OUR GROWTH STORY CONTINUES

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Annual Report 2007

Integrated Distribution Services Group Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 2387

HIGH PERFORMANCE HIGH VALUES

Contents

We deliver our promise... and more.

OUR VISION

To be the premier Asian multinational provider of Integrated-Distribution Services specializing in Value-Chain Logistics.

FINISHING STRONG STARTING STRONGER

The IDS Group has achieved a resounding success in our 2005–2007 Strategic Plan cycle. Building on the strong growth momentum in the past three years, IDS is aiming to usher in an even more aggressive era of growth in our 2008–2010 Strategic Plan.

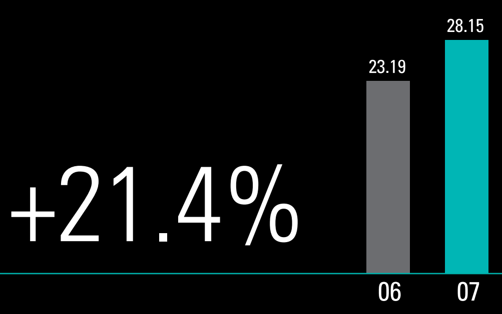
Our 2007 net profit was over 2.6 times against 2004, which exceeded the "doubling of 2004 net profit" target set in December 2004. Our partnership with regional customers is growing from strength to strength. Our focus on operational excellence has resulted in numerous recognitions and awards from customers and the industry. Our network in Asia, particularly China, has grown deeper and wider, and our coverage has extended beyond our home base to the US and UK in a bid to leverage the opportunities presented by globalization.

The IDS growth story is one that continuously evolves, and we are ready to unfold a sequel that carries an even more compelling growth storyline. In this year's Annual Report we are delighted to share with you our achievements in the past, and the road map for our future.

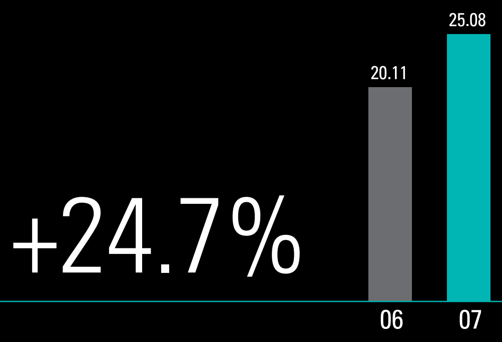
Financial Highlights

(US$ million)	2007	2006	Change (%)
Revenue	1,295.66	993.61	30.4%
Gross profit	375.79	257.93	45.7%
Core operating profit	25.08	20.11	24.7%
Operating profit	39.13	27.06	44.6%
Profit attributable to shareholders	28.15	23.19	21.4%
Interim dividend (per share)	12 HK cents	7 HK cents	
Final dividend (per share)	30 HK cents	28 HK cents	
Full year dividend (per share)	42 HK cents	35 HK cents	20.0%

Profit Attributable to Shareholders (US$ million)

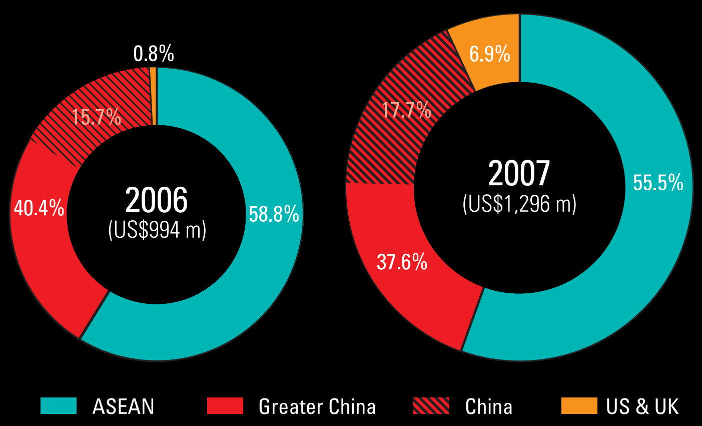


Core Operating Profit (US$ million)



FINANCIAL GROWTH

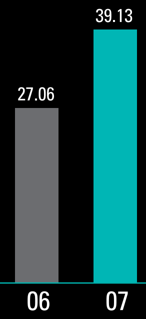
Revenue by geography (2007 vs. 2006)



STRONG ALL-ROUND GROWTH IN ALL MARKETS ESPECIALLY IN CHINA.

Operating Profit (US$ million)

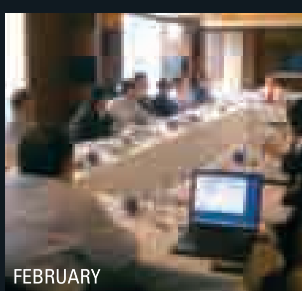
+44.6%



STRONG ALL-ROUND PROFIT GROWTH IN 2007.

Event Highlights

AND OPERATIONAL GROWTH



FEBRUARY

2008–2010 Strategic Plan

The Group commenced formulation of the 2008–2010 Strategic Plan in February. After extensive consultation involving over 100 of our senior managers, the Plan was finalized in November. It defines the roadmap for our next stage of Asian growth and geographical expansion.

APRIL

Awards & Recognition

In April, our Philippine Logistics team won the prestigious Unilever Vendor of the Year 2006 award for the second time within three years. It was also the third consecutive year our colleagues in the Philippines received major recognition from Unilever. Our colleagues from Thailand, Singapore and Taiwan also received numerous awards from customers, industry organizations and government bodies during the year.

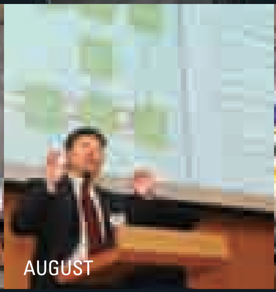
MAY

Network Expansion

The IDS network continued to expand in the Greater China region. Our Macau office was opened in May 2007 to tap into the strong potential of this fast growing market. In China, the Group now operates 18 branch offices with invoicing and direct selling capability, and covers more than 150 cities nation-wide.

Annual Awards & Appreciation

A series of Annual Awards & Appreciation events were held between May and July across the region. The key highlight of the event was the Long Service Award ceremony. Over 500 colleagues received the award this year, and for the first time, we have employees celebrating their 40th Anniversary with IDS!



JULY

Developing Talent for the Future

The Group launched the maiden Management Trainee and Summer Internship programs this year. Over 80 Management Trainees joined IDS in July and began their two-year intensive on-the-job training program. This program will ensure IDS has the depth of management talent to support our business growth.

AUGUST

Thought Leadership

The Group actively promoted industry education and organized three Value-Chain Seminars in Hong Kong, Singapore and Shanghai in 2007. We collaborated with prominent universities and invited Professor Hau Lee of Stanford University and Dr. Victor Fung as keynote speakers. Response to these seminars was overwhelming.

Mergers & Acquisitions

IDS completed three acquisitions during the year, including a garment logistics company in the UK which allowed us to gain entry into Europe. The Group also acquired 67.09% and 40.00% interests in two distribution companies in Sarawak and Sabah, respectively. This places IDS in a dominant position in Fast Moving Consumer Goods distribution in the East Malaysia corridor including Brunei.

DECEMBER

Corporate Social Responsibility

We are delighted to see a proliferation of Corporate Social Responsibility (CSR) initiatives across the Group in 2007. Over 30 events were organized, involving over 1,500 employees and their family members. The strong participation of our colleagues speaks volume about the importance of integrating CSR into our business.

2005–2007 Strategic Plan Achievements

WE DELIVER OUR PROMISE...

AND MORE

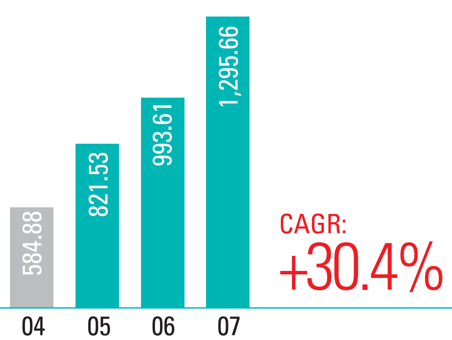
At IDS, our success is driven by the disciplined planning and rigorous execution of our three-year Strategic Plan cycles. We set challenging targets for each period and develop transformational goals that are crucial to our growth. We successfully completed the 2005–2007 Strategic Plan by meeting or exceeding all key financial and strategic objectives. More significantly, we have achieved this unique feat for all the Strategic Plan cycles since our inception in 1999. And we intend to extend this record for our next three-year 2008–2010 Strategic Plan.

SOLID FINANCIAL PERFORMANCE

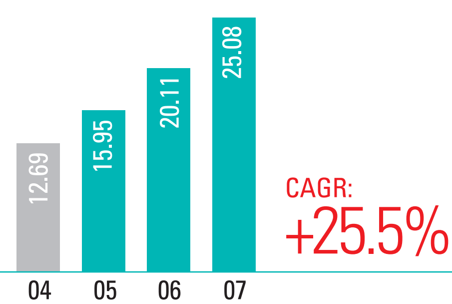
WE EXCEEDED OUR TARGET OF "DOUBLING OUR 2004 NET PROFIT".

Our two-pronged strategy of aggressive organic growth coupled with strategic mergers and acquisitions resulted in strong financial performance. Our 2007 net profit of US$28.15 million is over 2.6 times of our 2004 net profit, 33% above our target of "doubling 2004 net profit" (i.e. a target of minimum US$21.1 million) set in December 2004.

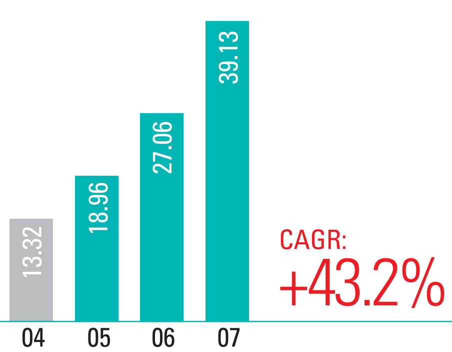
Revenue (US$ million)



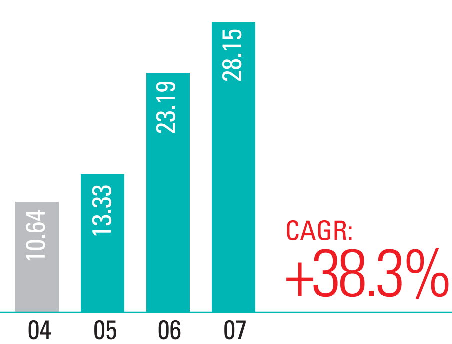
Core Operating Profit (US$ million)



Operating Profit (US$ million)



Profit Attributable to Shareholders (US$ million)



Opening ceremony of dedicated manufacturing plant for Listerine mouthwash in Thailand.

The regional hubbing project for Diageo in Singapore in 2006 led to further expansion of our relationship in 2007.

We expanded our service to Carrefour in Thailand to include a cold-chain operation.

STRONGER CUSTOMER PARTNERSHIP

WE WON MANY MAJOR CONTRACTS WITH MULTINATIONAL BRAND OWNERS AND EXTENDED OUR PARTNERSHIPS TO OTHER GEOGRAPHIC REGIONS AND NEW SERVICE OFFERINGS.

The focus on developing and expanding regional partnerships with our key customers over the past three years has resulted in many significant wins. These included the Listerine contract with Pfizer Consumer Healthcare (now under Johnson & Johnson) in Thailand, Logistics contract with Procter & Gamble in Taiwan, Logistics contract with L'Oreal in Hong Kong, Diageo regional hubbing contract in Singapore, Manufacturing contract with Henkel in Indonesia, and many more. We also expanded relationships with brands who partner with us in one market into multiple countries and in the process expanded our service offering. These include Carrefour, Levis, ECCO shoes, Reckitt & Benckiser, Elizabeth Arden, Monde Nissin, just to name a few.

WIDER NETWORK & COVERAGE

LEVERAGING OUR EXTENSIVE LOGISTICS AND DISTRIBUTION NETWORK IN ASIA, IDS CONTINUES TO EXPAND OUR NETWORK FURTHER TO OPTIMIZE THE MANAGEMENT OF OUR GLOBAL SUPPLY CHAIN.

The IDS logistics and distribution network expanded by leaps and bounds in the past few years. We now operate over 90 distribution centers and a multitude of depots covering nearly 10 million square feet across Greater China, ASEAN, the US and UK. In 2006 we took a strategic decision to expand our logistics network to a wider geography in order to leverage our robust network in Asia and extend our service offering to cover the entire supply chain of our customers.

Our business in China registered spectacular growth during the last Strategic Plan period. We now operate 18 distribution branch offices with invoicing and direct selling capability, and distribution coverage extending to 150 cities reaching over 10,000 modern trade outlets.

THE IDS FOOTPRINT:

- Greater China – China, Hong Kong, Taiwan
- ASEAN – Thailand, Malaysia, Singapore, Philippines, Brunei, Indonesia
- United States
- United Kingdom

IDS received major recognitions from our customers and numerous awards from the industry.

400 senior and middle managers in IDS have completed the core management training under the LMT Development program.

PEOPLE & OPERATIONAL EXCELLENCE

THE COMPREHENSIVE LEADERSHIP, MANAGEMENT AND TALENT (LMT) DEVELOPMENT PROGRAM AND THE AWARDS AND RECOGNITIONS RECEIVED FROM OUR CUSTOMERS IS A TESTIMONY TO OUR STRONG FOCUS ON PEOPLE DEVELOPMENT AND OPERATIONAL EXCELLENCE.

IDS is operating a "People Business". Our success is anchored upon the skills, knowledge and attitude of our people, and a relentless focus on operational excellence. Since 2006, the LMT Development program has launched core management training programs that cover all the senior and middle managers. We also successfully launched our highly anticipated Management Trainee and Summer Internship programs, involving a total of 100 young promising talents. These initiatives will enable us to have the depth of management talent to support our profitable growth targets.

During the past Strategic Plan cycle, we also received major recognitions from our customers and numerous awards from the industry. We are clearly emerging as a preferred provider of integrated-distribution and logistics solutions.

MAJOR AWARDS & RECOGNITIONS 2005–2007

2005

- Best Solution for Garments, China SCM Awards
- Unilever Vendor of the Year Award
- Best Young Asian Integrated Logistics Service Provider, SCM Logistics Excellence Award

2006

- Unilever Service Supplier Award
- Supply Chain Excellence Award – FMCG sector

2007

- Best Retail Logistics Service Provider – Thailand, Frost & Sullivan Voice of Customer Awards
- YUM Restaurants Thailand Best Service Provider of the Year Award
- Unilever Vendor of the Year Award
- Best Performance in Patient Monitoring & Achievers Club Award by Philips Medical
- Smiths Medical Outstanding Performance Award

Chairman's Statement

We have created a robust foundation for IDS to pursue our objective of accelerating growth in our next Three-Year 2008–2010 Strategic Plan.

ROBUST FOUNDATION

FOR GROWTH

2007 HIGHLIGHTS

- Profit attributable to shareholders recorded solid growth to US$28.15 million, an increase of 21.4% against 2006. This was achieved in spite of significant increases in interest and tax expenses of US$8.16 million.
- Successfully accomplished all the major objectives of the IDS 2005–2007 Strategic Plan including the "doubling of 2004 net profit" set in December 2004.
- Double-digit profit growth registered in all core businesses of Logistics, Distribution and Manufacturing. China became an increasingly important market, accounting for 17.7% of total Group revenue in 2007.
- Established foothold in the UK through the acquisition of a logistics business specializing in garments on hangers.
- Proposed final dividend of 30 HK cents per share. Total dividend for the year of 42 HK cents per share increased by 20.0% compared to 35 HK cents per share in 2006.

2008 STRATEGIES

- Embark on the 2008–2010 Strategic Plan, which focuses on accelerating profitability and aims to double 2007 net profit by year 2010.
- Implement new organizational structure emphasizing country management while maintaining regional resources to support country operations, project implementation, as well as regional customer acquisition and retention.
- Establish China Strategic Council to develop strategies to leverage our leadership position and expand our business in China.
- Position IDS USA & UK as extensions of our Asian Logistics network, building on Export Logistics opportunities with an emphasis on creating international end-to-end value chain solutions for our customers.
- Continue to focus our efforts on identifying M&A targets to strengthen our footprint, and improve our integration processes to ensure we derive maximum synergy from such acquisitions.

THE GROUP HAS MADE TREMENDOUS PROGRESS AND HAS ACHIEVED OR EXCEEDED ALL THE KEY TRANSFORMATIONAL GOALS OF OUR 2005–2007 STRATEGIC PLAN.

Dear Shareholders,

It is my pleasure to present to you 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 2007. Profit attributable to shareholders recorded solid growth to US$28.15 million, equivalent to year-on-year growth of 21.4% against 2006. The year 2007 also marked the end of our 2005–2007 Strategic Plan, and I am pleased to report that the Group has accomplished all the major objectives of the Plan including the "doubling of 2004 net profit" (i.e. a target of minimum US$21.2 million) set in December 2004.

The economic environment was volatile throughout 2007. Market sentiment was optimistic during the first three quarters, especially in China and Hong Kong, as booming stock and property markets were spurred by a massive influx of capital. However, the overheated market cooled down substantially in the final quarter, as repercussions from the US sub-prime mortgage issue began to be felt in Asia, and the Chinese government moved to tighten capital flow and curb inflation. Despite concerns about a possible recession in the US, growth in Asia remained robust across most markets. Solid growth was particularly seen in the Mainland of China, as a result of increasing level of domestic consumption.

Grand opening of the new Shanghai headquarters.

2007 was the final year for the Group's 2005–2007 Strategic Plan cycle, the first Three-Year Plan for IDS as a public company. The Group has made tremendous progress during this period. We achieved or exceeded all the key transformational goals of our Plan through our two-pronged strategy of strong organic growth and strategic mergers and acquisitions; we made our first entry into the US and UK markets to become an Asia-based multinational company; we established an extensive distribution and logistics network in China; and we celebrated a number of business wins and recognitions from customers and the industry. In summary, we have created a robust foundation for IDS to pursue our objective of accelerating growth in our next Three-Year 2008–2010 Strategic Plan.

PERFORMANCE

The Group's profit attributable to shareholders reached US$28.15 million in 2007, increasing by 21.4% compared to US$23.19 million in 2006. This was achieved in spite of a significant increase in interest and tax expenses of US$8.16 million. Earnings per share were 9.04 US cents. The Board of Directors has proposed a final dividend of 30 HK cents. Together with an interim dividend of 12 HK cents per share, total dividend for 2007 would amount to 42 HK cents per share, 20.0% higher than the full-year dividend of 35 HK cents per share declared in 2006.

Steady double-digit growth was seen across the core businesses of Logistics, Distribution and Manufacturing during the year. Excluding the gains recorded from the disposal of the second tranche of 17.5% shares of Slumberland Asia Pacific and other one-off items, core operating profit in 2007 was US$25.08 million, up 24.7% against 2006.

Continuing the momentum experienced in the first half, both the Logistics and Distribution businesses delivered strong growth in the second half. Growth in year-on-year operating profit for these two businesses in 2007 was 20.2% and 37.2%, respectively. After a slow first half, the Manufacturing business rebounded strongly in the second half and delivered 13.2% growth in operating profit compared to 2006. This was mainly attributed to the increased volume of Listerine production in Thailand as well as the commencement of several new contracts in Malaysia and Indonesia.

To enhance transparency and facilitate analysis of our performance as the Group has ventured beyond Asia into the US and UK, we will now also report our results based on the three geographical segments of Greater China (Mainland of China, Hong Kong and Taiwan), ASEAN (Thailand, Malaysia, Singapore, Indonesia, Philippines and Brunei), and US and UK.

China continued to become an increasingly significant market for the Group. Despite a much higher revenue base contributed by the newly acquired businesses in the US and UK, revenue from China accounted for 17.7% of total Group revenue in 2007, increasing from 15.7% in 2006. Benefiting from a strengthened management team and rationalized customer portfolio, the ASEAN markets displayed remarkable growth with operating profits increasing 46.5% against last year. Excluding the Slumberland business, which became an associated company of the Group from June 2007, ASEAN operating profits grew by 63.1% versus last year.

MARKET OVERVIEW

Growth in Asia for 2008 is forecasted to remain strong, though slightly slower than the pace in 2007. However, this forecast has not taken into account the impact of the recent snowstorms in Central and Eastern China, as well as the full effects of the US economic slowdown, which

IDS aims to be the thought leader in the logistics and supply chain industry by actively promoting industry education and collaborating with prominent academic institutions.

are yet to be seen. These factors may impede growth in the short-term, but we remain confident about the long-term growth prospects within the region.

Overall, the fundamentals in Asia are still strong. Due to the Government's policies of boosting internal consumption, the consumer market in China is growing at a faster pace than GDP, and became the biggest contributor to GDP growth in 2007. As China continues to attract the lion's share of global investments – and the Ministry of Commerce added modern logistics to the encouraged category of foreign investments in October 2007 – there will be increasing need for professional logistics and distribution service providers like IDS. We must be ready to capitalize on this opportunity.

Consumer sentiment in the ASEAN markets was reasonably strong in 2007 with the exception of Thailand, which was plagued by political uncertainties. As inflation is expected to remain under control in the region, ASEAN countries are likely to be able to maintain their 2007 growth rate in 2008. However, the situation in Thailand will very much depend on political factors.

CHINA CONTINUED TO BECOME AN INCREASINGLY SIGNIFICANT MARKET FOR THE GROUP AND ACCOUNTED FOR 17.7% OF TOTAL GROUP REVENUE IN 2007.

Recent figures reveal increasing concern over the US economic outlook for 2008. The housing market is weak and consumer confidence remains low. The sub-prime mortgage issue, first exposed in mid-2007, has begun to be felt in other segments of the economy. The effectiveness of successive rate cuts by the Federal Reserve and government plans to stimulate the economy has yet to be seen. The US economy is the biggest unknown factor that may have a global impact in 2008.

2008–2010 STRATEGIC PLAN, ORGANIZATIONAL STRUCTURE & FUTURE GROWTH OPPORTUNITIES

As the Group embarks on its new Three-Year 2008–2010 Strategic Plan, I am pleased to share with you our strategic focus and plans for future growth. The theme of our 2008–2010 Strategic Plan is "Accelerate Profitability Through People Growth, Asian Dominance & Global Expansion". These three factors are keys to meeting the financial challenge that we have set for ourselves – to double our 2007 net profit by the year 2010.

Since its inception in 1999, the Group has adopted a Stream-based structure to develop the professional expertise of Distribution, Logistics and Manufacturing, and to leverage our regional presence. This structure has served us well – as we can see from the growth of regional customer relationships such as Nike, Unilever, Johnson & Johnson, Diageo, to name a few. Going forward, we will implement a new organizational structure emphasizing country management while maintaining regional resources in streams to support country operations, project implementation, as well as regional customer acquisition and retention.

The Group's business model of offering a comprehensive menu of services along the value chain has differentiated us from our competitors. Going forward, we must continue to refine our existing services, and develop innovative solutions through our new services including transportation management, sales operations management, supply chain program solutions and administration, and freight forwarding.

Our resoundingly successful 2005–2007 Strategic Plan period was attributable to our seasoned and stable management team and a committed workforce.

The Group has enjoyed rapid growth in China since 2004 and has now taken a leadership position in the distribution of consumer goods and garment logistics. Our expansion in the past three years had resulted in an extensive distribution network of 18 branch offices covering 150 cities, and with over 1 million square feet of warehousing space. To strengthen our dominant position in China, the Group has established the China Strategic Council comprising key management team members from our China businesses under the leadership of Joseph Phi, President of IDS.

Our initial foray into the US and UK has given us physical presence in two key strategic markets. In order to extract full value from this extended geographical coverage, it is imperative to materialize our concept of connecting these markets seamlessly with our Asian logistics and distribution network, allowing us to provide new service solutions including the management of end-to-end supply chains. By optimizing the full logistics process from source to market, we can unlock tremendous value for our customers. We see enormous potential demand for this service.

The Group will continue to advance according to our two-pronged strategy of strong organic growth and strategic mergers and acquisitions. Whilst we will strengthen our efforts to identify suitable M&A targets, we will also build a strong discipline into our integration processes to ensure we derive the most synergies from these acquisitions.

CORPORATE GOVERNANCE

The Group's commitment to maintaining the highest standards of corporate governance remains unwavering. We will continue to uphold a culture which fosters principles of transparency, accountability and appropriate oversight by Independent Non-executive Directors.

Visiting latest logistics facilities and ports in Shanghai to keep abreast of China's infrastructure development.

The Group is in full compliance with the code provision set out in the Code on Corporate Governance Practices (Appendix 14 of the Listing Rules).

With 6,500 employees across 11 markets, IDS has nurtured an organizational culture which respects diversity. The Group strives to uphold its values as linchpin in our people development and Corporate Social Responsibility efforts.

On behalf of the Directors, I would like to congratulate the management team and all colleagues at IDS for their remarkable achievements in the last 2005–2007 Strategic Plan, and I look forward to seeing the Group taking another step forward in the 2008–2010 Strategic Plan.

Victor FUNG Kwok King
Chairman

Hong Kong, 13 March 2008

GMD's Report

BUILDING SCALE

2007 HIGHLIGHTS

- Completed our 2005–2007 Strategic Plan with the necessary organizational fundamentals in place to launch an even more aggressive era of growth.
- All-round solid organic growth was registered. The Group's core operating profit increased by 24.7% against 2006, and excluding the Slumberland business, core operating profit growth was 41.8%.
- Three M&A projects were successfully completed. These included a significant entry into the United Kingdom logistics market and two distribution acquisitions in East Malaysia.
- Good progress in investment projects to upgrade the effectiveness and efficiency of IDS USA operations. Management team strengthened with major resource build-up and investments made in supporting functions.
- Rolled out Operational Excellence for Results (OER) Seminars for middle management and successfully launched the maiden Management Trainee and Summer Internship programs.

2008 PROSPECTS

- Launch of 2008–2010 Strategic Plan: Moving from an "Era of Creation" to an "Era of Extraction" where the focus will be to build scale across our businesses.
- Champion our unique model of Value-Chain Logistics and fully develop our comprehensive Menu of Services.
- Aggressively expand our International business focusing on end-to-end logistics services.
- Ensure success of new organizational structure with primary emphasis on country operations and financial accountability with strong support from Regional and Country Customer units, Stream Operations Support teams and Corporate HR, Finance and IT.
- Continue the roll out of the IDS Leadership, Management and Talent (LMT) Development program, including launching of the "New IDS Manager" training program.

IDS is moving from an "Era of Creation" to an "Era of Extraction", one that focuses on building scale and realizing the value of the investments we have made in recent years.

DESPITE SIGNIFICANTLY HIGHER INTEREST AND TAX EXPENSES, PROFIT ATTRIBUTABLE TO SHAREHOLDERS FOR THE YEAR 2007 RECORDED SOLID GROWTH OF 21.4% TO US$28.15 MILLION.

Our first Strategic Plan cycle as a public company has been nothing short of momentous, enjoyable and spectacularly successful. The Group not only delivered results ahead of our financial target of doubling 2004 net profit by 2007, but also completed what we define as an "Era of Creation" – a period focusing on establishing a robust foundation for future growth.

We have built from scratch a full-fledged logistics business, an extensive distribution network, a resurgent manufacturing base and a leading IT platform. We have nurtured an impressive portfolio of customers with extensive regional partnerships. We have formed a strong and experienced management team, and established a country functional support structure that enhances the efficiency and scalability of our operations. We expanded beyond Asia, our home base, and entered the US and UK. More importantly, we have crystallized our business model of "Value-Chain Logistics" by positioning Logistics as the fundamental enabler, providing services along the value chain for our customers. We also defined our "Menu of Services" with clear, distinctive value add that can be customized according to the needs of our customers.

As we launch our new 2008–2010 Strategic Plan, we will be moving from an "Era of Creation" to an "Era of Extraction", which focuses on building scale by executing faster, better, deeper and broader in order to establish IDS as the leader in Value-Chain Logistics. Through leveraging our solid fundamentals and investments made in the past, and focusing on the transformational goals defined in the Strategic Plan, I am confident that we will once again meet our financial target of doubling our net profit in three years, despite starting from a much higher base than three years ago.

Revenue in 2007 was US$1.30 billion, representing an increase of 30.4% compared to 2006. The Logistics business displayed particularly strong growth as a result of strong organic growth and the newly acquired businesses in the US and UK. The Group's core operating profit registered a 24.7% growth at US$25.08 million. However, the slower rate of core operating profit growth compared to revenue was due to the fact that only five months of the Slumberland business was included in 2007 before it became an associated company in June 2007. If we exclude the Slumberland business for both 2006 and 2007, core operating profit growth for 2007 was 41.8%.

After taking into account the gains from the divestment of shares in Slumberland Asia Pacific and other one-off items, operating profit grew 44.6% against 2006 to US$39.13 million. Despite significantly higher interest and tax expenses, profit attributable to shareholders for the year 2007 recorded solid growth of 21.4% to US$28.15 million. Cash flow generated from operations improved to US$44.70 million in 2007, from US$38.98 million in 2006. As a result of financing the acquisitions during the year, the Group had a net borrowing of US$58.28 million as of 31 December 2007, compared to a net borrowing of US$13.91 million as of 31 December 2006.

The Group's performance in Asia remained strong. China, especially the Logistics business, continued to grow from strength to strength and delivered the strongest year-on-year revenue growth amongst all markets at 46.1%. The ASEAN markets of Thailand and Malaysia also registered impressive performance. However, although the Distribution business in the Philippines improved on the previous year's performance, it failed to achieve the break-even target we had set for 2007. Our focus for 2008 is in building a solid base and turning around the operation.

Substantial investment projects were launched in the US to enhance operational efficiency. The management team was strengthened and investment was made to set up supporting functions of Finance, HR and IT in the first half. The US IT infrastructure was re-vamped and the Group's standard Enterprise Resources Planning (ERP) system for financial reporting was also implemented. The largest project undertaking was the implementation of the Warehouse Management System (WMS) for all IDS distribution center facilities. Implementation in the first distribution center on the West Coast was completed in December 2007 and the project is scheduled to be completed within 2008. Although the 2007 performance of the US business was impacted by these investments and the soft local retail sentiment, we are optimistic about future growth opportunities as we develop our International business between the US and Asia. The US operations will be positioned for rebound in 2008 and quantum leap in 2009 and beyond.

On the M&A front, IDS completed the acquisition of a garment logistics company in the UK in August 2007. The Group now has an extensive logistics and distribution network in Asia and a solid foothold in the US and UK to provide end-to-end solutions for our customers. During the year, the Group also acquired 67.09% and 40.00% interests in two distribution companies in Sarawak and Sabah, respectively. Both companies are leading distributors of consumer goods in their respective regions, and will further strengthen our overall operations in Malaysia and augment our existing business in Brunei to establish IDS as the dominant distributor of Fast Moving Consumer Goods (FMCG) in the East Malaysia corridor.

Substantial progress has been made in the Group's Leadership, Management and Talent (LMT) Development program. The Operations Excellence for Results (OER) seminars were completed during the year for more than 200 middle managers. Additionally, the maiden Management Trainee and Summer Internship programs were successfully launched. We recruited over 80 management trainees from the US and Asia to undergo a two-year intensive on-the-job training program that will build a strong talent pool to support our future growth.

We also stepped up our efforts in the area of Corporate Social Responsibility (CSR). Over 30 events were organized in 2007 across all IDS units involving over 1,500 employees and their family members.

Following the immensely successful Value-Chain Seminar held in Bangkok in December 2006, three more seminars were held in Hong Kong, Singapore and Shanghai in 2007. The seminars were well received by over 600 customers, business associates, industry practitioners, colleagues and students who participated, and established IDS' reputation as a thought leader in the supply chain industry.

FINANCIAL OVERVIEW

In 2007, the Group's revenue increased 30.4% to US$1,295.7 million. All three business segments registered double-digit revenue growth, 74.6% in Logistics, 23.8% in Distribution and 11.2% in Manufacturing. Gross profit grew by US$117.9 million, an increase of 45.7%. The gross profit margin increased from 26% in 2006 to 29%, mainly attributable to the favorable revenue mix resulting from the significant increase in Logistics revenue.

Tree planting event during our Senior Managers' Meeting held in Kuala Lumpur (left) and team building exercise during the Leadership Council Meeting in Sentosa, Singapore (right).

The Management Trainee Program is an important undertaking by IDS to nurture talent for the future (left). The Group completed the Operations Excellence for Results seminars for over 200 middle managers (right).

The Group's core operating profit rose 24.7% to US$25.1 million, mainly driven by overall higher revenue. Operating profit increased by 44.6% to US$39.1 million including a US$11.3 million gain on the disposal of a 17.5% share in Slumberland Asia Pacific, the bedding business. Subsequent to this disposal, the Group's equity interest in Slumberland Asia Pacific was reduced to 50%. Net finance costs increased by US$3.3 million to US$4.7 million, mainly due to the financing of the new acquisitions. Taxation for the year amounted to US$6.6 million, an effective tax rate of 18.5%, compared to US$1.7 million (effective tax rate – 6.7%) in 2006 that included the recognition of US$4.9 million deferred tax credit. As a result, profit attributable to shareholders grew 21.4% to US$28.2 million.

SEGMENTAL ANALYSIS

Logistics

Revenue and segment results increased by 74.6% and 27.2% to US$271.5 million and US$16.3 million, respectively, driven by new contracts won, the UK new business acquired this year, and the full year impact of the US and Malaysia businesses acquired in last quarter of 2006.

Distribution

Revenue rose 23.8% to US$885.4 million and segment results increased by 51.9% to US$17.1 million, benefiting from the expanded distribution network in China, good performances in the ASEAN markets and the contribution from the newly acquired businesses in East Malaysia.

Manufacturing

Revenue and segment results increased by 11.2% and 13.2% to US$152.1 million and US$5.8 million, respectively, reflecting the increased volumes in Thailand and new business wins.

Geographical analysis

Total revenue grew 30.4%, with Greater China and ASEAN growing at 21% and 23%, respectively. The US & UK revenue increased by US$81.6 million to US$89.3 million, reflecting the full year impact of the US operations plus four months revenue from the newly acquired UK business. Greater China and ASEAN accounted for 43% and 52% of the total segment results, respectively.

ACQUISITIONS AND DISPOSAL

The Group completed three major acquisitions in 2007. In May and July, the Group acquired 67.09% and 40% interests in Sebor (Sarawak) Sdn. Bhd. (now known as IDS Sebor (Sarawak) Holdings Sdn. Bhd.) and Sebor (Sabah) Sdn. Bhd. respectively for a total consideration of US$9.3 million. Both companies are well-established distributors of fast-moving consumer products in East Malaysia and these acquisitions augment well with the Group's operations in the East Malaysia corridor. In August, the Group acquired PB Logistics Limited (now known as IDS Logistics (UK) Limited), the logistics arm of Peter Black Group in the United Kingdom for a consideration of US$23.2 million. This acquisition provided a strong entry point for the Group to expand into Europe in line with the Group's strategy to offer end-to-end solutions to the large retailers and importers in the United Kingdom. Consistent with the Group's progressive plan to dispose of its bedding business, the Group reduced its interest in Slumberland Asia Pacific from 67.5% to 50% in June, resulting in a gain of US$11.3 million.

LIQUIDITY AND FINANCIAL RESOURCES

Net cash flow from operating activities during the year was US$44.7 million. Net cash of the Group amounted to US$79.3 million at 2007 year-end, compared to US$78.3 million at end of 2006. New loans were raised mainly for financing acquisitions in 2007. In addition, the Group has available bank loans and overdraft facilities of US$280 million of which only US$141.9 million have been utilized. The Group's gearing ratio at end of 2007 was 41.5% compared to 12.0% at 2006 year-end.

CHARGES ON GROUP ASSETS

As at 31 December 2007, there were no charges on the Group's assets.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group operates in various 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 the operations. The foreign currencies involved in these transactions include mainly U.S. Dollars, Euro, Japanese Yen and Pound Sterling. The Group purchases foreign currency contracts to protect against the adverse effect of such exchange fluctuations on the foreign currency. The Group policy is to hedge all material purchases transacted in foreign currencies and restrict from engaging in speculative foreign exchange transactions.

Appreciating the contributions from colleagues in Singapore who have been with IDS for 35 years.

CONTINGENT LIABILITIES

(a) Bank guarantees

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

	2007 US$'000	2006 US$'000
As security in favor of local tax and customs authorities in accordance with local regulations	**494**	9,811
For purchase of goods in favor of suppliers	**9,469**	10,052
Performance bonds and others	**593**	407
For rental payment in favor of the landlords	**8,210**	5,762
	18,766	26,032

(b) The Company and its US subsidiary, IDS USA Inc. (formerly known as IDS Impac Ltd.) were advised on 14 December 2007 that they have been named as defendants in a civil claim for alleged breaches of contracts. The management of the Group have reviewed the facts and circumstances and are of the view that the likelihood of the Company and its subsidiary suffering material loss is low.

HUMAN RESOURCES

As at 31 December 2007, the Group employed 6,500 (vs. 6,200 in 2006) permanent employees. They were located throughout various operations within the Group. Total staff costs in 2007 amounted to about US$161.56 million (vs. US$109.92 million in 2006).

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.

The development process of our 2008–2010 Strategic Plan involved over 100 of our senior managers and many rounds of iterative discussions.

INFORMATION TECHNOLOGY & BUSINESS APPLICATIONS

Our policy has been to maintain a single version of software for all countries and this continued in 2007 with the implementation of our Enterprise Resources Planning (ERP) system in Taiwan and the US. Also in line with our strategic direction of consolidation and centralization, Taiwan and the US were implemented on the existing environment that currently hosts China and Hong Kong. Planned for 2008 is the further consolidation to Hong Kong of the countries currently running a local ERP environment.

Road Warrior consists of a number of modules to extend our ERP beyond the back office into the field. By providing functionality on mobile devices, personnel in the field are able to transact while out of the office and electronically interface order and retail information directly into our ERP. The functionality of the Field Data Automation (FDA) module was enhanced to support the needs of our modern and general trade staff and was launched in China, Hong Kong and the Philippines. The enhancements have increased the productivity of staff up to 70%. The enhanced module is planned to be rolled out in 2008 to Singapore and Thailand.

The use of Radio Data Terminals (RDT) to interact with Distribution Centre (DC) staff and our Warehouse Management System (WMS) in real time has increased productivity, accuracy and visibility of individual staff activities. During 2007, the replacement of paper processes with RDT's continued with the introduction of current and new RDT functions throughout our logistics facilities. Strategically the implementation of RDT's in all countries will continue during 2008 together with the development of further RDT functions.

Our WMS performance continues to stay ahead of the growth in shipments that reached a total of 60 million lines during 2007. During 2008 we plan to make a technical upgrade to the database to take advantage of 64-bit architecture. This will give us the capacity for more growth and will facilitate even greater performance improvement.

As we continue to leverage our existing investments in ERP, WMS and Road Warrior, in 2007 we addressed the next strategic area of Transportation Management Systems (TMS), with the implementation of vehicle routing and scheduling, load planning and tracking in Hong Kong, Taiwan and Thailand. Our WMS assists in the utilization of resources within the DC and our TMS solutions will drive the utilization of resources outside of the DC, in the areas of vehicle utilization, truck capacity and cost effective routing. A further extension of our TMS will take place in 2008 with the introduction of order management, billing and tracking to the China operations.

ANOTHER KEY INITIATIVE FOR OUR 2008–2010 STRATEGIC PLAN IS THE EXPANSION OF OUR INTERNATIONAL BUSINESS, FOCUSING ON PROVIDING END-TO-END GLOBAL LOGISTICS SOLUTIONS.

Another major undertaking in 2008 will be the development of ViTAL to support the aggressive growth of our International business. Designed to enable end-to-end supply chain management, ViTAL will become the core application for cross-border logistics programs. The first two modules of Purchase Order Management and Freight Management will be launched in Hong Kong, Singapore and China in 2008. ViTAL will be integrated with our WMS, TMS and ERP to provide a seamless platform that supports the complete cross-border and in-country logistics process.

PROSPECTS FOR 2008

Beginning in 2008, IDS is moving from an "Era of Creation" to an "Era of Extraction" of business value, building on what we have created over the past years. We will focus on realizing the value of the investments we have made in recent years, including our cutting-edge IT system, our extensive Asian distribution and logistics network and our business model of Value-Chain Logistics.

We will continue to develop our expertise across our menu of services. Apart from strengthening the services developed in the past two years, including sales operations management, transportation management and supply chain program solutions and administration, we will also launch new services such as freight forwarding and global trading and finance.

In order to support the new organizational structure, country management teams have been defined to ensure we have strong focus on country operations, supported by regional teams to ensure rapid conversion of business pipelines, strong operations support and seamless project implementation.

IDS actively participated in many CSR initiatives across the region. Over 100 colleagues participated in the charity tug-of-war competition in Hong Kong to raise funds for the Hong Kong Federation of Youth Groups.

We always consider people as the most critical factor in our success. We will continue to focus on the people transformation process and will roll out our LMT Development program to a wider spectrum of our employees. In 2008, the Basic Management Program will be conducted for 1,200 supervisory management staff. Other programs focusing on individual training needs will also be implemented to ensure we have the depth of management and talent to support our business growth.

Another key initiative for our 2008–2010 Strategic Plan is the aggressive expansion of our International business, focusing on providing end-to-end global logistics solutions. We will continue to position IDS USA & UK primarily as extension of our Asian logistics network, and using International to connect the two to build on Export Logistics opportunities. We are in the process of enhancing our IT system to provide end-to-end value chain solutions to our customers.

As we gradually improve our M&A processes, we will see an increased level of activity in this area. Our targets continue to be profitable, well-managed companies that can complement our growth or allow us to enter a new market. However, we will also remain focused on delivering strong organic growth, with a view to dominating the logistics, distribution and supply chain industry in our home base, Asia.

We see the three-year Strategic Plan as a road map for our next stage of organizational evolution. As we complete one stage and move on to the next stage of the journey, we are determined to overcome any challenges that we might encounter, and steer a steady course towards achieving our 2008–2010 Strategic Plan target.

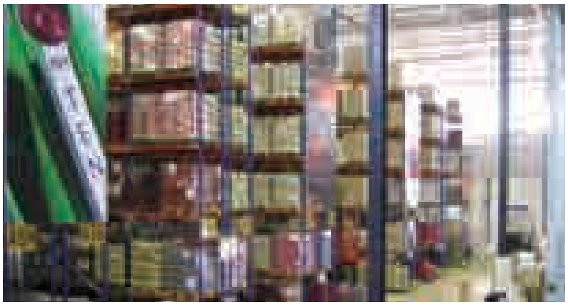
Ben CHANG Yew Teck
Group Managing Director

Hong Kong, 13 March 2008

Operations Review

2007 HIGHLIGHTS

- Surpassed Strategic Plan goal of doubling profit.
- Registered double-digit growth in both revenue and operating profit across all business streams. Operating margin improved in Distribution and Manufacturing.
- Signed 79 new contracts, 30 of which with existing customers, including key regional customers such as Johnson & Johnson, L'Oreal and Diageo.
- Continued to receive commendations and awards across the region from customers and the industry.
- On-going investment in the US with group-wide ERP system implemented. WMS system implementation commenced.
- Substantial progress in Healthcare business – new distribution center completed in Hong Kong, new contract wins, and actively exploring entry into the China market.



Our dedicated facility in Thailand for the new Diageo contract was opened in November 2007.

Our Distribution colleagues in Thailand participating in an industry exhibition promoting a new HIV product by Gilead.

All the business streams – Logistics, Distribution and Manufacturing – recorded double-digit growth in revenue and operating profit in 2007. Logistics revenue surged 74.6% to US$271.49 million, compared with US$155.53 million in 2006. This strong growth is mainly attributed to the rapid development in China and Thailand, the full-year impact from the acquired businesses in Malaysia and the US in 2006, and the income from the UK subsequent to the acquisition made in August 2007.

Operating profit for the Logistics business maintained steady growth, rising 20.2% to US$15.38 million. Our Logistics business has now delivered more than 20% year-on-year growth for the fifth consecutive year since 2003. The operating margin for Asian operations continued to outperform the industry average at 8.0%. However, as a result of the soft retail sentiment and on-going investments in the US, overall operating margin was 5.7%.

Revenue of the Distribution business grew by 23.8% against 2006, to US$885.41 million. Following the disposal of the second tranche of 17.5% Slumberland Asia Pacific shares to Hilding Anders International AB in June 2007, the business has become an associated company of the Group. As a consequence, the financial information reported for the Distribution business in 2007 included only five months of Slumberland results, whereas its results were included for the full year in 2006. After excluding the Slumberland business, revenue growth was higher at 28.4%, mainly driven by our continued strong performance in China, as well as in the ASEAN markets of Malaysia and Thailand.

Operating profit for the Distribution business increased strongly, growing by 37.2% to US$16.87 million. After excluding the Slumberland business for the reason mentioned above, profit growth was much stronger at 75.8%. The operating margin (excluding Slumberland) rebounded substantially from 1.3% in 2006 to 1.7% in 2007. Initiatives taken in the past two years to leverage the momentum gained in China and HK, as well as to turn around the performance in ASEAN markets have therefore paid off handsomely.

The Manufacturing business rebounded strongly in the second half. This healthy performance was due to solid results in Thailand driven by increased volumes of Listerine product, several new contracts secured in

IDS Logistics Thailand was awarded the Service Provider of the Year Award from YUM Restaurants (left) and the Best Retail Logistics Service Provider at the Frost & Sullivan Voice of the Customer Awards (above).

The new state-of-the-art healthcare distribution center in Hong Kong has positioned IDS to become a leading service provider in the healthcare distribution sector.

Healthcare Hong Kong team celebrating a new partnership with Novartis, one of the 10 new customers in 2007.

Malaysia, and an improved business scale in Indonesia following the commencement of the Henkel contract. Revenue for the full year registered 11.2% growth to US$152.06 million, and operating profit delivered slightly faster growth of 13.2% against last year, to US$5.76 million. Through our relentless drive to control costs and increase efficiency, the operating margin recorded further improvement in 2007 to 3.8%.

79 new contracts were signed during the year, 30 of which expanded our relationships with existing customers. We signed a major logistics contract in the Philippines with Johnson & Johnson, one of our largest customers, which commenced in January 2008. After setting up the regional hub operations in 2006 for Diageo, we won additional business from this premium alcoholic beverage company in Thailand and opened a dedicated Thai facility in November of 2007. After a temporary separation, L'Oreal decided to partner with us again as their logistics service provider in Taiwan. This further strengthened our regional partnership, which currently spans five markets.

2007 was a year of achievements in terms of awards and recognition from customers and the industry. Our Philippine Logistics team won the prestigious Unilever Vendor of the Year Award 2006 in April. This was the third consecutive year our Philippine team has been recognized by Unilever. Our Thailand Logistics team won the Best Retail Logistics Service Provider in May 2007 at the Frost & Sullivan Voice of the Customer Awards, and in September was awarded the Service Provider of the Year Award from YUM Restaurants. Our Medical team in Singapore also won recognition from Philips Medical Systems and Smiths Medical for their outstanding performance and contribution to strong business growth.

GREATER CHINA

Network expansion has been our focus in China since 2004. Our Distribution business now operates 18 branch offices with invoicing and direct selling capability. Through our network of sales offices and wholesalers, our distribution coverage now extends to 150 cities. The next step is to leverage our investments through aggressive business development.

The China Logistics business registered outstanding growth in 2007. Several new customers in the footwear and apparel sector came on board, including, for the first time, a local apparel brand. This is a significant breakthrough, and we have noticed local brands are beginning to appreciate the merits of working with IDS, combining the best of professional service and local understanding.

Celebrating the completion of the acquisition of a distribution company in Sarawak, East Malaysia.

The International business made further inroads into developing global supply chain solutions for garment brands. New projects began in China managing export logistics hubs for two European fashion brands. We see strong potential in this segment once we are able to connect seamlessly with our operations in the US and UK.

The Hong Kong Healthcare business enjoyed stellar results in terms of business development. 10 contracts were signed in 2007, and the pipeline remains strong. The construction of a new pharmaceuticals distribution center in Hong Kong was completed in January 2008, shortly after the end of the period under review. This state-of-the-art facility, built according to the highest industry standards and equipped with advanced temperature-controlled storage facilities, has received very positive feedback from our customers and substantially raised our profile as a leading distributor of healthcare products. We are also actively exploring opportunities to enter into healthcare distribution in China to further leverage our extensive distribution network and tap into the enormous potential of that market.

IDS operates over 90 distribution centers and a multitude of depots covering nearly

10 million sq.ft.

Revenue from China delivered growth of 46.1% in 2007 against 2006 and our distribution coverage now extends to

150 cities

The IDS Listerine team in Thailand celebrated the extended partnership with Johnson & Johnson.

Our Macau office opened in May 2007, and IDS became the first distributor of FMCG products supported by a strong logistics and sales operation team. We are currently assisting several customers, including Wyeth, to build a strong presence in this fast growing market.

ASEAN

The ASEAN businesses delivered strong results in 2007 with solid growth in profits and improvement in operating margins. Benefiting from the acquisitions made in the past two years as well as profit enhancement initiatives, the Distribution and Logistics operations in Malaysia more than doubled their profits. After the acquisition of shares in two leading FMCG distribution companies in the East Malaysian states of Sarawak and Sabah in mid-2007, complementing our existing operations in Brunei, we now have a strong presence in the East Malaysia corridor. We are looking at various options to leverage this position to significantly grow our business.

Healthcare colleagues in Singapore won two awards from Philips Medical Systems for their outstanding performance in 2007.

The UK operation specializes in garment logistics with one of the largest garment-on-hanger facilities in the UK.

Efforts to enhance operational efficiency and customer profitability in Thailand have continued to result in encouraging growth, despite a challenging trading environment as a result of political instability. In June 2007, we reached an agreement with Johnson & Johnson to use our Listerine production facility in Thailand as the exclusive manufacturing base supplying the entire Asia Pacific region. Full-scale upgrading of the existing plant and production capacities for TGA (Therapeutic Goods of Australia) compliance is currently in progress, including the building of an additional warehouse to accommodate for the progressive increase in volume over the next few years. Strong growth in our Healthcare business with key clients such as Gilead and other new accounts has resulted in strong double-digit growth. We see further opportunities to leverage this by completing a state-of-the-art Healthcare Logistics center in Thailand by the second half of this year.

As a result of the smooth commencement of the Henkel project in our Manufacturing business, and the termination of unprofitable contracts in our Distribution business, we have successfully turned around our operations in Indonesia. Gaining entry for the Logistics business in this market remains a top priority.

US & UK

We are steadily upgrading the service level and efficiency of our US operations. The Group's Warehouse Management System (WMS) was successfully implemented in two distribution centers in California in the fourth quarter of 2007. Both our colleagues and customers noticed immediate benefits in terms of operational efficiency and inventory accuracy. Implementation will begin in other facilities in the first half of 2008.

In August 2007, the Group completed the acquisition of a logistics company in the UK, which provides supply chain management and logistics services to UK retailers and retail suppliers. The company specializes in the garment sector and operates one of the largest garment-on-hanger facilities in the UK, a one million square feet distribution center in Leicester. Its customer base consists mainly of major UK retailers, including Marks & Spencer, Accessorize, Republic, etc.

Our People

Group discussion during an OER Seminar in China.

IDS managers guiding a summer intern (middle) in Thailand on his work.

LEADERSHIP, MANAGEMENT & TALENT (LMT) DEVELOPMENT PROGRAM

With the launch of the LMT Development program in 2006 and the subsequent roll out of the programs in 2007, we are fully committed to the on-going development of our people.

For the Core Management Programs, we completed the roll out of the Growth Leadership Seminars (GLS) by early 2007 and had, by then, put a total of 115 senior management employees through the program. Following closely on the heels of the GLS, we also trained 284 middle ranked managers in the Operations Excellence for Results (OER) Seminars, with great success. We kick started the implementation of the Basic Management Program (BMP) in the second half of 2007 by training a team of internal trainers. These internal trainers, including operational as well as HR staff, will be responsible for fully rolling out the program to 1,200 supervisory management employees by the second quarter of 2008.

Besides the Core Management Programs, each country continued with the development of their people by implementing a range of specific training, in line with their respective country annual training plans.

The Management Trainee and Summer Internship programs were implemented across the region in the summer of 2007 with 81 trainees and 19 interns, respectively. The internship program was over eight weeks and each intern was given a project to complete within that time. The program was very successfully received not just by the interns but by the management and staff also. Highlights of the traineeship program during the year included a Management Trainee Workshop in Hong Kong, continual on-the-job training complemented by project work, regular Mentor-Trainee meetings, and a Trainee-Management Forum.

MOTIVATING AND RETAINING OUR PEOPLE

Career Growth

We continue to create a positive environment for our people to grow. In addition to the Group's aggressive effort in implementing the LMT Development program to strengthen our talent pool, we undertook a re-grading and re-titling exercise in the second half of 2007, aimed at broadening job grades and harmonizing job titles. The key objective is to provide more career opportunities

Loyalty is an important value in IDS and we recognize employees who have made long-term contribution to the Group.

Dr. William Fung addressing IDS Management Trainees during the MT Workshop in Hong Kong.

through lateral and vertical career moves. In IDS, we believe in filling job vacancies through internal movements as much as possible.

Our people are able to better manage their career paths under a clearer and more well-defined job grade and title structures. With guidance and support from their managers, and the LMT Development framework, staff are now able to more effectively position themselves to develop their competencies in line with their career plan and to be ready whenever career opportunities present themselves.

Recognition Programs

With a strong "High Performance High Values" culture, IDS has always adopted a 'pay for performance' compensation philosophy through its bonus and incentive plans.

Going beyond just compensatory rewards, however, IDS also fully recognizes and acknowledges employees who have made an outstanding contribution to the success of the Group, through a number of recognition programs.

In 2007, IDS had successfully launched the Group Managing Director's (GMD) Award Program. In various ceremonies across the region, we recognized a total of 24 winners of the inaugural 2007 GMD Award Program. Each winner had demonstrated their contribution to the organization through the implementation of their work and project that have significantly and positively made a difference to IDS.

IDS also recognizes employees' loyalty and long-term contribution to the Group through its Long Service Award Program. In 2007, a total of 576 employees received their Long Service Award that ranged from 5 to 40 years of dedicated service to IDS.

Corporate Social Responsibility

Job Shadowing Day

"Pull for Charity" fund raising event in Hong Kong

As a publicly listed company and a responsible Corporate Citizen committed to creating a positive impact to our company, our employees, our business partners, our community and our environment, IDS believes in incorporating Corporate Social Responsibility (CSR) into our core values, culture and business processes.

A CSR strategy with clear Mission Statement and Objectives was formulated in November 2006. A Steering Committee was established to drive the overall CSR strategy, and local Champion Teams were formed subsequently to develop and organize local activities under the four dimensions of CSR:

- Community
- Environment
- Workplace
- Marketplace

We believe in empowering our employees in each region where we operate to champion local activities relevant to the needs of the local communities.

OBJECTIVES OF CSR

- Strengthen the IDS culture and ethical corporate reputation by living our values through the adoption of CSR

- Integrate social, educational and environmental considerations into our strategy and business operations

- Re-affirm our commitments to business integrity, employee well-being and community engagement

- Support strong business growth by integrating effective CSR initiatives into the business process

CSR MISSION STATEMENT

We are committed to making a meaningful contribution to our environment and local community by integrating CSR into our business process and core values. Through CSR, we enhance employees' creativity, loyalty, teamwork, morale and communication skills.

Helping out at the River of Hearts Charity Community Center in China

Orphans Feeding & Supporting Program in Thailand

Visiting the "Orang Asli" in Malaysia to distribute food and other items

SUMMARY OF CSR ACTIVITIES

In 2007, 36 Group-wide CSR activities were held involving some 1,500 employees across the Group. We provided 4,500 hours of voluntary services and raised US$125,000 for various charitable organizations with over 3,000 beneficiaries.

THE WAY FORWARD

The initial launch of CSR has met with great enthusiasm and strong support from our colleagues. We are confident we can build on this tremendous momentum and power to sustain and propel our CSR initiatives in the years to come.

To strengthen communication and harness enthusiasm, we have launched a pilot website for CSR in Hong Kong. This website features news on CSR activities as well as reports and photo album of activities organized. We also plan to add a blog for colleagues to upload their feedback and comments. We will roll out this concept regionally in due course.

To fulfill our key objective of integrating CSR into our business process, a group-wide "Green Office" Campaign will be launched in 2008. On-going activities and initiatives will be organized over the coming three years to create a more environmentally conscious culture within the group.

IDS was awarded the Caring Company Logo 2007/2008 by the Hong Kong Council of Social Service in recognition of our community involvement.

Critical Objectives of Green Office

- Minimize impact of "Climate Change"
- Minimize potential business risk
- Reduce, Reuse, Recycle waste
- Dispose of waste in an environmentally responsible manner
- Reduce energy consumption and improve energy efficiency

GREEN MISSION STATEMENT

Integrate "Green" concept into our Business Process to support Sustainable Business Growth.

OUR VISION

TO BE THE PREMIER ASIAN MULTINATIONAL PROVIDER OF INTEGRATED-DISTRIBUTION SERVICES SPECIALIZING IN VALUE-CHAIN LOGISTICS

The IDS Vision captures three important long-term strategic objectives:

- IDS is a Premier Asian Multinational, internationally acknowledged and recognized globally
- IDS provides world-class Integrated-Distribution Services defined by our Menu of Services
- IDS will attain industry leadership in Value-Chain Logistics, our business model

IDS is a **Premier Asian Multinational**. Asia is our home base where we enjoy home court advantage. Our deep understanding on the intricacies and practices of the Asian market environment coupled with our extensive network of logistics and distribution infrastructure give us a robust foundation for profitable growth. We are leveraging our strength in Asia to expand our services beyond Asia into the US and Europe.

Our **Integrated-Distribution Services** is encompassed in our Menu of Services. This Menu covers services across the entire value chain from the conversion of raw material into finished goods in Manufacturing, through the international and in-country storage and movement of goods in Logistics, to the marketing and selling of goods to the end consumer in Distribution. Each service is well defined with a clear and tangible value-added proposition. More importantly, IDS fully customizes service solutions to meet the unique demands of our customers in-country, regionally or globally.

Logistics is the fundamental enabler that connects our Menu of Services into an end-to-end value chain. Our extensive and deep Asian logistics network and our US and UK logistics presence provides the platform on which to layer each of our Menu of Services along the value chain. We call this unique proposition **Value-Chain Logistics**.

Left to right: ONG Chong Beng, Joseph Chua PHI, Ben CHANG Yew Teck, Gerard Jan RAYMOND, Srinivasan PARTHASARATHY

→ 2008–2010 STRATEGIC PLAN

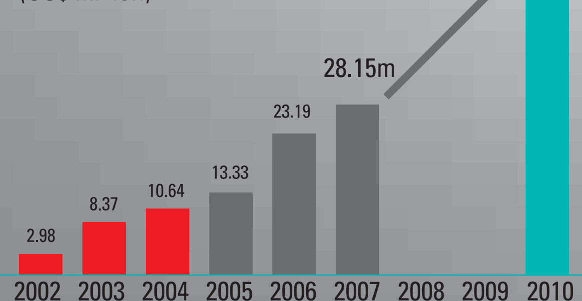
ACCELERATE PROFITABILITY THROUGH PEOPLE GROWTH, ASIAN DOMINANCE & GLOBAL EXPANSION

Strategic planning in IDS defines the roadmap of our business transformation. We take a zero-based approach and portray where we want to be in a three-year planning cycle. We then identify the key challenges ahead and define the transformational goals that can bring us there. For every Strategic Plan cycle, we identify the single most important objective we want to achieve by the end of the plan period as our Goal. For 2008-2010, our Goal is to accelerate profitability through People Growth, Asian Dominance and Global Expansion. Translating all these into financial terms, we aim to double our profit by 2010 versus 2007.

Our Goal: Double Profit by 2010 vs. 2007

CAGR:
2007-2010 +26.0%
2002-2010 +44.4%

(US$ million)



➔ **2008–2010 STRATEGIC PLAN**

PEOPLE GROWTH

The key focus of our next Three-Year 2008–2010 Strategic Plan is creating an environment that is conducive for our people to grow in tandem with the expansion of our business. In order to develop a resourceful pool of leaders and in-house talent and continuously develop creative solutions for our customers, we introduced a comprehensive Leadership, Management & Talent (LMT) Development program in 2006. Major initiatives under this program were rolled out across all IDS operations throughout 2007. This comprehensive People program is divided into four main LMT blocks as described below.

1. Core Management Program – Three internally designed training seminars conducted specifically for management staff from supervisory level and above

2. Individual Development Program – Customized program tailored to each individual's training and development needs

3. Elective Program – Education and Skills Training Modules in general business, industry-specific, technical, functional or operational areas conducted at Country level

4. Accelerated Professional Program - Professional Recruitment & Talent Development through a Summer Internship program, a Management Trainee program and the "New IDS Manager" Training and Development Program

Over the next three-year Strategic Plan period, we will continue to implement various programs under these four LMT blocks, covering all levels of our employees – from senior management to Administrative, Technical and Operational staff. Each program will be tailored to the specific needs of IDS.

One of the key programs will be the "New IDS Manager" program. It aims at ensuring all levels of IDS managers are not only experts within their specific area of service, but are also equipped with comprehensive knowledge of the full IDS Menu of Services. This is crucial to the effective implementation of our Value-Chain Logistics business model, which requires seamless connection across our Menu of Services. Together with other initiatives such as our Management Trainee and Summer Internship programs and Elective programs, the LMT program will continue to be the foundation of the Group's important journey of "Making A Difference With People".

We will also adopt an organizational structure designed to put responsibility and accountability on each country to deliver financial results and at the same time, fully integrate the in-country functional resources of Finance, HR and IT. This will enable full flexibility and effectiveness to harness the necessary resources to deliver operational excellence on the ground and significantly shorten response time for our customers. At the same time, to provide for technical and business expertise, regional-based Stream Operations Support (SOS) teams will work closely with individual countries to enhance our Menu of Services under the clusters of Distribution, Logistics, Manufacturing and International. We have also created Regional & Country Customer (RCC) units to focus on regional and local customer account management and champion business development. This will ensure that our customers will always receive the highest level of service to compete in an increasingly challenging business environment.

➔ 2008–2010 STRATEGIC PLAN

ASIAN DOMINANCE

We were able to establish a platform for sustainable business growth in Asia over the last three-year Strategic Plan period. Our primary objective for the 2008–2010 Strategic Plan is to build our scale to become the dominant provider of Integrated-Distribution Services in Asia. To achieve this, we will continue to adopt our two-pronged strategy of aggressive organic growth supplemented by strategic mergers and acquisitions. We will set aggressive organic growth targets for all our operations at two to three times the corresponding country GDP growth. We will also identify strategic M&A targets that can add scale to our existing business to deliver operational leverage or to allow us to enter into a new market.

China will continue to be an important market for IDS. It is crucial that we maintain our strong growth momentum in China over the next Strategic Plan cycle. To this end, the China Strategic Council has been formed with the aim of leveraging our extensive network in China to enhance operational efficiency, and to identify opportunities to aggressively build our business scale.

To supplement this expansion, our SOS teams will ensure seamless project implementation across our Menu of Services, enhance efficiency and achieve operational excellence. Our RCC units will drive regional business development, strengthen customer relationships and improve the success rate for converting prospects into new businesses. Our aim is to become the recognized premier provider of Integrated-Distribution Services in Asia.


INDONESIA
HILIPPINES
TAIWAN
KONG
CHINA
D
MALAYSIA
SINGAPORE

➔ 2008–2010 STRATEGIC PLAN

GLOBAL EXPANSION

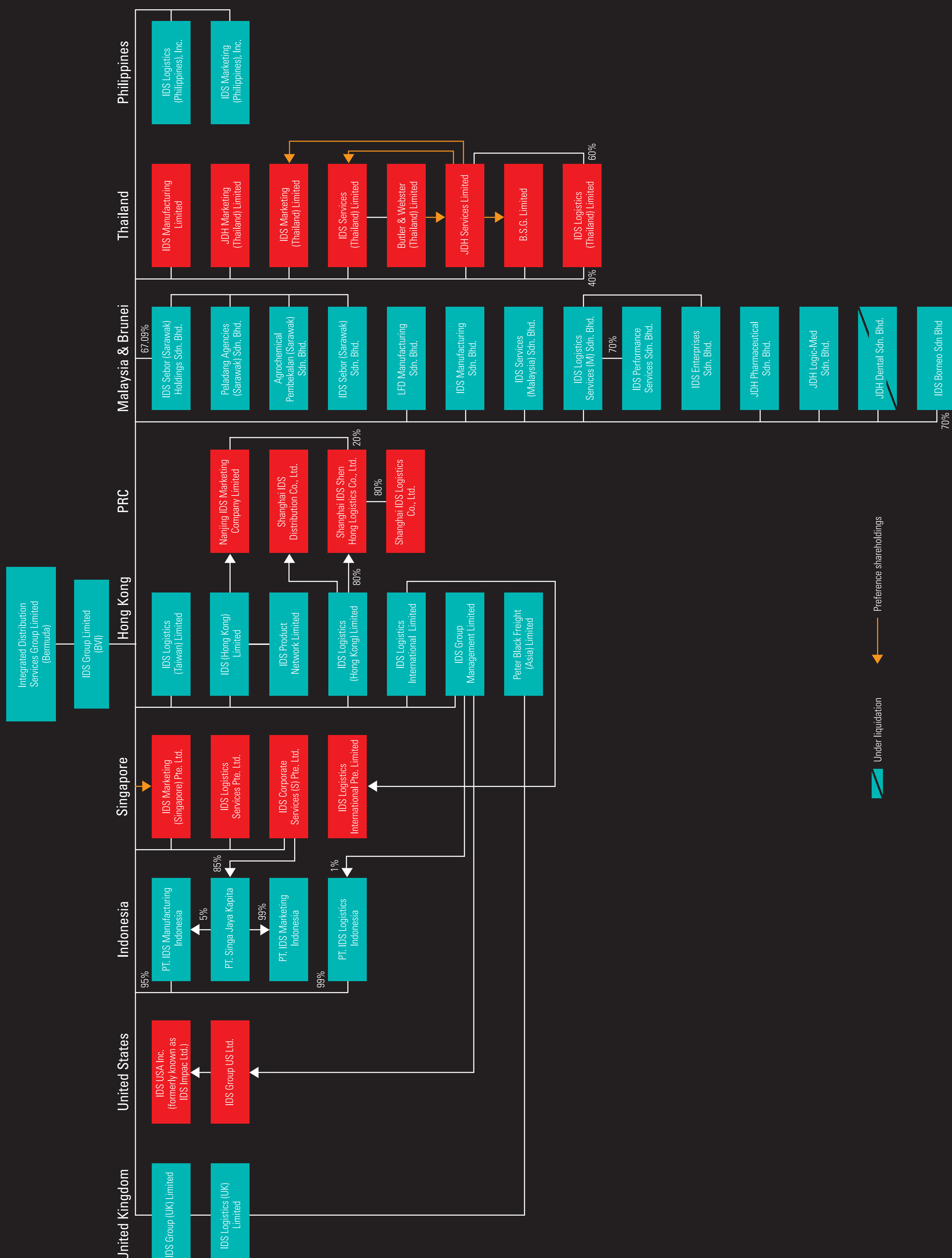
During the last three-year Strategic Plan period, we commenced the global expansion of our operations. Our recent entries into the US and UK established our Logistics presence in these countries. This is an important strategic move to take advantage of rapidly expanding international trade.

By connecting our comprehensive Asian logistics and distribution network with that in the US and UK, we are now in a position to provide end-to-end global logistics solutions for products moving from Asian sourcing locations into Western retail outlets. Our extended network will allow us to advance our overall International operations and champion freight forwarding & shipping services as well as creating innovative solutions like hubbing, consolidation, product replenishment and landed-duty paid programs. IDS is now poised to exploit new service areas to manage end-to-end global logistics programs for our multinational customers as well as tapping into the customer base of our sister company, Li & Fung Limited.

In the 2008–2010 Strategic Plan, we will scale-up the identification of M&A opportunities to further expand our business globally, especially entries into new geographies.


NORTH ATLANTIC
OCEAN

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)*
John Estmond STRICKLAND#
Dr. FU Yu Ning#
Prof. LEE Hau Leung#
Dr. William FUNG Kwok Lun
William Winship FLANZ
Jeremy Paul Egerton HOBBINS
LAU Butt Farn
Rajesh Vardichand RANAVAT

Independent Non-executive Director

Executive Directors
Benedict CHANG Yew Teck
(Group Managing Director)
Joseph Chua PHI
(President and Regional Managing Director of IDS Group)

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
JSM
(formerly known as
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

Directors and Senior Management

EXECUTIVE DIRECTORS

Benedict CHANG Yew Teck

aged 54, is the Group Managing Director of the Company. He has been a director of Li & Fung (Distribution) Limited, a substantial shareholder of the Company, since April 1999 and an Executive Director of the Company since October 2003.

Prior to joining IDS, Mr. Chang spent 13 years in various senior executive positions with the HAVI Group LP, a US-based partnership. He was Group Managing Director of HAVI's Asia-Pacific operations which provided logistics, manufacturing, purchasing and supply chain management services to McDonald's in the Asia-Pacific. He was also Senior Vice-President and Partner of HAVI and sat on the Executive Board of the HAVI Group LP.

Mr. Chang is a graduate of the University of Surrey, United Kingdom, with a Bachelor of Science degree in Marine Engineering. As a Keppel scholar, Mr. Chang then spent his early career as Ship Repair Manager with Keppel Corporation Limited in Singapore. He was subsequently appointed Project Director of the Allied Food Group and then Director of Manufacturing at Allied Cocoa Industries, a subsidiary of the Cocoa Division of W.R. Grace.

Mr. Chang founded Domino's Pizza Malaysia in 1997 and was a board member of Delifrance Asia Pte Limited. He is currently the Chairman of the Advisory Committee of the Li & Fung Institute of Supply Chain Management and Logistics of the Chinese University of Hong Kong and is also a member of the Advisory Board of the School of Information Systems, Singapore Management University.

Joseph Chua PHI

aged 45, is the President and Regional Managing Director of IDS Group. He joined IDS Logistics (Hong Kong) Limited in 1999 and has been an Executive Director of the Company since August 2004. He graduated magna cum laude from the University of the Philippines with a Bachelor of Science degree in Industrial Engineering, and attained an MBA degree with top honours from the same university. Between 1984 and 1995, Mr. Phi worked with Colgate-Palmolive Company in a number of Asian locations covering the areas of purchasing, production planning, manufacturing, logistics and supply chain management. Between 1995 and 1999, he worked with HAVI Food Services as General Manager and later Managing Director of its Taiwan subsidiary. He is a member of Phi Kappa Phi and Phi Gamma Mu international honour societies. He also holds directorships in various subsidiaries of the Company.

NON-EXECUTIVE DIRECTORS

Dr. Victor FUNG Kwok King

aged 62, 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 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 and Orient Overseas (International) Limited in Hong Kong, 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 Hong Kong Government awarded Dr. Fung the Gold Bauhinia Star for distinguished service to the community.

Dr. William FUNG Kwok Lun, OBE, JP
aged 59, brother of Dr. Victor FUNG Kwok King, has been a Non-executive Director of the Company since August 2004. Dr. Fung is Group Managing Director of Li & Fung Limited. He 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 a non-executive director of HSBC Holdings PLC and an independent non-executive director of 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 the substantial shareholders of the Company, namely: King Lun Holdings Limited, Li & Fung (1937) Limited and Li & Fung (Distribution) Limited.

NON-EXECUTIVE DIRECTORS

Jeremy Paul Egerton HOBBINS

aged 60, has been a director of Li & Fung (Distribution) Limited, a substantial shareholder of the Company, since April 1999, and a Non-executive Director of the Company since October 2003. He has been the executive director and Group Managing Director of Trinity Limited since December 2006 and March 2007 respectively. 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 60, 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 (1937) Limited and Li & Fung (Distribution) Limited.

William Winship FLANZ

aged 63, was re-designated as a Non-executive Director of the Company in July 2007. Prior to the re-designation, he was an Independent Non-executive Director of the Company since August 2004. He was also an independent director of Li & Fung (Distribution) Limited from June 1999 to June 2005. Mr. Flanz has been the Vice Chairman of the Board of Directors and a member of the Executive Committee of an affiliate of Li & Fung (1937) Limited, a substantial shareholder of the Company, since July 2007. He is a private investor and serves as Advisor to Sterling Enterprises, Limited and Senior Advisor to Baring Private Equity Asia, Limited and Chairman of the Investment Advisory Committee of the pension plan of Supervalu Corporation. 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.

Rajesh Vardichand RANAVAT

aged 48, was re-designated as a Non-executive Director of the Company in January 2008. Prior to the re-designation, Mr. Ranavat was an Executive director of the Company from August 2004 to December 2007. He was also the Chief Financial Officer of the Group from May 2003 to May 2007 and assumed a role focusing on merger & acquisitions and strategy development for the Group from June to December 2007. From January 2008, Mr. Ranavat has been focusing on merger & acquisitions and private equity for the affiliates of Li & Fung (1937) Limited, a substantial shareholder of the Company. 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 from June 2001 until April 2003. 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. He 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

John Estmond STRICKLAND, GBS JP

aged 68, 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 51, 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 China International Marine Containers (Group) Limited and China Merchants Energy Shipping Co, Ltd., and Director of China Merchants Bank, all listed in China. Dr. Fu is now Director and President of China Merchants Group Ltd., and also holds directorship in some social associations, including a Director of Hong Kong Port Development Council and Member of International Advisory Panel of CapitaLand in Singapore.

Professor LEE Hau Leung

aged 55, has been an Independent Non-executive Director of the Company since November 2004. He is the Thoma Professor of Operations, Information and Technology at the Graduate School of Business at Stanford University. His areas of specialization are in supply chain management, global logistics system design, inventory planning, and manufacturing strategy. He is the founding and current Director of the Stanford Global Supply Chain Management Forum, an industry-academic consortium to advance the theory and practice of global supply chain management. Professor Lee was elected a Fellow of Manufacturing and Service Operations Management in 2001; a Fellow of INFORMS in 2005; and a Fellow of the Production and Operations Management Society in 2005. Professor Lee has consulted extensively for companies such as LG, KLA-Tencor, Hewlett-Packard Company, Savi Technology, Nortel Networks, SUN Microsystems, Apple Computer, IBM, Lucent Technologies, General Motors, Xilinx Corp., Accenture, Eli Lilly and Company, Microsoft, Nokia, and Motorola. He is a co-founder of Evant, DemandTec, SignalDemand and TrueDemand, all supply chain software companies. Professor Lee obtained his Bachelor of Social Science degree in Economics and Statistics from the University of Hong Kong in 1974, his Master of Science degree in Operational Research from the London School of Economics in 1975, and his Master of Science and a Doctorate Degree in Operations Research from the University of Pennsylvania in 1981 and 1983 respectively.

Directors and Senior Management

GROUP CHIEF COMPLIANCE OFFICER

James SIU Kai Lau

aged 63, 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 when he became its Chief Compliance Officer. 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 respective Group Chief Compliance Officers. 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 (2001-2006) and a member of the Professional Accountants in Business Committee of the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (2002-2006). Mr. Siu is a member of the Securities and Futures Commission Dual Filing Advisory Group and was the Deputy Chairman of the Corporate Governance Committee of the HKICPA (2007). He is a Fellow of both the Institute of Chartered Accountants in Australia and the HKICPA. 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 54, is the Regional Managing Director, Manufacturing and also the Country CRT Director for Malaysia 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 in 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.

Gerard Jan RAYMOND

aged 51, is the Executive Vice President of IDS Group covering all operations for Thailand, Singapore, Malaysia, Brunei, Indonesia and Indo-China. Furthermore, he has oversight of all sales and distribution of consumer and healthcare global brands throughout the IDS geographic footprint. In addition, he is a member of the group's China Strategy Council responsible for the strategy and 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 in May 2003. Mr. Raymond was educated in Australia with a Bachelor's degree in Business and is a Fellow of the Australian Marketing Institute.

Directors and Senior Management

SENIOR MANAGEMENT

Srinivasan PARTHASARATHY

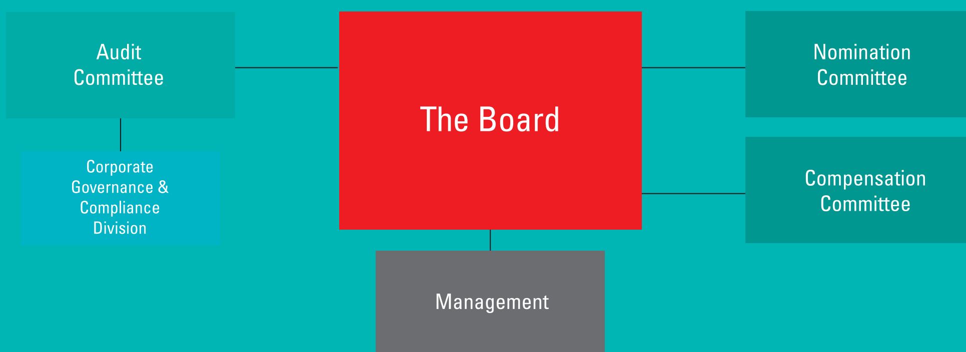
aged 50, is the Chief Financial Officer of the Group. He joined the IDS Group in March 2007 and was appointed as the Chief Financial Officer in June 2007. Mr. Parthasarathy graduated from the University of Bombay with a Bachelor of Commerce degree and qualified as a Chartered Accountant in India, securing fourth position in the All India Merit Rankings. He is a Fellow Member of the Institute of Chartered Accountants of India and the Chartered Institute of Management Accountants, UK. Mr. Parthasarathy joined the Li & Fung Distribution Group in 1999 and was the Stream Finance Director of the Logistics business until March 2003. Before joining the IDS Group, he was the Commercial Director of the Li & Fung Retailing Group. Between 1984 and 1999, Mr. Parthasarathy worked with Inchcape plc and held various financial positions with them in the Middle East, UK and Singapore. In Singapore, he was an Executive Director of Inchcape Marketing Services Ltd, which was listed on the Singapore Stock Exchange. Prior to joining Inchcape, Mr. Parthasarathy worked with Ernst and Whinney in the Middle East.

Simon CHAN Kam Chiu

aged 59, is the Senior Director – Corporate Finance, and the qualified accountant of the Company. He has over 20 years' experience in auditing, accounting and financial management. He joined the Li & Fung Distribution Group in 1999 as part of the acquisition of Inchcape Group's Marketing and Distribution businesses. Before joining the Li & Fung Distribution Group, Mr. Chan was with Inchcape Pacific for more than 10 years holding various financial positions including Finance Director for Inchcape Pacific Marketing business. Prior to joining Inchcape, Mr. Chan was the Finance Director for Johnson & Johnson Hong Kong and China for five years. Before that, Mr. Chan was with Touche Ross (currently Deloitte, Touche & Tohmatsu) where he specialized in audit, due diligence and re-organization services. Mr. Chan holds a Bachelor Degree of Business Administration from the University of San Francisco, California, U.S.A. He is a member of the Institute of Chartered Accountants of Ontario Canada, 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 an appropriate oversight by Independent Non-executive Directors. Set out below are those principles of corporate governance as adopted by the Company.



THE BOARD

As at 31 December 2007, 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 three are independent), whose biographical details and relevant relationships among them are set out in the Directors and Senior Management section on pages 48 to 58. On 1 January 2008, Mr. Rajesh Vardichand RANAVAT was re-designated from Executive Director to Non-executive Director of the Company.

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 their 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").

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 2007.

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 one special meeting in 2007 and the average attendance rate was 90.9%. 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 approriate liability insurance since 2004 to indemnify its Directors and its Officers for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

The attendance of Board meetings, Committee meetings and general meetings in 2007 are detailed in the following table:

Attendance of Board meetings, Committee meetings and general meetings for Year 2007

	No. of meetings attended/held				
Directors	Board	Audit Committee	Compensation Committee	Nomination Committee	AGM and SGM
Non-Executive Directors					
Dr. Victor FUNG Kwok King[1]	5/5	—	2/2	—	2/2
Dr. William FUNG Kwok Lun	5/5	—	—	—	2/2
Mr. Jeremy Paul Egerton HOBBINS	5/5	—	—	2/2	2/2
Mr. LAU Butt Farn	5/5	2/3	—	—	2/2
Mr. William Winship FLANZ[2,3]	3/5	—	0/1[4]	2/2	0/2
Independent Non-Executive Directors					
Mr. John Estmond STRICKLAND[5]	5/5	3/3	—	—	2/2
Dr. FU Yu Ning	3/5	3/3	1/1[6]	1/1[7]	0/2
Prof. LEE Hau Leung	4/5	3/3	2/2	—	0/2
Executive Directors					
Mr. Benedict CHANG Yew Teck[8]	5/5	—	—	—	2/2
Mr. Joseph Chua PHI	5/5	—	—	—	2/2
Mr. Rajesh Vardichand RANAVAT[9]	5/5	1/1[10]	—	—	2/2
Group Chief Compliance Officer					
Mr. James SIU Kai Lau	5/5[11]	3/3[11]	2/2[11]	2/2[11]	2/2
Chief Financial Officer					
Mr. Srinivasan PARTHASARATHY[12]	4/4[13]	3/3[13]	—	—	—
Dates of Meeting	20/3/2007 22/5/2007 3/8/2007 15/8/2007 12/12/2007	16/3/2007 14/8/2007 17/10/2007	22/5/2007 12/12/2007	21/6/2007 6/12/2007	Both 22/5/2007
Average Attendance Rate	90.9%	91.6%	83.3%	100%	72.7%

1: Group Chairman and Chairman of Compensation Committee
2: Chairman of Nomination Committee
3: Re-designated from Independent Non-executive Director to Non-executive Director on 2 July 2007
4: Retired as a member on 2 July 2007
5: Chairman of Audit Committee
6: Appointed as a member on 2 July 2007
7: Retired as a member on 2 July 2007
8: Group Managing Director
9: Chief Financial Officer until 31 May 2007 and re-designated as Non-executive Director on 1 January 2008
10: Attended Audit Committee meeting as a non-member
11: Attended Board and Committee meetings as a non-member
12: Chief Financial Officer from 1 June 2007
13: Attended Board and Audit Committee meetings as a non-member

BOARD COMMITTEES

The Board has established the following committees (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 Listing Rules: the Audit Committee, Compensation Committee and Nomination Committee. Minutes of all Committees meetings are circulated to all Board members.

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 three times in 2007 (with an average attendance rate of 91.6%) 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 2007 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 2007) 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 2007 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 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.

The Committee comprises the Group Non-executive Chairman, Dr. Victor FUNG Kwok King (Chairman of the Committee), Prof. LEE Hau Leung (Independent Non-executive Director) and Mr. William Winship FLANZ (re-designated from Independent Non-executive Director to Non-executive Director on 2 July 2007). Mr. Flanz's membership was assumed by Dr. FU Yu Ning (Independent Non-executive Director) on 2 July 2007. The Compensation Committee met twice in 2007 (attendance rate: 83.3%) to review the alternative to share option scheme, salary and allowance of the top management, Directors' fees for the Year 2008 and recommend the list of proposed grantees of share options to the Board for approval.

Remuneration for Executive Directors

Remuneration of Executive Directors includes fees, 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 Directors' fees were benchmarked against other comparable companies in Hong Kong. After the review, the Board proposed to pay additional Directors' fees for the year ending 31 December 2008 and each subsequent financial year until the Company in general meeting otherwise determines. The above proposal will be put forward to the Company's Annual General Meeting for shareholders approval on 16 May 2008. 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 8 to the financial statements.

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 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.

The Committee comprises Non-executive Directors, namely Mr. William Winship FLANZ (Chairman of the Committee) and Mr. Jeremy Paul Egerton HOBBINS. On 2 July 2007, Mr. Flanz was re-designated from Independent Non-executive Director to Non-executive Director and Dr. FU Yu Ning (Independent Non-executive Director) retired as a member. There was no nomination of Directors to fill board vacancies in 2007. The Nomination Committee met twice in 2007 (with an attendance rate of 100%) to review and recommend the re-designation of Directors and change in the composition of Compensation Committee and Nomination Committee.

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 of the Model Code was noted by the Company in 2007.

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 74 to 76. The shares held by each member of senior management are less than 0.5% of the issued share capital of the Company for the year ended 31 December 2007.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors' responsibilities for the financial statements are set out on page 81, and the responsibilities of the external auditor to the shareholders are set out on page 81.

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 ongoing and effective management of such systems of internal controls covering financial, operational risk management procedures and controls. 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 such systems of internal controls implemented by management and evaluates their adequacy, effectiveness and compliance, and reports regularly to the Audit Committee under the 3 year Audit Plan endorsed by the Audit Committee. The Audit Plan is business risk driven and 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 periodical basis to ensure all agreed recommendations have been timely and satisfactorily implemented.

Our external auditor, PricewaterhouseCoopers, performs 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 2007.

Based on the assessments made by senior management, the Group's Internal Audit team and the external auditor in 2007 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 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 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 Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provision set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 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 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 at *www.idsgroup.com*.

As a channel to further promote effective communication, the Company maintains a website at *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 in 2007 there were no changes to the Company's bye-laws

Details of the key calendar events for shareholders' attention and share information including market capitalization as of 31 December 2007 are set out in the Information for Investors section on page 68. The percentages of issued share capital owned by the substantial shareholders are set out in the Report of the Directors section on page 77.

Annual General Meeting and Special General Meeting

The Company's Annual General Meeting ("AGM") is one of the principal channels of communication with the shareholders. Directors and Committee Chairmen or member are available to answer questions on the business.

The most recent shareholders' meetings of the Company were the AGM and Special General Meeting ("SGM") both held on 22 May 2007 at Mandarin Oriental, Central, Hong Kong. The meetings were open to all shareholders and members of the press. The Directors who attended the meetings are detailed in the table on page 61. Separate resolutions were proposed for each issue and were voted on by poll.

At the AGM, the major items discussed and the percentage of votes cast in favor of the resolutions relating to those items are tabled below:

Resolutions passed	Percentage cast votes
• receive and adopt the report of the Directors and the audited accounts for the year ended 31 December 2006.	99.97%
• declaration of final dividends.	99.97%
• re-election of Dr. William FUNG Kwok Lun, Mr. Joseph Chua PHI, Mr. John Estmond STRICKLAND, Dr. FU Yu Ning and Prof. LEE Hau Leung as Directors of the Company.	Received 91.07% to 99.97% in respect of each individual resolution.
• re-appoint the auditors and authorizing the Directors to fix their remuneration.	99.97%
• give a general mandate to Directors to issue new shares up to 20%.	80.74%
• give a general mandate to Directors to repurchase the Company's shares up to 10%.	99.97%
• authorize Directors to issue the shares repurchased by the Company.	85.13%

At the SGM, the Company received unanimous approval from the independent shareholders to acquire approximately 56.74% interest in IDS Sebor (Sarawak) Holdings Sdn. Bhd. (formerly known as Sebor (Sarawak) Sdn. Bhd.).

The poll results were published on the websites of Hong Kong Exchanges and Clearing Limited at *www.hkexnews.hk* and the Company at *www.idsgroup.com*.

SHAREHOLDERS' RIGHTS

Under the Company's bye-laws, a special general meeting can be convened by a written requisition of shareholders holding not less than 10% of the paid up capital of the Company and send to the Board or the Company Secretary of the Company. Such request can be deposited at the Company's business address in Hong Kong. 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 Director – Corporate Communications, whose contact information is detailed on page 68.

CORPORATE COMMUNICATIONS

In 2007, 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, annual Leadership Council Meeting and Senior Managers' 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.

Information for Investors

Listing Information

Listing: Hong Kong Stock Exchange
Stock code: 2387

Key Dates

13 March 2008
Announcement of 2007 Final Results

30 April 2008
Last day to register for 2007 Final Dividend

2 May 2008 to 7 May 2008 (both days inclusive)
Closure of Register of Members

16 May 2008
Annual General Meeting

On or about 16 May 2008
Proposed Payment of 2007 Final 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
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 2007:
312,881,000 shares

Market capitalization as at 31 December 2007:
HK$7,509,144,000

Earnings per share (equivalent to) for 2007

Interim:	41.57 HK cents
Full year:	70.52 HK cents

Dividend per share for 2007

Interim:	12 HK cents
Final:	30 HK cents

Enquires Contact

Mr. Stewart Kwok
Director - Corporate Communications

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 2007.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associated companies are set out in note 34 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 84.

The directors declared an interim dividend of 12 HK cents per share, totalling HK$37,528,680, which was paid on 21 September 2007.

The directors recommended the payment of a final dividend of 30 HK cents per share, absorbing HK$94,372,500.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 23 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK$195,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 22 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company did not have any reserve available for distribution to shareholders under the Companies Act 1981 of Bermuda (as amended).

SIX-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last six financial years is set out on page 156.

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"). A summary of the major terms of the Scheme is as follows:

(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 total number of shares which may be issued upon the exercise of all options to be granted under the Scheme and any other share option scheme(s) adopted by the Company must not exceed 10% of the total number of issued shares of the Company as at the date of approval of the Scheme. The total number of shares available for issue, save for those granted but yet to be exercised, under the Scheme is 1,091,000 representing approximately 0.35% of the issued shares of the Company as at the date of this Report. Notwithstanding the foregoing, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme(s) of the Company must not, in aggregate, exceed 30% of the total number of issued shares of the Company from time to time.

(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 ("Share Options") granted under the Scheme and remain outstanding as at 31 December 2007 are as follows:

	Number of Share Options					Exercise		
	As at 1/1/2007	Granted (Note 1)	Exercised (Note 2)	Lapsed (Note 3)	As at 31/12/2007	price HK$	Grant Date	Exercise Period
Benedict CHANG Yew Teck	750,000	–	750,000	–	–	4.825	14/12/04	01/01/07–31/12/08
	750,000	–	–	–	750,000	4.825	14/12/04	01/01/08–31/12/09
	750,000	–	–	–	750,000	4.825	14/12/04	01/01/09–31/12/10
	380,000	–	–	–	380,000	8.600	16/12/05	01/01/08–31/12/09
	380,000	–	–	–	380,000	8.600	16/12/05	01/01/09–31/12/10
	380,000	–	–	–	380,000	8.600	16/12/05	01/01/10–31/12/11
	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
	–	330,000	–	–	330,000	25.550	12/12/07	01/01/10–31/12/11
	–	330,000	–	–	330,000	25.550	12/12/07	01/01/11–31/12/12
	–	330,000	–	–	330,000	25.550	12/12/07	01/01/12–31/12/13
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
	–	220,000	–	–	220,000	25.550	12/12/07	01/01/10–31/12/11
	–	220,000	–	–	220,000	25.550	12/12/07	01/01/11–31/12/12
	–	220,000	–	–	220,000	25.550	12/12/07	01/01/12–31/12/13

	Number of Share Options					Exercise		
	As at 1/1/2007	Granted (Note 1)	Exercised (Note 2)	Lapsed (Note 3)	As at 31/12/2007	price 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
	–	130,000	–	–	130,000	25.550	12/12/07	01/01/10–31/12/11
	–	130,000	–	–	130,000	25.550	12/12/07	01/01/11–31/12/12
	–	130,000	–	–	130,000	25.550	12/12/07	01/01/12–31/12/13
Continuous contract employees	2,610,000	–	2,411,000	9,000	190,000	4.825	14/12/04	01/01/07–31/12/08
	2,610,000	–	–	246,000	2,364,000	4.825	14/12/04	01/01/08–31/12/09
	2,610,000	–	–	246,000	2,364,000	4.825	14/12/04	01/01/09–31/12/10
	824,500	–	–	18,500	806,000	8.600	16/12/05	01/01/08–31/12/09
	824,500	–	–	18,500	806,000	8.600	16/12/05	01/01/09–31/12/10
	824,500	–	–	18,500	806,000	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
	–	1,912,000	–	–	1,912,000	25.550	12/12/07	01/01/10–31/12/11
	–	1,912,000	–	–	1,912,000	25.550	12/12/07	01/01/11–31/12/12
	–	1,912,000	–	–	1,912,000	25.550	12/12/07	01/01/12–31/12/13

Notes:

(1) The closing price per share immediately before the date on which the Share Options were granted was HK$25.60.

(2) The weighted average closing market price per share immediately before the dates on which the Share Options were exercised was HK$21.60.

(3) These Share Options lapsed following the cessation of employment of certain grantees.

(4) The average fair value of the Share Options granted during the year is HK$6.08 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK$25.55 at the grant date, exercise price shown above, standard deviation of expected share price returns of 36%, expected life of Share Options from 4 to 6 years, expected dividend yield of 3% and average annual risk-free interest rate of 2.51%. 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 and up to the date of this report were:

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 HOBBINS
LAU Butt Farn
Rajesh Vardichand RANAVAT

Executive Directors

Benedict CHANG Yew Teck *(Group Managing Director)*
Joseph Chua PHI *(President and Regional Managing Director of IDS Group)*

Independent Non-executive Director

In accordance with Bye-law 87 of the Company's Bye-laws, Messrs. Benedict CHANG Yew Teck, Jeremy Paul Egerton HOBBINS, LAU Butt Farn and William Winship FLANZ will retire at the forthcoming annual general meeting. Mr. Flanz has decided not to stand for re-election due to other commitments. The other 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 32 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 48 to 58.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 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

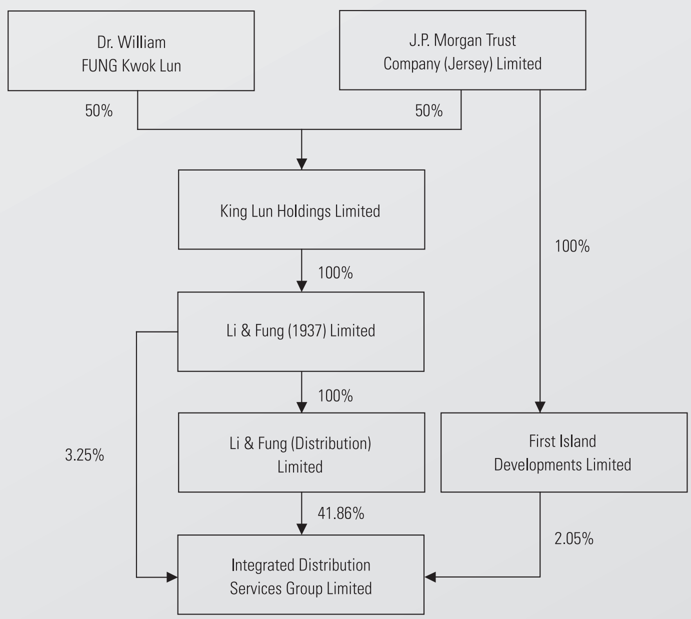
	Number of shares				Number of underlying shares under equity derivatives (Share Options)		Approximate percentage of issued share capital
Name of Directors	Personal interest	Family interest	Corporate/ trust interest	Other interest		Total interest	*(%)*
Dr. Victor FUNG Kwok King	2,405,509	–	147,553,661 (Note 1)	–	–	149,959,170	47.93
Dr. William FUNG Kwok Lun	–	–	141,132,371 (Note 1)	–	–	141,132,371	45.11
Benedict CHANG Yew Teck	2,162,573	–	–	2,100,000 (Note 2a)	11,070,000 (Notes 2b & 2c)	15,332,573	4.90
Joseph Chua PHI	1,314,632	–	–	–	2,835,000	4,149,632	1.33
Rajesh Vardichand RANAVAT	–	–	–	–	2,115,000	2,115,000	0.68
Jeremy Paul Egerton HOBBINS	–	–	4,922,999 (Note 3)	–	–	4,922,999	1.57
LAU Butt Farn	610,549	–	–	–	–	610,549	0.20
John Estmond STRICKLAND	–	–	–	22,000 (Note 4)	–	22,000	0.00

Notes:

(1) King Lun Holdings Limited ("King Lun") through its wholly owned subsidiary, Li & Fung (1937) Limited ("LF 1937"), held 100% interest in Li & Fung (Distribution) Limited ("LFD"). LFD held 130,962,364 Shares, representing approximately 41.86% of the issued share capital of the Company. LF 1937 held 10,170,007 Shares, representing approximately 3.25% of the issued share capital of Company.

King Lun was owned (a) as to 50% by J.P. Morgan Trust Company (Jersey) Limited (which also through First Island Developments Limited indirectly held 6,421,290 Shares, representing approximately 2.05% of the issued share capital of Company), 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 were deemed to have interests in these Shares through their respective interests in King Lun and indirect interests in LFD as set out above.

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:



(2) These interests represented:

a. Mr. Benedict CHANG Yew Teck and his wife, LEONG Kim Mei, were joint beneficial owners of these Shares.

b. the beneficial interest of Mr. Benedict CHANG Yew Teck in 4,770,000 underlying Shares deriving from 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 above; and

c. the deemed interest of Mr. Benedict CHANG Yew Teck in 6,300,000 underlying Shares deriving from options granted by LF 1937 to Mikenwill Investments Limited ("Mikenwill"), which was owned by Mr. Benedict CHANG Yew Teck, to require LF 1937 to sell to Mikenwill or its nominee 10,500,000 Shares in five tranches, with the first tranche and second tranche of 2,100,000 Shares each being exercised on 9 January 2007 and 17 September 2007 respectively, and each of the remaining tranches having an exercisable period of one year during the period from 1 January 2008 to 31 December 2010 pursuant to an agreement made between LF 1937 and Mikenwill dated 5 January 2007.

(3) These Shares were held by Martinville Holdings Limited, which was owned by Mr. Jeremy Paul Egerton HOBBINS.

(4) Mr. John Estmond STRICKLAND and his wife, Mrs. Anthea Evadne STRICKLAND, were 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 31 December 2007 to have short position through LF 1937, in which both of them were deemed to have interests as disclosed above, in respect of an aggregate of 6,300,000 underlying Shares in the Company, representing approximately 2.01 percent of the total issued Shares. Such interest comprised LF 1937's short position in 6,300,000 underlying Shares (being regarded as unlisted physically settled equity derivatives) deriving from an agreement made between LF 1937 and Mikenwill dated 5 January 2007, pursuant to which options were granted by LF 1937 to Mikenwill to require LF 1937 to sell to Mikenwill or its nominee 10,500,000 Shares in five tranches, with the first tranche and second tranche of 2,100,000 Shares each being exercised on 9 January 2007 and 17 September 2007 respectively, and each of the remaining tranches having an exercisable period of one year during the period from 1 January 2008 to 31 December 2010.

Save as disclosed above, as at 31 December 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 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 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 as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholders	Capacity	Number of Shares	Approximate percentage of issued share capital (%)
Long Positions			
Li & Fung (Distribution) Limited	Beneficial Owner	130,962,364	41.86
Li & Fung (1937) Limited	Interest of controlled corporation Beneficial owner	130,962,364 10,170,007	45.11
King Lun Holdings Limited	Interest of controlled corporation	141,132,371	45.11
J.P. Morgan Trust Company (Jersey) Limited	Interest of controlled corporation	147,553,661	47.16
Brookside Capital Investors, L.P.	Interest of controlled corporation	15,473,000	4.95
Commonwealth Bank of Australia	Interest of controlled corporation	15,459,000	4.94
Short Positions			
Li & Fung (1937) Limited	Beneficial owner	6,300,000 (Note)	2.01
King Lun Holdings Limited	Interest of controlled corporation	6,300,000 (Note)	2.01
J.P. Morgan Trust Company (Jersey) Limited	Interest of controlled corporation	6,300,000 (Note)	2.01

Note:

This short position represented LF 1937's short position in 6,300,000 underlying Shares which constituted 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 31 December 2007.

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 2007, 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	21%
– the five largest suppliers combined	50%

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

CONNECTED TRANSACTIONS

(A) Continuing connected transactions

During the year, the Group had the following non-exempt continuing connected transactions, details of which were disclosed in the announcement of the Company dated 21 December 2006:

(a) *Distribution and sale of goods*

The Group distributes consumer and healthcare products to the retail operations of the members of 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.

(d) *Billing Agent Service*

Nanjing IDS Marketing Company Limited ("Nanjing IDS") has been engaged by Appleton Holdings Limited as an agent of the subsidiaries and associated companies of Li & Fung Limited ("LF Companies") for the export of merchandise sourced by them from the PRC market. The service fee is at a certain percentage on the amount Nanjing IDS paid on behalf of LF Companies for the merchandise.

Below is a table setting out the aggregate value for each of the non-exempt continuing connected transactions for the year ended 31 December 2007:

	2007 US$'000
(a) Distribution and sale of goods	
– members of Convenience Retail Asia Limited ("CRA Group")	1,275
– other members of the Parent Group	1
(b) Provision of shipping, handling and other logistics services	
– members of Li & Fung Limited	970
– other members of the Parent Group	3,369
(c) Rental recharge	
(i) received from	
– members of CRA Group	376
– other members of the Parent Group	849
(ii) paid to	
– members of Li & Fung (Distribution) Limited	1,867
– other members of the Parent Group	443
(d) Billing Agent Service	
– member of Li & Fung Limited	332

After acquisition of PB Logistics Limited (now known as "IDS Logistics (UK) Limited") ("IDS UK") as a wholly-owned subsidiary of the Company on 31 August 2007, IDS UK has entered into a distribution and warehousing agreement with Peter Black Footwear & Accessories Ltd, ("PBFA"), a member of Li & Fung Limited, for the continuing provision of the logistics services to PBFA at an estimated fee of not more than £2.65 million (equivalent to US$5,278,000) for the period from 1 September 2007 to 31 December 2007.

IDS UK has been leasing premises from PBFA since 21 July 2006 (prior to our acquisition) and will continue to do so in view of administrative convenience. The rental expenses for the unexpired lease term from 1 September 2007 to 31 December 2007 will not be more than £278,320 (US$554,000).

During the year, the Group had the following continuing connected transactions with PBFA:

	US$'000
Logistics handling, storage, transport, freight and related fees	3,095
Rent, services charge and other related expenses	527

The nature and reasons for the above continuing connected transactions have previously been disclosed in the Company's announcement dated 14 September 2007.

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 announcements of the Company dated 21 December 2006 and 14 September 2007.

(B) Connected transactions

On 31 May and 31 July 2007, the Group acquired 56.74% and 40% interest in IDS Sebor (Sarawak) Holdings Sdn. Bhd. (formerly known as Sebor (Sarawak) Sdn. Bhd.) and Sebor (Sabah) Sdn. Bhd. at the consideration of US$6,696,000 and US$1,340,000, respectively ("Acquisitions"). The Acquisitions will strengthen the network and presence of the Group complemented by the existing operations in Brunei and Peninsula Malaysia. As the seller, Malinch Associate Holdings Sdn. Bhd., is an indirect wholly-owned subsidiary of Li & Fung (Distribution) Limited, the controlling shareholder of the Company, it is a connected person of the Company and the Acquisitions constitute connected transactions for the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

AUDITORS

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

On behalf of the Board

Victor FUNG Kwok King
Chairman

Hong Kong, 13 March 2008

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 84 to 155, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of recognized income and expense 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 consolidated 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 consolidated 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 2007 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, 13 March 2008

Financial Statements

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 US$'000	2006 US$'000
Revenue	5	**1,295,657**	993,611
Cost of sales		**(919,870)**	(735,684)
Gross profit		**375,787**	257,927
Distribution and logistics expenses		**(300,811)**	(202,659)
Administrative expenses		**(49,901)**	(35,157)
Core operating profit		**25,075**	20,111
Other gains	6	**14,051**	7,997
Other expenses	6	**–**	(1,050)
Operating profit	7	**39,126**	27,058
Finance costs, net	9	**(4,709)**	(1,442)
Share of profit less loss of associated companies	18	**1,401**	–
Profit before taxation		**35,818**	25,616
Taxation	10	**(6,616)**	(1,725)
Profit for the year		**29,202**	23,891
Profit attributable to:			
Shareholders of the Company	23	**28,152**	23,188
Minority interest	28(b)	**1,050**	703
		29,202	23,891
Dividends	13	**16,936**	13,891
Earnings per share for profit attributable to the shareholders of the Company during the year	12		
Basic		**9.04 US cents**	7.50 US cents
Diluted		**8.70 US cents**	7.29 US cents

The notes on pages 91 to 155 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 US$'000	2006 US$'000
ASSETS			
Non-current assets			
Intangible assets	14	66,519	39,496
Property, plant and equipment	16	96,089	68,914
Lease premium for land	15	3,077	1,684
Associated companies	18	9,155	–
Other non-current assets	20	9,371	7,774
Pension assets	26	945	849
Deferred tax assets	25	11,146	9,818
		196,302	128,535
Current assets			
Inventories	19	163,869	116,182
Trade and other receivables	20	258,201	210,172
Taxation recoverable		679	652
Time deposits	21	33,816	46,432
Bank balances and cash	21	55,656	38,161
		512,221	411,599
Total assets		708,523	540,134
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	22	31,288	30,900
Reserves	23	102,769	78,248
		134,057	109,148
Minority interest	28(b)	6,523	7,085
Total equity		140,580	116,233

Consolidated Balance Sheet (Continued)

As at 31 December 2007

	Note	2007 US$'000	2006 US$'000
LIABILITIES			
Non-current liabilities			
Unsecured bank loans	24	**81,716**	51,242
Obligations under finance leases	24	**4,546**	15
Deficit on pension schemes	26	**1,699**	1,544
Post-employment benefit liabilities	26	**2,492**	2,942
Other non-current liabilities	27	**13,535**	16,408
Deferred tax liabilities	25	**2,838**	1,793
		106,826	73,944
Current liabilities			
Trade and other payables	27	**391,942**	297,075
Bank loans and other borrowings	24	**61,487**	47,245
Taxation payable		**7,688**	5,637
		461,117	349,957
Total liabilities		**567,943**	423,901
Total equity and liabilities		**708,523**	540,134
Net current assets		**51,104**	61,642
Total assets less current liabilities		**247,406**	190,177

On behalf of the board

Victor FUNG Kwok King
Director

Benedict CHANG Yew Teck
Director

The notes on pages 91 to 155 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2007

	Note	2007 US$'000	2006 US$'000
ASSETS			
Non-current assets			
Interest in a subsidiary	17	**57,048**	42,866
Current assets			
Other receivables		**40**	55
Time deposits	21	**–**	11,355
Bank balances and cash	21	**66**	–
		106	11,410
Total assets		**57,154**	54,276
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	22	**31,288**	30,900
Reserves	23	**25,555**	23,058
Total equity		**56,843**	53,958
LIABILITIES			
Current liabilities			
Other payables		**311**	318
Total equity and liabilities		**57,154**	54,276
Net current (liabilities)/assets		**(205)**	11,092
Total assets less current liabilities		**56,843**	53,958

On behalf of the board

Victor FUNG Kwok King	Benedict CHANG Yew Teck
Director	*Director*

The notes on pages 91 to 155 are an integral part of these consolidated financial statements.

Consolidated Statement of Recognized Income and Expense

For the year ended 31 December 2007

	2007 US$'000	2006 US$'000
Exchange differences	8,216	6,583
Actuarial gains and losses from post employment benefits		
– gross	1,054	(290)
– tax	(31)	44
Net income recognized directly in equity	9,239	6,337
Profit for the year	29,202	23,891
Total recognized income for the year	38,441	30,228
Attributable to:		
Shareholders of the Company	36,939	29,261
Minority interest	1,502	967

The notes on pages 91 to 155 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 US$'000	2006 US$'000
Cash flows from operating activities			
Cash generated from operations	28(a)	**55,513**	49,383
Interest paid		**(5,944)**	(3,677)
Overseas tax refunded		**371**	352
Overseas tax paid		**(5,242)**	(7,079)
Net cash generated from operating activities		**44,698**	38,979
Cash flows from investing activities			
Interest received		**1,925**	2,354
Net decrease/(increase) in time deposits		**5,105**	(3,811)
Purchase of property, plant and equipment		**(21,672)**	(9,896)
Purchase of intangible assets		**(6,983)**	(2,484)
Proceeds from partial divestment of a subsidiary		**–**	9,686
Proceeds from disposal of a subsidiary	28(e)	**6,831**	–
Acquisition of subsidiaries	28(c)	**(43,518)**	(24,918)
Acquisition of additional interest in a subsidiary		**(766)**	–
Acquisition of an associated company		**(1,434)**	–
Acquisition of business	28(d)	**–**	(22,220)
Sale of plant and equipment		**501**	505
Settlement of consideration payable for acquisition of business		**(4,299)**	–
Capital injection by minority shareholders of a subsidiary		**18**	–
Dividend received from an associated company		**26**	–
Net cash used in investing activities		**(64,266)**	(50,784)
Net cash used before financing activities		**(19,568)**	(11,805)

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2007

	Note	2007 US$'000	2006 US$'000
Net cash used before financing activities		**(19,568)**	(11,805)
Cash flows from financing activities			
Dividends paid		**(15,961)**	(8,357)
Dividends paid to minority shareholders	28(b)	**(780)**	(460)
New loans raised	28(b)	**36,649**	119,756
Repayment of loans	28(b)	**(5,184)**	(74,946)
Capital element of finance lease payments	28(b)	**(455)**	(83)
Net proceeds from issue of shares	28(b)	**2,397**	–
Net cash generated from financing activities		**16,666**	35,910
(Decrease)/increase in cash and cash equivalents		**(2,902)**	24,105
Cash and cash equivalents at 1 January		**78,274**	55,985
Effect of foreign exchange rate changes		**3,936**	(1,816)
Cash and cash equivalents at 31 December		**79,308**	78,274
Analysis of balances of cash and cash equivalents:			
Bank balances and cash	28(f)	**55,656**	38,161
Deposits with maturity less than three months		**33,816**	41,327
Bank overdrafts	24	**(10,164)**	(1,214)
		79,308	78,274

The notes on pages 91 to 155 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of its registered office and other corporate information are set out on page 47 of the annual report.

2 PRINCIPAL 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 certain 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.

New standards, amendments to published standards and interpretations effective in 2007

HKFRS 7, Financial instruments: Disclosures and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures

HKFRS 7 introduces new disclosures relating to financial instruments. The adoption of the standard introduces additional disclosures of sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The adoption of the standard does not have any impact on the classification and valuation of the financial instruments.

HK(IFRIC)-Int 8, Scope of HKFRS 2

It 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. The adoption of the interpretation does not have any impact on the Group's financial statements.

HK(IFRIC)-Int 9, Reassessment of embedded derivatives

It 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 is required. The adoption of the interpretation has no impact on the Group's financial statements.

HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment

It 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 adoption of the interpretation does not have any impact on the Group's 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

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 March 2007 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 (Revised), Presentation of Financial Statements (effect for annual periods beginning on or after 1 January 2009)

It requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from annual periods beginning 1 January 2009.

HKAS 23 (Revised), Borrowing Costs, (effective for annual periods beginning on or after 1 January 2009)

It requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from annual periods beginning 1 January 2009.

HKFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009)

HKFRS 8 supersedes HKAS 14, Segment Reporting, which requires segments to be identified and reported based on risk and return analysis for external reporting purposes. HKFRS 8 requires segments to be reported based on the Group's internal reporting pattern as they represent components of the Group regularly reviewed by management. Management considers the adoption of HKFRS 8 has no significant impact to the segment disclosure of the Group. The Group will apply HKFRS 8 from annual periods beginning 1 January 2009.

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

It 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 1 January 2008 but it is not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 14, HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008)

It provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC)-Int 14 from 1 January 2008, but it is not expected to have any impact on the group's financial statements.

2.1 BASIS OF PREPARATION (CONTINUED)

Interpretations to existing standards that are not yet effective and not relevant to the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's annual periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations.

HK(IFRIC)-Int 12, Service Concession Arrangement (effective for annual periods beginning on or after 1 January 2008)

This interpretation sets out general principles on recognizing and measuring the obligation and related rights in service concession arrangements. It applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. The Group has no service concession arrangements and management considers the interpretation is not relevant to the Group.

HK(IFRIC)-Int 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008)

It clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group has no customer loyalty programmes and management considers the interpretation is not relevant to the Group.

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.

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.

2.2 CONSOLIDATION (CONTINUED)

(a) Subsidiaries (Continued)

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.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2.6).

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.3 SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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

2.4 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities 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

Freehold land is stated at cost. 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 (Note 2.7).

Trademarks

Trademarks are shown at historical cost. Trademarks have indefinite useful lives. Trademarks 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.

2.6 INTANGIBLE ASSETS (CONTINUED)

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 between eight to fifteen years.

2.7 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

2.8 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. 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.

2.8 FINANCIAL ASSETS (CONTINUED)

(d) Available-for-sale financial assets

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

Purchases and sales of 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.

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

2.10 TRADE AND OTHER RECEIVABLES

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

2.11 CASH AND CASH EQUIVALENTS

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

2.12 SHARE CAPITAL

Ordinary shares are classified as equity.

2.13 BORROWINGS

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. 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 the terms of the related pension liability.

2.15 EMPLOYEE BENEFITS (CONTINUED)

(a) Pension obligations (Continued)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in full in the period in which they occur, as a reserve movement, in equity.

Past-service costs are recognized immediately as income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

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

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as 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.

(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

3.1 FINANCIAL RISK FACTORS

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 Group operates in various 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 itself 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.

Majority of the Group's monetary assets and liabilities are denominated in the respective entities' function currencies, US dollars or Hong Kong dollars. Based on a sensitivity analysis performed by management, the impact to the Group would not be significant if the US dollars weaken against the relevant currencies by less than 10%.

(b) Credit risk

The Group's credit risk arises from cash and cash equivalents and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

As at 31 December 2007 and 2006, all the bank deposits are deposited in the high quality financial institutions without significant credit risk.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the customer as well as pertaining to the economic environment in which the customer operates.

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(c) Liquidity risk

The liquidity risk of the Group is managed by maintaining sufficient banking facilities and cash and cash equivalents, which is generated from the operating cash flow and financing cash flow.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over 5 years US$'000
As at 31 December 2007				
Trade and other payables	**391,942**	–	–	–
Bank overdrafts	**10,164**	–	–	–
Bank loans	**54,324**	**48,011**	**38,102**	–
Obligations under finance leases	**1,698**	**1,654**	**3,500**	–
	458,128	**49,665**	**41,602**	–
As at 31 December 2006				
Trade and other payables	297,075	–	–	–
Bank overdrafts	1,214	–	–	–
Bank loans	49,223	2,363	53,562	–
Obligations under finance leases	173	20	–	–
	347,685	2,383	53,562	–

(d) Cash flow 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.

Based on a sensitivity analysis for the Group's bank borrowings performed by management, there would be no significant impact to the Group if the cost of borrowing increased by 10%.

3.2 CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to maintain an optimal capital structure to reduce the cost of capital, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

As at 31 December 2007, the Group had a gearing ratio of 41.5% compared to 12% at end of 2006. The increase in gearing ratio during 2007 resulted primarily from the increase in bank borrowings to finance the acquisitions. This ratio is calculated as net debts (represented by bank and other borrowings net of time deposits and bank balances and cash) divided by total equity.

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 is based on, among other things, historical collection experience, a review of the current aging status of customer receivables, and a review of specific information for those customers that are deemed to be higher risk. The evaluation of the adequacy of allowance for doubtful accounts is performed on at least a half-yearly basis. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(b) Excess and obsolete inventory

The Group requires all excess, obsolete, damaged or off-quality inventory to be adequately provided 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 is 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.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(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 14).

5 REVENUE AND SEGMENT INFORMATION

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

	2007 US$'000	2006 US$'000
Sales of goods	**998,292**	827,493
Rendering of services	**297,365**	166,118
Revenue	**1,295,657**	993,611

Primary reporting format – business segments

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

Logistics
Distribution
Manufacturing

Secondary reporting format – geographical segments

The Group operates in the following geographical areas:

Greater China	–	Hong Kong, Mainland China ("PRC") and Taiwan
Asean	–	the Philippines, Singapore, Malaysia, Thailand, Indonesia and Brunei
US and UK	–	the United States of America ("the US") and United Kingdom ("UK")

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Primary reporting format – business segments

2007	Logistics US$'000	Distribution US$'000	Manufacturing US$'000	Unallocated (note) US$'000	Inter-segment elimination US$'000	Group Total US$'000
Sales of goods	–	874,307	123,985	–	–	998,292
Rendering of services	271,488	11,103	28,076	–	(13,302)	297,365
Revenue	271,488	885,410	152,061	–	(13,302)	1,295,657
Gross profit	254,609	122,325	9,222	–	(10,369)	375,787
Distribution, logistics and administrative expenses	(239,230)	(105,460)	(3,459)	(12,932)	10,369	(350,712)
Core operating profit	15,379	16,865	5,763	(12,932)	–	25,075
Other gains	892	216	–	12,943		14,051
Segment results	16,271	17,081	5,763	11		39,126
Finance costs, net						(4,709)
Share of profit less loss of associated companies						1,401
Profit before taxation						35,818
Taxation						(6,616)
Profit for the year						29,202
Segment assets	209,267	338,271	62,864	88,966		699,368
Associated companies	–	9,155	–	–		9,155
Total assets	209,267	347,426	62,864	88,966		708,523
Total liabilities	193,436	270,192	45,582	58,733		567,943
Capital expenditure	14,141	4,729	6,674	4,516		30,060
Capital expenditure arising from acquisition of subsidiaries	39,994	4,330	–	–		44,324
Depreciation and amortization	7,091	2,917	2,545	2,134		14,687
Impairment/(reversal of impairment) of inventory	62	(81)	146	–		127
Impairment of trade receivables	480	945	–	–		1,425

Note: Unallocated mainly includes 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)

2006	Logistics	Distribution	Manufacturing	Unallocated (note)	Inter-segment elimination	Group Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'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
Distribution, 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: Unallocated mainly includes 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)

Secondary reporting format – geographical segments

2007	Revenue US$'000	Segment results US$'000	Total assets US$'000	Capital expenditure US$'000
Greater China	487,361	16,656	232,873	9,418
Asean	720,256	20,520	281,155	15,144
US and UK	89,314	831	105,529	45,306
Unallocated (note)	–	(12,932)	88,966	4,516
	1,296,931	25,075	708,523	74,384
Less: Inter-segment elimination	(1,274)			
	1,295,657			
Other gains		14,051		
Operating profit		39,126		

2006	Revenue US$'000	Segment results US$'000	Total assets US$'000	Capital expenditure US$'000
Greater China	403,188	15,638	204,445	5,293
Asean	585,261	14,009	200,777	7,092
US and UK	7,733	529	49,432	32,498
Unallocated (note)	–	(10,065)	85,480	25,051
	996,182	20,111	540,134	69,934
Less: Inter-segment elimination	(2,571)			
	993,611			
Other gains		7,997		
Other expenses		(1,050)		
Operating profit		27,058		

Note: Unallocated mainly includes corporate costs, common information technology costs and land and buildings which cannot be meaningfully allocated to the geographical segments.

6 OTHER GAINS/(EXPENSES)

	2007 US$'000	2006 US$'000
Gain on disposal/partial divestment of a subsidiary	11,286	7,997
Realized exchange gain upon settlement of long term intra-group loan	1,634	–
Gain on acquisition of additional interest of a subsidiary	892	–
Gain on acquisition of a subsidiary	216	–
Gain on acquisition of an associated company	23	–
Other gains	14,051	7,997
Cost for restructuring	–	(1,050)
Other expenses	–	(1,050)

7 OPERATING PROFIT

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

	2007 US$'000	2006 US$'000
Employee benefit expense (note 8)	161,558	109,921
Depreciation of		
Owned property, plant and equipment	11,969	8,099
Leased property, plant and equipment	172	85
(Gain)/loss on disposal of plant and equipment	(27)	87
Operating leases		
Hire of plant and machinery	2,663	1,697
Buildings	39,265	24,851
Auditors' remuneration	1,144	1,007
Amortization of prepaid operating lease payment (note 15)	80	17
Amortization of intangible assets (note 14)	2,466	1,442
Provision for warranty	709	775
Provision for bad and doubtful debts (note 20(d))	1,425	722
Provision for obsolete inventories (note 19)	127	1,114
Costs of inventories sold (note 19)	902,257	722,377
(Gain)/loss on forward contracts not qualifying as hedges	(45)	270
Other exchange gain	(365)	(561)

8 EMPLOYEE BENEFIT EXPENSE

	2007 US$'000	2006 US$'000
Wages and salaries	**153,635**	103,201
Share options granted to directors and employees	**1,534**	980
Pension costs – defined contribution plans	**5,194**	4,477
Pension costs – defined benefit plans (note 26(d))	**424**	443
Post-employment benefits (note 26(d))	**771**	820
	161,558	109,921

(a) Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 December 2007 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	346	617	210	2	1,185	364	1,549
Joseph Chua PHI	10	277	357	132	2	778	227	1,005
Rajesh Vardichand RANAVAT	10	249	258	94	2	613	173	786
William FUNG Kwok Lun	10	–	–	–	–	10	–	10
Jeremy Paul Egerton HOBBINS	14	–	–	–	–	14	–	14
LAU Butt Farn	15	–	–	–	–	15	–	15
John Estmond STRICKLAND	19	–	–	–	–	19	–	19
William Winship FLANZ	19	–	–	–	–	19	–	19
FU Yu Ning	19	–	–	–	–	19	–	19
LEE Hau Leung	19	–	–	–	–	19	–	19
	167	872	1,232	436	6	2,713	764	3,477

Note: Other benefits include housing allowance and other allowance.

8 EMPLOYEE BENEFIT EXPENSE (CONTINUED)

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

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

Note: Other benefits include housing allowance 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 (2006: 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:

	2007 US$'000	2006 US$'000
Basic salaries and other benefits	654	588
Share options expenses	173	89
Bonuses	298	528
Pensions	2	3
	1,127	1,208

8 EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Number of employees	
	2007	2006
Emolument bands		
US$390,001 – US$455,000 (HK$3,000,001 – HK$3,500,000)	**1**	1
US$650,001 – US$715,000 (HK$5,000,001 – HK$5,500,000)	**–**	1
US$715,001 – US$780,000 (HK$5,500,001 – HK$6,000,000)	**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.

9 FINANCE COSTS, NET

	2007 US$'000	2006 US$'000
Interest expense on bank loans and overdrafts	**5,738**	3,668
Interest expense of finance leases	**206**	9
Imputed interest on non-current payables (note)	**690**	119
	6,634	3,796
Interest income from bank deposits	**(1,925)**	(2,354)
	4,709	1,442

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 rates of 5.78% (2006: 5.68%) under the effective interest method (note 28(d)).

10 TAXATION

Hong Kong profits tax has been provided for at the rate of 17.5% on the estimated assessable profits in Hong Kong for the year. It has not been provided for the year 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 year at the rates of taxation prevailing in the countries in which the Group operates.

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

	2007 US$'000	2006 US$'000
Current taxation:		
– Hong Kong profits tax	59	–
– Overseas taxation	5,350	6,379
	5,409	6,379
Deferred taxation:		
– Deferred tax assets	4,025	(5,506)
– Deferred tax liabilities	(2,818)	852
	1,207	(4,654)
Taxation charge	6,616	1,725

10 TAXATION (CONTINUED)

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

	2007 US$'000	2006 US$'000
Profit before taxation	**35,818**	25,616
Tax calculated at the domestic rates applicable to profits in the countries concerned	**7,688**	6,135
Tax effect related to:		
Expenses not deductible for taxation purposes	**1,300**	1,996
Eliminated income subject to tax	**693**	240
Income not subject to taxation	**(3,442)**	(2,172)
Increase in unrecognized tax losses	**769**	1,249
Increase/(decrease) in unrecognized temporary differences	**129**	(99)
Utilization of previously unrecognized tax losses	**–**	(779)
Recognition of capital and reinvestment allowance	**76**	687
Recognition of previously unrecognized tax losses	**–**	(5,442)
Over provision in prior years	**(874)**	(35)
Effect of change in tax rates on opening net deferred tax assets/liabilities	**504**	(61)
Others	**(227)**	6
Taxation charge	**6,616**	1,725

The weighted average applicable tax rate was 21% (2006: 24%). The decrease is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

11 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$14,915,000 (2006: US$8,880,000).

12 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.

	2007	2006
Profit attributable to shareholders of the Company (US$'000)	**28,152**	23,188
Weighted average number of ordinary shares in issue (thousands)	**311,359**	309,000
Basic earnings per share (US cents per share)	**9.04**	7.50

Diluted

Diluted earnings per share is calculated based on the weighted average number of 311,359,000 (2006: 309,000,000) shares in issue during the year plus the weighted average of shares deemed to have been issued at no consideration as set out below:

	2007			2006		
	Number of options	Exercise price	Total	Number of options	Exercise price	Total
			HK$			HK$
Weighted average dilutive share options outstanding during the year						
Granted at 14 December 2004	**9,605,917**	**at HK$4.825**	**46,348,550**	12,534,750	at HK$4.825	60,480,169
Granted at 16 December 2005	**4,625,375**	**at HK$8.60**	**39,778,225**	4,815,750	at HK$8.60	41,415,450
Granted at 15 December 2006	**4,830,000**	**at HK$15.10**	**72,933,000**	–	–	–
Total (a)	**19,061,292**		**159,059,775**	17,350,500		101,895,619
Equivalent number of shares at the weighted average market price during the year (b)	**19,061,292**	**at HK$23.23**	**442,793,813**	17,350,500	at HK$12.61	218,789,805
Discount (b) – (a)			**283,734,038**			116,894,186
Equivalent number of shares deemed to have issued at no consideration			**12,214,121**			9,273,123

12 EARNINGS PER SHARE (CONTINUED)

Diluted (Continued)

	2007	2006
Profit attributable to shareholders of the Company (US$'000)	**28,152**	23,188
Weighted average number of ordinary shares in issue (thousands)	**311,359**	309,000
Adjustments for share options (thousands)	**12,214**	9,273
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**323,573**	318,273
Diluted earnings per share (US cents per share)	**8.70**	7.29

13 DIVIDENDS

	2007 US$'000	2006 US$'000
Interim dividend paid of 12 HK cents (equivalent to 1.54 US cents) (2006: 7 HK cents (equivalent to 0.90 US cent)) per share	**4,820**	2,782
Proposed dividend after balance sheet date of 30 HK cents (equivalent to 3.85 US cents) (2006: 28 HK cents (equivalent to 3.58 US cents)) per share	**12,116**	11,109
	16,936	13,891

At a meeting held on 13 March 2008, the directors proposed a final dividend of 30 HK cents (equivalent to 3.85 US 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 2008.

14 INTANGIBLE ASSETS

	Group				
	Goodwill US$'000	Customer base US$'000	Software costs US$'000	Trademarks US$'000	Total US$'000
Cost					
At 1 January 2006	–	–	9,674	1,228	10,902
Exchange adjustment	–	–	357	–	357
Acquisition of a subsidiary/business	28,123	3,060	740	–	31,923
Additions	–	–	2,484	–	2,484
Disposals	–	–	(23)	–	(23)
At 31 December 2006	28,123	3,060	13,232	1,228	45,643
Accumulated amortization					
At 1 January 2006	–	–	3,866	184	4,050
Exchange adjustment	–	–	261	–	261
Acquisition of a subsidiary/business	–	–	408	–	408
Disposals	–	–	(14)	–	(14)
Amortization	–	67	1,375	–	1,442
At 31 December 2006	–	67	5,896	184	6,147
Net book value					
At 31 December 2006	28,123	2,993	7,336	1,044	39,496

14 INTANGIBLE ASSETS (CONTINUED)

	Group				
	Goodwill US$'000	Customer base US$'000	Software costs US$'000	Trademarks US$'000	Total US$'000
Cost					
At 1 January 2007	28,123	3,060	13,232	1,228	45,643
Exchange adjustment	(181)	57	170	–	46
Acquisition of subsidiaries	22,849	3,347	743	–	26,939
Additions	–	–	6,983	–	6,983
Disposals	–	–	(178)	–	(178)
Disposal of a subsidiary	–	–	–	(1,228)	(1,228)
Adjustments on contingent consideration	(2,786)	–	–	–	(2,786)
At 31 December 2007	48,005	6,464	20,950	–	75,419
Accumulated amortization					
At 1 January 2007	–	67	5,896	184	6,147
Exchange adjustment	–	2	100	–	102
Acquisition of subsidiaries	–	–	541	–	541
Disposals	–	–	(172)	–	(172)
Disposal of a subsidiary	–	–	–	(184)	(184)
Amortization	–	443	2,023	–	2,466
At 31 December 2007	–	512	8,388	–	8,900
Net book value					
At 31 December 2007	48,005	5,952	12,562	–	66,519

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

(b) Amortization of US$334,000 (2006: US$123,000) has been included in distribution and logistics expenses; and US$2,132,000 (2006: US$1,319,000) in administrative expenses in the consolidated income statement.

14 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill

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

	2007 US$'000	2006 US$'000
	Logistics	Logistics
the US	**25,164**	27,950
UK	**22,647**	–
Malaysia	**194**	173
	48,005	28,123

In accordance with HKAS 36 "Impairment of Assets", the Group completed its annual impairment tests for goodwill allocated to the Group's various CGUs by comparing their recoverable amount to their carrying amount as at the balance sheet date. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on one-year financial budgets approved by management and extrapolated perpetually with an estimated annual growth of not more than 7%. The discount rates used of approximately 9% are pre-tax and reflect specific risk related to the relevant segments. The budgeted gross margin and net profit margin were determined by the management for each individual CGU based on past performance and its expectations for market development. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

15 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	
	2007 US$'000	2006 US$'000
Outside Hong Kong, held on:		
Leases of over 50 years	–	284
Leases of between 10 to 50 years	3,077	1,400
	3,077	1,684
Opening	1,684	395
Exchange difference	139	86
Acquisition of a subsidiary	1,649	1,220
Disposal of a subsidiary	(315)	–
Amortization of prepaid operating lease payments	(80)	(17)
	3,077	1,684

16 PROPERTY, PLANT AND EQUIPMENT

	Group			
	Freehold land US$'000	Buildings US$'000	Furniture, plant and machinery US$'000	Total US$'000
At 1 January 2006				
Cost	–	3,528	78,015	81,543
Accumulated depreciation	–	(712)	(41,480)	(42,192)
Net book value	–	2,816	36,535	39,351
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

16 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 2007				
Opening net book value	6,572	19,408	42,934	68,914
Exchange adjustment	447	1,107	3,949	5,503
Acquisition of subsidiaries	–	3,683	12,594	16,277
Additions	–	612	22,465	23,077
Disposals	–	–	(474)	(474)
Disposal of a subsidiary	–	(2,878)	(2,189)	(5,067)
Depreciation	–	(602)	(11,539)	(12,141)
Closing net book value	7,019	21,330	67,740	96,089
At 31 December 2007				
Cost	7,019	24,315	142,234	173,568
Accumulated depreciation	–	(2,985)	(74,494)	(77,479)
Net book value	7,019	21,330	67,740	96,089

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

	2007 US$'000	2006 US$'000
Cost – capitalized finance leases	7,821	541
Accumulated depreciation	(558)	(246)
Net book value	7,263	295

Depreciation expense of US$2,506,000 (2006: US$1,515,000) has been expensed in cost of goods sold, US$6,991,000 (2006: US$4,749,000) in distribution and logistics expenses and US$2,644,000 (2006: US$1,920,000) in administrative expenses.

17 INTEREST IN A SUBSIDIARY

	Company	
	2007 US$'000	2006 US$'000
Unlisted shares, at cost (note (a))	23,988	23,988
Amount due from a subsidiary (note (b))	33,060	18,878
	57,048	42,866

Notes:

(a) Particulars of principal subsidiaries are set out in note 34 to the consolidated financial statements.

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

18 ASSOCIATED COMPANIES

	Group	
	2007 US$'000	2006 US$'000
At 1 January	–	–
Transfer from subsidiary due to decrease in shareholding interest	5,958	–
Acquisition of an associated company	1,457	–
Share of profit less loss of associated companies	1,401	
Dividend received	(26)	–
Exchange difference	365	–
At 31 December	9,155	–

Particulars of principal associated companies are set out in note 34.

18 ASSOCIATED COMPANIES (CONTINUED)

The aggregate amounts of revenues, results, assets and liabilities of the Group's associated companies are as follows:

	2007 US$'000	2006 US$'000
Revenue	**66,570**	–
Profit after tax	**4,668**	–
Assets	**46,152**	–
Liabilities	**27,096**	–
Net assets	**19,056**	–

During the year, the Group acquired 40% equity interest of Sebor (Sabah) Sendirian Berhad in Malaysia and disposed of a 17.5% interest in Slumberland Asia Pacific Limited ("Slumberland"). The disposal of 17.5% interest in Slumberland resulted in Slumberland ceased to be a subsidiary and became an associated company of the Group.

19 INVENTORIES

	Group	
	2007 US$'000	2006 US$'000
Finished goods and merchandise	**157,252**	109,470
Raw materials	**8,600**	8,552
Work in progress	**841**	1,338
	166,693	119,360
Less: Provision for obsolescence	**(2,824)**	(3,178)
	163,869	116,182

The cost of inventories recognized as expense and included in cost of goods sold amounted to US$902,257,000 (2006: US$722,377,000).

The Group recognized an inventory write-down of US$127,000 (2006: US$1,114,000). The amount has been included in cost of goods sold in the consolidated income statement.

20 TRADE AND OTHER RECEIVABLES

	Group	
	2007 US$'000	2006 US$'000
Trade receivables	210,066	166,629
Less: provision for impairment of receivables	(3,790)	(2,275)
Trade receivables, net (note (a))	206,276	164,354
Other receivables, prepayments, and deposits	58,374	48,947
Due from related companies (note (b) and note 32)	2,922	4,645
	267,572	217,946
Less: non-current portion: prepayments and deposits	(9,371)	(7,774)
	258,201	210,172

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

The maximum exposure to credit risk at the balance sheet date is the fair value of each class of receivable mentioned above and under limited circumstances, the Group holds collateral as security when granting credit to certain trade customers.

Notes:

(a) The Group normally grants 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 was as follows:

	Group	
	2007 US$'000	2006 US$'000
Less than 90 days	190,603	153,367
91–180 days	12,211	8,715
181–360 days	2,004	1,513
Over 360 days	1,458	759
	206,276	164,354

(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.

20 TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

(c) Trade receivables that are not impaired

The aging analysis of trade receivables that are past due but not impaired are as follows:

	Group	
	2007 US$'000	2006 US$'000
Less than 180 days	**53,097**	48,851
Over 180 days	**1,974**	940
	55,071	49,791

The credit quality of trade and other receivables that were neither past due nor impaired has been assessed by reference to historical information about the counterparty default rates.

(d) Movements on the provision for impairment of trade receivables are as follows:

	Group	
	2007 US$'000	2006 US$'000
At 1 January	**2,275**	1,498
Impairment loss recognized	**1,425**	722
Uncollectible amounts written off	**(337)**	(113)
Acquisition of subsidiaries	**360**	37
Disposal of a subsidiary	**(205)**	–
Exchange difference	**272**	131
At 31 December	**3,790**	2,275

The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. The impairment loss recognized for the trade receivables has been included in distribution and logistics expenses in the consolidated income statement.

21 CASH AND CASH EQUIVALENTS

	Group		Company	
	2007 US$'000	2006 US$'000	2007 US$'000	2006 US$'000
Bank balances and cash	55,656	38,161	66	–
Short-term bank deposits	33,816	46,432	–	11,355
	89,472	84,593	66	11,355

The effective interest rate on short-term bank deposits was 3.40% (2006: 3.89%); these deposits have an average maturity of 14 days (2006: 58 days).

22 SHARE CAPITAL AND OPTIONS

	2007		2006	
	Number of shares (in thousand)	US$'000	Number of shares (in thousand)	US$'000
Authorized:				
At 1 January and 31 December, ordinary shares of US$0.1 each	1,000,000	100,000	1,000,000	100,000
Issued and fully paid:				
At 1 January, ordinary shares of US$0.1 each	309,000	30,900	309,000	30,900
Exercise of share options	3,881	388	–	–
At 31 December, ordinary shares of US$0.1 each	312,881	31,288	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.

22 SHARE CAPITAL AND OPTIONS (CONTINUED)

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

	2007		2006	
	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	**25.550**	**7,776,000**	15.100	4,830,000
Exercised	**4.825**	**(3,881,000)**	–	–
Lapsed (note)	**4.825**	**(501,000)**	4.825	(531,000)
Lapsed (note)	**8.600**	**(55,500)**	8.600	(351,000)
At 31 December	**13.929**	**25,057,000**	7.918	21,718,500

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

Out of the 25,057,000 outstanding options (2006: 21,718,500 options), 190,000 options were exercisable at 31 December 2007 (2006: None). Options exercised in 2007 resulted in 3,881,000 shares (2006: Nil) issued at the exercise price of HK$4.825 (2006: Nil). The weighted average share price at the time of exercise was HK$23.23 (2006: Nil) per share. Subsequently, 1,694,000 shares have been allotted and issued under the Share Option Scheme up to 13 March 2008.

22 SHARE CAPITAL AND OPTIONS (CONTINUED)

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price HK$ per share	Share options 31 December 2007	Share options 31 December 2006
31 December 2008	4.825	**190,000**	4,080,000
31 December 2009	4.825	**3,834,000**	4,080,000
31 December 2010	4.825	**3,834,000**	4,080,000
31 December 2009	8.600	**1,531,000**	1,549,500
31 December 2010	8.600	**1,531,000**	1,549,500
31 December 2011	8.600	**1,531,000**	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
31 December 2011	25.550	**2,592,000**	–
31 December 2012	25.550	**2,592,000**	–
31 December 2013	25.550	**2,592,000**	–
		25,057,000	21,718,500

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

Date of grant	12 December 2007	15 December 2006	16 December 2005	14 December 2004
Share price at date of grant	**HK$25.55**	HK$15.10	HK$8.60	HK$4.825
Exercise price	**HK$25.55**	HK$15.10	HK$8.60	HK$4.825
Share volatility	**36%**	34%	34%	30%
Average annual risk-free interest rate	**2.51%**	3.72%	4.11%	2.22%
Expected life of options	**4 to 6 years**	4 to 6 years	4 to 6 years	4 to 6 years
Expected dividend yield	**3%**	3%	3%	3%

23 RESERVES

	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
At 1 January 2007	**21,019**	**1,517**	**16,450**	**31,716**	**7,546**	**78,248**
Exchange differences	–	–	–	–	**7,764**	**7,764**
Actuarial gains from post employment benefit recognized in reserve:						
– gross	–	–	–	**1,054**	–	**1,054**
– tax	–	–	–	**(31)**	–	**(31)**
Profit for the year	–	–	–	**28,152**	–	**28,152**
2006 final dividend paid	–	–	–	**(11,141)**	–	**(11,141)**
2007 interim dividend paid	–	–	–	**(4,820)**	–	**(4,820)**
Employee share option benefits						
– cost of employee services	–	**1,534**	–	–	–	**1,534**
– proceeds from shares issued	**2,009**	–	–	–	–	**2,009**
– transfer to share premium	**392**	**(392)**	–	–	–	–
Disposal of a subsidiary	–	–	**167**	**626**	**(793)**	–
At 31 December 2007	**23,420**	**2,659**	**16,617**	**45,556**	**14,517**	**102,769**
Company and subsidiaries	**23,420**	**2,659**	**16,617**	**44,155**	**14,152**	**101,003**
Associated companies	–	–	–	**1,401**	**365**	**1,766**
At 31 December 2007	**23,420**	**2,659**	**16,617**	**45,556**	**14,517**	**102,769**

23 RESERVES (CONTINUED)

Notes:

(a) Merger reserve represented the difference between the sum of the nominal value and share premium of shares of the subsidiaries acquired from Li & Fung (Distribution) Limited 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, net of transfer to share premium upon exercising of share options. The transfer to share premium during the year of US$392,000 (2006: Nil) represented the average share option value of approximately US$0.101 per option of the 3,881,000 options that were exercised in 2007 (2006: Nil).

	Company			
	Share premium US$'000	Employee share-based compensation reserve US$'000	(Accumulated losses)/retained earnings US$'000	Total US$'000
At 1 January 2006	21,019	537	(1)	21,555
Profit for the year	–	–	8,880	8,880
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	522	23,058
Profit for the year	–	–	14,915	14,915
2006 final dividend paid	–	–	(11,141)	(11,141)
2007 interim dividend paid	–	–	(4,820)	(4,820)
Employee share option benefits				
– cost of employee services	–	1,534	–	1,534
– proceeds from shares issued	2,009	–	–	2,009
– transfer to share premium	392	(392)	–	–
At 31 December 2007	23,420	2,659	(524)	25,555

24 BANK LOANS AND OTHER BORROWINGS

	Group 2007 US$'000	Group 2006 US$'000
Non-current		
Unsecured bank loans	**81,716**	51,242
Obligations under finance leases	**4,546**	15
	86,262	51,257
Current		
Unsecured bank overdrafts	**10,164**	1,214
Unsecured bank loans	**49,999**	45,866
Obligations under finance leases	**1,324**	165
	61,487	47,245
Total borrowings	**147,749**	98,502

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

The maturity of borrowings is as follows:

	Group			
	Bank loans and overdrafts		Obligations under finance leases	
	2007 US$'000	2006 US$'000	2007 US$'000	2006 US$'000
Within 1 year	**60,163**	47,080	**1,324**	165
Between 1 and 2 years	**44,552**	–	**1,367**	15
Between 2 and 5 years	**37,164**	51,242	**3,179**	–
Wholly repayable within 5 years	**141,879**	98,322	**5,870**	180

24 BANK LOANS AND OTHER BORROWINGS (CONTINUED)

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

	2007			2006		
	Bank overdraft	Bank loans	Obligations under finance lease	Bank overdraft	Bank loans	Obligations under finance lease
Hong Kong dollars	6.8%	3.6%	–	7.6%	4.4%	10.0%
Taiwan dollars	–	2.7%	–	–	2.6%	–
Philippine peso	–	8.2%	–	–	8.4%	–
Malaysian ringgit	6.8%	4.2%	11.8%	6.8%	4.3%	3.3%
Singapore dollars	5.8%	2.8%	–	5.6%	3.9%	4.5%
US dollars	–	5.6%	5.5%	–	5.7%	5.4%
Chinese renminbi	–	–	–	–	5.3%	–
Indonesian rupiah	–	9.3%	–	16.0%	–	–
Pound sterling	6.5%	7.0%	6.4%	–	–	–

The carrying amounts of borrowings approximate their fair values.

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

	Group	
	2007 US$'000	2006 US$'000
Hong Kong dollars	16,772	16,838
Taiwan dollars	10,942	12,626
Philippine peso	15,390	2,856
Malaysian ringgit	33,044	30,887
Singapore dollars	9,340	8,494
US dollars	24,037	23,127
Chinese renminbi	–	3,459
Indonesian rupiah	426	215
Pound sterling	37,798	–
	147,749	98,502

24 BANK LOANS AND OTHER BORROWINGS (CONTINUED)

Finance lease liabilities were payable as follows:

	Group	
	2007 US$'000	2006 US$'000
Within one year	1,698	173
In the second year	1,654	20
In the third to fifth year	3,500	–
	6,852	193
Future finance charges on finance leases	(982)	(13)
Present value of finance lease liabilities	5,870	180

25 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 2006	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
Exchange differences	348	17	182	547
Charged/(credited) to consolidated income statement	420	(3)	(3,235)	(2,818)
Acquisition of subsidiaries	758	–	–	758
Disposal of a subsidiary	(168)	–	–	(168)
At 31 December 2007	4,743	160	5,229	10,132

25 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 2006	(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)
Exchange differences	(173)	(33)	(630)	(836)
Charged to consolidated income statement	1,405	418	2,202	4,025
Acquisition of a subsidiary	(2,516)	–	–	(2,516)
Disposal of a subsidiary	–	23	671	694
Charged to equity	–	–	31	31
At 31 December 2007	(7,652)	(81)	(10,707)	(18,440)

The deferred taxation charged/(credited) to equity 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 income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	Group	
	2007 US$'000	2006 US$'000
Deferred tax assets	(11,146)	(9,818)
Deferred tax liabilities	2,838	1,793

25 DEFERRED TAXATION (CONTINUED)

Deferred income tax assets are recognized for tax losses carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. As at 31 December 2007, US$15,115,000 (2006: US$9,827,000) of the Group's unrecognized tax losses is carried forward against future taxable income; of which US$10,390,000 (2006: US$8,658,000) will expire by 2012 (2006: 2011).

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

	Group	
	2007 US$'000	2006 US$'000
Deferred tax assets to be received after more than 12 months	**(11,146)**	(9,818)
Deferred tax liabilities to be settled after more than 12 months	**2,838**	1,793

26 PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS)

	Group	
	2007 US$'000	2006 US$'000
Assets on:		
– surplus on pension schemes – defined benefits plans (note (a))	**945**	849
Obligations on:		
– defined contribution plans (note 27)	**(970)**	(894)
– deficit on pension schemes – defined benefits plans (note (b))	**(1,699)**	(1,544)
– post employment benefit liabilities (note (c))	**(2,492)**	(2,942)
	(5,161)	(5,380)

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 post employment benefit liabilities represented the obligation of the Group to make lump sum payment on 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.

26 PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS) (CONTINUED)

(a) Surplus on pension schemes – defined benefits plans

	Group	
	2007 US$'000	2006 US$'000
Fair value of plan assets (note (e))	5,381	4,499
Present value of funded obligations (note (e))	(4,436)	(3,650)
Surplus on pension schemes (note (e))	945	849

As at 31 December 2007, the level of funding represented 121.3% (2006: 123.3%) of the present value of obligations.

(b) Deficit on pension schemes – defined benefits plans

	Group	
	2007 US$'000	2006 US$'000
Present value of funded obligations (note (e))	(3,952)	(3,656)
Fair value of plan assets (note (e))	2,253	2,112
Deficit on pension schemes (note (e))	(1,699)	(1,544)

As at 31 December 2007, the level of funding represented 57.0% (2006: 57.8%) of the present value of obligations.

(c) Post employment benefit liabilities

	Group	
	2007 US$'000	2006 US$'000
Present value of funded obligations (note (e))	(2,880)	(3,716)
Unrecognized transitional liabilities (note)	388	774
Post employment benefit liabilities (note (e))	(2,492)	(2,942)

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

26 PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS) (CONTINUED)

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

	Group	
	2007 US$'000	2006 US$'000
Surplus on pension schemes		
Current service cost (note i)	185	187
Interest cost (note ii)	133	139
Expected return on plan assets	(290)	(250)
Expenses on surplus on pension schemes (note (e))	28	76
Deficit on pension schemes		
Current service cost (note i)	342	353
Interest cost (note ii)	138	158
Expected return on plan assets	(84)	(79)
Gain on curtailment	–	(65)
Expense on deficit on pension schemes (note (e))	396	367
Pension costs – defined benefit plans (note 8)	424	443
Post employment benefit liabilities		
Current service cost (note i)	218	165
Interest cost (note ii)	166	192
Amortization of transitional liability	387	388
Loss on curtailment	–	75
Post employment benefit costs (note (e) and note 8)	771	820

The actual return on plan assets was US$844,000 (2006: US$605,000).

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.

26 PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS) (CONTINUED)

(e) Movement included in the consolidated balance sheet:

	Group	
	2007 US$'000	2006 US$'000
Surplus on pension schemes		
At 1 January	849	546
Total expenses – (note (d))	(28)	(76)
(Loss)/gain recognized through reserves	(12)	235
Employer's contribution	139	146
Exchange difference	(3)	(2)
At 31 December (note (a))	945	849
Deficit on pension schemes		
At 1 January	(1,544)	(1,244)
Total expenses – (note (d))	(396)	(367)
Gain/(loss) recognized through reserves	91	(288)
Employer's contribution	287	412
Exchange difference	(137)	(57)
At 31 December (note (b))	(1,699)	(1,544)
Post employment benefit liabilities		
At 1 January	(2,942)	(1,850)
Total expenses – (note (d))	(771)	(820)
Gain/(loss) recognized through reserves	975	(237)
Employer's contribution	263	97
Disposal of a subsidiary	121	–
Exchange difference	(138)	(132)
At 31 December (note (c))	(2,492)	(2,942)

26 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	
	2007 US$'000	2006 US$'000
Surplus on pension schemes		
At 1 January	3,650	3,405
Current service cost	185	187
Interest cost	133	139
Employee's contribution	12	12
Benefits paid	(47)	(170)
Actuarial loss	515	87
Exchange difference	(12)	(10)
At 31 December (note (a))	4,436	3,650
Deficit on pension schemes		
At 1 January	3,656	3,041
Current service cost	342	353
Interest cost	138	158
Benefits paid	(315)	(224)
Gain on curtailments	–	(65)
Actuarial (gain)/loss	(69)	309
Exchange difference	200	84
At 31 December (note (b))	3,952	3,656
Post employment benefit liabilities		
At 1 January	3,716	3,010
Current service cost	218	165
Interest cost	166	192
Benefits paid	(263)	(97)
Loss on curtailments	–	75
Actuarial (gain)/loss	(975)	237
Disposal of a subsidiary	(121)	–
Exchange difference	139	134
At 31 December (note (c))	2,880	3,716

26 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	
	2007 US$'000	2006 US$'000
Surplus on pension schemes		
At 1 January	**4,499**	3,951
Employers' contribution	**139**	146
Employees' contribution	**12**	12
Expected return on plan assets	**290**	250
Benefits paid	**(47)**	(170)
Actuarial gain	**503**	322
Exchange difference	**(15)**	(12)
At 31 December (note (a))	**5,381**	4,499
Deficit on pension schemes		
At 1 January	**2,112**	1,797
Employers' contribution	**228**	234
Expected return on plan assets	**84**	79
Benefits paid	**(256)**	(46)
Actuarial gain	**22**	21
Exchange difference	**63**	27
At 31 December (note (b))	**2,253**	2,112

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

	Group	
	2007 %	2006 %
Discount rate	**2.75–10.5**	2.1–10.5
Expected rate of future salary increases	**3–8**	3–9
Expected rate of return on plan assets	**2.75–8.25**	2.75–7.5

27 TRADE AND OTHER PAYABLES

	Group	
	2007 US$'000	2006 US$'000
Trade payable (note (a))	293,700	211,779
Other payables and accruals (note (c))	109,558	95,786
Obligations on pension – defined contribution plans (note 26)	970	894
Due to related companies (note (b) & note 32)	1,249	5,024
	405,477	313,483
Less: non-current portion: other payables and accruals (note (c))	(13,535)	(16,408)
	391,942	297,075

Notes:

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

	Group	
	2007 US$'000	2006 US$'000
Less than 90 days	232,228	178,037
91–180 days	56,218	30,569
181–360 days	4,017	1,758
Over 360 days	1,237	1,415
	293,700	211,779

(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$11,920,000 (2006: US$18,197,000) purchase consideration payable arising from the acquisition of business made in 2006.

The non-current portion of the purchase consideration payable was discounted to present value of US$8,406,000 (2006: US$13,018,000) at the average borrowing rate of 5.78% (2006: 5.68%).

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Cash generated from operations

	2007 US$'000	2006 US$'000
Operating profit	39,126	27,058
Amortization of intangible assets	2,466	1,442
Depreciation charge	12,141	8,184
Amortization of prepaid operating lease payment	80	17
Gain on disposal/partial divestment of a subsidiary	(11,286)	(7,997)
Gain on acquisition of additional interest in a subsidiary	(892)	–
Gain on acquisition of a subsidiary	(216)	–
Gain on acquisition of an associated company	(23)	–
(Gain)/loss on disposal of property, plant and equipment	(27)	87
Loss on disposal of intangible assets	6	–
Share option expenses	1,534	980
Operating profit before working capital changes	42,909	29,771
Increase in inventories	(41,279)	(23,908)
Increase in pension assets, trade and other receivables	(24,193)	(33,242)
Increase in pension liabilities, post-employment benefit liabilities, trade and other payables	78,076	76,762
Net cash generated from operations	55,513	49,383

28 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 2006	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 a subsidiary	–	–	–	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
Net proceeds from issue of shares	**388**	**2,009**	–	–	–
Cash inflow from bank loans	–	–	**36,649**	–	–
Cash outflow from bank loans and finance lease	–	–	**(5,184)**	–	**(455)**
Dividends paid to minority shareholders	–	–	–	**(780)**	–
Capital injection by minority shareholders of a subsidiary	–	–	–	**18**	–
Non-cash movements:					
Transfer from employee share-based compensation reserve	–	**392**	–	–	–
Acquisition of a subsidiary	–	–	–	**4,119**	**4,790**
Inception of finance lease	–	–	–	–	**1,405**
Acquisition of additional interest in a subsidiary	–	–	–	**(1,658)**	–
Disposal of a subsidiary	–	–	–	**(3,763)**	–
Minority interest's share of profits	–	–	–	**1,050**	–
Exchange differences	–	–	**3,142**	**452**	**(50)**
At 31 December 2007	**31,288**	**23,420**	**131,715**	**6,523**	**5,870**

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

(c) Acquisition of subsidiaries

	2007 US$'000	2006 US$'000
Net assets acquired:		
Customer base	3,347	770
Software	202	157
Properties, plant and equipment	16,277	22,772
Lease premium for land	1,649	1,220
Deferred tax assets	2,516	–
Inventories	12,574	–
Trade and other receivables	33,722	2,080
Bank balances and cash	1,035	1,583
Obligations under finance leases	(4,790)	–
Deferred tax liabilities	(758)	(325)
Trade and other payables	(37,456)	(1,759)
Bank overdraft	(12,354)	–
Taxation payable	(1,552)	(170)
Minority interests	(4,119)	–
	10,293	26,328
Goodwill on acquisition	22,849	173
Gain on acquisition	(216)	–
	32,926	26,501
Satisfied by		
Cash consideration	31,165	25,624
Expenses incurred on acquisition	1,761	877
	32,926	26,501

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

	2007 US$'000	2006 US$'000
Purchase consideration	31,165	25,624
Expenses incurred on acquisition	1,761	877
Negative cash and cash equivalents in subsidiary acquired	11,319	(1,583)
Expenses payable in respect of acquisition	(727)	–
Net outflow of cash and cash equivalents on acquisition	43,518	24,918

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

(d) Acquisition of business

	2007 US$'000	2006 US$'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
	–	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:

	2007 US$'000	2006 US$'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

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

(e) Disposal of a subsidiary

	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 inflow 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)
Cash and cash equivalent disposed	(6,540)
	6,831

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

(e) Disposal of a subsidiary (Continued)

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

There was no disposal in 2006.

(f) Included in the bank balances and cash of the Group as at 31 December 2007 were amount totaling US$23,519,000 (2006: US$12,339,000) which were denominated in Renminbi, the remittance of which is subject to foreign exchange control.

29 CONTINGENT LIABILITIES

(a) Bank guarantees

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

	Group	
	2007 US$'000	2006 US$'000
As security in favor of local tax and customs authorities in accordance with local regulations	494	9,811
For purchase of goods in favor of suppliers	9,469	10,052
Performance bonds and others	593	407
For rental payment in favor of the landlords	8,210	5,762
	18,766	26,032

The Company has corporate guarantee in respect of banking facilities granted to subsidiaries amounting to US$355,000,000 at 31 December 2007 (2006: US$279,000,000).

(b) The Company and its US subsidiary, IDS USA Inc. (formerly known as IDS Impac Ltd.) were advised on 14 December 2007 that they have been named as defendants in a civil claim for alleged breaches of contracts. The management of the Group have reviewed the facts and circumstances and are of the view that the likelihood of the Company and its subsidiary suffering material loss is low.

30 COMMITMENTS

(a) Capital commitments in respect of:

	Group	
	2007 US$'000	2006 US$'000
Property, plant and equipment		
Contracted but not provided for	643	1,495
Authorized but not contracted for	1,874	–
Intangible assets		
Authorized but not contracted for	2,343	–
	4,860	1,495

(b) **Commitments under operating leases**

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

	Group			
	Buildings		Others	
	2007 US$'000	2006 US$'000	2007 US$'000	2006 US$'000
Not later than one year	41,999	28,872	1,273	1,017
Later than one year and not later than five years	122,428	81,843	1,590	967
Later than five years	92,216	78,812	–	–
	256,643	189,527	2,863	1,984

The Company did not have any material commitments at 31 December 2007 (2006: Nil).

31 BUSINESS COMBINATIONS

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$44,354,000 and net profit of approximately US$526,000 to the Group for the period from 1 June 2007 to 31 December 2007.

In August 2007, the Group acquired the entire issued capital of IDS Logistics UK Limited (formerly known as PB Logistics Limited), a logistics company operating in UK. The acquired business contributed revenues of approximately US$36,575,000 and net profit of approximately US$1,439,000 for the period from 1 September 2007 to 31 December 2007.

If the acquisitions had occurred on 1 January 2007, the estimated unaudited consolidated revenue for the Group would have been approximately US$1,386,824,000, and unaudited profit for the year would have been approximately US$28,788,000.

Details of net assets acquired and goodwill are as follows:

	2007 US$'000
Purchase consideration:	
– Cash consideration	31,165
– Direct costs relating to the acquisition	1,761
Total purchase consideration	32,926
Fair value of net assets acquired	(10,293)
	22,633
Represented by	
Goodwill (Note 14)	22,849
Gain on acquisition	(216)

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

Gain on acquisition represents negative goodwill arising from business combination.

31 BUSINESS COMBINATIONS (CONTINUED)

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

	2007 Carrying amounts US$'000	2007 Fair value US$'000
Customer base (Note 14)	–	3,347
Software (Note 14)	202	202
Property, plant and equipment (Note 16)	15,485	16,277
Lease premium for land (Note 15)	350	1,649
Deferred tax assets	2,516	2,516
Inventories	12,574	12,574
Trade and other receivables	33,722	33,722
Bank balances and cash	1,035	1,035
Finance lease obligations	(4,790)	(4,790)
Deferred tax liabilities	(215)	(758)
Trade and other payables	(37,456)	(37,456)
Bank overdraft	(12,354)	(12,354)
Taxation payable	(1,552)	(1,552)
Minority interests	(3,610)	(4,119)
Net assets	5,907	10,293
Purchase consideration		31,165
Expenses incurred on acquisition		1,761
Expenses payable on acquisition		(727)
		32,199

32 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is an associated company of Li & Fung (Distribution) Limited ("LFD") incorporated in the British Virgin Islands which owns 41.86% of the Company's shares.

The following significant transactions were carried out with related companies:

	Note	Group 2007 US$'000	Group 2006 US$'000
Continuing transactions:			
– Income from distribution and sale of goods	(a)	**1,276**	1,027
– Income from provision of shipping, handling and other logistics services	(a)	**7,434**	3,231
– Rental received from	(b)	**1,225**	1,088
– Rental paid to	(b)	**2,837**	2,399
Non-recurring transactions:			
– Acquisition of a subsidiary	(c)	**6,696**	–
– Acquisition of an associated company	(c)	**1,340**	–

(a) Sales/purchase of goods and revenue from rendering of logistics 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) Rental received from/paid to were charged on normal commercial terms based on relevant lease agreements entered.

(c) Acquisitions of a subsidiary/an associated company were negotiated on an arm's length basis.

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.

Key management compensation

	2007 US$'000	2006 US$'000
Salaries and other short-term employee benefits	**2,707**	2,428
Share-based payments	**764**	414
Post-employment benefits	**6**	6
	3,477	2,848

32 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

Year-end balances with related parties

	Note	2007 US$'000	2006 US$'000
Due from	(a)		
– related parties		**2,792**	4,645
– associated companies		**130**	–
Due to	(b)		
– related parties		**452**	5,024
– an associated company		**797**	–

(a) Year-end balances arose from sales/services/recharge of administrative expense. The balances are unsecured, interest-free and with terms no more favorable than those granted to third parties.

(b) Year-end balances arose from purchase/recharge of administrative expense. The balances were unsecured, interest-free and with terms no more favorable than those granted to third parties.

33 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved for issue by the Board of Directors on 13 March 2008.

34 PRINCIPAL SUBSIDIARIES & ASSOCIATED COMPANIES

As at 31 December 2007, the Company held interests in the following principal subsidiaries & associated companies.

Name	Place of Incorporation	Principal activities	Place of operation	Particulars of issued/paid up share capital	Interest held
Principal subsidiaries					
Directly held:					
IDS Group Limited	British Virgin Islands	Investment holding	Hong Kong	949,165 ordinary shares of US$1 each	100%
Indirectly held:					
IDS Logistics (Hong Kong) Limited	Hong Kong	Provision of logistics services	Hong Kong	10,000 ordinary shares of HK$1 each	100%
IDS (Hong Kong) Limited	Hong Kong	Distribution of consumer and pharmaceutical products	Hong Kong	14,600,000 ordinary shares of HK$10 each	100%
Shanghai IDS Shen Hong Logistics Co., Ltd. 上海英和申宏商業服務有限公司* (note (a))	PRC	Provision of logistics services	PRC	US$5,000,000	100%
Nanjing IDS Marketing Company Limited 南京利豐英和商貿有限公司* (note (b))	PRC	Import/export and distribution of general merchandise	PRC	US$5,000,000	100%
IDS Logistics (Taiwan) Limited	Hong Kong	Provision of logistics and packaging services	Taiwan	2 ordinary shares of HK$100 each	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	Distribution of healthcare products	Singapore	300,000 ordinary shares of S$1 each	100%
				60,000 preference shares of S$1 each	
IDS Logistics Services (M) Sdn. Bhd.	Malaysia	Provision of logistics services	Malaysia	2,000,000 ordinary shares of RM1 each	100%
IDS Services (Malaysia) Sdn. Bhd.	Malaysia	Distribution of consumer, pharmaceutical, and medical equipment products	Malaysia	14,231,002 ordinary shares of RM1 each	100%
IDS Sebor (Sarawak) Sdn. Bhd.	Malaysia	Distribution of consumer products	Malaysia	5,000,000 ordinary shares of RM1 each	67.09%
IDS Manufacturing Sdn. Bhd.	Malaysia	Manufacturing of pharmaceutical, foods and toiletries products	Malaysia	23,000,000 ordinary shares of RM1 each	100%
IDS Logistics (Thailand) Limited	Thailand	Provision of logistics services	Thailand	1,215,000 ordinary shares of Baht 250 each	100%

34 PRINCIPAL SUBSIDIARIES & ASSOCIATED COMPANIES (CONTINUED)

Name	Place of Incorporation	Principal activities	Place of operation	Particulars of issued/paid up share capital	Interest held
Principal subsidiaries					
IDS Marketing (Thailand) Limited	Thailand	Distribution of consumer and pharmaceutical products	Thailand	160,000 ordinary shares of Baht 100 each	100%
				55,000 preference shares of Baht 100 each	
IDS Manufacturing Limited	Thailand	Manufacturing of household, pharmaceutical and personal care products	Thailand	4,695,000 ordinary shares of Baht 100 each	100%
IDS Logistics (Philippines), Inc.	Philippines	Provision of logistics services	Philippines	100,000 shares of Pesos 100 each	100%
IDS Marketing (Philippines), Inc.	Philippines	Distribution of consumer products	Philippines	110,000 shares of Pesos 100 each	100%
IDS Impac Ltd.	US	Provision of logistics services	US	100 common stock of US$0.01 each	100%
IDS Logistics (UK) Limited	UK	Provision of logistics services	UK	50,000 ordinary shares of £1 each	100%
Principal associated companies					
Slumberland (M) Sdn. Bhd.	Malaysia	Marketing, distribution and manufacturing of mattresses and bed related products	Malaysia	2,000,000 ordinary shares of RM1 each	50%
Slumberland Marketing Sdn. Bhd.	Malaysia	Marketing and distribution of mattresses and bed related products	Malaysia	2 ordinary shares of RM1 each	50%
Sebor (Sabah) Sendirian Berhad	Malaysia	Distribution of consumer products	Malaysia	11,000,000 ordinary shares of RM1 each	40%

* 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.

The above list gives the principal subsidiaries/associated companies 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/associated companies would, in the opinion of the directors, result in particulars of excessive length.

Six-Year Financial Summary

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

	2007 US$'000	2006 US$'000	2005 US$'000	2004 US$'000	2003 US$'000	2002 US$'000
Results						
Revenue	**1,295,657**	993,611	821,530	584,876	591,814	466,050
Core operating profit	**25,075**	20,111	15,952	12,688	7,769	4,893
Other gains/(expenses)	**14,051**	6,947	3,011	633	5,328	678
Operating profit	**39,126**	27,058	18,963	13,321	13,097	5,571
Finance costs, net	**(4,709)**	(1,442)	(856)	(687)	(1,335)	(2,054)
Share of profit of associated companies and jointly controlled entity	**1,401**	–	–	25	290	660
Profit before taxation	**35,818**	25,616	18,107	12,659	12,052	4,177
Taxation	**(6,616)**	(1,725)	(3,828)	(1,096)	(2,908)	(753)
Minority interest	**(1,050)**	(703)	(946)	(923)	(776)	(449)
Profit attributable to shareholders	**28,152**	23,188	13,333	10,640	8,368	2,975
Earnings per share (US cents)	**9.04**	7.50	4.31	4.35	–	–
Dividend per share (US cents)	**5.39**	4.48	2.57	–	–	–
Special dividend per share (US cents) (note)	–	–	–	7.11	–	–
Total assets	**708,523**	540,134	373,302	313,837	321,743	397,447
Total liabilities	**(567,943)**	(423,901)	(280,980)	(232,741)	(253,845)	(330,843)
Total assets less liabilities	**140,580**	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 dividend 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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