register outstanding growth with operating profit up 102.4%. Significant expansion in network during the year.

Our Philippines Logistics operations team receives Unilever's Service Supplier Award for the Year 2005 for the second consecutive year.

Our newly acquired logistics company in the US specializes in Garment-On-Hangers (GOH) operations.

Logistics

Our Logistics operations enjoyed another spectacular year in 2006 and delivered solid operating profit growth of 23.4% to US$12.79 million in 2006. Operating margin for the year stood at 8.2%, which is significantly higher than the market average. Since its inception seven years ago, the Logistics business has developed a robust foundation across the region that supports scalable growth. Today, it has become the major growth driver of the Group. Looking into 2007, the prospects are even more promising as two new acquisitions in Malaysia and the US will substantially enhance the scale of our operations and enable us to tap into the enormous potential of export logistics.

China recorded another year of stellar performance. This was attributed to increased activity levels of our existing customers as well as new customer wins. The Philippines delivered solid double-digit growth and received the Service Supplier Award for the Year 2005 from Unilever for the second consecutive year. Thailand and Malaysia made significant improvements in profitability as we tightened operations and focused on execution excellence. The Procter & Gamble contract was fully implemented in Taiwan, and the team is now moving past the learning curve involved in running this large-scale operation. Hong Kong added L'Oreal to its impressive customer base. Singapore has successfully implemented the regional hubbing and labeling solutions for Diageo.

Our International division had an encouraging year as many new projects got underway with both internal Li & Fung and external third-party customers. A contract was signed with Pacific Brands, a leading distributor of footwear, apparel and household products in Australia, to operate an off-shore bonded distribution hub in Suzhou, China. We have also added management strength to our IDS International team to drive aggressive growth.

35 logistics contracts were signed in 2006 with a good balance between new customers and existing ones. Including the newly acquired businesses, we now operate over 80 distribution centers and depots with a total area of about 7,000,000 square feet.

During the year, the Group completed the acquisition of two logistics companies. Integration of the new operations in Malaysia was completed seamlessly. Using our Country Resource Teams comprising Finance, Human Resources and Information Technology, we were able to efficiently provide back-end support while reaping the synergies generated from the front-end operations. With 100% customer retention after the acquisition, we have now become the leading logistics service provider in the FMCG segment in Malaysia.

The new store image for Slumberland was well received in China.

The first Beauty Spa for Ingrid Millet was opened in Chengdu, China.

Following the acquisition of a garment logistics company in the US, we have established for the first time a foothold outside Asia. The immediate priority is to strengthen back-end support functions and invest in upgrading the IT system. We believe the acquisition will bring us tremendous opportunities in managing the end-to-end supply chain between the US and Asia. Our existing customers who are importing goods from their manufacturing sources in China have expressed interest in exploring potential areas where we can add value to both their inbound and outbound logistics processes.

We have been successfully honing the Group's competitive edge through our effective use of technology to drive visibility, velocity and value. In line with customer demand, we will continue to roll-out new applications, including a Transport Management System, to sharpen our competitive edge.

The outlook for the Logistics operations in 2007 remains bullish. Our focus on strong organic growth, coupled with expanded scale from the acquired operations, is expected to carry Logistics to another record year in 2007.

Marketing

In 2006 the Marketing operations showed steady year-on-year growth of 24.2% and 9.3% in revenue and operating profit, respectively. China delivered an unprecedented level of growth, both in terms of revenue and operating profit, with operating margin improving from 2.5% in 2005 to 3.4% in 2006. Following the renewed focus on practicing operational excellence and building distribution coverage outside central Bangkok, Thailand registered a stellar performance for the year. Building upon its success in 2005, Brunei delivered another year of double-digit profit growth in 2006. Our Philippine business, which commenced operations in April 2005, was still in the investment phase with breakeven targeted in 2007.

FMCG & Healthcare Distribution

In 2006 there was substantial progress in network expansion in China. We opened another 11 new branch offices, bringing our total to 17. These branch offices allow us to conduct direct sales, thus enabling us to foster closer relationships with key international and local retail chains. Including the channels covered by our appointed wholesalers, we now cover over 120 cities in China. Our branch expansion effort continues in 2007, with emphasis on the most profitable cities already penetrated by modern trade.

One of our new branch offices in China.

Groundbreaking ceremony for Slumberland plant extension project in Thailand.

A recently upgraded facility in Malaysia for healthcare products; similar upgrades will take place in 2007 in Hong Kong and Singapore.

In order to solidify our leadership position in China, we continued to leverage our scalable information technology platform and integrated offerings with Logistics to further build a sustainable network for expansion. To enhance order-processing efficiency and improve productivity, we rolled out the use of PDAs to mechanize the order taking process. As of the end of 2006, over 80 units have already been deployed for use. We expect that all of our sales personnel in China will be equipped with PDAs by July 2007.

Last year we saw an accelerating retail growth trend in Macau. To tap into this potential, we are planning to open a branch office in Macau that will commence operations in April 2007.

The Philippine operations delivered strong revenue growth in 2006 with major contract wins including Procter & Gamble in the second half. However, overall performance was behind schedule due to the challenging business environment and difficult trading practices. We are however targeting to meet the objective of achieving breakeven by the end of 2007.

Following the success of our portfolio rationalization programs two years ago in Thailand and Singapore, we are similarly doing the same in Malaysia and Indonesia. Both operations have strong positions in the Healthcare segment but relatively small FMCG units that lack critical mass. The immediate plan is to further expand our Healthcare business while carefully reviewing our position in the FMCG segment.

Our new service offering of Credit & Cash Management has proven to be effective in attracting customers with specialized needs that are not being sufficiently addressed in the industry.

Our new service offering of Credit & Cash Management has been successfully rolled out in three major markets, namely Hong Kong, Thailand and Singapore. The service has proven to be effective in attracting customers with specialized needs that are not being sufficiently addressed in the industry. We will continue to expand this service offering to new markets and plan to kick off in China by the second half of 2007.

Participating in major trade fairs and exhibitions to promote our services.

Manufacturing stream meeting in Phuket to foster exchange of best practices and teamwork.

Another initiative for 2007 is to step up our efforts in pursuing regional healthcare opportunities. Working in conjunction with our Logistics colleagues, we will invest in upgrading our distribution center facilities to add operational scale and improve service quality.

With our business building, quality improvement and cost saving programs in place, we remain optimistic about the future of our Marketing Distribution operations.

Slumberland

The Slumberland business made substantial progress in developing export sales and recorded steady double-digit growth in China in 2006. However, this growth was offset by soft demands in Malaysia, Thailand and Indonesia.

During the year, Slumberland won several hotel orders from China, Hong Kong and India, and appointed an agent in Bangladesh. We have also established a partnership with France Bed, the leading bedding manufacturer and licensee of Slumberland in Japan, to supply them with spring units and mattresses.

In December 2006, IDS completed the transaction of divesting the first tranche of 12.5% Slumberland Asia Pacific shares to Hilding Anders International AB. The consideration for the tranche was US$9.69 million, and IDS has recorded a gain of US$8.00 million. IDS now holds a 67.5% interest in Slumberland Asia Pacific and will continue to play an active role in working with Hilding Anders to drive the development of the business.

In order to enhance our production capacity to cater for growing demand, we commenced two major capacity expansion projects towards the end of 2006. The Shanghai plant extension project, targeted for April 2007 completion, will allow us to meet the strong demand of the buoyant China market. In Thailand, we have started building a new 100,000 square feet factory-cum-office facility. The expected completion time is mid-2007.

Manufacturing

Surging oil prices and political uncertainties continued to dampen domestic sentiment and consumption in Thailand and Malaysia in 2006. In view of the slower market demand, we saw our customers revising downwards their order forecasts, scaling back their marketing campaigns and delaying product launch programs. In spite of the tough operating environment, our Manufacturing operations delivered very encouraging results. Operating profit increased by 29.6% to US$5.09 million as compared to 2005, while operating margin improved from 2.9% in 2005 to 3.7% in 2006.

The manufacturing plant for Henkel in Indonesia will commence operations in early 2007.

The trend by major multinational brand owners to outsource and consolidate their manufacturing activities plays to our strength.

These commendable results were mainly attributable to our effective cost control measures and efficiency enhancement initiatives. Through benchmarking of performance and sharing of best practices, we were able to generate significant cost savings through productivity improvements.

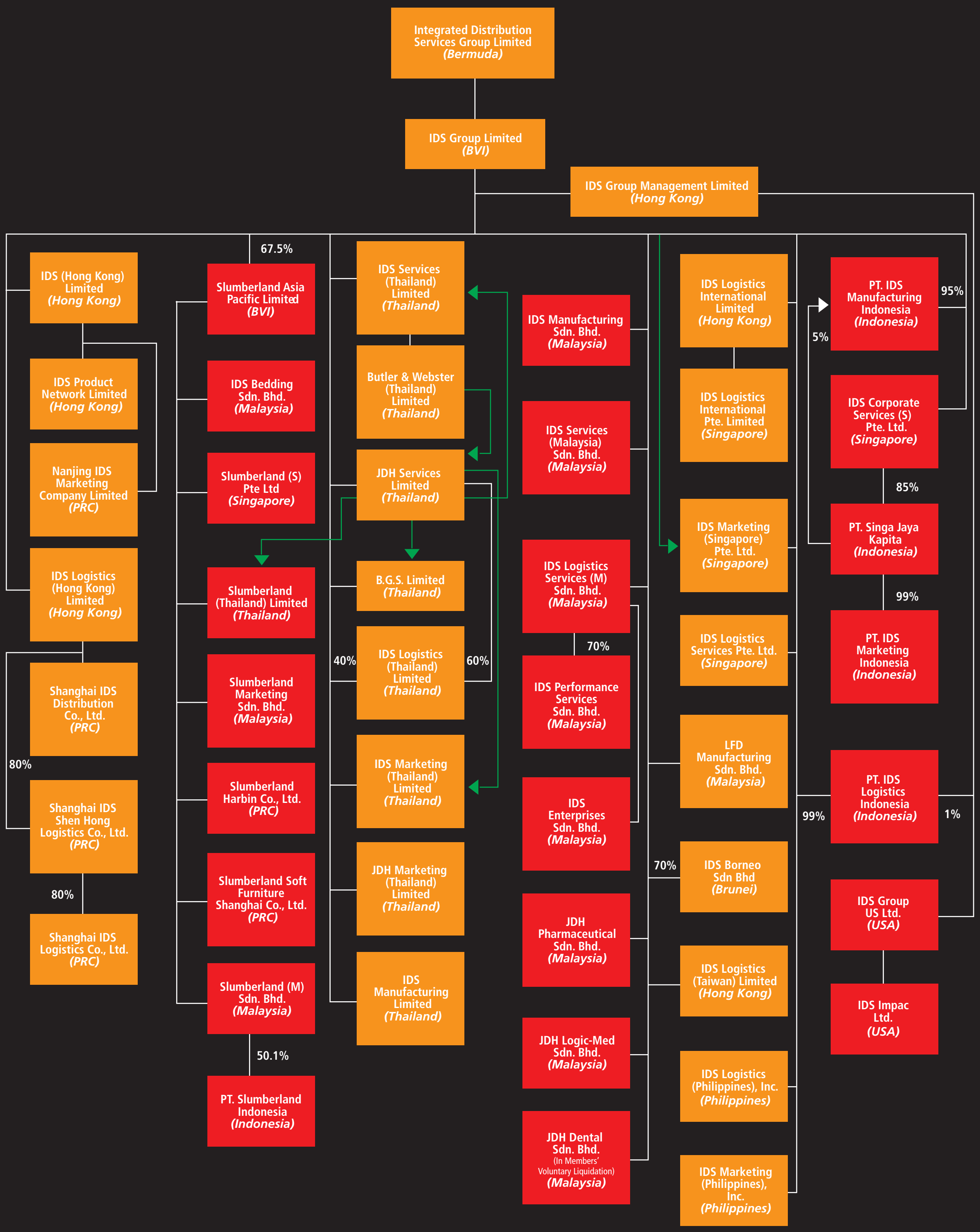
The trend by major multinational brand owners to outsource and consolidate their manufacturing activities plays to our strength. It also works in our favor as the order volumes from these customers are less susceptible to domestic demand fluctuations. Currently, regional export volume accounts for approximately one-third of our Manufacturing business. We will continue to focus on increasing the proportion of regional export business to reduce impact caused by unfavorable local economic conditions.

Our Listerine mouthwash facility in Thailand is growing from strength to strength. Johnson & Johnson has confirmed its intention to continue with the existing Manufacturing partnership following its acquisition of Pfizer Consumer Healthcare. Upon visiting our facility, representatives from Johnson & Johnson were impressed by the quality and scalability of our operation. Both parties have commenced discussion to construct an extension near the existing site to cater for further volume growth.

Construction of a dedicated facility for Henkel in Indonesia was completed in 2006 with commercial production commencing smoothly in January 2007. The 36,000 square feet plant is equipped with four fully automatic lines to produce solvents and liquids for industrial use. The contract initially covers only the domestic market; however, there is a strong possibility to extend the contract to cover its various export markets in the near future. If this happens, it will substantially enhance the scale and profitability of our manufacturing base in Indonesia. This will enable our operations to reach a new level of sophistication and will position us to win more large-scale contracts with multinational brand owners.

Demand for our TetraPak line in Malaysia remains strong. Subsequent to the period under review, we have signed a contract with Amoy Canning for the production of fruit juices and yogurt drinks in Tetra Wedge packing. Based on the orders received during the first two months, we are hopeful of a solid year in 2007.

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 *(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

* *Independent Non-executive Director*

Executive Directors
Benedict CHANG Yew Teck
(Group Managing Director)
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 Place of Business
15th Floor, LiFung Centre
2 On Ping Street
Siu Lek Yuen, Shatin, N.T.
Hong Kong

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

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

Directors and Senior Management

Executive Directors

Benedict CHANG Yew Teck

Joseph Chua PHI

Rajesh Vardichand RANAVAT

Benedict CHANG Yew Teck

aged 53, 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.

Joseph Chua PHI

aged 44, is the Chief Operating Officer 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 47, 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

Dr. William FUNG Kwok Lun

Jeremy Paul Egerton HOBBINS

LAU Butt Farn

Dr. Victor FUNG Kwok King

aged 61, 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 Vice-Chairman of International Chamber of Commerce from January 2007. He is also 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. Dr Fung is a member of Chinese People's Political Consultative Conference and a member of the Executive Committee of the Commission on Strategic Development 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.

Dr. William FUNG Kwok Lun, OBE, JP

aged 58, 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, VTech Holdings Limited and Shui On Land 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 59, 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 59, 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.

Independent Non-executive Directors

William Winship FLANZ

John Estmond STRICKLAND

Dr. FU Yu Ning

Professor LEE Hau Leung

William Winship FLANZ

aged 62, 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 67, 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 Holdings 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 50, 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, Independent 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 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 54, 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.

Group Chief Compliance Officer

James SIU Kai Lau

aged 62, joined the Group in 2005 as Group Chief Compliance Officer. 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 community work included serving as member of the Supervisory Board of the Hong Kong Housing Society and Chairman of its Audit Committee (2001 to 2006) and a member of the Professional Accountants in Business Committee of the Hong Kong Institute of Certified Public Accountants (2002-2006). Mr. Siu is a member of the Securities and Futures Commission Dual Filing Advisory Group and is the Deputy Chairman of the Corporate Governance 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 53, 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 57, 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 26 years' of experience in the manufacturing, sales, marketing and distribution of bedding products in the region.

Gerard Jan RAYMOND

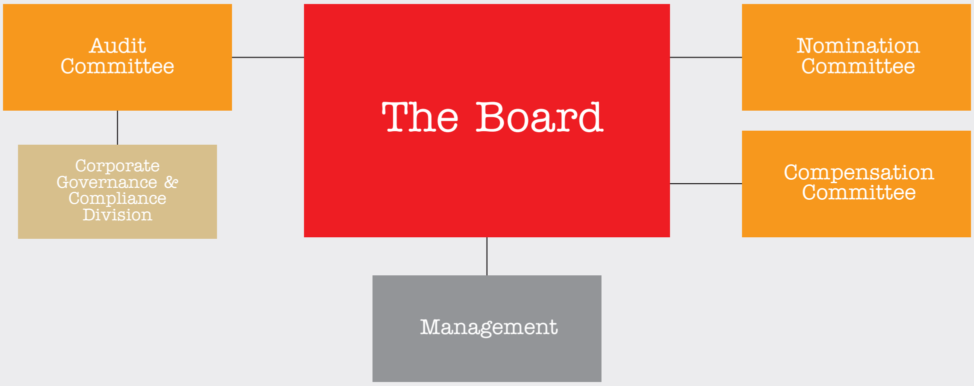
aged 50, is the Regional Managing Director of IDS Marketing in Hong Kong and the Mainland of China. He is fully responsible for leading the business of sales and marketing of consumer and healthcare global brands in Hong Kong and leads the strategy development for the Mainland of China. Mr. Raymond has 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 44, is the Group Financial Controller and the qualified accountant of the Company. He has over 20 years' experience in auditing, accounting and financial management. He joined the Group in February 2006. 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.

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 seven 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 46 to 54.

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 overseeing the proper functioning of the Board 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 do not involve in the day-to-day management of the Group, serve the important function of advising the management in area of his speciality relevant to the Group's business activities and on strategy development, and ensuring 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 that satisfied 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").

Prof. LEE Hau Leung, in his professional capacity as a world-renounced authority on supply chain management, provided a workshop on "The AAA Concept of supply chain management — Agility, Adaptability and Alignment" to our senior managers in February 2006 and in conjunction with Chulalongkorn University, he further participated as a guest speaker on "Inaugural IDS Value-Chain Logistics Seminar" to around 600 attendees in Bangkok in December 2006. This seminar was organized to support education and research in supply chain management and logistics at Chulalongkorn University. As a token of appreciation, the Company and Li & Fung (1906) Foundation (a connected person) paid an aggregate fee of US$39,500 to Prof. Lee. Both the Company and Prof. Lee consider that the above provision of services at the fee specified would not affect his independence as an Independent Non-executive Director of the Company.

The Board meets regularly throughout the year to discuss the Group's 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. Directors are kept informed on a periodically basis of major changes that may affect the Group's businesses, including relevant rules and regulations.

The Board has separate and independent access to the Company Secretary at all times to obtain relevant information for carrying out their duties as Directors of the Company. Procedures are in place for Directors and Board Committees 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 2006.

The Board has established three committees with specific responsibilities as described 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 interim financial information and annual financial statements 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.

The Board held four regular meetings and four special meetings in 2006 and the average attendance rate was 82%. Our Group Chief Compliance Officer, as appointed by the Board, also attends all Board and Committee meetings to advise on corporate governance matters covering risk management and relevant statutory compliance issues relating to mergers and acquisitions, accounting and financial reporting.

Under the Company's bye-laws, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement by rotation at least once every three years.

To further reinforce independence and accountability, any future reappointment of an Independent Non-executive Director who has served the Company's Board for more than nine years will be subject to separate resolution to be approved by shareholders.

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 of Board meetings and Committee meetings in 2006 are detailed in the following table:

Attendance of Board meetings and Committee meetings for Year 2006

Directors	No. of meetings attended/held Board	Audit Committee	Compensation Committee	Nomination Committee
Non-executive Directors				
Dr. Victor FUNG Kwok King[1]	**8/8**	–	**1/1**	–
Dr. William FUNG Kwok Lun	**3/8**	–	–	–
Mr. Jeremy Paul Egerton HOBBINS	**8/8**	–	–	**1/1**
Mr. LAU Butt Farn	**8/8**	**5/5**	–	–
Mr. Derrick LEE Meow Chan (retired on 25 May 2006)	**2/3**	–	–	–
Independent Non-executive Directors				
Mr. John Estmond STRICKLAND[2]	**7/8**	**5/5**	–	–
Mr. William Winship FLANZ[3]	**6/8**	–	**1/1**	**1/1**
Dr. FU Yu Ning	**5/8**	**2/5**	–	**1/1**
Prof. LEE Hau Leung	**7/8**	**4/5**	**1/1**	–
Executive Directors				
Mr. Benedict CHANG Yew Teck[4]	**8/8**	–	–	–
Mr. Joseph Chua PHI	**5/8**	–	–	–
Mr. Rajesh Vardichand RANAVAT[5]	**8/8**	**5/5**[6]	–	–
Group Chief Compliance Officer				
Mr. James SIU Kai Lau	**8/8**[7]	**4/5**[7]	**1/1**[7]	**1/1**[7]
Dates of Meeting	29/3/2006 20/4/2006 25/5/2006 23/6/2006 21/7/2006 16/8/2006 26/9/2006 15/12/2006	5/1/2006 3/3/2006 19/4/2006 23/6/2006 14/8/2006	15/12/2006	15/12/2006

1: Group Chairman and Chairman of Compensation Committee
2: Chairman of Audit Committee
3: Chairman of Nomination Committee
4: Group Managing Director
5: Chief Financial Officer
6: Attended Audit Committee meeting as a non-member
7: Attended Board and Committee meetings as a non-member

Note: All Committee Chairmen have attended Annual General Meeting held on 25 May 2006.

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 five times in 2006 (with an average attendance rate of 80%) to review with senior management and the Group's internal and external auditors, the significant internal and external audit findings, the audit plans for the internal and external auditors, the external auditor's independence, 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 information and annual financial statements for 2006 before recommending them to the Board for approval).

The Audit Committee has authority to investigate any activity within its terms of reference and has full access to, and the cooperation of, management. It has direct access to the internal and external auditors, and full discretion to invite any management to attend its meetings.

External Auditor's Independence

The Audit Committee also reviews annually the nature of the service fees and independence of the external auditor. 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 information and tax services for 2006) have been scrutinized by the Audit Committee. To further enhance Auditor's independence, fees for other non-audit services other than tax advice require prior approval of the Audit Committee. Prior to the commencement of the audit of 2006 financial statements of the Company, the Audit Committee received written confirmation from the external auditor on their independence as required 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 auditor, PricewaterhouseCoopers, and has recommended to the Board their reappointment as the Group's external auditor for the year ending 31 December 2007 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 2006 (attendance rate: 100%) to review the remuneration policy and amount for the Executive Directors of the Company for the year 2007 and recommend the list of proposed grantees of share options to the Board for approval.

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. With an aim to fairly remunerate the Non-executive Directors in view of their public accountability and time and effort spent on the Board and various committees, a review on the adequacy of Non-executive Directors' remuneration was conducted. The fees were benchmarked against other comparable companies in Hong Kong. After the review, the Board recommended to pay additional remuneration to the Non-executive Directors who serve on Board Committees for the year ended 31st December 2006 and each subsequent financial year until the Company in general meeting otherwise determines. Such proposal was put forward to the Company's Annual General Meeting ("AGM") on 25 May 2006 and received unanimous approval at the 2006 AGM. 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 to the financial statements.

Nomination Committee

The Nomination Committee was established in November 2004, comprising two Independent Non-executive Directors, namely Mr. William Winship FLANZ (being the Chairman of the Committee) and Dr. FU Yu Ning, and a Non-executive Director, Mr. Jeremy Paul Egerton HOBBINS. 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 2006. The Nomination Committee met once in 2006 (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.

Under the Company's Whistle blowing policy, employees can report any concern, including misconduct, impropriety or fraud in financial reporting matters and accounting practices, to either senior management or the Audit Committee through its Chairman or the Group Chief Compliance Officer at the Company's business address in Hong Kong.

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. 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. Specific enquiries have been made to all Directors and relevant employees to confirm compliance with the Model Code. No incident of non-compliance was noted by the Company in 2006.

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 69 to 72. 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 2006.

Directors' and Auditor's Responsibilities for Financial Statements

The Directors' responsibilities for the financial statements are set out on page 77, and the responsibilities of the external auditor to the shareholders are set out on page 77.

Internal Control and Risk Management

The Board recognizes the importance of internal controls to safeguard shareholders' interests and investments and the Group'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 functions. The Group Chief Compliance Officer reports all the major findings and recommendations at the Audit Committee meetings. Follow up on all recommendations is also performed on a periodic basis to ensure all agreed recommendations have been timely and satisfactorily implemented.

Our external auditor, PricewaterhouseCoopers, perform independent statutory audits on the Group's financial statements. As part of their audit engagement, our external auditor also report to the Audit Committee any significant weaknesses in the Group's internal control system which might come to their notice during the course of their audit. PricewaterhouseCoopers noted no significant internal control weakness in their audit for 2006.

Based on the assessments made by senior management, the Group's Internal Audit team and the external auditor in 2006 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 authorization 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 2006.

Investor Relations and Communication

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

All shareholders have 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 are published in the newspapers as well as on the Company's website together with details of the meeting, including the time and venue and major resolutions. 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.

The Board confirmed that there were no changes in 2006 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 capitalization as of 31 December 2006 are set out in the Information for Investors section on page 63.

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 63.

Corporate Communications

In 2006, 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 Meeting 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 and 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 March 2007
Announcement of 2006 Final Results

16 May 2007 to 22 May 2007 (both days inclusive)
Closure of Register of Members

On or about 22 May 2007
Proposed Payment of 2006 Final Dividend

22 May 2007
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 2006:
309,000,000 shares

Market Capitalization as at 31 December 2006:
HK$4,375,440,000

Earnings per share (equivalent to) for 2006

Interim:	HK21.40 cents
Full year:	HK58.30 cents

Dividend per share for 2006

Interim:	HK7 cents
Final:	HK28 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

Report of the Directors

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

Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 32 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 82.

The directors declared an interim dividend of HK7 cents per share, totalling HK$21,630,000, which was paid on 22 September 2006.

The directors recommended the payment of a final dividend of HK28 cents per share, absorbing HK$86,790,760.

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$30,000.

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

Distributable reserves of the Company as at 31 December 2006, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to US$522,000 (2005: Nil).

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 140.

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 2006, 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 21,718,500 share options were granted and remained 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).

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 2006 are as follows:

	Number of Share Options				Exercise price HK$	Grant Date	Exercise period
	As at 1/1/2006	Granted *(Note 1)*	Lapsed *(Note 2)*	As at 31/12/2006			
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
	–	380,000	–	380,000	15.100	15/12/06	01/01/09-31/12/10
	–	380,000	–	380,000	15.100	15/12/06	01/01/10-31/12/11
	–	380,000	–	380,000	15.100	15/12/06	01/01/11-31/12/12
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
	–	265,000	–	265,000	15.100	15/12/06	01/01/09-31/12/10
	–	265,000	–	265,000	15.100	15/12/06	01/01/10-31/12/11
	–	265,000	–	265,000	15.100	15/12/06	01/01/11-31/12/12

	Number of Share Options				Exercise		
	As at	**Granted**	**Lapsed**	**As at**	**price**		
	1/1/2006	***(Note 1)***	***(Note 2)***	**31/12/2006**	**HK$**	**Grant Date**	**Exercise period**
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
	–	210,000	–	210,000	15.100	15/12/06	01/01/09-31/12/10
	–	210,000	–	210,000	15.100	15/12/06	01/01/10-31/12/11
	–	210,000	–	210,000	15.100	15/12/06	01/01/11-31/12/12
Continuous contract employees	2,787,000	–	177,000	2,610,000	4.825	14/12/04	01/01/07-31/12/08
	2,787,000	–	177,000	2,610,000	4.825	14/12/04	01/01/08-31/12/09
	2,787,000	–	177,000	2,610,000	4.825	14/12/04	01/01/09-31/12/10
	941,500	–	117,000	824,500	8.600	16/12/05	01/01/08-31/12/09
	941,500	–	117,000	824,500	8.600	16/12/05	01/01/09-31/12/10
	941,500	–	117,000	824,500	8.600	16/12/05	01/01/10-31/12/11
	–	755,000	–	755,000	15.100	15/12/06	01/01/09-31/12/10
	–	755,000	–	755,000	15.100	15/12/06	01/01/10-31/12/11
	–	755,000	–	755,000	15.100	15/12/06	01/01/11-31/12/12

Notes:

(1) The closing price per share immediately before the date on which the options were granted was HK$14.98.

(2) 882,000 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$3.66 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK$15.10 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 3.72%. 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

Executive Directors
Benedict CHANG Yew Teck *(Group Managing Director)*
Joseph Chua PHI
Rajesh Vardichand RANAVAT

* *Independent Non-executive Director*

In accordance with Bye-law 87 of the Company's Bye-laws, Dr. William FUNG Kwok Lun, Mr. Joseph Chua PHI, Mr. John Estmond STRICKLAND, Dr. FU Yu Ning and Prof. LEE Hau Leung will retire at the forthcoming annual general meeting. All retiring directors, being eligible, will offer themselves for re-election.

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 31 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 46 to 54.

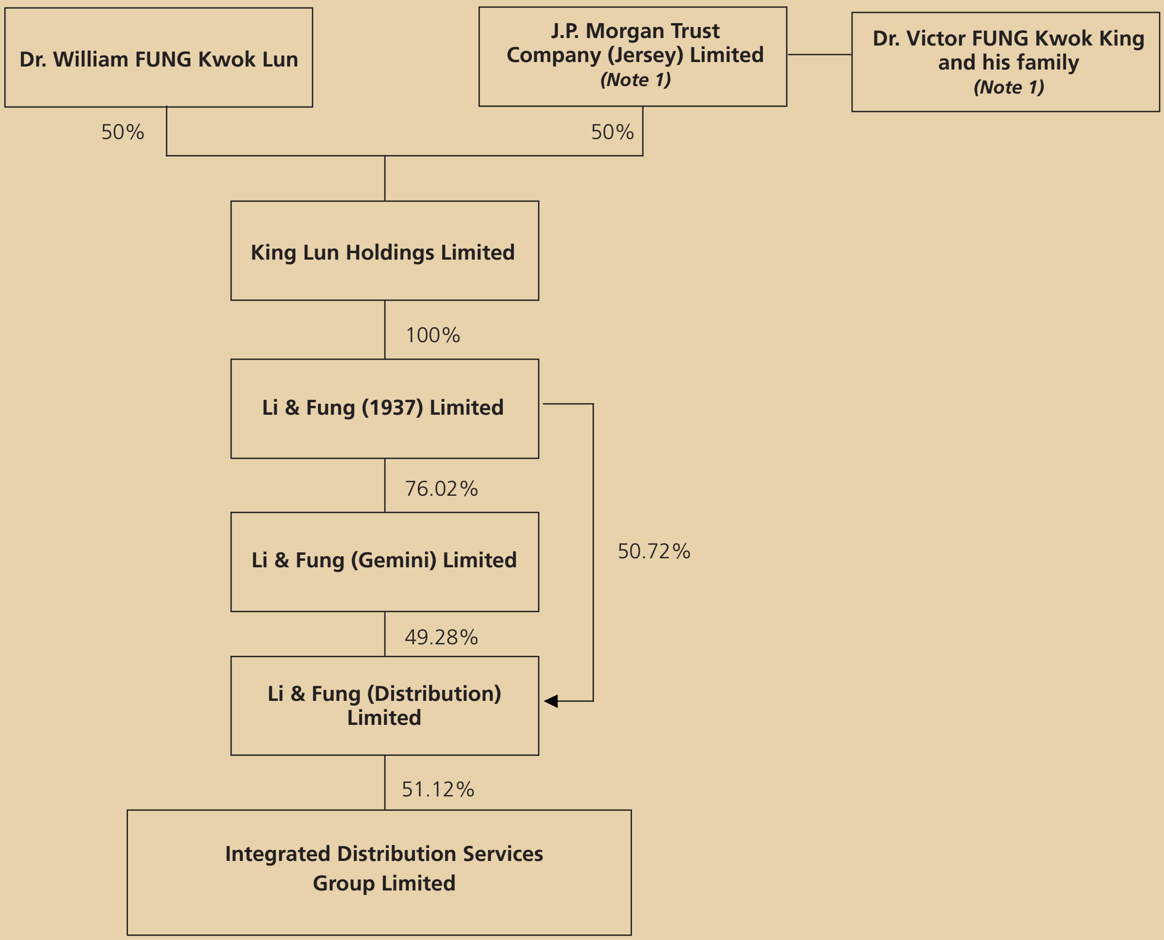
Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2006, the directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

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

Name of Director	Number of shares				Number of underlying shares under equity derivatives (Share Options)	Total interest	Approximate percentage of issued share capital (%)
	Personal interest	Family interest	Corporate/ trust interest	Other 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	–	–	–	4,530,000	5,942,573	1.92
Joseph Chua PHI	1,047,632	–	–	–	2,550,000	3,597,632	1.16
Rajesh Vardichand RANAVAT	305,375	–	–	–	2,070,000	2,375,375	0.77
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 50.72% 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 associated corporations

Name of Director	Name of associated corporation	Class of shares	Number of shares	Nature of interest	Approximate percentage of interests (%)
* Dr. Victor FUNG Kwok King	King Lun Holdings Limited	Ordinary	1,332,840	beneficiary of a trust	50.00
	Li & Fung (Gemini) Limited	Ordinary	5,825,438	as above	84.80
* Dr. William FUNG Kwok Lun	King Lun Holdings Limited	Ordinary	1,332,840	controlled corporation	50.00
	Li & Fung (Gemini) Limited	Ordinary	5,222,807	as above	76.02
Benedict CHANG Yew Teck	Li & Fung (Gemini) Limited	Ordinary	462,018	controlled corporation *(Note 1)*	6.73
Rajesh Vardichand RANAVAT	Convenience Retail Asia Limited	Ordinary	26,000	beneficial owner	0.004
Jeremy Paul Egerton HOBBINS	Convenience Retail Asia Limited	Ordinary	180,000	beneficial owner	0.03
	Li & Fung (Gemini) Limited	Ordinary	462,018	controlled corporation *(Note 2)*	6.73
LAU Butt Farn	Convenience Retail Asia Limited	Ordinary	2,390,000	beneficial owner	0.35

* *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 application was submitted to the Stock Exchange for exempt from disclosure of their interests in the shares and underlying shares of the associated corporations (save for King Lun and Li & Fung (Gemini) Limited) of the Company, and a waiver was granted by the Stock Exchange on 4 April 2007.*

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

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 2006, 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 of Shareholders	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	Investment manager	22,065,000	7.14
Brookside Capital Investors, L.P.	Interest of controlled corporation	15,473,000	5.01
JPMorgan Chase & Co.	*Note*	15,670,000	5.07

Note:
The capacities of JPMorgan Chase & Co. in holding the 15,670,000 shares were, as to 201,000 shares as Beneficial Owner, as to 1,556,000 shares as Investment Manager and as to 13,913,000 shares in the Lending Pool as custodian corporation/approved lending agent.

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

As at 31 December 2006, 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 2006, 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	20%
– the five largest suppliers combined	48%

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 1% of the issued share capital of the five largest customers or suppliers noted above.

Connected transactions

(A) 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 2006:

				US$'000
(a)	Distribution and sale of goods			
	– members of Convenience Retail Asia Limited ("CRA Group")			1,004
	– other members of the Parent Group			23
(b)	Provision of shipping, handling and other logistics services			
	– members of Li & Fung Limited			639
	– other members of the Parent Group			2,592
(c)	Rental recharge			
	(i)	received from		
		– members of CRA Group		342
		– other members of the Parent Group		746
	(ii)	paid to		
		– members of Li & Fung (Distribution) Limited		2,219
		– other members of the Parent Group		180

In respect of the above continuing connected transaction, 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.

(B) 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
Information Technology fee recharge to	144
Fee for collection service	8

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

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 and on a sample basis with respect to items 2 and 3 below. 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 selected were entered into in accordance with the pricing policies of the Company;

3. the transactions selected 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.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment.

On behalf of the Board

Victor FUNG Kwok King
Chairman

Hong Kong, 20 March 2007

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

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 consolidated financial statements of Integrated Distribution Services Group Limited (the ''Company'') and its subsidiaries (together, the ''Group'') set out on pages 79 to 139, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2007

Financial Statements

Consolidated Balance Sheet

As at 31 December 2006

	Note	**2006 US$'000**	2005 US$'000
ASSETS			
Non-current assets			
Intangible assets	6	**39,496**	6,852
Property, plant and equipment	8	**68,914**	39,351
Lease premium for land	7	**1,684**	395
Other non-current assets	11	**7,774**	4,858
Pension assets	17	**849**	546
Deferred tax assets	16	**9,818**	4,546
		128,535	56,548
Current assets			
Inventories	10	**116,182**	91,074
Trade and other receivables	11	**210,172**	167,503
Taxation recoverable		**652**	692
Time deposits	12	**46,432**	37,039
Bank balances and cash	12	**38,161**	20,446
		411,599	316,754
Total assets		**540,134**	373,302
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	13	**30,900**	30,900
Reserves	14	**78,248**	56,364
		109,148	87,264
Minority interest	27(b)	**7,085**	5,058
Total equity		**116,233**	92,322

Consolidated Balance Sheet

As at 31 December 2006

	Note	**2006 US$'000**	2005 US$'000
LIABILITIES			
Non-current liabilities			
Unsecured bank loans	15	**51,242**	30,174
Obligations under finance leases	15	**15**	42
Deficit on pension schemes	17	**1,544**	1,244
Post-employment benefit liabilities	17	**2,942**	1,850
Other non-current liabilities	18	**16,408**	2,762
Deferred tax liabilities	16	**1,793**	1,123
		73,944	37,195
Current liabilities			
Trade and other payables	18	**297,075**	217,486
Bank loans and other borrowings	15	**47,245**	20,444
Taxation payable		**5,637**	5,855
		349,957	243,785
Total liabilities		**423,901**	280,980
Total equity and liabilities		**540,134**	373,302
Net current assets		**61,642**	72,969
Total assets less current liabilities		**190,177**	129,517

On behalf of the board

Victor FUNG Kwok King
Director

Benedict CHANG Yew Teck
Director

The notes on pages 85 to 139 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2006

	Note	**2006 US$'000**	2005 US$'000
ASSETS			
Non-current assets			
Interest in a subsidiary	9	**42,866**	40,290
Current assets			
Other receivables		**55**	53
Time deposits	12	**11,355**	12,393
		11,410	12,446
Total assets		**54,276**	52,736
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	13	**30,900**	30,900
Reserves	14	**23,058**	21,555
Total equity		**53,958**	52,455
Current liabilities			
Other payables		**318**	281
Total equity and liabilities		**54,276**	52,736
Net current assets		**11,092**	12,165
Total assets less current liabilities		**53,958**	52,455

On behalf of the board

Victor FUNG Kwok King
Director

Benedict CHANG Yew Teck
Director

The notes on pages 85 to 139 are an integral part of these consolidated financial statements.

Consolidated Income Statement

For the year ended 31 December 2006

	Note	2006 US$'000	2005 US$'000
Revenue	5	**993,611**	821,530
Cost of sales		**(735,684)**	(604,568)
Gross profit		**257,927**	216,962
Marketing and logistics expenses		**(202,659)**	(168,272)
Administrative expenses		**(35,157)**	(32,738)
Core operating profit		**20,111**	15,952
Other gains	19	**7,997**	3,011
Other expenses	20	**(1,050)**	–
Operating profit	20	**27,058**	18,963
Finance costs, net	22	**(1,442)**	(856)
Profit before taxation		**25,616**	18,107
Taxation	23	**(1,725)**	(3,828)
Profit for the year		**23,891**	14,279
Profit attributable to:			
Shareholders of the Company		**23,188**	13,333
Minority interest		**703**	946
		23,891	14,279
Dividends	26	**13,891**	7,961
Earnings per share for profit attributable to the shareholders of the Company during the year	25		
Basic		**US7.50 cents**	US4.31 cents
Diluted		**US7.29 cents**	US4.27 cents

The notes on pages 85 to 139 are an integral part of these consolidated financial statements.

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2006

	Attributable to shareholders of the Company				
	Share capital	Other reserves	(Accumulated losses)/ retained earnings	Minority interest	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2005	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
Exchange differences	**–**	**6,304**	**–**	**279**	**6,583**
Actuarial losses from post employment benefits, net of deferred tax recognized in equity	**–**	**–**	**(231)**	**(15)**	**(246)**
Profit for the year	**–**	**–**	**23,188**	**703**	**23,891**
Total recognized income for 2006	**–**	**6,304**	**22,957**	**967**	**30,228**
Employee share option benefits	**–**	**980**	**–**	**–**	**980**
Minority interest arising on partial divestment of a subsidiary	**–**	**–**	**–**	**1,520**	**1,520**
Dividends	**–**	**–**	**(8,357)**	**(460)**	**(8,817)**
At 31 December 2006	**30,900**	**46,532**	**31,716**	**7,085**	**116,233**

The notes on pages 85 to 139 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 US$'000	2005 US$'000
Cash flows from operating activities			
Cash generated from operations	27(a)	**49,383**	19,676
Interest paid		**(3,677)**	(2,792)
Overseas tax refunded		**352**	351
Overseas tax paid		**(7,079)**	(3,622)
Net cash generated from operating activities		**38,979**	13,613
Cash flows from investing activities			
Interest received		**2,354**	1,936
Net increase in time deposits		**(3,811)**	(264)
Purchase of property, plant and equipment		**(9,896)**	(13,466)
Purchase of intangible assets		**(2,484)**	(2,274)
Proceeds from partial divestment of a subsidiary		**9,686**	–
Acquisition of a subsidiary	27(c)	**(24,918)**	–
Acquisition of business	27(d)	**(22,220)**	–
Sale of plant and equipment		**505**	2,313
Sale of long-term investments		**–**	5
Net cash used in investing activities		**(50,784)**	(11,750)
Net cash (used)/generated before financing activities		**(11,805)**	1,863
Cash flows from financing activities			
Dividends paid		**(8,357)**	(2,386)
Dividends paid to minority shareholders	27(b)	**(460)**	(233)
New loans raised	27(b)	**119,756**	14,080
Repayment of loans	27(b)	**(74,946)**	(7,559)
Capital element of finance lease payments	27(b)	**(83)**	(138)
Net cash generated from financing activities		**35,910**	3,764
Increase in cash and cash equivalents		**24,105**	5,627
Cash and cash equivalents at 1 January		**55,985**	50,612
Effect of foreign exchange rate changes		**(1,816)**	(254)
Cash and cash equivalents at 31 December		**78,274**	55,985
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		**38,161**	20,446
Deposits with maturity less than three months		**41,327**	35,745
Bank overdrafts		**(1,214)**	(206)
		78,274	55,985

The notes on pages 85 to 139 are an integral part of these consolidated 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''), Brunei and the United States of America (''the US'').

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'').

The consolidated financial statements have been approved for issue by the Board of Directors on 20 March 2007.

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 judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

Amendments to published standards effective in 2006

The Group early adopted Amendment to HKAS 19, Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures in financial year ended 31 December 2005. 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 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 income statement over the average remaining service lives of employees.

2.1 BASIS OF PREPARATION (continued)

Standards, amendments and interpretations effective in 2006

The following standards, amendments and interpretations are mandatory for financial year ended 31 December 2006. Management has considered and concluded that there is either no significant financial impact or relevance to the Group:

HKAS 21(Amendment)	Net Investment in a Foreign Operation
HKAS 39(Amendment)	The Fair Value Option
HKAS 39(Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS 6	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

Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Group

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 May 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.

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.

HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006)
HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued, to establish whether or not they fall within the scope of HKFRS 2. Management is currently assessing the impact of HK(IFRIC)-Int 8 on the Group's consolidated financial statements.

2.1 BASIS OF PREPARATION (continued)

Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Group (continued)

HK(IFRIC)-Int 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006)

HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. Management is currently assessing the impact of HK(IFRIC)-Int 9 on the Group's consolidated financial statements.

HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006)

HK(IFRIC)-Int 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from annual periods beginning 1 January 2007.

HK(IFRIC)-Int 11, HKFRS 2 — Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007)

HK(IFRIC)-Int 11 addresses how certain share-based payment arrangements between group companies should be accounted for in the financial statements. The Group will apply HK(IFRIC)-Int 11 from January 1, 2008 but it is not expected to have any significant impact on the Group's financial statements.

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

HK(IFRIC)-Int 7 Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

2.2 CONSOLIDATION

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

(a) Subsidiaries

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. They are de-consolidated from the date that control ceases.

2.2 CONSOLIDATION (continued)

(a) Subsidiaries (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (note 2.6). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

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 by the Company on the basis of dividend received and receivable.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

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.

2.4 FOREIGN CURRENCY TRANSLATION (continued)

(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.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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 lease period or 2%
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.

2.6 INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates.

Trademarks

Trademarks have indefinite useful lives. 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 programmes are recognized as an expense as incurred. Costs that are directly associated with the production of developing 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, generally not exceeding seven years.

Customer base

Customer base acquired is stated at historical cost less accumulated amortization and accumulated impairment losses.

Amortization of customer base is calculated using the straight-line method over the estimated useful lives.

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 FINANCIAL ASSETS

The Group classifies its financial assets 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 financial assets were acquired. Management determines the classification of its financial assets 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.

(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 financial assets in this category.

Purchases and sales of financial assets are recognized on trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables 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.

The fair values of quoted financial assets 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 FINANCIAL ASSETS (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.

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 with banks with original maturities of less than three months, 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. 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 in 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.

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.

2.15 EMPLOYEE BENEFITS (continued)

(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 an expense. 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 equity 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 PROVISIONS

Provisions for restructuring costs and legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation.

2.17 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.

2.17 REVENUE RECOGNITION (continued)

(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.

2.18 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.

2.19 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.

2.20 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).

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 programme 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 ten economies over the world 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, as the Group has a large number of customers internationally dispersed. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

(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 discussed 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.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

(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.

(d) Fair value of assets acquired in business combinations

For the assets and liabilities acquired, the Group is required to record the assets and liabilities acquired at their fair value at the time of acquisition. Significant judgement is required in determining the fair value of the prepaid lease premium, intangible assets and property, plant and equipment acquired. The fair value is determined by independent valuers.

(e) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques by independent valuers. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

(f) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.7. The recoverable amounts of cash-generating units have been determined based on higher of fair value less costs to sell and value in use. These calculations require the use of estimates (note 6).

5 REVENUE AND SEGMENT INFORMATION

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

	2006 **US$'000**	2005 US$'000
Sales of goods	**827,493**	703,579
Rendering of services	**166,118**	117,951
Revenue	**993,611**	821,530

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
PRC	—	Marketing and Logistics
Brunei	—	Marketing
the US	—	Logistics

5 REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format — business segments

The segment results for the year ended 31 December 2006 are as follows:

	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	–	707,691	120,037	–	(235)	827,493
Rendering of services	155,531	7,567	16,729	–	(13,709)	166,118
Revenue	155,531	715,258	136,766	–	(13,944)	993,611
Gross profit	144,061	117,218	7,647	–	(10,999)	257,927
Marketing, logistics and administrative expenses	(131,270)	(104,922)	(2,558)	(10,065)	10,999	(237,816)
Core operating profit	12,791	12,296	5,089	(10,065)	–	20,111
Other gains	–	–	–	7,997		7,997
Other expenses	–	(1,050)	–	–		(1,050)
Segment results	12,791	11,246	5,089	(2,068)		27,058
Finance costs, net						(1,442)
Profit before taxation						25,616
Taxation						(1,725)
Profit for the year						23,891
Total assets	137,556	273,336	43,762	85,480		540,134
Total liabilities	129,061	214,241	26,781	53,818		423,901
Capital expenditure	4,868	2,350	2,535	2,627		12,380
Capital expenditure arising from acquisition of a subsidiary/business	35,130	–	–	22,424		57,554
Depreciation and amortization	4,262	2,431	1,447	1,503		9,643
Impairment of inventory	69	1,045	–	–		1,114
Impairment of trade receivables	(2)	611	113	–		722

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

5 REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format — business segments (continued)

The segment results for the year ended 31 December 2005 are as follows:

	Logistics	Marketing	Manufacturing	Corporate (Note)	Inter-segment elimination	Group total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'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
Gross profit	117,112	104,731	6,533	–	(11,414)	216,962
Marketing, logistics and administrative expenses	(106,747)	(93,486)	(2,605)	(9,586)	11,414	(201,010)
Core operating profit	10,365	11,245	3,928	(9,586)	–	15,952
Other gains	–	611	–	2,400		3,011
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

5 REVENUE AND SEGMENT INFORMATION (continued)

Secondary reporting format — geographical segments

The segment results for the year ended 31 December 2006 are as follows:

	Revenue US$'000	Total assets US$'000	Capital expenditure US$'000
Hong Kong	**223,352**	**119,341**	**3,241**
Taiwan	**23,194**	**34,631**	**1,411**
Thailand	**133,806**	**64,120**	**1,340**
Malaysia	**137,768**	**85,619**	**26,045**
Singapore	**73,986**	**35,992**	**545**
the Philippines	**198,174**	**35,762**	**511**
Indonesia	**11,919**	**8,755**	**1,164**
PRC	**157,050**	**95,113**	**3,039**
Brunei	**31,614**	**11,369**	**140**
the US	**7,733**	**49,432**	**32,498**
	998,596	**540,134**	**69,934**
Less: Inter-segment elimination	**(4,985)**	**–**	**–**
Total	**993,611**	**540,134**	**69,934**

The segment results for the year ended 31 December 2005 are as follows:

	Revenue US$'000	Total assets US$'000	Capital expenditure 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

6 INTANGIBLE ASSETS

	Group				
	Goodwill US$'000	**Customer base** US$'000	**Software costs** US$'000	**Trademarks** US$'000	**Total** US$'000
At 1 January 2005					
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
Year ended 31 December 2006					
Opening net book value	**–**	**–**	**5,808**	**1,044**	**6,852**
Acquisition of a subsidiary/ business	**28,123**	**3,060**	**332**	**–**	**31,515**
Exchange adjustment	**–**	**–**	**96**	**–**	**96**
Additions	**–**	**–**	**2,484**	**–**	**2,484**
Disposals	**–**	**–**	**(9)**	**–**	**(9)**
Amortization expense (note 20)	**–**	**(67)**	**(1,375)**	**–**	**(1,442)**
Closing net book value	**28,123**	**2,993**	**7,336**	**1,044**	**39,496**
At 31 December 2006					
Cost	**28,123**	**3,060**	**13,232**	**1,228**	**45,643**
Accumulated amortization	**–**	**(67)**	**(5,896)**	**(184)**	**(6,147)**
Net book value	**28,123**	**2,993**	**7,336**	**1,044**	**39,496**

(a) *Software costs include internally generated capitalized software development costs and other costs.*

(b) *Amortization of customer base is calculated using the straight-line method over the estimated useful lives between eight to ten years.*

(c) *Amortization of US$123,000 (2005: US$55,000) is included in the marketing and logistics expenses; and US$1,319,000 (2005: US$849,000) in administrative expenses in the consolidated income statement.*

6 INTANGIBLE ASSETS (continued)

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified based on country of operation and business segment as follows.

	2006 US$'000
	Logistics
the US	27,950
Malaysia	173
	28,123

The recoverable amount is the higher of the CGU's fair value less costs to sell and its value in use. During the year ended 31 December 2006, the Group acquired two businesses in September and November with the carrying amount of goodwill amounting to approximately US$173,000 and US$27,950,000 respectively. Considerations for these acquisitions were mutually agreed between the parties. As the acquisitions took place close to the year end of 2006, and no significant events have occurred that would change the circumstances since the aforesaid acquisitions, the transaction considerations are the reliable estimates of the CGU's fair value less cost to sell as at 31 December 2006. As a result, the directors are of the view that there is no impairment of goodwill as at 31 December 2006.

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 values are analyzed as follows:

	Group	
	2006 US$'000	2005 US$'000
Outside Hong Kong, held on:		
Leases of over 50 years	284	269
Leases of between 10 to 50 years	1,400	126
	1,684	395
Opening	395	416
Exchange difference	86	1
Acquisition of a subsidiary	1,220	–
Disposals	–	(7)
Amortization of prepaid operating lease payments (note 20)	(17)	(15)
	1,684	395

8 PROPERTY, PLANT AND EQUIPMENT

	Group		
	Buildings US$'000	Furniture, plant and machinery US$'000	Total US$'000
At 1 January 2005			
Cost	3,070	76,791	79,861
Accumulated depreciation	(629)	(45,352)	(45,981)
Net book value	2,441	31,439	33,880
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

8 PROPERTY, PLANT AND EQUIPMENT (continued)

	Group			
	Freehold Land US$'000	Buildings US$'000	Furniture, plant and machinery US$'000	Total US$'000
Year ended 31 December 2006				
Opening net book value	–	2,816	36,535	39,351
Exchange adjustment	281	851	2,483	3,615
Acquisition of a subsidiary/business	6,291	14,913	3,615	24,819
Additions	–	1,001	8,895	9,896
Disposals	–	–	(583)	(583)
Depreciation	–	(173)	(8,011)	(8,184)
Closing net book value	6,572	19,408	42,934	68,914
At 31 December 2006				
Cost	6,572	20,338	95,600	122,510
Accumulated depreciation	–	(930)	(52,666)	(53,596)
Net book value	6,572	19,408	42,934	68,914

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

	2006 US$'000	2005 US$'000
Cost — capitalized finance leases	541	530
Accumulated depreciation	(246)	(318)
Net book value	295	212

Depreciation expense of US$1,515,000 (2005: US$1,477,000) has been expensed in cost of goods sold, US$4,749,000 (2005: US$4,235,000) in marketing and logistics expenses and US$1,920,000 (2005: US$1,790,000) in administrative expenses.

9 INTEREST IN A SUBSIDIARY

	Company	
	2006 US$'000	2005 US$'000
Unlisted shares, at cost (note (a))	**23,988**	23,988
Amount due from a subsidiary (note (b))	**18,878**	16,302
	42,866	40,290

Notes:

(a) Particulars of principal subsidiaries are set out in note 32 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	
	2006 US$'000	2005 US$'000
Finished goods and merchandise	**109,470**	84,022
Raw materials	**8,552**	8,498
Work in progress	**1,338**	1,435
	119,360	93,955
Less: Provision for obsolescence	**(3,178)**	(2,881)
	116,182	91,074

The cost of inventories recognized as expense and included in cost of goods sold amounted to US$722,377,000 (2005 US$592,932,000).

The Group recognized an inventory write-down of US$1,114,000 (2005: US$1,110,000). The amount has been included in cost of goods sold in the consolidated income statement.

11 TRADE AND OTHER RECEIVABLES

	Group	
	2006 **US$'000**	2005 US$'000
Trade receivables	**166,629**	134,792
Less: provision for impairment of receivables	**(2,275)**	(1,498)
Trade receivables, net (note (a))	**164,354**	133,294
Other receivables, prepayments, and deposits	**48,947**	37,768
Due from related companies (note (b) and note 31)	**4,645**	1,299
	217,946	172,361
Less: non-current portion: prepayments and deposits	**(7,774)**	(4,858)
	210,172	167,503

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

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	
	2006 **US$'000**	2005 US$'000
Less than 90 days	**153,367**	124,552
91–180 days	**8,715**	6,165
181–360 days	**1,513**	1,788
Over 360 days	**759**	789
	164,354	133,294

The Group has recognized a loss of US$722,000 (2005: US$397,000) for the impairment of its trade receivables during the year ended 31 December 2006. The loss has been included in marketing and logistics expenses in the consolidated income statement.

(b) The amounts due from related companies are trade in nature. 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.

12 CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 US$'000	2005 US$'000	**2006 US$'000**	2005 US$'000
Bank balances and cash	**38,161**	20,446	**–**	–
Short-term bank deposits	**46,432**	37,039	**11,355**	12,393
	84,593	57,485	**11,355**	12,393

The effective interest rate on short-term bank deposits was 3.89% (2005: 3.86%); these deposits have an average maturity of 58 days (2005: 32 days).

13 SHARE CAPITAL AND OPTIONS

	Ordinary shares	
	No. of shares (thousands)	US$'000
Authorized:		
At 31 December 2005 and at 31 December 2006	1,000,000	100,000
Issued and fully paid:		
At 31 December 2005 and at 31 December 2006	309,000	30,900

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.

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

	2006		2005	
	Average exercise price HK$ per share	**Share options**	Average exercise price HK$ per share	Share options
At 1 January	**5.887**	**17,770,500**	4.825	13,500,000
Granted	**15.100**	**4,830,000**	8.600	4,999,500
Lapsed (note)	**4.825**	**(531,000)**	4.825	(729,000)
Lapsed (note)	**8.600**	**(351,000)**	–	–
At 31 December	**7.918**	**21,718,500**	5.887	17,770,500

Note: Share options lapsed following the cessation of employment of certain grantees.

13 SHARE CAPITAL AND OPTIONS (continued)

None of the outstanding options were exercisable at 31 December 2006. Subsequently, 967,000 shares have been allotted and issued under the Share Option Scheme up to 20 March 2007.

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 2006**	31 December 2005
31 December 2008	4.825	**4,080,000**	4,257,000
31 December 2009	4.825	**4,080,000**	4,257,000
31 December 2010	4.825	**4,080,000**	4,257,000
31 December 2009	8.600	**1,549,500**	1,666,500
31 December 2010	8.600	**1,549,500**	1,666,500
31 December 2011	8.600	**1,549,500**	1,666,500
31 December 2010	15.100	**1,610,000**	–
31 December 2011	15.100	**1,610,000**	–
31 December 2012	15.100	**1,610,000**	–
		21,718,500	17,770,500

The fair value of options granted was determined using the Black-Scholes valuation model based on the following assumptions:

Date of grant	**15 December 2006**	16 December 2005	14 December 2004
Share price at date of grant	**HK$15.10**	HK$8.60	HK$4.825
Exercise price	**HK$15.10**	HK$8.60	HK$4.825
Share volatility	**34%**	34%	30%
Average annual risk-free interest rate	**3.72%**	4.11%	2.22%
Expected life of options	**4 to 6 years**	4 to 6 years	4 to 6 years
Expected dividend yield	**3%**	3%	3%

14 RESERVES

	Group					
	Share premium US$'000	Employee share-based compensation reserve (note b) US$'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	(36,787)	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
Interim dividend paid	–	–	–	(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

	Group					
	Share premium US$'000	**Employee share-based compensation reserve (note b) US$'000**	**Merger reserve (note a) US$'000**	**Retained earnings US$'000**	**Exchange reserve US$'000**	**Total US$'000**
At 1 January 2006	**21,019**	**537**	**16,450**	**17,116**	**1,242**	**56,364**
Exchange differences	**–**	**–**	**–**	**–**	**6,304**	**6,304**
Actuarial losses from post employment benefit recognized in reserve:						
— gross	**–**	**–**	**–**	**(268)**	**–**	**(268)**
— tax	**–**	**–**	**–**	**37**	**–**	**37**
Profit for the year	**–**	**–**	**–**	**23,188**	**–**	**23,188**
2005 final dividend paid	**–**	**–**	**–**	**(5,575)**	**–**	**(5,575)**
2006 interim dividend paid	**–**	**–**	**–**	**(2,782)**	**–**	**(2,782)**
Employee share option benefits	**–**	**980**	**–**	**–**	**–**	**980**
At 31 December 2006	**21,019**	**1,517**	**16,450**	**31,716**	**7,546**	**78,248**
Company and subsidiaries	**21,019**	**1,517**	**16,450**	**31,716**	**7,546**	**78,248**

Notes:

(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 of the group and the nominal value of shares of the Company issued in exchange thereof, net of subsequent transfer to accumulated loss/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$'000	(Accumulated losses)/retained earnings US$'000	Employee share based compensation reserve US$'000	Total US$'000
At 1 January 2005	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
At 31 December 2005	21,019	(1)	537	21,555
Profit for the year (note 24)	**–**	**8,880**	**–**	**8,880**
Dividends	**–**	**(8,357)**	**–**	**(8,357)**
Employee share option benefits	**–**	**–**	**980**	**980**
As at 31 December 2006	**21,019**	**522**	**1,517**	**23,058**

15 BANK LOANS AND OTHER BORROWINGS

	Group	
	2006 US$'000	2005 US$'000
Non-current		
Unsecured bank loans	**51,242**	30,174
Obligations under finance leases	**15**	42
	51,257	30,216
Current		
Unsecured bank overdrafts	**1,214**	206
Unsecured bank loans	**45,866**	20,126
Obligations under finance leases	**165**	112
	47,245	20,444
Total borrowings	**98,502**	50,660

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	
	2006 US$'000	2005 US$'000	**2006 US$'000**	2005 US$'000
Within 1 year	**47,080**	20,332	**165**	112
Between 1 and 2 years	**–**	30,174	**15**	40
Between 2 and 5 years	**51,242**	–	**–**	2
Wholly repayable within 5 years	**98,322**	50,506	**180**	154

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

	2006									2005								
	HK$	**NTD**	**PHP**	**THB**	**MYR**	**SGD**	**US$**	**RMB**	**IDR**	HK$	NTD	PHP	THB	MYR	SGD	US$	RMB	IDR
Bank overdrafts	**7.6%**	**–**	**–**	**–**	**6.8%**	**5.6%**	**–**	**–**	**16%**	7.9%	–	–	–	6.5%	5.3%	–	–	–
Bank loans	**4.4%**	**2.6%**	**8.4%**	**–**	**4.3%**	**3.9%**	**5.7%**	**5.3%**	**–**	4.9%	2.0%	10.5%	5.3%	3.8%	4.5%	–	–	–
Obligations under finance leases	**10%**	**–**	**–**	**–**	**3.3%**	**4.5%**	**5.4%**	**–**	**–**	10%	–	–	–	9.9%	4.5%	–	–	–

The carrying amounts of borrowings approximate their fair value.

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

	Group	
	2006 US$'000	2005 US$'000
Hong Kong dollars	**16,838**	30,234
Taiwan dollars	**12,626**	13,724
Philippine peso	**2,856**	3,301
Thai baht	**–**	1,537
Malaysian ringgit	**30,887**	1,427
Singapore dollars	**8,494**	437
US dollars	**23,127**	–
Chinese Renminbi	**3,459**	–
Indonesian rupiah	**215**	–
	98,502	50,660

15 BANK LOANS AND OTHER BORROWINGS (continued)

Finance lease liabilities were payable as follows:

	Group	
	2006 US$'000	2005 US$'000
Within one year	**173**	127
In the second year	**20**	47
In the third to fifth year	**–**	2
	193	176
Future finance charges on finance leases	**(13)**	(22)
Present value of finance lease liabilities	**180**	154

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 US$'000	**Fair value gains** US$'000	**Others** US$'000	**Total** US$'000
At 1 January 2005	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
Exchange differences	**200**	**–**	**7**	**207**
Charged/(credited) to consolidated income statement	**878**	**–**	**(26)**	**852**
Acquisition of a subsidiary/business	**179**	**146**	**8,135**	**8,460**
At 31 December 2006	**3,385**	**146**	**8,282**	**11,813**

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 2005	(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)
Exchange differences	**(134)**	**(32)**	**(270)**	**(436)**
Credited to consolidated income statement	**(4,379)**	**(171)**	**(956)**	**(5,506)**
Acquisition of business	**–**	**–**	**(8,135)**	**(8,135)**
Credited to equity	**–**	**–**	**(44)**	**(44)**
At 31 December 2006	**(6,368)**	**(489)**	**(12,981)**	**(19,838)**

The deferred taxation credited to equity during the year relates to recognition of actuarial gains and losses arising in post-employment 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:

	Group	
	2006 US$'000	2005 US$'000
Deferred tax assets	**(9,818)**	(4,546)
Deferred tax liabilities	**1,793**	1,123

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 2006, US$9,827,000 (2005: US$35,922,000) of the Group's unrecognized tax losses is carried forward against future taxable income; of which US$8,658,000 (2005: US$1,339,000) will expire by 2011 (2005: 2010).

16 DEFERRED TAXATION (continued)

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

	Group	
	2006	2005
	US$'000	US$'000
Deferred tax assets to be received after more than 12 months	**(9,818)**	(4,546)
Deferred tax liabilities to be settled after more than 12 months	**1,793**	1,123

17 PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS)

	Group	
	2006	2005
	US$'000	US$'000
Assets on:		
— surplus on pension schemes — defined benefits plans (note (a))	**849**	546
Obligations on:		
— defined contribution plans payables (note 18)	**(894)**	(709)
— deficit on pension schemes — defined benefits plans (note (b))	**(1,544)**	(1,244)
— post employment benefit liabilities (note (c))	**(2,942)**	(1,850)
	(5,380)	(3,803)

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 obligation in Hong Kong, Thailand and Indonesia attributable 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 annually by qualified actuaries, Watson Wyatt, using the projected unit credit method.

17 PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS) (continued)

(a) Surplus on pension schemes — defined benefits plans

	Group	
	2006 **US$'000**	2005 US$'000
Fair value of plan assets	**4,499**	3,951
Present value of funded obligations	**(3,650)**	(3,405)
Surplus on pension schemes (note (e))	**849**	546

As at 31 December 2006, the level of funding represented 123.3% (2005: 116.0%) of the present value of obligations.

(b) Deficit on pension schemes — defined benefits plans

	Group	
	2006 **US$'000**	2005 US$'000
Present value of funded obligations	**(3,656)**	(3,041)
Fair value of plan assets	**2,112**	1,797
Deficit on pension schemes (note (e))	**(1,544)**	(1,244)

As at 31 December 2006, the level of funding represented 57.8% (2005: 59.1%) of the present value of obligations.

(c) Post employment benefit liabilities

	Group	
	2006 **US$'000**	2005 US$'000
Present value of funded obligations	**(3,716)**	(3,010)
Unrecognized transitional liabilities (note)	**774**	1,160
Post employment benefit liabilities (note (e))	**(2,942)**	(1,850)

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.*

17 PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS) (continued)

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

	Group	
	2006 US$'000	2005 US$'000
Surplus on pension schemes:		
Current service cost (note i)	**187**	204
Interest cost (note ii)	**139**	116
Expected return on plan assets	**(250)**	(240)
Expenses on surplus on pension schemes	**76**	80
Deficit on pension schemes:		
Current service cost (note i)	**353**	364
Interest cost (note ii)	**158**	114
Expected return on plan assets	**(79)**	(75)
Gains on curtailment	**(65)**	–
Expense on deficit on pension schemes (note (e))	**367**	403
Pension costs — defined benefit plans (note 21)	**443**	483
Post employment benefit liabilities:		
Current service cost (note i)	**165**	119
Interest cost (note ii)	**192**	139
Amortization of transitional liability	**388**	396
Losses on curtailment	**75**	–
Post employment benefit costs (note (e) and note 21)	**820**	654

The actual return on plan assets was US$605,000 (2005: US$217,000).

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.

17 PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS) (continued)

(e) Movement included in the consolidated balance sheet:

	Group	
	2006 US$'000	2005 US$'000
Surplus on pension schemes		
At 1 January	**546**	370
Total expenses (note (d))	**(76)**	(80)
Gain recognized through reserves	**235**	250
Employer's contribution	**146**	6
Exchange differences	**(2)**	–
At 31 December	**849**	546
Deficit on pension schemes		
At 1 January	**(1,244)**	(1,064)
Total expenses (note (d))	**(367)**	(403)
Loss recognized through reserves	**(288)**	(59)
Employer's contribution	**412**	277
Exchange differences	**(57)**	5
At 31 December	**(1,544)**	(1,244)
Post employment benefit liabilities		
At 1 January	**(1,850)**	(902)
Total expenses (note (d))	**(820)**	(654)
Loss recognized through reserves	**(237)**	(421)
Benefit payment	**97**	109
Exchange differences	**(132)**	18
At 31 December	**(2,942)**	(1,850)

17 PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS) (continued)

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

The movement in the present value of funded obligation recognized in the balance sheet is as follows:

	Group	
	2006 **US$'000**	2005 US$'000
Surplus on pension schemes		
At 1 January	**3,405**	3,430
Current service cost	**187**	204
Interest cost	**139**	116
Employees' contribution	**12**	11
Benefits paid	**(170)**	(149)
Actuarial gain/(loss)	**87**	(283)
Transferred in	**–**	70
Exchange difference	**(10)**	6
At 31 December	**3,650**	3,405
Deficit on pension schemes		
At 1 January	**3,041**	2,574
Current service cost	**353**	364
Interest cost	**158**	114
Benefits paid	**(224)**	(29)
Gain on curtailments	**(65)**	–
Actuarial loss	**309**	41
Exchange difference	**84**	(23)
At 31 December	**3,656**	3,041
Post employment benefit liabilities		
At 1 January	**3,010**	2,462
Current service cost	**165**	119
Interest cost	**192**	139
Benefits paid	**(97)**	(109)
Loss on curtailments	**75**	–
Actuarial loss	**237**	421
Exchange difference	**134**	(22)
At 31 December	**3,716**	3,010

17 PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS) (continued)

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

The movement in the fair value of plan assets of the year is as follows:

	Group	
	2006 US$'000	2005 US$'000
Surplus on pension schemes		
At 1 January	**3,951**	3,800
Employers' contribution	**146**	6
Employees' contribution	**12**	11
Expected return on plan assets	**250**	240
Benefits paid	**(170)**	(149)
Actuarial gains/(losses)	**322**	(33)
Transferred in	**–**	70
Exchange difference	**(12)**	6
At 31 December	**4,499**	3,951
Deficit on pension schemes		
At 1 January	**1,797**	1,510
Employers' contribution	**234**	272
Expected return on plan assets	**79**	75
Benefits paid	**(46)**	(24)
Actuarial gains/(losses)	**21**	(18)
Exchange difference	**27**	(18)
At 31 December	**2,112**	1,797

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

	2006 %	2005 %
Discount rate	**2.1–10.5**	4.25–14
Expected rate of future salary increases	**3–9**	2.5–10
Expected rate of return on plan assets	**2.75–7.5**	6.5–12

18 TRADE AND OTHER PAYABLES

	Group	
	2006 **US$'000**	2005 US$'000
Trade payable (note (a))	**211,779**	161,513
Other payables and accruals (note (c))	**95,786**	55,551
Obligations on pension — defined contribution plans (note 17)	**894**	709
Due to related companies (note (b) & note 31)	**5,024**	2,475
	313,483	220,248
Less: non-current portion: other payables and accruals (note (c))	**(16,408)**	(2,762)
	297,075	217,486

Notes:

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

	Group	
	2006 **US$'000**	2005 US$'000
Less than 90 days	**178,037**	144,531
91–180 days	**30,569**	13,721
181–360 days	**1,758**	2,260
Over 360 days	**1,415**	1,001
	211,779	161,513

(b) The amounts due to related companies are trade in nature. 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.

(c) Other payables and accruals included US$18,197,000 purchase consideration payable (note 27(d)) arising from the acquisition of business made during the year as set out in note 30 to the consolidated financial statements.

The non-current portion of the purchase consideration payable was discounted to present value of US$13,018,000 at the average borrowing rate of 5.68%.

19 OTHER GAINS

	2006 US$'000	2005 US$'000
Gain on partial divestment of a subsidiary (note)	**7,997**	–
Gain on disposal of properties	**–**	1,860
Realized exchange gain upon settlement of long term intragroup loan	**–**	540
Service fee income	**–**	611
Other gains	**7,997**	3,011

Note: During the year, the Group entered into a sale and purchase agreement with the minority shareholder of a subsidary whereby the Group will dispose its 40% interests to the minority shareholder in three tranches of 12.5%, 17.5% and 10% respectively. The first tranche was completed during the year resulting in a gain of US$7,997,000. The second and third tranches are expected to complete on 2 October 2007 and 2 July 2008 respectively. Upon completion of the three tranches, the Group will hold 40% interest in the subsidiary. The Group has a put option and the minority shareholder has a call option on the Group's remaining 40% interest.

20 OPERATING PROFIT

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

	2006 US$'000	2005 US$'000
Cost for restructuring	**1,050**	–
Other expenses	**1,050**	–
Employee benefit expense (note 21)	**109,921**	90,322
Depreciation of		
Owned property, plant and equipment	**8,099**	7,376
Leased property, plant and equipment	**85**	126
Loss/(gain) on disposal of plant and equipment	**87**	(115)
Operating leases		
Hire of plant and machinery	**1,697**	1,071
Buildings	**24,851**	21,840
Auditors' remuneration	**1,007**	831
Amortization of prepaid operating lease payment (note 7)	**17**	15
Amortization of intangible assets (note 6)	**1,442**	904
Provision for warranty	**775**	352
Provision for bad and doubtful debts	**722**	397
Provision for obsolete inventories	**1,114**	1,110
Costs of inventories sold	**722,377**	592,932
Losses on forward contracts not qualifying as hedges	**270**	102
Exchange gain	**(561)**	(84)
Net exchange (gain)/loss	**(291)**	18

21 EMPLOYEE BENEFIT EXPENSE

	2006 US$'000	2005 US$'000
Wages and salaries	**103,201**	85,292
Share options granted to directors and employees	**980**	537
Pension costs — defined contribution plans	**4,477**	3,356
Pension costs — defined benefit plans (note 17(d))	**443**	483
Post-employment benefits (note 17(d))	**820**	654
	109,921	90,322

(a) Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 December 2006 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$'000	Total payable and charged in the income statement US$'000
Victor FUNG Kwok King	22	–	–	–	–	22	–	22
Benedict CHANG Yew Teck	10	347	399	209	2	967	214	1,181
Joseph Chua PHI	10	277	347	133	2	769	112	881
Rajesh Vardichand RANAVAT	10	249	200	94	2	555	88	643
William FUNG Kwok Lun	10	–	–	–	–	10	–	10
Jeremy Paul Egerton HOBBINS	14	–	–	–	–	14	–	14
LAU Butt Farn	15	–	–	–	–	15	–	15
Derrick LEE Meow Chan	4	–	–	–	–	4	–	4
John Estmond STRICKLAND	19	–	–	–	–	19	–	19
William Winship FLANZ	21	–	–	–	–	21	–	21
FU Yu Ning	19	–	–	–	–	19	–	19
LEE Hau Leung	19	–	–	–	–	19	–	19
	173	873	946	436	6	2,434	414	2,848

21 EMPLOYEE BENEFIT EXPENSE (continued)

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

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$'000	Total payable and charged in the income statement US$'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

Note: Other benefits include housing and other allowance.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three directors (2005: 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:

	2006 US$'000	2005 US$'000
Basic salaries and other benefits	**588**	595
Share options expenses	**89**	49
Bonuses	**528**	135
Pensions	**3**	3
	1,208	782

21 EMPLOYEE BENEFIT EXPENSE (continued)

(b) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of employees 2006	Number of employees 2005
Emolument bands		
US$325,001–US$390,000 (HK$2,500,001–HK$3,000,000)	**–**	2
US$390,001–US$455,000 (HK$3,000,001–HK$3,500,000)	**1**	–
US$650,001–US$715,000 (HK$5,000,001–HK$5,500,000)	**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

	2006 US$'000	2005 US$'000
Interest expense on bank loans and overdrafts	**3,668**	2,784
Interest expense of finance leases	**9**	8
Imputed interest on non-current payables (note)	**119**	–
	3,796	2,792
Interest income from bank deposits	**(2,354)**	(1,936)
	1,442	856

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.

Note: The amount represents imputed interest on non-current portion of the purchase consideration payable at the average borrowing rate of 5.68% under the effective interest method.

23 TAXATION

Hong Kong profits tax has not been provided as the Group's assessable profits in Hong Kong for the years ended 2006 and 2005 have been offset against tax losses from prior years. Taxation on overseas profits has been calculated on the estimated assessable profits 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:

	2006 US$'000	2005 US$'000
Current taxation:		
— Overseas taxation	**6,379**	5,953
Deferred taxation (note 16)	**(4,654)**	(2,125)
Taxation charge	**1,725**	3,828

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:

	2006 US$'000	2005 US$'000
Profit before taxation	**25,616**	18,107
Tax calculated at the domestic rates applicable to profits in the countries concerned	**6,135**	5,007
Expenses not deductible for taxation purposes	**1,996**	910
Eliminated income subject to tax	**240**	124
Income not subject to taxation	**(2,172)**	(239)
Increase in unrecognized tax losses	**1,249**	455
Decrease in unrecognized temporary differences	**(99)**	(497)
Utilization of previously unrecognized:		
— tax losses	**(779)**	(1,081)
— capital and reinvestment allowance	**–**	(13)
Recognition of capital and reinvestment allowance	**687**	–
Recognition of previously unrecognized tax losses	**(5,442)**	(1,097)
Recognition of previously unrecognized deferred tax assets	**–**	(293)
(Over)/under provision in prior years	**(35)**	473
Decrease in opening net deferred tax liabilities resulting from a decrease in tax rate	**(61)**	–
Others	**6**	79
Taxation charge	**1,725**	3,828

The weighted average applicable tax rate was 24% (2005: 28%). The decrease 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 of the Company is dealt with in the financial statements of the Company to the extent of US$8,880,000 (2005: US$2,482,000).

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.

	2006	2005
Profit attributable to shareholders of the Company (US$'000)	**23,188**	13,333
Weighted average number of ordinary shares in issue (thousands)	**309,000**	309,000
Basic earnings per share (US cents per share)	**7.50**	4.31

Diluted

Diluted earnings per share is based on the weighted average number of 309,000,000 (2005: 309,000,000) shares in issue during the period plus the weighted average number of 9,273,000 (2005: 3,060,000) shares deemed to have been issued at no consideration if all outstanding options had been exercised.

	2006	2005
Profit attributable to shareholders of the Company (US$'000)	**23,188**	13,333
Weighted average number of ordinary shares in issue (thousands)	**309,000**	309,000
Adjustments for share options (thousands)	**9,273**	3,060
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**318,273**	312,060
Diluted earnings per share (US cents per share)	**7.29**	4.27

26 DIVIDENDS

	2006 US$'000	2005 US$'000
Interim dividend paid of HK7.00 cents (equivalent to US0.90 cents) (2005: HK6.00 cents (equivalent to US0.77 cents) per share)	**2,782**	2,386
Proposed dividend after balance sheet date of HK28.00 cents (equivalent to US3.58 cents) (2005: HK14.00 cents (equivalent to US1.80 cents) per share)	**11,109**	5,575
	13,891	7,961

At a meeting held on 20 March 2007, the directors proposed a final dividend of HK28.00 cents (equivalent to US3.58 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 2007.

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Cash generated from operations:

	2006 US$'000	2005 US$'000
Operating profit	**27,058**	18,963
Amortization of intangible assets	**1,442**	904
Depreciation charge	**8,184**	7,502
Amortization of prepaid operating lease payment	**17**	15
Loss on disposal of long-term investments	**–**	11
Gain on partial divestment of a subsidiary	**(7,997)**	–
Loss/(gain) on disposal of property, plant and equipment	**87**	(1,975)
Share option expenses	**980**	537
Operating profit before working capital changes	**29,771**	25,957
Increase in inventories	**(23,908)**	(13,449)
Increase in pension assets, trade and other receivables	**(33,242)**	(34,129)
Increase in pension liabilities, post-employment benefit liabilities, trade and other payables	**76,762**	41,415
Opening adjustment for HKAS 39	**–**	(118)
Net cash generated from operations	**49,383**	19,676

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)

(b) Analysis of changes in financing and investing 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 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	–	–	–	(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
Cash inflow from bank loans	**–**	**–**	**119,756**	**–**	**–**
Cash outflow from bank loans and finance lease	**–**	**–**	**(74,946)**	**–**	**(83)**
Dividends paid to minority shareholders	**–**	**–**	**–**	**(460)**	**–**
Non-cash movements:					
Acquisition of business	**–**	**–**	**–**	**–**	**109**
Minority interest's share of profits	**–**	**–**	**–**	**703**	**–**
Minority interest arising from disposal of subsidiaries	**–**	**–**	**–**	**1,520**	**–**
Minority interest's share of actuarial losses from post employment benefits, net of deferred tax recognized in equity	**–**	**–**	**–**	**(15)**	**–**
Exchange differences	**–**	**–**	**1,998**	**279**	**–**
At 31 December 2006	**30,900**	**21,019**	**97,108**	**7,085**	**180**

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)

(c) Acquisition of a subsidiary

	2006 US$'000	2005 US$'000
Net assets acquired:		
Customer base	770	–
Software	157	–
Properties, plant and equipment	22,772	–
Lease premium for land	1,220	–
Trade and other receivables	2,080	–
Bank balances and cash	1,583	–
Deferred tax liabilities	(325)	–
Trade and other payables	(1,759)	–
Taxation	(170)	–
	26,328	–
Goodwill on acquisition	173	–
	26,501	–
Satisfied by		
Cash consideration	25,624	–
Expenses incurred on acquisition	877	–
	26,501	–

Analysis of the net outflow of cash and cash equivalent in respect of the acquisition:

	2006 US$'000	2005 US$'000
Purchase consideration	25,624	–
Expenses incurred on acquisition	877	–
Cash and cash equivalents in subsidiary acquired	(1,583)	–
Net outflow of cash and cash equivalents on acquisition	24,918	–

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)

(d) Acquisition of business

	2006 US$'000	2005 US$'000
Net assets:		
Customer base	**2,290**	–
Software	**175**	–
Properties, plant and equipment	**2,047**	–
Trade and other receivables	**8,809**	–
Trade and other payables	**(23)**	–
Finance lease obligations	**(109)**	–
	13,189	–
Goodwill on acquisition	**27,950**	–
Net assets acquired	**41,139**	–
Satisfied by		
Purchase consideration	**39,197**	–
Expenses incurred on acquisition	**1,942**	–
	41,139	–

Analysis of the net outflow of cash and cash equivalent in respect of the acquisition:

	2006 US$'000	2005 US$'000
Purchase consideration	**39,197**	–
Expenses incurred on acquisition	**1,942**	–
Net present value of purchase consideration payable	**(18,197)**	–
Expenses payable in respect of acquisition	**(722)**	–
Net outflow of cash and cash equivalents on acquisition	**22,220**	–

(e) Included in the bank balances and cash of the Group as at 31 December 2006 were amount totaling US$12,339,000 (2005: US$15,885,000) which were denominated in Renminbi, of which the remittance is subject to foreign exchange control.

28 CONTINGENT LIABILITIES

Bank guarantees

The Group has counter guaranteed the following outstanding bank guarantees issued by banks for normal operation:

	Group	
	2006 US$'000	2005 US$'000
As security in favor of local tax and customs authorities in accordance with local regulations	**9,811**	9,032
For purchase of goods in favor of suppliers	**10,052**	9,145
Performance bonds and others	**407**	566
For rental payment in favor of the landlords	**5,762**	4,665
	26,032	23,408

The Company has corporate guarantee in respect of banking facilities granted to subsidiaries amounted to US$279,000,000 at 31 December 2006 (2005: US$40,000,000).

29 COMMITMENTS

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

	Group	
	2006 US$'000	2005 US$'000
Property, plant and equipment	**1,495**	150

(b) Commitments under operating leases

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

	Group			
	Buildings		Others	
	2006 US$'000	2005 US$'000	**2006 US$'000**	2005 US$'000
Not later than one year	**28,872**	16,650	**1,017**	516
Later than one year and not later than five years	**81,843**	49,575	**967**	451
Later than five years	**78,812**	76,246	**–**	–
	189,527	142,471	**1,984**	967

The Company did not have any material commitments at 31 December 2006 (2005: Nil).

30 BUSINESS COMBINATIONS

During the year, the Group completed two acquisitions. In September 2006, the Group acquired the entire issued share capital of IDS Enterprises Sdn. Bhd. (formerly known as Sitt Tatt Logistics Sdn. Bhd.), a logistics company operating in Malaysia. The acquired business contributed revenues of approximately US$2,657,000 and net profit of approximately US$350,000 to the Group for the period from 1 October 2006 to 31 December 2006. In November 2006, the Group acquired the assets and apparel logistics business of Impac Logistics Services LLC, Impac Administrative Services Inc., Impac Logistics Services, Inc., Impac Logistic Services, Inc., S.D.S. Management & Consulting Services, Inc., Innovative Methods, Packaging and Apparel Corrections, L.L.C.. The acquired business contributed revenues of approximately US$7,733,000 and net profit of approximately US$190,000 to the Group for the period from 1 November 2006 to 31 December 2006.

If the acquisitions had occurred on 1 January 2006, the estimated unaudited consolidated revenue for the Group would have been approximately US$1,045,342,000, and unaudited net profit would have been approximately US$27,022,000.

Details of net assets acquired and goodwill are as follows:

	2006 **US$'000**
Purchase consideration:	
— Cash consideration	**64,821**
— Direct costs relating to the acquisition	**2,819**
Total purchase consideration	**67,640**
Fair value of net assets acquired	**(39,517)**
Goodwill (note 6)	**28,123**

The goodwill is attributable to the synergies expected to arise from the acquired subsidiary and business as well as the potential of future expansion in new geographical market.

30 BUSINESS COMBINATIONS (continued)

The assets and liabilities arising from the acquisitions are as follows:

US$'000	Fair value	Carrying amounts
Customer base (note 6)	3,060	–
Software (note 6)	332	332
Property, plant and equipment (note 8)	24,819	24,157
Lease premium for land (note 7)	1,220	1,220
Trade and other receivables	10,889	10,889
Bank balances and cash	1,583	1,583
Deferred tax liabilities	(325)	(179)
Trade and other payables	(1,782)	(1,782)
Finance lease obligations	(109)	(109)
Taxation	(170)	(170)
Net assets	39,517	35,941
Purchase consideration	64,821	
Expenses incurred on acquisition	2,819	
Purchase consideration payable	(18,197)	
Expenses payable on acquisition	(722)	
Net outflow of cash and cash equivalents in respect of acquisition of subsidiaries	48,721	

There was no acquisition in the year ended 31 December 2005.

31 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.

The following significant transactions were carried out with the related parties:

		Group	
	Note	**2006 US$'000**	2005 US$'000
Continuing transactions with fellow subsidiaries and related companies			
— Distribution and sale of goods	(a)	**1,027**	937
— Provision of shipping, handling and other logistics services	(a)	**3,231**	3,071
— Rental received from	(c)	**1,088**	1,331
— Rental paid to	(c)	**2,399**	2,832
Non-recurring transactions with fellow subsidiaries			
— Purchase of goods and materials	(a)	**–**	1,097
— Service fee income	(b)	**–**	611
— Transfer of fixed assets from	(d)	**–**	248

(a) Distribution and sale of goods and provision of shipping, handling and other logistics services Sales/purchase of goods and revenue from rendering of logistic service and billing agent service were conducted in the normal course of business at prices and terms no less favorable than those charged to other third party customers/suppliers.

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

(c) Rental received/paid were charged on normal commercial terms based on relevant lease agreements entered.

(d) Fixed assets were transferred at a value by reference to independent valuer.

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.

31 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

Key management compensation

	2006 US$'000	2005 US$'000
Salaries and other short-term employee benefits	**2,428**	1,937
Share-based payments	**414**	194
Post-employment benefits	**6**	6
	2,848	2,137

Year-end balances with related parties

	Note	2006 US$'000	2005 US$'000
Due from related companies			
— fellow subsidiaries	(a)	**4,645**	1,299
Due to related companies			
— fellow subsidiaries	(b)	**5,024**	2,475

(a) Year-end balances arising from sales/services/recharge of administrative expense. The balances are unsecured, interest-free and with terms of repayment according to the credit terms granted.

(b) Year-end balances arising from purchase. The balances were unsecured, interest-free and with terms of repayment according to the credit terms granted.

32 PRINCIPAL SUBSIDIARIES

As at 31 December 2006, 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%

32 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of Incorporation	Principal activities	Place of operation	Particulars of issued/paid up share capital	Interest held
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%
IDS Enterprises Sdn. Bhd.	Malaysia	Provision of logistics services	Malaysia	7,500,000 ordinary shares of RM1 each	100%
Slumberland (M) Sdn. Bhd.	Malaysia	Marketing, distribution and manufacturing of mattresses and bed related products	Malaysia	2,000,000 ordinary shares of RM 1 each	67.5%
Slumberland Marketing Sdn. Bhd.	Malaysia	Marketing and distribution of mattresses and bed related products	Malaysia	2 ordinary shares of RM1 each	67.5%

32 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of Incorporation	Principal activities	Place of operation	Particulars of issued/paid up share capital	Interest held
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	Registered capital of 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	Registered capital of US$5,000,000	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%
IDS Logistics (Thailand) Limited	Thailand	Provision of logistics services	Thailand	1,215,000 ordinary shares of Baht250 each	100%

32 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of Incorporation	Principal activities	Place of operation	Particulars of issued/paid up share capital	Interest held
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	Thailand	Manufacturing of household, pharmaceutical and personal care products	Thailand	4,695,000 ordinary shares of Baht100 each	100%
IDS Impac Ltd.	US	Distribution and warehousing services	US	100 common stock of US$0.01 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 five years ended 31 December:

	2006 US$'000	2005 US$'000	2004 US$'000	2003 US$'000	2002 US$'000
Results					
Revenue	**993,611**	821,530	584,876	591,814	466,050
Core operating profit	**20,111**	15,952	12,688	7,769	4,893
Other gains/(expenses)	**6,947**	3,011	633	5,328	678
Operating profit	**27,058**	18,963	13,321	13,097	5,571
Finance costs, net	**(1,442)**	(856)	(687)	(1,335)	(2,054)
Share of profit of associated companies and jointly controlled entity	**–**	–	25	290	660
Profit before taxation	**25,616**	18,107	12,659	12,052	4,177
Taxation	**(1,725)**	(3,828)	(1,096)	(2,908)	(753)
Minority interest	**(703)**	(946)	(923)	(776)	(449)
Profit attributable to shareholders	**23,188**	13,333	10,640	8,368	2,975
Earnings per share (US cents)	**7.50**	4.31	4.35	–	–
Dividend per share (US cents)	**4.48**	2.57	–	–	–
Special dividend per share (US cents) (note)	**–**	–	7.11	–	–
Total assets	**540,134**	373,302	313,837	321,743	397,447
Total liabilities	**(423,901)**	(280,980)	(232,741)	(253,845)	(330,843)
Total assets less liabilities	**116,233**	92,322	81,096	67,898	66,604

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.

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.

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