



## Interim Report 2007

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# Corporate Information

## Non-executive Directors

Dr. Victor FUNG Kwok King (*Chairman*)

John Estmond STRICKLAND\*

Dr. FU Yu Ning\*

Prof. LEE Hau Leung\*

Dr. William FUNG Kwok Lun

William Winship FLANZ

Jeremy Paul Egerton HOBBS

LAU Butt Farn

\* *Independent Non-executive Director*

## Executive Directors

Benedict CHANG Yew Teck (*Group Managing Director*)

Joseph Chua PHI (*Chief Operating Officer*)

Rajesh Vardichand RANAVAT

## Group Chief Compliance Officer

James SIU Kai Lau

## Chief Financial Officer

Srinivasan PARTHASARATHY

## Company Secretary

YUEN Ying Kwai

## Qualified Accountant

Simon CHAN Kam Chiu

## Legal Advisors

Johnson Stokes & Master

17th Floor, Prince's Building, 10 Chater Road

Hong Kong

## Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

## Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited

Standard Chartered Bank (Hong Kong) Limited

## Principal Place of Business

15th Floor, LiFung Centre

2 On Ping Street

Siu Lek Yuen, Shatin, N.T.

Hong Kong

## Auditor

PricewaterhouseCoopers

*Certified Public Accountants*

22nd Floor, Prince's Building, Central

Hong Kong

# Highlights

	Six months ended 30 June		Change %
	2007 US\$ million	2006 US\$ million	
Revenue	<b>583.15</b>	467.45	24.8%
Core operating profit	<b>10.68</b>	8.58	24.4%
Operating profit	<b>22.86</b>	8.58	166.3%
Profit attributable to shareholders	<b>16.49</b>	8.54	93.1%
Earnings per share	<b>US\$5.32 cents</b>	US\$2.76 cents	92.8%
Earnings per share (equivalent to)	<b>HK\$41.57 cents</b>	HK\$21.40 cents	
Interim dividend per share	<b>HK\$12.00 cents</b>	HK\$7.00 cents	71.4%

- As a result of business growth and gains recorded from the second tranche divestment of Slumberland Asia Pacific shares, profit attributable to shareholders in the first half of 2007 registered solid increase of 93.1% against same period in 2006.
- Acquisitions of two Fast Moving Consumer Goods (FMCG) distribution companies in East Malaysia announced in April were completed in May and July. Another acquisition was announced in August of an apparel and footwear logistics company in the UK to establish our foothold in Europe.
- Achieved commendable results in business development with over 50 new contracts secured in the first half of 2007, far exceeding the run rate experienced in the past few years.
- Efforts are underway to upgrade the efficiency and IT platform of the newly acquired logistics operations in the US. Investments made in this year are expected to position the US operations for strong growth in 2008 and onwards.
- Commenced planning process for the next Three-Year Strategic Plan 2008-2010 to determine the direction and key transformational goals for the future development of the Group.

# Chairman's Statement

Dear Shareholders,

I am pleased to report the interim results of Integrated Distribution Services Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 June 2007.

The overall economic conditions in Asia, especially China, remain favorable to IDS. Strong growth rates were recorded in most markets for the first half of 2007. In China, GDP growth reached a 12-year high of 11.9% in the second quarter. Easing inflation in ASEAN markets boosted consumption and helped maintain a buoyant economy. While the favorable conditions are expected to continue in the second half of 2007, the operating environment is not without challenges.

Thailand was beset by political uncertainty and consumption growth was recently at its weakest in six years due to faltering consumer sentiment. Economic growth was expected to remain relatively slow for the rest of 2007. Inflation in China exceeded the official target and there are concerns that consumption may be affected due to measures taken by the Government to deal with over-heating in certain sectors of the economy. Further, the impact of the sub-prime mortgage fallout in the US continues to be an uncertainty. If the US economy proves to be weaker than expected, it could perpetuate a slow down of growth in the region.

While these economic developments may lead to future challenges, the Group's performance in the last six months has been promising. Revenue recorded a steady growth of 24.8% to US\$583.15 million during the first six months of 2007, against US\$467.45 million in 2006. Core operating profit for the period registered a comparable growth rate of 24.4% against 2006. Including the gains from the divestment of the second tranche of 17.5% shares in Slumberland Asia Pacific, first half profit attributable to shareholders registered a solid increase of 93.1% from US\$8.54 million in 2006 to US\$16.49 million in 2007. Earnings per share for the period were US5.32 cents (equivalent to HK41.57 cents), compared to US2.76 cents (equivalent to HK21.40 cents) for the first half of 2006. The Board of Directors has proposed an interim dividend of HK12 cents per share, 71.4% higher than the HK7 cents per share in 2006.

During the period, the Group announced the acquisitions of two leading Fast Moving Consumer Goods (FMCG) distribution companies in Sarawak and Sabah to strengthen our overall position in Malaysia and complement our operations in Brunei. Subsequent to the period under review, the Group announced the acquisition of an apparel and footwear logistics company in the United Kingdom. This is an important strategic move to expand our international logistics presence globally and make our first entry into Europe.

Both Logistics and Marketing recorded strong double-digit growth in operating profit during the first half, as China continued to deliver strong results. However, Manufacturing showed a decline against the same period of last year, due partly to unfavorable market conditions in Thailand and Malaysia.

# Chairman's Statement

Logistics registered a 21.7% growth in operating profit to US\$7.16 million against the first half of 2006. The strong results were mainly driven by strong performance in China and the enhanced operations in Malaysia following the acquisition of a domestic logistics company in October 2006. Revenue grew at a faster rate of 64.6%, mainly attributable to the US operations acquired in late 2006. Substantial efforts are underway to improve efficiency and upgrade the IT platform, including the implementation of our standard regional Enterprise Resources Planning (ERP) system and Warehouse Management System (WMS) that will bring it in line with our Asia operations. Investments made in this year will position our US operations for aggressive growth in our next Three-Year Strategic Plan 2008–2010.

Marketing delivered exceptional results during the first half of 2007. Operating profit during the period grew by 38.4% to US\$8.16 million, with across-the-board improvement compared to last year. China continued to grow from strength to strength amidst buoyant consumer sentiment. The Philippine operations showed encouraging progress and are expected to break even by the end of 2007. As a result, the operating margin improved from 1.7% in the first half of 2006 to 2.0% this year. The Group has transferred the management control of Slumberland Asia Pacific to Hilding Anders together with the second tranche divestment in June 2007. As a consequence, Slumberland Asia Pacific became an associated company of the Group from 8 June 2007 onwards.

Manufacturing started off slowly in 2007 with revenue and operating profit declining by 7.4% and 20.0% respectively. The slow start was attributable to the political environment in Thailand and sluggish order volume in Malaysia. However, the Group remains confident that the second half performance would significantly improve. Following the smooth commencement of production for Henkel in early 2007, the site infrastructure in Indonesia has been significantly enhanced and gained wider recognition in the industry. In June, the Group won a major extension of the manufacturing contract with Johnson & Johnson to expand the export coverage of our Listerine plant in Thailand to the entire Asia Pacific region. Production volume will increase substantially over the next five years commencing 2008.

The Group initiated the preparation of the next Three-Year Strategic Plan 2008–2010 in March 2007 to determine the direction and key transformational goals for the future development of IDS. The plan will be finalized before the end of the year and will be widely communicated throughout the organization.

The Group remains cautiously optimistic about the overall economy in Greater China and the ASEAN countries despite some short-term challenges in certain markets. We believe the trend of outsourcing will continue in Asia, thus leading to stronger demand for services rendered by IDS. This, coupled with the recent acquisitions, will enable IDS to finish the current Three-Year Strategic Plan 2005–2007 strongly, and build a robust foundation for even stronger growth in the next Strategic Plan period for 2008–2010.

On behalf of the Directors, I would like to take this opportunity to express my gratitude to the management and all members of staff for their efforts and contributions during the period.

**Victor FUNG Kwok King**

*Chairman*

Hong Kong, 15 August 2007

As we move towards the end of our current Three-Year Strategic Plan 2005–2007, I am delighted to report that the Group continued to register significant progress across all fronts in the first half of 2007.

IDS delivered solid financial results during the period, with revenue growing 24.8% to US\$583.15 million, against US\$467.45 million in the first half of 2006. Profit attributable to shareholders recorded a 93.1% growth to US\$16.49 million, compared with US\$8.54 million during the same period in 2006. The increase in profit was attributed to strong organic growth and a one-off gain from the disposal of 17.5% interests in Slumberland Asia Pacific. Cash flow from operations was significant at US\$27.30 million against US\$16.50 million in the first half of 2006.

In April 2007, IDS announced the acquisition of interests in two leading distributors of Fast Moving Consumer Goods (FMCG) in the East Malaysian states of Sarawak and Sabah to complement our operations in Brunei and strengthen our presence in Malaysia. Concurrent with the release of our interim results, IDS announced its entry into Europe through the acquisition of a logistics company in the United Kingdom. This now provides the foundation for aggressively building our international logistics services.

The renewed focus on business development last year has proven to be rewarding. In the first half of 2007, IDS signed over 50 new contracts, far exceeding the run rate of previous years. 20 of the new contracts are with existing customers to expand the scope of our relationships, including major logistics contracts with Johnson & Johnson in the Philippines and Diageo in Thailand. These new contracts will fuel strong organic growth in 2008 and beyond.

## Financial Overview

	Six months ended 30 June		Change %
	2007	2006	
	US\$ million	US\$ million	
Revenue	<b>583.15</b>	467.45	24.8%
Core operating profit	<b>10.68</b>	8.58	24.4%
Operating profit	<b>22.86</b>	8.58	166.3%
Profit attributable to shareholders	<b>16.49</b>	8.54	93.1%

### Revenue

The group reported revenue of US\$583.15 million for the six months ended 30 June 2007, an increase of 24.8% compared with the same period last year. The strong growth in revenue was driven by the 64.6% increase in Logistics, benefiting from the US and Malaysia acquisitions. Marketing business grew 23.2%, reflecting continued strong performances from China and the Philippines. Manufacturing recorded 7.4% decline in revenue.

## Gross profit

Gross profit for the six months ended 30 June 2007 increased to US\$164.69 million from US\$114.58 million in first half of 2006. Gross profit margin rose from 24.5% in first half of 2006 to 28.2% in first half of 2007 mainly due to favorable revenue mix reflecting the significant increase in Logistics revenue.

## Expenses

The combined marketing and logistics expenses increased by 47.4% for the six months ended 30 June 2007 to US\$131.40 million. The increase was mainly attributed to the acquisition of logistics businesses in Malaysia and the US. The increase in marketing expenses reflected the growth of our Marketing business.

Administrative expenses for the six months ended 30 June 2007 increased by 34.4% to US\$22.61 million.

## Core operating profit

Taking the above into account, core operating profit grew by 24.4% to US\$10.68 million for the six months ended 30 June 2007.

## Operating profit

Operating profit for the six months ended 30 June 2007 surged to US\$22.86 million, 166.3% increase over same period last year, which included a US\$11.29 million gain on the divestment of 17.5% equity interest in Slumberland Asia Pacific.

## Net profit

Net finance costs for the six months ended 30 June 2007 increased by US\$1.30 million to US\$1.82 million, reflecting the finance cost for the new acquisitions. Taxation for the first six months amounted to US\$3.79 million, representing an effective tax rate of 17.9%, compared to a net tax credit of US\$1.01 million for the same period last year which included the recognition of US\$3.43 million one-off deferred tax credit.

Taking the above into account, profit attributable to shareholders grew 93.1% to US\$16.49 million for the six months ended 30 June 2007.

## Segmental Analysis

### Logistics

The Group's Logistics business continued to grow in 2007. Revenue and segment results increased by 64.6% and 21.7% to US\$107.79 million and US\$7.16 million respectively, driven by new contracts won, improved operating leverage and the US and Malaysia new businesses acquired during the fourth quarter of 2006.

### Marketing

As a result of the expanded distribution network in China and the strong revenue growth in the Philippines, revenue increased by 23.2% to US\$417.82 million. Core operating profit of the Marketing segment increased by 38.4% to US\$8.16 million for the six months ended 30 June 2007.



## **Manufacturing**

Revenue and segment results dropped by 7.4% and 20.0% to US\$64.28 million and US\$1.72 million respectively for the six months ended 30 June 2007 mainly due to soft consumer demand and lower order volume.

## **Geographical Analysis**

Total revenue grew 24.8% mainly attributable to the strong growth from China and the Philippines, registering 47.6% and 29.0% growth respectively. Double-digit revenue growth was also registered in Taiwan, Thailand, Singapore and Indonesia.

## **Liquidity and Financial Resources**

As at 30 June 2007, the Group had a gearing ratio of 20.8%. Additional loans were raised mainly for acquisitions. The Group has available bank loans and overdraft facilities of US\$250.00 million of which US\$96.48 million have been utilized.

## **Charges on Group Assets**

As at 30 June 2007, there were no charges on the Group's assets.

## **Foreign Exchange Risk Management**

The Group operates regionally in ten economies over the world and is exposed to foreign exchange risk. Fluctuations in exchange rates in these economies can affect the earnings and net assets of the Group.

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

## Contingent Liabilities

As at 30 June 2007, the Group has counter guaranteed the following outstanding bank guarantees issued by banks for normal operations:

	30 June	31 December
	2007	2006
	US\$'000	US\$'000
As security in favor of local tax and customs authorities		
in accordance with local regulations	296	9,811
For purchase of goods in favor of suppliers	11,035	10,052
Performance bonds and others	386	407
For rental payment in favor of the landlords	8,008	5,762
	<b>19,725</b>	<b>26,032</b>

## Human Resources

As at 30 June 2007, the Group employed 6,300 permanent employees and 3,900 contract/temporary employees. They were located throughout our operations in ten economies within the Group. Total staff costs for the six months ended 30 June 2007 amounted to approximately US\$72.79 million.

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.

## Operations Overview

The Group recorded core operating profit growth of 24.4% in the first half of 2007 against same period last year. Both Logistics and Marketing delivered double-digit growth in operating profit, while Manufacturing was affected by a challenging operating environment and registered a decline.

China continued to deliver strong growth in the first half of 2007 with revenue and operating profit increasing 47.6% and 33.5% respectively. China now accounts for 18.3% of the Group's total revenue, increasing from 15.5% in the first half of 2006. We now have 17 branch offices capable of transacting directly with key retailers and operate 16 major distribution centers covering 1 million square feet in China.

Logistics registered a 21.7% growth in operating profit against the first half of 2006 to reach US\$7.16 million. Revenue grew faster at 64.6%, primarily attributable to the US operations, which were acquired in November 2006. Remarkable growth was also registered in China, Thailand and Malaysia driven by new contract wins and improved operational efficiencies.

Substantial efforts are underway to enhance our US operations in order to improve efficiency and deliver higher future growth. Supporting functions were strengthened in the first quarter of 2007 with a new management team recruited to oversee the finance, IT and human resources functions. A project was launched in May to implement the group-wide Enterprise Resources Planning (ERP) system and Warehouse Management System (WMS), and to review processes and procedures in order to upgrade operational efficiency and service levels.

As a result of heavy investments in the US, Logistics operating margin registered a decline to 6.6% in the first half of 2007. However, the operating margin for our Logistics businesses in Asia continued to remain strong at over 8%. We expect the overall Logistics operating margin to recover strongly towards the end of this year.

Our Logistics operations also continued to receive significant recognition from customers. In April 2007, our Philippine team won the Unilever 2006 Vendor of the Year Award. This is the third consecutive year the team has been acknowledged by Unilever, having also won the 2004 Vendor of the Year Award and the 2005 Service Supplier of the Year Award. In May, our Thailand team was selected as the Best Retail Logistics Service Provider by the Frost & Sullivan Voice of the Customer Awards. The winner was identified through independent research covering 270 respondents. It was indeed a powerful testimony to the high quality of service provided by IDS.

Marketing delivered a solid performance in the first half. Revenue and operating profit for the first half of 2007 increased by 23.2% and 38.4% to US\$417.82 million and US\$8.16 million respectively against same period last year. Excluding the Slumberland business, the FMCG and Healthcare products distribution business registered an even stronger growth of 54% in operating profit.

All markets reported improvements, most notably China, Hong Kong and Thailand. The rationalization program of terminating unprofitable accounts in Thailand, Malaysia, Indonesia and Singapore during the past two years has successfully improved performance of these units. As a result of the major contracts signed last year with Procter & Gamble and a number of new accounts won this year, the Philippines also showed substantial improvement in the first half.

The progressive divestment of our interests in Slumberland Asia Pacific has resulted in the increased involvement of our partner, Hilding Anders. With their technological know-how and marketing expertise, Hilding Anders assisted in improving plant productivity and negotiating more favorable raw materials prices. As the Group transferred management control of Slumberland Asia Pacific to Hilding Anders in June 2007, we began to report the results of the Slumberland business as an associated company from June onwards. Marketing will therefore be renamed Distribution to reflect the change.

Compared to the first half of 2006, Manufacturing had a slower-than-expected first half in 2007, partly attributable to the political environment in Thailand and the sluggish market condition in Malaysia. This resulted in two of our major customers, namely Unilever in Thailand and Fonterra in Malaysia, to substantially reduce their order volume. Operating profit decreased by 20.0% in the first half of 2007 against the same period in 2006. However, business momentum is recovering as the second quarter proved far stronger than the first quarter. Given the seasonal nature of the business, we are optimistic that our Manufacturing business will significantly improve in the second half of 2007.

A major success in the first half was the extension of our long-term contract with Johnson & Johnson to expand the export coverage of our Listerine plant from the existing 10 countries to the entire Asia Pacific, including Australia. As a consequence, production volume is expected to surge dramatically over the next five years commencing 2008. A plant extension project is underway and expected to be completed by the end of 2007.

The Henkel project in Indonesia commenced smoothly in early 2007. Discussions on expanding the scope of this project to cover other product lines and export markets are on-going. Should the plan come to fruition, it will give our Indonesia operations another major boost in scale. In tandem with the building of the Henkel facility, IDS' manufacturing site infrastructure was significantly enhanced. Other major plant and equipment improvement projects are also underway. As a result, a number of new contract wins have been registered and the plant is now gaining wider recognition in the industry.

The business development pipeline remains solid, particularly in Malaysia. A number of beverage contracts with Nestlé, F&N and Cadbury Schweppes were secured in the first half. We will continue to aggressively pursue contracts with regional export opportunities similar to the Listerine contract. Such contracts are usually sizable in nature and can reduce the impact of fluctuating domestic demand on our business.

## Acquisitions Update

In April 2007, the Group announced the acquisitions of a 67.09% interest in Sebor (Sarawak) Sdn Bhd and a 40% interest in Sebor (Sabah) Sdn Bhd. The two acquisitions were subsequently completed in May and July 2007 respectively. Both companies are well-established distributors in East Malaysia with over 30 years experience in the FMCG segment and are leaders in their respective geographic markets with an extensive distribution network. The acquired businesses can augment our operations in Brunei to form a strong position in East Malaysia, and provide an opportunity for us to extend our scope of service in the region.

On 15 August 2007 the Group announced the acquisition of PB Logistics, the logistics arm of the Peter Black Group in the United Kingdom for a total consideration of approximately £11.53 million (HK\$180.39 million). PB Logistics is engaged in the provision of supply chain management, storage and transportation, and pre-retailing (such as garment preparation, quality inspection and gift packing) services. Its client portfolio consists mainly of major UK retailers, including Marks and Spencer, and suppliers of garment and accessory items.

This is an important strategic move to expand our logistics presence on a global scale and make our first entry into Europe. We have now successfully established a strong foothold in both the US and the UK to complement our comprehensive logistics infrastructure in Asia and provide end-to-end supply chain solutions to customers.

## **Future Prospects**

The investments made this year to upgrade the Group's US logistics operations will be crucial to the development of our export logistics services. By connecting the US operations with the Group's extensive infrastructure in Asia, IDS will be well positioned to administer global logistics programs and control the end-to-end supply chain to optimize the flow of goods, information, work and capital for customers. The UK acquisition, once completed, will further enhance our geographic presence and enable us to expand our scope to cover continental Europe.

To prepare IDS for the challenge of quantum growth and superior performance in the next Strategic Plan 2008-2010, we have embarked on a comprehensive Leadership, Management and Talent (LMT) Development Program in 2006. For the remainder of 2007 and throughout 2008, we will continue to roll out the Core Management Training Program for some 1,200 managers and supervisors. In addition, we have just launched our first Management Trainee program for nearly 90 internationally recruited management trainees. The trainees will undergo a two-year intensive training program to develop sufficient in-house talent with a comprehensive understanding of the IDS business model and the ability to drive future business growth.

We will put a stronger focus on the M&A front and institutionalize and further strengthen the deal evaluation and integration processes. In order to bolster our resources in this area, Rajesh Ranavat, former Chief Financial Officer of IDS, was appointed to lead M&A and the US operations in June 2007, and Srinivasan Parthasarathy joined the Group as Chief Financial Officer.

We are excited about the growth opportunities in front of IDS. During the three Strategic Plan periods since 1999, the Group has successfully transformed from a traditional distributor to a service-driven company offering a comprehensive menu of services. The coming Three-Year Strategic Plan 2008-2010, which will be finalized towards the end of this year, will continue this transformation and propel IDS to new heights.

**Ben CHANG Yew Teck**

*Group Managing Director*

Hong Kong, 15 August 2007

## Corporate Governance Practices

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 an appropriate oversight by Independent Non-executive Directors.

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 Board has established the Audit Committee, the Compensation Committee and the Nomination Committee (all chaired by Non-executive Directors) with 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Corporate governance practices adopted by the Company during the six-month period to 30 June 2007 are in line with those practices set out in the Company's 2006 Annual Report.

## Audit Committee

The Audit Committee was established with written terms of reference which cover the review of 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 twice to date in 2007 (with an average attendance rate of 87.5%) to review with senior management and the Company's internal and external auditors, the significant internal and external audit findings and financial matters as required under the Committee's terms of reference. The Committee's review covers the audit plans and findings of the internal and external auditors, external auditor's independence, the accounting principles and practices adopted by the Group, Listing Rules and statutory compliance, internal controls, risk management and financial reporting matters (including the interim financial information for the six-month period to 30 June 2007 before recommending them to the Board for approval).

## Compensation Committee

The Compensation Committee was established with written terms of reference which 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.

As at 30 June 2007, the Committee comprises the Group Non-executive Chairman, Dr. Victor FUNG Kwok King (Chairman of the Committee), Mr. William Winship FLANZ and Prof. LEE Hau Leung (Independent Non-executive Directors). The Committee met once to date in 2007 (with an attendance rate of 67%).

## **Nomination Committee**

The Nomination Committee was established with written terms of reference which cover the recommendations to the Board on the appointment of Directors, evaluation of board composition and the management of board succession.

As at 30 June 2007, the Committee comprises two Independent Non-executive Directors, namely Mr. William Winship FLANZ (Chairman of the Committee) and Dr. FU Yu Ning and a Non-executive Director, Mr. Jeremy Paul Egerton HOBBS. The Nomination Committee met once to date in 2007 (with an attendance rate of 100%).

On 2 July 2007, Mr. William Winship FLANZ was re-designated as a Non-executive Director and his chairmanship in the Nomination Committee remained unchanged while his membership in the Compensation Committee was assumed by Dr. FU Yu Ning. Dr. FU retired as a member of Nomination Committee on the same date.

## **Code of Conduct and Business Ethics**

The Group's business ethics and whistle blowing policy, and guidelines on business conduct are made available to the staff in the Company's intranet for quick reference.

## **Internal Control and Risk Management**

The Board is responsible for maintaining an adequate system of internal controls in the Company and reviewing its effectiveness through the Audit Committee.

The Board has delegated to executive management the implementation and ongoing compliance monitoring of such system of internal controls covering financial, operational controls and risk management procedures. Qualified personnel throughout the Group maintain and monitor this system of controls throughout the six-month period to 30 June 2007.

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 Group Chief Compliance Officer reports all the major findings at the Audit Committee meetings.

Follow up on all recommendations was also performed on a periodical basis to ensure all agreed recommendations had been timely and satisfactorily implemented during the six-month period to 30 June 2007.

Based on the assessments made by senior management and the Group's Internal Audit team during the six-month period to 30 June 2007, the Audit Committee is satisfied that:

- the internal controls and accounting systems of the Group are 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 information 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 Model Code of the Listing Rules**

The Group has adopted procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Specific enquiries have been made to all Directors to confirm compliance with the Model Code. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code. The Company noted no incident of non-compliance during the six-month period to 30 June 2007.

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

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six-month period to 30 June 2007.

## **Investor Relations and Communication**

The Company continues to pursue a proactive policy of promoting investor relations and communications by conducting analysts' briefings and road shows after the interim and final results announcement, participating in investors' conferences and making corporate presentations during the conferences, arranging company visits 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](http://www.idsgroup.com)).



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

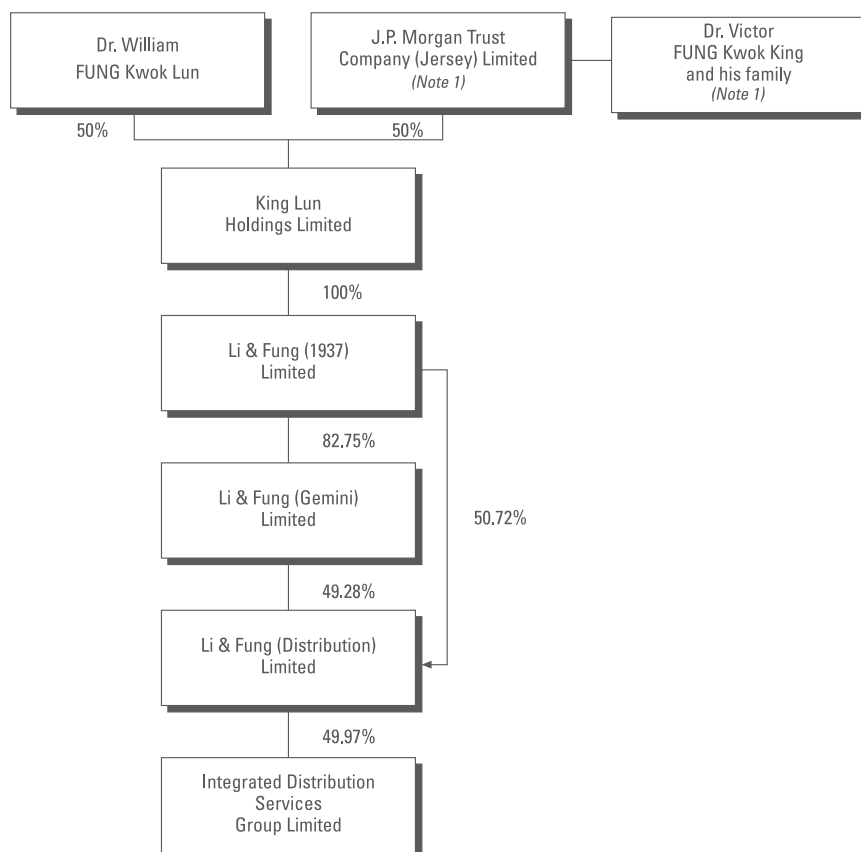
As at 30 June 2007, the directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded 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	—	155,860,917 (Note 1)	—	—	158,266,426	50.74
Dr. William FUNG Kwok Lun	—	—	155,860,917 (Note 1)	—	—	155,860,917	49.97
Benedict CHANG Yew Teck	2,162,573	—	—	—	12,180,000 (Note 2)	14,342,573	4.60
Joseph Chua PHI	1,422,632	—	—	—	2,175,000	3,597,632	1.15
Rajesh Vardichand RANAVAT	—	—	—	—	2,070,000	2,070,000	0.66
LAU Butt Farn	610,549	—	—	—	—	610,549	0.20
John Estmond STRICKLAND	—	—	—	22,000 (Note 3)	—	22,000	0.00

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

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 ("LF1937") held 50.72% interest in LFD. LFD held 155,860,917 shares, representing 49.97% 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. These interests represent:
  - a. the beneficial interest of Mr. Benedict CHANG Yew Teck in 3,780,000 underlying shares in respect of share options granted by the Company to Mr. Benedict CHANG Yew Teck, the details of which are set out in the Share Option Scheme section stated below; and

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

- b. *the deemed interest of Mr. Benedict CHANG Yew Teck in 8,400,000 underlying shares in the Company in respect of options granted by LF1937 to Mikenwill Investments Limited ("Mikenwill"), which is owned by Mr. Benedict CHANG Yew Teck, to require LF1937 to sell to Mikenwill or its nominee 10,500,000 shares in the Company in five tranches, with the first tranche of 2,100,000 shares exercised on 9 January 2007 and each of the remaining tranches having an exercisable period of one year during the period from 1 January 2007 to 31 December 2010 pursuant to an agreement made between LF1937 and Mikenwill dated 5 January 2007.*
3. *Mr. John Estmond STRICKLAND and his wife, Mrs. Anthea Evadne STRICKLAND are joint beneficial owners of these shares.*

## **(B) Short position in shares and underlying shares of the Company**

By virtue of the SFO, each of Dr. Victor FUNG Kwok King and Dr. William FUNG Kwok Lun was taken as at 30 June 2007 to have short position through LF1937, in which both of them are deemed to have interests as disclosed above, in respect of an aggregate of 8,400,000 underlying shares in the Company, representing 2.69 percent of the total issued share capital of the Company. Such interest constitutes, for the purposes of the SFO, a short position of LF1937 under unlisted physically settled equity derivative which arise under an agreement made between LF1937 and Mikenwill dated 5 January 2007 pursuant to which options were granted by LF1937 to Mikenwill to require LF1937 to sell to Mikenwill or its nominee 10,500,000 shares in the Company in five tranches, with the first tranche of 2,100,000 shares exercised on 9 January 2007 and each of the remaining tranches having an exercisable period of one year during the period from 1 January 2007 to 31 December 2010.

Save as disclosed above, as at 30 June 2007, 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.

## **(C) Share options**

The interests of the directors and chief executives in the share options (being regarded as unlisted physically settled equity derivatives) of the Company are detailed in the Share Option Scheme section stated below.

Save as disclosed above, at no time during the period, 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.

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

## 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").

Movements of the share options under the Scheme during the period are as follows:

	Number of Share Options			As at 30/06/2007	Exercise price HK\$	Grant Date	Exercise period
	As at 01/01/2007	Exercised	Lapsed				
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	01/01/09–31/12/11
	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
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	2,610,000	1,777,000	9,000	824,000	4.825	14/12/04	01/01/07–31/12/08
	2,610,000	—	153,000	2,457,000	4.825	14/12/04	01/01/08–31/12/09
	2,610,000	—	153,000	2,457,000	4.825	14/12/04	01/01/09–31/12/10
	824,500	—	—	824,500	8.600	16/12/05	01/01/08–31/12/09
	824,500	—	—	824,500	8.600	16/12/05	01/01/09–31/12/10
	824,500	—	—	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 weighted average closing market price per share immediately before the dates on which the Share Options were exercised was HK\$20.35.
2. The share option is valued under the Black-Scholes valuation model which 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 variable so adopted may materially affect the estimation of the fair value of an option.

## Interests and Short Positions of Substantial Shareholders

As at 30 June 2007, 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 which fall to be disclosed to the Company under Section 336 of the SFO:

Name of Shareholder	Capacity	Number of Shares	Approximate percentage of issued share capital (%)
<b>Long Positions</b>			
Li & Fung (Distribution) Limited	Beneficial owner	155,860,917	49.97
Li & Fung (Gemini) Limited	Interest of controlled corporation	155,860,917	49.97
Li & Fung (1937) Limited	Interest of controlled corporation	155,860,917	49.97
King Lun Holdings Limited	Interest of controlled corporation	155,860,917	49.97
J.P. Morgan Trust Company (Jersey) Limited	Interest of controlled corporation	155,860,917	49.97
Brookside Capital Investors, L.P.	Interest of controlled corporation	15,473,000	4.96
Commonwealth Bank of Australia	Interest of controlled corporation	15,459,000	4.96
<b>Short Positions</b>			
Li & Fung (1937) Limited	Beneficial owner	8,400,000 <i>(Note)</i>	2.69
King Lun Holdings Limited	Interest of controlled corporation	8,400,000 <i>(Note)</i>	2.69
J.P. Morgan Trust Company (Jersey) Limited	Interest of controlled corporation	8,400,000 <i>(Note)</i>	2.69

*Note:*

*This short position represents LF1937's short position in 8,400,000 underlying shares which constitutes unlisted physically settled equity derivatives pursuant to arrangement as described in the Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures section stated above.*

Save as disclosed above, 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 as at 30 June 2007.

### **Purchase, sale or redemption of the Company's listed shares**

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

### **Interim Dividend**

The Board of Directors has declared an interim dividend of HK12.00 cents (equivalent to US1.54 cents) (2006: HK7.00 cents (equivalent to US0.90 cent)) in cash per share for the six months ended 30 June 2007, which will be payable to shareholders whose names appear on the Register of Members of the Company on 7 September 2007.

### **Closure of Register of Members**

The Register of Members will be closed from 4 September 2007 to 7 September 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited (formerly known as Abacus Share Registrars Limited) at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 3 September 2007. Dividend warrants will be despatched to shareholders on or about 21 September 2007.

# Condensed Consolidated Balance Sheet

		Unaudited 30 June	Audited 31 December
	<i>Note</i>	2007 US\$'000	2006 US\$'000
<b>ASSETS</b>			
Non-current assets			
Intangible assets	5	38,512	39,496
Property, plant and equipment	5	68,917	68,914
Lease premium for land		2,963	1,684
Associated companies		6,043	–
Other non-current assets	6	7,970	7,774
Pension assets		899	849
Deferred tax assets	10	7,842	9,818
		<b>133,146</b>	128,535
-----			
Current assets			
Inventories		133,388	116,182
Trade and other receivables	6	223,365	210,172
Taxation recoverable		579	652
Time deposits		27,334	46,432
Bank balances and cash		42,542	38,161
		<b>427,208</b>	411,599
-----			
Total assets		<b>560,354</b>	540,134
-----			
<b>EQUITY</b>			
Capital and reserves attributable to the Company's shareholders			
Share capital	7	31,190	30,900
Reserves	8	90,879	78,248
		<b>122,069</b>	109,148
Minority interests		6,020	7,085
		<b>128,089</b>	116,233
-----			

# Condensed Consolidated Balance Sheet

		Unaudited 30 June	Audited 31 December
		2007	2006
	<i>Note</i>	US\$'000	US\$'000
<b>LIABILITIES</b>			
Non-current liabilities			
Unsecured bank loan	9	52,249	51,242
Obligations under finance leases	9	–	15
Deficit on pension schemes		1,668	1,544
Post-employment benefit liabilities		2,963	2,942
Other non-current payables	11	12,506	16,408
Deferred tax liabilities	10	2,412	1,793
		<b>71,798</b>	<b>73,944</b>
-----			
Current liabilities			
Trade and other payables	11	311,023	297,075
Bank loans and other borrowings	9	44,330	47,245
Taxation payable		5,114	5,637
		<b>360,467</b>	<b>349,957</b>
-----			
Total liabilities		<b>432,265</b>	423,901
-----			
Total equity and liabilities		<b>560,354</b>	540,134
-----			
Net current assets		<b>66,741</b>	61,642
-----			
Total assets less current liabilities		<b>199,887</b>	190,177
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The notes on page 27 to 49 form integral part of this condensed interim financial information.



# Condensed Consolidated Income Statement

	<i>Note</i>	Unaudited Six months ended 30 June	
		2007 US\$'000	2006 US\$'000
Revenue	4	583,149	467,450
Cost of sales		(418,464)	(352,867)
Gross profit		164,685	114,583
Marketing and logistics expenses		(131,399)	(89,174)
Administrative expenses		(22,605)	(16,825)
Core operating profit	12	10,681	8,584
Other gains	13	12,178	–
Operating profit	14	22,859	8,584
Finance costs, net	15	(1,819)	(516)
Share of profits less losses of associated companies		85	–
Profit before taxation		21,125	8,068
Taxation	16	(3,787)	1,010
Profit for the period		17,338	9,078
Profit attributable to:			
Shareholders of the Company		16,486	8,537
Minority interests		852	541
		17,338	9,078
Interim dividend	17	4,801	2,782
Earnings per share for profit attributable to the shareholders of the Company during the period	18		
Basic		US 5.32 cents	US 2.76 cents
Diluted		US 5.12 cents	US 2.69 cents

The notes on page 27 to 49 form integral part of this condensed interim financial information.

# Condensed Consolidated Statement of Changes in Equity

	Unaudited				
	Attributable to shareholders of the Company				
	Share capital US\$'000	Other reserves US\$'000	Retained earnings US\$'000	Minority interests US\$'000	Total US\$'000
At 1 January 2006	30,900	39,248	17,116	5,058	92,322
Exchange differences	–	3,067	–	148	3,215
Profit for the period	–	–	8,537	541	9,078
Total recognized income for the period	–	3,067	8,537	689	12,293
Employee share option benefits	–	475	–	–	475
Dividends paid	–	–	(5,575)	(200)	(5,775)
At 30 June 2006	30,900	42,790	20,078	5,547	99,315
At 1 January 2007	30,900	46,532	31,716	7,085	116,233
Exchange differences	–	5,058	–	153	5,211
Profit for the period	–	–	16,486	852	17,338
Total recognized income for the period	–	5,058	16,486	1,005	22,549
Employee share option benefits					
— cost of employee services	–	726	–	–	726
— proceeds from shares issued	290	1,502	–	–	1,792
Disposal of a subsidiary	–	(626)	626	(3,763)	(3,763)
Acquisition of a subsidiary	–	–	–	4,113	4,113
Acquisition of additional interest in a subsidiary	–	–	–	(1,658)	(1,658)
Capital injection by minority shareholders of a subsidiary	–	–	–	18	18
Dividends paid	–	–	(11,141)	(780)	(11,921)
At 30 June 2007	31,190	53,192	37,687	6,020	128,089

The notes on page 27 to 49 form integral part of this condensed interim financial information

# Condensed Consolidated Cash Flow Statement

	Note	Unaudited Six Months ended 30 June	
		2007 US\$'000	2006 US\$'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	19(a)	27,296	16,495
Interest paid		(2,366)	(1,706)
Net overseas tax paid		(2,853)	(4,200)
<b>Net cash generated from operating activities</b>		<b>22,077</b>	<b>10,589</b>
<b>Cash flows from investing activities</b>			
Interest received		1,122	1,190
Net decrease/(increase) in time deposits		5,105	(1,430)
Purchase of property, plant and equipment		(5,909)	(2,734)
Purchase of intangible assets		(803)	(172)
Sale of plant and equipment		211	93
Acquisition of a subsidiary		(7,167)	–
Acquisition of additional interest in a subsidiary		(766)	–
Disposal of a subsidiary		(4,662)	–
Settlement of consideration payable for acquisition of business		(4,299)	–
Capital injection by minority shareholders of a subsidiary		18	–
<b>Net cash used in investing activities</b>		<b>(17,150)</b>	<b>(3,053)</b>
<b>Net cash before financing activities</b>		<b>4,927</b>	<b>7,536</b>
<b>Cash flows from financing activities</b>			
Dividends paid to minority shareholders of subsidiaries		(780)	(200)
Dividends paid	8	(11,141)	(5,575)
Capital element of finance lease payments		(77)	(52)
Net proceeds from issue of shares		1,792	–
Net decrease in bank loans		(1,965)	(6,005)
<b>Net cash used in financing activities</b>		<b>(12,171)</b>	<b>(11,832)</b>
Decrease in cash and cash equivalents		(7,244)	(4,296)
Cash and cash equivalents at beginning of period		78,274	55,985
Effect of foreign exchange rate changes		(1,792)	692
<b>Cash and cash equivalents at the end of period</b>		<b>69,238</b>	<b>52,381</b>
<b>Analysis of balances of cash and cash equivalents:</b>			
Bank balances and cash		42,542	24,946
Deposits with maturity less than three months		27,334	29,093
Bank overdrafts		(638)	(1,658)
		<b>69,238</b>	<b>52,381</b>

The notes on page 27 to 49 form integral part of this condensed interim financial information.

## 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 condensed consolidated financial information was approved for issue by the Board of Directors on 15 August 2007.

## 2 BASIS OF PREPARATION

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34: Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

This unaudited condensed consolidated financial information should be read in conjunction with the 2006 annual financial statements.

This interim financial information has been prepared in accordance with those HKAS and Hong Kong Financial Reporting Standards (“HKFRS”) and interpretations issued and effective as at the time of preparing this interim financial information.

## 3 ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information is consistent with those used in the annual financial statements for the year ended 31 December 2006.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2007. Management has considered and concluded that there is either no significant financial impact or relevance to the Group:

HKAS 1 (Amendment)	Presentation of Financial Statements — Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

# Notes to Condensed Consolidated Financial Information

## 3 ACCOUNTING POLICIES (cont'd)

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007. Management is currently assessing the impact on the Group's operations.

HKAS 23 Revised	Borrowing Costs
HKFRS 8	Operating Segments
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

## 4 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.

	Unaudited	
	Six months ended 30 June	
	2007	2006
	US\$'000	US\$'000
Sales of goods	467,567	402,842
Rendering of services	115,582	64,608
Revenue	583,149	467,450

### 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
PRC	–	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
Brunei	–	Marketing
the US	–	Logistics

# Notes to Condensed Consolidated Financial Information

## 4 REVENUE AND SEGMENT INFORMATION (cont'd)

### Primary reporting format — business segments

An analysis of the Group's segment revenue and contribution to operating profit for the period by business segment is as follows:

Six months ended 30 June 2007

	Unaudited					Group total US\$'000
	Logistics US\$'000	Marketing US\$'000	Manufacturing US\$'000	Corporate US\$'000	Inter-segment elimination US\$'000	
Sales of goods	–	413,360	54,363	–	(156)	467,567
Rendering of services	107,785	4,464	9,919	–	(6,586)	115,582
Revenue	107,785	417,824	64,282	–	(6,742)	583,149
Gross profit	103,635	63,262	3,376	–	(5,588)	164,685
Marketing, logistics and administrative expenses	(96,479)	(55,099)	(1,660)	(6,354)	5,588	(154,004)
Core operating profit	7,156	8,163	1,716	(6,354)	–	10,681
Other gains	–	–	–	12,178	–	12,178
Segment results	7,156	8,163	1,716	5,824	–	22,859
Finance costs, net	–	–	–	–	–	(1,819)
Share of profits less losses of associated companies	–	–	–	–	–	85
Profit before taxation	–	–	–	–	–	21,125
Taxation	–	–	–	–	–	(3,787)
Profit for the period	–	–	–	–	–	17,338
Depreciation and amortization	2,989	1,352	1,377	973	–	6,691
Capital expenditure	3,034	880	2,479	319	–	6,712
Capital expenditure arising from acquisition of a subsidiary	–	4,330	–	–	–	4,330

# Notes to Condensed Consolidated Financial Information

## 4 REVENUE AND SEGMENT INFORMATION (cont'd)

### Primary reporting format — business segments (cont'd)

Six months ended 30 June 2006

	Unaudited					Group total US\$'000
	Logistics US\$'000	Marketing US\$'000	Manufacturing US\$'000	Corporate US\$'000	Inter-segment elimination US\$'000	
Sales of goods	–	335,546	67,405	–	(109)	402,842
Rendering of services	65,484	3,645	2,047	–	(6,568)	64,608
Revenue	65,484	339,191	69,452	–	(6,677)	467,450
Gross profit	60,519	56,197	3,460	–	(5,593)	114,583
Marketing, logistics and administrative expenses	(54,639)	(50,301)	(1,315)	(5,337)	5,593	(105,999)
Core operating profit	5,880	5,896	2,145	(5,337)	–	8,584
Other gains	–	–	–	–	–	–
Segment results	5,880	5,896	2,145	(5,337)	–	8,584
Finance costs, net	–	–	–	–	–	(516)
Share of profits less losses of associated companies	–	–	–	–	–	–
Profit before taxation	–	–	–	–	–	8,068
Taxation	–	–	–	–	–	1,010
Profit for the period	–	–	–	–	–	9,078
Depreciation and amortization	1,955	1,207	691	598	–	4,451
Capital expenditure	1,132	844	803	127	–	2,906

# Notes to Condensed Consolidated Financial Information

## 4 REVENUE AND SEGMENT INFORMATION (cont'd)

### Primary reporting format — business segments (cont'd)

An analysis of the Group's segment assets and liabilities at period/year end is as follows:

30 June 2007	Unaudited				Group total US\$'000
	Logistics US\$'000	Marketing US\$'000	Manufacturing US\$'000	Corporate US\$'000	
Segment assets	123,079	298,713	52,676	79,843	554,311
Associated companies	–	6,043	–	–	6,043
<b>Total assets</b>	<b>123,079</b>	<b>304,756</b>	<b>52,676</b>	<b>79,843</b>	<b>560,354</b>
<b>Total liabilities</b>	<b>113,372</b>	<b>233,704</b>	<b>31,667</b>	<b>53,522</b>	<b>432,265</b>

31 December 2006	Audited				Group total US\$'000
	Logistics US\$'000	Marketing US\$'000	Manufacturing US\$'000	Corporate US\$'000	
Total assets	137,556	273,336	43,762	85,480	540,134
Total liabilities	129,061	214,241	26,781	53,818	423,901



# Notes to Condensed Consolidated Financial Information

## 4 REVENUE AND SEGMENT INFORMATION (cont'd)

Secondary reporting format — geographical segments

	Unaudited			
	Revenue		Capital expenditure	
	Six months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	US\$'000	US\$'000	US\$'000	US\$'000
Hong Kong	109,835	106,961	535	351
PRC	107,499	72,819	863	683
Taiwan	13,243	9,300	370	77
Thailand	78,964	67,041	1,239	750
Malaysia	69,182	65,512	5,776	379
Singapore	38,848	32,214	295	135
the Philippines	123,926	96,055	216	294
Indonesia	5,012	3,990	380	140
Brunei	16,432	15,618	7	97
the US	23,008	—	1,361	—
	585,949	469,510	11,042	2,906
Less: Inter-segment elimination	(2,800)	(2,060)	—	—
<b>Total</b>	<b>583,149</b>	<b>467,450</b>	<b>11,042</b>	<b>2,906</b>

	Segment Assets	
	Unaudited	Audited
	30 June	31 December
	2007	2006
	US\$'000	US\$'000
Hong Kong	102,822	119,341
PRC	113,787	95,113
Taiwan	27,431	34,631
Thailand	72,139	64,120
Malaysia	102,830	85,619
Singapore	26,169	35,992
the Philippines	50,258	35,762
Indonesia	6,074	8,755
Brunei	11,133	11,369
the US	41,668	49,432
	554,311	540,134

# Notes to Condensed Consolidated Financial Information

## 5 CAPITAL EXPENDITURE

	Goodwill	Customer base	Software costs	Trademarks	Total intangible assets	Property, plant and equipment
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Net book value at						
1 January 2007	28,123	2,993	7,336	1,044	39,496	68,914
Additions	–	–	803	–	803	5,909
Acquisition of a subsidiary	–	–	202	–	202	2,479
Disposal of a subsidiary	–	–	–	(1,044)	(1,044)	(5,067)
Disposals	–	–	(4)	–	(4)	(187)
Amortization/depreciation charge	–	(159)	(837)	–	(996)	(5,659)
Exchange difference	12	52	(9)	–	55	2,528
Net book value at						
30 June 2007	28,135	2,886	7,491	–	38,512	68,917

Software costs include internally generated capitalized software development costs.

# Notes to Condensed Consolidated Financial Information

## 6 TRADE AND OTHER RECEIVABLES

	Unaudited 30 June	Audited 31 December
	2007	2006
	US\$'000	US\$'000
Trade receivables	167,599	166,629
Less: provision for impairment of receivables	(2,351)	(2,275)
Trade receivables, net <i>(note (a))</i>	165,248	164,354
Other receivables, prepayments, and deposits	61,201	48,947
Due from related companies <i>(note (b) &amp; note 22)</i>	4,886	4,645
	231,335	217,946
Less: non-current portion: prepayments and deposits	(7,970)	(7,774)
	223,365	210,172

*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 period/year end, the aging analysis of the Group's trade receivables based on invoice date was as follows:*

	Unaudited 30 June	Audited 31 December
	2007	2006
	US\$'000	US\$'000
<i>Less than 90 days</i>	152,149	153,367
<i>91–180 days</i>	9,333	8,715
<i>181–360 days</i>	2,712	1,513
<i>Over 360 days</i>	1,054	759
	165,248	164,354

The Group has recognized a loss of US\$144,000 (2006: US\$82,000) for the impairment of its trade receivables during the six months ended 30 June 2007. The loss has been included in marketing and logistics expenses in the consolidated income statement.

(b) The amounts due from related companies 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.

# Notes to Condensed Consolidated Financial Information

## 7 SHARE CAPITAL AND OPTIONS

	<u>Ordinary shares</u>	
	No. of shares	US\$'000
Authorized:		
At 1 January 2007 and 30 June 2007, ordinary shares of US\$0.1 each	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2007, ordinary shares of US\$0.1 each	309,000,000	30,900
Exercise of share options	2,902,000	290
At 30 June 2007, ordinary shares of US\$0.1 each	311,902,000	31,190

### Share options

Details of the share option scheme are set out in the 2006 annual report. Movements in the number of share options outstanding and the exercise prices are as follows:

	<u>30 June 2007</u>		<u>31 December 2006</u>	
	Average exercise price HK\$ per share	Share options	Average exercise price HK\$ per share	Share options
At 1 January	7.918	21,718,500	5.887	17,770,500
Granted	–	–	15.100	4,830,000
Exercised	4.825	(2,902,000)	–	–
Lapsed ( <i>note</i> )	4.825	(315,000)	4.825	(531,000)
Lapsed ( <i>note</i> )	–	–	8.600	(351,000)
At 30 June/31 December	8.456	18,501,500	7.918	21,718,500

*Note:*

*Share options lapsed following the cessation of employment of certain grantees.*

Subsequently, 815,000 shares have been allotted and issued under the Share Option Scheme up to 15 August 2007.

# Notes to Condensed Consolidated Financial Information

## 7 SHARE CAPITAL AND OPTIONS (cont'd)

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

Expiry date	Exercise price HK\$ per share	Share options	
		30 June 2007	31 December 2006
31 December 2008	4.825	1,169,000	4,080,000
31 December 2009	4.825	3,927,000	4,080,000
31 December 2010	4.825	3,927,000	4,080,000
31 December 2009	8.600	1,549,500	1,549,500
31 December 2010	8.600	1,549,500	1,549,500
31 December 2011	8.600	1,549,500	1,549,500
31 December 2010	15.100	1,610,000	1,610,000
31 December 2011	15.100	1,610,000	1,610,000
31 December 2012	15.100	1,610,000	1,610,000
		<b>18,501,500</b>	<b>21,718,500</b>

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%

# Notes to Condensed Consolidated Financial Information

## 8 RESERVES

	Share premium US\$'000	Employee share-based compensation reserve US\$'000	Merger reserve US\$'000	Exchange reserve US\$'000	Retained earnings US\$'000	Total US\$'000
At 1 January 2006	21,019	537	16,450	1,242	17,116	56,364
Exchange differences	–	–	–	3,067	–	3,067
Profit for the period	–	–	–	–	8,537	8,537
2005 final dividend paid	–	–	–	–	(5,575)	(5,575)
Employee share option benefits	–	475	–	–	–	475
At 30 June 2006	21,019	1,012	16,450	4,309	20,078	62,868
Exchange differences	–	–	–	3,237	–	3,237
Actuarial losses from post employment benefits recognized in reserve:						
— gross	–	–	–	–	(268)	(268)
— tax	–	–	–	–	37	37
Profit for the period	–	–	–	–	14,651	14,651
2006 interim dividend paid	–	–	–	–	(2,782)	(2,782)
Employee share option benefits	–	505	–	–	–	505
At 31 December 2006	21,019	1,517	16,450	7,546	31,716	78,248
Exchange differences	–	–	–	5,058	–	5,058
Profit for the period	–	–	–	–	16,486	16,486
2006 final dividend paid	–	–	–	–	(11,141)	(11,141)
Employee share option benefits						
— cost of employee services	–	726	–	–	–	726
— proceeds from shares issued	1,502	–	–	–	–	1,502
— transfer to share premium	291	(291)	–	–	–	–
Disposal of a subsidiary	–	–	167	(793)	626	–
At 30 June 2007	22,812	1,952	16,617	11,811	37,687	90,879

# Notes to Condensed Consolidated Financial Information

## 9 BANK LOANS AND OTHER BORROWINGS

As at period/year end, bank loans, bank overdrafts and other borrowings were repayable as follows:

	Unaudited 30 June	Audited 31 December
	2007	2006
	US\$'000	US\$'000
On demand and within one year		
Unsecured bank overdrafts	638	1,214
Unsecured bank loans	43,589	45,866
Obligations under finance leases	103	165
	<b>44,330</b>	<b>47,245</b>
In the second to fifth year		
Unsecured bank loan	52,249	51,242
In the second to fifth year, by instalments		
Obligations under finance leases	–	15
	<b>96,579</b>	<b>98,502</b>

The carrying amounts of bank loans and other borrowings approximate their fair value.

## 10 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method.

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.

# Notes to Condensed Consolidated Financial Information

## 11 TRADE AND OTHER PAYABLES

	Unaudited 30 June	Audited 31 December
	2007	2006
	US\$'000	US\$'000
Trade payables ( <i>note (a)</i> )	239,280	211,779
Other payables and accruals	77,436	95,786
Obligations on pension – defined contribution plans	838	894
Due to related companies ( <i>note (b) &amp; note 22</i> )	5,975	5,024
	<b>323,529</b>	<b>313,483</b>
Less: non-current portion of other payables	<b>(12,506)</b>	<b>(16,408)</b>
	<b>311,023</b>	<b>297,075</b>

Notes:

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

	Unaudited 30 June	Audited 31 December
	2007	2006
	US\$'000	US\$'000
Less than 90 days	204,443	178,037
91–180 days	32,979	30,569
181–360 days	1,211	1,758
Over 360 days	647	1,415
	<b>239,280</b>	<b>211,779</b>

(b) The amounts due to related companies 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.

## 12 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 property, plant and equipment or other assets).



# Notes to Condensed Consolidated Financial Information

## 13 OTHER GAINS

	Unaudited	
	Six months ended 30 June	
	2007	2006
	US\$'000	US\$'000
Gain on disposal of a subsidiary	11,286	–
Gain on acquisition of additional interest in a subsidiary	892	–
Other gains	12,178	–

## 14 OPERATING PROFIT

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

	Unaudited	
	Six months ended 30 June	
	2007	2006
	US\$'000	US\$'000
Depreciation of		
Owned property, plant and equipment	5,632	3,798
Leased property, plant and equipment	27	37
Amortization of intangible assets	996	609
Amortization of prepaid operating lease payment	36	7
Provision for impairment losses on trade receivables	144	82
(Reversal of provision)/Provision for obsolete inventories	(249)	781
Gain on disposal of plant and equipment	(24)	(11)
Costs of inventories sold	413,638	345,974
Exchange gain	(313)	(58)

# Notes to Condensed Consolidated Financial Information

## 15 FINANCE COSTS, NET

	Unaudited	
	Six months ended 30 June	
	2007	2006
	US\$'000	US\$'000
Interest expense on bank loans and overdrafts	2,359	1,702
Interest expense on finance leases	7	4
Imputed interest on non-current payables ( <i>note</i> )	575	–
	2,941	1,706
Interest income from bank deposits	(1,122)	(1,190)
Finance costs, net	1,819	516

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 position of the purchase consideration payable at the average borrowing rate of 5.68% under the effective interest method.*

# Notes to Condensed Consolidated Financial Information

## 16 TAXATION

Hong Kong profits tax has been provided for at the rate of 17.5% on the estimated assessable profits for the period. It has not been provided for the six months ended 2006 as the Group's assessable profits in Hong Kong have been offset against tax losses from prior years. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the condensed consolidated income statement for the period represents:

	Unaudited	
	Six months ended 30 June	
	2007	2006
	US\$'000	US\$'000
Current taxation:		
— Hong Kong profits tax	39	—
— overseas taxation	2,200	2,683
Deferred taxation	1,548	(3,693)
Taxation charge/(credit)	3,787	(1,010)

## 17 INTERIM DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2007	2006
	US\$'000	US\$'000
Interim dividend — proposed after balance sheet date of HK12.00 cents (equivalent to US1.54 cents) (2006: HK7.00 cents (equivalent to US0.90 cent)) per share ( <i>note</i> )	4,801	2,782

*Note:*

At a meeting held on 15 August 2007 the directors declared an interim dividend of HK12.00 cents (equivalent to US1.54 cents) per share. This proposed dividend is not reflected as a dividend payable in this condensed financial information, but will be reflected as an appropriation of reserve for the year ending 31 December 2007.

# Notes to Condensed Consolidated Financial Information

## 18 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 period.

	Unaudited Six months ended 30 June	
	2007	2006
Profit attributable to shareholders of the Company (US\$'000)	16,486	8,537
Weighted average number of ordinary shares in issue (thousands)	310,162	309,000
Basic earnings per share (US cents per share)	5.32	2.76

### Diluted

Diluted earnings per share is based on the weighted average number of 310,162,000 (2006: 309,000,000) shares in issue during the period plus weighted average number of 12,010,000 (2006: 7,982,000) shares deemed to have been issued at no consideration if all outstanding options had been exercised.

	Unaudited Six months ended 30 June	
	2007	2006
Profit attributable to shareholders of the Company (US\$'000)	16,486	8,537
Weighted average number of ordinary shares in issue (thousands)	310,162	309,000
Adjustments for share options (thousands)	12,010	7,982
Weighted average number of ordinary shares for diluted earnings per share (thousands)	322,172	316,982
Diluted earnings per share (US cents per share)	5.12	2.69

# Notes to Condensed Consolidated Financial Information

## 19 NOTES TO THE CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

### (a) Cash generated from operations:

	Unaudited	
	Six months ended 30 June	
	2007	2006
	US\$'000	US\$'000
Operating profit	22,859	8,584
Amortization of intangible assets	996	609
Depreciation charge	5,659	3,835
Amortization of prepaid operating lease payments	36	7
Gain on disposal of property, plant and equipment	(24)	(11)
Loss on disposal of intangible assets	4	–
Gain on disposal of a subsidiary	(11,286)	–
Gain on acquisition of additional interest in a subsidiary	(892)	–
Share option expenses	726	475
Operating profit before working capital changes	18,078	13,499
Increase in inventories	(9,492)	(1,340)
(Increase)/decrease in trade and other receivables and surplus on pension schemes	(2,120)	5,789
Increase/(decrease) in trade and other payables, deficit on pension schemes and post employment benefit liabilities	20,830	(1,453)
Net cash inflow generated from operations	27,296	16,495

# Notes to Condensed Consolidated Financial Information

## 19 NOTES TO THE CONDENSED CONSOLIDATED CASH FLOW STATEMENTS (cont'd)

### (b) Acquisition of subsidiaries

In May 2007, the Group acquired the 67.09% equity interest of IDS Sebor (Sarawak) Holdings Sdn. Bhd. (formerly known as Sebor (Sarawak) Sdn. Bhd.), together with its various subsidiaries ("Sarawak") in Malaysia. Sarawak is principally engaged in distribution of consumer products. The acquired business contributed revenues of approximately US\$6,589,000 and net profit of approximately US\$118,000 to the Group for the period from 1 June 2007 to 30 June 2007.

If the acquisition had occurred on 1 January 2007, the estimated unaudited consolidated revenue for the Group would have been approximately US\$614,072,000 and unaudited net profit would have been approximately US\$17,857,000.

	Unaudited Six months ended 30 June 2007	
	Carrying amount US\$'000	Fair value US\$'000
Net assets acquired:		
Software	202	202
Property, plant and equipment	1,687	2,479
Lease premium for land	350	1,649
Inventories	12,442	12,442
Trade and other receivables	7,816	7,816
Bank balances and cash	1,035	1,035
Deferred tax liabilities	(126)	(690)
Trade and other payables	(12,236)	(12,236)
Taxation payable	(205)	(205)
Minority interests	(3,610)	(4,113)
<b>Net assets</b>	<b>7,355</b>	<b>8,379</b>
Satisfied by cash consideration		7,917
Expenses incurred on acquisition		462
		<b>8,379</b>
Analysis of the net outflow of cash and cash equivalent in respect of the acquisition:		
Purchase consideration		7,917
Expenses incurred on acquisition		462
Expenses payable in respect of acquisition		(177)
Cash and cash equivalents in subsidiary acquired		(1,035)
		<b>7,167</b>

There was no acquisition in the period ended 30 June 2006.

# Notes to Condensed Consolidated Financial Information

## 19 NOTES TO THE CONDENSED CONSOLIDATED CASH FLOW STATEMENTS (cont'd)

### (c) Disposal of a subsidiary

	Unaudited Six months ended 30 June 2007 US\$'000
Intangible assets	1,044
Property, plant and equipment	5,067
Lease premium for land	315
Other non-current assets	219
Deferred tax assets	694
Inventories	6,486
Trade and other receivables	8,164
Bank balances and cash	6,999
Deficit on pension schemes	(121)
Other non-current payables	(156)
Deferred tax liabilities	(168)
Trade and other payables	(16,237)
Bank overdraft	(459)
Taxation payable	(41)
Minority interests	(3,763)
	8,043
Transfer to associated companies	(5,958)
	2,085
Gain on disposal	11,286
	13,371
Analysis of net outflow of cash and cash equivalent in respect of the disposal:	
Cash consideration	13,543
Expenses incurred in respect of the disposal	(50)
Net cash refund relating to partial divestment in 2006	(122)
Sales consideration receivable	(11,543)
Expenses payable in respect of the disposal	50
Cash and cash equivalent disposed	(6,540)
	(4,662)

In June 2007, the Group disposed of a 17.5% interest in Slumberland Asia Pacific Limited ("Slumberland"). Subsequent to the completion, the Group's interest in Slumberland has been reduced from 67.5% to 50%. The transaction resulted in Slumberland ceasing to be a subsidiary and becoming an associated company of the Group.

There was no disposal in the period ended 30 June 2006.

# Notes to Condensed Consolidated Financial Information

## 20 CONTINGENT LIABILITIES

### Bank guarantees

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

	Unaudited 30 June	Audited 31 December
	2007	2006
	US\$'000	US\$'000
As security in favor of local tax and customs authorities in accordance with local regulations	296	9,811
For purchase of goods in favor of suppliers	11,035	10,052
Performance bonds and others	386	407
For rental payment in favor of the landlords	8,008	5,762
	<b>19,725</b>	<b>26,032</b>

## 21 COMMITMENTS

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

	Unaudited 30 June	Audited 31 December
	2007	2006
	US\$'000	US\$'000
Property, plant and equipment	1,057	1,495

### (b) Commitments under operating leases

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

	Buildings		Others	
	Unaudited 30 June	Audited 31 December	Unaudited 30 June	Audited 31 December
	2007	2006	2007	2006
	US\$'000	US\$'000	US\$'000	US\$'000
Not later than one year	30,137	28,872	788	1,017
Later than one year and not later than five years	83,785	81,843	940	967
Later than five years	72,304	78,812	-	-
	<b>186,226</b>	<b>189,527</b>	<b>1,728</b>	<b>1,984</b>



## 22 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by Li & Fung (Distribution) Limited, incorporated in the British Virgin Islands which owns 49.97% of the Company's shares as at 30 June 2007. The remaining shares are widely held. The ultimate parent of the Group is King Lun Holdings Limited incorporated in the British Virgin Islands.

The significant transactions carried out with the related parties were:

		Unaudited	
		Six months ended 30 June	
		2007	2006
Note		US\$'000	US\$'000
Continuing transactions with fellow subsidiaries and related companies			
—	Distribution and sales of goods (a)	629	516
—	Provision of shipping, handling and other logistics services (a)	1,809	1,199
—	Billing agent service (a)	186	172
—	Rental received from (b)	596	544
—	Rental paid to (b)	981	1,321

Note:

(a) *Distribution and sales of goods and provision of shipping, handling and other logistics services, sales/purchase of goods and revenue from rendering of logistics services 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) *Rental received/paid were charged on normal commercial terms based on relevant lease agreements entered.*

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

# Notes to Condensed Consolidated Financial Information

## 22 SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd)

### Directors' compensation

	Unaudited Six months ended 30 June	
	2007	2006
	US\$'000	US\$'000
Salaries and other short-term employee benefits	1,980	1,462
Share-based payments	334	196
Post-employment benefits	2	2
	<b>2,316</b>	<b>1,660</b>

### Balances with related parties

	Unaudited 30 June	Audited 31 December
	2007	2006
	US\$'000	US\$'000
Due from related companies		
— fellow subsidiaries	(a) 4,886	4,645
Due to related companies		
— fellow subsidiaries	(b) 5,975	5,024

#### Notes:

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

(b) Period/year end balances are arisen from purchase. The balances are unsecured, interest free and with terms of repayment according to the credit terms granted.

## 23 SUBSEQUENT EVENTS

On 31 July 2007, the Group completed the sale and purchase agreement to acquire 40% equity interest of Sebor (Sabah) Sdn Bhd, a distribution company in Malaysia, for an aggregate cash consideration of approximately US\$1.3 million. Details of the acquisition are set out in the announcement of the Company dated 16 April 2007.

On 15 August 2007, the Group entered into a sale and purchase agreement to acquire the entire issued share capital of PB Logistics Limited, a logistics company in the United Kingdom, for an aggregate cash consideration of approximately US\$23.2 million. Details of the acquisition are set out in separate announcement of the Company published on the same date.

## Listing Information

Listing: Hong Kong Stock Exchange  
Stock code: 2387

## Key Dates

15 August 2007

Announcement of 2007 Interim Results

4 September 2007 to 7 September 2007

(both days inclusive) Closure of Register of Members

On or about 21 September 2007

Proposed Payment of 2007 Interim Dividend

## Share Registrar & Transfer Offices

*Principal:*

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

*Hong Kong Branch:*

Tricor Abacus Limited  
(formerly known as 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 30 June 2007:

311,902,000 shares

Market Capitalization as at 30 June 2007:

HK\$7,703,979,400

Earnings per share (equivalent to) for 2007

Interim: HK41.57 cents

Dividend per share for 2007

Interim: HK12.00 cents

## Enquires Contact

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## Website

[www.idsgroup.com](http://www.idsgroup.com)

[www.irasia.com/listco/hk/ids](http://www.irasia.com/listco/hk/ids)



Member of the Li & Fung Group