THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this document or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in IDS (as defined herein), you should at once hand this document and the accompanying forms of proxy and the Election Form (as defined herein) to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This document appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities. In particular, this document is not an offer of securities for sale in Hong Kong or elsewhere.

This document contains forward-looking statements. Statements that are not historical facts, including statements about beliefs and expectations of Li & Fung (as defined herein) and IDS, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore readers should not place undue reliance on them. Forward-looking statements speak only as at the date they are made, and neither Li & Fung nor IDS undertakes any obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks, uncertainties and assumptions. Li & Fung and IDS caution readers that if these risks or uncertainties ever materialise or the assumptions prove incorrect, or if a number of important factors occur or do not occur, actual results may differ materially from those expressed or implied in any forward-looking statement. While Li & Fung and IDS may elect to update the forward-looking statements at any time, each of them assume no duty to and does not undertake to update these statements at any particular time or in respect to any particular event.

If you are a resident of the United States, you should be aware that the Scheme is subject to disclosure requirements of jurisdictions that are different from those of the United States. Financial statements included in this document have been prepared in accordance with accounting standards that may not be comparable to the financial statements of United States companies. In addition, it may be difficult for you to enforce your rights and any claim that you may have arising under the United States securities laws, since the issuer, Li & Fung, is located in a foreign country, and some or all of its officers and directors may be residents of a foreign country.

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LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 494)

INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2387)

PROPOSED ACQUISITION BY LI & FUNG LIMITED OF INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED BY WAY OF PRIVATISATION PURSUANT TO A SCHEME OF ARRANGEMENT (UNDER SECTION 99 OF THE COMPANIES ACT)

Financial adviser to Li & Fung Limited

J.P.Morgan

Independent financial adviser to the independent board committee of IDS

ANZ

A letter from the IDS Board (as defined herein) is set out on pages 13 to 30 of this document. The Explanatory Statement (as defined herein) is set out on pages 67 to 97 of this document. A letter from the IDS IBC (as defined herein) containing its advice to the IDS Independent Shareholders (as defined herein) and the IDS Optionholders (as defined herein) in relation to the Proposal (as defined herein) is set out on pages 31 to 32 of this document. A letter from ANZ (as defined herein), the independent financial adviser of IDS, containing its advice to the IDS IBC in relation to the Proposal is set out on pages 33 to 66 of this document.

The actions to be taken by the IDS Shareholders (as defined herein) and the IDS Optionholders are set out in the section headed "Explanatory Statement – Actions to be taken" on pages 94 to 97 of this document.

Notices of the Court Meeting (as defined herein) and the IDS SGM (as defined herein) both to be held on Thursday, 7 October 2010 are set out on pages N-1 to N-2 and pages SGM-1 to SGM-3 of this document respectively. **Whether or not you are able to attend the Court Meeting and/or the IDS SGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the IDS SGM, in accordance with the respective instructions printed thereon, and to lodge them with the IDS Registrar (as defined herein), Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any event not later than the respective times and dates as stated under the section headed "Explanatory Statement – Actions to be taken" on pages 94 to 97 of this document. Completion and return of the relevant form of proxy will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof should you so wish.**

14 September 2010

CONTENTS

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CONTENTS

In this document, the following expressions have the following meanings unless the context requires otherwise:

"2004 Options"	the outstanding IDS Share Options granted in 2004, the exercise price of which is HK$4.825 per IDS Share; as at the Latest Practicable Date, there were 131,000 2004 Options
"2005 Options"	the outstanding IDS Share Options granted in 2005, the exercise price of which is HK$8.60 per IDS Share; as at the Latest Practicable Date, there were 882,000 2005 Options
"2006 Options"	the outstanding IDS Share Options granted in 2006, the exercise price of which is HK$15.10 per IDS Share; as at the Latest Practicable Date, there were 2,010,000 2006 Options
"2007 Options"	the outstanding IDS Share Options granted in 2007, the exercise price of which is HK$25.55 per IDS Share; as at the Latest Practicable Date, there were 6,861,000 2007 Options
"2008 Options"	the outstanding IDS Share Options granted in 2008, the exercise price of which is HK$6.64 per IDS Share; as at the Latest Practicable Date, there were 4,611,000 2008 Options
"2009 Options"	the outstanding IDS Share Options granted in 2009, the exercise price of which is HK$12.776 per IDS Share; as at the Latest Practicable Date, there were 4,920,000 2009 Options
"acting in concert"	has the meaning ascribed to it under the Takeovers Code
"Announcement"	the announcement dated 12 August 2010 issued jointly by Li & Fung and IDS relating to, among other things, the Proposal
"Announcement Date"	12 August 2010, being the date of the Announcement

"ANZ"	Australia and New Zealand Banking Group Limited, a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and an authorised financial institution under the SFO licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities, which is the independent financial adviser to IDS in respect of the Proposal
"associate(s)"	has the meaning ascribed to it under the Takeovers Code
"Authorisations"	all necessary authorisations, registrations, filings rulings, consents, permissions and approvals in connection with the Proposal
"Beneficial Owner(s)"	any beneficial owner(s) of the IDS Shares registered in the name of any nominee, trustee, depository or any other authorised custodian or third party
"BNP Paribas"	BNP Paribas Capital (Asia Pacific) Limited, a licensed corporation under the SFO licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, which is the independent financial adviser to Li & Fung in respect of the Proposal
"Cancellation Consideration"	the Cash Alternative or the Share Alternative
"Cash Alternative"	the cash alternative under the Scheme, being HK$21.00 in cash for each Scheme Share
"CCASS"	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
"Committed Shareholders"	LF 1937, LFD and Dr. Victor Fung Kwok King
"Committed Shares"	in respect of a Committed Shareholder, all the IDS Shares held directly by the Committed Shareholder (excluding the Mikenwill Option Shares) which are subject to the Irrevocable Undertaking given by such Committed Shareholder

"Common Directors"	Dr. Victor Fung Kwok King, Dr. William Fung Kwok Lun and Mr. Lau Butt Farn, being the IDS Directors who are also directors of Li & Fung and/or LF 1937
"Companies Act"	the Companies Act 1981 of Bermuda
"Conditions"	the conditions of the Scheme, as set out under the section headed "Explanatory Statement – Conditions of the Scheme" on pages 72 to 76 of this document
"Court"	the Supreme Court of Bermuda
"Court Hearing"	the hearing of the petition by the Court for the sanction of the Scheme
"Court Meeting"	a meeting of the IDS Independent Shareholders to be convened at the direction of the Court at which the Scheme (with or without modification(s)) will be voted upon, or any adjournment thereof
"Disclosure Period"	the period commencing from 12 February 2010 (being the date falling 6 months prior to the Announcement Date) and ending on the Latest Practicable Date, both dates inclusive
"Effective Date"	the date on which the Scheme, if sanctioned by the Court, becomes effective, which is expected to be on or around 22 October 2010
"Election Form"	the form of election to be completed by the Scheme Shareholders for election of the Share Alternative
"Enlarged Group"	the IDS Group and the Li & Fung Group
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate for the time being of the Executive Director
"Explanatory Statement"	the explanatory statement set out on pages 67 to 97 of this document and issued in compliance with Section 100 of the Companies Act
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

"HMHL"	Hurricane Millennium Holdings Limited, a company beneficially owned by a trust established for the benefit of the family members of Mr. Bruce Philip Rockowitz, an executive Li & Fung Director
"Hong Kong"	the Hong Kong Special Administrative Region of PRC
"HSBC Trustee"	HSBC Trustee (C.I.) Limited acting in its capacity of the trustee of a trust established for the benefit of the family members of Dr. Victor Fung Kwok King
"IDS"	Integrated Distribution Services Group Limited, a company incorporated in Bermuda, whose shares are currently listed on the Stock Exchange
"IDS Board"	the board of IDS Directors
"IDS Director(s)"	director(s) of IDS
"IDS Group"	IDS and its subsidiaries
"IDS IBC"	an independent committee of the IDS Board established to advise the IDS Independent Shareholders and the IDS Optionholders in relation to the Proposal, the composition of which is set out under the section headed "Letter from the IDS Board – Introduction" on pages 13 to 14 of this document
"IDS Independent Shareholder(s)"	all IDS Shareholder(s), other than Li & Fung and persons acting in concert with it (including the Interested Shareholders)
"IDS Optionholder(s)"	holder(s) of IDS Share Options granted under the IDS Option Scheme
"IDS Option Scheme"	the share option scheme of IDS adopted on 4 November 2004, and amended on 22 November 2004
"IDS Price Reference Day"	6 August 2010, being the last trading day in the week immediately preceding the suspension of trading in the IDS Shares on the Stock Exchange pending the release of the Announcement

"IDS Registrar"	Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, the branch share registrar and transfer office of IDS in Hong Kong
"IDS Share(s)"	ordinary share(s) of US$0.10 each in the share capital of IDS
"IDS Shareholder(s)"	holder(s) of IDS Share(s)
"IDS Share Option(s)"	the outstanding option(s) granted to the IDS Optionholders under the IDS Option Scheme, irrespective of whether or not such options have been vested, comprising the 2004 Options, 2005 Options, 2006 Options, 2007 Options, 2008 Options and 2009 Options
"IDS SGM"	a special general meeting of the IDS Shareholders to be convened for the purposes of passing all necessary resolutions for the implementation of the Proposal
"Interested Shareholders"	the Related Shareholders and the Common Directors
"Irrevocable Undertakings"	the irrevocable undertakings all dated 11 August 2010 given by each of the Committed Shareholders in respect of his/its Committed Shares in favour of Li & Fung as set out under the section headed "Explanatory Statement – Irrevocable Undertakings to Accept the Proposal" on page 77 of this document
"J.P. Morgan"	J.P. Morgan Securities (Asia Pacific) Limited, a registered institution under the SFO licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities, which is the financial adviser to Li & Fung in respect of the Proposal
"King Lun"	King Lun Holdings Limited, which is 50% owned by HSBC Trustee and 50% owned by Dr. William Fung Kwok Lun
"Latest Practicable Date"	10 September 2010, being the latest practicable date prior to the date of this document for ascertaining certain information contained herein

"LF 1937"	Li & Fung (1937) Limited, which directly and indirectly held approximately 42.02% interests in IDS and directly held approximately 28.72% interests in Li & Fung as at the Latest Practicable Date; and is wholly-owned by King Lun
"LFD"	Li & Fung (Distribution) Limited, a wholly-owned subsidiary of LF 1937
"Li & Fung"	Li & Fung Limited, a company incorporated in Bermuda, whose shares are listed on the Stock Exchange
"Li & Fung Board"	the board of Li & Fung Directors
"Li & Fung Director(s)"	director(s) of Li & Fung
"Li & Fung Group"	Li & Fung and its subsidiaries
"Li & Fung Independent Shareholder(s)"	all Li & Fung Shareholder(s), other than LF 1937, King Lun, Dr. William Fung Kwok Lun (and his wife and a company beneficially owned by him), Mr. Spencer Theodore Fung and HSBC Trustee
"Li & Fung Price Reference Day"	6 August 2010, being the last trading day in the week immediately preceding the suspension of trading in the Li & Fung Shares on the Stock Exchange pending the release of the Announcement
"Li & Fung Share(s)"	ordinary share(s) of HK$0.025 each in the share capital of Li & Fung
"Li & Fung Shareholder(s)"	holder(s) of Li & Fung Share(s)
"Li & Fung Share Option(s)"	the 91,487,400 outstanding option(s) granted under the existing share option scheme of Li & Fung as at the Latest Practicable Date
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mikenwill"	Mikenwill Investments Limited, a company owned by Mr. Benedict Chang Yew Teck, who is not acting in concert with Li & Fung

"Mikenwill Call Option"	a call option granted by LF 1937 to Mikenwill to require LF 1937 to sell to Mikenwill or its nominee a total of 10,500,000 IDS Shares in five tranches pursuant to a deed given by LF 1937 in favour of Mikenwill dated 5 January 2007 and a supplemental deed dated 23 December 2009
"Mikenwill Option Shares"	a maximum of 2,100,000 IDS Shares to be transferred by LF 1937 to Mikenwill or its nominee pursuant to the exercise of the outstanding portion of the Mikenwill Call Option
"Offer Period"	has the meaning ascribed to in the Takeovers Code
"Option Offer"	the cash offer to IDS Optionholders to cancel their outstanding IDS Share Options, which is conditional on the Scheme becoming effective
"Option Offer Letter"	a letter dated 14 September 2010 setting out the terms and conditions of the Option Offer being sent separately to the IDS Optionholders, a sample of which is annexed to this document
"PRC" and "China"	the People's Republic of China
"Proposal"	the proposal for acquisition by Li & Fung of IDS by way of privatisation, comprising the Scheme and the Option Offer
"Record Date"	record date for determining entitlements under the Proposal
"Registered Owner(s)"	the IDS Shareholder(s) that has his, her or its name entered on the register of members of IDS, including any nominee, trustee, depository or any other authorised custodian or third party who is the registered owner of the IDS Share(s)
"Related Shareholders"	LF 1937, LFD, First Island Developments Limited and Dr. Victor Fung Kwok King
"Relevant Authorities"	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions, including but not limited to the Court and the Registrar of Companies in Bermuda

"Scheme"	a scheme of arrangement under Section 99 of the Companies Act involving the cancellation of all the Scheme Shares
"Scheme Document"	this document, including each of the letters, statements, appendices and notices in it
"Scheme Share(s)"	IDS Share(s) held by the Scheme Shareholder(s)
"Scheme Shareholder(s)"	IDS Shareholder(s) whose name(s) appear on IDS's register of shareholders on the Record Date
"SFC"	the Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Alternative"	the share alternative under the Scheme, being 0.585 Li & Fung Share for every Scheme Share
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed to it under the Listing Rules
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"US$"	United States dollars, the lawful currency of United States of America
"%"	per cent.

For the purposes of this document, the exchange rate of US$1.00 = HK$7.80 has been used for currency translation, where applicable. Such exchange rate is for illustration purposes only and does not constitute any representation that any amount in US$ or HK$ has been, could have been or may be converted at such rate.

The following timetable takes into account the Court procedures for the Scheme. The expected timetable is indicative only and is subject to change. Further announcement(s) will be made if there is any change to the following expected timetable.

	Hong Kong time *2010*
Despatch of the Scheme Document	Tuesday, 14 September
Despatch of the Option Offer Letter to IDS Optionholders in connection with the Option Offer	Tuesday, 14 September
Latest time for lodging forms of transfer of IDS Shares to qualify for attending and voting at the Court Meeting and the IDS SGM	4:30 p.m. on Monday, 4 October
Register of members of IDS closed *(Note 1)*	Tuesday, 5 October to Thursday, 7 October (both days inclusive)
Latest time for lodging the pink form of proxy in respect of the Court Meeting *(Note 2)*	11:00 a.m. on Tuesday, 5 October
Latest time for lodging the white form of proxy in respect of the IDS SGM *(Note 2)*	11:30 a.m. on Tuesday, 5 October
Suspension of trading in IDS Shares	9:30 a.m. on Thursday, 7 October
Court Meeting *(Note 3)*	11:00 a.m. on Thursday, 7 October
IDS SGM *(Note 3)*	11:30 a.m. on Thursday, 7 October (or at such time immediately after the Court Meeting shall have been concluded or adjourned, whichever is the later)
Announcement of the results of the Court Meeting and the IDS SGM	not later than 7.00 p.m. on Thursday, 7 October
Resumption of trading in IDS Shares	9:30 a.m. on Friday, 8 October
Last day for dealings in IDS Shares on the Stock Exchange	Wednesday, 13 October
Suspension of dealings in IDS Shares pending withdrawal of listing	9:30 a.m. on Thursday, 14 October
Latest time for IDS Optionholders to exercise their IDS Share Options in order to qualify for entitlements under the Scheme	5:30 p.m. on Friday, 15 October
Court Hearing *(Note 4)*	Friday, 15 October *(Bermuda time)*

Announcement of the result of the Court Hearing, the expected Effective Date and the expected date of withdrawal of listing of IDS Shares on the Stock Exchange	Monday, 18 October
Latest time for lodging forms of transfer of IDS Shares to qualify for entitlements under the Scheme	4:30 p.m. on Monday, 18 October
Register of members of IDS closed *(Note 5)*	Tuesday, 19 October to Friday, 22 October (both days inclusive)
Latest time for lodging the Election Form *(Note 6)*	4:30 p.m. on Friday, 22 October
Latest time for lodging the form of acceptance in relation to the Option Offer *(Note 7)*	4:30 p.m. on Friday, 22 October
Registration of the order of the Court to sanction the Scheme at the Bermuda Registrar of Companies *(Note 4 and Note 8)*	Friday, 22 October *(Bermuda time)*
Record Date	4:30 p.m. on Friday, 22 October
Effective Date *(Note 8)*	Friday, 22 October
Lapse of unexercised outstanding IDS Share Options	Friday, 22 October
Withdrawal of the listing of the IDS Shares on the Stock Exchange becomes effective	9:30 a.m. on Monday, 25 October
Announcement of the Effective Date and the withdrawal of the listing of the IDS Shares on the Stock Exchange	Monday, 25 October
Cheques for cash entitlements under the Scheme (if applicable) and the Option Offer to be despatched *(Note 9)*	on or before Monday, 1 November
Allotment and issue of Li & Fung Shares pursuant to the Share Alternative (if applicable) and despatch of share certificates of Li & Fung Shares to those Scheme Shareholders entitled thereto *(Note 9)*	on or before Monday, 1 November

Notes:

1. The register of members of IDS will be closed during such period for the purposes of determining entitlement of the IDS Independent Shareholders to attend and vote at the Court Meeting and the entitlement of the IDS Shareholders to attend and vote at the IDS SGM. This book close period is not for determining entitlements under the Scheme.

2. Forms of proxy should be lodged with the IDS Registrar, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any event not later than the respective times and dates stated above or, in the case of the pink forms of proxy for use at the Court Meeting, they may be handed to the Chairman of the Court Meeting. Completion and return of the relevant form of proxy for the Court Meeting or the IDS SGM will not preclude an IDS Independent Shareholder and an IDS Shareholder, respectively from attending the relevant meeting and voting in person. In such event, the relevant form of proxy returned will be deemed to have been revoked.

   A Beneficial Owner whose IDS Shares are registered in the name of a Registered Owner should contact such Registered Owner to give instructions to or to make arrangements with such Registered Owner as to the manner in which the IDS Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the IDS SGM. Such instructions or arrangements should be given or made in advance of the aforementioned latest time for the lodgement of forms of proxy in respect of the Court Meeting and/or the IDS SGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgement of forms of proxy in respect of the Court Meeting and the IDS SGM, then any such Beneficial Owner should comply with the requirements of the Registered Owner.

   Any Beneficial Owner whose IDS Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an investor participant, contact his, her or its broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such IDS Shares with, the other CCASS participant regarding voting instructions to be given to such persons if he, she or it wishes to vote in respect of the Scheme. The same timeframes for contacting his, her or its broker, custodian, nominee, or other relevant person as set out in the previous paragraph apply to such Beneficial Owner. The procedure for voting in respect of the Scheme by the investor participants and the other CCASS participants with respect to IDS Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the "General Rules of CCASS" and the "CCASS Operational Procedures".

3. The Court Meeting and the IDS SGM will be held at Pheasant-Jasmine Room, 1st Floor, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong at the times and dates specified above. Please see the notice of the Court Meeting set out on pages N-1 to N-2 and the notice of the IDS SGM set out on pages SGM-1 to SGM-3 of this document for details.

4. All references in this document to times and dates are references to Hong Kong times and dates, other than references to the expected dates of the Court Hearing and the registration of the order of the Court, which are the relevant times and dates in Bermuda. Bermuda time is 11 hours behind Hong Kong time.

5. The register of members of IDS will be closed during such period for the purposes of determining IDS Shareholders who are qualified for entitlements under the Scheme. Entitlements under the Scheme will be based on the actual number of IDS Shares held by the Scheme Shareholders as at the Record Date i.e. 4:30 p.m. on Friday, 22 October 2010.

6. Election Forms, correctly completed in accordance with the instructions thereon, must be lodged with the IDS Registrar, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than the time and date stated above (or such later time and/or date as may be notified through announcement(s)), failing which an Election Form shall not be treated as valid and the IDS Shareholders (other than the Committed Shareholders) purporting to make the election shall not, for any purpose, be entitled to receive the Share Alternative but shall instead receive the Cash Alternative.

7. The form of acceptance in relation to the Option Offer, which is appended to the Option Offer Letter to the IDS Optionholders, duly completed in accordance with the instructions thereon must be returned to Li & Fung c/o IDS, at 1st Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong, for the attention of the Li & Fung Board and marked "IDS-Option Offer", so as to reach Li & Fung not later than 4:30 p.m. on Friday, 22 October 2010 (or such later time and/or date as may be notified through announcement(s)), failing which the IDS Share Options granted under the IDS Option Scheme that are not exercised or cancelled pursuant to the acceptance of the Option Offer will automatically lapse upon the Scheme becoming effective. Copies of the Option Offer Letter and the form of acceptance in relation to the Option Offer to the IDS Optionholders can also

be obtained from the company secretary of IDS, at 1st Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong subsequent to the despatch of the same and at any time before 4:30 p.m. on Friday, 22 October 2010.

8. The Scheme shall become effective upon all the conditions set out in the section headed "Explanatory Statement – Conditions of the Scheme" on page 72 to 76 of this document having been fulfilled or validly waived (as applicable).

9. Cheques for cash entitlements in respect of the Cash Alternative or share certificates of Li & Fung in respect of the Share Alternative under the Scheme and payment pursuant to the Option Offer to the IDS Optionholders will be despatched by ordinary post at the risk of the recipients to their registered addresses shown in the register of members of IDS and to the last known addresses of the IDS Optionholders as notified by the IDS Optionholders to IDS on or before Monday, 1 November 2010.

INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2387)

Executive IDS Directors:
Mr. Benedict CHANG Yew Teck
(Group Managing Director)
Mr. Joseph Chua PHI *(President)*

Non-Executive IDS Directors:
Dr. Victor FUNG Kwok King *(Chairman)*
Mr. John Estmond STRICKLAND#
Dr. FU Yu Ning#
Prof. LEE Hau Leung#
Mr. Andrew TUNG Lieh Cheung#
Dr. William FUNG Kwok Lun
Mr. Jeremy Paul Egerton HOBBINS
Mr. LAU Butt Farn

independent non-executive IDS Director

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business:
18th Floor
IDS LiFung Centre
2 On Ping Street, Siu Lek Yuen
Shatin, N.T.
Hong Kong

14 September 2010

To the IDS Shareholders and the IDS Optionholders

Dear Sir or Madam,

PROPOSED ACQUISITION BY LI & FUNG LIMITED OF INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED BY WAY OF PRIVATISATION PURSUANT TO A SCHEME OF ARRANGEMENT (UNDER SECTION 99 OF THE COMPANIES ACT)

INTRODUCTION

As disclosed in the Announcement, on 12 August 2010, Li & Fung requested the IDS Board to put forward a proposal to the Scheme Shareholders regarding (a) a proposed acquisition of IDS by Li & Fung by way of privatisation pursuant to a scheme of arrangement under Section 99 of the Companies Act involving cancellation of all the Scheme Shares and allotment and issue of new IDS Shares to Li & Fung; and (b) the Option Offer to the IDS Optionholders which is conditional on the Scheme becoming effective.

On the Effective Date, IDS will become a wholly-owned subsidiary of Li & Fung and the IDS Board will, as soon as practicable thereafter, make an application for the withdrawal of listing of the IDS Shares on the Stock Exchange.

Dr. Fu Yu Ning, Prof. Lee Hau Leung and Mr. Andrew Tung Lieh Cheung, all being independent non-executive IDS Directors, have been appointed to form the IDS IBC to advise the IDS Independent Shareholders and the IDS Optionholders on the Proposal. As at the Announcement Date, Mr. John Estmond Strickland (an independent non-executive IDS Director) and his wife together held 10,000 Li & Fung Shares. Given such interest, Mr. John Estmond Strickland is not a member of the IDS IBC. Since all the other non-executive IDS Directors, namely Dr. Victor Fung Kwok King, Dr. William Fung Kwok Lun, Mr. Jeremy Paul Egerton Hobbins and Mr. Lau Butt Farn, are presumed to be persons acting in concert with Li & Fung and are considered to have an indirect interest in the Proposal, they are also not members of the IDS IBC.

The IDS IBC has appointed ANZ as its independent financial adviser to advise it in respect of the Proposal.

The purpose of this document is to provide you with information regarding the Proposal and to give you notices of the Court Meeting and the IDS SGM (and the forms of proxy and the Election Form in relation thereto). Your attention is also drawn to the letter from the IDS IBC, the letter from ANZ to the IDS IBC, the Explanatory Statement, the Scheme and the appendices to this document, all of which form part of this document.

TERMS OF THE PROPOSAL

The proposed acquisition of IDS by way of privatisation comprises the Scheme and the Option Offer. The terms of the Proposal are as follows:

The Scheme

Subject to the Scheme becoming effective, all the Scheme Shares will be cancelled in exchange for either:

(a) *Cash Alternative:*

For every Scheme Share . . . . HK$21.00 in cash; or

(b) *Share Alternative:*

For every Scheme Share . . . . 0.585 Li & Fung Share

The Scheme Shareholders may elect either the Cash Alternative or the Share Alternative as the form of Cancellation Consideration in respect of their entire holdings of Scheme Shares (but not, for the avoidance of doubt, a combination of the two).

The Cancellation Consideration per Scheme Share will not be revised, and Li & Fung does not reserve the right to do so.

Scheme Shareholders who wish to elect the Share Alternative should specify the same in the Election Form. **Assuming the Scheme becoming effective, any Scheme Shareholder (other than a Committed Shareholder) (a) who has not, by 4:30 p.m. on Friday, 22 October 2010 or such later date and time as may be notified through announcement(s), delivered to the IDS Registrar a duly completed and executed Election Form; or (b) who has returned an Election Form which is not duly completed or executed for the Share Alternative, will receive the Cash Alternative in respect of his/its entire holding of the Scheme Shares. If a Scheme Shareholder does not make a valid election for the Share Alternative, such Scheme Shareholder (other than a Committed Shareholder) will receive the Cash Alternative as the form of Cancellation Consideration in respect of his/its entire holding of the Scheme Shares.**

Beneficial Owners who have deposited their respective IDS Shares with CCASS (the "**CCASS Shareholders**") through their respective brokers, custodians or nominees, or for CCASS Investor Participants with their IDS Shares lodged with CCASS, should bear in mind that their IDS Shares are registered in the name of HKSCC Nominees Limited ("**HKSCC Nominees**"), which is recognised as the registered holder of all such IDS Shares. In connection with the election of the Share Alternative or the Cash Alternative, HKSCC Nominees will not be treated differently from any other Registered Owner. HKSCC Nominees is therefore unable to elect a combination of the Share Alternative and the Cash Alternative depending on the wishes of the CCASS Shareholders. As HKSCC Nominees's default option is the Cash Alternative, CCASS Shareholders whose IDS Shares remain in the name of HKSCC Nominees will receive the Cash Alternative should the Scheme become effective. Therefore, the CCASS Shareholders who wish to elect to receive the Share Alternative must arrange for their IDS Shares to be registered in their names on the register of members of IDS by contacting their respective brokers, custodians, nominees or other relevant persons who have deposited such IDS Shares with a CCASS participant, or for CCASS Investor Participants to submit withdrawal instruction via the CCASS Phone System or CCASS Internet System, to arrange for their respective IDS Shares to be withdrawn from CCASS and registered in their respective names on the register of members of IDS. CCASS Shareholders who wish to withdraw their IDS Shares from CCASS will have to pay a withdrawal fee of HK$3.50 per board lot and for any remaining odd lot. In order to be in a position to elect to receive the Share Alternative, CCASS Shareholders must arrange for their IDS Shares to be registered in their respective names on the register of members of IDS by lodging with the IDS Registrar, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, duly completed forms of transfer of IDS Shares **not later than 4:30 p.m. on Monday, 18 October 2010**. Any CCASS Shareholder who does not arrange for their IDS Shares to be registered in his name will receive the Cash Alternative should the Scheme become effective. **CCASS Shareholders should contact their respective brokers, custodians or nominees as soon as possible if they intend to elect to receive the Share Alternative.**

Conditions of the Scheme are set out in the section headed "Explanatory Statement – Conditions of the Scheme" on pages 72 to 76 of this document. **You should be aware that the implementation of the Proposal is subject to the said conditions being fulfilled or validly waived (as applicable), and thus the Proposal may or may not become effective. You should therefore exercise caution when dealing in the IDS Shares.**

The Proposal will entail, on the Effective Date, the cancellation of all Scheme Shares in issue as at the Record Date. To ensure compliance with Bermuda law and IDS's constitutional documents, subject to the approval of the Scheme at the Court Meeting, 120,000 IDS Shares will be allotted and issued to Li & Fung (or its nominee) nil paid immediately prior to the cancellation of all Scheme Shares on the Effective Date. As at the Latest Practicable Date, there were 325,855,000 IDS Shares in issue and 19,415,000 outstanding IDS Share Options. Save as disclosed above, IDS did not have any outstanding options, warrants, derivatives or other convertible securities as at the Latest Practicable Date. In addition to the cancellation of 325,855,000 IDS Shares, any further IDS Shares that may fall to be issued upon the exercise of any IDS Share Options between the Latest Practicable Date and the Record Date will also be cancelled.

Li & Fung has received an Irrevocable Undertaking from each of the Committed Shareholders, pursuant to which each of the Committed Shareholders has undertaken (a) to vote to approve the Proposal at the IDS SGM in respect of his/its Committed Shares, and (b) to elect the Share Alternative in respect of his/its Committed Shares. Save as disclosed above, as at the Latest Practicable Date, none of Li & Fung and persons acting in concert with it (including the Interested Shareholders) had received any irrevocable commitment from the IDS Independent Shareholders in respect of voting at the Court Meeting.

The Cash Alternative

If all Scheme Shareholders (other than the Committed Shareholders, which have irrevocably undertaken to elect the Share Alternative; and assuming that Mikenwill will elect the Cash Alternative in respect of the Mikenwill Option Shares to be transferred to Mikenwill pursuant to the full exercise of the Mikenwill Call Option) elect the Cash Alternative, the amount of cash required for the Proposal is approximately HK$4,368,674,520 (assuming all IDS Optionholders exercising their outstanding IDS Share Options to become Scheme Shareholders before the Record Date) or approximately HK$4,092,550,971 (assuming no IDS Optionholders exercising their outstanding IDS Share Options to become Scheme Shareholders before the Record Date).

The cash consideration of HK$21.00 per Scheme Share under the Cash Alternative represents a premium/(discount) of approximately:

(a) (16.17%) to the closing price of HK$25.05 per IDS Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) 36.19% over the closing price of HK$15.42 per IDS Share on 9 August 2010 (being the last trading day in IDS Shares immediately preceding the Announcement Date);

(c) 42.86% over the closing price of HK$14.70 per IDS Share on the IDS Price Reference Day;

(d) 43.91% over the average closing price of approximately HK$14.59 per IDS Share based on the daily closing prices as quoted on the Stock Exchange for the 1 week up to and including the IDS Price Reference Day;

(e) 43.46% over the average closing price of approximately HK$14.64 per IDS Share based on the daily closing prices as quoted on the Stock Exchange for the 1 month up to and including the IDS Price Reference Day;

(f) 51.32% over the average closing price of approximately HK$13.88 per IDS Share based on the daily closing prices as quoted on the Stock Exchange for the 3 months up to and including the IDS Price Reference Day; and

(g) 406.02% over the audited consolidated net asset value per IDS Share of approximately US$0.5319 (HK$4.15) as at 31 December 2009.

During the 6-month period preceding and including 9 August 2010 (being the last trading day in IDS Shares immediately preceding the Announcement Date), the highest closing price of the IDS Shares as quoted on the Stock Exchange was HK$15.42 per IDS Share on 9 August 2010, and the lowest closing price of the IDS Shares as quoted on the Stock Exchange was HK$11.66 per IDS Share on 22 February 2010.

During the week immediately preceding the Announcement Date, the closing prices of IDS Shares were within the range of HK$14.36 to HK$14.90 and the average trading volume was only 149,729 IDS Shares a day. However, the trading price of IDS Shares on 9 August 2010 (being the last trading day in IDS Shares immediately preceding the Announcement Date) increased noticeably from an opening price of HK$14.18 to a closing price of HK$15.42 (representing an increase of approximately 8.7%), with 718,610 IDS Shares traded which was approximately 4.8 times of the average in the preceding week, and approximately 15.1 times of the 47,647 IDS Shares traded on the immediately preceding trading day. Each of Li & Fung and IDS applied to the Stock Exchange for suspension of trading in Li & Fung Shares and IDS Shares on 9 August 2010 respectively and trading in such shares was suspended from 9:30 a.m. on 10 August 2010. In view of the relatively stable performance of the trading prices of IDS Shares in the week immediately preceding the Announcement Date and such noticeable increase in the trading price and volume of IDS Shares on 9 August 2010, the Li & Fung Board determines the cash consideration per Scheme Share under the Cash Alternative with reference to the closing price of IDS Shares on 6 August 2010 (being the IDS Price Reference Day).

The Share Alternative

The exchange ratio of 0.585 Li & Fung Share for every Scheme Share cancelled under the Share Alternative values each IDS Share at HK$21.00, which is the same as the cash consideration under the Cash Alternative, based on the closing price of HK$35.90 per Li & Fung Share on 6 August 2010 (being the Li & Fung Price Reference Day). The exchange ratio was determined by Li & Fung with reference to the closing price of the Li & Fung Shares on the Li & Fung Price Reference Day. The closing price of the Li & Fung Shares on 9 August 2010 (being the last trading day in the Li & Fung Shares immediately preceding the Announcement Date) was HK$37.70 per Li & Fung Share.

The actual number of the new Li & Fung Shares for allotment and issuance under the Proposal will be determined on the last day for the election of the Cancellation Consideration but in any event shall be not more than 201,982,950 new Li & Fung Shares (assuming all IDS Share Options being fully exercised and all Scheme Shareholders electing the Share Alternative), representing approximately 5.29% of the issued share capital of Li & Fung of 3,814,760,286 Li & Fung Shares as at the Latest Practicable Date and approximately 5.03% of the enlarged issued share capital of Li & Fung of 4,016,743,236 Li & Fung Shares (as enlarged by the issue of the Li & Fung Shares pursuant to the Share Alternative), assuming all IDS Share Options being fully exercised and all Scheme Shareholders electing for the Share Alternative.

Under the Scheme, fractions of Li & Fung Shares will not be issued to any Scheme Shareholder elected for the Share Alternative. Fractional entitlements to Li & Fung Shares will be aggregated and sold in the market, the proceeds of which (net of all expenses) will be distributed to the Scheme Shareholders entitled thereto on a pro rata basis. However, individual entitlement of less than HK$10.00 will not be paid to any Scheme Shareholder but will be retained for the benefit of Li & Fung.

The Li & Fung Shares to be issued in satisfaction of the Share Alternative pursuant to the Proposal will be issued and credited as fully paid and will rank pari passu with the existing Li & Fung Shares at the date of issue and are expected to be issued under the general mandate granted to the Li & Fung Directors at the annual general meeting of Li & Fung held on 18 May 2010. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Li & Fung Shares to be issued in satisfaction of the Share Alternative on the Stock Exchange.

The Option Offer

As at the Latest Practicable Date, there were 19,415,000 outstanding IDS Share Options. An aggregate of 19,415,000 new IDS Shares may fall to be issued if all outstanding IDS Share Options are exercised by the IDS Optionholders in full.

The Option Offer to the IDS Optionholders to cancel their outstanding IDS Share Options is conditional on the Scheme becoming effective. The cash offer for every IDS Share Option to be cancelled will be calculated on a "see-through" basis, pursuant to which each IDS Optionholder will be entitled to receive a sum for each IDS Share Option equivalent to the amount calculated by deducting the exercise price per IDS Share payable on exercise of the relevant IDS Share Option from the cash consideration in the amount of HK$21.00 per Scheme Share under the Cash Alternative, being:

- HK$16.175 for each 2004 Option;
- HK$12.40 for each 2005 Option;
- HK$5.90 for each 2006 Option;
- HK$14.36 for each 2008 Option; and
- HK$8.224 for each 2009 Option.

For the 2007 Options, of which the exercise price per IDS Share is higher than the cash consideration per Scheme Share under the Cash Alternative, the "see-through" price is zero and a cash offer of HK$1.00 per 10,000 2007 Options will be made. In sum, the total amount of cash payment for the above IDS Share Options will be approximately HK$131,591,451.

In the event that any IDS Share Option is exercised after the Latest Practicable Date and new IDS Shares are issued pursuant to such exercise up to the Record Date, such IDS Shares will constitute Scheme Shares and their holders shall be eligible to receive the Cancellation Consideration under the Proposal. Holders of any IDS Shares so issued (other than the Interested Shareholders) will be entitled to vote at the Court Meeting. As at the Latest Practicable Date, none of the Interested Shareholders had any IDS Share Option.

IDS Optionholders who wish to elect for the Share Alternative shall exercise their IDS Share Options in accordance with the terms of the IDS Option Scheme.

Option Offer Letters are being sent to all IDS Optionholders together with this document. IDS Optionholders should refer to the Option Offer Letters, a sample of which is set out on pages L-1 to L-6 of this document.

BENEFITS OF THE PROPOSAL TO IDS

The Proposal enables IDS, as part of the Enlarged Group, to be able to leverage on Li & Fung's strengths in product development and sourcing to offer clients end-to-end supply chain solutions. Li & Fung's presence in the United States or Europe will allow IDS to increase in scale significantly and gain access to a broader customer base. This will create more cross-selling opportunities for IDS, leading to greater top-line growth and enhanced utilisation of warehouses in the United States or Europe.

SHAREHOLDING STRUCTURE OF IDS

As at the Latest Practicable Date, there were 325,855,000 IDS Shares in issue. Save for the Interested Shareholders, Li & Fung and persons acting in concert with it did not hold any IDS Shares as at the Latest Practicable Date. The Interested Shareholders held 146,369,719 IDS Shares in aggregate (representing approximately 44.92% of the issued share capital of IDS) as at the Latest Practicable Date. Li & Fung and persons acting in concert with it (including the Interested Shareholders) will not vote at the Court Meeting. All IDS Independent Shareholders shall be entitled to vote at the Court Meeting and all IDS Shareholders shall be entitled to vote at the IDS SGM.

On the assumption that there is no other change in shareholding, the table below sets out the shareholding structure of IDS as at the Latest Practicable Date and immediately upon completion of the Proposal:

	As at the Latest Practicable Date		**Upon completion of the Proposal**	
	Number of IDS Shares owned	**% of the total issued share capital**	**Number of IDS Shares owned** *(Note 4)*	**% of the total issued share capital**
Li & Fung	–	–	120,000	100
Related Shareholders *(Note 1)*	145,759,170	44.73	–	–
Mr. Lau Butt Farn *(Note 2)*	610,549	0.19	–	–
Li & Fung and persons acting in concert with it (including the Interested Shareholders)	**146,369,719**	**44.92**	**120,000**	**100**
IDS Independent Shareholders *(Note 3)*	179,485,281	55.08	–	–
Total	**325,855,000**	**100.00**	**120,000**	**100**

Notes:

1. LF 1937 directly held 5,970,007 IDS Shares, inclusive of 2,100,000 IDS Shares which were subject to the Mikenwill Call Option. LF 1937 is a wholly-owned subsidiary of King Lun which is in turn 50% owned by HSBC Trustee, and 50% owned by Dr. William Fung Kwok Lun. Dr. William Fung Kwok Lun is a non-executive IDS Director, an executive Li & Fung Director and a director of LFD, LF 1937 and King Lun. He will not vote at the Court Meeting.

   LFD, a wholly-owned subsidiary of LF 1937, directly held 130,962,364 IDS Shares.

   Dr. Victor Fung Kwok King directly held 2,405,509 IDS Shares. Dr. Victor Fung Kwok King is a non-executive IDS Director, an non-executive Li & Fung Director and a director of LFD, LF 1937 and King Lun. He will not vote at the Court Meeting.

   First Island Developments Limited, a company wholly-owned by HSBC Trustee, as trustee of a trust established for the benefit of the family members of Dr. Victor Fung Kwok King, directly held 6,421,290 IDS Shares.

   All of King Lun, LF 1937, LFD, HSBC Trustee, Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun are taken to be interested in the IDS Shares pursuant to the SFO. All of King Lun, LF 1937, LFD, HSBC Trustee, Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun directly or indirectly control Li & Fung and are presumed to be persons acting in concert with Li & Fung pursuant to the Takeovers Code.

2. Mr. Lau Butt Farn is a non-executive IDS Director and a director of LF 1937 and LFD and is presumed to be a person acting in concert with Li & Fung under the Takeovers Code. He will not vote at the Court Meeting.

3. These IDS Shares included a total of 7,251,205 IDS Shares (representing approximately 2.23% of the issued share capital of IDS) held by certain IDS Directors, including Mr. Benedict Chang Yew Teck (an executive IDS Director), who together with his wife held 5,759,573 IDS Shares, Mr. Joseph Chua Phi (an executive IDS Director) who held 1,469,632 IDS Shares and Mr. John Estmond Strickland (an independent non-executive IDS Director) who together with his wife held 22,000 IDS Shares. The said IDS Directors will be entitled to vote at the Court Meeting since their rights under the Proposal will not be different from those of any other IDS Independent Shareholders.

4. Under the Scheme, the share capital of IDS will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Forthwith upon such reduction, the issued share capital of IDS will comprise only 120,000 IDS Shares issued to Li & Fung under the Proposal.

As at the Latest Practicable Date, save for the 19,415,000 IDS Share Options, IDS did not have any outstanding options, warrants, derivatives or other convertible securities.

Save as disclosed above and in the section headed "Shareholding Structure of Li & Fung" below, none of Li & Fung and persons acting in concert with it (including the Interested Shareholders) owned or controlled any IDS Shares, Li & Fung Shares, or any options, warrants, derivatives or other convertible securities in respect of IDS Shares or Li & Fung Shares as at the Latest Practicable Date. Save as disclosed in the section headed "Appendix IV – General Information on the IDS Group – 5. Dealings in Securities of IDS and/or Li & Fung" in this document, none of Li & Fung and persons acting in concert with it had dealt in IDS Shares, Li & Fung Shares, or any options, warrants, derivatives or other convertible securities in respect of IDS Shares or Li & Fung Shares for value during the Disclosure Period.

SHAREHOLDING STRUCTURE OF LI & FUNG

As at the Latest Practicable Date, there were 3,814,760,286 Li & Fung Shares in issue and 91,487,400 outstanding Li & Fung Share Options. Save as disclosed above, Li & Fung did not have any outstanding options, warrants, derivatives or other convertible securities.

On the assumption that there is no other change in shareholding, the table below sets out the shareholding structure of Li & Fung as at the Latest Practicable Date and immediately upon completion of the Proposal assuming no Li & Fung Share Options being exercised:

	As at the Latest Practicable Date		**Upon completion of the Proposal (assuming all IDS Share Options being fully exercised and all Scheme Shareholders electing the Share Alternative)**		**Upon completion of the Proposal (assuming no IDS Share Options being exercised and only the Related Shareholders and persons acting in concert with LF 1937 electing the Share Alternative)**	
	Number of Li & Fung Shares owned	**% of the total issued share capital**	**Number of Li & Fung Shares owned**	**% of the total issued share capital**	**Number of Li & Fung Shares owned**	**% of the total issued share capital**
Related Shareholders	1,095,600,000 *(Note 1)*	28.72	1,180,869,112 *(Note 5)*	29.40	1,180,869,112 *(Note 5)*	30.28
Common Directors	85,432,930 *(Note 2)*	2.24	85,790,101 *(Note 6)*	2.13	85,790,101 *(Note 6)*	2.20
King Lun	21,945,880	0.58	21,945,880	0.55	21,945,880	0.56
Mr. Spencer Theodore Fung	352,000	0.01	352,000	0.01	352,000	0.01
Mr. James Siu Kai Lau	1,331,200 *(Note 3)*	0.03	1,331,200	0.03	1,331,200	0.03
HSBC Trustee	55,825,000 *(Note 4)*	1.46	55,825,000	1.39	55,825,000	1.43
Sub-total	**1,260,487,010**	**33.04**	**1,346,113,293**	**33.51**	**1,346,113,293**	**34.51**
Others *(Note 7)*	2,554,273,276	66.96	2,670,629,943	66.49	2,554,273,276	65.49
Total	**3,814,760,286**	**100.00**	**4,016,743,236**	**100.00**	**3,900,386,569**	**100.00**

Notes:

1. These Li & Fung Shares were directly held by LF 1937. The other Related Shareholders did not directly hold any Li & Fung Shares as at the Latest Practicable Date. LF 1937 is a wholly-owned subsidiary of King Lun which is in turn 50% owned by HSBC Trustee, as trustee of a trust established for the benefit of the family members of Dr. Victor Fung Kwok King, and 50% owned by Dr. William Fung Kwok Lun.

2. These Li & Fung Shares comprised:

   (a) 83,012,930 Li & Fung Shares directly held by Dr. William Fung Kwok Lun, his wife and a company beneficially owned by him; and

   (b) 2,420,000 Li & Fung Shares directly held by Mr. Lau Butt Farn.

3. These Li & Fung Shares comprised 1,321,200 Li & Fung Shares directly held by Mr. James Siu Kai Lau and a joint interest in 10,000 Li & Fung Shares held by Mr. James Siu Kai Lau and his wife. Mr. James Siu Kai Lau is a director of LF 1937 and LFD.

4. These Li & Fung Shares were directly held by HSBC Trustee.

5. These Li & Fung Shares comprised:

   (a) 1,095,600,000 Li & Fung Shares held by the Related Shareholders as at the Latest Practicable Date;

   (b) 3,492,454 Li & Fung Shares which fall to be issued to LF 1937 upon the election of the Share Alternative assuming that Mikenwill will not exercise any of the outstanding portion of the Mikenwill Call Option;

   (c) 1,407,222 Li & Fung Shares which fall to be issued to Dr. Victor Fung Kwok King upon the election of the Share Alternative;

   (d) 76,612,982 Li & Fung Shares which fall to be issued to LFD upon the election of the Share Alternative; and

   (e) 3,756,454 Li & Fung Shares which fall to be issued to First Island Developments Limited upon the election of the Share Alternative.

6. These Li & Fung Shares comprised:

   (a) 85,432,930 Li & Fung Shares held by the Common Directors as at the Latest Practicable Date; and

   (b) 357,171 Li & Fung Shares which fall to be issued to Mr. Lau Butt Farn upon the election of the Share Alternative.

   For the number of Li & Fung Shares which fall to be issued to Dr. Victor Fung Kwok King upon the election of the Share Alternative, please refer to Note 5 above.

7. These Li & Fung Shares included 2,000 Li & Fung Shares held by the J.P. Morgan group (other than exempt principal traders and exempt fund managers) and 1,067,172 Li & Fung Shares held by the BNP Paribas group as exempt principal traders and exempt fund managers.

Save for the arrangements contemplated under the Proposal, there are no arrangements (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between Li & Fung or persons acting in concert with it (including the Interested Shareholders), and any other person. Li & Fung confirms that, as at the Latest Practicable Date, there were no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in IDS and Li & Fung which Li & Fung or any persons acting in concert with it (including the Interested Shareholders) had borrowed or lent, except that the J.P. Morgan group (other than exempt principal traders and exempt fund managers) had borrowed 150,000 Li & Fung Shares, representing approximately 0.004% of the issued share capital of Li & Fung.

Save as disclosed above, and save for the 36,880 Li & Fung Shares held by Mr. Joseph Chua Phi (an executive IDS Director) and the 10,000 Li & Fung Shares jointly held by Mr. John Estmond Strickland (an independent non-executive IDS Director) and his wife, neither IDS nor persons acting in concert with it owned or controlled any Li & Fung Shares or any options, warrants, derivatives or other convertible securities in respect of the Li & Fung Shares as at the Latest Practicable Date.

Save as disclosed in the section headed "Appendix V – General Information on the Li & Fung Group – 5. Dealings in IDS Shareholdings and/or Li & Fung Shareholdings" in this document, none of Li & Fung and persons acting in concert with it (including the Interested Shareholders) had any dealings in Li & Fung Shares or any options, warrants, derivatives or other convertible securities in respect of Li & Fung Shares for value during the Disclosure Period.

INFORMATION ON THE IDS GROUP

IDS is a company incorporated in Bermuda with limited liability, the shares of which have been listed on the Stock Exchange since December 2004. The IDS Group is principally engaged in provision of logistics services, and distribution of fast moving consumer goods and healthcare products and manufacturing.

A summary of the audited consolidated results of the IDS Group for each of the two years ended 31 December 2009 is set out below:

	For the year ended 31 December	
	2008	**2009**
	('000)	*('000)*
Revenue	US$1,683,792 (HK$13,133,578)	US$1,802,062 (HK$14,056,084)
Profit before taxation	US$30,253 (HK$235,973)	US$41,307 (HK$322,196)
Profit before non-controlling interests	US$25,327 (HK$197,551)	US$30,778 (HK$240,069)
Profit attributable to shareholders (after non-controlling interests)	US$24,522 (HK$191,272)	US$29,828 (HK$232,659)

As set out in note 5 of the notes to the audited consolidated financial statements of IDS for the year ended 31 December 2009, the IDS Group has been operating in the following geographical areas: Greater China (comprising China, Hong Kong and Taiwan), ASEAN (comprising Thailand, Malaysia, Singapore, Philippines, Indonesia, Brunei and others), the United States of America ("**USA**") and the United Kingdom ("**UK**"). The operating profits by the said geographical segments are as follows:

	For the year ended 31 December	
	2008	**2009**
	('000)	*($'000)*
Greater China and ASEAN	US$42,796 (HK$333,809)	US$53,691 (HK$418,790)
USA	US$(5,625) (HK$(43,875))	US$(12,843) (HK$(100,175))
UK	US$(1,943) (HK$(15,155))	US$(149) (HK$(1,162))
Unallocated#	US$(14,262) (HK$(111,244))	US$(15,450) (HK$(120,510))
Core operating profit	US$20,966 (HK$163,535)	US$25,249 (HK$196,943)
Core operating profit without USA and UK	US$28,534 (HK$222,565)	US$38,241 (HK$298,280)

Note:

\# Unallocated mainly included corporate costs, common information technology costs and land and buildings which could not be meaningfully allocated to the geographical segments.

As shown in the above table, the 2009 core operating profit without USA and UK increased by approximately 34% over 2008. According to note 4 of the unaudited condensed consolidated financial information set out in the published interim report of IDS for the six months ended 30 June 2010, the core operating profit without USA and UK for the six months ended 30 June 2010 is increased by approximately 19.0% over the six months ended 30 June 2009. As set out in the section headed "Explanatory Statement – Li & Fung's Intention Regarding IDS", one of the areas that Li & Fung intends to achieve is an optimal integration of the IDS Group and the Li & Fung Group in respect of the USA and the European markets. Please refer to the said section for details.

As at 31 December 2009, the audited consolidated net assets of the IDS Group were approximately US$170.82 million (HK$1,332.40 million). The unaudited consolidated net assets of the IDS Group as at 30 June 2010 were approximately US$174.53 million (HK$1,361.33 million).

INFORMATION ON THE LI & FUNG GROUP

Li & Fung is a company incorporated in Bermuda with limited liability, the shares of which have been listed on the Stock Exchange since July 1992. The Li & Fung Group is principally engaged in consumer goods design, development and sourcing.

A summary of the audited consolidated results of the Li & Fung Group for each of the two years ended 31 December 2009 is set out below:

	For the year ended 31 December	
	2008	**2009**
	('000)	*('000)*
Turnover	HK$110,722,117	HK$104,478,983
Profit before taxation	HK$2,683,186	HK$3,605,947
Profit before non-controlling interests	HK$2,423,689	HK$3,365,725
Profit attributable to shareholders (after non-controlling interests)	HK$2,421,936	HK$3,369,107

As at 31 December 2009, the audited consolidated net assets of the Li & Fung Group were approximately HK$17,726.19 million.

INTENTION OF LI & FUNG WITH REGARD TO IDS

Your attention is drawn to the section headed "Explanatory Statement – Li & Fung's intention regarding IDS" set out on pages 89 to 90 of this document.

The IDS Board is pleased to learn that it is the intention of Li & Fung to continue the existing businesses of the IDS Group and the IDS Board notes the intention of Li & Fung in respect of the IDS Group as disclosed on pages 89 to 90 of the Explanatory Statement.

WITHDRAWAL OF LISTING OF THE IDS SHARES ON THE STOCK EXCHANGE

On the Effective Date, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The IDS Board will apply to the Stock Exchange for withdrawal of the listing of IDS Shares on the Stock Exchange immediately following the Effective Date. The Scheme Shareholders will be notified by way of announcement(s) of the exact dates of the last day for dealings in IDS Shares and on which the Scheme and the withdrawal of the listing of IDS Shares will become effective. An indicative timetable of the Scheme is set out in the section headed "Expected Timetable" on pages 9 to 12 of this document.

The IDS Board intends that listing of the IDS Shares on the Stock Exchange shall be maintained in the event that the Scheme is not approved or does not become effective. The IDS Board also note that, in the event that the Proposal does not become effective, Li & Fung and any persons acting in concert with it (including the Interested Shareholders) will be required to refrain from making another offer for the IDS Shares for a period of 12 months.

SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT

Your attention is drawn to the sections headed "Explanatory Statement – Share certificates, dealings and listing" and "Explanatory Statement – Registration, payment and despatch of Li & Fung Share certificates" respectively set out on pages 90 and 91 of this document.

OVERSEAS SCHEME SHAREHOLDERS AND IDS OPTIONHOLDERS

The making of the Proposal to and acceptance of the Proposal by Scheme Shareholders and IDS Optionholders who are not residents in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders and IDS Optionholders are located. Such Scheme Shareholders and IDS Optionholders should inform themselves about and observe any applicable legal or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders and IDS Optionholders wishing to accept the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any taxes, duties and other amounts required to be paid in such jurisdictions. Any acceptance by such Scheme Shareholders and IDS Optionholders will be deemed to constitute a representation and warranty from such persons to IDS and Li & Fung that those local laws and requirements have been complied with. If you are in doubt as to your position, you should consult your professional advisers.

The Scheme provides that, where the Li & Fung Directors or the IDS Directors have been advised that the making available, offer for subscription or purchase and allotment and issuance of the Li & Fung Shares to an overseas Scheme Shareholder (i) may be prohibited by the law of the jurisdiction in which such Scheme Shareholder is located; or (ii) is prohibited unless certain conditions or requirements have been complied with which the Li & Fung Directors or the IDS Directors regard as unduly burdensome by reason of delay, expense or otherwise; Li & Fung will appoint a person selected by the Li & Fung Directors (the "Agent") to ascertain the amount of the net proceeds of sale, after deduction of any expenses (such as the SFC transaction levy, Stock Exchange trading fee, stamp duty and brokerage fee), which would have been received by the relevant overseas Scheme Shareholder if he had elected the Share Alternative and sold the Li & Fung Shares which would have been issued to him under the Share Alternative at the closing price of the Li & Fung Shares as at the Record Date. If such amount is equal to or less than the amount which would be payable to such overseas Scheme Shareholder if he had elected the Cash Alternative, Li & Fung will arrange cheques for the Cash Alternative to be sent to the relevant overseas Scheme Shareholder at his own risk. If such amount is higher than the amount which would be payable to such overseas Scheme Shareholder if he had elected the Cash Alternative, Li & Fung will issue the relevant Li & Fung Shares to the Agent who will then sell the same in the market as soon as practicable. The net proceeds of sale will be paid to the relevant overseas Scheme Shareholder in full satisfaction of his rights to the Li & Fung Shares to which he would have been entitled under the Scheme, except that no payment will be made of any amount of less than HK$10.00, which will be retained for the benefit of Li & Fung. The proceeds of sale will be based on the average selling price per Li & Fung Share sold by the Agent. Cheques for the net proceeds of sale will be sent to the relevant overseas Scheme Shareholder at his own risk within 10 days after any such sale but in any event within 28 days from the Effective Date. The above arrangement is subject to the consent of the Executive. **There is no guarantee that the Agent**

would be able to sell the relevant Li & Fung Shares at a price which is equal to (or higher than) the closing price of the Li & Fung Shares as at the Record Date, and there is also no guarantee that the amount of the net proceeds of sale actually received by the relevant overseas Scheme Shareholder would be equal to (or higher than) the Cash Alternative. In the absence of bad faith or wilful default, none of Li & Fung, IDS or any broker or agent of either of them shall have any liability for any loss arising as a result of the timing or terms of any such sale.

The Li & Fung Directors have been advised that the making available, offer for subscription or purchase and the allotment and issuance of the Li & Fung Shares to those Scheme Shareholders residing or with registered address in Malaysia is prohibited by the laws of Malaysia unless a prospectus conforming to the requirements of the Capital Markets and Services Act 2007, has been approved by and registered with the Securities Commission of Malaysia. The Li & Fung Directors believe that it would be unduly burdensome by reason of delay, expense or otherwise to obtain such prior approval and to register this document as a prospectus. The arrangement set out in the preceding paragraph will therefore be applied to the Scheme Shareholders residing or with registered address in Malaysia and, so as far as the Scheme Shareholders residing or with registered address in Malaysia are concerned, this document (but not the Election Form) which will be sent to them does not constitute and is not intended to constitute an offer or invitation to such Scheme Shareholders to subscribe for or acquire the Li & Fung Shares, nor will an issue or intended issue of the Li & Fung Shares to such Scheme Shareholders be contemplated under this document. Apart from Malaysia, it is not presently expected that the matters stated in the preceding paragraph will apply to any other overseas Scheme Shareholders. An application has been made to the Executive for consent in respect of such arrangement for the Scheme Shareholders in Malaysia under Note 3 to Rule 8 of the Takeovers Code and the Executive has given such consent. Further announcement will be made if such matters will apply to any overseas Scheme Shareholders other than those residing or with registered address in Malaysia.

COURT MEETING AND IDS SGM

In accordance with the direction of the Court, the Court Meeting will be held on Thursday, 7 October 2010 for the purpose of considering and, if thought fit, passing the resolution to approve the Scheme (with or without modification(s)). The Scheme will be subject to the approval of the IDS Independent Shareholders at the Court Meeting in the manner referred to in the section headed "Explanatory Statement – Conditions of the Scheme" set out on pages 72 to 76 of this document. Such resolution will only be considered to have been passed under Rule 2.10 of the Takeovers Code if (a) the resolution is approved (by way of poll) by at least 75% of the votes attaching to the IDS Shares held by the IDS Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and (b) the number of votes cast against the resolution to approve (by way of poll) the Scheme is not more than 10% of the votes attaching to all the IDS Shares held by the IDS Independent Shareholders.

As at the Latest Practicable Date, the IDS Independent Shareholders held in aggregate 179,485,281 IDS Shares and 10% of the votes attached to all IDS Shares held by the IDS Independent Shareholders was 17,948,528 IDS Shares.

The IDS SGM will be held on Thursday, 7 October 2010 immediately after the Court Meeting for the purpose of considering and, if thought fit, passing a special resolution to approve, among other things, the reduction of the issued share capital of IDS by cancelling and extinguishing the Scheme Share. All IDS Shareholders will be entitled to attend and vote on such special resolution at the IDS SGM. The special resolution will be passed provided that it is approved by a majority of not less than three-fourths of the votes cast by the IDS Shareholders present and voting at the IDS SGM.

Notices of the Court Meeting and the IDS SGM are set out on pages N-1 to N2 and pages SGM-1 to SGM-3 of this document respectively. The Court Meeting and the IDS SGM will be held on Thursday, 7 October 2010 at the respective times specified in such notices at Pheasant-Jasmine Room, 1st Floor, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong. A pink form of proxy for the Court Meeting and a white form of proxy for the IDS SGM are enclosed and they should be completed and returned in accordance with the respective instructions printed thereon.

Pursuant to Rule 13.39 of the Listing Rules, all votes of the shareholders at the general meetings must be taken by poll. Pursuant to the Bye-laws of IDS, a poll may be demanded:

(a) by the Chairman of the meeting; or

(b) by at least three IDS Shareholders present in person (or in the case of a IDS Shareholder being a corporation by its duly authorised representative) or by proxy and entitled to vote at the meeting; or

(c) by an IDS Shareholder or IDS Shareholders present in person (or in the case of an IDS Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all IDS Shareholders having the right to vote at the meeting; or

(d) by an IDS Shareholder or IDS Shareholders present in person (or in the case of an IDS Shareholder being a corporation by its duly authorised representative) or by proxy and holding IDS Shares conferring a right to vote at the meeting being IDS Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all IDS Shares conferring that right.

ACTIONS TO BE TAKEN BY THE IDS SHAREHOLDERS AND THE IDS OPTIONHOLDERS

Your attention is drawn to the sections headed “Explanatory Statement – Actions to be taken – Actions to be taken by IDS Shareholders” and “Explanatory Statement – Actions to be taken – Actions to be taken by IDS Optionholders” respectively set out on pages 94 to 97 of this document.

RECOMMENDATIONS

ANZ has been appointed by the IDS IBC to advise the IDS IBC in connection with the Proposal. The text of the letter of advice from ANZ containing its recommendation and the principal factors and reasons that it has taken into consideration in arriving at its recommendation is set out on pages 33 to 66 of this document. We would advise you to read this letter carefully before you take any action in respect of the Proposal.

The IDS IBC has considered the terms of the Proposal and taken into account the advice of ANZ, in particular the factors, reasons and recommendation as set out in the letter from ANZ on pages 33 to 66 of this document. The IDS IBC's recommendation is set out in the section headed the "Letter from the IDS IBC" on pages 31 to 32 of this document.

TAXATION

Your attention is drawn to the paragraph headed "Explanatory Statement – Taxation" set out on page 93 of this document.

It is emphasised that none of IDS, Li & Fung, J.P. Morgan, ANZ, BNP Paribas, their respective professional advisers or any of their respective directors or associates or any other person involved in the Proposal accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal.

FURTHER INFORMATION

You are urged to read carefully the letter from the IDS IBC, the letter from ANZ, the Explanatory Statement, the Scheme and the notices of the Court Meeting and the IDS SGM contained in this document and the appendices to this document. IDS Optionholders are urged to read carefully the Option Offer Letters which are being sent together with this document to all IDS Optionholders.

Yours faithfully,
For and on behalf of the
INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED
Benedict Chang Yew Teck
Executive Director

INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2387)

14 September 2010

To the IDS Independent Shareholders and the IDS Optionholders

Dear Sir or Madam,

PROPOSED ACQUISITION BY LI & FUNG LIMITED OF INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED BY WAY OF PRIVATISATION PURSUANT TO A SCHEME OF ARRANGEMENT (UNDER SECTION 99 OF THE COMPANIES ACT)

INTRODUCTION

We refer to the document of even date issued jointly by IDS and Li & Fung (the "**Document**"), of which this letter forms part. Terms defined in the Document shall have the same meaning in this letter unless the context requires otherwise.

We have been appointed as members of the IDS IBC to give a recommendation to the IDS Independent Shareholders and the IDS Optionholders in respect of the Proposal. ANZ has been appointed as the independent financial adviser to advise us in connection with the Proposal.

RECOMMENDATION ON THE SCHEME

Having considered the terms of the Scheme and taken into account the advice of ANZ, in particular, the factors, reasons and recommendation as set out in the letter from ANZ on pages 33 to 66 of the Document, we consider that the terms of the Scheme are fair and reasonable so far as the IDS Independent Shareholders are concerned. Accordingly, we recommend the IDS Independent Shareholders to vote in favour of the Scheme at the Court Meeting and the special resolution to be proposed at the IDS SGM to, among other things, reduce the issued share capital of IDS by cancelling and extinguishing the Scheme Shares. We further recommend that the IDS Independent Shareholders elect the Cash Alternative for certainty of value or consider choosing the Share Alternative; provided, however, such Independent IDS Shareholders:

(i) have no immediate requirements for liquidity;

(ii) are not adverse to investing in a group of companies that is principally engaged in consumer goods design, development and sourcing;

(iii) have a positive view on Li & Fung's strategies and prospects;

(iv) understand and accept the risks pertinent to an investment in Li & Fung Shares;

(v) have no better investment alternative for the cash; and

(vi) are mindful that the monetary value that can be realized from a sale of Li & Fung Shares in the future may be higher or lower than the current implied value per IDS Share of approximately HK$25.27.

In considering whether to accept the Cash Alternative or the Share Alternative, the IDS Independent Shareholders should consider, in particular, the various factors, reasons and recommendation as set out in the section headed "Recommendation – The Offer for the Scheme Shares under the Proposal" in the letter from ANZ set out on pages 64 to 65 of the Document.

RECOMMENDATION ON THE OPTION OFFER

Having considered the terms of the Option Offer and taken into account the advice of ANZ, in particular, the factors, reasons and recommendation as set out in the letter from ANZ on pages 33 to 66 of the Document, we consider that the terms of the Option Offer are fair and reasonable so far as the IDS Optionholders are concerned. Accordingly we recommend the IDS Optionholders to accept the Option Offer if the outstanding IDS Share Options are not exercised on or prior to the Record Date.

FURTHER INFORMATION

The IDS IBC draws the attention of the IDS Independent Shareholders and the IDS Optionholders to (i) the letter from the IDS Board; (ii) the Explanatory Statement; and (iii) the letter of advice from ANZ which sets out the factors and reasons taken into account in arriving at its recommendation to the IDS IBC, each contained in the Document.

Yours faithfully,
For and on behalf of the
IDS IBC
Fu Yu Ning
Lee Hau Leung
Andrew Tung Lieh Cheung
Independent non-executive IDS Directors

14 September 2010

The Independent Board Committee
Integrated Distribution Services Group Limited
18th Floor, IDS LiFung Centre
2 On Ping Street, Siu Lek Yuen
Shatin, Hong Kong

Dear Sirs,

Proposed Acquisition by Li & Fung Limited of Integrated Distribution Services Group Limited by Way of Privatisation pursuant to a Scheme of Arrangement (Under Section 99 of the Companies Act)

INTRODUCTION

We refer to our engagement to advise the IDS IBC with respect to the Proposal and the Scheme, details of which are contained in the Scheme Document jointly issued by Li & Fung and IDS dated 14 September 2010 of which this letter forms part. Australia and New Zealand Banking Group Limited ("ANZ") has been appointed as the independent financial adviser to advise the IDS IBC as to: (i) whether or not the terms of the Scheme are fair and reasonable so far as the IDS Independent Shareholders are concerned; (ii) whether or not the terms of the Option Offer are fair and reasonable so far as the IDS Optionholders are concerned; and (iii) how the IDS Independent Shareholders should be advised to vote on the Scheme at the Court Meeting and the IDS SGM. The terms used in this letter shall have the same meanings as defined in the Scheme Document unless the context otherwise requires.

In accordance with Rule 2.1 of the Takeovers Code, the IDS Board has established the IDS IBC comprising Dr. Fu Yu Ning, Prof. Lee Hau Leung and Mr. Andrew Tung Lieh Cheung, all being independent non-executive IDS Directors, for the purpose of advising the IDS Independent Shareholders and the IDS Optionholders on the Proposal. As at the Announcement Date, Mr. John Estmond Strickland (an independent non-executive IDS Director) and his wife together held 10,000 Li & Fung Shares. Given such interest, Mr. John Estmond Strickland is not a member of the IDS IBC. Since all the other non-executive IDS Directors, namely Dr. Victor Fung Kwok King, Dr. William Fung Kwok Lun, Mr. Jeremy Paul Egerton Hobbins and Mr. Lau Butt Farn, are presumed to be persons acting in concert with Li & Fung and are considered to have an indirect interest in the Proposal, they are not members of the IDS IBC.

In formulating our recommendation, we have relied on the information and facts supplied to us by IDS and have assumed that any information and representations made to us are true, accurate and complete in all respects as at the date hereof and that they may be relied upon. We have also assumed that all information, representations and opinions contained or referred to in the Scheme Document are complete in all respects, fair and reasonable and, accordingly, we have relied on them.

We have been advised by the IDS Directors that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the IDS Directors.

The IDS Directors (in respect of information relating to the IDS Group) and the Li & Fung Directors (in respect of information other than that relating to the IDS Group) have declared in their respective responsibility statements set out in the "General information on the IDS Group" in Appendix IV and the "General information on the Li & Fung Group" in Appendix V to the Scheme Document that they jointly and severally accept full responsibility for the accuracy of the information contained in the Scheme Document and confirmed that, having made all reasonable enquiries, that, to the best of their knowledge, opinions expressed in the Scheme Document by the IDS Group and by Li & Fung Group (in respect of opinions other than those expressed by the IDS Group) have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading. We believe that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, conducted any independent investigation into the business and affairs of the IDS Group or the Li & Fung Group.

Our opinion, as set out in this letter, is based upon the market, economic, industry, monetary and other applicable conditions subsisting on, and the information made available to us as of the Latest Practicable Date and should be considered in the context of the entirety of this letter and the Scheme Document.

Our opinion, as set out in this letter, is addressed to the IDS IBC for its benefit, in connection with, and for the purpose of, their consideration of the Proposal. Our terms of reference do not require us to express, and we do not express, an opinion on the future business and prospects of the IDS Group or the Li & Fung Group.

The IDS IBC should note that the trading of the IDS Shares and Li & Fung Shares is subject to, inter alia, the performance and prospects of IDS and Li & Fung and their respective group of companies, prevailing market conditions, economic outlook and stock market conditions and sentiments. Accordingly, our opinion, as set out in this letter, does not and cannot take into account future trading activities or patterns or price levels that may be established for the IDS Shares or Li & Fung Shares after the Latest Practicable Date, since these are governed by factors beyond the ambit of our review.

We have not considered the tax consequences on the IDS Independent Shareholders and the IDS Optionholders of their acceptances or non-acceptances of the Proposal since these are particular to their own individual circumstances. In particular, holders of the IDS Shares and the IDS Share Options who are residents outside of Hong Kong, or subject to overseas taxes or Hong Kong taxation on securities dealing should consider their own tax position with regard to the Proposal and, if in any doubt, should consult their own professional advisers.

In rendering our advice and giving our recommendation, we have not had regard to the specific investment objectives, financial situation or individual circumstances of any IDS Independent Shareholder or IDS Optionholder. As different IDS Independent Shareholders and IDS Optionholders would have different investment objectives and profiles, they should consider their individual positions with regard to the Proposal and if in any doubt, should consult their own professional advisers.

TERMS OF THE PROPOSAL

The proposed acquisition by Li & Fung of IDS by way of privatisation comprises the Scheme and the Option Offer. The following is a summary of the terms of the Proposal. For details of the terms of the Scheme and the Proposal, your attention is drawn to the "Explanatory Statement" in the Scheme Document.

The Scheme

The Scheme provides that all Scheme Shares be cancelled and Li & Fung be allotted and issued with new IDS Shares. IDS will become a wholly owned subsidiary of Li & Fung upon the Scheme becoming effective. In consideration for the cancelled Scheme Shares, each Scheme Shareholder will be entitled to receive the Cancellation Consideration of either:

(i) Cash Alternative: For every Scheme Share, HK$21.00 in cash; or

(ii) Share Alternative: For every Scheme Share, 0.585 Li & Fung Shares

The Scheme Shareholders may elect either the Cash Alternative or the Share Alternative as the form of Cancellation Consideration in respect of their entire holdings of Scheme Shares (but not a combination of the two).

The Share Alternative values each IDS Share at:

(i) HK$21.00 (on the basis of the closing price of HK$35.90 per Li & Fung Share on 6 August 2010, being the last trading day in the week immediately preceding the suspension in trading in the IDS Shares on the Stock Exchange pending the release of the Announcement (the "IDS Price Reference Day"));

(ii) approximately HK$22.05 (on the basis of the closing price of HK$37.70 per Li & Fung Share on 9 August 2010, being the last trading day prior to the Announcement Date (the "IDS Last Trading Day")); and

(iii) approximately HK$25.27 (on the basis of the closing price of HK$43.20 per Li & Fung Share on the 10 September 2010, being the Latest Practicable Date).

Subject to the fulfilment or valid waiver (as applicable) of the Conditions as set out in the "Explanatory Statement" in the Scheme Document on or before 31 December 2010, the long stop date of the Proposal (or such later date as may be proposed by Li & Fung and permitted by the Executive), the Scheme will become effective. Assuming that the Conditions are satisfied or validly waived (as applicable), it is expected that the Scheme will become effective on or before 22 October 2010.

The Option Offer

The Option Offer to the IDS Optionholders to cancel their outstanding IDS Share Options is conditional on the Scheme becoming effective. The cash offer for every IDS Share Option to be cancelled will be calculated on a "see-through" basis, pursuant to which each IDS Optionholder will be entitled to receive a sum for each IDS Share Option equivalent to the amount calculated by deducting the exercise price per IDS Share payable on exercise of the relevant IDS Share Option from the cash consideration in the amount of HK$21.00 per Scheme Share under the Cash Alternative, being:

- HK$16.175 for each 2004 Option;
- HK$12.40 for each 2005 Option;
- HK$5.90 for each 2006 Option;
- HK$14.36 for each 2008 Option; and
- HK$8.224 for each 2009 Option.

For the 2007 Options, of which the exercise price per IDS Share is higher than the cash consideration per Scheme Share under the Cash Alternative, the "see-through" price is zero and a cash offer of a nominal amount (which is currently expected to be HK$1.00 per 10,000 2007 Options) will be made. In sum, the total amount of cash payment for the above IDS Share Options will be approximately HK$131,591,451.

In the event that any IDS Share Option is exercised after the Announcement Date and new IDS Shares are issued pursuant to such exercise up to the Record Date, such IDS Shares will constitute Scheme Shares and their holders shall be eligible to receive the Cancellation Consideration under the Proposal. Holders of any IDS Shares so issued (other than the Interested Shareholders) will be entitled to vote at the Court Meeting. As at the Latest Practicable Date, none of the Interested Shareholders had any IDS Share Option. As at the Latest Practicable Date, there were 19,415,000 outstanding IDS Share Options and hence, an aggregate of 19,415,000 new IDS Shares may fall to be issued if all outstanding IDS Share Options are exercised by the IDS Optionholders in full.

IDS Optionholders who wish to elect for the Share Alternative shall exercise their IDS Share Options in accordance with the terms of the IDS Option Scheme.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have taken into consideration the principal factors and reasons set out below. In reaching our conclusion, we have considered the results of the analyses in light of each other and ultimately reached our recommendation based on the results of all the analyses taken as a whole.

1. Background and Rationale

Background

IDS is a company incorporated in Bermuda with limited liability, the shares of which have been listed on the Stock Exchange since December 2004. The IDS Group is principally engaged in provision of logistics services and distribution of fast moving consumer goods, healthcare products and manufacturing in Asia, the United States and the United Kingdom.

Rationale

The reasons and benefits of the Proposal are set out in the "Explanatory Statement" in the Scheme Document. In summary, the Li & Fung Board has identified the following factors and reasons:

- *Strengthens Li & Fung's footprint in Asia, particularly in China:* As Asia accounts for an increasing proportion of international trade and economic growth, and with China becoming a major consumer market in itself, the Asia region will be an important component of Li & Fung's future growth strategy. The transaction is central in positioning Li & Fung for distribution and wholesaling opportunities in China and the rest of Asia, which generated approximately 2% of Li & Fung's revenue in 2009. Management of Li & Fung believes that the opportunity to acquire an existing, proven business such as that of IDS is a compelling proposition, providing Li & Fung with immediate infrastructure, people, know-how, and all the necessary business relationships that would otherwise take years to build up. In these respects, Li & Fung believes that IDS, with its proven track record, provides the best available platform to replicate in Asia, and China in particular, Li & Fung's success achieved in wholesaling in the United States and in Europe.

- *Provides a complete end to end supply chain solution:* Logistics is an important component in the supply-chain. Currently, Li & Fung's involvement in the supply-chain essentially ends at the point where products are delivered to the freight forwarders for shipment to customers. The proposed acquisition of IDS will allow Li & Fung to enlarge and extend its services from the point when products leave the factory gates, to the ships or airplanes, and to the distribution centres of the customers in the United States, Europe and Asia. Furthermore, the consolidation of third party volumes and Li & Fung's own volumes will increase negotiating power, allowing Li & Fung to obtain better freight rates and to detain capacity when shipment capacity is short or timing is tight. These, together with the addition of a large contingent of professional logistics specialists, mean a significant leap in Li & Fung's service offering and in its service quality.

- *Provides option to entering food & beverage sourcing business:* Food and beverage is a segment that Li & Fung's management has been considering to enter into. With IDS' expertise from manufacturing to marketing in this segment, the proposed acquisition provides Li & Fung with the option to enter into this market in a safe and controlled manner at a later date. Importantly, IDS will at the appropriate time enable Li & Fung to explore and better understand the food and beverage export market. The proposed acquisition gives Li & Fung the manpower with food experience to enter the market in sourcing and distribution of food products at a later date.

- *Creates potential for operational synergy enhancement and new business prospects:* The management of Li & Fung expects to realise operational synergies and new business prospects from the proposed acquisition of IDS within a short time. These will be achieved through optimisation of capacities, internal cost savings, extended management expertise and additional negotiating power for both companies and customer relationships. For example, not more than 20% of the existing logistics requirement of Li & Fung in the United States is handled by IDS and Li & Fung can put through the remaining 80% to IDS.

- *Low integration risk:* The management of Li & Fung considers the integration risk to be relatively low given the established relationship between Li & Fung and IDS, and similarities of the two companies in terms of corporate governance measures, information technology systems, and corporate culture.

- *Maintenance of IDS' listing is unwarranted:* The Li & Fung Board believes that the ability of IDS to take advantage of its listed status to raise funds from equity markets is limited and that the costs associated with the maintenance of IDS' listing on the Stock Exchange may no longer be warranted. The limitation on liquidity can be observed through the average daily trading volume for the 6 months up to and including 9 August 2010 (being the last trading day in IDS Shares immediately preceding the Announcement Date) being approximately 191,798 IDS Shares.

In light of the above factors and reasons, Li & Fung has requested the IDS Board to put forward the Proposal to the Scheme Shareholders and the IDS Optionholders for consideration. The value of the Cancellation Consideration under the Cash Alternative and the Share Alternative represents a premium of approximately 36.19% and 43.03% respectively over the closing Price of IDS Share on the IDS Last Trading Day. The Cancellation Consideration under the Cash Alternative and the Share Alternative also represents a premium of approximately 42.53% and 49.69% respectively over the average closing Price of IDS Share over the 1 month period up to and including the IDS Last Trading Day.

The Li & Fung Board believes that: (i) the terms of the Proposal are fair and reasonable to the IDS Shareholders and the IDS Optionholders; and (ii) the Proposal represents a good opportunity for the Scheme Shareholders and the IDS Optionholders to realise their investments at a price above the prevailing market price of IDS Shares.

2. Financial Performance of IDS

(i) Historical financial performance

The following is a summary of the consolidated income statements of IDS for each of the two financial years ended 31 December 2009 and for the six months ended 30 June 2010.

Table 1: IDS Group's financial summary of consolidated results

	For the year ended 31 December		**For the six months ended 30 June**
	2008	**2009**	**2010**
Amounts shown in US$'000s	*Audited*	*Audited*	*Unaudited*
Revenue	1,683,792	1,802,062	941,538
Core operating profit	20,966	25,249	9,337
Profit before taxation	30,253	41,307	17,342
Profit before non-controlling interests	25,327	30,778	13,029
Profit attributable to shareholders (after non-controlling interests)	24,522	29,828	12,430

Source: 2008 and 2009 annual reports of IDS and interim results of IDS for the six months ended 30 June 2010

Revenue

Revenue for the IDS Group increased by approximately 7.02% from approximately US$1,683.79 million for the year ended 31 December, 2008 to approximately US$1,802.06 million for the year ended 31 December, 2009. For the six months ended 30 June 2010, unaudited revenue was approximately US$941.54 million representing an increase of approximately 11.21% when compared to the same period in 2009.

Table 2: IDS Group's revenue by region

	For the year ended 31 December		For the six months ended 30 June
	2008	**2009**	**2010**
Amounts shown in US$'000s	*Audited*	*Audited*	*Unaudited*
Greater China	660,562	837,563	441,470
ASEAN	883,846	863,030	451,489
United States & United Kingdom	141,974	103,326	52,665
Elimination	-2,590	-1,857	-4,086
Total	1,683,792	1,802,062	941,538

Source: 2008 and 2009 annual reports of IDS and interim results of IDS for the six months ended 30 June 2010

IDS Group is predominately Asia focused, deriving on average approximately over 93% of its revenue from Greater China[(1)] and the ASEAN[(2)] countries. For the six months ended 30 June 2010, Greater China[(1)], ASEAN[(2)] and the UK all registered growth whilst in the US revenue was flat when compared to same period in 2009.

Core operating profit[(3)]

Core operating profit of the IDS Group increased by approximately 20.43% from approximately US$20.97 million for the year ended 31 December, 2008 to approximately US$25.25 million for the year ended 31 December, 2009. For the six months ended 30 June 2010, unaudited core operating profit was approximately US$9.34 million representing an increase of approximately 4.63% when compared to the same period in 2009.

(1) Includes China, Taiwan and Hong Kong

(2) Includes Thailand, Malaysia, Singapore, Philippines, Indonesia, Brunei and either countries

(3) Core operating profit is calculated as revenue less cost of sales, distribution and logistic expenses, administrative expenses plus other income as shown in IDS' 2008 and 2009 annual reports and interim results for the six months ended 30 June 2010. While IDS reports core operating profit, it is not presented as a measure of operating performance in accordance with Hong Kong Financial Reporting Standards and should not be considered as representing net cash flows from operating activities.

Table 3: IDS Group's core operating profit by region

	For the year ended 31 December		For the six months ended 30 June
	2008	**2009**	**2010**
Amounts shown in US$'000s	*Audited*	*Audited*	*Unaudited*
Greater China	20,167	27,024	15,402
ASEAN	22,629	26,667	14,138
United States & United Kingdom	-7,568	-12,992	-11,099
Corporate	-14,262	-15,450	-9,104
Total	20,966	25,249	9,337

Source: 2008 and 2009 annual reports of IDS and interim results of IDS for the six months ended 30 June 2010

For the year ended 31 December 2009, Greater China and ASEAN region experienced strong growth of approximately 34.00% and approximately 17.84% respectively driven by higher revenue, new customers, and higher margin growth. The United States and United Kingdom experienced adverse results, mainly attributed to revenue decline and volume shortfall. For the six months ended 30 June 2010, Greater China and ASEAN region continued to experience growth in core operating profit of approximately 32.91% and approximately 12.11% respectively compared to the same period in 2009, driven by strong revenue. The United States experienced negative core operating profit from lower revenue offset by increases in Li & Fung volume and freight forwarding business. The United Kingdom reduced its loss as a result of new business and improvement in operational efficiency.

Profit for the year/period

Profit attributable to shareholders (after non-controlling interests) of the IDS Group increased approximately 21.64% from approximately US$24.52 million for the year ended 31 December 2008, to approximately US$29.83 million for the year ended 31 December 2009. According to IDS, the increase was attributable to organic business growth, disposal of an associated company (i.e. Slumberland) and properties and lower net financing costs and partly offset by higher tax charges associated with recognition of deferred tax credits in 2008.

For the six months ending 30 June 2010, IDS operating performance, amidst a weak United States market, remained challenging and difficult. Operating losses in the United States for the period increased to approximately US$10.34 million.

As a result of significantly lower one-off gains against the same period in 2009 and increased financial and taxation charges, profit attributable to shareholders (after non-controlling interests) for the six months ended 30 June 2010 was approximately US$12.43 million, against approximately US$18.46 million for the same period in 2009.

Indebtedness

Net debt of the IDS Group was approximately US$47.07 million and approximately US$72.38 million, as at 31 December 2008 and 2009, respectively, and approximately US$85.81 million and approximately US$109.23 million as at 30 June 2009 and 2010 respectively. As a result, the gearing ratio (calculated by dividing net debt by the sum of net debt and total equity) was approximately 24.87% and approximately 29.76% as at 31 December 2008 and 2009, respectively, and approximately 38.49% as at 30 June 2010, compared to approximately 35.07% as at 30 June 2009. The increase in gearing ratio, as at 30 June 2010, was due to increase in working capital requirements, losses recorded in the United States and investment capital expenditure in United States and ASEAN countries.

(ii) Future prospects of IDS

According to the section headed "Future Prospects" in IDS' interim results for the six months ended 30 June 2010, the IDS Board is of the view that the world economy is expected to continue on its trend towards a mild recovery. The IDS Board believes that a strong rebound is unlikely in the short term, as consumer spending in the developed economies remains cautious, however the outlook for Asia is relatively positive. The IDS Group has delivered sustainable growth in Asia in the midst of financial turmoil, and the productivity enhancement and cost reduction measures implemented during the past two years should result in an even stronger foundation for the IDS Group as it enters the next strategic plan cycle in 2011-2013.

For the rest of 2010, IDS Group intends to maintain robust growth in Asia and significantly improve the performance of the United States and United Kingdom operations. In spite of a disappointing first half, IDS Group sees the potential for a stronger second half in the United States. The IDS Group is expected to strengthen its focus on business development and the United States team has secured a new contract, which will contribute to second half revenues. Savings of approximately US$1.2 million in occupancy will be realised for the next six months from the expired leases of two facilities. Discussions with Li & Fung about additional business, which were temporarily put on hold due to operational challenges, have now resumed. IDS Board expects progress for the United Kingdom to be encouraging with business on track for a turnaround this year.

We note from the section headed "Li & Fung's Intention regarding IDS" in the "Explanatory Statement" in the Scheme Document that following implementation of the Proposal, Li & Fung intends that the IDS Group will continue to carry on its current business of provision of logistics services, and distribution of fast moving consumer goods and healthcare products and manufacturing.

With a view to realising the operational synergies and new business prospects from the proposed acquisition of IDS, Li & Fung will aim at formulating a plan to achieve an optimal integration of the IDS Group and the Li & Fung Group following implementation of the Proposal. To achieve this, Li & Fung will assess all the relevant circumstances from time to time and determine the necessary arrangements to be made in respect of the business, assets, operation, management and employees of the IDS Group.

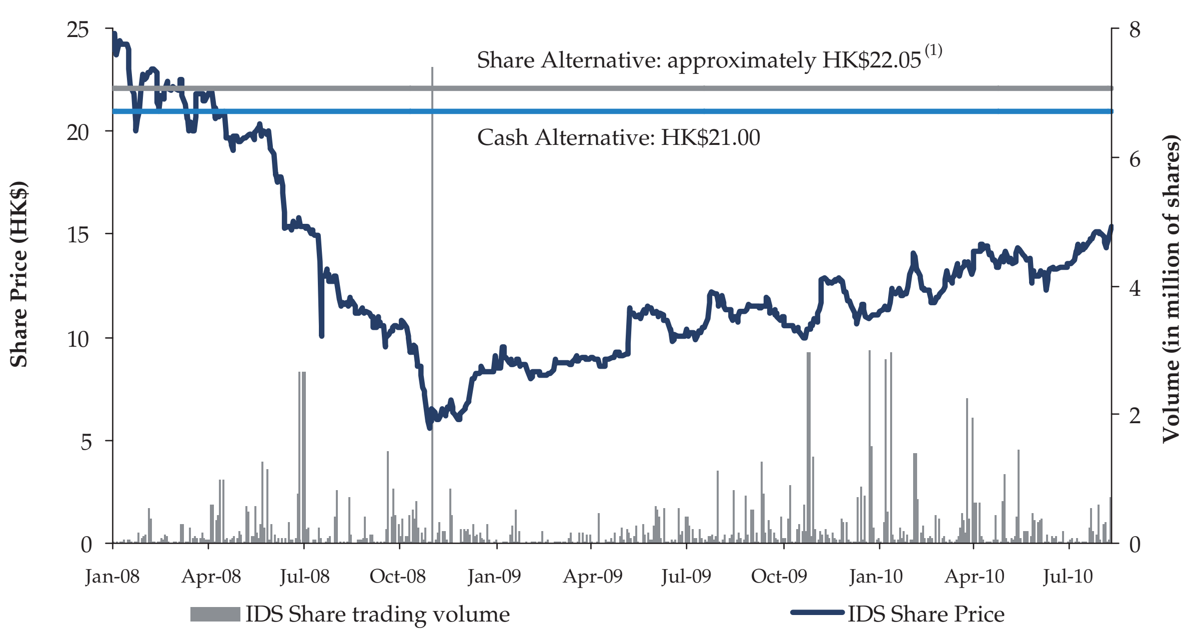
IDS Independent Shareholders should note that Li and Fung's intentions regarding IDS, if materialised, may have a positive impact on Li & Fung Group's and IDS Group's businesses going forward.

3. Cancellation Consideration Analysis

(i) Historical share price

The following graph illustrates the daily closing price and trading volume of IDS Shares on the Stock Exchange since 2 January 2008, being the 1st trading day of the 2008 calendar year, and up to and including the IDS Last Trading Day. As illustrated in the graph, IDS Shares have consistently traded below the implied price of IDS Shares based on both the Cash Alternative and the Share Alternative of HK$21.00 and approximately HK$22.05 per IDS Share, respectively, since the closing price of 17 April 2008.

Figure 1: Daily closing price and trading volume of IDS Shares



Source: Bloomberg

(1) Based on the closing price of HK$37.70 per Li & Fung Share on the IDS Last Trading Day

The following table illustrates the closing prices of IDS Shares on the IDS Last Trading Day and the IDS Price Reference Day, the average daily closing prices of IDS Shares based on various time periods ended on the Last Trading Day and the maximum, minimum and average closing prices of IDS Shares during the two year period ended on the IDS Last Trading Day. The table below, again, illustrates that, the closing price of IDS Shares, based on and at the various time periods noted above, has consistently traded significantly below the implied price of IDS Shares based on both the Cash Alternative and the Share Alternative of HK$21.00 and approximately HK$22.05 per IDS Share, respectively.

Table 4: Daily and average daily closing prices and trading volumes of IDS Shares

Period	Price (HK$)	Daily Volume
At the IDS Last Trading Day	15.42	718,640
At the IDS Price Reference Day	14.70	47,647
Minimum during the period (28 October 2008)(1)	5.60	19,000
Maximum during the period (9 August 2010)(1)	15.42	718,640
1 week average(2)	14.70	232,457
1 month average(2)	14.73	160,857
3 month average(2)	13.91	153,747
6 month average(2)	13.59	195,022
Average since 10 August 2008(1)	10.95	221,742

Source: Bloomberg

(1) For the two year period from 10 August, 2008 up to and including the IDS Last Trading Day

(2) For the period ended on the IDS Last Trading Day

(ii) Liquidity

The table below sets out the trading volume of the IDS Shares per month, and the monthly trading volume as a percentage of the issued share capital of IDS for the period from 1 August 2009 to 31 July 2010, being the 12 full calendar months prior to the Announcement.

Table 5: Liquidity analysis of IDS Shares

	Monthly trading volume of IDS Shares ('000s)	**Monthly trading volume of IDS Shares as a percentage of total issued share capital of IDS**
2009		
August, 2009	3,269	1.02%
September, 2009	5,412	1.69%
October, 2009	8,447	2.64%
November, 2009	2,988	0.93%
December, 2009	7,725	2.41%
2010		
January, 2010	7,980	2.48%
February, 2010	5,289	1.65%
March, 2010	8,186	2.55%
April, 2010	3,786	1.18%
May, 2010	4,385	1.36%
June, 2010	1,597	0.49%
July, 2010	2,198	0.68%
Average (1 August 2009 to 31 July 2010)	**5,105**	**1.59%**

As illustrated in the table above, we note that IDS Shares are relatively illiquid. The monthly trading volume of IDS Shares ranged from approximately 1.597 million IDS Shares to approximately 8.447 million IDS Shares in the 12 month period to 31 July 2010. The average monthly trading volume of IDS Shares in the same period was approximately 5.105 million IDS Shares, representing approximately 1.59% of the total issued share capital of IDS. Comparatively, and over the same period, the average monthly trading volume of Li & Fung Shares as a percentage of total issued share capital of Li & Fung was approximately 4.53% (see section headed "Cancellation Consideration Analysis – (vi) Consideration in relation to Li & Fung – (d) Liquidity" in this letter).

There are also signs that liquidity of IDS Shares has been reducing, as evidenced by the fact that monthly trading volume in the 3 month period from April 2010 to July 2010 have been substantially below the historical average.

Table 6: Average daily value of IDS Shares traded

	Average Daily Traded Value (HK$m)	
	IDS	**Li & Fung**
At the IDS Last Trading Day	11.08	598.59
At the IDS Price Reference Day	0.70	471.40
1 week average(1)	3.42	395.43
1 month average(1)	2.37	241.30
3 month average(1)	2.14	284.51
6 month average(1)	2.65	307.53
Average since 10 August 2008(2)	2.43	279.21

Source: Bloomberg

(1) For the period up to and including the IDS Last Trading Day

(2) For the two year period from 10 August, 2008 up to and including the IDS Last Trading Day

The table above illustrates that average daily traded value of IDS Shares during the 1 week, 1 month, 3 month and 6 month periods up to the IDS Last Trading Day were approximately HK$3.42 million, HK$2.37 million, HK$2.14 million and HK$2.65 million, respectively. The average daily trading value of Li & Fung were approximately HK$395.43 million, HK$241.30 million, HK$284.51 million and HK$307.53 million over the same corresponding periods.

The low trading liquidity of IDS Shares could make any on-market disposals, which are substantial in volume, difficult, as there is insufficient turnover of the IDS Shares to absorb high volume sales and therefore high volume disposals are likely to have a significant adverse impact on the price of IDS Shares.

(iii) Comparable companies analysis

We have reviewed commonly used valuation multiples of IDS' trading price and those implied by the Cash Alternative and the Share Alternative, relative to the valuation multiples at which IDS' listed comparable companies are currently trading. The valuation multiples typically employed when analysing logistics companies include:

- Enterprise value ("EV") to normalised earnings before interest, taxes, depreciation and amortisation ("EBITDA");[(4)]

- Market price per share to normalised net profit after tax or the price earning ratio ("PER");

- Market price to net asset value ("NAV") ratio;[(5)] and

- Market price to net tangible asset ("NTA") ratio.[(6)]

Due to IDS' business strategy, business proposition, global positioning and operations, there are no directly listed comparable companies. Accordingly, we have considered overseas listed asset light logistics services providers that are similar to IDS, based on their business model and relevancy of their service offerings. Our key selection criteria of the comparable companies include:

- engaged in logistics services such as freight forwarding, third party logistics and transportation services;

- asset light logistics services provider;

- global listed companies (given that there are no Hong Kong listed company with comparable size and scale); and

- market capitalisation of US$800 million or above as of the Latest Practicable Date.

(4) Normalised EBITDA excludes the effect of any non-recurring items as identified on each respective company's accounts

(5) Net asset value is calculated as total assets less total liabilities and less minority interests

(6) Net tangible asset is calculated as net asset value less intangible assets

Based on our selection criteria, we have conducted a comparable companies search on Bloomberg L.P. ("Bloomberg"), a financial information provider, and identified the following exhaustive list of 11 comparable companies which, to the best of our knowledge, fits our criteria of selection:

Table 7: Comparable companies analysis

Company name	Country of listing	Market Cap (US$m)	EV (US$m)	EV/FY09 EBITDA	PER FY09	Price/NAV	Price/NTA
Landstar System, Inc.	United States	1,880	1,951	14.3 x	27.0 x	6.6 x	8.3 x
UTI Worldwide Inc.	United States	1,573	1,654	12.3 x	37.1 x	1.9 x	4.6 x
Hub Group, Inc.	United States	1,074	946	15.8 x	31.4 x	3.0 x	8.4 x
Panalpina Welttransport Holdings AG	Switzerland	2,302	1,888	24.3 x	n.m.[1]	3.0 x	3.3 x
C.H. Robinson Worldwide, Inc.	United States	11,397	11,181	18.1 x	31.6 x	10.3 x	15.9 x
Expeditors International of Washington, Inc.	United States	9,746	8,794	21.0 x	40.5 x	6.0 x	6.0 x
DSV A/S	Denmark	3,715	4,884	12.8 x	28.8 x	4.0 x	n.m.[2]
Kuehne & Nagel International AG	Switzerland	12,730	12,080	14.1 x	28.2 x	5.9 x	9.6 x
Toll Holdings Limited	Australia	4,211	5,101	8.6 x	15.3 x	1.7 x	4.8 x
Kintetsu World Express, Inc.	Japan	872	983	6.9 x	16.3 x	1.2 x	1.3 x
Agility Public Warehousing Company K.S.C.	Kuwait	1,689	1,713	2.3 x	3.2 x	0.5 x	0.5 x
Mean				13.7 x	25.9 x	4.0 x	6.3 x
Median				14.1 x	28.5 x	3.0 x	5.4 x
High				24.3 x	40.5 x	10.3 x	15.9 x
Low				2.3 x	3.2 x	0.5 x	0.5 x
IDS (Cash Alternative)		881	1,000	14.2 x	28.6 x	5.4 x	11.8 x
IDS (Share Alternative) [3]		925	1,044	14.9 x	30.1 x	5.6 x	12.4 x

Source: Company filings and Bloomberg as of the Latest Practicable Date

(1) Panalpina Welttransport Holdings AG has experienced a sharp decline in revenue and earnings in 2009 as trade volumes within its key markets reduced significantly. Therefore the company's FY09 PER is regarded as an outlier and excluded from the calculation of mean and median

(2) DSV A/S has a negative FY09 NTA due to high level of intangibles consisting goodwill and customer relationships

(3) Based on the implied value of the Share Alternative of HK$22.05 per IDS Share as of the IDS Last Trading Day.

We note the following observations with respect to the trading multiples:

- IDS EV to FY09 normalised EBITDA of 14.2x based on the Cash Alternative and 14.9x based on the Share Alternative are in line with the EV to FY09 normalised EBITDA range of comparable companies and exceed the mean and median multiples of such companies;
- IDS PER FY09 of 28.6x based on the Cash Alternative and 30.1x based on the Share Alternative are in line with the PER FY09 range of comparable companies and exceed the mean and median multiples of such companies;
- IDS' 2009 market price to net asset of 5.4x based on the Cash Alternative and 5.6x based on the Share Alternative are in line with the range based on comparable companies and exceed the mean and median multiples of such companies; and
- IDS 2009 market price to net tangible asset of 11.8x based on the Cash Alternative and 12.4x based on the Share Alternative are in line with the range based on comparable companies and exceed the mean and median multiples of such companies.

(iv) Comparable transactions analysis

We have reviewed privatisation proposals in Hong Kong and selected several comparable transactions based on the following criteria:

- Successful privatisation of a Hong Kong listed company;
- By way of scheme of arrangement or by way of voluntary general offer with acceptance condition of at least 90% and intention to exercise compulsory acquisition if such offer becomes unconditional; and
- Announced between 1 January 2008 and the IDS Last Trading Day.

Based on our selection criteria, we have conducted a review of all privatisation proposals involving Hong Kong listed companies as targets that were announced between 1 January 2008 and the IDS Last Trading Day and identified the following exhaustive list of 14 comparable transactions which, to the best of our knowledge, fits our criteria of selection:

Our analysis is summarised in the following table.

Table 8: Comparable transactions analysis[1]

Date of initial privatisation announcement	Offeree company	Premium of the offer price over closing price on last trading day before privatisation announcement	Premium of the offer price over average closing prices prior to announcement of privatisation: 1 month	3 months	6 months
28 Feb 08	Mirabell International Holdings Limited	15%	16%	18%	20%
2 Jun 08	Wing Lung Bank Limited	6%	8%	23%	43%
2 Jun 08	China Netcom Group Corporation (Hong Kong) Limited	3%	14%	19%	18%
10 Jun 08	CITIC International Financial Holding Limited	33%	44%	65%	67%
3 Dec 08	GST Holding Limited[2]	78%	108%	65%	48%
22 Dec 08	Shaw Brothers (Hong Kong) Limited[2]	64%	73%	54%	–5%
12 Mar 09	Delta Networks, Inc.[2]	44%	78%	102%	64%
19 May 09	Nam Tai Electronic & Electrical Products Limited	2%	5%	46%	84%
22 May 09	The Ming An (Holdings) Company Limited[5]	44%	50%	61%	71%
25 May 09	Stone Group Holdings Limited	39%	45%	68%	68%
8 Jan 10	Hutchison Telecommunications International Limited	33%	39%	39%	30%
26 Jan 10	Zhongyu Gas Holdings Limited[6][7]	1%	11%	21%	43%
27 Apr 10	Wheelock Properties Limited[2]	144%	154%	166%	157%
19 May 10	Denway Motors Limited	15%	19%	16%	15%
	Mean[2]	19.3%	25.9%	37.7%	45.9%
	Median[2]	15.0%	17.1%	30.9%	43.3%
12 Aug 10	IDS (Cash Alternative)	36.2%	42.5%	51.0%	54.5%
12 Aug 10	IDS (Share Alternative)[3]	43.0%	49.7%	58.6%	62.3%

Source: Company filings Bloomberg and the Stock Exchange website

(1) For the comparable transactions below, in the event that: (i) the offer in the privatisation proposal of the respective company consists of share exchange offer, the computation of the relevant privatisation consideration is based on, among other things, the closing price of the respective listed share or the theoretical value of the unlisted share, as the case may be, to be exchanged before the initial announcement of the privatisation proposal; (ii) the offer/cancellation price (including cash and share exchange offer) of the relevant privatisation proposal is revised after the initial announcement, the computation of the relevant privatisation consideration is based on the revised cash offer price or revised share exchange ratio, as the case may be.

(2) Implied premiums of Wheelock Properties, GST Holdings Limited, Shaw Brothers (Hong Kong) Limited and Delta Networks, Inc. privatisations are regarded as outliers and excluded from the calculation of the mean and median

(3) Based on the implied value of the Share Alternative of HK$22.05 per IDS Share as of the IDS Last Trading Day

We note that the privatisations of GST Holdings Limited, Shaw Brothers (Hong Kong) Limited and Delta Networks Inc. were announced during a period of substantial decline and instability in global equity markets in 2008. Accordingly, the premiums paid and the historical analysis in relation to those transactions may not be reflective of what a potential acquirer or major shareholder would propose and what the underlying historical analysis might indicate under normal market conditions, and hence, we have excluded these precedent transactions from our analysis.

We have also excluded the privatisation of Wheelock Properties Limited from our analysis as we believe that the substantial premiums of the offer price over: (i) the closing price of the company on the last trading day before the announcement of the privatisation; and (ii) the average closing prices of the company based on the various reference periods indicated in the table; are reflective of the fact that, in view of Wheelock Properties Limited‘s business, the offeror placed emphasis on net asset valuation as the prime valuation methodology in determining the privatisation offer price.

We note that the implied offer price premiums of the Cash Alternative and the Share Alternative are: (i) in line with the corresponding premium ranges of the precedent privatisation transactions and (ii) significantly higher than the corresponding mean and median price premiums offered in the precedent privatisation transactions.

(v) Premium analysis

The table below summarises the share price premium paid under the Cash Alternative and the Share Alternative against various reference periods.

Table 9: Implied IDS Share price premium paid under the Cash Alternative and Share Alternative

		Premium of alternatives	
	IDS share price (HK$)	**Cash Alternative**	**Share Alternative[(2)]**
At the IDS Last Trading Day	15.42	36.19%	43.03%
At the IDS Price Reference Day	14.70	42.86%	50.03%
1 week average period[(1)]	14.70	42.90%	50.07%
1 month average period[(1)]	14.73	42.53%	49.69%
3 month average period[(1)]	13.91	51.00%	58.59%
6 month average period[(1)]	13.59	54.49%	62.25%

Source: Bloomberg

(1) For the period up to and including the IDS Last Trading Day

(2) Based on the implied value of the Share Alternative of HK$22.05 per IDS Share as of the IDS Last Trading Day

We note that implied premiums to the historical average price of IDS Shares over the 1 week, 1 month, 3 month, 6 month periods up to and including the IDS Last Trading Day have remained fairly consistent. The implied historical premium during these periods under the Share Alternative has ranged from 50.07% to 62.25% while the implied historical premium under the Cash Alternative has ranged from 42.53% to 54.49%.

We have also analysed the implied share exchange ratio being offered under the Share Alternative. The table below compares the implied share exchange ratio from the Share Alternative against the implied share exchange ratio at the IDS Last Trading Day and various historical reference periods.

Figure 2: Implied share exchange ratios comparison

Source: Bloomberg, IDS

The implied share exchange ratio of 0.585 offered under the Share Alternative represents a 43.0% premium to the share exchange ratio for IDS Share price as of the IDS Last Trading Day. We note that the share exchange ratio has remained relatively constant historically at 0.405, 0.406, 0.387 and 0.366 based on the 1 week average, 1 month average, 3 month average, and 6 month average, respectively.

(vi) Considerations in relation to Li & Fung

We highlight certain aspects of Li & Fung's operations, share price performance and liquidity since those IDS Independent Shareholders who elect to accept the Share Alternative will become shareholders of Li & Fung.

(a) Business

IDS Independent Shareholders are advised to refer to the section entitled "Explanatory Statement" in and Appendix V ("General Information on the Li & Fung Group") of the Scheme Document for additional information on Li & Fung.

Li & Fung is a company incorporated in Bermuda with limited liability, the shares of which have been listed on the Stock Exchange since July 1992. The company is a constituent stock of the Hang Seng Index. The Li & Fung Group is principally engaged in consumer goods design, development and sourcing.

(b) Financial performance

A summary of the audited consolidated results of the Li & Fung Group for each of the 2 years ended 31 December 2009 is set out below:

Table 10: Li & Fung Group's financial summary of consolidated accounts

	For the year ended 31 December	
	2008	**2009**
Amounts shown in HK'000s	*Audited*	*Audited*
Revenue	110,722,117	104,478,983
Profit before taxation	2,683,186	3,605,947
Profit before non-controlling interests	2,423,689	3,365,725
Profit attributable to shareholders (after non-controlling interests)	2,421,936	3,369,107

Source: Li & Fung 2009 Annual Report

As at 31 December 2009, the audited consolidated net assets of the Li & Fung Group were approximately HK$17,726.19 million.

(c) Li & Fung share price performance

The following table illustrates the closing prices of Li & Fung Shares on the IDS Last Trading Day and the IDS Price Reference Day, the average daily closing prices of Li & Fung Shares based on various time periods ended on the IDS Last Trading Day and the maximum, minimum and average closing prices of Li & Fung Shares during the two year period ended on the IDS Last Trading Day.

Table 11: Daily and average daily closing prices and trading volumes of Li & Fung Shares

Period	**Price (HK$)**	**Daily Volume**
At the IDS Last Trading Day	37.70	15,877,721
At the IDS Price Reference Day	35.90	13,130,945
Minimum during the period (27 October, 2008)(1)	11.58	16,044,932
Maximum during the period (23 March, 2010)(1)	42.05	8,038,336
1 week average(2)	36.30	10,893,465
1 month average(2)	36.29	6,650,133
3 month average(2)	35.96	7,911,344
6 month average(2)	37.10	8,289,908
24 month average(2)	26.60	10,498,330

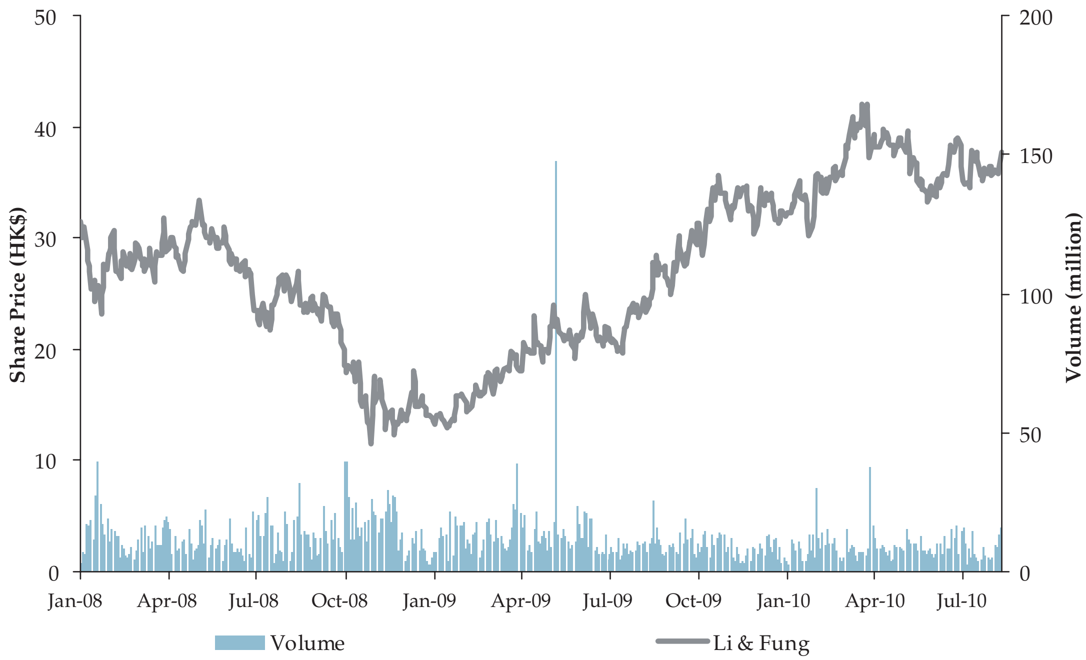
Source: Bloomberg

(1) For the two year period from 10 August, 2008 up to and including the IDS Last Trading Day

(2) For the period up to and including the IDS Last Trading Day

The following graph illustrates the daily closing price and trading volume of Li & Fung Shares on the Stock Exchange since 2 January, 2008, being the 1st trading day of the 2008 calendar year, and up to and including the IDS Last Trading Day.

Figure 3: Daily closing price and trading volume of Li & Fung Shares

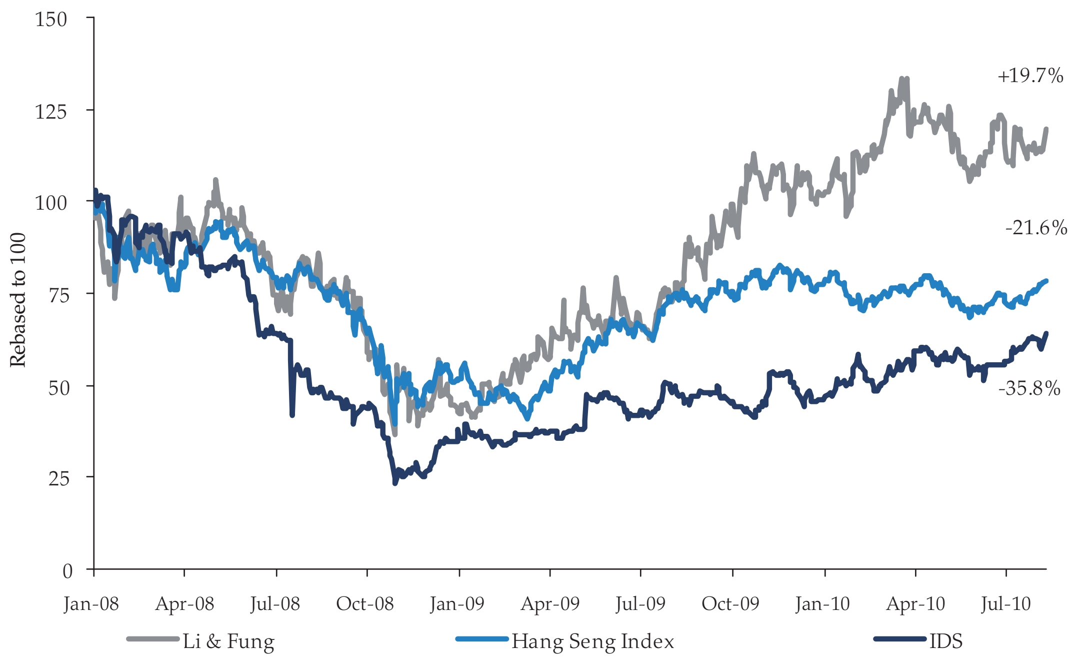


Source: Bloomberg

(1) Daily closing price and trading volume of Li & Fung Shares chart are from 2 January 2008 to the IDS Last Trading Day

The chart below shows the relative price performance of Li & Fung Shares compared to IDS Shares and the Hang Seng Index from 2 January 2008 to the IDS Last Trading Day. Li & Fung Share price has outperformed both IDS Share price and the Hang Seng Index during the period.

Figure 4: Daily closing price of Li & Fung Shares relative to IDS Shares and the Hang Seng Index



Source: Bloomberg

(1) Price performance of Li & Fung Shares relative to the Hang Seng Index chart is from 2 January 2008 to the IDS Last Trading Day

(2) Excludes effect of any announced dividends

(d) Liquidity

The following table illustrates the monthly trading volume of Li & Fung Shares and the monthly trading volume as a percentage of the issued share capital of Li & Fung for the period from 1 August 2009 to 31 July 2010, being the 12 full calendar months prior to the Announcement.

Table 12: Liquidity analysis of Li & Fung Shares

	Monthly trading volume of Li & Fung Shares ('000s)	**Monthly trading volume of Li & Fung Shares as a percentage of total issued share capital of Li & Fung**
2009		
August, 2009	200,512	5.33%
September, 2009	211,326	5.61%
October, 2009	191,945	5.09%
November, 2009	122,880	3.26%
December, 2009	154,893	4.10%
2010		
January, 2010	170,490	4.51%
February, 2010	145,569	3.85%
March, 2010	236,469	6.25%
April, 2010	135,516	3.58%
May, 2010	170,352	4.47%
June, 2010	193,293	5.07%
July, 2010	122,996	3.23%
Average (1 August 2009 to 31 July 2010)	171,354	4.53%

The average daily traded value of Li & Fung Shares, as illustrated in the table below, is substantially greater than that of IDS. We note that there are many factors affecting the daily traded value of a stock including market capitalisation and equity research coverage. On the IDS Last Trading Day, the market capitalisation of IDS was approximately HK$5,002 million and the market capitalisation of Li & Fung was approximately HK$143,767 million.

Table 13: Average daily value of Li & Fung Shares traded

	HK$m
At the IDS Last Trading Day	598.59
At the IDS Price Reference Day	471.40
1 week average[(1)]	395.43
1 month average[(1)]	241.30
3 month average[(1)]	284.51
6 month average[(1)]	307.53
Average since 10 August 2008[(2)]	279.21

Source: Bloomberg

(1) For the period up to and including the IDS Last Trading Day

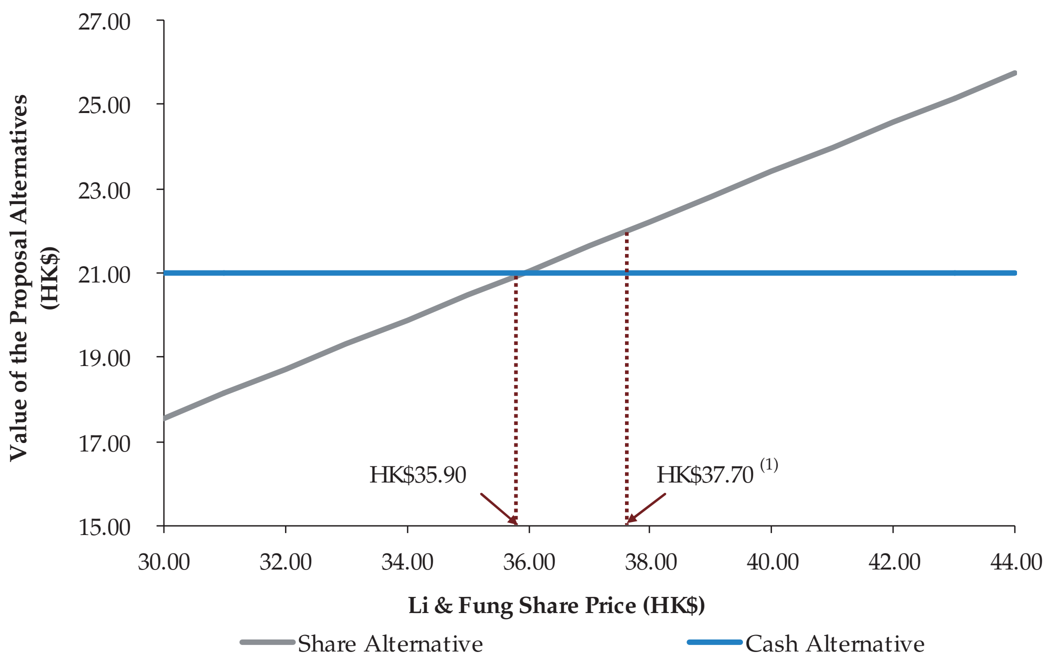
(2) For the two year period from 10 August, 2008 up to and including the IDS Last Trading Day

4. Other Considerations

(i) Analysis of Proposal alternatives

The implied value of the Share Alternative will continually change in accordance with the market price movements of Li & Fung Shares. The following diagram shows the implied value of the Share Alternative and the Cash Alternative (the vertical axis) at various price levels of Li & Fung Shares (the horizontal axis), based on the terms of the Proposal.

Figure 5: Impact on Proposal alternatives from movements in Li & Fung Share price



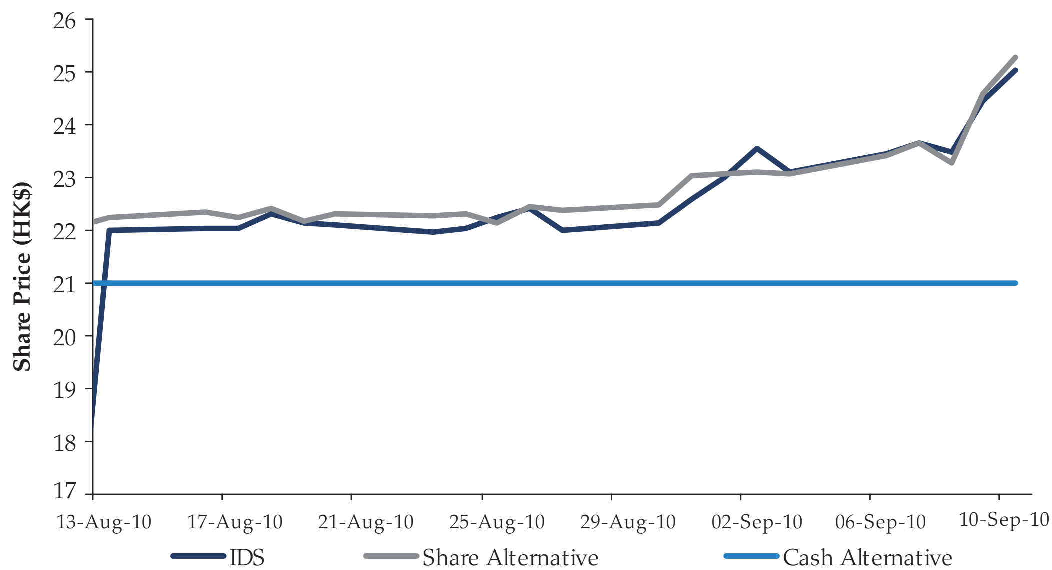
Source: ANZ

(1) Li & Fung Share price as at the IDS Last Trading Day

Where the market price of Li & Fung Shares is above approximately HK$35.90, the Share Alternative is worth more than the Cash Alternative. Therefore, based on Li & Fung's Share price of HK$37.70 as of the IDS Last Trading Day the Share Alternative is worth more than the Cash Alternative.

The following graph illustrates the movement of the daily closing prices of IDS Shares relative to the then prevailing implied value of the Share Alternative based on the daily closing price of Li & Fung Shares from the Announcement Date to the Latest Practicable Date.

Figure 6: Daily closing price of IDS Shares relative to Proposal alternatives



Source: Bloomberg

As illustrated in the above graph, IDS Share price has broadly been trading above the value of HK$21.00 offered under the Cash Alternative and in Line with the implied value from the Share Alternative since the terms of the Proposal were disclosed on the Announcement Date. IDS Independent Shareholders should note that as IDS Share price and the implied value of the Share Alternative continues to change over time, the value of IDS Shares relative to that of the Proposal alternatives will also vary from time to time.

For those IDS Independent Shareholders who wish to realise part of or all of their investments either before or after the implementation of the Proposal, it should be noted that there are costs (such as brokerage, stamp duty and transaction levy) associated with the disposal of IDS Shares or Li & Fung Shares and they should take this into consideration in determining the potential net realizable value of their investments.

(ii) Market research coverage

Trading liquidity of a stock is generally influenced by several factors including its market capitalisation, the free float of shares available to public investors, the operating and financial performance of the company and the level of market research coverage of the stock. According to Bloomberg, IDS receives no research coverage from any financial institution. In contrast to the market research coverage received by IDS, Li & Fung has significantly more market research coverage of its stock.

Based on the relative amount of market research coverage of Li & Fung and IDS, IDS Independent Shareholders who elect to accept the Share Alternative will hold shares in a company that is more widely covered by market research analysis, which may result in greater liquidity. Please refer to section entitled "Cancellation Consideration Analysis – (vi) Consideration in relation to Li & Fung – (d) Liquidity" in this letter.

(iii) Prospect of an alternative proposal

We understand that IDS has not received any competing offers from a third party. Given Li & Fung's significant strategic and substantial interest in IDS and representation on IDS Board, the prospect of a competing bid that could ultimately be successful, in a takeover for control of IDS, would seem low.

(iv) Revised offer from Li & Fung

We note that in the Scheme Document, the Cancellation Consideration per Scheme Share will not be revised, and Li & Fung does not reserve the right to do so.

(v) Consequence of the Scheme failing

The IDS Board intends that the listing of IDS Shares on the Stock Exchange shall be maintained in the event that the Scheme is not approved or does not become effective.

We note that IDS Shares have been trading within the range of HK$21.95 to HK$25.05 from the Announcement Date to the Latest Practicable Date. The prevailing share price and trading volume of IDS Shares may not be sustainable if the Scheme fails and the market price of IDS Shares may revert to its historical trading range, which may be materially below the price implied by the Share Alternative and the Cash Alternative.

5. The Option Offer

As summarised under the section entitled "Terms of the Proposal" in this letter, we note that in the event that any of the outstanding IDS Share Options are exercised on or prior to the Record Date in accordance with the relevant provisions of the IDS Option Scheme, any IDS Shares issued as a result of the exercise of such outstanding IDS Share Options will be subject to and eligible to participate in the Scheme.

Each holder of IDS Options with exercise prices ranging from HK$4.825 to HK$15.10 per IDS Option (being exercise prices below HK$21.00 per Scheme Share under the Cash Alternative), and who has outstanding IDS Share Options unexercised as at the Record Date, Li & Fung will make a cash offer to the IDS Optionholders to cancel their outstanding IDS Share Options. The cash offer for every IDS Share Option to be cancelled will be calculated on a "see-through" basis, pursuant to which each IDS Optionholder will be entitled to receive a sum for each IDS Share Option equivalent to the amount calculated by deducting the exercise price per IDS Share payable on exercise of the relevant IDS Share Option from the cash consideration in the amount of HK$21.00 per Scheme Share under the Cash Alternative.

For IDS Optionholders holding the 2007 Options, being the outstanding IDS Share Options with an exercise price of HK$25.55 per IDS Share Option, and who has outstanding IDS Share Options unexercised as at the Record Date, a cash offer for a nominal amount of HK$1.00 per 10,000 2007 Options will be made.

IDS Optionholders should note that the information, analyses and conclusions set out in this letter above with respect to the terms of the Proposal are also relevant for the IDS Optionholders in considering the option offer.

SUMMARY

Our opinion is based on the following principal considerations:

(i) the IDS Group's overall financial performance for the six months ended 30 June 2010 was weaker than the corresponding period in 2009. While the IDS Group has enjoyed robust growth from the Asian region, the uncertainty and adverse market conditions in the United States have lead to operating losses. The IDS Group expects a potentially slower recovery and a longer recovery period before the region is expected to return to profitability;

(ii) until the IDS Last Trading Day, the market price of IDS Shares has not closed at or above the implied share price based on the Share Alternative or the Cash Alternative since 17 April 2008, which is more than two years ago;

(iii) the price of HK$21.00 per Scheme Share offered under the Cash Alternative represents a premium of 42.90%, 42.53%, 51.00% and 54.49% over the average daily closing price of IDS Shares during the 1 week, 1 month, 3 month and 6 month periods, respectively, ending on the IDS Last Trading Day. The implied price under the Share Alternative represents a premium of 50.07%, 49.69%, 58.59% and 62.25%, respectively, over the same periods;

(iv) liquidity in IDS Shares is low. There are also signs that liquidity in IDS Shares has continued to reduce since April 2010. The average daily trading value of IDS Shares from 1 week, 1 month, 3 month and 6 month period up to the IDS Last Trading Day were approximately HK$3.42 million, HK$2.37 million, HK$2.14 million and HK$2.65 million, respectively. The average daily trading value of Li & Fung was approximately HK$395.43 million, HK$241.30 million, HK$284.51 million and HK$307.53 million over the same corresponding periods. The average monthly trading volume of IDS Shares as a percentage of total issued share capital of IDS in the in the 12 month period ended 31 July was approximately 1.59%. Over the same period, the average monthly trading volume of Li & Fung Shares as a percentage of total issued share capital of Li & Fung was approximately 4.53%;

(v) there is no interest in the market research community in IDS with no financial institution providing research coverage;

(vi) the trading multiples of IDS based on both the Cash Alternative and the Share Alternative are in line with the range based on comparable companies and exceed both the mean and median multiples of such companies;

(vii) the implied offer price premiums of both the Cash Alternative and the Share Alternative are in line with the premium range based on relevant precedent privatisations transactions and are significantly higher than both the mean and median price premium of such transactions;

(viii) the implied share exchange ratio being offered under the Share Alternative represents a significant and consistent premium to the historical implied share exchange ratio between IDS Shares and Li & Fung Shares;

(ix) the Proposal represents an opportunity for IDS Independent Shareholders who elect to accept the Share Alternative to become investors in a blue chip company with much greater trading liquidity in its shares relative to IDS and a stock that has historically outperformed the Hang Seng Index and IDS share price;

(x) Li & Fung's significant strategic and substantial interest in IDS and the assumption that Li & Fung would retain this position implies a low likelihood of any other competing takeover bid being successful; and

(xi) if the Scheme fails for whatever reason, IDS Shares may revert to their historical trading range, which may be materially below the price implied by the Share Alternative and the Cash Alternative.

RECOMMENDATION

The Offer for the Scheme Shares under the Proposal

Based upon and subject to the foregoing (including the assumptions, limitations and qualifications set out in this letter), we are of the opinion as of the date hereof that, having considered the financial and non-financial factors as set out in this letter, the terms of the Scheme are **fair and reasonable** so far as the IDS Independent Shareholders are concerned and as such, IDS Independent Shareholders should **vote in favour** of the Scheme at the Court Meeting and the special resolution to be proposed at the IDS SGM to, among other things, reduce the issued share capital of IDS by cancelling and extinguishing the Scheme Shares.

Given the choice between the Cash Alternative and the Share Alternative, we recommend that the IDS Independent Shareholders elect the Cash Alternative for certainty of value. However, we note that as of the Latest Practicable Date, the Share Alternative is worth approximately HK$25.27 per IDS Share and the Cash Alternative is worth HK$21.00 per IDS Share. As such, as at the Latest Practicable Date, the Share Alternative represented a higher value and we would recommend that IDS Independent Shareholders consider choosing the Share Alternative; provided, however, such Independent IDS Shareholders:

(i) have no immediate requirements for liquidity;

(ii) are not adverse to investing in a group of companies that is principally engaged in consumer goods design, development and sourcing;

(iii) have a positive view on Li & Fung's strategies and prospects;

(iv) understand and accept the risks pertinent to an investment in Li & Fung Shares;

(v) have no better investment alternative for the cash; and

(vi) are mindful that the monetary value that can be realized from a sale of Li & Fung Shares in the future may be higher or lower than the current implied value per IDS Share of approximately HK$25.27.

For IDS Independent Shareholders electing the Cash Alternative, it is advisable to monitor closely the trading of IDS Shares prior to the last day of dealing in IDS Shares on the Stock Exchange before the suspension of dealing in IDS Shares, and if a price (net of transaction expense) higher than HK$21.00 (based on the prevailing prices of IDS Shares) can be achieved in the open market, they should consider the prospect of selling their IDS Shares in the market rather than accepting the Cash Alternative.

Given that there is still a considerable lead time from the date of this letter to the date of the Court Meeting, the IDS SGM, the latest time for lodging the Election Form and the Effective Date, IDS Independent Shareholders should be mindful of, inter alia, any changes in the Hong Kong and international stock markets, financial and economic conditions, market demand for distribution/wholesale stocks, relative share price movements of Li & Fung and IDS, and the latest developments in the operating environment and industry of Li & Fung and IDS before making a decision on the Proposal and on which of the Cash Alternative and the Share Alternative to elect. IDS Independent Shareholders should consider the relative values of the Cash Alternative and the Share Alternative closer to the Record Date, before making their election.

In considering whether to accept the Cash Alternative or the Share Alternative, IDS Independent Shareholders should consider the market risks and transaction costs associated with disposing of their IDS Shares and/or Li & Fung Shares. Each IDS Independent Shareholder should consider his/her/its own circumstances and from his/her/its own point of view having regard to all the circumstances (and not only the financial perspective offered in this letter) as well as his/her/its own investment objectives and tax position. For IDS Independent Shareholders considering accepting the Share Alternative, your attention is drawn in particular to the Li & Fung risk factors set out in section entitled "Cancellation Consideration Analysis — (vi) Considerations in Relation to Li & Fung" in this letter.

The Cash Offer to IDS Optionholders under the Proposal

On the basis of our opinion on the terms of the offer for the Scheme Shares under the Proposal as discussed above, we consider the terms of the Option Offer to be **fair and reasonable** so far as the IDS Optionholders are concerned. Accordingly we advise the IDS IBC to recommend the IDS Optionholders to accept the Option Offer if the outstanding IDS Share Options are not exercised on or prior to the Record Date.

We note that as of the Latest Practicable Date, the cash offer is worth approximately HK$16.175, HK$12.40, HK$5.90, HK$14.36 and HK$8.224 per outstanding IDS Share Option for the 2004 Options, 2005 Options, 2006 Options, 2008 Options and 2009 Options respectively. The 2007 Options' exercise price is above the Cash Alternative and a nominal amount will be offered for these IDS Share Options.

Yours faithfully,
for and on behalf of
Australia and New Zealand Banking Group Limited

Glenn Porritt
Executive Director and
Head of Mergers and Acquisitions,
Asia

Henry Yau
Executive Director and
Head of Mergers and Acquisitions,
North East Asia

This Explanatory Statement constitutes the statement required under Section 100 of the Companies Act.

SCHEME OF ARRANGEMENT
TO CANCEL ALL THE SCHEME SHARES

INTRODUCTION

As disclosed in the Announcement, on 12 August 2010, Li & Fung requested the IDS Board to put forward a proposal to the Scheme Shareholders regarding (a) a proposed acquisition of IDS by Li & Fung by way of privatisation pursuant to a scheme of arrangement under Section 99 of the Companies Act involving cancellation of all the Scheme Shares and allotment and issue of new IDS Shares to Li & Fung; and (b) the Option Offer to the IDS Optionholders which is conditional on the Scheme becoming effective.

The purpose of this Explanatory Statement is to set out the terms and effects of the Proposal and to give the IDS Shareholders and the IDS Optionholders other relevant information in relation to the Proposal. A letter from the IDS Board is set out on pages 13 to 30 of this document. A letter of recommendation from the IDS IBC in connection with the Proposal is set out on pages 31 to 32 of this document. A letter of advice from ANZ in connection with the Proposal is set out on pages 33 to 66 of this document. The Scheme is set out on pages S-1 to S-8 of this document. Option Offer Letters are being sent to all IDS Optionholders together with this document pursuant to the terms and conditions of the IDS Option Scheme. IDS Optionholders should refer to the Option Offer Letters, a sample of which is set out on pages L-1 to L-6 of this document.

THE PROPOSAL

Subject to the satisfaction or valid waiver (as applicable) of the conditions of the Scheme as set out in the section headed "Conditions of the Scheme" below, the Proposal will be implemented by way of the Scheme, which will involve the allotment and issue of new IDS Shares to Li & Fung, cancellation of all the Scheme Shares and a reduction of share capital of IDS under Section 46 of the Companies Act. As part of the Proposal, Li & Fung will make the Option Offer to the IDS Optionholders which is conditional on the Scheme becoming effective. Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and IDS will become a wholly-owned subsidiary of Li & Fung.

The Scheme

Subject to the Scheme becoming effective, all Scheme Shares will be cancelled in exchange for either:

(a) *Cash Alternative:*

For every Scheme Share . . . . HK$21.00 in cash; or

(b) *Share Alternative:*

For every Scheme Share . . . . 0.585 Li & Fung Share

The Scheme Shareholders may elect either the Cash Alternative or the Share Alternative as the form of Cancellation Consideration in respect of their entire holdings of Scheme Shares (but not, for the avoidance of doubt, a combination of the two).

The Cancellation Consideration per Scheme Share will not be revised, and Li & Fung does not reserve the right to do so.

Scheme Shareholders who wish to elect the Share Alternative should specify the same in the Election Form. **Assuming the Scheme becoming effective, any Scheme Shareholder (other than a Committed Shareholder) (a) who has not, by 4:30 p.m. on Friday, 22 October 2010 or such later date and time as may be notified through announcement(s), delivered to the IDS Registrar a duly completed and executed Election Form; or (b) who has returned an Election Form which is not duly completed or executed for the Share Alternative, will receive the Cash Alternative in respect of his/its entire holding of the Scheme Shares. If a Scheme Shareholder does not make a valid election for the Share Alternative, such Scheme Shareholder (other than a Committed Shareholder) will receive the Cash Alternative as the form of Cancellation Consideration in respect of his/its entire holding of the Scheme Shares.**

The Cash Alternative

If all Scheme Shareholders (other than the Committed Shareholders, which have irrevocably undertaken to elect the Share Alternative; and assuming that Mikenwill will elect the Cash Alternative in respect of the Mikenwill Option Shares to be transferred to Mikenwill pursuant to the full exercise of the Mikenwill Call Option) elect the Cash Alternative, the amount of cash required for the Proposal is approximately HK$4,368,674,520 (assuming all IDS Optionholders exercising their outstanding IDS Share Options to become Scheme Shareholders before the Record Date) or approximately HK$4,092,550,971 (assuming no IDS Optionholders exercising their outstanding IDS Share Options to become Scheme Shareholders before the Record Date).

The Share Alternative

The actual number of the new Li & Fung Shares for allotment and issuance under the Proposal will be determined on the last day for the election of the Cancellation Consideration but in any event shall be not more than 201,982,950 new Li & Fung Shares (assuming all IDS Share Options being fully exercised and all Scheme Shareholders electing the Share Alternative), representing approximately 5.29% of the issued share capital of Li & Fung of 3,814,760,286 Li & Fung Shares as at Latest Practicable Date and approximately 5.03% of the enlarged issued share capital of Li & Fung of 4,016,743,236 Li & Fung Shares (as enlarged by the issue of the Li & Fung Shares issued pursuant to the Share Alternative), assuming all IDS Share Options being fully exercised and all Scheme Shareholders electing for the Share Alternative.

Under the Scheme, fractions of Li & Fung Shares will not be issued to any Scheme Shareholder elected for the Share Alternative. Fractional entitlements to Li & Fung Shares will be aggregated and sold in the market, the proceeds of which (net of all expenses) will be distributed to the Scheme Shareholders entitled thereto on a pro rata basis. However, individual entitlement of less than HK$10.00 will not be paid to any Scheme Shareholder but will be retained for the benefit of Li & Fung.

The Li & Fung Shares to be issued in satisfaction of the Share Alternative pursuant to the Proposal will be issued and credited as fully paid and will rank pari passu with the existing Li & Fung Shares at the date of issue and are expected to be issued under the general mandate granted to the Li & Fung Directors at the annual general meeting of Li & Fung held on 18 May 2010. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Li & Fung Shares to be issued in satisfaction of the Share Alternative on the Stock Exchange.

The Option Offer

As at the Latest Practicable Date, there were 19,415,000 outstanding IDS Share Options. An aggregate of 19,415,000 new IDS Shares may fall to be issued if all outstanding IDS Share Options are exercised by the IDS Optionholders in full.

The Option Offer to the IDS Optionholders to cancel their outstanding IDS Share Options is conditional on the Scheme becoming effective. The cash offer for every IDS Share Option to be cancelled will be calculated on a "see-through" basis, pursuant to which each IDS Optionholder will be entitled to receive a sum for each IDS Share Option equivalent to the amount calculated by deducting the exercise price per IDS Share payable on exercise of the relevant IDS Share Option from the cash consideration in the amount of HK$21.00 per Scheme Share under the Cash Alternative, being:

- HK$16.175 for each 2004 Option;
- HK$12.40 for each 2005 Option;
- HK$5.90 for each 2006 Option;
- HK$14.36 for each 2008 Option; and
- HK$8.224 for each 2009 Option.

For the 2007 Options, of which the exercise price per IDS Share is higher than the cash consideration per Scheme Share under the Cash Alternative, the "see-through" price is zero and a cash offer of HK$1.00 per 10,000 2007 Options will be made. In sum, the total amount of cash payment for the above IDS Share Options will be approximately HK$131,591,451.

In the event that any IDS Share Option is exercised after the Latest Practicable Date and new IDS Shares are issued pursuant to such exercise up to the Record Date, such IDS Shares will constitute Scheme Shares and their holders shall be eligible to receive the Cancellation Consideration under the Proposal. Holders of any IDS Shares so issued (other than the Interested Shareholders) will be entitled to vote at the Court Meeting. As at the Latest Practicable Date, none of the Interested Shareholders had any IDS Share Option.

Option Offer Letters together with the forms of acceptance in relation to the Option Offer are being sent to all IDS Optionholders together with this document pursuant to the terms and conditions of the IDS Option Scheme, informing them that if they wish to participate in the Scheme, they may exercise their IDS Share Options at any time up to the expiry of the period commencing from the date of the Option Offer Letter and ending on the earlier of the date two calendar months thereafter or the date on which the Scheme is sanctioned by the Court by giving notice in writing to the company secretary of IDS, at 1st Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong and, where necessary pursuant to the terms of grant of the IDS Share Options, together with payment for the aggregate amount of the exercise price of such IDS Share Options multiplied by the number of IDS Shares to be issued pursuant to such exercise. IDS Optionholders who wish to elect for the Share Alternative shall exercise their IDS Share Options in accordance with the terms of the IDS Option Scheme.

In order to accept the Option Offer, each IDS Optionholder will be required to duly complete the form of acceptance appended to the Option Offer Letter sent to IDS Optionholders in accordance with the instructions contained therein and to return it to Li & Fung c/o IDS, at 1st Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong, for the attention of the Li & Fung Board and marked "IDS-Option Offer", so as to reach Li & Fung not later than 4:30 p.m. on Friday, 22 October 2010 (or such later time and/or date as may be notified through announcement(s)). A sample of the Option Offer Letter is set out on pages L-1 to L-6 of this document.

Any IDS Share Options granted under the IDS Option Scheme that are not exercised or cancelled pursuant to the acceptance of the Option Offer will automatically lapse upon the Scheme becoming effective.

RATIONALE AND BENEFITS OF THE PROPOSAL

Benefits of the Proposal to Li & Fung

The Li & Fung Board has reached the conclusion that the acquisition of IDS has a clear and compelling strategic and financial rationale that will provide Li & Fung with new revenue streams and maximize the potential performance of Li & Fung. As a result, the Li & Fung Board believes that the acquisition of IDS is in the best interests of the Li & Fung Shareholders and other stakeholders.

The Li & Fung Board is also of the view that the terms of the Proposal are fair and reasonable to the IDS Shareholders and the IDS Optionholders and that the proposed acquisition of IDS by way of privatisation is complementary to and supportive of Li & Fung's growth strategy, in a number of important ways:

- strengthening Li & Fung's footprint in Asia, particularly in China;
- providing a complete end to end supply chain solution;
- option of entering food & beverage sourcing business at a later date; and
- potential of enhancement of operational synergies and new business prospects.

New geographic reach and changing economic environment

As Asia accounts for an increasing proportion of international trade and economic growth, and with China becoming a major consumer market in itself, the Asia region will be an important component of Li & Fung's future growth strategy. The transaction is central in positioning Li & Fung for distribution and wholesaling opportunities in China and the rest of Asia, which generated approximately 2% of Li & Fung Group's revenue in 2009. Management of Li & Fung believes that the opportunity to acquire an existing, proven business such as that of IDS is a compelling proposition, providing Li & Fung Group with immediate infrastructure, people, know-how, and the necessary business relationships that would otherwise take years to build up. In these respects, Li & Fung believes that IDS, with its proven track record, provides the best available platform to replicate in Asia, and China in particular, Li & Fung's success achieved in wholesaling in the United States and in Europe.

Extended business model

Logistics is an important component in the supply-chain. Currently, Li & Fung's involvement in the supply-chain essentially ends at the point where products are delivered to the freight forwarders for shipment to customers. The proposed acquisition of IDS will allow Li & Fung to enlarge and extend its services from the point when products leave the factory gates, to the ships or airplanes, and to the distribution centres of the customers in the United States, Europe and Asia. Furthermore, the consolidation of third party volumes and Li & Fung's own volumes will increase negotiating power, allowing Li & Fung to obtain better freight rates and to obtain capacity when shipment capacity is short or timing is tight. These, together with the addition of a large contingent of professional logistics specialists, mean a significant leap in Li & Fung's service offering and in its service quality.

New product category

Food and beverage is a segment that Li & Fung's management has been considering to enter into. With IDS's expertise from manufacturing to marketing in this segment, the proposed acquisition provides Li & Fung with the option to enter into this market in a safe and controlled manner at a later date. Importantly, IDS will at the appropriate time enable Li & Fung to explore and better understand the food and beverage export market. The proposed acquisition gives Li & Fung the management talent with food experience to enter the market in sourcing and distribution of food products at a later date.

Synergetic Benefit

Management of Li & Fung expects to realise operational synergies and new business prospects from the proposed acquisition of IDS within a short time. These will be achieved through optimisation of capacities, internal cost savings, extended management expertise and additional negotiating power for both companies and customer relationships. For example, not more than 20% of the existing logistics requirement of Li & Fung in the United States is handled by IDS, Li & Fung can put through the remaining 80% to IDS.

In addition, management of Li & Fung considers the integration risk to be relatively low given the established relationships of the two companies, and similarities in terms of corporate governance measures, information technology systems, and corporate culture.

The Li & Fung Board believes that the ability of IDS to take advantage of its listed status to raise funds from equity markets is limited and that the costs associated with the maintenance of

IDS's listing on the Stock Exchange may no longer be warranted. The limitation on liquidity can be observed through the average daily trading volume for the 6 months up to and including 9 August 2010 (being the last trading day in IDS Shares immediately preceding the Announcement Date) being approximately 191,798 IDS Shares.

The Li & Fung Board believes that the Proposal represents a good opportunity for the Scheme Shareholders and the IDS Optionholders to realise their investments at a price above the prevailing market price of IDS Shares.

The Li & Fung Board (including the independent non-executive Li & Fung Directors) believe, having regard to the advice of BNP Paribas as more particularly described in the circular (the "Circular") issued by Li & Fung on 27 August 2010, that the Proposal is on normal commercial terms and terms of the Proposal are fair and reasonable so far as the Li & Fung Independent Shareholders are concerned and the transactions contemplated under the Proposal are in the interests of Li & Fung and the Li & Fung Independent Shareholders as a whole.

Benefits of the Proposal to IDS

The Proposal enables IDS, as part of the Enlarged Group, to be able to leverage on Li & Fung's strengths in product development and sourcing to offer clients end-to-end supply chain solutions. Li & Fung's presence in the United States or Europe will allow IDS to increase in scale significantly and gain access to a broader customer base. This will create more cross-selling opportunities for IDS, leading to greater top-line growth and enhanced utilisation of warehouses in the United States or Europe.

CONDITIONS OF THE SCHEME

The Scheme will become effective and binding on IDS and all Scheme Shareholders subject to satisfaction or valid waiver (as applicable) of the following Conditions:

(a) the approval of the Scheme by a majority in number of IDS Independent Shareholders present and voting at the Court Meeting representing not less than three-fourths in value of those IDS Shares that are voted by the IDS Independent Shareholders at the Court Meeting either in person or by proxy, provided that:

  (i) the Scheme is approved (by way of poll) by at least 75% of the votes attaching to the IDS Shares held by the IDS Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and

  (ii) the number of votes cast against the resolution to approve (by way of poll) the Scheme is not more than 10% of the votes attaching to all the IDS Shares held by the IDS Independent Shareholders;

(b) the passing by IDS Shareholders (other than those who are prohibited from voting under relevant laws, rules or regulations) of a special resolution to approve the reduction of the issued share capital of IDS by cancelling and extinguishing the Scheme Shares at the IDS SGM;

(c) the allotment and issue of 120,000 new IDS Shares to Li & Fung (or its nominee) immediately before the reduction of the issued share capital of IDS referred to in (b) above;

(d) the sanction of the Scheme (with or without modifications) by the Court and the delivery to the Registrar of Companies in Bermuda of a copy of the order of the Court for registration;

(e) the necessary compliance with the procedural requirements and conditions, if any, of Section 46(2) of the Companies Act in relation to the reduction of the issued share capital of IDS referred to in (b) above;

(f) the granting by the Stock Exchange of the listing of, and permission to deal in, the Li & Fung Shares which fall to be issued pursuant to the Proposal, on the Stock Exchange;

(g) all Authorisations having been obtained or made from, with or by (as the case may be) the Relevant Authorities, in Bermuda, Hong Kong and/or any other relevant jurisdictions;

(h) the Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;

(i) the Li & Fung Independent Shareholders passing such resolutions as may be required by the Listing Rules to implement the Proposal;

(j) if required, the obtaining by Li & Fung of such other necessary consent, approval, authorisation, permission, waiver or exemption which may be required from any Relevant Authorities or other third parties which are necessary or desirable for the performance of the Scheme under applicable laws and regulations;

(k) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order) that would make the Proposal or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms);

(l) all necessary consents which may be required under any existing material contractual obligations of IDS and of Li & Fung being obtained;

(m) there being no provision of any arrangement, agreement, licence or other instrument to which any member of the IDS Group is a party or by or to which any of them is or are or may be bound, entitled or subject which as a consequence of the implementation of the Proposal or because of a change in control or management of IDS could or might reasonably result in, to an extent which is material in the context of the IDS Group taken as a whole:

(i) any monies borrowed by or other indebtedness (actual or contingent) of any member of the IDS Group being repayable or being capable of being declared payable prior to their stated maturity;

(ii) the creation of any mortgage, charge or other security interest over the whole or any material part of the business, property or assets of any member of the IDS Group or any such security (whether arising or having arisen) becoming enforceable; and

(iii) any such arrangement, agreement, licence, permit, franchise or other instrument being terminated or adversely modified or any material action being taken or any material obligation arising thereunder;

(n) save as publicly announced prior to the Announcement Date, no member of the IDS Group having since 31 December 2009 (being the date to which the latest published audited accounts of IDS were made up):

(i) issued, agreed or authorised or proposed the issue of additional shares of any class, or securities convertible into, or rights, warrants or options to subscribe for or acquire, any such shares or convertible securities (save as between IDS and its wholly-owned subsidiaries and other than the issue of IDS Shares pursuant to the exercise of any IDS Share Options) and including, for the avoidance of doubt, any scrip dividend;

(ii) recommended, declared, paid or made any bonus, dividend or other distribution other than between members of the IDS Group (other than any declaration and payment of an interim dividend by IDS in the ordinary course for the six months ended 30 June 2010, if not disallowed by the Executive);

(iii) to an extent which is material in the context of the IDS Group as a whole, merged with any body corporate or acquired or disposed of any assets or authorised, proposed or announced any intention to propose any merger, demerger, acquisition or disposal;

(iv) issued, authorised or proposed the issue of any debentures or, save in the ordinary course of business, incurred or increased any indebtedness or contingent liability in each case to an extent which is material in the context of the IDS Group taken as a whole;

(v) purchased, redeemed or repaid or announced any proposal to purchase, redeem or repay any of its own shares or other securities or redeemed or reduced or made any other change to any part of its share capital to an extent which is material in the context of the IDS Group taken as a whole;

(vi) entered into any contract, transaction, arrangement or commitment (whether in respect of capital expenditure or otherwise) which is of a long-term, onerous or unusual nature or magnitude, and which involves or is likely to involve an obligation of a nature or magnitude which, in any case, is material in the context of the IDS Group taken as a whole; or

(vii) made or authorised or proposed or announced an intention to propose any change in its loan capital to an extent which is material in the context of the IDS Group taken as a whole;

(o) save as publicly announced prior to the Announcement Date, since 31 December 2009 (being the date to which the latest published audited accounts of IDS were made up):

(i) there having been no material adverse change in the business, financial or trading position or prospects of any member of the IDS Group to an extent which is material in the context of the IDS Group taken as a whole; and

(ii) there not having been instituted or remaining outstanding any material litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the IDS Group is a party (whether as plaintiff or defendant or otherwise) and no such proceedings having been threatened in writing against any such member and no investigation by any government or quasi-governmental, supranational, regulatory or investigative body or court against or in respect of any such member or the business carried on by any such member having been threatened in writing, announced, instituted or remaining outstanding by, against or in respect of any such member in each case which is material and adverse in the context of the IDS Group taken as a whole; and

(p) each member of the IDS Group remaining solvent and not being subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any substantial part of the assets and undertakings of any member of the IDS Group from the Announcement Date up to the date when all the Conditions are satisfied or validly waived (as applicable).

Li & Fung reserves the right to waive any of Conditions (m), (n), (o) and (p), either in whole or in respect of any particular matter. All of the Conditions will have to be satisfied or validly waived (as applicable), on or before 31 December 2010 (or such later date as may be proposed by Li & Fung and permitted by the Executive), otherwise the Scheme will not become effective. When the Conditions are satisfied or validly waived (as applicable), the Scheme will become effective and binding on IDS and all the Scheme Shareholders. As at the Latest Practicable Date, Condition (l) has been satisfied.

Assuming that the Conditions are satisfied or validly waived (as applicable), it is expected that the Scheme will become effective on or around 22 October 2010.

Li & Fung is not a party to any agreements or arrangements which relate to circumstances in which it may or may not invoke or seek to invoke any of the above conditions to the Proposal. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, Li & Fung will not invoke any condition so as to cause the Scheme not to become effective unless the circumstances which give rise to the right to invoke the condition are of material significance to Li & Fung in the context of the Scheme.

WARNING: Li & Fung Shareholders, IDS Shareholders, IDS Optionholders and/or potential investors should be aware that the Scheme will only become effective upon all the Conditions being satisfied or validly waived (as applicable). The Scheme may or may not become effective, and the Option Offer may or may not become unconditional. Li & Fung Shareholders, IDS Shareholders, IDS Optionholders and/or potential investors should therefore exercise caution when dealing in IDS Shares and/or Li & Fung Shares. Persons who are in doubt as to the action they should take should consult their licensed securities dealer, registered institution in securities, bank manager, solicitor or other professional adviser.

SCHEME UNDER SECTION 99 OF THE COMPANIES ACT AND THE COURT MEETING

According to Section 99 of the Companies Act, where an arrangement is proposed between a company and its members or any class of them, the Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Court directs.

It is provided in Section 99 of the Companies Act that if a majority in number representing three-fourths in value of the members or class of members, as the case may be, present and voting at the meeting summoned as directed by the Court agree to any arrangement, the arrangement shall, if sanctioned by an order of the Court, be binding on all members or class of members, as the case may be, and also on the company. Section 99 of the Companies Act further provides that any order of the Court sanctioning such a scheme shall have no effect until a copy of the court order has been delivered to the Registrar of Companies in Bermuda for registration.

THE ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying any requirements imposed by the law of Bermuda as summarised above, but except with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

(a) the Scheme is approved by at least 75% of the votes attaching to the disinterested IDS Shares (namely, the IDS Shares held by the IDS Independent Shareholders) that are cast (by way of poll) either in person or by proxy at a duly convened meeting of the holders of the disinterested IDS Shares; and

(b) the number of votes cast against the resolution to approve the Scheme at such meeting is not more than 10% of the votes attaching to all disinterested IDS Shares.

As at the Latest Practicable Date, the IDS Independent Shareholders held in aggregate 179,485,281 IDS Shares and 10% of the votes attached to all disinterested IDS Shares referred to in paragraph (b) above was 17,948,528 IDS Shares.

BINDING EFFECT OF THE SCHEME

Notwithstanding the fact that there may be a dissenting minority, if the Scheme is approved at the Court Meeting by a majority in number of the Scheme Shareholders present and voting, representing at least 75% in nominal value of the IDS Shares of the IDS Independent Shareholders, and provided that the Scheme is not disapproved at the Court Meeting by the IDS Independent Shareholders holding more than 10% in nominal value of all the IDS Shares held by the IDS Independent Shareholders, the Scheme will, so long as it is sanctioned by the Court and the Court order is delivered to the Registrar of Companies in Bermuda for registration, become binding on IDS and all the IDS Shareholders.

IRREVOCABLE UNDERTAKINGS TO ACCEPT THE PROPOSAL

Li & Fung has received an Irrevocable Undertaking from each of the Committed Shareholders, pursuant to which each of the Committed Shareholders has undertaken (a) to vote to approve the Proposal at the IDS SGM in respect of his/its Committed Shares; and (b) to elect the Share Alternative in respect of his/its Committed Shares. The Irrevocable Undertakings will terminate if (a) the SFC or any other competent authority including without limitation, the Court does not permit the Proposal to proceed on its terms; (b) the Scheme is withdrawn or lapsed; or (c) the Scheme fails to become effective before 31 December 2010. Save as disclosed above, as at the Latest Practicable Date, none of Li & Fung and persons acting in concert with it (including the Interested Shareholders) has received any irrevocable commitment from the IDS Independent Shareholders in respect of voting at the Court Meeting.

FINANCIAL EFFECTS OF THE PROPOSAL

Earnings

As set out in the audited consolidated financial statements of the Li & Fung Group in Section 2 of Appendix II to this document, the Li & Fung Group had profit attributable to shareholders of approximately HK$3,369.1 million for the year ended 31 December 2009. As set out in the unaudited results of the Li & Fung Group as extracted from the published unaudited interim financial information of the Li & Fung Group for the six months ended 30 June 2010 in Section 3 of Appendix II to this document, the profit attributable to shareholders of the Li & Fung Group for the six months ended 30 June 2010 was approximately HK$2,171.3 million.

An unaudited pro forma consolidated profit and loss account of the Enlarged Group for the year ended 31 December 2009 (as set out in Appendix III to this document), based upon the net profits for the year ended 31 December 2009 of the Li & Fung Group and the IDS Group, has been prepared to illustrate the financial effect of the Proposal as if the Proposal had been completed on 1 January 2009. The unaudited pro forma consolidated profit of the Enlarged Group attributable to Li & Fung Shareholders for the year ended 31 December 2009 would have been HK$3,534.1 million.

Assets and liabilities

An unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 June 2010 (as set out in Appendix III to this document), based upon the unaudited consolidated balance sheets of the Li & Fung Group and the IDS Group as at 30 June 2010, has been prepared to illustrate the financial effect of the Proposal as if the Proposal had been completed on 30 June 2010.

The total assets and total liabilities of the Li & Fung Group as at 30 June 2010 were approximately HK$49,461.3 million and HK$30,900.7 million, respectively.

On the basis of such number of IDS Shares in issue as at 24 August 2010, the latest practicable date for the Circular and that all Scheme Shareholders elect the Cash Alternative (other than the Committed Shareholders, which have irrevocably undertaken to elect the Share Alternative, and assuming that Mikenwill will elect the Cash Alternative in respect of the Mikenwill Option Shares to be transferred to Mikenwill pursuant to the full exercise of the Mikenwill Call Option and that all IDS Optionholders will exercise their outstanding IDS Share Options to become Scheme Shareholders before the Record Date), upon implementation of the Proposal, the unaudited pro forma total assets and total liabilities of the Enlarged Group as at 30 June 2010 would have been approximately HK$57,948.0 million and HK$36,494.1 million, respectively.

On the basis of such number of IDS Shares in issue as at 24 August 2010, the latest practicable date for the Circular and that all Scheme Shareholders elect the Share Alternative (assuming that Mikenwill will elect the Share Alternative in respect of the Mikenwill Option Shares to be transferred to Mikenwill pursuant to the full exercise of the Mikenwill Call Option and that all IDS Optionholders will exercise their outstanding IDS Share Options to become Scheme Shareholders before the Record Date), upon implementation of the Proposal, the unaudited pro forma total assets and total liabilities of the Enlarged Group as at 30 June 2010 would have been approximately HK$62,330.8 million and HK$36,494.1 million, respectively.

Gearing position and working capital

It is Li & Fung's policy to use its cash flow generated from operations and an conservative level of borrowings as the principal source of funding to finance growth and expansion.

At the close of business on 30 June 2010, the Li & Fung Group had net debt of HK$1,554.7 million (i.e. the long-term notes of HK$6,977.8 million less cash and bank balances net of overdrafts of HK$5,423.1 million).

At the close of business on 30 June 2010, the IDS Group had net debt of US$106.4 million (HK$829.8 million) (i.e. bank borrowings of US$193.6 million (HK$1,509.7 million) less cash and bank balances net of overdrafts of US$87.2 million (HK$679.9 million)).

On the basis of such number of IDS Shares in issue as at 24 August 2010, the latest practicable date for the Circular and that all Scheme Shareholders elect the Cash Alternative (other than the Committed Shareholders, which have irrevocably undertaken to elect the Share Alternative, and assuming that Mikenwill will elect the Cash Alternative in respect of the Mikenwill Option Shares to be transferred to Mikenwill pursuant to the full exercise of the Mikenwill Call Option and that all IDS Optionholders will exercise their outstanding IDS Share Options to become Scheme Shareholders before the Record Date), at the close of business on 30 June 2010, being the latest practicable date for the indebtedness statement of the Enlarged Group, the Enlarged Group had net debt of HK$6,477.5 million (i.e. the sum of long-term notes of HK$6,977.8 million and bank borrowings of HK$1,509.7 million less cash and bank balances net of overdrafts of HK$2,010.0 million).

On the basis of such number of IDS Shares in issue as at 24 August 2010, the latest practicable date for the Circular and that all Scheme Shareholders elect the Share Alternative (assuming that Mikenwill will elect the Share Alternative in respect of the Mikenwill Option Shares to be transferred to Mikenwill pursuant to the full exercise of the Mikenwill Call Option and that all IDS Optionholders will exercise their outstanding IDS Share Options to become Scheme Shareholders before the Record Date), at the close of business on 30 June 2010, being the latest practicable date for the indebtedness statement of the Enlarged Group, the Enlarged Group had net debt of HK$2,094.6 million (i.e. the sum of long-term notes of HK$6,977.8 million and bank borrowings of HK$1,509.7 million less cash and bank balances net of overdrafts of HK$6,392.9 million).

OTHER EFFECTS OF THE PROPOSAL

Shareholding structure of IDS

As at the Latest Practicable Date, there were 325,855,000 IDS Shares in issue. Save for the Interested Shareholders, Li & Fung and persons acting in concert with it did not hold any IDS Shares as at the Latest Practicable Date. The Interested Shareholders held 146,369,719 IDS Shares in aggregate (representing approximately 44.92% of the issued share capital of IDS) as at the Latest Practicable Date. Li & Fung and persons acting in concert with it (including the Interested Shareholders) will not vote at the Court Meeting. All IDS Independent Shareholders shall be entitled to vote at the Court Meeting and all IDS Shareholders shall be entitled to vote at the IDS SGM.

On the assumption that there is no other change in shareholding, the table below sets out the shareholding structure of IDS as at the Latest Practicable Date and immediately upon completion of the Proposal:

	As at the Latest Practicable Date		**Upon completion of the Proposal**	
	Number of IDS Shares owned	**% of the total issued share capital**	**Number of IDS Shares owned** *(Note 4)*	**% of the total issued share capital**
Li & Fung	–	–	120,000	100
Related Shareholders *(Note 1)*	145,759,170	44.73	–	–
Mr. Lau Butt Farn *(Note 2)*	610,549	0.19	–	–
Li & Fung and persons acting in concert with it (including the Interested Shareholders)	146,369,719	44.92	120,000	100
IDS Independent Shareholders *(Note 3)*	179,485,281	55.08	–	–
Total	325,855,000	100.00	120,000	100

Notes:

1. LF 1937 directly held 5,970,007 IDS Shares, inclusive of 2,100,000 IDS Shares which were subject to the Mikenwill Call Option. LF 1937 is a wholly-owned subsidiary of King Lun which is in turn 50% owned by HSBC Trustee, and 50% owned by Dr. William Fung Kwok Lun. Dr. William Fung Kwok Lun is a non-executive IDS Director, an executive Li & Fung Director and a director of LFD, LF 1937 and King Lun. He will not vote at the Court Meeting.

   LFD, a wholly-owned subsidiary of LF 1937, directly held 130,962,364 IDS Shares.

Dr. Victor Fung Kwok King directly held 2,405,509 IDS Shares. Dr. Victor Fung Kwok King is a non-executive IDS Director, an non-executive Li & Fung Director and a director of LFD, LF 1937 and King Lun. He will not vote at the Court Meeting.

First Island Developments Limited, a company wholly-owned by HSBC Trustee, as trustee of a trust established for the benefit of the family members of Dr. Victor Fung Kwok King, directly held 6,421,290 IDS Shares.

All of King Lun, LF 1937, LFD, HSBC Trustee, Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun are taken to be interested in the IDS Shares pursuant to the SFO. All of King Lun, LF 1937, LFD, HSBC Trustee, Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun directly or indirectly control Li & Fung and are presumed to be persons acting in concert with Li & Fung pursuant to the Takeovers Code.

2. Mr. Lau Butt Farn is a non-executive IDS Director and a director of LF 1937 and LFD and is presumed to be a person acting in concert with Li & Fung under the Takeovers Code. He will not vote at the Court Meeting.

3. These IDS Shares included a total of 7,251,205 IDS Shares (representing approximately 2.23% of the issued share capital of IDS) held by certain IDS Directors, including Mr. Benedict Chang Yew Teck (an executive IDS Director), who together with his wife held 5,759,573 IDS Shares, Mr. Joseph Chua Phi (an executive IDS Director) who held 1,469,632 IDS Shares and Mr. John Estmond Strickland (an independent non-executive IDS Director) who together with his wife held 22,000 IDS Shares. The said IDS Directors will be entitled to vote at the Court Meeting since their rights under the Proposal will not be different from those of any other IDS Independent Shareholders.

4. Under the Scheme, the share capital of IDS will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Forthwith upon such reduction, the issued share capital of IDS will comprise only 120,000 IDS Shares issued to Li & Fung under the Proposal.

As at the Latest Practicable Date, save for the 19,415,000 IDS Share Options, IDS did not have any outstanding options, warrants, derivatives or other convertible securities.

Save as disclosed above and in the section headed "Shareholding Structure of Li & Fung" below, none of Li & Fung and persons acting in concert with it (including the Interested Shareholders) owned or controlled any IDS Shares, Li & Fung Shares, or any options, warrants, derivatives or other convertible securities in respect of IDS Shares or Li & Fung Shares as at the Latest Practicable Date. Save as disclosed in the section headed "Appendix IV – General Information on the IDS Group – 5. Dealings in Securities of IDS and/or Li & Fung" in this document, none of Li & Fung and persons acting in concert with it had dealt in IDS Shares, Li & Fung Shares, or any options, warrants, derivatives or other convertible securities in respect of IDS Shares or Li & Fung Shares for value in the Disclosure Period.

Shareholding structure of Li & Fung

As at the Latest Practicable Date, there were 3,814,760,286 Li & Fung Shares in issue and 91,487,400 outstanding Li & Fung Share Options. Save as disclosed above, Li & Fung did not have any outstanding options, warrants, derivatives or other convertible securities.

On the assumption that there is no other change in shareholding, the table below sets out the shareholding structure of Li & Fung as at the Latest Practicable Date and immediately upon completion of the Proposal assuming no Li & Fung Share Options being exercised:

	As at the Latest Practicable Date		Upon completion of the Proposal (assuming all IDS Share Options being fully exercised and all Scheme Shareholders electing the Share Alternative)		Upon completion of the Proposal (assuming no IDS Share Options being exercised and only the Related Shareholders and persons acting in concert with LF 1937 electing the Share Alternative)	
	Number of Li & Fung Shares owned	**% of the total issued share capital**	**Number of Li & Fung Shares owned**	**% of the total issued share capital**	**Number of Li & Fung Shares owned**	**% of the total issued share capital**
Related Shareholders	1,095,600,000 *(Note 1)*	28.72	1,180,869,112 *(Note 5)*	29.40	1,180,869,112 *(Note 5)*	30.28
Common Directors	85,432,930 *(Note 2)*	2.24	85,790,101 *(Note 6)*	2.13	85,790,101 *(Note 6)*	2.20
King Lun	21,945,880	0.58	21,945,880	0.55	21,945,880	0.56
Mr. Spencer Theodore Fung	352,000	0.01	352,000	0.01	352,000	0.01
Mr. James Siu Kai Lau	1,331,200 *(Note 3)*	0.03	1,331,200	0.03	1,331,200	0.03
HSBC Trustee	55,825,000 *(Note 4)*	1.46	55,825,000	1.39	55,825,000	1.43
Sub-total	1,260,487,010	33.04	1,346,113,293	33.51	1,346,113,293	34.51
Others *(Note 7)*	2,554,273,276	66.96	2,670,629,943	66.49	2,554,273,276	65.49
Total	3,814,760,286	100.00	4,016,743,236	100.00	3,900,386,569	100.00

Notes:

1. These Li & Fung Shares were directly held by LF 1937. The other Related Shareholders did not directly hold any Li & Fung Shares as at the Latest Practicable Date. LF 1937 is a wholly-owned subsidiary of King Lun which is in turn 50% owned by HSBC Trustee, as trustee of a trust established for the benefit of the family members of Dr. Victor Fung Kwok King, and 50% owned by Dr. William Fung Kwok Lun.

2. These Li & Fung Shares comprised:

   (a) 83,012,930 Li & Fung Shares directly held by Dr. William Fung Kwok Lun, his wife and a company beneficially owned by him; and

   (b) 2,420,000 Li & Fung Shares directly held by Mr. Lau Butt Farn.

3. These Li & Fung Shares comprised 1,321,200 Li & Fung Shares directly held by Mr. James Siu Kai Lau and a joint interest in 10,000 Li & Fung Shares held by Mr. James Siu Kai Lau and his wife. Mr. James Siu Kai Lau is a director of LF 1937 and LFD.

4. These Li & Fung Shares were directly held by HSBC Trustee.

5. These Li & Fung Shares comprised:

   (a) 1,095,600,000 Li & Fung Shares held by the Related Shareholders as at the Latest Practicable Date;

   (b) 3,492,454 Li & Fung Shares which fall to be issued to LF 1937 upon the election of the Share Alternative assuming that Mikenwill will not exercise any of the outstanding portion of the Mikenwill Call Option;

   (c) 1,407,222 Li & Fung Shares which fall to be issued to Dr. Victor Fung Kwok King upon the election of the Share Alternative;

   (d) 76,612,982 Li & Fung Shares which fall to be issued to LFD upon the election of the Share Alternative; and

   (e) 3,756,454 Li & Fung Shares which fall to be issued to First Island Developments Limited upon the election of the Share Alternative.

6. These Li & Fung Shares comprised:

   (a) 85,432,930 Li & Fung Shares held by the Common Directors as at the Latest Practicable Date; and

   (b) 357,171 Li & Fung Shares which fall to be issued to Mr. Lau Butt Farn upon the election of the Share Alternative.

   For the number of Li & Fung Shares which fall to be issued to Dr. Victor Fung Kwok King upon the election of the Share Alternative, please refer to Note 5 above.

7. These Li & Fung Shares included 2,000 Li & Fung Shares held by the J.P. Morgan group (other than exempt principal traders and exempt fund managers) and 1,067,172 Li & Fung Shares held by the BNP Paribas group as exempt principal traders and exempt fund managers.

Save for the arrangements contemplated under the Proposal, there are no arrangements (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between Li & Fung or persons acting in concert with it (including the Interested Shareholders), and any other person. Li & Fung confirms that, as at the Latest Practicable Date, there were no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in IDS and Li & Fung which Li & Fung or any persons acting in concert with it (including the Interested Shareholders) had borrowed or lent, except that the J.P. Morgan group (other than exempt principal traders and exempt fund managers) had borrowed 150,000 Li & Fung Shares, representing approximately 0.004% of the issued share capital of Li & Fung.

Save as disclosed above, and save for the 36,880 Li & Fung Shares held by Mr. Joseph Chua Phi (an executive IDS Director) and the 10,000 Li & Fung Shares jointly held by Mr. John Estmond Strickland (an independent non-executive IDS Director) and his wife, neither IDS nor persons acting in concert with it owned or controlled any Li & Fung Shares or any options, warrants, derivatives or other convertible securities in respect of the Li & Fung Shares.

Save as disclosed in the section headed "Appendix V – General Information on the Li & Fung Group – 5. Dealings in IDS Shareholdings and/or Li & Fung Shareholdings" in this document, none of Li & Fung and persons acting in concert with it (including the Interested Shareholders) had any dealings in Li & Fung Shares for value during the Disclosure Period or any options, warrants, derivatives or other convertible securities in respect of Li & Fung Shares as at the Latest Practicable Date.

Capital Value

The cash consideration of HK$21.00 per Scheme Share under the Cash Alternative represents a premium/(discount) of approximately:

(a) (16.17%) to the closing price of HK$25.05 per IDS Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) 36.19% over the closing price of HK$15.42 per IDS Share on 9 August 2010 (being the last trading day in IDS Shares immediately preceding the Announcement Date);

(c) 42.86% over the closing price of HK$14.70 per IDS Share on the IDS Price Reference Day;

(d) 43.91% over the average closing price of approximately HK$14.59 per IDS Share based on the daily closing prices as quoted on the Stock Exchange for the 1 week up to and including the IDS Price Reference Day;

(e) 43.46% over the average closing price of approximately HK$14.64 per IDS Share based on the daily closing prices as quoted on the Stock Exchange for the 1 month up to and including the IDS Price Reference Day;

(f) 51.32% over the average closing price of approximately HK$13.88 per IDS Share based on the daily closing prices as quoted on the Stock Exchange for the 3 months up to and including the IDS Price Reference Day; and

(g) 406.02% over the audited consolidated net asset value per IDS Share of approximately US$0.5319 (HK$4.15) as at 31 December 2009.

During the 6-month period preceding and including 9 August 2010 (being the last trading day in IDS Shares immediately preceding the Announcement Date), the highest closing price of the IDS Shares as quoted on the Stock Exchange was HK$15.42 per IDS Share on 9 August 2010, and the lowest closing price of the IDS Shares as quoted on the Stock Exchange was HK$11.66 per IDS Share on 22 February 2010.

During the week immediately preceding the Announcement Date, the closing prices of IDS Shares were within the range of HK$14.36 to HK$14.90 and the average trading volume was only 149,729 IDS Shares a day. However, the trading price of IDS Shares on 9 August 2010 (being the last trading day in IDS Shares immediately preceding the Announcement Date) increased noticeably from an opening price of HK$14.18 to a closing price of HK$15.42 (representing an increase of approximately 8.7%), with 718,610 IDS Shares traded which was approximately 4.8 times of the average in the preceding week, and approximately 15.1 times of the 47,647 IDS Shares traded on the immediately preceding trading day. Each of Li & Fung and IDS applied to the Stock Exchange for suspension of trading in Li & Fung Shares and IDS Shares on 9 August 2010 respectively and trading in such shares was suspended from 9:30 a.m. on 10 August 2010. In view of the relatively stable performance of the trading prices of IDS Shares in the week immediately preceding the Announcement Date and such noticeable increase in the trading price and volume of IDS Shares on 9 August 2010, the Li & Fung Board determines the cash consideration per Scheme Share under the Cash Alternative with reference to the closing price of IDS Shares on 6 August 2010 (being the IDS Price Reference Day).

The exchange ratio of 0.585 Li & Fung Share for every Scheme Share cancelled under the Share Alternative values each IDS Share at HK$21.00, which is the same as the cash consideration under the Cash Alternative, based on the closing price of HK$35.90 per Li & Fung Share on 6 August 2010 (being the Li & Fung Price Reference Day). The exchange ratio was determined by Li & Fung with reference to the closing price of the Li & Fung Shares on the Li & Fung Price Reference Day. The closing price of the Li & Fung Shares on 9 August 2010 (being the last trading day in the Li & Fung Shares immediately preceding the Announcement Date) was HK$37.70 per Li & Fung Share.

The table below illustrates the change in capital value for the Scheme Shareholders, assuming that the Scheme is completed and based on share prices of IDS Shares and Li & Fung Shares as at the IDS Price Reference Day, the Li & Fung Price Reference Day and the Latest Practicable Day, respectively:

	The IDS Price Reference Day and the Li & Fung Price Reference Day respectively *HK$*	**The Latest Practicable Date** *HK$*
In the event that the Cash Alternative is elected		
Cash consideration receivable (for each Scheme Share) under the Proposal*	21.00	21.00
minus		
Value of each Scheme Share *(Note 1)*	14.70	25.05
	6.30	(4.05)
This represents an increase/(decrease) in capital value for the Scheme Shareholders of	42.86%	(16.17%)
* Number of Li & Fung Shares that could be purchased by utilising that cash consideration receivable under the Proposal *(Note 2)*	0.585	0.590

	HK$	HK$
In the event that the Share Alternative elected		
Value of 0.585 Li & Fung Share *(Note 2)*	21.00	25.72
minus		
Value of each Scheme Share *(Note 1)*	14.70	25.05
	6.30	0.22
This represents an increase in capital value for the Scheme Shareholders of	42.86%	0.89%

Notes:

(1) Based on the closing prices of the IDS Shares as quoted on the Stock Exchange on the IDS Price Reference Day and the Latest Practicable Date respectively.

(2) Based on the closing prices of the Li & Fung Shares as quoted on the Stock Exchange on the Li & Fung Price Reference Day and the Latest Practicable Date respectively.

The historical share price information on the IDS Shares is set out under the section headed "Appendix IV – General Information on the IDS Group – 2. Market prices" in this document.

During the period between 12 February 2010 (being the date of commencement of the Disclosure Period) and 9 August 2010 (being the last trading day in IDS Shares immediately preceding the Announcement Date), the closing prices of each IDS Share on the Stock Exchange did not exceed HK$15.42; the average closing price of each IDS Share quoted on the Stock Exchange was approximately HK$13.62, and the highest and lowest closing prices for each IDS Share were HK$15.42 and HK$11.66 respectively. Since the first trading day after the Announcement Date and up to the Latest Practicable Date, the closing price of each IDS Share has been in the range of between HK$21.95 and HK$25.05.

The historical share price information on the Li & Fung Shares is set out under the section headed "Appendix V – General Information on the Li & Fung Group – 2. Market prices" in this document.

During the period between 12 February 2010 (being the date of commencement of the Disclosure Period), and 9 August 2010 (being the last trading day in Li & Fung Shares immediately preceding the Announcement Date), the closing prices of each Li & Fung Share on the Stock Exchange did not exceed HK$42.05; the average closing price of each Li & Fung Share quoted on the Stock Exchange was approximately HK$37.10, and the highest and lowest closing prices for each Li & Fung Share were HK$42.45 and HK$32.75 respectively. Since the first trading day after the Announcement Date and up to the Latest Practicable Date, the closing price of each Li & Fung Share has been in the range of between HK$37.85 and HK$43.20.

CONFIRMATION OF FINANCIAL RESOURCES

J.P. Morgan has been appointed as the financial adviser to Li & Fung in respect of the Proposal. Li & Fung intends to finance all the amount payable under the Proposal by its internal resources. J.P. Morgan, the financial adviser to Li & Fung, is satisfied that sufficient financial resources are available to Li & Fung for the implementation of the Proposal.

Li & Fung does not intend that the payment of interest on, repayment of a security for any liability (contingent or otherwise) will depend on any significant extent on the business of the IDS Group.

INFORMATION ON THE IDS GROUP

IDS is a company incorporated in Bermuda with limited liability, the shares of which have been listed on the Stock Exchange since December 2004. The IDS Group is principally engaged in provision of logistics services, and distribution of fast moving consumer goods and healthcare products and manufacturing.

A summary of the audited consolidated results of the IDS Group for each of the two years ended 31 December 2009 is set out below:

	For the year ended 31 December	
	2008	**2009**
	('000)	*('000)*
Revenue	US$1,683,792	US$1,802,062
	(HK$13,133,578)	(HK$14,056,084)
Profit before taxation	US$30,253	US$41,307
	(HK$235,973)	(HK$322,196)
Profit before non-controlling interests	US$25,327	US$30,778
	(HK$197,551)	(HK$240,069)
Profit attributable to shareholders (after non-controlling interests)	US$24,522	US$29,828
	(HK$191,272)	(HK$232,659)

As set out in note 5 of the notes to the audited consolidated financial statements of IDS for the year ended 31 December 2009, the IDS Group has been operating in the following geographical areas: Greater China (comprising China, Hong Kong and Taiwan), ASEAN (comprising Thailand, Malaysia, Singapore, Philippines, Indonesia, Brunei and others), the United States of America ("USA") and the United Kingdom ("UK"). The operating profits by the said geographical segments are as follows:

	For the year ended 31 December	
	2008	**2009**
	('000)	*('000)*
Greater China and ASEAN	US$42,796 (HK$333,809)	US$53,691 (HK$418,790)
USA	US$(5,625) (HK$(43,875))	US$(12,843) (HK$(100,175))
UK	US$(1,943) (HK$(15,155))	US$(149) (HK$(1,162))
Unallocated[#]	US$(14,262) (HK$(111,244))	US$(15,450) (HK$(120,510))
Core operating profit	US$20,966 (HK$163,535)	US$25,249 (HK$196,943)
Core operating profit without USA and UK	US$28,534 (HK$222,565)	US$38,241 (HK$298,280)

Note:

[#] Unallocated mainly included corporate costs, common information technology costs and land and buildings which could not be meaningfully allocated to the geographical segments.

As shown in the above table, the 2009 core operating profit without USA and UK increased by approximately 34% over 2008. According to note 4 of the unaudited condensed consolidated financial information set out in the published interim report of IDS for the six months ended 30 June 2010, the core operating profit without USA and UK for the six months ended 30 June 2010 is increased by approximately 19.0% over the six months ended 30 June 2009. As set out in the section headed "Li & Fung's Intention Regarding IDS" below, one of the areas that Li & Fung intends to achieve is an optimal integration of the IDS Group and the Li & Fung Group in respect of the USA and the European markets. Please refer to the said section for details.

As at 31 December 2009, the audited consolidated net assets of the IDS Group were approximately US$170.82 million (HK$1,332.40 million). The unaudited consolidated net assets of the IDS Group as at 30 June 2010 were approximately US$174.53 million (HK$1,361.33 million).

INFORMATION ON THE LI & FUNG GROUP

Li & Fung is a company incorporated in Bermuda with limited liability, the shares of which have been listed on the Stock Exchange since July 1992. The Li & Fung Group is principally engaged in consumer goods design, development and sourcing.

A summary of the audited consolidated results of the Li & Fung Group for each of the two years ended 31 December 2009 is set out below:

	For the year ended 31 December	
	2008	**2009**
	('000)	*('000)*
Turnover	HK$110,722,117	HK$104,478,983
Profit before taxation	HK$2,683,186	HK$3,605,947
Profit before non-controlling interests	HK$2,423,689	HK$3,365,725
Profit attributable to shareholders (after non-controlling interests)	HK$2,421,936	HK$3,369,107

As at 31 December 2009, the audited consolidated net assets of the Li & Fung Group were approximately HK$17,726.19 million.

LI & FUNG'S INTENTION REGARDING IDS

IDS will be a key component to the next three years' growth of Li & Fung with its strategic relevance to:

- the formation of LF Asia;
- the extension of the supply chain into the "soft $3"## with IDS Logistics; and
- the beginnings of a base for future expansion in food exports.

Note:

"soft $3" is a supply chain concept, which refers, in simple term, the margin between manufacturing cost and retail price.

The Li & Fung Board is satisfied that even if all Scheme Shareholders (other than the Committed Shareholders) elect for the Cash Alternative under the Proposal, the Li & Fung Group will have sufficient financial resources to maintain its balanced growth strategy between organic growth and acquisition growth.

Following implementation of the Proposal, Li & Fung intends that the IDS Group will continue to carry on its current business of provision of logistics services, and distribution of fast moving consumer goods and healthcare products and manufacturing.

In addition, with a view to realising the operational synergies and new business prospects from the proposed acquisition of IDS as disclosed in the section headed "Rationale and Benefits of the Proposal" above, Li & Fung will aim at formulating a plan to achieve an optimal integration of the IDS Group and the Li & Fung Group following implementation of the Proposal, which is expected to include the following:

- putting through most (if not all) of Li & Fung's existing logistics requirements in the United States and Europe to the IDS Group. As set out in the section headed "Information on the IDS Group", the IDS Group recorded an audited operating losses of approximately US$12.84 million (HK$100.18 million) and US$0.15 million (HK$1.16 million) for USA and UK segments respectively in 2009. According to the interim results announcement of IDS for the six months ended 30 June 2010, the IDS Group recorded an unaudited operating losses of approximately US$10.34 million (HK$80.68 million) and US$0.76 million (HK$5.89 million) for US and UK segments respectively;

- consolidation of the Logistics Service Division of the Li & Fung Group which currently provides export logistic services for the Li & Fung Group with the IDS Group; and

- establishment of additional softgoods and hardgoods distribution divisions within the IDS Group to fully utilize the IDS Group's existing network in Asia.

To achieve the above, Li & Fung will assess all the relevant circumstances from time to time and determine the necessary arrangements to be made in respect of the business, assets, operation, management and employees of the IDS Group. As at the date hereof, none of the arrangement has been finalised.

SHARE CERTIFICATES, DEALINGS AND LISTING

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and extinguished, and all the certificates representing the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The IDS Board will apply to the Stock Exchange for the withdrawal of the listing of the IDS Shares on the Stock Exchange immediately following the Effective Date.

Dealings in the IDS Shares on the Stock Exchange are expected to cease after 4:00 p.m. on Wednesday, 13 October 2010, and the listing of the IDS Shares on the Stock Exchange is expected to be withdrawn after the Effective Date, which is expected to be 9:30 a.m. on Monday, 25 October 2010.

Scheme Shareholders will be notified of the exact dates of the last day for dealings in IDS Shares and on which the Scheme and the withdrawal of the listing of the IDS Shares on the Stock Exchange will become effective by way of announcement(s). The Scheme will not become effective if it does not become unconditional on or before 31 December 2010 (or such later date as may be proposed by Li & Fung and permitted by the Executive), and the IDS Shareholders will be notified by way of announcement(s) accordingly.

If the Scheme is not approved, is withdrawn or does not become effective, it is intended that the listing of the IDS Shares on the Stock Exchange will be maintained.

REGISTRATION, PAYMENT AND DESPATCH OF LI & FUNG SHARE CERTIFICATES

It is proposed that the register of members of IDS will be closed on Tuesday, 19 October 2010 (or such other date as may be notified to the IDS Shareholders by way of announcement(s)) and until Friday, 22 October 2010 (both days inclusive) in order to establish entitlements of the IDS Shareholders under the Scheme. **IDS Shareholders should ensure that the relevant transfer documentation for their IDS Shares are lodged for registration with the IDS Registrar before the register of members of IDS is closed.**

In the event that the Scheme becomes effective, payment of the consideration for the Scheme Shares will be implemented in full and made to the Scheme Shareholders in accordance with the timetable and the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous right to which Li & Fung may otherwise be, or claim to be, entitled against any such Scheme Shareholder.

Assuming that the Scheme becomes effective on Friday, 22 October 2010 (Hong Kong time), (a) cheques for cash entitlements to those who elect the Cash Alternative, (b) share certificates for Li & Fung Shares for those who elect the Share Alternative, and (c) cheques to the IDS Optionholders for the Option Offer, shall be paid for or despatched by Li & Fung as soon as possible but in any event within 10 days of the date on which the Scheme becomes effective, which is expected to be on or before Monday, 1 November 2010. In particular, share certificates for Li & Fung Shares and cheques will be sent to the persons entitled thereto at their respective registered addresses as appear in the register of members of IDS on the Record Date. All such share certificates and cheques will be sent at the risk of the person(s) entitled thereto and Li & Fung, IDS, J.P. Morgan, ANZ, BNP Paribas and the IDS Registrar or any of them will not be responsible for any loss or delay in despatch.

IDS Shareholders and IDS Optionholders are recommended to consult their own professional advisers if they are in doubt as to the above procedures.

As provided in the Scheme, on or after the day being six calendar months after the posting of such cheques, Li & Fung shall have the right to cancel or countermand payment of any such cheque which has not then been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in IDS's name with a licensed bank in Hong Kong selected by IDS. IDS shall hold such monies on trust for those entitled under the terms of the Scheme until the expiry of six years from the Effective Date and shall prior to such date make payments thereout of the sums (together with interest thereon in accordance with paragraph 4(e) of the Scheme) to persons who satisfy IDS that they are respectively entitled thereto, provided that the cheques referred to in paragraph 4(b) of the Scheme of which they are payees that have not been cashed. On the expiry of six years from the Effective Date, Li & Fung shall be released from any further obligation to make any payments under the Scheme and IDS shall thereafter transfer to Li & Fung the balance (if any) of the sums then standing to the credit of the deposit account referred to in paragraph 4(e) of the Scheme, including accrued interest subject, if applicable, to the deduction of interest tax or any withholding or other tax or any other deduction required by law and subject also to the deduction of any expenses.

OVERSEAS SCHEME SHAREHOLDERS AND IDS OPTIONHOLDERS

The making of the Proposal to and acceptance of the Proposal by Scheme Shareholders and IDS Optionholders who are not residents in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders and IDS Optionholders are located. Such Scheme Shareholders and IDS Optionholders should inform themselves about and observe any applicable legal or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders and IDS Optionholders wishing to accept the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any taxes, duties and other amounts required to be paid in such jurisdictions. Any acceptance by such Scheme Shareholders and IDS Optionholders will be deemed to constitute a representation and warranty from such persons to IDS and Li & Fung that those local laws and requirements have been complied with. If you are in doubt as to your position, you should consult your professional advisers.

The Scheme provides that, where the Li & Fung Directors or the IDS Directors have been advised that the making available, offer for subscription or purchase and allotment and issuance of the Li & Fung Shares to the overseas Scheme Shareholder (i) may be prohibited by the law of the jurisdiction in which such overseas Scheme Shareholder is located; or (ii) is prohibited unless certain conditions or requirements have been complied with which the Li & Fung Directors or the IDS Directors regard as unduly burdensome by reason of delay, expense or otherwise; Li & Fung will appoint a person selected by the Li & Fung Directors (the "Agent") to ascertain the amount of the net proceeds of sale, after deduction of any expenses (such as the SFC transaction levy, Stock Exchange trading fee, stamp duty and brokerage fee), which would have been received by the relevant overseas Scheme Shareholder if he had elected the Share Alternative and sold the Li & Fung Shares which would have been issued to him under the Share Alternative at the closing price of the Li & Fung Shares as at the Record Date. If such amount is equal to or less than the amount which would be payable to such overseas Scheme Shareholder if he had elected the Cash Alternative, Li & Fung will arrange cheques for the Cash Alternative to be sent to the relevant overseas Scheme Shareholder at his own risk. If such amount is higher than the amount which would be payable to such overseas Scheme Shareholder if he had elected the Cash Alternative, Li & Fung will issue the relevant Li & Fung Shares to the Agent who will then sell the same in the market as soon as practicable. The net proceeds of sale will be paid to the relevant overseas Scheme Shareholder in full satisfaction of his rights to the Li & Fung Shares to which he would have otherwise been entitled under the Scheme, except that no payment will be made of any amount of less than HK$10.00, which will be retained for the benefit of Li & Fung. Cheques for the net proceeds of sale will be sent to the relevant overseas Scheme Shareholder at his own risk within 10 days after any such sale but in any event within 28 days from the Effective Date. The above arrangement is subject to the consent of the Executive. **There is no guarantee that the Agent would be able to sell the relevant Li & Fung Shares at a price which is equal to (or higher than) the closing price of the Li & Fung Shares as at the Record Date, and there is also no guarantee that the amount of the net proceeds of sale actually received by the relevant overseas Scheme Shareholder would be equal to (or higher than) the Cash Alternative.** In the absence of bad faith or wilful default, none of Li & Fung, IDS, J.P. Morgan, or any broker or agent of either of them shall have any liability for any loss arising as a result of the timing or terms of any such sale.

The Li & Fung Directors have been advised that the making available, offer for subscription or purchase and the allotment and issuance of the Li & Fung Shares to those Scheme Shareholders residing or with registered address in Malaysia is prohibited by the laws of Malaysia unless a prospectus conforming to the requirements of the Capital Markets and

Services Act 2007, has been approved by and registered with the Securities Commission of Malaysia. The Li & Fung Directors believe that it would be unduly burdensome by reason of delay, expense or otherwise to obtain such prior approval and to register this document as a prospectus. The arrangement set out in the preceding paragraph will therefore be applied to the Scheme Shareholders residing or with registered address in Malaysia and, so as far as the Scheme Shareholders residing or with registered address in Malaysia are concerned, this document (but not the Election Form) which will be sent to them does not constitute and is not intended to constitute an offer or invitation to such Scheme Shareholders to subscribe for or acquire the Li & Fung Shares, nor will an issue or intended issue of the Li & Fung Shares to such Scheme Shareholders be contemplated under this document. Apart from Malaysia, it is not presently expected that the matters stated in the preceding paragraph will apply to any other overseas Scheme Shareholders. An application has been made to the Executive for consent in respect of such arrangement for the Scheme Shareholders in Malaysia under Note 3 to Rule 8 of the Takeovers Code and the Executive has given such consent. Further announcement will be made if such matters will apply to any overseas Scheme Shareholders other than those residing or with registered address in Malaysia.

TAXATION

As the Scheme does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective. No stamp duty is payable in relation to the Option Offer. The Scheme Shareholders and the IDS Optionholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their own professional advisers if they are in doubt as to the taxation implications of the Proposal and, in particular, whether the receipt of the Cancellation Consideration would make such Scheme Shareholders, or the payment under the Option Offer would make such IDS Optionholders, liable to taxation in Hong Kong or in other jurisdictions.

COSTS OF THE PROPOSAL

In the event that the Scheme becomes effective, the costs of the Scheme will be borne by Li & Fung.

In the event that the Scheme is not recommended by the IDS IBC or not recommended as fair and reasonable by ANZ, the independent financial adviser to the IDS IBC, and not approved at the Court Meeting, all the expenses incurred by IDS in connection with the Proposal shall be borne by Li & Fung.

As the Scheme is recommended by the IDS IBC and ANZ, in the event the Scheme is not approved at the Court Meeting, IDS and Li & Fung shall bear their own expenses incurred in connection with the Proposal.

COURT MEETING AND IDS SGM

In accordance with the direction of the Court, the Court Meeting will be convened for the purposes of considering and, if thought fit, passing the appropriate resolution to approve the Scheme (with or without modification(s)). All IDS Independent Shareholders will be entitled to attend and vote on the Scheme at the Court Meeting.

The IDS SGM will be held immediately after the Court Meeting for the purpose of considering and, if thought fit, passing a special resolution to approve, among other things, the reduction of the issued share capital of IDS by cancelling and extinguishing the Scheme Shares. All IDS Shareholders will be entitled to attend and vote on such special resolution at the IDS SGM.

Notices of the Court Meeting and the IDS SGM are set out on pages N-1 to N-2 and pages SGM-1 to SGM-3 of this document respectively. The Court Meeting and the IDS SGM will be held on Thursday, 7 October 2010 at the respective times specified in such notices at Pheasant-Jasmine Room, 1st Floor, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong.

ACTIONS TO BE TAKEN

Actions to be taken by IDS Shareholders

A pink form of proxy for use at the Court Meeting, a white form of proxy for use at the IDS SGM and an Election Form are enclosed with this document.

Whether or not you are able to attend the Court Meeting and/or the IDS SGM or any adjournment thereof, IDS Shareholders are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting, and the enclosed white form of proxy in respect of the IDS SGM, in accordance with the respective instructions printed thereon, and to lodge them at the IDS Registrar, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged so as to reach the above address not later than 11:00 a.m. on Tuesday, 5 October 2010, or alternatively, it may be handed to the Chairman of the Court Meeting at the Court Meeting. In order to be valid, the white form of proxy for use at the IDS SGM should be lodged so as to reach the above address not later than 11:30 a.m. on Tuesday, 5 October 2010. Completion and return of the relevant form of proxy for the Court Meeting or the IDS SGM will not preclude the relevant IDS Shareholder from attending and voting in person at the relevant meeting. In the event that you attend and vote in person at the relevant meeting, the relevant form of proxy will be deemed to have been revoked.

A Beneficial Owner whose IDS Shares are registered in the name of a Registered Owner should contact such Registered Owner to give instructions to and, or to make arrangements with such Registered Owner as to the manner in which the IDS Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the IDS SGM. A Beneficial Owner who wishes to attend the Court Meeting and/or the IDS SGM personally should contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable the Beneficial Owner to attend and vote at the Court Meeting and/or the IDS SGM and for such purpose the Registered Owner may appoint the Beneficial Owner as its proxy. The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the IDS SGM shall be in accordance with all relevant provisions in the Bye-Laws of IDS. In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and before the latest time for lodging the relevant forms of proxy as more particularly set out in this document.

Any Beneficial Owner whose IDS Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an investor participant, contact his, her or its broker, custodian, nominee or other relevant person who is, or has in turn deposited such IDS Shares with, the other CCASS participant regarding voting instructions to be given to such persons if he, she or it wishes to vote in respect of the Scheme. The procedure for voting in respect of the Scheme by the investor participants and the other CCASS participants with respect to IDS Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the "General Rules of CCASS" and the "CCASS Operational Procedures".

An announcement will be made by IDS in relation to the results of the Court Meeting and the IDS SGM not later than 7:00 p.m. on Thursday, 7 October 2010.

Upon the sanction of the Scheme by the Court, an announcement will be made by IDS and Li & Fung in relation to the order of the Court, the expected Effective Date and the expected date of withdrawal of the listing of the IDS Shares on the Stock Exchange. Based on the current timetable, the aforesaid announcement is expected to be issued on or about Monday, 18 October 2010.

A Scheme Shareholder who elects for the Share Alternative in respect of his entire holding of the Scheme Shares, must complete and execute an Election Form which is enclosed with this document in accordance with the instructions printed on it, and deliver the duly completed and executed Election Form in the enclosed envelope marked "For Return of Election Form – Li & Fung – IDS" to the IDS Registrar, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any event so as to reach the above address by not later than 4:30 p.m. on Friday, 22 October 2010 or such later date and time as may be notified through announcement(s). No acknowledgement of receipt of any Election Form will be given.

Additional copies of the Election Form can be obtained from the IDS Registrar during usual business hours on any day (other than a Saturday, Sunday or statutory holidays) until Friday, 22 October 2010.

Any Scheme Shareholder (other than a Committed Shareholder) who has not returned an Election Form as described above or who has returned an Election Form which is not duly completed or executed in accordance with the terms of the Scheme will receive the Cash Alternative.

Any Scheme Shareholder who holds Scheme Shares as a nominee, trustee or registered owner in any other capacity will not be treated differently from any other Registered Owner. A Beneficial Owner whose IDS Shares are registered in the name of a Registered Owner should contact such Registered Owner to give instructions to and, or to make arrangements with such Registered Owner as to the election of the form of the Cancellation Consideration. A Beneficial Owner may consider whether he, she or it wishes to arrange for the registration of the relevant IDS Shares in his, her or its name prior to the Record Date.

Beneficial Owners who have deposited their respective IDS Shares with CCASS (the "**CCASS Shareholders**") through their respective brokers, custodians or nominees, or for CCASS Investor Participant with their IDS Shares lodged with CCASS should bear in mind that their IDS Shares are registered in the name of HKSCC Nominees Limited ("**HKSCC Nominees**"), which is recognised as the registered holder of all such IDS Shares. In connection with the election of the Share Alternative or the Cash Alternative, HKSCC Nominees will not be treated differently from any other Registered Owner. HKSCC Nominees is therefore unable to elect either a combination of the Share Alternative and the Cash Alternative depending on the wishes of the CCASS Shareholders. As HKSCC Nominees's default option is the Cash Alternative, CCASS Shareholders whose IDS Shares remain in the name of HKSCC Nominees will receive the Cash Alternative should the Scheme become effective. Therefore the CCASS Shareholders who wish to elect to receive the Share Alternative must arrange for their IDS Shares to be registered in their names on the register of members of IDS by contacting their respective brokers, custodians, nominees or other relevant persons who have deposited such IDS Shares with a CCASS participant, or for CCASS Investor Participants to submit withdrawal instruction via the CCASS Phone System or CCASS Internet System, to arrange for their respective IDS Shares to be withdrawn from CCASS and registered in their respective names on the register of members of IDS. CCASS Shareholders who wish to withdraw their IDS Shares from CCASS will have to pay a withdrawal fee of HK$3.50 per board lot and for any remaining odd lot. In order to be in a position to elect to receive the Share Alternative, CCASS Shareholders must arrange for their IDS Shares to be registered in their respective names on the register of members of IDS by lodging with the IDS Registrar, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, duly completed forms of transfer of IDS Shares **not later than 4:30 p.m. on Monday, 18 October 2010**. Any CCASS Shareholder who does not arrange for their IDS Shares to be registered in his name will receive the Cash Alternative should the Scheme become effective. **CCASS Shareholders should contact their respective brokers, custodians or nominees as soon as possible if they intend to elect to receive the Share Alternative.**

Actions to be taken by IDS Optionholders

Option Offer Letters together with the forms of acceptance in relation to the Option Offer are being sent to all IDS Optionholders together with this document pursuant to the terms and conditions of the IDS Option Scheme, informing them that if they wish to participate in the Scheme, they may exercise their IDS Share Options, whether or not these have otherwise vested and become exercisable, at any time up to the expiry of the period commencing from the date of the Option Offer Letter and ending on the earlier of the date two calendar months thereafter or the date on which the Scheme is sanctioned by the Court by giving notice in writing to the company secretary of IDS, at 1st Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong and, where necessary pursuant to the terms of grant of the IDS Share Options, together with payment for the aggregate amount of the exercise price of such IDS Share Options multiplied by the number of IDS Shares to be issued pursuant to such exercise.

In order to accept the Option Offer, each IDS Optionholder will be required to duly complete the form of acceptance appended to the letter sent to the IDS Optionholders in accordance with the instructions contained therein and to return it to Li & Fung c/o IDS, at 1st Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong, for the attention of the Li & Fung Board and marked "IDS-Option Offer", so as to reach Li & Fung not later than 4:30 p.m. on Friday, 22 October 2010 (or such later time and/or date as may be notified through announcement(s)), failing which the IDS Share Options granted under the IDS Option Scheme that are not exercised or cancelled pursuant to the Option Offer will automatically lapse upon the Scheme becoming effective.

A sample of the Option Offer Letter is set out on pages L1 to L6 of this document. Copies of the Option Offer Letter and the forms of acceptance in relation to the offer of the Option Offer can also be obtained from the company secretary of IDS, at 1st Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong, subsequent to the despatch of the same and at any time before the Record Date.

RECOMMENDATION

A letter from ANZ containing its advice to the IDS IBC in connection with the Proposal is set out on pages 33 to 66 of this document. It is stated in such letter that ANZ considers the terms of the Scheme to be fair and reasonable so far as the IDS Shareholders are concerned and the Option Offer to be fair and reasonable so far as the IDS Optionholders are concerned. Accordingly, ANZ recommends (i) the IDS Independent Shareholders to vote in favour of the Scheme at the Court Meeting and the special resolution to be proposed at the IDS SGM to, among other things, reduce the issued share capital of IDS by cancelling and extinguishing the Scheme Shares, and (ii) the IDS Optionholders to accept the Option Offer if the outstanding IDS Share Options are not exercised on or prior to the Record Date.

A letter from the IDS IBC which contains its recommendation to the IDS Independent Shareholders and the IDS Optionholders in connection with the Proposal is set out on pages 31 to 32 of this document. Having taken into account the opinion of ANZ and, in particular, the factors, reasons and recommendations as set out in the letter from ANZ on pages 33 to 66 of this document, the IDS IBC considers that the terms of the Proposal are fair and reasonable so far as the IDS Independent Shareholders and the IDS Optionholders are concerned. **Accordingly, the IDS IBC recommends the IDS Shareholders to vote in favour of the Scheme at the Court Meeting and the special resolution to be proposed at the IDS SGM to, among other things, reduce the issued share capital of IDS by cancelling and extinguishing the Scheme Shares.**

FURTHER INFORMATION

Further information is set out in the appendices to, and elsewhere in, this document, all of which form part of this Explanatory Statement.

1. FINANCIAL SUMMARY

The following summary financial information for each of the years ended 31 December 2007, 2008 and 2009 is extracted from the audited consolidated financial statements of the IDS Group prepared in accordance with Hong Kong Financial Reporting Standards as set out in the published annual reports of IDS for the year ended 31 December 2008 and 2009. The unaudited consolidated half-year financial information of the IDS Group for the six months ended 30 June 2009 and 2010 is extracted from the unaudited consolidated condensed interim financial information of the IDS Group as set out in the published interim report of IDS for the six months ended 30 June 2010.

The auditor's reports in respect of IDS's audited financial statements for each of the years ended 31 December 2007, 2008 and 2009 issued by PricewaterhouseCoopers did not contain any qualifications.

RESULTS

	Six months ended 30 June		Year ended 31 December		
	2010	2009	2009	2008	2007
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
	(unaudited)	(unaudited)			
Revenue	941,538	846,659	1,802,062	1,683,792	1,295,657
Profit before taxation	17,342	22,856	41,307	30,253	35,818
Taxation	(4,313)	(3,849)	(10,529)	(4,926)	(6,616)
Profit for the period/year	13,029	19,007	30,778	25,327	29,202
Profit attributable to:					
IDS Shareholders	12,430	18,460	29,828	24,522	28,152
Non-controlling interests	599	547	950	805	1,050
	13,029	19,007	30,778	25,327	29,202
Earnings per share for profit attributable to shareholders during the period/year					
Basic	3.86 US cents	5.81 US cents	9.35 US cents	7.76 US cents	9.04 US cents
Diluted	3.82 US cents	5.76 US cents	9.25 US cents	7.63 US cents	8.70 US cents
Dividend per share (interim/full year) *(Note)*	9 HK cents	14 HK cents	44 HK cents	36 HK cents	42 HK cents
Amount absorbed by dividend	3,758	5,778	18,217	14,705	16,936

Note: The IDS Board has declared an interim dividend of HK$0.09 in cash per IDS Share for the six months ended 30 June 2010, which will be payable to the IDS Shareholders whose names appear on the register of members of IDS on 17 September 2010.

SELECTED BALANCE SHEET ITEMS

	As at 30 June 2010 US$'000 (unaudited)	As at 31 December 2009 US$'000	2008 US$'000	2007 US$'000
Total assets	896,523	882,512	759,098	708,523
Total liabilities	721,989	711,693	616,925	567,943
Shareholders' funds attributable to IDS Shareholders	164,418	161,705	135,074	134,057
Non-controlling interests	10,116	9,114	7,099	6,523

Note: There are no items which are exceptional because of its size, nature or incidence in the financial periods/years referred to above.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

The following financial information is extracted from the published audited consolidated financial statements of the IDS Group for the year ended 31 December 2009.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Note	2009 US$'000	2008 US$'000
Revenue	5	1,802,062	1,683,792
Cost of sales		(1,332,123)	(1,202,526)
Gross profit		469,939	481,266
Other income	6	600	–
Distribution and logistics expenses		(384,701)	(399,821)
Administrative expenses		(60,589)	(60,479)
Core operating profit		25,249	20,966
Other gains, net	7	20,251	13,658
Operating profit	8	45,500	34,624
Finance costs, net	10	(4,268)	(6,472)
Share of results of associated companies	19	75	2,101
Profit before taxation		41,307	30,253
Taxation	11	(10,529)	(4,926)
Profit for the year		30,778	25,327
Profit attributable to:			
Shareholders of the Company		29,828	24,522
Minority interest	29(b)	950	805
		30,778	25,327
Earnings per share for profit attributable to the shareholders of the Company during the year	13		
Basic		9.35 US cents	7.76 US cents
Diluted		9.25 US cents	7.63 US cents
Dividends	14	18,217	14,705

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009	2008
	US$'000	*US$'000*
Profit for the year	30,778	25,327
Other comprehensive income		
Exchange differences	4,173	(8,624)
Net asset revaluation gain	418	–
Realization upon liquidation of a subsidiary	(39)	–
Net actuarial gains/(losses) from post employment benefits	1,834	(3,452)
Total comprehensive income for the year	37,164	13,251
Attributable to:		
Shareholders of the Company	36,011	12,652
Minority interest	1,153	599

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Note	2009 US$'000	2008 US$'000
ASSETS			
Non-current assets			
Intangible assets	15	91,165	80,975
Property, plant and equipment	17	107,043	104,944
Lease premium for land	16	6,557	2,819
Associated companies	19	144	7,077
Other non-current assets	21	10,775	9,899
Assets under defined benefit plans	27	259	53
Deferred tax assets	26	11,338	11,167
		227,281	216,934
Current assets			
Inventories	20	237,581	186,123
Trade and other receivables	21	316,299	252,491
Taxation recoverable		422	618
Time deposits	22	12,444	46,736
Bank balances and cash	22	88,485	56,196
		655,231	542,164
Total assets		882,512	759,098
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	23	32,113	31,749
Reserves		129,592	103,325
		161,705	135,074
Minority interest	29(b)	9,114	7,099
Total equity		170,819	142,173

	Note	2009 US$'000	2008 US$'000
LIABILITIES			
Non-current liabilities			
Bank loans	25	109,183	29,752
Obligations under finance leases	25	2,271	2,811
Liabilities under defined benefit plans	27	5,589	6,682
Other non-current liabilities	28	7,747	4,601
Deferred tax liabilities	26	4,047	3,464
		128,837	47,310
Current liabilities			
Trade and other payables	28	513,234	447,035
Bank loans and other borrowings	25	61,859	117,441
Taxation payable		7,763	5,139
		582,856	569,615
Total liabilities		711,693	616,925
Total equity and liabilities		882,512	759,098
Net current assets/(liabilities)		72,375	(27,451)
Total assets less current liabilities		299,656	189,483
Net assets value per share		53.19 US cents	44.78 US cents

STATEMENT OF FINANCIAL POSITION
As at 31 December 2009

	Note	2009 US$'000	2008 US$'000
ASSETS			
Non-current assets			
Interest in a subsidiary	18	68,437	63,285
Current assets			
Other receivables		265	420
Bank balances and cash	22	125	48
		390	468
Total assets		68,827	63,753
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	23	32,113	31,749
Reserves		36,346	31,642
Total equity	24	68,459	63,391
LIABILITIES			
Current liabilities			
Other payables		368	362
Total equity and liabilities		68,827	63,753
Net current assets		22	106
Total assets less current liabilities		68,459	63,391

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Note	2009 US$'000	2008 US$'000
Cash flows from operating activities			
Cash generated from operations	29(a)	19,685	74,047
Interest received		1,626	1,842
Interest paid		(5,878)	(7,942)
Overseas tax refunded		381	1,109
Overseas tax paid		(8,856)	(9,302)
Net cash generated from operating activities		6,958	59,754
Cash flows from investing activities			
Net increase in time deposits		(114)	–
Purchase of lease premium for land		(3,238)	–
Purchase of property, plant and equipment		(26,612)	(29,448)
Purchase of intangible assets		(3,191)	(6,916)
Acquisition of subsidiaries	29(c)	(6,169)	(22,814)
Acquisition of additional interest in a subsidiary		(852)	–
Proceeds from partial divestment of an associated company		19,856	17,141
Sale of properties, plant and equipment		20,617	796
Settlement of consideration payable for acquisition of subsidiaries/business		(9,500)	(3,500)
Dividend received from associated companies		738	1,340
Net cash used in investing activities		(8,465)	(43,401)
Net cash (used)/generated before financing activities		(1,507)	16,353

	Note	2009 US$'000	2008 US$'000
Net cash (used)/generated before financing activities		(1,507)	16,353
Cash flows from financing activities			
Dividends paid		(14,807)	(17,888)
Dividends paid to minority shareholders	29(b)	–	(320)
New loans raised	29(b)	60,612	68,604
Repayment of loans	29(b)	(50,231)	(57,262)
Capital element of finance lease payments	29(b)	(1,405)	(1,227)
Net proceeds from issue of shares	29(b)	2,837	3,311
Net cash used in financing activities		(2,994)	(4,782)
(Decrease)/increase in cash and cash equivalents		(4,501)	11,571
Cash and cash equivalents at 1 January		92,203	79,308
Effect of foreign exchange rate changes		61	1,324
Cash and cash equivalents at 31 December		87,763	92,203
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		88,485	56,196
Deposits with maturity less than three months		12,330	46,736
Bank overdrafts	25	(13,052)	(10,729)
		87,763	92,203

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Share capital *(Note 23)* *US$'000*	Share premium *US$'000*	Employee share-based compensation reserve *US$'000*	Merger reserve *US$'000*	Revaluation reserve *US$'000*	Exchange reserve *US$'000*	Retained earnings *US$'000*	Total *US$'000*	Minority interest *US$'000*	Total equity *US$'000*
At 1 January 2008	31,288	23,420	2,659	16,617	–	14,517	45,556	134,057	6,523	140,580
Profit for the year	–	–	–	–	–	–	24,522	24,522	805	25,327
Exchange differences	–	–	–	–	–	(8,418)	–	(8,418)	(206)	(8,624)
Net actuarial losses from post employment benefits recognized in reserve	–	–	–	–	–	–	(3,452)	(3,452)	–	(3,452)
Total comprehensive income for the year	–	–	–	–	–	(8,418)	21,070	12,652	599	13,251
Dividend	–	–	–	–	–	–	(17,888)	(17,888)	(320)	(18,208)
Employee share option benefits										
– cost of employee services	–	–	2,942	–	–	–	–	2,942	–	2,942
– proceeds from shares issued	461	2,850	–	–	–	–	–	3,311	–	3,311
– transfer to share premium	–	620	(620)	–	–	–	–	–	–	–
– transfer of reserve upon expiration of share options	–	–	(28)	–	–	–	28	–	–	–
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	410	410
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(113)	(113)
At 31 December 2008	31,749	26,890	4,953	16,617	–	6,099	48,766	135,074	7,099	142,173
At 1 January 2009	31,749	26,890	4,953	16,617	–	6,099	48,766	135,074	7,099	142,173
Profit for the year	–	–	–	–	–	–	29,828	29,828	950	30,778
Exchange differences	–	–	–	–	–	3,970	–	3,970	203	4,173
Increase in fair value of previously held interest upon step acquisition to a subsidiary	–	–	–	–	418	–	–	418	–	418
Liquidation of a subsidiary	–	–	–	(39)	–	–	–	(39)	–	(39)
Net actuarial gains from post employment benefits recognized in reserve	–	–	–	–	–	–	1,834	1,834	–	1,834
Total comprehensive income for the year	–	–	–	(39)	418	3,970	31,662	36,011	1,153	37,164
Dividend	–	–	–	–	–	–	(14,807)	(14,807)	(868)	(15,675)
Employee share option benefits										
– cost of employee services	–	–	2,590	–	–	–	–	2,590	–	2,590
– proceeds from shares issued	364	2,473	–	–	–	–	–	2,837	–	2,837
– transfer to share premium	–	559	(559)	–	–	–	–	–	–	–
Step acquisition to a subsidiary	–	–	–	–	–	–	–	–	2,180	2,180
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(450)	(450)
At 31 December 2009	32,113	29,922	6,984	16,578	418	10,069	65,621	161,705	9,114	170,819

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 46 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") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared 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 those HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group'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.

Standards, amendments and interpretations to existing standards effective in 2009

The following standards, amendments and interpretations to existing standards, which are relevant to the Group's operations, are mandatory for year ended 31 December 2009.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 2 (Amendment)	Share-based Payment
HKFRS 7 (Amendment)	Financial Instruments: Disclosures
HKFRS 8	Operating Segments

The adoption of HKAS 1 (Revised) and HKFRS 8 affects certain presentation and disclosures of the financial statements.

The adoption of HKAS 23 (Revised), HKFRS 2 (Amendment) and HKFRS 7 (Amendment) has no significant impact on the Group's financial statements.

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

The following new standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but have not been early adopted by the Group. The new HKFRS expected to be applicable to the Group's operations are as follows:

HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKFRS 2 (Amendment)	Share-based Payment[2]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[4]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 January 2013

HKAS 24 (Revised) simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group will apply HKAS 24 (Revised) from 1 January 2011.

HKAS 27 (Revised) requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with minority interest from 1 January 2010.

HKFRS 2 (Amendment), in addition to incorporating HK(IFRIC)-Int 8 and HK(IFRIC)-Int 11, expands on the guidance to address the classification of group arrangements. The Group will apply HKFRS 2 (Amendment) from 1 January 2010.

HKFRS 3 (Revised) continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

HKFRS 9 replaces the multiple classification and measurement models in HKAS 39 with a single model that has only two classification categories: amortized cost and fair value. The classification is based on the approach of how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The Group will apply HKFRS 9 from 1 January 2013.

Apart from the above, the HKICPA has also issued improvements to HKFRSs under the HKICPA's annual improvement project published in May 2009. The amendments are primarily effective for annual periods beginning on or after 1 January 2010, with earlier application permitted. The Group does not expect adoption of the amendments to have a significant effect on the consolidated financial statements.

Standards, amendments and interpretations to existing standards that are not yet effective and not relevant to the Group's operations

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's annual periods beginning on or after 1 July 2009 or later periods but are not relevant for the Group's operations.

HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-Int 18	Transfer of Assets from Customers[2]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for transfers on or after 1 July 2009

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 deconsolidated 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 at 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 consolidated income statement.

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

In the Company's statement of financial position 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 and 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 infiuence 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 consolidated 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

IDS operating segments are organized into three geographical regions, Greater China, ASEAN and USA & UK. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's most senior executive management who are responsible for allocating resources and assessing performance of the operating segments.

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.

Translation differences on non-monetary financial assets and liabilities, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinfiationary 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 statement of financial position presented are translated at the closing rate at the end of the reporting period;

(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 that were recorded in equity are recognized in the consolidated 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 end of the reporting period.

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

Software and system development costs

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful lives of 3 to 10 years.

Costs associated with developing or maintaining computer software programmes are recognized as an expenses as incurred. Costs that are directly associated with the development 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. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

System development costs recognized as assets are amortized over their estimated useful lives of 3 to 10 years.

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". 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.

Acquired intangibles (other than goodwill)

Customer base, licenses, know-how and supplier relationships that are acquired by the Group are stated at fair value at the acquisition date less accumulated amortization and accumulated impairment losses.

Amortization is calculated using the straight-line method over their estimated useful lives, as follows:

Customer base	8 to 15 years
Licenses, know-how and supplier relationships	20 to 30 years

2.7 Impairment of investment in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets 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.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

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 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.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets except for maturities greater than 12 months after the end of the reporting period.

(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 are included in current assets, except for maturities greater than 12 months after the end of the reporting period. Loans and receivables are included in "trade and other receivables", "time deposits" and "bank balances and cash" in the statement of financial position.

(c) 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 the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. During the year, the Group did not hold any investments in this category.

Regular way purchases and sales of financial assets are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. 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. 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 consolidated income statement in the period in which they arise.

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

The Group assesses at each end of the reporting period 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 consolidated 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 statement of financial position.

2.12 Share capital

Ordinary shares are classified as equity.

2.13 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated 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 end of the reporting period.

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 substantively enacted by the end of the reporting period 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.

2.16 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 statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for 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.

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 other comprehensive income.

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. 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, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. 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 end of the reporting period, the entity revises its estimates of the number of options that are expected to vest. 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.

2.17 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expenses.

2.18 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.

2.19 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 consolidated 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.

2.20 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.

2.21 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, liquidity 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 fiuctuations 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' functional currencies or US dollars. Based on a sensitivity analysis performed by management, the impact to the Group would not be significant if the US dollars strengthen/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 2009 and 2008, 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 economic environment in which the customer operates.

(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 end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	US$'000	*US$'000*	*US$'000*	*US$'000*
As at 31 December 2009				
Trade and other payables	513,234	–	–	–
Bank overdrafts	13,052	–	–	–
Bank loans	49,466	44,728	66,146	–
Obligations under finance leases	1,585	1,478	895	–
	577,337	46,206	67,041	–
As at 31 December 2008				
Trade and other payables	447,035	–	–	–
Bank overdrafts	10,729	–	–	–
Bank loans	106,683	29,202	2,538	–
Obligations under finance leases	1,275	1,275	1,777	–
	565,722	30,477	4,315	–

(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/decreased 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.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided by total capital. Net borrowings is calculated as total borrowings *(Note 25)* less bank balances, cash and time deposits *(Note 22)*. Total capital is calculated as total equity, as shown in the consolidated statement of financial position, and net borrowings. The gearing ratio at 31 December 2009 was 29.8% (2008: 24.9%).

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

(d) Fair value of assets acquired in business combinations

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 values of the intangible assets and property, plant and equipment acquired. The fair values are determined by independent valuers.

(e) 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 15)*.

5 REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the provision of logistics services, the distribution of fast moving consumer goods and healthcare products, and manufacturing. Revenue recognized during the year are as follows:

	2009	**2008**
	US$'000	*US$'000*
Sales of goods	1,465,938	1,275,715
Rendering of services	336,124	408,077
Revenue	1,802,062	1,683,792

The Group's customer base is diversified and no single customer contribute 10% or above of the group's revenue.

The Group operates in the following geographical areas:

Greater China	–	Hong Kong, China and Taiwan
ASEAN	–	the Philippines, Singapore, Malaysia, Thailand, Indonesia, Brunei and others
USA	–	the United States of America
UK	–	United Kingdom

2009	Greater China	ASEAN	USA	UK	Total	Unallocated *(Note)*	Elimination	Group total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Revenue	837,563	863,030	57,447	45,879	1,803,919	–	(1,857)	1,802,062
Cost of sales	(627,608)	(698,657)	(2,815)	(4,900)	(1,333,980)	–	1,857	(1,332,123)
Gross profit	209,955	164,373	54,632	40,979	469,939	–	–	469,939
Expenses, net	(182,931)	(137,706)	(67,475)	(41,128)	(429,240)	(15,450)		(444,690)
Core operating profit	27,024	26,667	(12,843)	(149)	40,699	(15,450)		25,249
Other gains, net	–	–	–	–	–	20,251		20,251
Segment results	27,024	26,667	(12,843)	(149)	40,699	4,801		45,500
Share of results of associated companies		75			75			75
Finance costs, net								(4,268)
Profit before taxation								41,307
Taxation								(10,529)
Profit for the year								30,778
Depreciation and amortization	6,908	7,167	2,296	1,787	18,158	2,744		20,902
Impairment of inventory	392	1,620	–	–	2,012	–		2,012
Impairment of trade receivables	155	722	738	125	1,740	–		1,740
Capital expenditure	9,817	14,108	4,248	1,821	29,994	3,075		33,069
Capital expenditure arising from acquisition of subsidiaries	2,667	12,726	743	–	16,136	6,182		22,318
Non-current segment assets	40,576	71,221	50,814	32,337	194,948	32,333		227,281
Associated companies	–	144	–	–	144	–		144
Total assets	374,149	355,041	67,384	50,622	847,196	35,316		882,512
Total liabilities	311,484	236,893	36,613	36,657	621,647	90,046		711,693

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

2008	Greater China	ASEAN	USA	UK	Total	Unallocated *(Note)*	Elimination	Group total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Revenue	660,562	883,846	65,308	76,666	1,686,382	–	(2,590)	1,683,792
Cost of sales	(476,640)	(714,648)	–	(13,828)	(1,205,116)	–	2,590	(1,202,526)
Gross profit	183,922	169,198	65,308	62,838	481,266	–	–	481,266
Expenses	(163,755)	(146,569)	(70,933)	(64,781)	(446,038)	(14,262)		(460,300)
Core operating profit	20,167	22,629	(5,625)	(1,943)	35,228	(14,262)		20,966
Other gains, net	–	–	–	–	–	13,658		13,658
Segment results	20,167	22,629	(5,625)	(1,943)	35,228	(604)		34,624
Share of results of associated companies		2,101			2,101			2,101
Finance costs, net								(6,472)
Profit before taxation								30,253
Taxation								(4,926)
Profit for the year								25,327
Depreciation and amortization	5,405	6,710	1,378	2,409	15,902	2,156		18,058
Impairment of inventory	240	934	–	–	1,174	–		1,174
Impairment of trade receivables	150	786	176	291	1,403	–		1,403
Capital expenditure	7,988	14,174	8,980	1,511	32,653	4,377		37,030
Capital expenditure arising from acquisition of subsidiaries	11,349	–	10,014	–	21,363	–		21,363
Non-current segment assets	35,089	79,621	48,034	29,097	191,841	25,093		216,934
Associated companies	–	7,077	–	–	7,077	–		7,077
Total assets	309,250	320,845	60,446	41,389	731,930	27,168		759,098
Total liabilities	268,371	233,398	48,328	37,811	587,908	29,017		616,925

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

2009	Revenue	Segment results	Total assets	Capital expenditure
	US$'000	*US$'000*	*US$'000*	*US$'000*
Logistics	328,518	5,670	235,173	21,617
Distribution	1,303,258	27,348	510,377	17,304
Manufacturing	186,499	7,681	76,866	7,203
Unallocated *(Note)*	–	(15,450)	60,096	9,263
	1,818,275	25,249	882,512	55,387
Less: Inter-segment elimination	(16,213)			
	1,802,062			
Other gains, net		20,251		
Operating profit		45,500		

2008	Revenue	Segment results	Total assets	Capital expenditure
	US$'000	*US$'000*	*US$'000*	*US$'000*
Logistics	369,089	10,702	200,998	32,219
Distribution	1,132,183	18,580	427,850	12,602
Manufacturing	197,080	5,966	65,165	9,195
Unallocated *(Note)*	–	(14,282)	65,085	4,377
	1,698,352	20,966	759,098	58,393
Less: Inter-segment elimination	(14,560)			
	1,683,792			
Other gains, net		13,658		
Operating profit		34,624		

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

6 OTHER INCOME

	2009	2008
	US$'000	*US$'000*
Dividend income	600	–

7 OTHER GAINS, NET

	2009	2008
	US$'000	*US$'000*
Gain on partial disposal of an associated company	16,345	14,038
Gain on acquisition of additional interest in a subsidiary	34	77
Gain on disposal of properties	4,372	–
Other expenses	(500)	(457)
Other gains, net	20,251	13,658

8 OPERATING PROFIT

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

	2009	2008
	US$'000	*US$'000*
Employee benefit expense *(Note 9)*	197,880	205,650
Depreciation of		
Owned property, plant and equipment	16,639	14,630
Leased property, plant and equipment	508	436
Loss/(gain) on disposal of plant and equipment	252	(118)
Operating leases		
Hire of plant and machinery	3,719	3,851
Buildings	56,177	54,421
Auditors' remuneration	1,425	1,207
Amortization of prepaid operating lease payment *(Note 16)*	147	106
Amortization of intangible assets *(Note 15)*	3,608	2,886
Provision for warranty	453	1,044
Provision for bad and doubtful debts *(Note 21(d))*	1,740	1,403
Provision for obsolete inventories *(Note 20)*	2,012	1,174
Costs of inventories sold *(Note 20)*	1,312,596	1,173,905
Exchange gain, net	(414)	(875)

9 EMPLOYEE BENEFIT EXPENSE

	2009	2008
	US$'000	*US$'000*
Wages and salaries	187,835	194,752
Share options granted to directors and employees	2,590	2,942
Pension costs – defined contribution plans	6,594	6,608
Pension costs – defined benefit plans *(Note 27(c))*	455	404
Post-employment benefits	406	944
	197,880	205,650

(a) Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 December 2009 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits (Note)	Employer's contribution to pension scheme	Total payable	Share-based compensation	Total payable and charged in the income statement
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Victor Fung Kwok King	29	–	–	–	–	29	–	29
Benedict Chang Yew Teck	13	442	476	232	2	1,165	474	1,639
Joseph Chua Phi	13	346	351	183	2	895	317	1,212
William Fung Kwok Lun	13	–	–	–	–	13	–	13
Jeremy Paul Egerton Hobbins	18	–	–	–	–	18	–	18
Lau Butt Farn	20	–	–	–	–	20	–	20
Rajesh Vardichand Ranavat	5	–	–	–	–	5	–	5
John Estmond Strickland	25	–	–	–	–	25	–	25
Fu Yu Ning	25	–	–	–	–	25	–	25
Lee Hau Leung	27	–	–	–	–	27	–	27
Andrew Tung Lieh Cheung	25	–	–	–	–	25	–	25
	213	788	827	415	4	2,247	791	3,038

The remuneration of each director for the year ended 31 December 2008 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits (Note)	Employer's contribution to pension scheme	Total payable	Share-based compensation	Total payable and charged in the income statement
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Victor Fung Kwok King	28	–	–	–	–	28	–	28
Benedict Chang Yew Teck	13	490	833	249	2	1,587	548	2,135
Joseph Chua Phi	13	375	468	182	2	1,040	360	1,400
Rajesh Vardichand Ranavat	13	–	–	–	–	13	–	13
William Fung Kwok Lun	18	–	–	–	–	18	–	18
Jeremy Paul Egerton Hobbins	20	–	–	–	–	20	–	20
Lau Butt Farn	13	–	–	–	–	13	–	13
John Estmond Strickland	25	–	–	–	–	25	–	25
William Winship Flanz	25	–	–	–	–	25	–	25
Fu Yu Ning	26	–	–	–	–	26	–	26
Andrew Tung Lieh Cheung	16	–	–	–	–	16	–	16
Lee Hau Leung	8	–	–	–	–	8	–	8
	218	865	1,301	431	4	2,819	908	3,727

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 two directors (2008: two) 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:

	2009	2008
	US$'000	*US$'000*
Basic salaries and other benefits	1,058	1,211
Share options expenses	504	407
Bonuses	548	659
Pensions	35	129
	2,145	2,406

The emoluments fell within the following bands:

	Number of employees	
	2009	2008
Emolument bands		
US$585,001-US$650,000 (HK$4,500,001-HK$5,000,000)	1	–
US$650,001-US$715,000 (HK$5,000,001-HK$5,500,000)	1	1
US$715,001-US$780,000 (HK$5,500,001-HK$6,000,000)	–	1
US$845,001-US$910,000 (HK$6,500,001-HK$7,000,000)	1	–
US$975,001-US$1,040,000 (HK$7,500,001-HK$8,000,000)	–	1
	3	3

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.

10 FINANCE COSTS, NET

	2009	2008
	US$'000	*US$'000*
Interest expense on bank loans and overdrafts	5,458	7,624
Interest expense of finance leases	420	318
Imputed interest on non-current payables	16	372
	5,894	8,314
Interest income from bank deposits	(1,626)	(1,842)
	4,268	6,472

The Group operates cash pooling arrangements in several countries to optimize the net finance cost on gross cash and borrowings by different subsidiaries in the same country. 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.

11 TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits in Hong Kong for the year. 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:

	2009	**2008**
	US$'000	*US$'000*
Current taxation:		
– Hong Kong profits tax	186	100
– Overseas taxation	10,475	7,688
Overprovision in prior years	(34)	(2,288)
	10,627	5,500
Deferred taxation:		
– Deferred tax assets	193	(1,293)
– Deferred tax liabilities	(291)	719
	(98)	(574)
Taxation	10,529	4,926

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:

	2009	**2008**
	US$'000	*US$'000*
Profit before taxation	41,307	30,253
Tax calculated at the domestic rates applicable to profits in the countries concerned	7,598	5,578
Tax effect related to:		
Expenses not deductible for taxation purposes	1,332	1,372
Eliminated income subject to tax	606	733
Income not subject to taxation	(3,856)	(2,892)
Increase in unrecognized tax losses	5,855	2,473
Decrease in unrecognized temporary differences	(132)	(70)
Utilization of previously unrecognized tax losses	(549)	(92)
Utilization of previously unrecognized capital and reinvestment allowance	(123)	–
Over provision in prior years	(34)	(2,288)
Effect of change in tax rates on opening net deferred tax assets/liabilities	(117)	82
Others	(51)	30
Taxation charge	10,529	4,926

The weighted average applicable tax rate was 18% (2008: 18%).

12 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$14,448,000 (2008: US$18,183,000).

13 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.

	2009	**2008**
Profit attributable to shareholders of the Company (US$'000)	29,828	24,522
Weighted average number of ordinary shares in issue (thousands)	318,851	316,151
Basic earnings per share (US cents per share)	9.35	7.76

Diluted

Diluted earnings per share is calculated based on the weighted average number of 318,851,000 (2008: 316,151,000) shares in issue during the year plus the weighted average of shares deemed to have been issued at no consideration as set out below:

	2009			2008		
	Options	**Consideration** (*Note*)	**Total** *HK$*	**Options**	**Consideration** (*Note*)	**Total** *HK$*
Weighted average dilutive share options outstanding during the year						
Granted on 14 December 2004						
– vested portion	2,903,083	at HK$4.825	14,007,375	5,203,167	at HK$4.825	25,105,279
Granted on 16 December 2005						
– vested portion	3,269,250	at HK$8.6	28,115,550	3,518,649	at HK$8.6	30,260,382
– unvested portion	–	–	–	378,601	at HK$10.933	4,139,370
Granted on 14 November 2008						
– vested portion	1,921,166	at HK$6.64	12,756,542	6,892	at HK$6.64	45,765
– unvested portion	3,021,583	at HK$7.975	24,098,249	410,358	at HK$7.967	3,269,280
Total (a)	11,115,082		78,977,716	9,517,667		62,820,076
Equivalent number of shares at the weighted average market price during the year (b)	11,115,082	at HK$10.37	115,263,400	9,517,667	at HK$15.08	143,526,413
Discount (b) – (a)			36,285,684			80,706,337
Equivalent number of shares deemed to have issued at no consideration			3,499,102			5,351,879

Note: In addition to the exercise price of share options, included in the consideration for the unvested portion is the fair value of unvested share options.

Diluted (Continued)

	2009	2008
Profit attributable to shareholders of the Company (US$'000)	29,828	24,522
Weighted average number of ordinary shares in issue (thousands)	318,851	316,151
Adjustments for share options (thousands)	3,499	5,352
Weighted average number of ordinary shares for diluted earnings per share (thousands)	322,350	321,503
Diluted earnings per share (US cents per share)	9.25	7.63

14 DIVIDENDS

	2009	2008
	US$'000	*US$'000*
Interim dividend paid of 14 HK cents (equivalent to 1.81 US cents) (2008: 14 HK cents (equivalent to 1.79 US cents)) per share	5,778	5,691
Proposed dividend after the end of the reporting period of 30 HK cents (equivalent to 3.87 US cents) (2008: 22 HK cents (equivalent to 2.84 US cents)) per share	12,439	9,014
	18,217	14,705

At a meeting held on 15 March 2010, the directors proposed a final dividend of 30 HK cents (equivalent to 3.87 US cents) per share. The proposed dividends are not refiected as dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2010.

15 INTANGIBLE ASSETS

	Group			
	Goodwill	**Customer base and other acquired intangibles**	**Software costs**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Cost				
At 1 January 2008	48,005	6,464	20,950	75,419
Acquisition of subsidiaries	15,843	3,313	–	19,156
Additions	–	–	6,916	6,916
Adjustments on contingent consideration	(1,784)	–	–	(1,784)
Exchange adjustment	(6,171)	(939)	54	(7,056)
At 31 December 2008	55,893	8,838	27,920	92,651
Accumulated amortization				
At 1 January 2008	–	512	8,388	8,900
Amortization for the year	–	646	2,240	2,886
Exchange adjustment	–	(69)	(41)	(110)
At 31 December 2008	–	1,089	10,587	11,676
Net book value				
At 31 December 2008	55,893	7,749	17,333	80,975
Cost				
At 1 January 2009	55,893	8,838	27,920	92,651
Acquisition of subsidiaries	8,000	–	58	8,058
Acquisition of additional interest in a subsidiary	402	–	–	402
Additions	–	–	3,191	3,191
Exchange adjustment	1,861	283	112	2,256
At 31 December 2009	66,156	9,121	31,281	106,558
Accumulated amortization				
At 1 January 2009	–	1,089	10,587	11,676
Acquisition of subsidiaries	–	–	16	16
Amortization for the year	–	693	2,915	3,608
Exchange adjustment	–	33	60	93
At 31 December 2009	–	1,815	13,578	15,393
Net book value				
At 31 December 2009	66,156	7,306	17,703	91,165

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

(b) Amortization of US$615,000 (2008: US$558,000) is included in distribution and logistics costs; and US$2,993,000 (2008: US$2,328,000) in administrative expenses in the consolidated income statement.

Impairment tests for goodwill

A segment-level summary of the goodwill allocation is presented below:

	2009	2008
	US$'000	*US$'000*
Greater China	8,310	7,538
ASEAN	1,634	186
USA	31,736	31,736
UK	18,294	16,433
Others	6,182	–
	66,156	55,893

In accordance with HKAS 36 "Impairment of Assets", the Group completed its annual impairment tests for goodwill allocated to the Group's various cash generating units ("CGUs") by comparing their recoverable amounts to their carrying amounts as at the end of the reporting period. 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 management forecasts covering not more than 5 years and extrapolated with an estimated general long-term continuous annual growth of not more than 5%. The discount rates used of 7%-9% are pre-tax and refiect specific risk. 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.

16 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	
	2009	2008
	US$'000	*US$'000*
In Hong Kong, held on:		
Leases of over 50 years	3,236	–
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	2,922	2,819
Leases of over 50 years	399	–
	6,557	2,819
Opening	2,819	3,077
Exchange difference	96	(152)
Acquisition of a subsidiary *(Note 32)*	1,742	–
Additions	3,238	–
Disposal	(1,191)	–
Amortization of prepaid operating lease payments	(147)	(106)
	6,557	2,819

17 PROPERTY, PLANT AND EQUIPMENT

	Group		
	Freehold land and buildings	**Furniture, plant and machinery**	**Total**
	US$'000	*US$'000*	*US$'000*
At 1 January 2008			
Cost	31,334	142,234	173,568
Accumulated depreciation	(2,985)	(74,494)	(77,479)
Net book value	28,349	67,740	96,089
Year ended 31 December 2008			
Opening net book value	28,349	67,740	96,089
Exchange adjustment	(2,908)	(4,814)	(7,722)
Acquisition of subsidiaries	2	2,205	2,207
Additions	313	29,801	30,114
Disposals	–	(678)	(678)
Depreciation	(553)	(14,513)	(15,066)
Closing net book value	25,203	79,741	104,944
At 31 December 2008			
Cost	27,787	160,652	188,439
Accumulated depreciation	(2,584)	(80,911)	(83,495)
Net book value	25,203	79,741	104,944
Year ended 31 December 2009			
Opening net book value	25,203	79,741	104,944
Exchange adjustment	154	2,514	2,668
Acquisition of subsidiaries	7,176	4,956	12,132
Additions	1,039	25,601	26,640
Disposals	(21,163)	(1,031)	(22,194)
Depreciation	(649)	(16,498)	(17,147)
Closing net book value	11,760	95,283	107,043
At 31 December 2009			
Cost	15,811	194,600	210,411
Accumulated depreciation	(4,051)	(99,317)	(103,368)
Net book value	11,760	95,283	107,043

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

	2009	**2008**
	US$'000	*US$'000*
Cost – capitalized finance leases	7,020	5,342
Accumulated depreciation	(1,138)	(583)
Net book value	5,882	4,759

Depreciation expense of US$3,135,000 (2008: US$2,789,000) has been expensed in cost of sales, US$11,797,000 (2008: US$9,718,000) in distribution and logistics expenses and US$2,215,000 (2008: US$2,559,000) in administrative expenses.

18 INTEREST IN A SUBSIDIARY

	Company	
	2009	**2008**
	US$'000	*US$'000*
Unlisted shares, at cost *(Note (a))*	23,988	23,988
Amount due from a subsidiary *(Note (b))*	44,449	39,297
	68,437	63,285

Notes:

(a) Particulars of principal subsidiaries are set out in note 35 to the consolidated financial statements.

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

19 ASSOCIATED COMPANIES

	Group	
	2009	**2008**
	US$'000	*US$'000*
At 1 January	7,077	9,155
Acquisition of an associated company	232	–
Partial divestment of an associated company	(3,511)	(3,000)
Transfer to subsidiary due to increase in shareholding interest	(1,762)	–
Transfer to asset held for sale *(Note)*	(1,755)	–
Share of results of associated companies	75	2,101
Dividend received	(138)	(1,340)
Exchange difference	(74)	161
At 31 December	144	7,077

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

	2009	2008
	US$'000	*US$'000*
Revenue	12,296	94,633
Profit after tax	163	5,726
Assets	500	54,045
Liabilities	214	31,871
Net assets	286	22,174

Note: This represents 10% interest in Slumberland Asia Pacific Limited, an associated company of the Group, which will be disposed in January 2010.

20 INVENTORIES

	Group	
	2009	2008
	US$'000	*US$'000*
Finished goods and merchandise	231,413	176,631
Raw materials	11,190	12,598
Work in progress	340	465
	242,943	189,694
Less: Provision for obsolescence	(5,362)	(3,571)
	237,581	186,123

The cost of inventories recognized as expense and included in cost of sales amounted to US$1,312,596,000 (2008: US$1,173,905,000).

The Group recognized an inventory write-down of US$2,012,000 (2008: US$1,174,000). The amount has been included in cost of sales in the consolidated income statement.

21 TRADE AND OTHER RECEIVABLES

	Group	
	2009	**2008**
	US$'000	*US$'000*
Trade receivables	240,404	204,976
Less: provision for impairment of receivables	(4,896)	(4,016)
Trade receivables, net *(Note (a))*	235,508	200,960
Other receivables, prepayments, and deposits	70,845	55,965
Due from related companies *(Note (b) and Note 33)*	11,884	5,465
Proceeds receivable on disposal of properties	7,082	–
Asset held for sale	1,755	–
	327,074	262,390
Less: non-current portion: prepayments and deposits	(10,775)	(9,899)
	316,299	252,491

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

The maximum exposure to credit risk at the end of the reporting period 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 receivables based on due date was as follows:

	Group	
	2009	**2008**
	US$'000	*US$'000*
Current	175,415	145,585
Less than 90 days	55,058	49,749
91-180 days	3,623	4,177
181-360 days	1,142	1,240
Over 360 days	270	209
	235,508	200,960

(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.

(c) Trade receivables that are not impaired

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	
	2009	**2008**
	US$'000	*US$'000*
At 1 January	4,016	3,790
Impairment loss recognized	1,740	1,403
Uncollectible amounts written off	(1,950)	(1,144)
Acquisition of subsidiaries	985	280
Exchange difference	105	(313)
At 31 December	4,896	4,016

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.

22 BANK BALANCES, CASH AND TIME DEPOSITS

	Group		Company	
	2009	**2008**	**2009**	**2008**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Bank balances and cash	88,485	56,196	125	48
Short-term bank deposits	12,444	46,736	–	–
	100,929	102,932	125	48

The effective interest rate on short-term bank deposits was 0.7% (2008: 1.4%); these deposits have an average maturity of 35 days (2008: 11 days).

23 SHARE CAPITAL AND OPTIONS

	Number of shares (in thousand)	**US$'000**
Authorized:		
At 1 January 2009 and 31 December 2009, ordinary shares of US$0.1 each	1,000,000	100,000
Issued and fully paid:		
At 1 January 2009, ordinary shares of US$0.1 each	317,487	31,749
Exercise of share options	3,644	364
At 31 December 2009, ordinary shares of US$0.1 each	321,131	32,113

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

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

	2009		2008	
	Average exercise price HK$ per share	**Share options**	**Average exercise price HK$ per share**	**Share options**
At 1 January	13.999	25,091,000	13.929	25,057,000
Granted	12.776	5,115,000	6.640	5,007,000
Exercised	4.825	(2,474,000)	4.825	(3,652,000)
Exercised	8.600	(1,169,500)	8.600	(954,000)
Lapsed	4.825	(12,000)	4.825	(202,000)
Lapsed	8.600	(201,000)	–	–
Lapsed	15.100	(600,000)	–	–
Lapsed	25.550	(312,000)	25.550	(165,000)
Lapsed	6.640	(156,000)	–	–
At 31 December	14.823	25,281,500	13.999	25,091,000

The weighted average share price at the time of exercise was HK$10.37 (2008: HK$15.08) per share.

Out of the 25,281,500 outstanding options (2008: 25,091,000 options), 3,732,500 options were exercisable at 31 December 2009 (2008: 864,000 options). Subsequently, 485,000 shares have been allotted and issued under the Share Option Scheme up to 15 March 2010.

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

	Exercise price	**Share options**	
Expiry date	**HK$ per share**	**2009**	**2008**
31 December 2009	4.825	–	287,000
31 December 2010	4.825	1,518,000	3,717,000
31 December 2009	8.600	–	577,000
31 December 2010	8.600	804,500	1,531,000
31 December 2011	8.600	1,464,000	1,531,000
31 December 2010	15.100	1,410,000	1,610,000
31 December 2011	15.100	1,410,000	1,610,000
31 December 2012	15.100	1,410,000	1,610,000
31 December 2011	25.550	2,433,000	2,537,000
31 December 2012	25.550	2,433,000	2,537,000
31 December 2013	25.550	2,433,000	2,537,000
31 December 2012	6.640	1,617,000	1,669,000
31 December 2013	6.640	1,617,000	1,669,000
31 December 2014	6.640	1,617,000	1,669,000
31 December 2013	12.776	1,705,000	–
31 December 2014	12.776	1,705,000	–
31 December 2015	12.776	1,705,000	–
		25,281,500	25,091,000

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

Date of grant	27 November 2009	14 November 2008	12 December 2007	15 December 2006	16 December 2005	14 December 2004
Share price at date of grant	HK$12.2	HK$6.64	HK$25.55	HK$15.10	HK$8.60	HK$4.825
Exercise price	HK$12.776	HK$6.64	HK$25.55	HK$15.10	HK$8.60	HK$4.825
Share volatility	43%	44%	36%	34%	34%	30%
Average annual risk-free interest rate	1.10%	1.34%	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	4 to 6 years	4 to 6 years
Expected dividend yield	4%	7%	3%	3%	3%	3%

24 EQUITY

	Company				
	Share capital	Share premium	Employee share based compensation reserve	Accumulated losses	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2008	31,288	23,420	2,659	(524)	56,843
Profit for the year	–	–	–	18,183	18,183
2007 final dividend paid	–	–	–	(12,197)	(12,197)
2008 interim dividend paid	–	–	–	(5,691)	(5,691)
Employee share option benefits					
– cost of employee services	–	–	2,942	–	2,942
– proceeds from shares issued	461	2,850	–	–	3,311
– transfer to share premium	–	620	(620)	–	–
– transfer of reserve upon expiry of share options	–	–	(28)	28	–
At 31 December 2008	31,749	26,890	4,953	(201)	63,391
Profit for the year	–	–	–	14,448	14,448
2008 final dividend paid	–	–	–	(9,029)	(9,029)
2009 interim dividend paid	–	–	–	(5,778)	(5,778)
Employee share option benefits					
– cost of employee services	–	–	2,590	–	2,590
– proceeds from shares issued	364	2,473	–	–	2,837
– transfer to share premium	–	559	(559)	–	–
At 31 December 2009	32,113	29,922	6,984	(560)	68,459

25 BANK LOANS AND OTHER BORROWINGS

	Group	
	2009	2008
	US$'000	*US$'000*
Non-current		
Secured bank loan	1,360	–
Unsecured bank loans	107,823	29,752
Obligations under finance leases	2,271	2,811
	111,454	32,563
Current		
Secured bank overdrafts	126	–
Unsecured bank overdrafts	12,926	10,729
Secured bank loan	2,532	1,500
Unsecured bank loans	44,873	104,156
Obligations under finance leases	1,402	1,056
	61,859	117,441
Total borrowings	173,313	150,004

Obligations under finance leases 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	
	2009	2008	2009	2008
	US$'000	*US$'000*	*US$'000*	*US$'000*
Within 1 year	60,457	116,385	1,402	1,056
Between 1 and 2 years	43,696	27,441	1,389	1,125
Between 2 and 5 years	65,487	2,311	882	1,686
Wholly repayable within 5 years	169,640	146,137	3,673	3,867

The effective interest rates for the bank loans and other borrowings were ranging from 0.9% to 12.2%.

The carrying amounts of borrowings approximate their fair values.

Obligations under finance lease were payable as follows:

	Group 2009 US$'000	2008 US$'000
Within one year	1,585	1,275
In the second year	1,478	1,275
In the third to fifth year	895	1,777
	3,958	4,327
Future finance charges on finance leases	(285)	(460)
Present value of obligation under finance leases	3,673	3,867

26 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 assets:

	Group			
	Tax losses US$'000	Decelerated tax depreciation US$'000	Provisions and others US$'000	Total US$'000
At 1 January 2008	(7,652)	(81)	(10,707)	(18,440)
Exchange differences	633	36	409	1,078
Credited to consolidated income statement	(322)	(382)	(589)	(1,293)
Charged to other comprehensive income	–	–	101	101
At 31 December 2008	(7,341)	(427)	(10,786)	(18,554)
Exchange differences	(116)	(20)	(165)	(301)
Charged/(credited) to consolidated income statement	1,648	186	(1,641)	193
Acquisition of subsidiaries	–	–	(214)	(214)
Charged to other comprehensive income *(Note (a))*	–	–	(67)	(67)
At 31 December 2009	(5,809)	(261)	(12,873)	(18,943)
Less: offset amount *(Note (b))*				7,605
				(11,338)

Deferred tax liabilities:

	Group		
	Accelerated tax depreciation	**Others**	**Total**
	US$'000	*US$'000*	*US$'000*
At 1 January 2008	4,903	5,229	10,132
Exchange differences	(370)	(164)	(534)
Charged/(credited) to consolidated income statement	2,919	(2,200)	719
Acquisition of subsidiaries	534	–	534
At 31 December 2008	7,986	2,865	10,851
Exchange differences	124	5	129
Charged/(credited) to consolidated income statement	(430)	139	(291)
Acquisition of subsidiaries	938	25	963
At 31 December 2009	8,618	3,034	11,652
			(7,605)
Less: offset amount *(Note (b))*			4,047

Notes:

(a) The deferred taxation charged/(credited) to other comprehensive income relates to recognition of actuarial gains and losses arising in post-employment defined benefit plans through reserve and is netted with the actuarial gains and losses in the consolidated statement of comprehensive income.

(b) 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 statement of financial position:

	Group	
	2009	**2008**
	US$'000	*US$'000*
Deferred tax assets	(11,338)	(11,167)
Deferred tax liabilities	4,047	3,464

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 2009, US$33,605,000 (2008: US$16,864,000) of the Group's unrecognized tax losses is carried forward against future taxable income; of which US$1,668,000 (2008: US$2,472,000) will expire by 2014 (2008: 2013).

The amounts shown in the consolidated statement of financial position include the following:

	Group	
	2009	**2008**
	US$'000	*US$'000*
Deferred tax assets to be recovered:		
– after more than 12 months	(3,442)	(2,544)
– within 12 months	(7,896)	(8,623)
Deferred tax liabilities to be settled:		
– after more than 12 months	171	184
– within 12 months	3,876	3,280

27 DEFINED BENEFIT PLANS

	Group	
	2009	**2008**
	US$'000	*US$'000*
Assets on:		
– defined benefit pension plans *(Note (a))*	259	53
Obligations on:		
– defined benefit pension plans *(Note (b))*	(2,411)	(2,962)
– other post employment benefit liabilities *(Note (f))*	(3,178)	(3,720)
Liabilities under defined benefit plans	(5,589)	(6,682)
Actuarial gains/(losses) recognized in the year	1,767	(3,351)
Cumulative actuarial losses recognized	(2,907)	(4,674)

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 are valued annually by qualified actuaries, Watson Wyatt, using the projected unit credit method.

Notes:

(a) Assets under defined benefit pension plans

	Group	
	2009	**2008**
	US$'000	*US$'000*
Fair value of plan assets *(Note (d))*	1,301	1,076
Present value of funded obligations *(Note (d))*	(1,042)	(1,023)
Assets under defined benefit pension plans	259	53

As at 31 December 2009, the level of funding represented 124.9% (2008: 105.2%) of the present value of obligations.

(b) Liabilities under defined benefit pension plans

	Group	
	2009	**2008**
	US$'000	*US$'000*
Present value of funded obligations *(Note (d))*	(8,260)	(8,051)
Fair value of plan assets *(Note (d))*	5,849	5,089
Liabilities under defined benefit pension plans	(2,411)	(2,962)

As at 31 December 2009, the level of funding represented 70.8% (2008: 63.2%) of the present value of obligations.

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

	Group	
	2009	**2008**
	US$'000	*US$'000*
Assets under defined benefit pension plans:		
Current service cost	37	225
Interest cost	18	138
Expected return on plan assets	(70)	(347)
(Income)/expense on assets under defined benefit pension plans	(15)	16
Liabilities under defined benefit pension plans:		
Current service cost	515	312
Interest cost	222	169
Expected return on plan assets	(267)	(93)
Expense on liabilities under defined benefit pension plans	470	388
Pension costs – defined benefit plans *(Note 9)*	455	404

(d) Movement included in the consolidated statement of financial position

The movement in the present value of funded obligation recognized in the statement of financial position is as follows:

	Group	
	2009	**2008**
	US$'000	*US$'000*
Assets under defined benefit pension plans		
At 1 January	1,023	4,436
Current service cost	37	225
Interest cost	18	138
Employee's contribution	5	12
Benefits paid	–	(73)
Actuarial (gain)/loss	(40)	446
Transferred to liabilities under defined benefit pension plans	–	(4,197)
Exchange difference	(1)	36
At 31 December *(Note (a))*	1,042	1,023
Liabilities under defined benefit pension plans		
At 1 January	8,051	3,952
Current service cost	515	312
Interest cost	222	169
Employee's contribution	7	–
Benefits paid	(498)	(158)
Actuarial gain	(121)	(245)
Transferred from assets under defined benefit pension plans	–	4,197
Exchange difference	84	(176)
At 31 December *(Note (b))*	8,260	8,051

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

	Group	
	2009	**2008**
	US$'000	*US$'000*
Assets under defined benefit pension plans		
At 1 January	1,076	5,381
Employers' contribution	5	149
Employees' contribution	5	12
Expected return on plan assets	70	347
Benefits paid	–	(73)
Actuarial gain/(loss)	146	(1,891)
Transferred to liabilities under defined benefit pension plans	–	(2,880)
Exchange difference	(1)	31
At 31 December *(Note (a))*	1,301	1,076

	Group 2009 US$'000	2008 US$'000
Liabilities under defined benefits pension plans		
At 1 January	5,089	2,253
Employers' contribution	431	205
Employees' contribution	7	–
Expected return on plan assets	267	93
Benefits paid	(417)	(90)
Actuarial gain/(loss)	428	(188)
Transferred from assets under defined benefit pension plans	–	2,880
Exchange difference	44	(64)
At 31 December *(Note (b))*	5,849	5,089

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

	Group 2009 %	2008 %
Discount rate	1.7-11	1.7-15.5
Expected rate of future salary increases	2.7-10	2.7-9
Expected rate of return on plan assets	1.5-6.5	2.5-6.5

(f) Other post employment benefit liabilities mainly represent long service payment and equivalents. Actuarial valuation is performed on the Group's other post employment benefit liabilities. The actuarial gain recognized in 2009 is US$ 1,032,000 (2008: US$1,071,000 loss). At 31 December 2009, there were no unrecognized transitional liabilities (2008: Nil).

28 TRADE AND OTHER PAYABLES

	Group 2009 US$'000	2008 US$'000
Trade payable *(Note (a))*	378,456	345,615
Other payables and accruals	140,323	104,060
Obligations on pension – defined contribution plans	1,293	1,126
Due to related companies *(Note (b) & Note 33)*	909	835
	520,981	451,636
Less: non-current portion: other payables and accruals	(7,747)	(4,601)
	513,234	447,035

Notes:

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

	Group	
	2009	**2008**
	US$'000	*US$'000*
Less than 90 days	311,480	205,751
91-180 days	63,209	136,516
181-360 days	2,621	2,375
Over 360 days	1,146	973
	378,456	345,615

(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.

29 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations:

	2009	**2008**
	US$'000	*US$'000*
Operating profit	45,500	34,624
Amortization of intangible assets	3,608	2,886
Depreciation charge	17,147	15,066
Amortization of prepaid operating lease payments	147	106
Gain on partial divestment of an associated company	(16,345)	(14,038)
Gain on acquisition of additional interest in a subsidiary	(34)	(77)
Gain on liquidation of a subsidiary	(39)	–
Gain on disposal of properties	(4,372)	–
Dividend income	(600)	–
Loss/(gain) on disposal of plant and equipment	252	(118)
Share option expenses	2,590	2,942
Operating profit before working capital changes	47,854	41,391
Increase in inventories	(39,474)	(17,192)
(Increase)/decrease in trade and other receivables	(37,230)	12,938
Increase in trade and other payables	48,535	36,910
Net cash generated from operations	19,685	74,047

(b) Analysis of changes in financing during the year

	Share capital	Share premium	Bank loans	Minority interest	Obligations under finance leases
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2008	31,288	23,420	131,715	6,523	5,870
Net proceeds from issue of shares	461	2,850	–	–	–
Cash inflow from bank loans	–	–	68,604	–	–
Cash outflow from bank loans and finance lease	–	–	(57,262)	–	(1,227)
Dividends paid to minority shareholders	–	–	–	(320)	–
Non-cash movements:					
Transfer from employee share-based compensation reserve	–	620	–	–	–
Acquisition of a subsidiary	–	–	858	410	16
Inception of finance lease	–	–	–	–	666
Acquisition of additional interest in a subsidiary	–	–	–	(113)	–
Minority interest's share of profits	–	–	–	805	–
Exchange differences	–	–	(8,507)	(206)	(1,458)
At 31 December 2008	31,749	26,890	135,408	7,099	3,867
Net proceeds from issue of shares	364	2,473	–	–	–
Cash inflow from bank loans	–	–	60,612	–	–
Cash outflow from bank loans and finance lease	–	–	(50,231)	–	(1,405)
Non-cash movements:					
Transfer from employee share-based compensation reserve	–	559	–	–	–
Acquisition of subsidiaries	–	–	8,796	2,180	793
Inception of finance lease	–	–	–	–	28
Acquisition of additional interest in a subsidiary	–	–	–	(450)	–
Minority interest's share of profits	–	–	–	950	–
Dividends	–	–	–	(868)	–
Exchange differences	–	–	2,003	203	390
At 31 December 2009	32,113	29,922	156,588	9,114	3,673

(c) **Acquisition of subsidiaries**

	2009	2008
	US$'000	*US$'000*
Net assets acquired:		
Other intangible assets	–	3,313
Software	42	–
Properties, plant and equipment	12,132	2,207
Lease premium for land	1,742	–
Associated company	232	–
Deferred tax assets	214	–
Inventories	9,728	2,582
Trade and other receivables	16,692	8,869
Bank balances and cash	5,847	2,304
Obligations under finance leases	(793)	(16)
Liabilities under defined benefit plans	(664)	(39)
Deferred tax liabilities	(963)	(534)
Trade and other payables	(21,089)	(5,226)
Bank loans and other borrowings	(8,796)	(858)
Bank overdraft	(1,828)	–
Taxation payable	(538)	(205)
Minority interests	(2,180)	(410)
	9,778	11,987
Goodwill on acquisition	8,000	15,843
Gain on acquisition	(34)	–
Revaluation surplus relating to previously held interests	(418)	–
	17,326	27,830
Satisfied by		
Cash consideration	14,007	26,427
Expenses incurred on acquisition	1,557	1,403
Transferred from interests in associate	1,762	–
	17,326	27,830

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

	2009	2008
	US$'000	*US$'000*
Purchase consideration	14,007	26,427
Expenses incurred on acquisition	1,557	1,403
Cash and cash equivalents in subsidiary acquired	(4,019)	(2,304)
Purchase consideration payable	(5,050)	(2,500)
Expenses payable in respect of acquisition	(326)	(212)
Net outflow of cash and cash equivalents on acquisition	6,169	22,814

(d) Included in the cash and cash equivalents of the Group as at 31 December 2009 were amount totaling US$39,086,000 (2008: US$59,947,000) which were denominated in Renminbi, the remittance of which is subject to foreign exchange control.

30 CONTINGENT LIABILITIES

(a) Bank guarantees

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

	Group	
	2009	**2008**
	US$'000	*US$'000*
For purchase of goods in favor of suppliers	23,669	21,771
For rental payment in favor of the landlords	10,582	8,797
As security in favor of local tax and customs authorities in accordance with local regulations	7,616	629
Performance bonds and others	1,570	780
	43,437	31,977

The Company has corporate guarantee in respect of banking facilities granted to subsidiaries amounting to US$460 million at 31 December 2009 (2008: US$370 million).

(b) The Company and two of its subsidiaries, IDS USA Inc. and IDS Group Limited, have been included as defendants in certain civil claims in the USA. The management of the Group has reviewed the facts and circumstances and is of the view that the likelihood of the Company and its subsidiaries suffering material loss is low.

31 COMMITMENTS

(a) Capital commitments in respect of:

	Group	
	2009	**2008**
	US$'000	*US$'000*
Property, plant and equipment		
Contracted but not provided for	1,971	118
Authorized but not contracted for	9,492	369
Intangible assets		
Contracted but not provided for	444	435
Authorized but not contracted for	248	540
	12,155	1,462

(b) Commitments under operating leases

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

	Group			
	Buildings		Others	
	2009	2008	2009	2008
	US$'000	*US$'000*	*US$'000*	*US$'000*
No later than one year	55,934	49,922	2,166	1,351
Later than one year and no later than five years	176,695	122,367	1,647	1,190
Later than five years	69,609	71,393	49	–
	302,238	243,682	3,862	2,541

The Company did not have any material commitments at 31 December 2009 (2008: Nil).

32 BUSINESS COMBINATIONS

During the year, the Group increased its interest in Sebor (Sabah) Sendirian Berhad (now known as IDS Sebor Sabah Holdings Sdn. Bhd.) ("Sabah") from 40% to 60%, thus, Sabah ceased to be an associated company and became a subsidiary of the Group.

The Group acquired the entire equity interest of Simkar Limited, Simkar 2 Limited and PT Westside Agritama (collectively "Westside"). Westside has its operation in Indonesia and is principally engaged in the storage and warehousing services and distribution business.

The Group has also acquired the entire equity interest of AGI Logistics, Inc. ("AGI"). AGI has its operation in the USA and Asia and is principally engaged in the freight forwarding business.

The acquired businesses contributed revenues of approximately US$28,600,000 and profit for the year of approximately US$1,378,000 for the periods from their respective dates of acquisition to 31 December 2009. If these acquisitions had occurred on 1 January 2009, the estimated unaudited consolidated revenue for the Group would have been approximately US$1,875,466,000 and unaudited profit for the year would have been approximately US$25,049,000.

Details of net assets acquired and goodwill are as follows:

	2009
	US$'000
Purchase consideration:	
– Cash consideration	14,007
– Direct costs relating to the acquisition	1,557
– Transferred from interests in an associate	1,762
Total purchase consideration	17,326
Fair value of net assets acquired	(9,778)
Revaluation surplus relating to previously held interests	418
	7,966
Represented by:	
Goodwill *(Note 15)*	8,000
Gain on acquisition	(34)
	7,966

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.

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

	2009	
	Carrying amounts	**Fair value**
	US$'000	*US$'000*
Software	42	42
Property, plant and equipment *(Note 17)*	9,691	12,132
Lease premium for land	607	1,742
Associated companies	232	232
Deferred tax assets	214	214
Inventories	9,728	9,728
Trade and other receivables	16,692	16,692
Bank balances and cash	5,847	5,847
Obligations under finance lease	(793)	(793)
Liabilities under defined benefit plans	(664)	(664)
Deferred tax liabilities	(26)	(963)
Trade and other payables	(21,089)	(21,089)
Bank loan and other borrowings	(8,796)	(8,796)
Bank overdraft	(1,828)	(1,828)
Taxation payable	(538)	(538)
Minority interests	(1,762)	(2,180)
Net assets	7,557	9,778

33 SIGNIFICANT RELATED PARTY TRANSACTIONS

	Group 2009	Group 2008
	US$'000	*US$'000*
Continuing transactions:		
– Income from provision of shipping, handling and other logistics services	25,152	17,387
– Income from distribution and sale of goods	2,053	1,126
– Purchase of bedding related products	2,595	2,866
– Rental received from	1,297	1,263
– Rental paid to	4,807	4,786
Non-recurring transactions:		
– Acquisition of a subsidiary	4,019	–

Related party transactions mainly comprised the provision of shipping, handling and other logistics services to Li & Fung Limited, subsidiaries of Li & Fung (1937) Limited ("LF 1937") and companies controlled by LF 1937.

The recurring related party transactions were conducted in the normal course of business and on an arm's length basis. The acquisition of a subsidiary was negotiated on an arm's length basis.

Save as disclosed above and the key management compensation as set out in note 9, the Group had no other material related party transactions during the year.

Year-end balances with related parties

	Note	2009 *US$'000*	2008 *US$'000*
Due from	*(a)*		
– related parties		11,804	5,386
– associated companies		80	79
Due to	*(b)*		
– related parties		909	818
– an associated company		–	17

Notes:

(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 are unsecured, interest-free and with terms no more favorable than those granted to third parties.

34 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved for issue by the Board of Directors on 15 March 2010.

35 **PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANY**

As at 31 December 2009, the Company held interests in the following principal subsidiaries and associated company:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued/ paid up share capital/ registered capital	Interest held
Principal subsidiaries				
Indirectly held:				
IDS Logistics (Hong Kong) Limited	Hong Kong	Provision of logistics services	10,000 ordinary shares of HK$1 each	100%
IDS (Hong Kong) Limited	Hong Kong	Distribution of consumer and pharmaceutical products	14,600,000 ordinary shares of HK$10 each	100%
Universal Pharmaceutical Laboratories, Limited	Hong Kong	Manufacturing and distribution of pharmaceutical products	5,000 ordinary shares of HK$100 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)*	China	Provision of logistics services	US$5,000,000	100%
Nanjing IDS Marketing Company Limited 南京利豐英和商貿有限公司* *(Note b)*	China	Import/export and distribution of general merchandise	US$5,000,000	100%
IDS Logistics (Taiwan) Limited	Hong Kong/ Taiwan	Provision of logistics and packaging services	2 ordinary shares of HK$100 each	100%
Branded Lifestyle Taiwan Holdings Limited	Hong Kong/ Taiwan	Retail of apparel and accessories	1 ordinary share of HK$1	100%
IDS Logistics Services Pte. Ltd.	Singapore	Provision of logistics services	28,296,962 ordinary shares of S$1 each	100%
IDS Marketing (Singapore) Pte. Ltd.	Singapore	Distribution of healthcare products	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	2,000,000 ordinary shares of RM1 each	100%

Name	Place of incorporation/ operation	Principal activities	Particulars of issued/ paid up share capital/ registered capital	Interest held
IDS Services (Malaysia) Sdn. Bhd.	Malaysia	Distribution of consumer, pharmaceutical, and medical equipment products	14,231,002 shares of RM1 each	100%
IDS Sebor (Sarawak) Sdn. Bhd.	Malaysia	Distribution of consumer products	5,000,000 ordinary shares of RM1 each	67.09%
IDS Sebor Sabah Sdn. Bhd.	Malaysia	Distribution of consumer products	9,850,000 ordinary shares of RM1 each	60%
IDS Manufacturing Sdn. Bhd.	Malaysia	Manufacturing of pharmaceutical, foods and toiletries products	23,000,000 ordinary shares of RM1 each	100%
IDS Logistics (Thailand) Limited	Thailand	Provision of logistics services	1,215,000 ordinary shares of Baht250 each	100%
IDS Marketing (Thailand) Limited	Thailand	Distribution of consumer and pharmaceutical products	160,000 ordinary shares of Baht100 each 55,000 preference shares of Baht100 each	100%
IDS Manufacturing Limited	Thailand	Manufacturing of household, pharmaceutical and personal care products	4,695,000 ordinary shares of Baht100each	100%
IDS (Philippines), Inc.	Philippines	Distribution of consumer products and provision of logistics services	210,000 shares of Pesos100 each	100%
IDS USA Inc.	USA	Provision of logistics services	100 common stock of US$0.01 each	100%
IDS USA West Inc.	USA	Provision of logistics services	2,000 common stock	100%
IDS Logistics (UK) Limited	UK	Provision of logistics services	50,000 ordinary shares of £1 each	100%

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

* The legal name of the company is in Chinese

Notes:

(a) Shanghai IDS Shen Hong Logistics Co., Ltd. is a sino-foreign co-operative joint venture.

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

Name	Place of incorporation/ operation	Principal activities	Particulars of issued/ paid up share capital	Interest held
Principal associated company				
F&S Express (S) Pte. Ltd.	Singapore	Provision of freight forwarding services	20,000 ordinary shares of S$1 each	50%

3. UNAUDITED CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2010

The following financial information is extracted from the published unaudited consolidated condensed interim financial information of the IDS Group for the six months ended 30 June 2010.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30 June	
		2010	**2009**
	Note	*US$'000*	*US$'000*
Revenue	*4*	941,538	846,659
Cost of sales		(689,786)	(627,273)
Gross profit		251,752	219,386
Other income	*5*	–	600
Distribution and logistics expenses		(212,066)	(181,967)
Administrative expenses		(30,349)	(29,095)
Core operating profit	*6*	9,337	8,924
Other gains, net	*7*	10,473	15,879
Operating profit	*8*	19,810	24,803
Finance costs, net	*9*	(2,517)	(1,973)
Share of results of associated companies		49	26
Profit before taxation		17,342	22,856
Taxation	*10*	(4,313)	(3,849)
Profit for the period		13,029	19,007
Profit attributable to:			
Shareholders of the Company		12,430	18,460
Non-controlling interests		599	547
		13,029	19,007
Earnings per share for profit attributable to the shareholders of the Company during the period	*11*		
Basic		3.86 US cents	5.81 US cents
Diluted		3.82 US cents	5.76 US cents
Interim dividend	*12*	3,758	5,778

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2010	**2009**
	US$'000	*US$'000*
Profit for the period	13,029	19,007
Other comprehensive income		
Exchange differences	721	1,431
Net asset revaluation gain	–	418
Total comprehensive income for the period	13,750	20,856
Total comprehensive income for the period attributable to:		
Shareholders of the Company	12,748	20,322
Non-controlling interests	1,002	534
	13,750	20,856

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited 30 June 2010 US$'000**	**Audited 31 December 2009 US$'000**
ASSETS			
Non-current assets			
Intangible assets	*13*	89,733	91,165
Property, plant and equipment	*13*	116,673	107,043
Lease premium for land		3,426	6,557
Associated companies		192	144
Other non-current assets	*14*	11,318	10,775
Assets under defined benefit plans		275	259
Deferred tax assets	*17*	13,043	11,338
		234,660	227,281
Current assets			
Inventories		246,313	237,581
Trade and other receivables	*14*	310,052	316,299
Taxation recoverable		487	422
Time deposits		16,064	12,444
Bank balances and cash		88,947	88,485
		661,863	655,231
Total assets		896,523	882,512

	Note	Unaudited 30 June 2010 US$'000	Audited 31 December 2009 US$'000
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	*15*	32,272	32,113
Reserves		132,146	129,592
		164,418	161,705
Non-controlling interests		10,116	9,114
Total equity		174,534	170,819
LIABILITIES			
Non-current liabilities			
Bank loans	*16*	115,515	109,183
Obligations under finance leases	*16*	1,446	2,271
Liabilities under defined benefit plans		5,496	5,589
Other non-current liabilities	*18*	5,776	7,747
Deferred tax liabilities	*17*	4,080	4,047
		132,313	128,837
Current liabilities			
Trade and other payables	*18*	485,704	513,234
Bank loans and other borrowings	*16*	97,276	61,859
Taxation payable		6,696	7,763
		589,676	582,856
Total liabilities		721,989	711,693
Total equity and liabilities		896,523	882,512
Net current assets		72,187	72,375
Total assets less current liabilities		306,847	299,656
Net assets value per share		54.08 US cents	53.19 US cents

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited									
	Share capital *(Note 15)* *US$'000*	Share premium *US$'000*	Employee share-based compensation reserve *US$'000*	Merger reserve *US$'000*	Revaluation reserve *US$'000*	Exchange reserve *US$'000*	Retained earnings *US$'000*	Total *US$'000*	Non-controlling interests *US$'000*	Total equity *US$'000*
At 1 January 2009	31,749	26,890	4,953	16,617	–	6,099	48,766	135,074	7,099	142,173
Profit for the period	–	–	–	–	–	–	18,460	18,460	547	19,007
Exchange differences	–	–	–	–	–	1,444	–	1,444	(13)	1,431
Increase in fair value of previously held interest upon step acquisition to a subsidiary	–	–	–	–	418	–	–	418	–	418
Total comprehensive income for the period	–	–	–	–	418	1,444	18,460	20,322	534	20,856
2008 final dividend paid	–	–	–	–	–	–	(9,029)	(9,029)	–	(9,029)
Employee share option benefits										
– cost of employee services	–	–	1,294	–	–	–	–	1,294	–	1,294
– proceeds from shares issued	194	1,197	–	–	–	–	–	1,391	–	1,391
– transfer to share premium	–	271	(271)	–	–	–	–	–	–	–
Step acquisition to a subsidiary	–	–	–	–	–	–	–	–	2,180	2,180
At 30 June 2009	31,943	28,358	5,976	16,617	418	7,543	58,197	149,052	9,813	158,865
At 1 January 2010	32,113	29,922	6,984	16,578	418	10,069	65,621	161,705	9,114	170,819
Profit for the period	–	–	–	–	–	–	12,430	12,430	599	13,029
Exchange differences	–	–	–	–	–	318	–	318	403	721
Total comprehensive income for the period	–	–	–	–	–	318	12,430	12,748	1,002	13,750
2009 final dividend paid	–	–	–	–	–	–	(12,448)	(12,448)	–	(12,448)
Employee share option benefits										
– cost of employee services	–	–	1,026	–	–	–	–	1,026	–	1,026
– proceeds from shares issued	159	1,228	–	–	–	–	–	1,387	–	1,387
– transfer to share premium	–	296	(296)	–	–	–	–	–	–	–
At 30 June 2010	32,272	31,446	7,714	16,578	418	10,387	65,603	164,418	10,116	174,534

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Unaudited Six months ended 30 June	
		2010	**2009**
	Note	*US$'000*	*US$'000*
Cash flow from operating activities			
Cash used in operations	*19*	(19,338)	(11,906)
Interest received		750	918
Interest paid		(3,222)	(2,891)
Net overseas tax paid		(7,458)	(4,645)
Net cash used in operating activities		(29,268)	(18,524)
Cash flows from investing activities			
Net decrease in time deposits		114	–
Purchase of property, plant and equipment		(19,916)	(10,335)
Purchase of intangible assets		(1,232)	(1,223)
Sale of plant and equipment		1,174	40
Acquisition of subsidiaries		–	(2,158)
Proceeds from disposal/partial divestment of an associated company		10,280	19,826
Settlement of consideration payable for acquisition of subsidiaries/business		(633)	(9,500)
Proceeds from sales of properties		11,721	–
Net cash generated from/(used in) investing activities		1,508	(3,350)
Net cash used before financing activities		(27,760)	(21,874)

	Note	Unaudited Six months ended 30 June 2010 US$'000	2009 US$'000
Cash flows from financing activities			
Dividends paid		(12,448)	(9,029)
Capital element of finance lease payments		(653)	(680)
Net proceeds from issue of shares		1,387	1,391
New loans raised		58,336	27,974
Repayment of loans		(21,751)	(8,398)
Net cash generated from financing activities		24,871	11,258
Decrease in cash and cash equivalents		(2,889)	(10,616)
Cash and cash equivalents at beginning of period		87,763	92,203
Effect of foreign exchange rate changes		2,289	(1,535)
Cash and cash equivalents at the end of period		87,163	80,052
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		88,947	57,942
Deposits with maturity less than three months		16,064	34,994
Bank overdrafts		(17,848)	(12,884)
		87,163	80,052

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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 2 of the interim report.

2 BASIS OF PREPARATION

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

This unaudited condensed consolidated financial information should be read in conjunction with the 2009 annual financial statements.

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

3 ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information is consistent with those used in the annual financial statements for the year ended 31 December 2009, except that the following new standards and amendments to standards, which are relevant to the Group, have been adopted for financial year ending 31 December 2010.

HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 2 (Amendment)	Share-based Payment
HKFRS 3 (Revised)	Business Combinations
HKFRSs (Amendments)	Improvements to HKFRS 2008 and 2009

The adoption of HKAS 27 (Revised), HKFRS 2 (Amendment), HKFRS 3 (Revised) and HKFRSs (Amendments) has no significant impact on the Group's financial statements.

The following amendments to standards, which are relevant to the Group, have been issued but are not effective for 2010 and have not been early adopted by the Group. Management is currently assessing the impact of these amendments on the Group's financial statements.

HKAS 24 (Revised)	Related Party Disclosures
HKFRS 9	Financial Instruments
HKFRSs (Amendments)	Improvements to HKFRS 2010

4 REVENUE AND SEGMENT INFORMATION

(a) The Group is principally engaged in the provision of logistics services, the distribution of fast moving consumer goods and healthcare products, and manufacturing. Revenues recognized during the period are as follows:

	Unaudited Six months ended 30 June 2010	2009
	US$'000	*US$'000*
Sales of goods	759,446	692,037
Rendering of services	182,092	154,622
Revenue	941,538	846,659

(b) The Group operates in the following geographical areas:

Greater China – Hong Kong, China and Taiwan
ASEAN – the Philippines, Singapore, Malaysia, Thailand, Indonesia, Brunei and others
USA – the United States of America
UK – United Kingdom

Six months ended 30 June 2010	Unaudited Greater China	ASEAN	USA	UK	Total	Unallocated (*Note*)	Elimination	Group total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Revenue	441,470	451,489	28,240	24,425	945,624	–	(4,086)	941,538
Cost of sales	(326,513)	(357,223)	(5,845)	(4,291)	(693,872)	–	4,086	(689,786)
Gross profit	114,957	94,266	22,395	20,134	251,752	–	–	251,752
Expenses	(99,555)	(80,128)	(32,739)	(20,889)	(233,311)	(9,104)		(242,415)
Core operating profit	15,402	14,138	(10,344)	(755)	18,441	(9,104)		9,337
Other gains	451	–	–	–	451	10,022		10,473
Segment results	15,853	14,138	(10,344)	(755)	18,892	918		19,810
Share of results of associated companies		49			49			49
Finance costs, net								(2,517)
Profit before taxation								17,342
Taxation								(4,313)
Profit for the period								13,029
Depreciation and amortization	3,614	4,622	1,340	889	10,465	1,173		11,638
Capital expenditure	1,593	8,661	6,617	1,107	17,978	4,378		22,356

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

Six months ended 30 June 2009	Greater China US$'000	ASEAN US$'000	USA US$'000	UK US$'000	Total US$'000	Unallocated (Note) US$'000	Elimination US$'000	Group total US$'000
	Unaudited							
Revenue	397,290	402,583	28,015	19,122	847,010	–	(351)	846,659
Cost of sales	(300,549)	(325,335)	–	(1,740)	(627,624)	–	351	(627,273)
Gross profit	96,741	77,248	28,015	17,382	219,386	–	–	219,386
Expenses, net	(85,153)	(64,637)	(34,485)	(19,168)	(203,443)	(7,019)		(210,462)
Core operating profit	11,588	12,611	(6,470)	(1,786)	15,943	(7,019)		8,924
Other gains, net	–	–	–	–	–	15,879		15,879
Segment results	11,588	12,611	(6,470)	(1,786)	15,943	8,860		24,803
Share of results of associated companies		26			26			26
Finance costs, net								(1,973)
Profit before taxation								22,856
Taxation								(3,849)
Profit for the period								19,007
Depreciation and amortization	3,134	3,289	1,065	861	8,349	1,190		9,539
Capital expenditure	5,533	3,280	1,108	633	10,554	1,030		11,584
Capital expenditure arising from acquisition of subsidiaries	–	2,609	–	–	2,609	–		2,609

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

At 30 June 2010	Unaudited						
	Greater China	**ASEAN**	**USA**	**UK**	**Total**	**Unallocated** *(Note)*	**Group total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Non-current segment assets	34,826	76,593	56,017	30,393	197,829	36,831	234,660
Associated companies	-	192	-	-	192	-	192
Total assets	380,395	350,452	73,952	51,849	856,648	39,875	896,523
Total liabilities	314,687	223,416	37,332	30,609	606,044	115,945	721,989

At 31 December 2009	Audited						
	Greater China	**ASEAN**	**USA**	**UK**	**Total**	**Unallocated** *(Note)*	**Group total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Non-current segment assets	40,576	71,221	50,814	32,337	194,948	32,333	227,281
Associated companies	–	144	–	–	144	–	144
Total assets	374,149	355,041	67,384	50,622	847,196	35,316	882,512
Total liabilities	311,484	236,893	36,613	36,657	621,647	90,046	711,693

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

	Unaudited					
	Revenue Six months ended 30 June		Segment results Six months ended 30 June		Capital expenditure Six months ended 30 June	
	2010	2009	2010	2009	2010	2009
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Logistics	175,930	149,655	(3,790)	(279)	11,017	3,606
Distribution	660,945	616,717	15,559	12,440	2,185	7,401
Manufacturing	114,269	87,662	6,672	3,782	4,775	2,151
Unallocated *(Note)*	-	-	(9,104)	(7,019)	4,379	1,035
	951,144	854,034	9,337	8,924	22,356	14,193
Less: Inter-segment elimination	(9,606)	(7,375)				
	941,538	846,659				
Other gains, net			10,473	15,879		
Operating profit			19,810	24,803		

	Segment assets	
	Unaudited 30 June 2010	Audited 31 December 2009
	US$'000	*US$'000*
Logistics	241,680	235,173
Distribution	513,101	510,377
Manufacturing	85,210	76,866
Unallocated *(Note)*	56,532	60,096
	896,523	882,512

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

5 OTHER INCOME

There was no other income for the period. In 2009, other income represented dividend income received.

6 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).

7 OTHER GAINS, NET

	Unaudited Six months ended 30 June	
	2010	**2009**
	US$'000	*US$'000*
Gain on disposal/partial divestment of an associated company	8,500	16,345
Exchange gain on liquidation of a subsidiary	1,522	–
Gain on disposal of property	451	–
Gain on acquisition of additional interest in a subsidiary	–	34
Other expenses	–	(500)
Other gains, net	10,473	15,879

8 OPERATING PROFIT

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

	Unaudited Six months ended 30 June	
	2010	**2009**
	US$'000	*US$'000*
Depreciation of		
Owned property, plant and equipment	9,363	7,542
Leased property, plant and equipment	260	212
Amortization of intangible assets	1,942	1,718
Amortization of prepaid operating lease payment	73	67
(Reversal of provision)/provision for impairment losses on trade receivables	(390)	59
Provision for obsolete inventories	95	986
(Gain)/loss on disposal of plant and equipment	(68)	38
Costs of inventories sold	665,733	620,563
Exchange gain	(327)	(106)

9 FINANCE COSTS, NET

	Unaudited Six months ended 30 June	
	2010	**2009**
	US$'000	*US$'000*
Interest expense on bank loans and overdrafts	3,107	2,770
Interest expense on finance leases	115	121
Imputed interest on non-current payables	45	–
	3,267	2,891
Interest income from bank deposits	(750)	(918)
Finance costs, net	2,517	1,973

The Group operates cash pooling arrangements in several countries to optimize the net finance cost on gross cash and borrowings by different subsidiaries in the same country. 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.

10 TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Unaudited Six months ended 30 June	
	2010	**2009**
	US$'000	*US$'000*
Current taxation:		
- Hong Kong profits tax	16	50
- Overseas taxation	6,274	4,037
	6,290	4,087
Deferred taxation:		
- Deferred tax assets	(1,520)	2,581
- Deferred tax liabilities	(457)	(2,819)
	(1,977)	(238)
Taxation	4,313	3,849

11 EARNINGS PER SHARE

Basic

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

	Unaudited Six months ended 30 June	
	2010	**2009**
Profit attributable to shareholders of the Company (US$'000)	12,430	18,460
Weighted average number of ordinary shares in issue (thousands)	321,643	317,703
Basic earnings per share (US cents per share)	3.86	5.81

Diluted

Diluted earnings per share is calculated based on the weighted average number of 321,643,000 (2009: 317,703,000) shares in issue during the period plus weighted average number of shares deemed to have been issued at no consideration as set out below:

	Unaudited Six months ended 30 June					
	2010			2009		
Weighted average dilutive share options outstanding during the period	**Options**	**Consideration** *(Note)*	**Total HK$**	**Options**	**Consideration** *(Note)*	**Total HK$**
Granted on 14 December 2004						
– vested portion	1,128,000	at HK$4.825	5,442,600	3,784,333	at HK$4.825	18,259,408
Granted on 16 December 2005						
– vested portion	2,123,833	at HK$8.6	18,264,964	3,450,218	at HK$8.6	29,671,876
Granted on 14 November 2008						
– vested portion	2,685,006	at HK$6.64	17,828,439	1,087,105	at HK$6.64	7,218,379
– unvested portion	2,117,994	at HK$7.98	16,910,115	3,913,395	at HK$7.97	31,191,596
Total (a)	8,054,833		58,446,118	12,235,051		86,341,259
Equivalent number of shares at the weighted average market price during the period (b)	8,054,833	at HK$13.10	105,518,312	12,235,051	at HK$9.41	115,131,835
Discount (b) – (a)			47,072,194			28,790,576
Equivalent number of shares deemed to have been issued at no consideration			3,593,297			3,059,572

Note: In addition to the exercise price of share options, included in the consideration for the unvested portion is the fair value of unvested share options.

	Unaudited Six months ended 30 June	
	2010	**2009**
Profit attributable to shareholders of the Company (US$'000)	12,430	18,460
Weighted average number of ordinary shares in issue (thousands)	321,643	317,703
Adjustments for share options (thousands)	3,593	3,060
Weighted average number of ordinary shares for diluted earnings per share (thousands)	325,236	320,763
Diluted earnings per share (US cents per share)	3.82	5.76

12 INTERIM DIVIDEND

	Unaudited Six months ended 30 June 2010 US$'000	2009 US$'000
Interim dividend- declared after the end of reporting period of 9 HK cents (equivalent to 1.16 US cents) (2009: 14 HK cents (equivalent to 1.81 US cents)) per share	3,758	5,778

At a meeting held on 12 August 2010, the directors declared an interim dividend of 9 HK cents (equivalent to 1.16 US cents) per share. The declared dividend is not reflected as a dividend payable in this condensed financial information, but will be reflected as an appropriation of reserve for the year ending 31 December 2010.

13 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

	Goodwill	Customer base and other acquired intangibles	Software costs	Total intangible assets	Property, plant and equipment
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Net book value at 1 January 2010	66,156	7,306	17,703	91,165	107,043
Additions	–	1,208	1,232	2,440	19,916
Disposals	–	–	–	–	(1,892)
Amortization/ depreciation charge	–	(370)	(1,572)	(1,942)	(9,623)
Adjustments on contingent consideration	(610)	–	–	(610)	–
Exchange difference	(1,243)	(51)	(26)	(1,320)	1,229
Net book value at 30 June 2010	64,303	8,093	17,337	89,733	116,673

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

A segment-level summary of the goodwill allocation is presented below:

	Unaudited 30 June 2010	Audited 31 December 2009
	US$'000	*US$'000*
Greater China	8,280	8,310
ASEAN	1,762	1,634
USA	31,736	31,736
UK	17,069	18,294
Others	5,456	6,182
	64,303	66,156

14 TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2010 US$'000	Audited 31 December 2009 US$'000
Trade receivables	235,681	240,404
Less: provision for impairment of receivables	(3,616)	(4,896)
Trade receivables, net *(Note (a))*	232,065	235,508
Other receivables, prepayments, and deposits	80,024	70,845
Due from related companies *(Note (b) & Note 22)*	9,281	11,884
Proceeds receivable on disposal of properties	–	7,082
Asset held for sale (Investment in an associated company)	–	1,755
	321,370	327,074
Less: non-current portion: prepayments and deposits	(11,318)	(10,775)
	310,052	316,299

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

	Unaudited 30 June 2010 US$'000	Audited 31 December 2009 US$'000
Current	163,852	175,415
Less than 90 days	59,399	55,058
91-180 days	7,031	3,623
181-360 days	1,459	1,142
Over 360 days	324	270
	232,065	235,508

The Group has written back US$390,000 (2009: US$59,000 loss) for the impairment of its trade receivables during the six months ended 30 June 2010. The write back has been included in distribution and logistics expenses in the condensed consolidated income statement.

(b) The amounts due from related companies are trade in nature. The trade balances were aged less than 90 days and the credit terms granted to related companies were no more favorable than those granted to other third party customers.

15 SHARE CAPITAL AND OPTIONS

	Number of shares (in thousand)	US$'000
Authorized:		
At 1 January 2010 and 30 June 2010, ordinary shares of US$0.1 each	1,000,000	100,000
Issued and fully paid:		
At 1 January 2010, ordinary shares of US$0.1 each	321,131	32,113
Exercise of share options	1,589	159
At 30 June 2010, ordinary shares of US$0.1 each	322,720	32,272

Share options

Details of the share option scheme are set out in the 2009 annual report. Movements in the number of share options outstanding and the exercise prices are as follows:

	30 June 2010		31 December 2009	
	Average exercise price HK$ per share	*Share options*	*Average exercise price HK$ per share*	*Share options*
At 1 January	14.823	25,281,500	13.999	25,091,000
Granted	–	–	12.776	5,115,000
Exercised	4.825	(763,000)	4.825	(2,474,000)
Exercised	8.600	(826,000)	8.600	(1,169,500)
Lapsed	4.825	(29,000)	4.825	(12,000)
Lapsed	8.600	–	8.600	(201,000)
Lapsed	15.100	(120,000)	15.100	(600,000)
Lapsed	25.550	(111,000)	25.550	(312,000)
Lapsed	6.640	(132,000)	6.640	(156,000)
Lapsed	12.776	(75,000)	–	–
At 30 June/ 31 December	15.386	23,225,500	14.823	25,281,500

Out of 23,225,500 outstanding options (2009: 25,281,500 options), 7,304,500 options were exercisable at 30 June 2010 (2009: 3,732,500 options). Subsequently, 1,635,000 shares have been allotted and issued under the Share Option Scheme up to 12 August 2010.

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

Expiry date	Exercise price	Share options 30 June 2010	Share options 31 December 2009
	HK$ per share		
31 December 2010	4.825	726,000	1,518,000
31 December 2010	8.600	619,500	804,500
31 December 2011	8.600	823,000	1,464,000
31 December 2010	15.100	1,370,000	1,410,000
31 December 2011	15.100	1,370,000	1,410,000
31 December 2012	15.100	1,370,000	1,410,000
31 December 2011	25.550	2,396,000	2,433,000
31 December 2012	25.550	2,396,000	2,433,000
31 December 2013	25.550	2,396,000	2,433,000
31 December 2012	6.640	1,573,000	1,617,000
31 December 2013	6.640	1,573,000	1,617,000
31 December 2014	6.640	1,573,000	1,617,000
31 December 2013	12.776	1,680,000	1,705,000
31 December 2014	12.776	1,680,000	1,705,000
31 December 2015	12.776	1,680,000	1,705,000
		23,225,500	25,281,500

16 BANK LOANS AND OTHER BORROWINGS

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

	Unaudited 30 June 2010	Audited 31 December 2009
	US$'000	*US$'000*
On demand and within one year		
Secured bank overdrafts	–	126
Unsecured bank overdrafts	17,848	12,926
Secured bank loans	3,251	2,532
Unsecured bank loans	74,771	44,873
Obligations under finance leases	1,406	1,402
	97,276	61,859
In the second to fifth year		
Secured bank loans	1,412	1,360
Unsecured bank loans	114,103	107,823
In the second to fifth year, by instalments		
Obligations under finance leases	1,446	2,271
	214,237	173,313

17 DEFERRED TAXATION

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

18 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2010 *US$'000*	**Audited 31 December 2009** *US$'000*
Trade payables *(Note (a))*	364,654	378,456
Other payables and accruals	125,243	140,323
Obligations on pension-defined contribution plans	1,052	1,293
Due to related companies *(Note (b) & Note 22)*	531	909
	491,480	520,981
Less: non-current portion: other payables and accruals	(5,776)	(7,747)
	485,704	513,234

Notes:

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

	Unaudited 30 June 2010 *US$'000*	**Audited 31 December 2009** *US$'000*
Less than 90 days	316,781	311,480
91-180 days	44,502	63,209
181-360 days	2,617	2,621
Over 360 days	754	1,146
	364,654	378,456

(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 by other third party suppliers.

19 NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Cash used in operations:

	Unaudited Six months ended 30 June	
	2010	**2009**
	US$'000	*US$'000*
Operating profit	19,810	24,803
Amortization of intangible assets	1,942	1,718
Depreciation charge	9,623	7,754
Amortization of prepaid operating lease payments	73	67
Gain on disposal of property	(451)	–
(Gain)/loss on disposal of plant and equipment	(68)	38
Gain on disposal/partial divestment of an associated company	(8,500)	(16,345)
Exchange gain on liquidation of a subsidiary	(1,522)	–
Gain on acquisition	–	(34)
Share option expenses	1,026	1,294
Operating profit before working capital changes	21,933	19,295
(Increase)/decrease in inventories	(8,647)	12,499
Increase in trade and other receivables	(3,643)	(802)
Decrease in trade and other payables	(28,981)	(42,898)
Net cash used in operations	(19,338)	(11,906)

20 CONTINGENT LIABILITIES

(a) Bank guarantees

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

	Unaudited 30 June 2010	**Audited 31 December 2009**
	US$'000	*US$'000*
For purchase of goods in favor of suppliers	27,705	23,669
For rental payment in favor of the landlords	11,772	10,582
As security in favor of local tax and customs authorities in accordance with local regulations	8,711	7,616
Performance bonds and others	2,533	1,570
	50,721	43,437

(b) The Company and two of its subsidiaries, IDS USA Inc. and IDS Group Limited, have been included as defendants in certain civil claims in the USA. The management of the Group has reviewed the facts and circumstances and is of the view that the likelihood of the Company and its subsidiaries suffering material loss is low.

21 COMMITMENTS

(a) Capital commitments in respect of:

	Unaudited 30 June 2010 US$'000	Audited 31 December 2009 US$'000
Property, plant and equipment		
Contracted but not provided for	3,964	1,971
Authorized but not contracted for	428	9,492
Intangible assets		
Contracted but not provided for	1,403	444
Authorized but not contracted for	46	248
	5,841	12,155

(b) **Commitments under operating leases**

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

	Buildings		Others	
	Unaudited 30 June 2010 US$'000	Audited 31 December 2009 US$'000	Unaudited 30 June 2010 US$'000	Audited 31 December 2009 US$'000
No later than one year	56,231	55,934	1,839	2,166
Later than one year and no later than five years	169,234	176,695	1,692	1,647
Later than five years	65,797	69,609	–	49
	291,262	302,238	3,531	3,862

22 SIGNIFICANT RELATED PARTY TRANSACTIONS

	Unaudited Six months ended 30 June	
	2010 US$'000	2009 US$'000
Income from provision of shipping, handling and other logistics services	12,044	9,472
Income from distribution and sales of goods	971	815
Rental received from	301	637
Rental paid to	2,853	2,290
Purchase of bedding related products	–	1,179

Related party transactions mainly comprised of the provision of shipping, handling and other logistics services to Li & Fung Limited, subsidiaries of Li & Fung (1937) Limited ("LF 1937") and companies controlled by LF 1937.

The recurring related party transactions were conducted in the normal course of business and on an arm's length basis.

Save as disclosed above and the directors' compensation, the Group had no material related party transactions during the period.

Related party balances

	Note	**Unaudited 30 June 2010** *US$'000*	**Audited 31 December 2009** *US$'000*
Due from	*(a)*		
– related parties		9,281	11,804
– associated companies		–	80
Due to	*(b)*		
– related parties		531	909

Notes:

(a) Period-end balances mainly 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) Period-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.

23 APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The condensed consolidated financial information was approved for issue by the Board of Directors on 12 August 2010.

4. INDEBTEDNESS STATEMENT

Borrowings

As at the close of business on 30 June 2010, being the latest practicable date for the purposes of this indebtedness statement, the IDS Group had secured bank loans of US$5 million, unsecured bank loans of US$189 million, unsecured bank overdrafts of US$18 million and obligations under finance leases of US$3 million. The secured bank loans were secured by certain land and buildings of IDS Group.

Contingent liabilities

(a) Bank guarantees

As at the close of business on 30 June 2010, being the latest practicable date for the purposes of this indebtedness statement, the IDS Group has counter-guaranteed the following outstanding bank guarantees issued by banks for normal business operations:

	US$'million
For purchase of goods in favour of suppliers	28
For rental payment in favor of the landlords	12
As security in favor of local tax and customs authorities in accordance with local regulations	9
Performance bonds and others	2
	51

(b) IDS and its subsidiaries in the United States have been included as defendants in certain civil claims, for an unspecified amount, in the United States. The management of IDS Group has reviewed the facts and circumstances and is of the view that the likelihood of IDS and its subsidiaries suffering material loss is low.

Save as aforesaid and apart from intra-group liabilities and normal trade debts payable, neither IDS nor any of its subsidiaries had, at the close of business of 30 June 2010, any material loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptance or acceptance credit, debentures, mortgages, charges, hire purchase or other finance lease commitments, guarantees or other material contingent liabilities.

5. MATERIAL CHANGES

The IDS Directors confirm that, there were no material changes in the financial or trading position or outlook of the IDS Group since 31 December 2009, the date to which the last published audited consolidated financial statements of the IDS Group were made up, up to the Latest Practicable Date.

1. FINANCIAL SUMMARY

The following summary financial information for each of the financial years ended 31 December 2007, 2008 and 2009 is extracted from the audited consolidated accounts of the Li & Fung Group prepared in accordance with Hong Kong Financial Reporting Standards as set out in the published annual reports of Li & Fung for the year ended 31 December 2008 and 2009. The unaudited consolidated half-year financial information of the Li & Fung Group for the six months ended 30 June 2009 and 2010 is extracted from the unaudited consolidated condensed interim financial information of the Li & Fung Group as set out in the published interim report of Li & Fung for the six months ended 30 June 2010.

The auditor's reports in respect of the Li & Fung Group's audited accounts for each of the years ended 31 December 2007, 2008 and 2009 issued by PricewaterhouseCoopers did not contain any qualifications.

RESULTS

	Six months ended 30 June		Year ended 31 December		
	2010	**2009**	**2009**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)			
Turnover	51,791,920	46,292,167	104,478,983	110,722,117	92,459,949
Profit before taxation	2,320,805	1,484,175	3,605,947	2,683,186	3,313,530
Taxation	(150,407)	(88,202)	(240,222)	(259,497)	(252,554)
Profit for the period/year	2,170,398	1,395,973	3,365,725	2,423,689	3,060,976
Profit attributable to:					
Li & Fung Shareholders	2,171,295	1,396,641	3,369,107	2,421,936	3,060,036
Non-controlling interests	(897)	(668)	(3,382)	1,753	940
	2,170,398	1,395,973	3,365,725	2,423,689	3,060,976
Earnings per share for profit attributable to Li & Fung Shareholders during the period/year					
Basic	57.5 HK cents	38.3 HK cents	91.0 HK cents	69.3 HK cents	89.5 HK cents
Diluted	56.9 HK cents	38.1 HK cents	90.6 HK cents	68.8 HK cents	88.3 HK cents
Dividend per share (interim/full year)	38 HK cents	26 HK cents	75 HK cents	57 HK cents	71 HK cents
Amount absorbed by dividend	1,449,106	978,494	2,833,743	2,031,155	2,446,525

SELECTED BALANCE SHEET ITEMS

	As at 30 June	As at 31 December		
	2010	**2009**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)			
Total assets	49,461,324	41,846,719	37,509,104	31,789,377
Total liabilities	30,900,729	24,120,528	24,126,750	21,925,113
Shareholders' funds attributable to Li & Fung Shareholders	18,595,182	17,759,646	13,412,074	9,895,317
Non-controlling interests	(34,587)	(33,455)	(29,720)	(31,053)

Note: There are no items which are exceptional because of its size, nature or incidence in the financial periods/years referred to above.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

The following financial information is extracted from the published audited consolidated financial statements of the Li & Fung Group for the year ended 31 December 2009.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2009

	Note	**2009** *HK$'000*	**2008** *HK$'000*
Turnover	3	104,478,983	110,722,117
Cost of sales		(92,406,211)	(99,119,132)
Gross profit		12,072,772	11,602,985
Other income		644,686	420,925
Total margin		12,717,458	12,023,910
Selling expenses		(2,009,543)	(2,396,245)
Merchandising expenses		(6,025,686)	(5,842,493)
Administrative expenses		(692,123)	(701,117)
Core operating profit	3	3,990,106	3,084,055
Other non-core operating expenses net of income	4	(110,600)	(39,639)
Operating profit	4	3,879,506	3,044,416
Interest income		90,763	112,748
Interest expenses	5	(372,109)	(480,175)
Share of profits less losses of associated companies		7,787	6,197
Profit before taxation		3,605,947	2,683,186
Taxation	6	(240,222)	(259,497)
Profit for the year		3,365,725	2,423,689
Attributable to:			
Shareholders of the Company	7	3,369,107	2,421,936
Minority interest		(3,382)	1,753
		3,365,725	2,423,689
Earnings per share for profit attributable to shareholders of the Company during the year			
– basic	8	91.0 HK cents	69.3 HK cents
– diluted	8	90.6 HK cents	68.8 HK cents

Details of dividends to shareholders of the Company are set out in *Note 9*.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009	2008
	HK$'000	*HK$'000*
Profit for the year	3,365,725	2,423,689
Other comprehensive income/(expense):		
Reversal of revaluation reserve on disposal of available-for-sale financial assets	–	(32,077)
Reversal of revaluation reserve on impairment of available-for-sale financial assets	–	4,942
Net fair value gains on cash flow hedges, net of tax	5,169	8,674
Net fair value gains on available-for-sale financial assets, net of tax	1,297	–
Currency translation differences	35,751	(485,768)
Other comprehensive income/(expense) for the year, net of tax	42,217	(504,229)
Total comprehensive income for the year	3,407,942	1,919,460
Attributable to:		
– Shareholders of the Company	3,411,180	1,918,310
– Minority interest	(3,238)	1,150
Total comprehensive income for the year	3,407,942	1,919,460

CONSOLIDATED BALANCE SHEET

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Intangible assets	12	18,202,527	14,602,129
Property, plant and equipment	13	1,255,705	1,283,063
Prepaid premium for land leases	14	2,426	2,548
Associated companies	16	28,251	23,740
Available-for-sale financial assets	17	720,184	20,189
Deferred tax assets	29	58,180	111,441
		20,267,273	16,043,110
Current assets			
Inventories	18	2,382,632	2,328,948
Due from related companies	19	98,706	83,954
Trade and bills receivable	21	12,561,374	14,715,430
Other receivables, prepayments and deposits	21	2,331,847	2,027,576
Derivative financial instruments	20	2,620	34,814
Cash and bank balances	22	4,202,267	2,275,272
		21,579,446	21,465,994
Current liabilities			
Trade and bills payable	23	12,005,113	12,666,975
Accrued charges and sundry payables	23	3,120,427	2,771,908
Balance of purchase consideration payable for acquisitions to be settled by cash	27	1,138,668	1,178,118
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	27	323,700	81,278
Taxation		520,969	465,727
Bank advances for discounted bills	21	302,123	312,693
Short-term bank loans	24	–	278,217
Bank overdrafts	22, 24	47,315	93,307
		17,458,315	17,848,223
Net current assets		4,121,131	3,617,771
Total assets less current liabilities		24,388,404	19,660,881

	Note	2009 HK$'000	2008 HK$'000
Financed by:			
Share capital	25	94,403	90,853
Reserves		15,810,930	12,121,852
Proposed dividend		1,854,313	1,199,369
		17,665,243	13,321,221
Shareholders' funds attributable to the Company's shareholders		17,759,646	13,412,074
Minority interest		(33,455)	(29,720)
Total equity		17,726,191	13,382,354
Non-current liabilities			
Long-term liabilities	27	6,425,251	5,760,075
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	27	140,350	382,772
Post-employment benefit obligations	28	25,766	23,766
Deferred tax liabilities	29	70,846	111,914
		6,662,213	6,278,527
		24,388,404	19,660,881

BALANCE SHEET

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Interests in subsidiaries	15	2,359,597	2,359,597
Current assets			
Due from related companies	19	19,751,099	16,534,019
Other receivables, prepayments and deposits	21	1,463	1,932
Cash and bank balances	22	1,744	41,543
		19,754,306	16,577,494
Current liabilities			
Accrued charges and sundry payables	23	31,124	34,259
		31,124	34,259
Net current assets		19,723,182	16,543,235
Total assets less current liabilities		22,082,779	18,902,832
Financed by:			
Share capital	25	94,403	90,853
Reserves	26	16,261,738	13,744,036
Proposed dividend	26	1,854,313	1,199,369
		18,116,051	14,943,405
Shareholders' funds		18,210,454	15,034,258
Non-current liabilities			
Long-term liabilities	27	3,872,325	3,868,574
		22,082,779	18,902,832

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to shareholders of the Company						
	Share capital *HK$'000*	Share premium *HK$'000*	Other reserves *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*	Minority interest *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2009	90,853	11,140,378	(506,457)	2,687,300	13,412,074	(29,720)	13,382,354
Comprehensive income							
Profit or loss	–	–	–	3,369,107	3,369,107	(3,382)	3,365,725
Other comprehensive income							
Currency translation differences	–	–	35,607	–	35,607	144	35,751
Net fair value gains on available-for-sale financial assets, net of tax	–	–	1,297	–	1,297	–	1,297
Net fair value gains on cash flow hedges, net of tax	–	–	5,169	–	5,169	–	5,169
Total other comprehensive income	–	–	42,073	3,369,107	3,411,180	(3,238)	3,407,942
Total comprehensive income	90,853	11,140,378	(464,384)	6,056,407	16,823,254	(32,958)	16,790,296
Transactions with owners							
Employee share option scheme:							
– value of employee services	–	–	126,688	–	126,688	–	126,688
– proceeds from shares issued	543	306,763	–	–	307,306	–	307,306
– transfer to share premium	–	56,763	(56,763)	–	–	–	–
Transfer to capital reserve	–	–	1,850	(1,850)	–	–	–
2008 final dividend paid	–	–	–	(1,199,839)	(1,199,839)	(497)	(1,200,336)
2009 interim dividend paid	–	–	–	(979,430)	(979,430)	–	(979,430)
Issue of shares upon a private placing	3,007	2,678,660	–	–	2,681,667	–	2,681,667
Total transactions with owners	3,550	3,042,186	71,775	(2,181,119)	936,392	(497)	935,895
Balance at 31 December 2009	94,403	14,182,564	(392,609)	3,875,288	17,759,646	(33,455)	17,726,191

	Attributable to shareholders of the Company						
	Share capital HK$'000	Share premium HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Minority interest HK$'000	Total equity HK$'000
Balance at 1 January 2008	86,268	7,037,463	(55,007)	2,826,593	9,895,317	(31,053)	9,864,264
Comprehensive income							
Profit or loss	–	–	–	2,421,936	2,421,936	1,753	2,423,689
Other comprehensive income							
Currency translation differences	–	–	(485,165)	–	(485,165)	(603)	(485,768)
Reversal of revaluation reserve on disposal of available-for-sale financial assets	–	–	(32,077)	–	(32,077)	–	(32,077)
Reversal of revaluation reserve on impairment of available-for-sale financial assets	–	–	4,942	–	4,942	–	4,942
Net fair value gains on cash flow hedges, net of tax	–	–	8,674	–	8,674	–	8,674
Total other comprehensive income	–	–	(503,626)	2,421,936	1,918,310	1,150	1,919,460
Total comprehensive income	86,268	7,037,463	(558,633)	5,248,529	11,813,627	(29,903)	11,783,724
Transactions with owners							
Acquisition of subsidiaries	–	–	–	–	–	183	183
Employee share option scheme:							
– value of employee services	–	–	85,747	–	85,747	–	85,747
– proceeds from shares issued	385	193,303	–	–	193,688	–	193,688
– transfer to share premium	–	35,055	(35,055)	–	–	–	–
Transfer to capital reserve	–	–	1,484	(1,484)	–	–	–
2007 final dividend paid	–	–	–	(1,727,959)	(1,727,959)	–	(1,727,959)
2008 interim dividend paid	–	–	–	(831,786)	(831,786)	–	(831,786)
Issue of shares upon a private placing	4,200	3,874,557	–	–	3,878,757	–	3,878,757
Total transactions with owners	4,585	4,102,915	52,176	(2,561,229)	1,598,447	183	1,598,630
Balance at 31 December 2008	90,853	11,140,378	(506,457)	2,687,300	13,412,074	(29,720)	13,382,354

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Operating activities			
Net cash inflow generated from operations	30(a)	6,922,244	3,824,557
Hong Kong profits tax paid		(58,876)	(165,040)
Overseas taxation paid		(109,966)	(81,914)
Net cash inflow from operating activities		6,753,402	3,577,603
Investing activities			
Purchase of property, plant and equipment		(393,094)	(494,058)
Disposal of property, plant and equipment		31,948	21,969
Addition of available-for-sale financial assets	17	(702,000)	–
Disposal of available-for-sale financial assets		333	51,362
Disposal of an associated company	16	128	–
Payment for computer software and system development costs		(182,359)	(17,596)
Acquisitions of subsidiaries/businesses	31	(2,435,637)	(2,456,976)
Settlement of consideration payable for acquisitions of subsidiaries/businesses		(1,013,158)	(919,435)
Advance to associated companies		–	(12,265)
Interest received		90,763	112,748
Dividends received from associated companies	16	3,148	2,875
Purchase of intangible assets		(78,521)	–
Net cash outflow from investing activities		(4,678,449)	(3,711,376)
Net cash inflow/(outflow) before financing activities		2,074,953	(133,773)
Financing activities			
Net proceeds from issue of shares	30(b)	2,988,973	4,072,445
Net (repayment)/drawdown of bank loans	30(b)	(512,447)	70,651
Interest paid		(320,161)	(400,064)
Dividends paid		(2,179,766)	(2,559,745)
Net cash (outflow)/inflow from financing		(23,401)	1,183,287
Increase in cash and cash equivalents		2,051,552	1,049,514
Cash and cash equivalents at 1 January		2,181,965	1,267,104
Effect of foreign exchange rate changes		(78,565)	(134,653)
Cash and cash equivalents at 31 December		4,154,952	2,181,965
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	22	4,202,267	2,275,272
Bank overdrafts	22	(47,315)	(93,307)
		4,154,952	2,181,965

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The consolidated accounts of Li & Fung Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). They have been prepared under the historical cost convention, as modified by the available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of accounts in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in *Note 2*.

Changes in accounting policy and disclosures

(a) New standards and amendments effective in 2009

The Group has adopted the following new and amended standards of HKFRS which are mandatory for accounting periods beginning on or after 1 January 2009 and relevant to its operations:

HKAS 1 (revised)	Presentation of financial statements
HKFRS 1 and HKAS 27 (amendment)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 7 (amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
Annual Improvements Project	Improvements to HKFRSs 2008

The adoption of such new and amended standards does not have material impact on the consolidated accounts and does not result in substantial changes to the Group's accounting policies except certain changes on the presentation of the consolidated accounts.

- HKAS 1 (revised), "Presentation of financial statements". The revised standard prohibits the presentation of items of income and expenses (that is "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement.

  Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated profit and loss account and consolidated statement of comprehensive income).

  The Group has elected to present two statements: a consolidated profit and loss account and a consolidated statement of comprehensive income. The consolidated accounts have been prepared under the revised disclosure requirements.

- HKFRS 8, "Operating segments". HKFRS 8 replaces HKAS 14, "Segment reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes.

  Operating segments are reported in a manner consistent with the internal reporting provided to management.

Goodwill is allocated by management to groups of cash-generating units on a segment level. The adoption of HKFRS 8 has not resulted in any changes in reportable segment or additional goodwill impairment. There has been no further impact on the measurement of the Group's assets and liabilities.

- Amendment to HKFRS 7, "Financial instruments: disclosures". The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. This amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. The consolidated accounts have been prepared under the revised disclosure requirements.

The following new and amended standards and interpretations of HKFRS are mandatory for accounting periods beginning on or after 1 January 2009 but they are not relevant to the Group's operations:

HKAS 23 (revised)	Borrowing costs
HKAS 32 and HKAS 1 (amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 2 (amendment)	Share-based payment – Vesting conditions and cancellations
HK(IFRIC) – Int 13	Customer loyalty programmes
HK(IFRIC) – Int 15	Agreements for the construction of real estate
HK(IFRIC) – Int 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – Int 18	Transfer of assets from customers

(b) Amendment to standard early adopted by the Group

The Group has early adopted the following amendment to standard addressed by annual improvements project:

Improvements to HKFRSs 2009	HKFRS 8 Operating segments – Disclosure of information about segment assets

The amendment to the standard clarifies that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker. Accordingly, segment assets have not been disclosed in the accounts as it is not reported to the chief operating decision-maker.

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

HKFRS 1 (revised)	First-time adoption of HKFRS[2]
HKFRS 1 (amendment)	Additional exemptions for first-time adopters[3]
HKFRS 2 (amendment)	Group cash-settled share-based payment transactions[3]
HKFRS 3 (revised)	Business combinations[2]
HKFRS 9	Financial instruments[7]

HKAS 24 (revised)	Related party disclosures[6]
HKAS 27 (revised)	Consolidated and separate financial statements[2]
HKAS 32 (amendment)	Classification of rights issue[4]
HKAS 39 (amendment)	Eligible hedged items[2]
HK(IFRIC) – Int 9 and HKAS 39 Amendments	Embedded derivatives[1]
HK(IFRIC) – Int 14	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – Int 17	Distributions of non-cash assets to owners[2]
HK(IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments[5]
Annual Improvements Project	Improvements to HKFRSs 2009[3] except for amendment to HKFRS 8

Notes:

(1) Effective for financial periods beginning on or after 30 June 2009

(2) Effective for financial periods beginning on or after 1 July 2009

(3) Effective for financial periods beginning on or after 1 January 2010

(4) Effective for financial periods beginning on or after 1 February 2010

(5) Effective for financial periods beginning on or after 1 July 2010

(6) Effective for financial periods beginning on or after 1 January 2011

(7) Effective for financial periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 3 (revised), HKAS 27 (revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Further information about those changes that are expected to affect the Group is as follows:

HKFRS 3 (revised), 'Business combinations'. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated profit and loss account. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

HKAS 27 (revised), 'Consolidated and separate financial statements'. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. The Group will apply HKAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

1.2 Consolidation

The consolidated accounts include the accounts 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 values 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 1.6)*. 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 consolidated profit and loss account.

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 and financial information 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 *(Note 1.7)*. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Transactions with 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 profit and loss account. 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) Associated companies

Associated companies 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 associated companies are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition *(Note 1.6)*.

The Group's share of its associated companies' post-acquisition profits or losses is recognized in the consolidated profit and loss account, 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.

Unrealized gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognized in the consolidated profit and loss account.

1.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources, assessing performance of the operating segments and makes strategic decisions.

1.4 Foreign currency transaction

(a) Functional and presentation currency

Items included in the accounts 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 accounts are presented in Hong Kong 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 consolidated profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale 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 consolidated profit and loss account 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 operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated profit and loss account 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.

1.5 Property, plant and equipment

(a) Land and buildings

Freehold land is stated at cost less impairment.

Buildings are stated at cost less accumulated depreciation and accumulated impairment losses.

(b) Other property, plant and equipment

Other property, plant and equipment, comprising leasehold improvements, furniture, fixtures and equipment, plant and machinery, motor vehicles and company boat, are stated at cost less accumulated depreciation and accumulated impairment losses.

(c) Depreciation and impairment

Freehold land is not depreciated. Other property, plant and equipment are depreciated at rates sufficient to allocate their costs less accumulated impairment losses to their residual values over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings and leasehold improvements	2% – 20%
Furniture, fixtures and equipment	10% – 33⅓%
Plant and machinery	10% – 15%
Motor vehicles and company boat	15% – 20%

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 *(Note 1.7)*. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are expensed in the consolidated profit and loss account during the financial period in which they are incurred.

(d) Gain or loss on disposal

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant item, and is recognized in the consolidated profit and loss account.

1.6 Intangible assets

(a) 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/associated company at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies is included in interests in associated companies and is tested annually for impairment as part of the overall balance. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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 identified according to operating segment.

(b) Computer software and system development costs

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful lives of 3 to 10 years.

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the development 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. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

System development costs recognized as assets are amortized over their estimated useful lives of 3 to 10 years.

(c) Other intangible assets arising from business combinations

Intangible assets, other than goodwill, identified on business combinations are capitalized at their fair values. They represent mainly trademarks, buying agency agreement secured, relationship with customers and licensors. Intangible assets arising from business combinations with definite useful lives are amortized on a straight-line basis from the date of acquisition over their estimated useful lives ranging from 5 to 20 years.

(d) Brand licenses

Brand licenses are license contracts entered into with the brand-holders by the Group in the capacity as licensee. Brand licenses are capitalized based on the upfront costs incurred and the present value of guaranteed royalty payments to be made subsequent to the inception of the license contracts. Brand licenses are amortized based on expected usage from the date of first commercial usage over the remaining licence periods ranging from approximately 1 to 3 years.

1.7 Impairment of investments in subsidiaries, associated companies and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets 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.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

1.8 Financial assets

Classification

The Group classifies its financial assets as either loans and receivables or available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) 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 are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and bills receivable", "other receivables" and "deposits, cash and bank balances" and "amount due from related companies" in the balance sheet *(Note 1.11)*.

(b) 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 other category. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in consolidated profit or loss; translation differences on non-monetary securities are recognized in other comprehensive income. Changes in the fair values of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated profit and loss account as net investment loss.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the consolidated profit and loss account as part of interest income. Dividends on available-for-sale equity instruments are recognized in the consolidated profit and loss account as part of other revenues when the Group's right to receive payments is established.

1.9 Impairment of financial assets

(a) Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the consolidated profit and loss account. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated profit and loss account.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the separate consolidated profit and loss account. Impairment losses recognized in the separate consolidated profit and loss account on equity instruments are not reversed through the separate consolidated profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the separate consolidated profit and loss account.

1.10 Inventories

Inventories comprise raw materials and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on a first-in, first-out (FIFO) basis, comprises purchase prices of inventories and direct costs (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

1.11 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. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current asset. If not, they are presented as non-current assets. 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated profit and loss account within selling expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling expenses in the consolidated profit and loss account.

1.12 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

1.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

1.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated profit and loss account over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

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.

1.15 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred 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 tax is provided on temporary differences arising on investments in subsidiaries, associates, 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.

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 taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.16 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave entitlements as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(b) *Discretionary bonus*

The expected costs of discretionary bonus payments are recognized as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for discretionary bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(c) *Post employment benefit obligations*

The Group participates in a number of defined contribution plans and defined benefit plans throughout the world, the assets of which are generally held in separate trustee – administrated funds. The defined benefit pension plans are generally funded by payments from employees and by the relevant Group companies, taking into account of the recommendations of independent qualified actuaries.

The Group's contributions to the defined contribution plans are charged to the consolidated profit and loss account in the year to which the contributions relate.

For defined benefit plans, pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans on an annual basis. The pension obligation is measured as the present value of the estimated future cash outflows, discounted by reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities. Actuarial gains and losses are recognized over the average remaining service lives of employees.

The Group's net obligation in respect of long service payments on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The obligation is calculated using the projected unit credit method by a qualified actuary. The discount rate is determined by reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities.

(d) *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:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sale, growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates on the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the consolidated profit and loss account, with a corresponding adjustment to employee share-based compensation reserve.

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.

1.17 Provisions

Provisions 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. 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

1.18 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

1.19 Total margin

Total margin includes trading gross profit and other recurring revenues relating to the trading business.

1.20 Core operating profit

Core operating profit is the recurring profit generated from the Group's trading business which includes profit before share of results of associated companies, interest income, finance costs and tax, but excludes material gain or loss which are of capital nature or non-recurring nature (such as gain or loss on disposal or impairment provision of property, plant and equipment, investments, goodwill or other assets).

1.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue on the sale of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has been passed.

Operating lease rental income is recognized on a straight-line basis.

Interest income is recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognized when the right to receive payment is established.

Other income are recognized when the services are rendered.

1.22 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset.

All other borrowing costs are charged to the consolidated profit and loss account in the year in which they are incurred.

1.23 Operating leases

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 charged to the consolidated profit and loss account on a straight-line basis over the period of the lease.

1.24 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognized liability or a highly probable forecast transaction (cash flow hedge).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Movements on the hedging reserve in shareholders' equity are shown in Note 26. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. Trading derivatives are classified as a current asset or liability.

(a) *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated profit and loss account.

Amounts accumulated in equity are recycled in the consolidated profit and loss account in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognized in the consolidated profit and loss account within sales. The gain or loss relating to the ineffective portion is recognized in the consolidated profit and loss account within other gains/(losses) – net. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in case of inventory, or in depreciation in case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated profit and loss account.

(b) *Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognized immediately in the consolidated profit and loss account.

1.25 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

1.26 Dividend distribution

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

1.27 Shares held by escrow agent for settlement of acquisition consideration

In relation to certain business combinations, the Company issues shares to escrow agents for the settlement of acquisition consideration payables to the vendors in future years. The shares, valued at the agreed upon issue price, including any directly attributable incremental costs, are presented as "Shares held by escrow agent for settlement of acquisition consideration" and deducted from total equity. The number of shares held by escrow agent for settlement of acquisition consideration would be eliminated against the corresponding number of share capital issued in the calculation of the earnings per share for profit attributable to the shareholders of the Company.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in *Note 1.6*. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates *(Note 12)*.

(b) Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 when determining whether an investment in available-for-sale financial assets is other than temporarily impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the expected time span the Group will hold on to this investment. Based on the Group's estimation, impairment provisions of approximately HK$2,969,000 have been made on certain listed available-for-sale financial assets *(Note 17)* during the current year.

(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.

3 SEGMENT INFORMATION

The Group is principally engaged in export trading of consumer products. The Group operates globally and has a sourcing network composing over 80 offices in more than 40 economies. Turnover represents revenue generated from sales at invoiced value to customers outside the Group less discounts and returns.

The Company is domiciled in Bermuda. The Group's management considers the business principally from a geographical perspective. Business reportable operating segments identified are geographical areas which the customers locate such as United States of America, Europe, Canada, Australasia, Central and Latin America and Rest of the world.

The Group's management assesses the performance of the operating segments based on a measure of operating profit. This measurement basis includes profit of the operating segments before share of results of associated companies, interest income, interest expenses and tax, but excludes material gain or loss which is of capital nature or non recurring nature such as gain or loss on disposal or impairment provision on property, plant and equipment, investments, goodwill or other assets. Other information provided to the Group's management is measured in a manner consistent with that in the accounts.

	Turnover		Operating profit		Depreciation & amortization		Non-current assets (other than available-for-sale financial assets and deferred tax assets)	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Principal markets:								
United States of America	66,801,866	68,376,444	2,983,886	2,100,342	399,336	381,091	13,861,401	10,714,700
Europe	28,503,892	32,245,042	683,497	626,735	117,579	78,140	4,705,639	4,400,217
Canada	3,035,972	3,284,379	115,394	120,370	7,003	7,525	273,559	246,695
Australasia	2,616,712	2,684,857	97,915	96,616	5,329	5,605	139,355	86,159
Central and Latin America	1,267,768	1,713,028	51,069	61,139	3,545	3,799	139,392	101,829
Rest of the world	2,252,773	2,418,367	58,345	78,853	7,619	6,068	369,563	361,880
	104,478,983	110,722,117	3,990,106	3,084,055	540,411	482,228	19,488,909	15,911,480
Other non-core operating expenses net of income			(110,600)	(39,639)				
			3,879,506	3,044,416				
Interest income			90,763	112,748				
Interest expenses			(372,109)	(480,175)				
Share of profits less losses of associated companies			7,787	6,197				
Profit before taxation			3,605,947	2,683,186				
Taxation			(240,222)	(259,497)				
Profit for the year			3,365,725	2,423,689				

Turnover consists of sales of softgoods and hardgoods as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Softgoods	73,224,132	73,123,809
Hardgoods	31,254,851	37,598,308
	104,478,983	110,722,117

For the year ended 31 December 2009, approximately 14% (2008: 12%) of the Group's turnover is derived from a single external customer. This turnover is attributable to United States of America segment.

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2009 *HK$'000*	2008 *HK$'000*
Crediting		
Gain on disposal of available-for-sale financial assets	–	27,905
Net exchange gains	75,183	60,826
Charging		
Cost of inventories sold	92,406,211	99,119,132
Amortization of computer software and system development costs	11,580	10,853
Amortization of brand licenses	116,203	153,281
Amortization of other intangible assets arising from business combinations	107,631	52,860
Amortization of prepaid premium for land leases	123	122
Depreciation of property, plant and equipment	304,874	265,112
Loss on disposal of property, plant and equipment	9,643	8,728
Loss on disposal of subsidiaries	–	2,326
Loss on disposal of intangible assets	1,039	–
Provision for impairment of available-for-sale financial assets *(Note 17)*	2,969	14,684
Operating leases rental in respect of land and building	467,039	445,682
Bad debt written off/provision for impaired receivables *(Note 21)*	147,394	212,241
Staff costs including directors' emoluments *(Note 10)*	4,848,386	4,682,612

The remuneration to the auditors for audit and non-audit services is as follows:

Audit services	21,100	19,108
Non-audit services		
– due diligence review on acquisitions	7,458	11,176
– taxation services	11,615	5,618
– others	1,262	1,149
Total remuneration to auditors	41,435	37,051
Less : non-audit service fee capitalized as costs of business combinations	(5,328)	(11,176)
Net remuneration to auditors charged to consolidated profit and loss account	36,107	25,875

Note: Of the above audit and non-audit services fees, HK$20,497,000 (2008: HK$18,904,000) and HK$20,335,000 (2008: HK$17,943,000) respectively are payable to the Company's auditor.

5 INTEREST EXPENSES

	2009	2008
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts, long-term notes		
– wholly repayable within five years	105,661	185,564
– not wholly repayable within five years	214,500	214,500
Effective interest on other financial liabilities		
– wholly repayable within five years	48,197	76,359
– not wholly repayable within five years	3,751	3,752
	372,109	480,175

6 TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit for the year. 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 profit and loss account represents:

	2009	2008
	HK$'000	*HK$'000*
Current taxation		
– Hong Kong profits tax	87,653	149,193
– Overseas taxation	126,814	107,837
Underprovision in prior years	11,964	8,134
Deferred taxation *(Note 29)*	13,791	(5,667)
	240,222	259,497

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2009	2008
	%	%
Calculated at a taxation rate of	16.5	16.5
Effect of different taxation rates in other countries	(2.1)	(0.7)
Income net of expenses not subject to taxation	(10.6)	(7.4)
Utilization of previously unrecognized tax losses	(0.4)	(0.2)
Unrecognized tax losses	3.3	1.5
Effective tax rate	6.7	9.7

As of the date of approval of the accounts, the Group has disputes with the Hong Kong Inland Revenue ("HKIR") involving additional tax assessments amounting to approximately HK$1,924 million on both the non-taxable claim of certain non-Hong Kong sourced income ("Offshore Claim") and the deduction claim of marketing expenses ("Deduction Claim") for the years of assessment from 1992/1993 to 2008/2009.

The Commissioner of the HKIR issued a determination on 14 June 2004 to one of its subsidiaries, Li & Fung (Trading) Limited ("LFT"), confirming additional tax assessments totalling HK$333 million relating to the years of assessment from 1992/93 to 2001/02. Under further legal advice from the Group's counsel, the directors believe that the Group has meritorious defence to appeal against the Commissioner's determination. Accordingly, LFT served a notice of appeal to the Board of Review on 13 July 2004. The appeal was heard before the Board of Review in January 2006.

The Board of Review issued its decision on 12 June 2009 ("the Board of Review Decision") and held partially in favour of LFT. It agreed that the Offshore Claim for the years of assessment from 1992/93 to 2001/02 is valid. In other words, the relevant assessments in respect of such Offshore Claim shall be annulled. On the other hand, the Board of Review disagreed with the Deduction Claim for the years of assessment from 1992/93 to 2001/02. Therefore, the relevant assessments in respect of such Deduction Claim should be confirmed.

The Group has considered the reasoning of the Board of Review Decision and, having obtained professional advice, decided to lodge an appeal against the Board of Review Decision in respect of the Deduction Claim. An application requiring the Board of Review to state a case on questions of law for the opinion of the High Court was made by LFT on 10 July 2009.

On the other hand, the HKIR also lodged an appeal against the Board of Review Decision in respect of the Offshore Claim. An application requiring the Board of Review to state a case on questions of law for the opinion of the High Court was made by the HKIR on 10 July 2009.

The Board of Review has on 19 March 2010 stated a case on questions of law in respect of both LFT's appeal in respect of the Deduction Claim, and the HKIR's appeal in respect of the Offshore Claim. LFT and HKIR can transmit the stated case to the High Court for determination by 7 April 2010.

Based on the assessment of the Group's legal counsel on the merit of LFT's further appeal in respect of the Deduction Claim and the HKIR's further appeal in respect of the Offshore Claim, and having taken into account the impact and ramification which the Board of Review Decision has on the tax affairs of LFT, the directors consider that no material tax liabilities will finally crystallize and sufficient tax provision has been made in the accounts in this regard.

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK$2,239,804,000 (2008: HK$2,221,120,000).

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$3,369,107,000 (2008: HK$2,421,936,000) and on the weighted average number of 3,701,265,000 (2008: 3,496,003,000) shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of 3,701,265,000 (2008: 3,496,003,000) ordinary shares in issue by 18,688,000 (2008: 24,345,000) to assume conversion or all dilutive potential ordinary shares granted under the Company's Option Scheme. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

9 DIVIDENDS

	2009	2008
	HK$'000	*HK$'000*
Interim, paid, of HK$0.26 (2008: HK$0.24) per ordinary share	979,430	831,786
Final, proposed, of HK$0.49 (2008: HK$0.33) per ordinary share	1,854,313	1,199,369
	2,833,743	2,031,155

At a meeting held on 24 March 2010, the Directors proposed a final dividend of HK$0.49 per share. The proposed dividends are not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2010 *(Note 26)*.

10 STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

	2009	2008
	HK$'000	*HK$'000*
Salaries and bonuses	4,246,204	4,137,960
Staff benefits	302,615	278,632
Pension costs of defined contribution plans	165,065	167,932
Employee share option expenses	126,688	85,747
Pension costs of defined benefits plans *(Note 28)*	5,704	11,829
Long service payments	2,110	512
	4,848,386	4,682,612

Forfeited contributions totalling HK$13,884,000 (2008: HK$4,324,000) were utilized during the year and no remaining amount was available at the year-end to reduce future contributions.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and senior management emoluments

The remuneration of every Director for the year ended 31 December 2009 is set out below:

	2009					
Name of Director	Fees	Salary	Discretionary bonuses	Other Benefits *(Note)*	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors						
William Fung Kwok Lun	89	4,800	18,036	–	12	22,937
Bruce Philip Rockowitz	83	4,460	18,018	423	12	22,996
Annabella Leung Wai Ping	83	3,900	6,519	–	12	10,514
Spencer Theodore Fung	83	1,664	1,070	–	12	2,829
Non-executive Directors						
Victor Fung Kwok King	379	–	–	–	–	379
Paul Edward Selway-Swift	250	–	–	–	–	250
Allan Wong Chi Yun	220	–	–	–	–	220
Franklin Warren McFarlan	170	–	–	–	–	170
Makoto Yasuda	170	–	–	–	–	170
Martin Tang Yue Nien	156	–	–	–	–	156

	2008					
Name of Director	Fees	Salary	Discretionary bonuses	Other Benefits *(Note)*	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors						
William Fung Kwok Lun	89	4,800	24,725	–	12	29,626
Bruce Philip Rockowitz	83	4,460	20,589	524	12	25,668
Henry Chan	83	3,900	10,995	201	12	15,191
Danny Lau Sai Wing	83	3,900	9,792	–	12	13,787
Annabella Leung Wai Ping	83	3,900	6,338	4	12	10,337
Spencer Theodore Fung	43	1,664	200	–	12	1,919
Non-executive Directors						
Victor Fung Kwok King	379	–	–	–	–	379
Paul Edward Selway-Swift	250	–	–	–	–	250
Allan Wong Chi Yun	220	–	–	–	–	220
Franklin Warren McFarlan	170	–	–	–	–	170
Makoto Yasuda	170	–	–	–	–	170
Lau Butt Farn	33	–	–	–	–	33

Note: Other benefits include leave pay, insurance premium and club membership.

During the year, following Shares were issued to certain directors of the Company pursuant to exercise of Share Options under the Option Scheme:

(a) 100,000 (2008: 1,396,000) Shares at an exercise price of HK$13.45 with exercisable period from 20 June 2008 to 19 June 2011.

(b) 1,460,000 (2008: Nil) Shares at an exercise price of HK$13.45 with exercisable period from 20 June 2009 to 19 June 2012.

As at 31 December 2009, certain directors held the following Share Options to acquire Shares of the Company:

(a) 440,000 (2008: 1,420,000) at an exercise price of HK$13.45 with exercisable period from 20 June 2008 to 19 June 2011;

(b) 476,000 (2008: 2,816,000) at an exercise price of HK$13.45 with exercisable period from 20 June 2009 to 19 June 2012;

(c) 1,956,000 (2008: 2,856,000) at an exercise price of HK$25.55 with exercisable period from 1 March 2009 to 28 February 2011;

(d) 1,956,000 (2008: 2,856,000) at an exercise price of HK$25.55 with exercisable period from 1 March 2010 to 29 February 2012; and

(e) 1,956,000 (2008: 2,856,000) at an exercise price of HK$25.55 with exercisable period from 1 March 2011 to 28 February 2013.

The closing market price of the Shares as at 31 December 2009 was HK$32.25.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2008: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals (2008: one) during the year are as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits-in-kind	13,093	4,526
Discretionary bonuses	27,545	12,936
Contributions to pension scheme	36	12
	40,674	17,474

	Number of individuals	
Emolument bands	*2009*	*2008*
HK$12,000,001 – HK$12,500,000	1	–
HK$13,500,001 – HK$14,000,000	1	–
HK$15,000,001 – HK$15,500,000	1	–
HK$17,000,001 – HK$17,500,000	–	1

12 INTANGIBLE ASSETS

	The Group								
	Goodwill	Buying agency agreement	Customer relationships	Licensor relationships	Trademarks	Brand licenses	Computer software and system development costs	Other intangible assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009									
Cost	12,923,819	255,060	528,432	226,200	538,200	304,577	107,984	14,820	14,899,092
Accumulated amortization	–	(22,318)	(27,690)	(21,970)	–	(172,336)	(52,649)	–	(296,963)
Net book amount	12,923,819	232,742	500,742	204,230	538,200	132,241	55,335	14,820	14,602,129
Year ended 31 December 2009									
Opening net book amount	12,923,819	232,742	500,742	204,230	538,200	132,241	55,335	14,820	14,602,129
Exchange differences	97,471	–	–	–	1	–	22	–	97,494
Acquisition of subsidiaries/businesses *(Note 31)*	2,333,121	63,180	279,162	–	200,847	310,554	–	–	3,186,864
Adjustments to purchase consideration and net asset value*	163,407	–	–	–	(132,600)	–	–	–	30,807
Transfer from property, plant and equipment *(Note 13)*	–	–	–	–	–	–	98,856	–	98,856
Additions	–	156,521	–	–	–	83,950	182,359	–	422,830
Disposals	–	–	–	–	–	–	(1,039)	–	(1,039)
Amortization	–	(15,561)	(50,315)	(18,566)	(21,076)	(116,203)	(11,580)	(2,113)	(235,414)
Closing net book amount	15,517,818	436,882	729,589	185,664	585,372	410,542	323,953	12,707	18,202,527
At 31 December 2009									
Cost	15,517,818	474,761	807,594	226,200	606,479	699,081	387,243	14,820	18,733,996
Accumulated amortization	–	(37,879)	(78,005)	(40,536)	(21,107)	(288,539)	(63,290)	(2,113)	(531,469)
Net book amount	15,517,818	436,882	729,589	185,664	585,372	410,542	323,953	12,707	18,202,527

* Adjustments to purchase considerations and net asset values related to certain acquisitions of subsidiaries/businesses in prior years, but previously determined on a provisional basis.

	The Group								
	Goodwill	Buying agency agreement	Customer relationships	Licensor relationships	Trademarks	Brand licenses	Computer software and system development costs	Other intangible assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008									
Cost	10,489,257	255,060	283,395	226,200	–	110,788	99,658	–	11,464,358
Accumulated amortization	–	(9,565)	(6,411)	(3,142)	–	(19,055)	(51,548)	–	(89,721)
Net book amount	10,489,257	245,495	276,984	223,058	–	91,733	48,110	–	11,374,637
Year ended 31 December 2008									
Opening net book amount	10,489,257	245,495	276,984	223,058	–	91,733	48,110	–	11,374,637
Exchange differences	(291,236)	–	–	–	–	–	(1,491)	–	(292,727)
Acquisition of subsidiaries/businesses	2,701,968	–	237,602	–	538,200	17,361	1,973	14,820	3,511,924
Adjustments to purchase consideration and net asset value*	26,184	–	7,435	–	–	–	–	–	33,619
Additions	–	–	–	–	–	176,428	17,596	–	194,024
Disposal of subsidiaries	(2,354)	–	–	–	–	–	–	–	(2,354)
Amortization	–	(12,753)	(21,279)	(18,828)	–	(153,281)	(10,853)	–	(216,994)
Closing net book amount	12,923,819	232,742	500,742	204,230	538,200	132,241	55,335	14,820	14,602,129
At 31 December 2008									
Cost	12,923,819	255,060	528,432	226,200	538,200	304,577	107,984	14,820	14,899,092
Accumulated amortization	–	(22,318)	(27,690)	(21,970)	–	(172,336)	(52,649)	–	(296,963)
Net book amount	12,923,819	232,742	500,742	204,230	538,200	132,241	55,335	14,820	14,602,129

* Adjustments to purchase considerations and net asset values related to certain acquisitions of subsidiaries/businesses in prior years, but previously determined on a provisional basis.

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to operating segment.

An operating segment-level summary of the goodwill allocation is presented below.

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
United States of America	10,730,071	8,540,104
Europe	4,027,805	3,732,687
Canada	223,576	198,715
Australasia	108,109	60,418
Central and Latin America	113,592	80,024
Rest of the world	314,665	311,871
	15,517,818	12,923,819

In accordance with HKAS 36 "Impairment of Assets" the Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amount to their carrying amount as at the balance sheet date. Goodwill impairment review has been performed at the lowest level of CGU which generates cash flow independently. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projection based on one-year financial budget approved by management and extrapolated perpetually with an estimated general long-term continuous annual growth of not more than 5%. The discount rate used of approximately 10% is pre-tax and reflects specific risk related to the relevant segments. The budgeted gross margin and net profit margin were determined by management for each individual CGU based on past performance and its expectations for market development. Management believes that any reasonably foreseeable changes in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

Amortisation of HK$127,783,000 (2008: HK$164,134,000) is included in the 'Selling expenses' and HK$107,631,000 (2008: HK$52,860,000) in the other non-core operating expenses net of income, in the consolidated profit and loss account.

13 PROPERTY, PLANT AND EQUIPMENT

	The Group					
	Land and buildings	**Leasehold improvements**	**Furniture, fixtures and equipment**	**Plant and machinery**	**Motor vehicles and company boat**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2008						
Cost	213,075	764,626	920,131	236,492	51,405	2,185,729
Accumulated depreciation	(42,780)	(247,229)	(571,085)	(161,820)	(32,813)	(1,055,727)
Net book amount	170,295	517,397	349,046	74,672	18,592	1,130,002
Year ended 31 December 2008						
Opening net book amount	170,295	517,397	349,046	74,672	18,592	1,130,002
Exchange differences	(38,244)	(10,615)	(11,263)	(16,764)	(815)	(77,701)
Disposal of subsidiaries	–	–	(76)	(2,781)	–	(2,857)
Acquisition of subsidiaries/ businesses	–	7,169	19,391	106	8,704	35,370
Additions	583	177,200	286,572	25,669	4,034	494,058
Disposals	(378)	(9,866)	(18,124)	279	(2,608)	(30,697)
Depreciation	(10,302)	(103,061)	(122,556)	(23,271)	(5,922)	(265,112)
Closing net book amount	121,954	578,224	502,990	57,910	21,985	1,283,063
At 31 December 2008						
Cost	163,751	880,060	1,148,039	191,131	61,535	2,444,516
Accumulated depreciation	(41,797)	(301,836)	(645,049)	(133,221)	(39,550)	(1,161,453)
Net book amount	121,954	578,224	502,990	57,910	21,985	1,283,063
Year ended 31 December 2009						
Opening net book amount	121,954	578,224	502,990	57,910	21,985	1,283,063
Exchange differences	3,893	6,050	5,294	4,824	58	20,119
Acquisition of subsidiaries/ businesses *(Note 31)*	–	385	4,365	–	–	4,750
Transfer to intangible assets *(Note 12)*	–	–	(98,856)	–	–	(98,856)
Additions	–	203,003	179,310	7,271	3,510	393,094
Disposals	(3,600)	(4,051)	(24,545)	(1,325)	(8,070)	(41,591)
Depreciation	(4,428)	(122,518)	(158,436)	(13,928)	(5,564)	(304,874)
Closing net book amount	117,819	661,093	410,122	54,752	11,919	1,255,705
At 31 December 2009						
Cost	155,478	1,073,037	1,187,567	214,297	44,094	2,674,473
Accumulated depreciation	(37,659)	(411,944)	(777,445)	(159,545)	(32,175)	(1,418,768)
Net book amount	117,819	661,093	410,122	54,752	11,919	1,255,705

Depreciation of HK$304,874,000 (2008: HK$265,112,000) is included in the 'Administrative expenses' in the consolidated profit and loss account.

14 PREPAID PREMIUM FOR LAND LEASES

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

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	2,426	2,548
	2,426	2,548

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Beginning of the year	2,548	2,554
Amortization of prepaid premium for land lease	(123)	(122)
Exchange differences	1	116
End of the year	2,426	2,548

15 INTERESTS IN SUBSIDIARIES

	The Company	
	2009	**2008**
	HK$'000	*HK$'000*
Unlisted shares, at cost	407,104	407,104
Loan to a subsidiary	1,952,493	1,952,493
	2,359,597	2,359,597

The loan to a subsidiary is interest free and unsecured. The Company does not have an intention to seek repayment from the subsidiary.

Details of principal subsidiaries are set out on in *Note 41*.

16 ASSOCIATED COMPANIES

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Beginning of the year	19,831	10,666
Share of profits less losses of associated companies	7,787	6,197
Dividend received	(3,148)	(2,875)
Acquisition of businesses	–	5,843
Disposal	(128)	–
End of the year	24,342	19,831
Loans to associated companies	3,909	3,909
Total interest in associated companies	28,251	23,740

The carrying values of the loans to associated companies approximate their fair values; the loans are interest free, unsecured and repayment is not expected to be required within twelve months.

Details of principal associated companies are set out in *Note 41*.

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Beginning of the year	20,189	85,465
Addition	702,000	–
Disposal	(333)	(55,534)
Net fair value gains on available-for-sale financial assets *(Note 26)*	1,297	–
Reversal of revaluation reserve on impairment of available-for-sale financial assets *(Note 26)*	–	4,942
Impairment provision	(2,969)	(14,684)
End of the year	720,184	20,189

Available-for-sale financial assets include the following:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Listed securities:		
– Equity securities – overseas	9,064	7,832
Unlisted securities:		
– Debt security *(Note)*	702,000	–
– Equity securities	1,530	4,767
– Club debentures	7,590	7,590
	720,184	20,189
Market value of listed securities	9,064	7,832

Note: In November 2009, the Group subscribed for an unlisted debt security (the "Promissory Note") from an independent third party of HK$702,000,000. The Promissory note is interest bearing at 7.5% per annum and repayable by 30 June 2014. It is secured by, among other things, certain collaterals such as trademarks, patents and licenses. The maximum exposure to credit risk at the reporting date is the carrying value of the Promissory Note. Value of the Promissory Note is determined with discounted cash flow analysis based on the prevailing required rate of return at balance sheet date of certain comparable debt instruments in the market.

Movements in the provision for impairment of available-for-sale financial assets are as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
At 1 January	67,375	52,691
Provision for impairment charged to consolidated profit and loss account	2,969	14,684
Available-for-sale financial assets written off	(32,155)	–
At 31 December	38,189	67,375

Available-for-sale financial assets are denominated in the following currencies:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
HK dollar	7,597	7,597
US dollar	702,000	3,301
Japanese Yen	9,064	7,768
Pound Sterling	1,523	1,523
	720,184	20,189

18 INVENTORIES

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Finished goods	2,261,289	2,181,224
Raw materials	121,343	147,724
	2,382,632	2,328,948

At 31 December 2009, inventories of HK$149,990,000 (2008: HK$193,197,000) were pledged as security for the Group's bank overdrafts.

19 DUE FROM RELATED COMPANIES

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Due from:				
Subsidiaries	–	–	19,751,099	16,534,019
Associated companies	98,706	83,954	–	–
	98,706	83,954	19,751,099	16,534,019

The amounts are unsecured, interest free and repayable on demand, except for amounts due from an associated company amounting to HK$85,835,000 (2008: HK$70,784,000) which are unsecured but interest bearing at approximately 5% per annum. Fair values of amounts due from related companies are approximately the same as the carrying values.

20 DERIVATIVE FINANCIAL INSTRUMENTS

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Forward foreign exchange contracts – assets *(Note 38)*	2,620	34,814

Gains in equity of HK$6,112,000 (2008: HK$943,000) on forward foreign exchange contracts as of 31 December 2009 will be released to the consolidated profit and loss account at various dates between one month to one year from the balance sheet date *(Note 26)*.

For the year ended 31 December 2009, there was no material ineffective portion recognized in the profit or loss account arising from cash flow hedges (2008: Nil).

21 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and bills receivable – net	12,561,374	14,715,430	–	–
Other receivables, prepayments and deposits	2,331,847	2,027,576	1,463	1,932
	14,893,221	16,743,006	1,463	1,932

All trade and other receivables are either repayable within one year or on demand. Accordingly, the fair value of the Group's and the Company's trade and other receivables are approximately the same as the carrying value.

A significant portion of the Group's business is on sight letter of credit, usance letter of credit up to a tenor of 120 days, documents against payment or customers' letter of credit to suppliers. The balance of the business is on open account terms which is often covered by customers' standby letters of credit, bank guarantees, credit insurance or under a back-to-back payment arrangement with suppliers. The ageing analysis of trade and bills receivable based on invoice date is as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Current to 90 days	12,095,108	12,928,272
91 to 180 days	377,931	1,704,988
181 to 360 days	71,239	75,776
Over 360 days	17,096	6,394
	12,561,374	14,715,430

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

Trade receivables of HK$12,461,574,000 (2008: HK$14,602,011,000) that are current or less than 90 days past due are not considered impaired. As of 31 December 2009, trade receivables of HK$99,800,000 (2008: HK$113,419,000) were past due over 90 days but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The past due ageing analysis of these trade receivables is as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
91 to 180 days	53,146	83,324
Over 180 days	46,654	30,095
	99,800	113,419

As of 31 December 2009, outstanding trade receivables of HK$151,948,000 (2008: HK$184,890,000) and other receivables of HK$110,666,000 (2008: HK$94,367,000) were impaired and fully provided. The individually impaired receivables mainly relate to transactions in disputes.

During the year, trade receivables with certain bankrupt/insolvent customers of HK$1,089,170,000 (2008: HK$407,662,000) were derecognized along with the corresponding trade payables generated from back-to-back transactions *(Note 23)*.

Movements in the Group's provision for impairment of trade and other receivables are as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
At 1 January	279,257	122,060
Provision for receivable impairment *(Note 4)*	147,394	212,241
Receivables written off during the year as uncollectible	(153,735)	(37,832)
Unused amounts reversed	(10,302)	(17,212)
At 31 December	262,614	279,257

The creation and release of provision for impaired receivables have been included in "Selling expenses" in the consolidated profit and loss account *(Note 4)*. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

Certain subsidiaries of the Group transferred bills receivable balances amounting to HK$302,123,000 (2008: HK$312,693,000) to banks in exchange for cash as at 31 December 2009. The transaction has been accounted for as collateralised bank advances.

At 31 December 2009, trade receivables of HK$106,773,000 were pledged as security for the Group's bank overdrafts (2008: HK$87,063,000).

The carrying amounts of the Group's and the Company's trade and other receivables are denominated in the following currencies:

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK dollar	1,001,385	1,253,935	1,463	1,932
US dollar	11,988,504	13,344,748	–	–
Euro dollar	1,572,271	1,828,235	–	–
Pound sterling	192,677	163,896	–	–
Others	138,384	152,192	–	–
	14,893,221	16,743,006	1,463	1,932

22 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	4,202,267	2,275,272	1,744	41,543
Bank overdrafts *(Note 24)*				
– Secured	(47,311)	(91,302)	–	–
– Unsecured	(4)	(2,005)	–	–
	(47,315)	(93,307)	–	–
	4,154,952	2,181,965	1,744	41,543

The effective interest rate at the balance sheet date on short-term bank balances was 0.6% (2008: 0.6%) per annum; these deposits have an average maturity period of 15 days (2008: 16 days).

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and bills payable	12,005,113	12,666,975	–	–
Accrued charges and sundry payables	2,900,775	2,711,849	31,124	34,259
License royalty payable *(Note 27)*	219,652	60,059	–	–
	3,120,427	2,771,908	31,124	34,259
	15,125,540	15,438,883	31,124	34,259

The fair values of the Group's and the Company's trade and other payables were approximately the same as their carrying values.

At 31 December 2009, the ageing analysis of trade and bills payable based on invoice date is as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Current to 90 days	11,744,955	12,161,586
91 to 180 days	109,297	361,607
181 to 360 days	44,873	41,221
Over 360 days	105,988	102,561
	12,005,113	12,666,975

The Group's obligation to trade payables amounting to HK$1,089,170,000 (2008: HK$407,662,000) generated from back-to-back transactions with certain customers, ceased upon the bankruptcy or insolvencies of these customers. Accordingly, these trade payables were derecognized along with the corresponding trade receivables *(Note 21)*.

24 BANK BORROWINGS

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Long-term bank loans – unsecured *(Note 27)*	–	234,230
Short-term bank loans – unsecured	–	278,217
Bank overdrafts *(Note 22)*		
– Secured	47,311	91,302
– Unsecured	4	2,005
	47,315	93,307
Total bank borrowings	47,315	605,754

As at 31 December 2009, the carrying amounts of the Group's borrowings approximate their fair values.

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

	2009			2008		
	US$	**Euro**	**GBP**	**US$**	**Euro**	**GBP**
Long-term bank loans	–	–	–	0.6%	–	–
Short-term bank loans	–	–	–	2.6%	–	–
Bank overdrafts	–	2.9%	2.3%	6.5%	4.5%	2.8%

The Group's contractual repricing dates for borrowings are all three months or less.

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

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
US dollar	–	532,390
Euro dollar	29,010	71,359
Pound Sterling	18,305	2,005
	47,315	605,754

25 SHARE CAPITAL AND OPTIONS

	2009		2008	
	Number of shares (in thousand)	*HK$'000*	*Number of shares (in thousand)*	*HK$'000*
Authorized				
At 1 January ordinary shares of HK$0.025 each	4,000,000	100,000	4,000,000	100,000
At 31 December ordinary shares of HK$0.025 each	4,000,000	100,000	4,000,000	100,000
Issued and fully paid				
At 1 January, ordinary HK$0.025 each	3,634,128	90,853	3,450,706	86,268
Issue of shares upon a private placing *(Notes (a) & (b))*	120,290	3,007	168,000	4,200
Exercise of share options	21,700	543	15,422	385
At 31 December, ordinary of HK$0.025 each	3,776,118	94,403	3,634,128	90,853

Notes:

(a) Pursuant to a subscription agreement dated 6 September 2008, Dunearn Investments (Mauritius) Pte Ltd, a wholly owned subsidiary of Temasek Holdings (Private) Limited, subscribed 168,000,000 new Shares at a price of HK$23.09 per share ("Subscription"). The net proceeds of the Subscription amounting to approximately HK$3,879,000,000 was used by the Company as general working capital which may include funding acquisitions by the Group from time to time.

(b) Pursuant to a placing agreement dated 5 May 2009, Li & Fung (1937) Limited, a substantial shareholder of the Company, placed 120,290,000 existing shares of the Company to not less than six independent professional, institutional and/or individual investors at a price of HK$22.55 per share and to subscribe from the Company for the same number of shares at the same price. The net proceeds of the subscription amounted to approximately HK$2,682,000,000, after taking into account the placing commission and other expenses borne or incurred by Li & Fung (1937) Limited in relation to the placing and/or the subscription, was used by the Company as general working capital of the Group which may include funding future business development and acquisitions by the Group from time to time.

Details of share options granted by the Company pursuant to the Option Scheme and the share options outstanding at 31 December 2009 are as follows:

			Number of Share Options					
Grant Date	Exercise Price *HK$*	Exercisable period	As at 1/1/2009	Granted	Exercised	Lapsed	Cancelled	As at 31/12/2009
23/5/2003	8.36	23/5/2006 – 22/5/2009	962,000	–	(904,000)	(58,000)	–	–
20/8/2004	9.00	20/8/2006 – 19/8/2009	115,400	–	(115,400)	–	–	–
20/6/2005	13.45	20/6/2007 – 19/6/2010	6,132,000	–	(1,830,200)	–	–	4,301,800
20/6/2005	13.45	20/6/2008 – 19/6/2011	14,980,800	–	(6,502,400)	(176,000)	–	8,302,400
20/6/2005	13.45	20/6/2009 – 19/6/2012	21,178,000	–	(8,787,800)	(165,000)	–	12,225,200
23/1/2006	13.72	20/6/2007 – 19/6/2010	222,200	–	(53,000)	–	–	169,200
23/1/2006	13.72	20/6/2008 – 19/6/2011	812,000	–	(130,000)	–	–	682,000
23/1/2006	13.72	20/6/2009 – 19/6/2012	1,117,000	–	(355,000)	–	–	762,000
19/6/2006	15.65	20/6/2007 – 19/6/2010	10,000	–	(2,000)	–	–	8,000
19/6/2006	15.65	20/6/2008 – 19/6/2011	1,214,000	–	(846,000)	–	–	368,000
19/6/2006	15.65	20/6/2009 – 19/6/2012	1,905,000	–	(815,000)	(100,000)	–	990,000
2/2/2007	25.50	20/6/2008 – 19/6/2011	1,889,000	–	(424,000)	(86,000)	–	1,379,000
2/2/2007	25.50	20/6/2009 – 19/6/2012	6,610,000	–	(820,000)	(572,000)	–	5,218,000
13/7/2007	29.93	20/6/2009 – 19/6/2012	1,467,000	–	(85,000)	(55,000)	–	1,327,000
24/1/2008	25.55	1/3/2009 – 28/2/2011	26,752,000	–	(30,000)	(1,396,000)	(29,500)	25,296,500
24/1/2008	25.55	1/3/2010 – 29/2/2012	26,752,000	–	–	(2,018,000)	–	24,734,000
24/1/2008	25.55	1/3/2011 – 28/2/2013	26,752,000	–	–	(2,018,000)	–	24,734,000
21/5/2008	30.00	1/3/2009 – 28/2/2011	2,531,000	–	–	(263,000)	(29,500)	2,238,500
21/5/2008	30.00	1/3/2010 – 29/2/2012	1,784,000	–	–	(384,000)	–	1,400,000
21/5/2008	30.00	1/3/2011 – 28/2/2013	1,784,000	–	–	(384,000)	–	1,400,000
13/8/2008	26.20	1/3/2009 – 28/2/2011	1,287,100	–	–	(112,200)	–	1,174,900
13/8/2008	26.20	1/3/2010 – 29/2/2012	1,880,700	–	–	(183,600)	–	1,697,100
13/8/2008	26.20	1/3/2011 – 28/2/2013	1,880,700	–	–	(183,600)	–	1,697,100
24/2/2009	17.22	1/3/2010 – 29/2/2012	–	2,729,000	–	–	–	2,729,000
24/2/2009	17.22	1/3/2011 – 28/2/2013	–	2,408,000	–	–	–	2,408,000
14/8/2009	27.80	1/3/2010 – 29/2/2012	–	1,792,500	–	–	–	1,792,500
14/8/2009	27.80	1/3/2011 – 28/2/2013	–	2,123,700	–	–	–	2,123,700
		Total	150,017,900	9,053,200	(21,699,800)	(8,154,400)	(59,000)	129,157,900

Subsequent to 31 December 2009, 8,194,300 Shares have been allotted and issued under the Option Scheme.

Employee share option expenses charged to the consolidated profit and loss account are determined with the Black-Scholes valuation model based on the following assumptions:

Date of grant	23/5/2003	20/8/2004	20/6/2005	23/1/2006	19/6/2006	2/2/2007	13/7/2007	24/1/2008	21/5/2008	13/8/2008	24/2/2009	14/8/2009
Option value	HK$2.41-HK$2.65	HK$2.04-HK$2.36	HK$2.23-HK$2.68	HK$2.13-HK$2.82	HK$2.85-HK$3.78	HK$4.84-HK$5.67	HK$5.55	HK$4.49-HK$6.09	HK$5.99-HK$8.22	HK$5.63-HK$7.81	HK$4.52-HK$5.42	HK$6.99-HK$8.81
Share price at date of grant	HK$9.00	HK$9.90	HK$14.80	HK$14.75	HK$15.65	HK$25.50	HK$29.20	HK$25.55	HK$30.00	HK$26.20	HK$17.22	HK$27.80
Exercisable price	HK$8.36*	HK$9.00*	HK$13.45*	HK$13.72*	HK$15.65	HK$25.50	HK$29.93	HK$25.55	HK$30.00	HK$26.20	HK$17.22	HK$27.80
Standard deviation	44%	41%	24%	27%	31%	33%	34%	36%	40%	42%	54%	58%
Annual risk-free interest rate	1.39%--3.31%	1.36%-3.41%	2.79%-3.54%	3.90%-4.26%	4.09%-4.79%	3.77%-3.88%	4.35%-4.61%	1.68%-2.86%	1.06%-2.20%	1.82%-3.30%	0.33%-1.15%	0.10%- 1.05%
Life of options	4-6 years	4-5 years	5-7 years	4-6 years	4-6 years	4-5 years	5 years	3-5 years	3-5 years	3-5 years	3-4 years	3-4 years
Dividend yield	3.89%	4.24%	3.45%	3.45%	3.04%	3.01%	3.25%	3.25%	2.54%	2.54%	2.54%	2.43%

* Exercisable prices of the share options have been adjusted to take into account the effect of 1-for-10 Bonus Issue on 18 May 2006.

26 RESERVES

The Group	Shares held by escrow agent for settlement of acquisition consideration *(Note (c))*	Capital reserve *(Note (a))*	Employee share-based compensation reserve	Revaluation reserve	Hedging reserve	Exchange reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2009	(464,050)	25,307	241,102	–	943	(309,759)	(506,457)
Comprehensive income							
Currency translation differences	–	–	–	–	–	35,607	35,607
Net fair value gains on available-for-sale financial assets, net of tax *(Note 17)*	–	–	–	1,297	–	–	1,297
Net fair value gains on cash flow hedges, net of tax	–	–	–	–	5,169	–	5,169
Transactions with owners							
Employee share option scheme:							
– value of employee services	–	–	126,688	–	–	–	126,688
– transfer to share premium	–	–	(56,763)	–	–	–	(56,763)
Transfer to capital reserve	–	1,850	–	–	–	–	1,850
At 31 December 2009	(464,050)	27,157	311,027	1,297	6,112	(274,152)	(392,609)
Balance at 1 January 2008	(464,050)	23,823	190,410	27,135	(7,731)	175,406	(55,007)
Comprehensive income							
Currency translation differences	–	–	–	–	–	(485,165)	(485,165)
Reversal of revaluation reserve on disposal of available-for-sale financial assets	–	–	–	(32,077)	–	–	(32,077)
Reversal of revaluation reserve on impairment of available-for-sale financial assets *(Note 17)*	–	–	–	4,942	–	–	4,942
Net fair value gains on cash flow hedges, net of tax	–	–	–	–	8,674	–	8,674
Transactions with owners							
Employee share option scheme:							
– value of employee services	–	–	85,747	–	–	–	85,747
– transfer to share premium	–	–	(35,055)	–	–	–	(35,055)
Transfer to capital reserve	–	1,484	–	–	–	–	1,484
At 31 December 2008	(464,050)	25,307	241,102	–	943	(309,759)	(506,457)

The Company	Share premium	Shares held by escrow agent for settlement of acquisition consideration *(Note (c))*	Contributed surplus account *(Note (b))*	Employee share-based compensation reserve	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2009	11,140,378	(464,050)	2,060,673	241,102	1,965,302	14,943,405
Profit for the year	–	–	–	–	2,239,804	2,239,804
Issue of shares upon a private placing	2,678,660	–	–	–	–	2,678,660
Employee share option scheme:						
– value of employee services	–	–	–	126,688	–	126,688
– proceeds from shares issued	306,763	–	–	–	–	306,763
– transfer to share premium	56,763	–	–	(56,763)	–	–
2008 final dividend paid	–	–	–	–	(1,199,839)	(1,199,839)
2009 interim dividend paid	–	–	–	–	(979,430)	(979,430)
Reserves	14,182,564	(464,050)	2,060,673	311,027	171,524	16,261,738
Proposed dividend	–	–	–	–	1,854,313	1,854,313
At 31 December 2009	14,182,564	(464,050)	2,060,673	311,027	2,025,837	18,116,051
Balance at 1 January 2008	7,037,463	(464,050)	2,060,673	190,410	2,303,927	11,128,423
Profit for the year	–	–	–	–	2,221,120	2,221,120
Issue of shares upon a private placing	3,874,557	–	–	–	–	3,874,557
Employee share option scheme:						
– value of employee services	–	–	–	85,747	–	85,747
– proceeds from shares issued	193,303	–	–	–	–	193,303
– transfer to share premium	35,055	–	–	(35,055)	–	–
2007 final dividend paid	–	–	–	–	(1,727,959)	(1,727,959)
2008 interim dividend paid	–	–	–	–	(831,786)	(831,786)
Reserves	11,140,378	(464,050)	2,060,673	241,102	765,933	13,744,036
Proposed dividend	–	–	–	–	1,199,369	1,199,369
At 31 December 2008	11,140,378	(464,050)	2,060,673	241,102	1,965,302	14,943,405

Notes:

(a) Capital reserve represents amount set aside from the profit of certain overseas subsidiaries of the Group in accordance with the local statutory requirements.

(b) The contributed surplus account of the Company represents:

(i) The difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Li & Fung (B.V.I.) Limited and the value of net assets of the underlying subsidiaries acquired as at 2 June 1992 amounting to HK$111,010,000. At Group level, the amount is reclassified into its components of reserves of the underlying subsidiaries.

(ii) The difference between the issue price and the nominal value of the Company's shares issued in connection with the acquisition of Colby in 2000 amounting to HK$1,949,663,000. At Group level, the amount is set off against goodwill arising from the acquisition.

(c) The Company issued shares for acquisitions of CGroup and Regatta in 2007. At the balance sheet date, these Shares were held by escrow agents and would be released to the vendors in future years. These shares, valued at the respective agreed upon issue price, amounting to HK$464,050,000 are presented as "Shares held by escrow agent for settlement of acquisition consideration" and deducted from total equity.

27 LONG-TERM LIABILITIES

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Long-term loans from minority shareholders	38,867	38,867	–	–
Long-term bank loans *(Note 24)*	–	234,230	–	–
Balance of purchase consideration payable for acquisitions	3,422,340	2,733,700	–	–
Long-term notes – unsecured	3,872,325	3,868,574	3,872,325	3,868,574
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	464,050	464,050	–	–
License royalty payable	450,039	122,881	–	–
	8,247,621	7,462,302	3,872,325	3,868,574
Current portion of balance of purchase consideration payable for acquisitions	(1,138,668)	(1,178,118)	–	–
Current portion of balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	(323,700)	(81,278)	–	–
Current portion of license royalty payable *(Note 23)*	(219,652)	(60,059)	–	–
	6,565,601	6,142,847	3,872,325	3,868,574

Balance of purchase consideration for acquisitions and long-term loans from minority shareholders are unsecured, interest-free and with no fixed repayment terms. Long-term notes issued to independent third party will mature in 2017 and bear coupon of 5.5% annually.

The maturity of the long-term liabilities is as follows:

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	1,682,020	1,319,455	–	–
Between 1 and 2 years	1,128,544	1,188,087	–	–
Between 2 and 5 years	1,522,687	1,047,319	–	–
Wholly repayable within 5 years	4,333,251	3,554,861	–	–
Over 5 years	3,914,370	3,907,441	3,872,325	3,868,574
	8,247,621	7,462,302	3,872,325	3,868,574

The fair values of the long-term liabilities (non-current portion) are as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Loans from minority shareholders	38,867	38,867
Long-term notes – unsecured	3,925,974	3,410,082
Balance of purchase consideration payable for acquisitions	2,283,672	1,555,582
License royalty payable	230,387	62,822
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	140,350	382,772
	6,619,250	5,450,125

The carrying amounts of long-term liabilities, purchase consideration payable for acquisitions and license royalty payables are denominated in the following currencies:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Hong Kong dollar	135,407	180,316
US dollar	7,999,742	7,227,431
Pound sterling	96,871	38,954
Euro dollar	15,601	15,601
	8,247,621	7,462,302

28 POST-EMPLOYMENT BENEFIT OBLIGATIONS

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Pension obligations *(Note)*	16,354	18,771
Long service payment liabilities	9,412	4,995
	25,766	23,766

Note: The Group participates in a number of defined benefit plans in certain countries. 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. The Group's defined benefit plans are valued by qualified actuaries annually using the projected unit credit method.

(i) The amount recognized in the consolidated balance sheet is determined as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Present value obligations	221,215	182,982
Fair value of plan assets	(147,862)	(139,702)
	73,353	43,280
Unrecognized actuarial losses	(56,999)	(24,509)
Pension obligations	16,354	18,771

(ii) The amount recognized in the consolidated profit and loss account is as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Current service cost	14,200	14,997
Interest cost	8,741	9,867
Expected return on plan assets	(5,724)	(8,952)
Net actuarial loss recognized in year	1,143	216
Gains on curtailments and settlements	(12,656)	(4,299)
Total, included in staff costs *(Note 10)*	5,704	11,829

(iii) The movements in the fair value of plan assets of the year are as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
At 1 January	139,702	177,332
Expected return on plan assets	5,724	8,952
Actuarial gains/(losses)	1,445	(15,060)
Exchange differences	8,946	(32,213)
Employer contributions	10,014	10,464
Benefits paid	(17,969)	(9,773)
At 31 December	147,862	139,702

(iv) Movement in the pension obligations recognized in the consolidated balance sheet:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
At 1 January	18,771	23,680
Total expense – as shown above	5,704	11,829
Contributions paid	(10,014)	(10,464)
Exchange difference	1,893	(6,274)
At 31 December	16,354	18,771

(v) The principal actuarial assumptions used are as follows:

	2009	**2008**
	%	%
Discount rate	2.25 – 11.06	2.75 – 9.79
Expected rate of return on plan assets	2.25 – 7	1.5 – 6.4
Expected rate of future salary increases	3 – 5.5	3 – 8
Expected rate of future pension increases	3.4	2.75

(vi) Experience adjustments gain/(loss):

		The Group
	2009	**2008**
	HK$'000	*HK$'000*
Experience adjustments on plan liabilities	(42,073)	(3,186)
Experience adjustments on plan assets	1,445	(15,060)

29 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2008: 16.5%).

The movement on the deferred tax account is as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
At 1 January	473	(94,528)
Charged/(credited) to consolidated profit and loss account *(Note 6)*	13,791	(5,667)
Acquisition of subsidiaries/businesses	–	(218)
Adjustments for prior year acquisitions *	–	97,257
Exchange differences	(1,598)	3,629
At 31 December	12,666	473

* Adjustment to deferred tax liabilities of certain subsidiaries/businesses acquired in prior year which were previously determined on a provisional basis.

Deferred tax assets are recognized for tax losses as carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The Group has unrecognized tax losses of HK$1,812,412,000 (2008: HK$371,687,000) to carry forward against future taxable income, out of which HK$180,082,000 will expire during 2022-2027. Deferred tax assets for these tax losses are not recognized as it is not probable that related tax assets will be utilized in the foreseeable future.

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	The Group									
Deferred tax assets	**Provisions**		**Decelerated tax depreciation allowances**		**Tax losses**		**Others**		**Total**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January	14,613	15,180	23,776	16,816	87,062	81,299	5,828	2,309	131,279	115,604
Credited/(charged) to consolidated profit and loss account	175,812	1,157	8,402	9,156	7,221	7,291	(3,054)	3,322	188,381	20,926
Acquisition of subsidiaries/ businesses	–	–	–	218	–	–	–	–	–	218
Exchange differences	395	(1,724)	(706)	(2,414)	383	(1,528)	18	197	90	(5,469)
As at 31 December	190,820	14,613	31,472	23,776	94,666	87,062	2,792	5,828	319,750	131,279

	The Group							
Deferred tax liabilities	**Accelerated tax depreciation allowances**		**Intangible assets arising from business combinations**		**Others**		**Total**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January	25,208	20,993	97,257	–	9,287	83	131,752	21,076
Charged/(credited) to consolidated profit and loss account	17,103	4,330	193,446	–	(8,377)	10,929	202,172	15,259
Adjustments for prior year acquisitions	–	–	–	97,257	–	–	–	97,257
Exchange differences	(2,269)	(115)	–	–	761	(1,725)	(1,508)	(1,840)
As at 31 December	40,042	25,208	290,703	97,257	1,671	9,287	332,416	131,752

After offsetting balances within the same tax jurisdiction, the balances as disclosed in the consolidated balance sheet are as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Deferred tax assets	58,180	111,441
Deferred tax liabilities	(70,846)	(111,914)
	(12,666)	(473)

	The Group 2009	The Group 2008
	HK$'000	*HK$'000*
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	50,113	102,107
Deferred tax assets to be recovered within 12 months	8,067	9,334
Deferred tax liabilities to be settled after more than 12 months	57,904	98,626
Deferred tax liabilities to be settled within 12 months	12,942	13,288

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow generated from operations

	2009	2008
	HK$'000	*HK$'000*
Profit before taxation	3,605,947	2,683,186
Interest income	(90,763)	(112,748)
Interest expenses	372,109	480,175
Depreciation	304,874	265,112
Amortization of computer software and system development costs	11,580	10,853
Amortization of brand licenses	116,203	153,281
Amortization of other intangible assets arising from business combinations	107,631	52,860
Amortization of prepaid premium for land leases	123	122
Share of profits less losses of associated companies	(7,787)	(6,197)
Employee share option expenses	126,688	85,747
Gain on disposal of available-for-sale financial assets	–	(27,905)
Provision for impairment of available-for-sale financial assets	2,969	14,684
Loss on disposal of property, plant and equipment	9,643	8,728
Loss on disposal of subsidiaries	–	2,326
Loss on disposal of intangible assets	1,039	–
Operating profit before working capital changes	4,560,256	3,610,224
Decrease in inventories	382,751	27,661
Decrease/(increase) in trade and bills receivable, other receivables and amount due from related companies	2,083,989	(656,174)
(Decrease)/increase in trade and bills payable and other payables	(104,752)	842,846
Net cash inflow generated from operations	6,922,244	3,824,557

(b) Analysis of changes in financing during the year

	2009		2008	
	Share capital including share premium *(Note 25 & 26)*	**Bank loans**	**Share capital including share premium** *(Note 25 & 26)*	**Bank loans**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	11,231,231	512,447	7,123,731	441,796
Non cash movement				
Transfer from employee share-based compensation reserve	56,763	–	35,055	–
	11,287,994	512,447	7,158,786	441,796
Net proceeds from issue of shares	2,988,973	–	4,072,445	–
Net (repayment)/drawdown of bank loans	–	(512,447)	–	70,651
At 31 December	14,276,967	–	11,231,231	512,447

31 BUSINESS COMBINATIONS

On 19 October 2009, the Group entered into an asset purchase agreement to acquire all of the assets of Wear Me Apparel, LLC ("Wear Me Apparel") for a cash consideration of HK$794 million, plus premium for net assets acquired, and a performance based, contingent sum of up to HK$2,340 million. WearMe is a leading designer, marketer and seller of young men's and children's apparel in the US and manages a portfolio of licensed national brands, proprietary brands, private labels and character licenses.

During the year, the Group also completed the following business combinations and acquisitions of certain other smaller businesses with an aggregate cash consideration of approximately HK$970 million.

On 23 February 2009, the Group entered into an agreement to acquire the sourcing operations of Liz Claiborne Inc. and its affiliates in Asia (collectively referred to as "Liz"). Liz is one of the leading designers and retailers of fashion brands based in the United States. Liz sells a variety of apparel, accessories and fragrance products for men, women and children. Products are offered under retail-based brands and wholesale-based brands and are sold through its retail and outlet stores and wholesale distribution channels.

On 19 March 2009, the Group entered into an agreement to acquire Shubiz Limited ("Shubiz"), which is based in UK and principally engaged in design and supply of ladies' fashion footwear to retailers.

In March 2009, the Group also completed acquisition of JMI, which is a business based in Shanghai China specializing in high-end and technical products such as gloves, outerwear, knitwear and accessories.

The acquired businesses contributed revenues of approximately HK$4,780 million and profit after tax of approximately HK$120 million to the Group for the period from their respective dates of acquisition to 31 December 2009. If these acquisitions had occurred on 1 January 2009, Group revenue would have been approximately HK$110,103 million; profit after tax would have been approximately HK$3,467 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the relevant subsidiaries to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2009, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

	Wear Me Apparel	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Purchase consideration	2,417,368	966,613	3,383,981
Add: Direct expenses relating to the acquisitions	12,849	41,879	54,728
Less: Fair value of net assets acquired*	(859,431)	(246,157)	(1,105,588)
Goodwill *(Note 12)*	1,570,786	762,335	2,333,121

* As at the date of the accounts, the Group has not finalized the fair value assessments for net assets acquired from these acquisitions. The relevant fair value of net assets acquired stated above are on a provisional basis.

The goodwill is attributable to the acquired workforces, the profitability and the synergies expected to arise from the acquired businesses.

The carrying amounts of the assets and liabilities, other than intangible assets arising from business combinations, of the acquired businesses approximate their fair value and are as follows:

	Wear Me Apparel	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Intangible assets *(Note 12)**			
– Buying agency agreement	–	63,180	63,180
– Customer relationships	234,000	45,162	279,162
– Trademarks	89,700	111,147	200,847
– Brand licenses	310,554	–	310,554
Property, plant and equipment *(Note 13)*	–	4,750	4,750
Inventories	422,712	13,723	436,435
Trade and bills receivable	1,122,650	49,735	1,172,385
Other receivables, prepayments and deposits	124,884	3,494	128,378
Cash and bank balances	–	7,187	7,187
Trade and bills payables	(178,686)	(10,205)	(188,891)
License royalty payables	(310,554)	–	(310,554)
Accrued charges and sundry payables	(364,935)	(22,261)	(387,196)
Taxation	–	7,243	7,243
Bank overdrafts	–	(26,998)	(26,998)
Bank borrowings	(590,894)	–	(590,894)
Fair value of net assets acquired	859,431	246,157	1,105,588

* Intangible assets arising from business combinations represent customer relationships, trademarks and various other smaller intangible assets. The Group has engaged external valuers to perform fair value assessments on these intangible assets in accordance with HKAS 38 "Intangible Assets" and HKFRS 3 "Business Combination". As at the date of the accounts, the Group has not finalized the fair value assessments for some of the intangible assets. The relevant fair value of intangible assets stated above are on provisional basis.

Analysis of the net outflow of cash and cash equivalents in respect of the acquisitions:

	Wear Me Apparel	Others	Total
	HK$'000	*HK$'000*	*HK$'000*
Purchase consideration	2,417,368	966,613	3,383,981
Purchase consideration payable*	(1,514,127)	(99,650)	(1,613,777)
Direct expenses relating to the acquisitions	12,849	41,879	54,728
Repayment of bank borrowings	590,894	–	590,894
Cash and cash equivalents acquired	–	19,811	19,811
Net outflow of cash and cash equivalents in respect of the acquisitions	1,506,984	928,653	2,435,637

* Balances are estimated fair value of contingent consideration payables for respective acquisitions. Final amounts of consideration settlements would be determined based on future performance of the acquired businesses.

32 CONTINGENT LIABILITIES

	The Group		The Company	
	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantees in respect of banking facilities granted to:				
Subsidiaries	–	–	23,239,729	21,434,483
Associated companies	5,850	5,850	–	–
	5,850	5,850	23,239,729	21,434,483

33 COMMITMENTS

(a) Operating lease commitments

The Group leases various offices and warehouses under non-cancellable operating lease agreements. At 31 December 2009, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Within one year	451,966	384,813
In the second to fifth year inclusive	1,177,030	696,506
After the fifth year	1,364,779	541,580
	2,993,775	1,622,899

(b) Capital commitments

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Contracted but not provided for:		
Property, plant and equipment	33,526	161,507

34 CHARGES ON ASSETS

Saved as disclosed in *Note 18* and *Note 21*, at 31 December 2009 there were no charges on the assets and undertakings of the Company and the Group.

35 RELATED PARTY TRANSACTIONS

Pursuant to certain sale and leaseback agreements and some other properties tenancy agreements entered into by the Group with certain entities indirectly wholly owned by Dr William Fung Kwok Lun and a trust established for the family of Dr Victor Fung Kwok King, the Group paid rental of HK$121,113,000 (2008: HK$108,680,000) for the year ended 31 December 2009.

On 23 May 2008, the Company entered into the 2008 Logistics Agreement (the "2008 Logistics Agreement") with LF 1937, a substantial Shareholder of the Company, pursuant to which LF 1937 and certain other entities, such as Integrated Distribution Services Group Limited, with LF 1937 as a common substantial shareholder will provide a variety of logistics services to the Group. The 2008 Logistics Agreement covers the scope of services contemplated under the original PB Logistics Agreement entered into on 14 September 2007 between the Group and Integrated Distribution Services Group Limited. In respect of these logistic agreements the Group paid logistics service charges of HK$157,006,000 (2008: HK$121,205,000) for the year ended 31 December 2009.

Saved as above and the key management compensation as set out in *Note 11* to the accounts, the Group had no material related party transactions during the year.

36 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group operates globally with almost all of its sales and purchases traded in foreign currencies, mostly in US dollar. HK dollar is pegged to US dollar at a range between 7.75 to 7.85 and the foreign exchange exposure between US dollar and HK dollar is therefore limited.

The Group is exposed to foreign exchange risk arising from various currency exposures mainly to the extent of its receivables and payables in currencies other than US dollar, such as Euro dollar and Sterling Pound. To minimize such risks, sales and purchases are generally transacted in the same currency.

Foreign exchange risk arising from sales and purchases transacted in different currencies are managed by the Group treasury through the use of foreign exchange forward contracts. Pursuant to the Group policy in place, foreign exchange forward contracts, or any other financial derivatives, are entered into by the Group for hedging purposes. The Group has not entered into any financial derivatives for speculation.

The Group's cash is mainly kept in either HK dollar or US dollar to minimize the foreign exchange risk.

At 31 December 2009, if the major foreign currencies, such as Euro dollar and Sterling Pound, that the Group with exposure had strengthened/weakened by 10% (2008: 10%) against US and HK dollar with all other variables held constant, profit for the year and equity would have been approximately 2.0% (2008: 2.0%) and 2.0% (2008: 2.0%) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currencies denominated trade receivables, available-for-sale financial assets, borrowings and intangible assets.

(ii) *Price risk*

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as available-for-sale financial assets. The Group maintained these equity securities investments for long-term strategic purpose and the Group's overall exposure to price risk is not significant.

At 31 December 2009 and up to the report date of the accounts, the Group held no material financial derivative instruments except for certain foreign exchange forward contracts entered into for hedging of foreign exchange risk exposure on sales and purchases transacted in different currencies. At 31 December 2009, fair value of foreign exchange forward contracts entered into by the Group amounted to HK$2,620,000 (2008: HK$34,814,000), which have been reflected in full in the Group's consolidated balance sheet as derivative financial instruments (assets).

(iii) *Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises mainly from US dollar denominated bank borrowings and the US dollar denominated long-term notes issued. Bank borrowings at variable rates expose the group to cash flow interest rate risk. Available-for-sale debt security issued at fixed interest rate expose the Group to fair value interest rate risk. The Group's policy is to maintain diversified mix of variable and fixed rate borrowings based on prevailing market condition.

At 31 December 2009, if the variable interest rates on the bank borrowings had been 0.1% higher/lower with all other variables held constant, profit for the year and equity would have been approximately HK$47,000 (2008: HK$8,514,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings. If the prevailing market interest rate on the available-for-sale debt security had been 0.1% higher/lower with all other variables held constant, the Group's equity would have been decreased or increased by approximately HK$1,972,000 (2008: Nil).

(b) **Credit risk**

Credit risk mainly arises from trade and other receivables as well as cash and bank balances of the Group.

Most of the Group's cash and bank balances are held in major global financial institutions.

The Group has stringent policies in place to manage its credit risk with trade and other receivables, which include but are not limited to the measures set out below:

(i) A significant portion of business is secured by back-to-back payment arrangements or covered by letters of credit, customers' standby letters of credit, bank guarantees or credit insurance;

(ii) Certain trade receivable balances on open account term are factored to external financial institutions without recourse;

(iii) The Group's credit control team makes an assessment of each individual customer and vendor and determines the credit limits based on, among other factors, their trading and settlement history as well as their respective financial background.

The Group's five largest customers, in aggregate, account for approximately 32% of the Group's business. Transactions with these customers are entered into within the credit limits designated by the Group.

Except for the other receivables of HK$110,666,000 (2008: HK$94,367,000), none of the other financial assets including available-for-sale debt security *(Note 17)*, due from related companies *(Note 19)* and other receivables and deposits *(Note 21)* is past due or impaired as there is no recent history of default of the counterparties. The maximum exposure of these other financial assets to credit risk at the reporting date is their carrying amounts.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash on hand and the availability of funding through an adequate amount of committed credit facilities from the Group's bankers.

Management monitors rolling forecasts of the Group's liquidity reserves (comprises undrawn borrowing facilities and cash and cash equivalents *(Note 22)*) on the basis of expected cash flow.

The table below analyzes the liquidity impact of the Group's long-term liabilities (including annual coupons payable for the long-term notes) into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. These amounts will not reconcile to the amounts disclosed on the balance sheet and *Note 27* for long-term liabilities.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Group				
At 31 December 2009				
Bank loans	–	–	–	–
Balance of purchase consideration payable for acquisitions	1,212,154	823,508	1,173,630	358,332
Long-term notes – unsecured	214,500	214,500	643,500	4,543,500
At 31 December 2008				
Bank loans	278,217	234,230	–	–
Balance of purchase consideration payable for acquisitions	1,281,037	807,051	829,094	–
Long-term notes – unsecured	214,500	214,500	643,500	4,758,000
The Company				
At 31 December 2009				
Long-term notes – unsecured	214,500	214,500	643,500	4,543,500
At 31 December 2008				
Long-term notes – unsecured	214,500	214,500	643,500	4,758,000

37 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 and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short-term bank loans *(Note 24)*, long-term bank loans *(Note 24)* and long-term notes *(Note 27)* less cash and cash equivalents *(Note 22)*). Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt.

The Group's strategy is to maintain a gearing ratio not exceeding 35%. The gearing ratios at 31 December 2009 and 2008 were as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Long-term bank loans *(Note 24)*	–	234,230
Short-term bank loans *(Note 24)*	–	278,217
Long-term notes – unsecured *(Note 27)*	3,872,325	3,868,574
	3,872,325	4,381,021
Less: Cash and cash equivalents *(Note 22)*	(4,154,952)	(2,181,965)
Net debt	N/A	2,199,056
Total equity	17,726,191	13,382,354
Total capital	17,726,191	15,581,410
Gearing ratio	N/A	14%

38 FAIR VALUE ESTIMATION

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial instruments that are measured at fair value at 31 December 2009.

	Level 1 *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*	**Total** *HK$'000*
Assets				
Derivatives financial instruments used for hedging *(Note 20)*	–	2,620	–	2,620
Available-for-sale financial assets *(Note 17)*				
– Debt securities	–	702,000	–	702,000
– Equity securities	9,064	–	1,530	10,594
– Club debentures	–	–	7,590	7,590
Total assets	9,064	704,620	9,120	722,804

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The following table presents the changes in level 3 instruments for the year ended 31 December 2009.

	Equity securities *HK$'000*	**Club debentures** *HK$'000*	**Total** *HK$'000*
Opening balance	4,767	7,590	12,357
Disposal	(333)	–	(333)
Closing balance	4,434	7,590	12,024
Total losses recognized in profit or loss for assets held at the end of the reporting date	(2,904)	–	(2,904)

39 EVENTS AFTER BALANCE SHEET DATE

On 28 January 2010, the Group entered into a series of agreements with WalMart Stores, Inc. and its subsidiaries ("Wal-Mart Group") with a view to establishing a mutually beneficial sourcing arrangement with the Wal-Mart Group. The sourcing arrangement is non-exclusive, does not contain any sourcing volume commitments by the Wal-Mart Group and will continue until terminated by mutual agreement.

On 25 February 2010, the Group entered into an agreement to acquire the entire issued share capital of Visage Group Limited ("Visage") for a total consideration of not exceeding HK$2,076 million. Visage Group is a leading private-label apparel supplier to leading high street and mass retailers in the UK. Visage Group has strong expertise and capabilities in design and product development in men's, ladies and childrenswear.

40 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 24 March 2010.

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	Held directly				
(2)	LF Centennial Limited	British Virgin Islands	Ordinary US$50,000	100	Investment holding
(2)	LF Credit Limited	Bermuda	Ordinary US$12,000	100	Trade Financing
(1)	Li & Fung (B.V.I.) Limited	British Virgin Islands	Ordinary US$400,010	100	Marketing services and investment holding
	Held indirectly				
	Alster International Trading Company Pte Ltd	Singapore	Ordinary S$5,000,000	100	Provision of inspection services and export trading
	American Marketing Enterprises, Inc.	U.S.A.	Common Stock US$1,000	100	Wholesaling
(2)	Appleton Holdings Ltd.	British Virgin Islands	Ordinary US$1	100	Investment holding
	Black Cat Fireworks Limited	England	Ordinary GBP1,200,000	100	Wholesaling
	Bossini Fashion GmbH	Germany	Euro 468,000	100	Importer
	Briefly Stated Holdings, Inc.	U.S.A.	Common stock US$1,000	100	Investment holding
	Briefly Stated, Inc.	U.S.A.	Common stock US$3,000	100	Wholesaling
	C Group US LLC	U.S.A.	Capital contribution US$1,000	100	Marketing services
	C.D.P. Asia Limited	Hong Kong	Ordinary HK$3,000,000	100	Investment holding
	Camberley Enterprises Limited	Hong Kong	Ordinary HK$250,000	100	Manufacturing and trading
	Camberley Trading Service (Shenzhen) Limited	The People's Republic of China	RMB1,500,000	100 foreign-owned enterprise	Export trading services
(2)	Centennial (Luxembourg) S.a.r.l.	Luxembourg	Euro 8,931,250	100	Investment holding
	CGroup HK Limited	Hong Kong	Ordinary HK$2,970,000 Class B Non-Voting HK$330,000	100	Export trading
	CGroup POP Limited	Hong Kong	Ordinary HK$2	100	Provision of sales support services
	CGroup Shanghai Consulting Company Limited	The People's Republic of China	US$140,000	100 foreign-owned enterprise	Consulting services
	Character Direct Limited	Hong Kong	Ordinary HK$2	100	Design and marketing
	Civati Limited	Hong Kong	Ordinary US$450,000	100	Export trading
(2)	Colby Group Holdings Limited	British Virgin Islands	Ordinary US$45,000	100	Investment holding
(2)	Colby Property Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Colourful Express Trading Pte. Ltd.	Singapore	Ordinary S$2	100	Investment holding
	Colourful Lifestyle Productions Limited	Hong Kong	Ordinary HK$1,170,000	75	Provision of agency services
	Comet Feuerwerk GmbH	Germany	Euro 1,000,000	100	Fireworks wholesaling
	Concept 3 Limited	Hong Kong	Ordinary HK$2	100	Investment holding
	Costume Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Craftworks Limited	Hong Kong	Ordinary HK$1	100	Export trading
	Dana International Limited	Hong Kong	Ordinary HK$2	100	Investment holding
	Dodwell (Mauritius) Limited	Hong Kong	Ordinary "A" HK$300,000 Ordinary "B" HK$200,000	60	Export trading
	Dodwell (Singapore) Pte. Ltd.	Singapore	Ordinary S$200,000	100	Export trading services
(2)	Dongguan LF Beauty Manufacturing Services Limited (formerly: Dongguan San Si Cosmetic Company Limited)	The People's Republic of China	US$10,211,000	100 foreign-owned enterprise	Manufacturing and export trading
(2)	Eclat Properties Inc.	British Virgin Islands	Ordinary US$100	100	Property investment
(2)	Empire Knight Group Limited	British Virgin Islands	Ordinary US$1	100	Property investment
	Eslite Design Limited	Hong Kong	Ordinary HK$2	100	Provision of design services
	Forrestgrove Limited	Hong Kong	Ordinary HK$20	100	Export trading
	GB Apparel Limited	England	Ordinary GBP1,000	100	Investment holding
	GMR (Hong Kong) Limited	Hong Kong	Ordinary HK$2	100	Export trading
(2)	Golden Gate Fireworks Inc.	U.S.A.	Common stock US$600,000	100	Commission agent and investment holding
(2)	Golden Horn (III) L. P.	Cayman Islands	Capital contribution US$100	66	Investment holding
	Golden Horn N.V.	Netherlands Antilles	US$6,100	100	Investment holding
	Goodwest Enterprises Limited	Hong Kong	Ordinary HK$2	100	Export trading
	GSCM (HK) Limited	Hong Kong	Ordinary HK$140,000	100	Export trading
	Hanson Im-und Export GmbH	Germany	Euro 26,000	100	Wholesaling
	Homestead International Group Ltd.	U.S.A.	Voting Common Stock US$901 Non-Voting Common Stock US$99	100 Voting	Importer
	Homeworks Asia Limited	Hong Kong	Ordinary HK$2	100	Export trading
(2)	Homeworks (Europe) B.V.	The Netherlands	Ordinary Euro 18,000	100	Export trading
	Imagine POS Limited	Hong Kong	"A" Ordinary HK$2,000,000 "B" Ordinary HK$199,980	100	Export trading
(2)	International Sources LLC	U.S.A.	Capital contribution US$1	100	Trading of apparel
	International Sources Trading Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Jac Tissot Fashion GmbH	Germany	Euro 520,000	100	Importer
	JMI Sportswear Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
	Kariya Industries Limited	Hong Kong	Ordinary HK$1,000,000	100	Manufacturing and trading
	KHQ Investment LLC	U.S.A.	Capital contribution US$1,000	100	Wholesaling
	Kingsbury International Limited	Hong Kong	Ordinary HK$2	100	Export trading
	KVZ International Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	La Villa Development Limited	Hong Kong	Ordinary HK$1	100	Design and marketing of toys
(2)	Lenci Calzature SpA	Italy	Euro 206,400	100	Design, marketing and sourcing
	LF Beauty Limited	Hong Kong	Ordinary HK$1	100	Export trading
	LF Beauty Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
	LF Beauty (UK) Limited (formerly: PB Beauty Limited)	England	Ordinary GBP100	100	Design, marketing and manufacturing

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
(2)	LF Capital (II) Limited	British Virgin Islands	Class "A" US$185 Class "B" US$115	75	Investment holding
(2)	LF Capital Management Limited	British Virgin Islands	Ordinary US$1	100	Investment management
	LF Centennial Pte. Ltd.	Singapore	Ordinary S$100,000	100	Export trading
	LF Centennial Services (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading services
	LF Centennial Service (Singapore) Pte. Limited	Singapore	Ordinary S$10,000	100	Export trading services
(2)	LF Corporate Capital (I) Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	LF Credit Pte. Ltd. (formerly: LF Credit (Singapore) Pte. Ltd.)	Singapore	Ordinary S$1,000,000	100	Provision of trade-related services
	LF Europe (Germany) GmbH	Germany	Euro 25,000	100	Investment holding
	LF Europe Limited	England	Ordinary GBP26,788,000	100	Investment holding
(2)	LF European Capital Limited	British Virgin Islands	Ordinary US$1	75	Investment holding
	LF Home Limited	Hong Kong	Ordinary HK$2	100	Export trading
(2)	LF International Inc.	U.S.A.	Common stock US$30,002	100	Investment management
	LF North America Holdings Co., Inc.	U.S.A.	Ordinary US$1	100	Investment holding
	LF USA Inc. (formerly: The Millwork Trading Co., Ltd)	U.S.A.	Common stock US$1,331,000 9.5% Preferred Stock US$0.17	100	Distribution and wholesaling
(2)	LFCF Investment I (Europe) Limited	British Virgin Islands	Ordinary US$1	100	Investment management
(2)	LFCF Investment I (USA) Limited	British Virgin Islands	Ordinary US$1	100	Investment management
(2)	Li & Fung Agencia de Compras em Portugal, Limitada	Portugal	Euro 99,760	100	Export trading
	Li & Fung (Bangladesh) Limited	Bangladesh	Ordinary Taka 9,500,000	100	Export trading services
	Li & Fung (Europe) Holding Limited	England	Ordinary GBP100	100	Investment holding
	Li & Fung (Exports) Limited	Hong Kong	Ordinary HK$10,000 Non-voting deferred HK$8,600,000	100	Investment holding
(2)	Li & Fung (Guatemala) S.A.	Guatemala	Common shares Q5,000	100	Export trading services
(2)	Li & Fung (Honduras) Limited	Honduras	Nominative common shares Lps25,000	100	Export trading services
	Li & Fung (India) Private Limited	India	Equity shares Rupee 64,000,200	100	Export trading services
	Li & Fung (Korea) Limited	Korea	Common stock Won 200,000,000	100	Export trading services
(2)	Li & Fung (Mauritius) Limited	Mauritius	"A" Shares Rupees 750,000 "B" Shares Rupees 500,000	60	Export trading services
(2)	Li & Fung (Morocco) SARL	Morocco	Dirhams 10,000	100	Export trading services
	Li & Fung Mumessillik Pazarlama Limited Sirketi	Turkey	YTL15,639,650	100	Export trading services
(2)	Li & Fung (Nicaragua), Sociedad Anonima	Nicaragua	Nominative shares C$50,000	100	Export trading services
	Li & Fung Pakistan (Private) Limited	Pakistan	Rs10,000,000	100	Export trading services
(2)	Li & Fung (Philippines) Inc.	The Philippines	Peso 1,000,000	100	Export trading services
(2)	Li & Fung (Portugal) Limited	England	Ordinary GBP 100	100	Investment holding
	Li & Fung (Properties) Limited	Hong Kong	Ordinary HK$1,000,000	100	Investment holding

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Principal subsidiaries				
	Li & Fung (Singapore) Pte Limited	Singapore	Ordinary S$25,000	100	Export trading services
	Li & Fung South Africa (Proprietary) Limited	South Africa	Ordinary Rand 100	100	Export trading services
	Li & Fung Taiwan Holdings Limited	Taiwan	NT$287,996,000	100	Investment holding
	Li & Fung Taiwan Investments Limited	British Virgin Islands	Ordinary US$4,912,180	100	Investment holding
	Li & Fung (Taiwan) Limited	Taiwan	NT$63,000,000	100	Sourcing and inspection
	Li & Fung (Thailand) Limited	Thailand	Baht 20,000,000	100	Export trading services
(2)	Li & Fung Trading (Italia) S.r.l.	Italy	Euro 100,000	100	Export trading services
	Li & Fung (Trading) Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$10,000,000	100	Export trading and investment holding
(2)	Li & Fung Trading Service (Shanghai) Company Limited	The People's Republic of China	US$6,000,000	100 foreign-owned enterprise	Export trading services
	Li & Fung Trading Service (Shenzhen) Limited	The People's Republic of China	RMB1,500,000	100 foreign-owned enterprise	Export trading services
	Li & Fung Trading (Shanghai) Limited	The People's Republic of China	RMB50,000,000	100 foreign-owned enterprise	Export trading
	Li & Fung (Vietnam) Limited	Vietnam	Charter Capital US$139,000	100	Export trading services
(2)	Li & Fung (Zhanjiang) Limited	The People's Republic of China	US$2,000,000	100 foreign-owned enterprise	Property investment
	Lion Rock Far East (1972) Limited	Hong Kong	Ordinary HK$20	100	Investment holding
	Lion Rock (Hong Kong) Limited	Hong Kong	Ordinary HK$10,000	100	Investment holding
	Lion Rock International Trading & Co.	Hong Kong	Capital contribution HK$3,000,000	100	Merchandising agent, freight forwarding and logistic services
	Lion Rock Services (Far East) & Co.	Hong Kong	Capital contribution HK$17,000,000	100	Merchandising agent
	Lion Rock Services (Switzerland) AG	Switzerland	CHF3,400,000	100	Export trading services
(2)	Lion Rock (Thailand) Limited	Thailand	Ordinary Baht 15,500,000	100	Export trading services
	Lion Rock Trading (Switzerland) Gmbh	Switzerland	CHF50,000	100	Export trading
	Lloyd Textile Trading Limited	Hong Kong	Ordinary HK$1,000,000	100	Manufacturing and trading
	Lux Plush Enterprises Limited	Hong Kong	Ordinary HK$250,000	100	Export trading
	Match Winner Vertriebs GmbH	Germany	Euro 26,000	100	Wholesaling
	Metro Seven LLC	U.S.A.	Capital contribution Nil	100	Wholesaling
(2)	Mercury (BVI) Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Mighty Hurricane Holdings Inc.	U.S.A.	Common shares US$100	100	Wholesaling
	Miles Fashion Asia Pte. Ltd.	Singapore	Ordinary S$1	100	Export trading
	Miles Fashion GmbH	Germany	Euro 21,000,000	100	Importer
	Miles Fashion Group France EURL	France	Euro 10,000	100	Wholesaling
	Miles Fashion USA, Inc.	U.S.A.	US$1,000	100	Importer
	Millwork Holdings Co., Inc.	U.S.A.	Common stock US$1	100	Investment holding

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Principal subsidiaries				
	Millwork Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
	Momentum Clothing Limited	England	Ordinary GBP100	100	Export trading
	Pacific Alliance USA, Inc.	U.S.A.	Common Stock US$1	100	Wholesaling
	Paco Trading (International) Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Perfect Trading Inc.	Egypt	LE 2,488,000	60	Export trading
	Peter Black Footwear & Accessories Limited	England	Ordinary GBP202,000	100	Design, marketing and sourcing
	Peter Black International Limited	England	A Ordinary GBP550 B Ordinary GBP350 C Ordinary GBP120	100	Investment holding
	Peter Black Holdings Limited	England	Ordinary GBP16,268,648	100	Investment holding
	Peter Black Overseas Holdings Limited	England	Ordinary GBP2	100	Investment holding
	Phil Henson GmbH	Germany	Euro 50,000	100	Importer
	Product Development Partners Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Promocean CIS	Russia	Russian rubels 10,000	100	Export trading
	PromOcean France SAS (formerly: Prodimpor SAS)	France	Euro 3,030,303	100	Wholesaling
	PromOcean GmbH	Germany	Euro 25,570	100	Wholesaling
	PromOcean No 1 Limited	England	Ordinary GBP1	100	Investment holding
	PromOcean Polska SP. Z O.O.	Poland	50,000 zl	100	Wholesaling
	PromOcean Spain SL	Spain	Euro 3,005.06	100	Wholesaling
	PromOcean The Netherlands B.V.	The Netherlands	Euro 178,677	100	Wholesaling
	PromOcean UK Limited	England	Ordinary GBP1	100	Wholesaling
	PromOcean Werbeartikel GmbH	Austria	Euro 70,000	100	Wholesaling
	P.T. Lifung Indonesia	Indonesia	US$500,000	100	Export trading services
	RT Sourcing Asia Limited	Hong Kong	HK$102,000	100	Export trading
	RT Sourcing USA Inc.	U.S.A.	Common stock US$6	100	Importer
	RT Sourcing (Shenzhen) Co. Ltd.	The People's Republic of China	HK$1,000,000	100 foreign-owned enterprise	Export trading services
	RVVW Apparel LLC	U.S.A.	Capital contribution Nil	100	Wholesaling
	Ralsey Group Limited	U.S.A.	Common stock US$1	100	Wholesaling
(2)	Ratners Enterprises Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Region Giant Holdings Limited	British Virgin Islands	Ordinary US$31	100	Investment holding
	Rosetti Asia Limited (formerly: Good Basis Limited)	Hong Kong	Ordinary HK$2	100	Export trading
	Rosetti Handbags and Accessories, Ltd.	U.S.A.	Common stock US$1	100	Wholesaling
	Shiu Fung Fireworks Company Limited	Hong Kong	Ordinary "A" HK$1,100,000 Ordinary "B" HK$1,100,000	100	Export trading
	Shiu Fung Fireworks Trading (Changsha) Limited	The People's Republic of China	RMB4,000,000	100	Export trading
	Shubiz Limited	England	Ordinary GBP2	100	Design, marketing and sourcing
	Shutoo Limited	England	Ordinary GBP1	100	Design, marketing and sourcing
	Silvereed (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Sky Million International Limited	Hong Kong	Ordinary HK$2	100	Property investment
	Social Compliance Management & Audit Pte. Ltd	Singapore	Ordinary S$1	100	Compliance services
	Sports Brands Italia Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading
(2)	STS Shenzhen Testing Service Limited	The People's Republic of China	US$660,000	100 foreign-owned enterprise	Testing and technology consultation
(2)	Tantallon Enterprises Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(2)	Texnorte II-Industrias Texteis, Limitada	Portugal	Quotas Euro 5,000	100	Export trading
	Texnorte Industrial Limited	Hong Kong	Ordinary HK$2	100	Export trading
	TH Success Limited	Hong Kong	Ordinary HK$1,560,000	100	Export trading
	Toy Island Manufacturing Company Limited	Hong Kong	Ordinary HK$62,000,000	100	Design and marketing
	Toy Island (USA) LLC	U.S.A.	Capital contribution US$100	100	Marketing
	Ventana Bekleidungsfabrikation GmbH	Germany	Euro 26,000	100	Wholesaling
	Verity Enterprises Limited	Hong Kong	Ordinary HK$2,000,000	100	Export trading
	VZI Investment Corp.	U.S.A.	Common stock US$1	100	Wholesaling
	W S Trading Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading
	Wilson Textile Limited	Hong Kong	Ordinary HK$1	100	Export trading
	888 UK Limited	England	Ordinary GBP1	100	Service company

Notes:

(1) Li & Fung (B.V.I.) Limited provides the subsidiaries with promotional and marketing services outside Hong Kong.

(2) Subsidiaries not audited by PricewaterhouseCoopers. The aggregate net assets of subsidiaries not audited/reviewed by PricewaterhouseCoopers amounted to less than 5% of the Group's total net assets.

The above table lists out the principal subsidiaries of the Company as at 31 December 2009 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity indirectly held by the Company	Principal activities
	Principal associated companies				
	Blue Work Trading Company Limited	Hong Kong	Ordinary HK$4,000,000	50	Export trading
#	Fireworks Management, Inc.	U.S.A.	Common stock US$60,000	25	Investment holding
#	Gulf Coast Fireworks Sales, L.L.C.	U.S.A.	Capital contribution US$3,034,568	30	Fireworks distribution
	Upsolut Merchandising GmbH & Co. KG	Germany	Euro 5,000	39	Distribution and wholesaling
#	Winco Fireworks International, L.L.C.	U.S.A.	Capital contribution US$8,486,040	30	Wholesaling
#	Winco Fireworks Mississippi, L.L.C.	U.S.A.	Capital contribution US$124,446	30	Wholesaling

The associated companies are not audited by PricewaterhouseCoopers.

The above table lists out the principal associated companies of the Company as at 31 December 2009 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other associated companies would, in the opinion of the directors, result in particulars of excessive length.

3. UNAUDITED CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2010

The following financial information is extracted from the published unaudited consolidated condensed interim financial information of the Li & Fung Group for the six months ended 30 June 2010.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited Six months ended 30 June	
		2010	**2009**
	Note	*HK$'000*	*HK$'000*
Turnover	*3*	51,791,920	46,292,167
Cost of sales		(45,065,002)	(41,109,934)
Gross profit		6,726,918	5,182,233
Other income		270,932	213,088
Total margin		6,997,850	5,395,321
Selling expenses		(999,559)	(707,508)
Merchandising expenses		(3,025,797)	(2,654,853)
Administrative expenses		(337,084)	(336,101)
Core operating profit		2,635,410	1,696,859
Other non-core operating expenses		(87,589)	(47,929)
Operating profit	*3 & 4*	2,547,821	1,648,930
Interest income		36,206	35,620
Interest expenses		(270,661)	(211,651)
Share of profits less losses of associated companies		7,439	11,276
Profit before taxation		2,320,805	1,484,175
Taxation	*5*	(150,407)	(88,202)
Profit for the period		2,170,398	1,395,973
Attributable to:			
Shareholders of the Company		2,171,295	1,396,641
Non-controlling interests		(897)	(668)
		2,170,398	1,395,973
Earnings per share for profit attributable to the shareholders of the Company during the period	*7*		
- basic		57.5 HK cents	38.3 HK cents
- diluted		56.9 HK cents	38.1 HK cents

Details of dividends to Shareholders of the Company are set out in *Note 6*.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June	
	2010	**2009**
	HK$'000	*HK$'000*
Profit for the period	2,170,398	1,395,973
Other comprehensive income:		
Currency translation differences	(344,174)	65,706
Net fair value gains/(losses) on cash flow hedges, net of tax	31,415	(43,434)
Net fair value (losses)/gains of available-for-sale financial assets, net of tax	(1,542)	2,909
Other comprehensive (expense)/income for the period, net of tax	(314,301)	25,181
Total comprehensive income for the period	1,856,097	1,421,154
Attributable to:		
Shareholders of the Company	1,856,306	1,421,892
Non-controlling interests	(209)	(738)
Total comprehensive income for the period	1,856,097	1,421,154

CONSOLIDATED BALANCE SHEET

	Note	Unaudited 30 June 2010 HK$'000	Audited 31 December 2009 HK$'000
Non-current assets			
Intangible assets	8	22,516,139	18,202,527
Property, plant and equipment	8	1,366,428	1,255,705
Prepaid premium for land leases		2,376	2,426
Associated companies		34,903	28,251
Available-for-sale financial assets		679,039	720,184
Deferred tax assets		72,355	58,180
		24,671,240	20,267,273
Current assets			
Inventories		2,609,449	2,382,632
Due from related companies		110,486	98,706
Trade and bills receivable	9	13,511,403	12,561,374
Other receivables, prepayments and deposits		2,747,992	2,331,847
Derivative financial instruments		47,088	2,620
Cash and bank balances		5,763,666	4,202,267
		24,790,084	21,579,446
Current liabilities			
Trade and bills payable	10	13,109,333	12,005,113
Accrued charges and sundry payables		2,700,861	3,120,427
Balance of purchase consideration payable for acquisitions to be settled by cash	11	1,357,793	1,138,668
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	11	365,595	323,700
Taxation		570,941	520,969
Bank advances for discounted bills	9	305,366	302,123
Bank overdrafts		340,608	47,315
		18,750,497	17,458,315
Net current assets		6,039,587	4,121,131
Total assets less current liabilities		30,710,827	24,388,404

	Note	Unaudited 30 June 2010 HK$'000	Audited 31 December 2009 HK$'000
Financed by:			
Share capital	12	95,297	94,403
Reserves		17,050,779	15,810,930
Proposed dividend		1,449,106	1,854,313
		18,499,885	17,665,243
Shareholders' funds attributable to the Company's shareholders		18,595,182	17,759,646
Non-controlling interests		(34,587)	(33,455)
Total equity		18,560,595	17,726,191
Non-current liabilities			
Long-term liabilities	11	12,031,677	6,425,251
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	11	–	140,350
Post-employment benefit obligations		25,778	25,766
Deferred tax liabilities		92,777	70,846
		12,150,232	6,662,213
		30,710,827	24,388,404

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Attributable to Shareholders of the Company						
	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2010	94,403	14,182,564	(392,609)	3,875,288	17,759,646	(33,455)	17,726,191
Comprehensive income							
Profit or loss	–	–	–	2,171,295	2,171,295	(897)	2,170,398
Other comprehensive income							
Currency translation differences	–	–	(344,862)	–	(344,862)	688	(344,174)
Net fair value losses on available-for-sale financial assets, net of tax	–	–	(1,542)	–	(1,542)	–	(1,542)
Net fair value gains on cash flow hedges, net of tax	–	–	31,415	–	31,415	–	31,415
Total other comprehensive income	–	–	(314,989)	–	(314,989)	688	(314,301)
Total comprehensive income	–	–	(314,989)	2,171,295	1,856,306	(209)	1,856,097
Transactions with owners							
Employee share option scheme:							
- value of employee services	–	–	27,257	–	27,257	–	27,257
- proceeds from share issued	894	720,329	–	–	721,223	–	721,223
- transfer to share premium	–	136,112	(136,112)	–	–	–	–
Release of shares held by escrow agent for settlement of acquisition consideration	–	–	98,455	–	98,455	–	98,455
Transfer to capital reserve	–	–	477	(477)	–	–	–
2009 final dividend paid	–	–	–	(1,867,705)	(1,867,705)	(923)	(1,868,628)
Total transactions with owners	894	856,441	(9,923)	(1,868,182)	(1,020,770)	(923)	(1,021,693)
Balance at 30 June 2010	95,297	15,039,005	(717,521)	4,178,401	18,595,182	(34,587)	18,560,595

	Unaudited						
	Attributable to Shareholders of the Company						
	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2009	90,853	11,140,378	(506,457)	2,687,300	13,412,074	(29,720)	13,382,354
Comprehensive income							
Profit or loss	–	–	–	1,396,641	1,396,641	(668)	1,395,973
Other comprehensive income							
Currency translation differences	–	–	65,776	–	65,776	(70)	65,706
Net fair value gains on available-for-sale financial assets, net of tax	–	–	2,909	–	2,909	–	2,909
Net fair value losses on cash flow hedges, net of tax	–	–	(43,434)	–	(43,434)	–	(43,434)
Total other comprehensive income	–	–	25,251	–	25,251	(70)	25,181
Total comprehensive income	–	–	25,251	1,396,641	1,421,892	(738)	1,421,154
Transactions with owners							
Employee share option scheme:							
- value of employee services	–	–	31,960	–	31,960	–	31,960
- proceeds from share issued	174	89,192	–	–	89,366	–	89,366
- transfer to share premium	–	16,597	(16,597)	–	–	–	–
2008 final dividend paid	–	–	–	(1,199,839)	(1,199,839)	(441)	(1,200,280)
Issue of shares upon a private placing	3,007	2,678,660	–	–	2,681,667	–	2,681,667
Total transactions with owners	3,181	2,784,449	15,363	(1,199,839)	1,603,154	(441)	1,602,713
Balance at 30 June 2009	94,034	13,924,827	(465,843)	2,884,102	16,437,120	(30,899)	16,406,221

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 June	
	2010	**2009**
	HK$'000	*HK$'000*
Net cash inflow from operating activities	1,178,543	1,223,192
Net cash outflow from investing activities	(1,591,821)	(1,479,626)
Net cash outflow before financing activities	(413,278)	(256,434)
Net cash inflow from financing activities	1,731,070	1,118,349
Increase in cash and cash equivalents	1,317,792	861,915
Cash and cash equivalents at 1 January	4,154,952	2,181,965
Effect of foreign exchange rate changes	(49,686)	(15,651)
Cash and cash equivalents at 30 June	5,423,058	3,028,229
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	5,763,666	3,158,686
Bank overdrafts	(340,608)	(130,457)
	5,423,058	3,028,229

NOTES TO CONDENSED INTERIM FINANCIAL REPORT

1 GENERAL INFORMATION

Li & Fung Limited ("the Company") and its subsidiaries (together, "the Group") is engaged in export trading of consumer products. The Group operates globally and has sourcing network covers over 80 offices in more than 40 economies.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

These condensed interim financial report are presented in HK dollars, unless otherwise stated. This condensed interim financial report was approved for issue on 12 August 2010.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed interim financial report (the "interim financial report") has been reviewed by the Company's audit committee and, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), by the Company's auditor, PricewaterhouseCoopers.

This interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA. This interim financial report should be read in conjunction with the annual accounts for the year ended 31 December 2009, which had been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

Except as described below, the accounting policies applied are consistent with those of the annual accounts for the year ended 31 December 2009, as described in those annual accounts.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) Revised and amended standards mandatory for the first time for the financial year beginning 1 January 2010 adopted by the Group

HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit and loss account. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

As the Group has adopted HKFRS 3 (revised), it is required to adopt HKAS 27 (revised), 'consolidated and separate financial statements', at the same time. HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

(b) Amendments and interpretations to existing standards effective in 2010 but not relevant to the Group

- HK(IFRIC)-Int 17, 'Distributions of non-cash assets to owners'
- 'Additional exemptions for first-time adopters' (Amendment to HKFRS 1)
- HKAS 39 (Amendment), 'Eligible hedged items'
- HKFRS 2 (Amendment), 'Group cash-settled share-based payment transaction'
- First improvements to Hong Kong Financial Reporting Standards (2008)
- Second improvements to Hong Kong Financial Reporting Standards (2009)

(c) The following are new standards, new interpretations and amendments to standards and interpretations relevant to the Group that have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

- HKFRS 9, 'Financial instruments' addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess HKFRS 9's full impact. The Group has not yet decided when to adopt HKFRS 9.
- HKAS 24 (Revised) 'Related party disclosures' supersedes HKAS 24 'Related party disclosures' issued in 2003. The revised HKAS 24 is required to be applied from 1 January 2011.
- Under 'Classification of rights issues' (Amendment to HKAS 32), for rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010.
- Amendments to HK(IFRIC)-Int 14 'Prepayments of a minimum funding requirement' corrects an unintended consequence of HK(IFRIC) Int-14, HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction. Without the amendments, entities are not permitted to recognise as an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was not intended when HK(IFRIC)-Int 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. The amendments should be applied retrospectively to the earliest comparative period presented. This is not currently applicable to the Group.
- HK(IFRIC)-Int 19, 'Extinguishing financial liabilities with equity instruments' clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010.
- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010, by HKICPA. All improvements are effective in the financial year of 2011.

3 SEGMENT INFORMATION

The Group is principally engaged in export trading of consumer products. The Group operates globally and has a sourcing network composing over 80 offices in more than 40 economies. Turnover represents revenue generated from sales at invoiced value to customers outside the Group less discounts and returns.

The Company is domiciled in Bermuda. The Group's management considers the business principally from a geographical perspective. Business reportable operating segments identified are geographical areas where the customers are located such as United States of America, Europe, Canada, Australasia, Central and Latin America and Rest of the world.

The Group's management assesses the performance of the operating segments based on a measure of operating profit. This measurement basis includes profit of the operating segments before share of results of associated companies, interest income, interest expenses and tax, but excludes material gain or loss which is of capital nature or non recurring nature such as gain or loss on disposal or impairment provision on property, plant and equipment, investments, goodwill or other assets. Other information provided to the Group's management is measured in a manner consistent with that in this interim financial report.

	Turnover six months ended 30 June		Operating profit six months ended 30 June		Depreciation & amortization six months ended 30 June		Non-current assets (other than available-for-sale financial assets and deferred tax assets)	
							30 June	31 December
	2010	2009	2010	2009	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Principal markets:								
United States of America	34,548,222	28,385,749	2,109,793	1,251,518	446,753	188,458	15,215,286	13,861,401
Europe	13,023,152	13,678,224	372,832	304,418	52,932	45,280	7,733,329	4,705,639
Canada	1,407,519	1,484,453	50,048	53,844	3,643	3,381	276,176	273,559
Australasia	1,334,394	1,236,828	50,992	42,537	3,292	2,799	167,488	139,355
Central and Latin America	560,947	609,506	21,327	22,017	1,657	1,395	100,662	139,392
Rest of the world	917,686	897,407	30,418	22,525	2,629	1,953	426,905	369,563
	51,791,920	46,292,167	2,635,410	1,696,859	510,906	243,266	23,919,846	19,488,909
Other non-core operating expenses			(87,589)	(47,929)				
			2,547,821	1,648,930				
Interest income			36,206	35,620				
Interest expenses			(270,661)	(211,651)				
Share of profits less losses of associated companies			7,439	11,276				
Profit before taxation			2,320,805	1,484,175				
Taxation			(150,407)	(88,202)				
Profit for the period			2,170,398	1,395,973				

Turnover consists of sales of softgoods and hardgoods as follows:

	Unaudited Six months ended 30 June 2010 HK$'000	2009 HK$'000
Softgoods	37,648,557	32,835,790
Hardgoods	14,143,363	13,456,377
	51,791,920	46,292,167

For the six months ended 30 June 2010, approximately 12% (2009: 12%) of the Group's turnover is derived from a single external customer. This turnover is attributable to the United States of America segment.

4 OPERATING PROFIT

Operating profit is stated after charging the following:

	Unaudited Six months ended 30 June 2010 HK$'000	2009 HK$'000
Amortization of computer software and system development costs	20,106	4,715
Amortization of brand licenses	255,970	56,476
Amortization of other intangible assets arising from business combination	87,589	47,929
Depreciation of property, plant and equipment	147,241	134,146
Loss on disposal of property, plant and equipment	19,873	6,035
Staff costs including directors' emoluments	2,492,876	2,164,948

5 TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	Unaudited Six months ended 30 June 2010 HK$'000	2009 HK$'000
Current taxation		
- Hong Kong profits tax	22,916	33,784
- Overseas taxation	119,878	61,792
Deferred taxation	7,613	(7,374)
	150,407	88,202

As of the date of this announcement, the Group has disputes with Hong Kong Inland Revenue ("HKIR") involving additional tax assessments amounting to approximately HK$1,924 million on both the non-taxable claim of certain non-Hong Kong sourced income ("Offshore Claim") and the deduction claim of marketing expenses ("Deduction Claim") for the years of assessment from 1992/1993 to 2008/2009.

The Commissioner of the HKIR issued a determination on 14 June 2004 to one of its subsidiaries, Li & Fung (Trading) Limited ("LFT"), confirming additional tax assessments totalling HK$333 million relating to the years of assessment from 1992/93 to 2001/02. Under further legal advice from the Group's counsel, the directors believe that the Group has meritorious defence to appeal against the Commissioner's determination. Accordingly, LFT served a notice of appeal to the Board of Review on 13 July 2004. The appeal was heard before the Board of Review in January 2006.

The Board of Review issued its decision on 12 June 2009 ("the Board of Review Decision") and held partially in favour of LFT. It agreed that the Offshore Claim for the years of assessment from 1992/93 to 2001/02 is valid. In other words, the relevant assessments in respect of such Offshore Claim shall be annulled. On the other hand, the Board of Review disagreed with the Deduction Claim for the years of assessment from 1992/93 to 2001/02. Therefore, the relevant assessments in respect of such Deduction Claim should be confirmed.

The Group has considered the reasoning of the Board of Review Decision and, having obtained professional advice, decided to lodge an appeal against the Board of Review Decision in respect of the Deduction Claim. An application requiring the Board of Review to state a case on questions of law for the opinion of the High Court was made by LFT on 10 July 2009.

On the other hand, the HKIR also lodged an appeal against the Board of Review Decision in respect of the Offshore Claim. An application requiring the Board of Review to state a case on questions of law for the opinion of the High Court was made by the HKIR on 10 July 2009.

On 19 March 2010, the Board of Review stated a case on questions of law in respect of both LFT's appeal in respect of the Deduction Claim, and the HKIR's appeal in respect of the Offshore Claim. On 1 April 2010, both LFT and the HKIR transmitted the stated case to the High Court for determination. On 15 July 2010, the HKIR applied to the High Court to remit the stated case to the Board of Review for amendment so as to include certain evidence and additional questions of law in the stated case.

As of the date of this interim financial report, the HKIR's application to amend the stated case has been fixed to be heard before the Court of First Instance on 17 February 2011, whereas the appeal in respect of the Board of Review decision by both LFT and the HKIR has been fixed to be heard before the Court of First Instance on 6 April 2011.

The Group has also filed objections with the HKIR against the remaining additional tax assessments of HK$1,591 million. The case before the Board of Review and now the High Court only applies to the additional tax assessments in respect of LFT for the years of assessment from 1992/93 to 2001/02. Our dispute with the HKIR regarding the remaining additional tax assessments in respect of certain other subsidiaries for the years of assessment from 1992/93 to 2001/02, and in respect of the Group for the period after the 2001/02 assessment years, is ongoing and has not yet been determined. It is therefore not yet before the Board of Review, and no hearing is currently scheduled.

Based on the assessment of the Group's legal counsel on the merits of LFT's further appeal in respect of the Deduction Claim and the HKIR's further appeal in respect of the Offshore Claim, and having taken into account the impact and ramification that the Board of Review Decision has on the tax affairs of LFT, the directors consider that no material tax liabilities will finally crystallize and sufficient tax provision has been made in the accounts in this regard.

On 11 June 2010, the Group also applied for a judicial review of the HKIR Commissioner's decision rejecting LFT's application for an unconditional holdover of tax for the year of assessment 2008/09 pending the determination of the objection lodged with the HKIR. The Group has purchased tax reserve certificates in respect of LFT for the year of assessment 2008/09 as directed by the Commissioner of the HKIR pending the decision of the judicial review application. As of the date of this interim financial report, the hearing date for the judicial review application is yet to be fixed.

6 INTERIM DIVIDEND

	Unaudited Six months ended 30 June 2010 HK$'000	2009 HK$'000
Proposed, of HK$0.38 (2009: HK$0.26) per ordinary share	1,449,106	978,494

A dividend of HK$1,867,705,000 proposed for the year ended 31 December 2009 was paid in May 2010 (2009: HK$1,199,839,000).

7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$2,171,295,000 (2009: HK$1,396,641,000) and on the weighted average number of 3,773,915,000 (2009: 3,650,964,000) shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of 3,773,915,000 (2009: 3,650,964,000) ordinary shares in issue by 40,358,000 (2009: 12,983,000) to assume conversion of all dilutive potential ordinary shares granted under the Company's Option Scheme. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

8 CAPITAL EXPENDITURE

	Intangible assets				Property, plant and equipment
	Intangible assets arising from business combination	Brand licenses	Computer software and system development costs	Total	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Six months ended 30 June 2010					
Net book amount as at 1 January 2010	17,468,032	410,542	323,953	18,202,527	1,255,705
Additions	–	958,337	33,374	991,711	232,426
Acquisition of businesses/subsidiaries	3,950,158	–	–	3,950,158	102,304
Adjustments to purchase consideration and net assets value	3,543	–	–	3,543	–
Disposals	–	–	(161)	(161)	(51,023)
Amortization/depreciation charge	(87,589)	(255,970)	(20,106)	(363,665)	(147,241)
Exchange adjustment	(266,776)	–	(1,198)	(267,974)	(25,743)
Net book amount as at 30 June 2010	21,067,368	1,112,909	335,862	22,516,139	1,366,428

9 TRADE AND BILLS RECEIVABLE

The ageing analysis of trade and bills receivable based on invoice date is as follows:

	Current to 90 days *HK$'000*	91 to 180 days *HK$'000*	181 to 360 days *HK$'000*	Over 360 days *HK$'000*	Total *HK$'000*
Balance at 30 June 2010 (unaudited)	13,161,205	294,140	33,391	22,667	13,511,403
Balance at 31 December 2009 (audited)	12,095,108	377,931	71,239	17,096	12,561,374

All trade and bills receivable are either repayable within one year or on demand. Accordingly, the fair values of the Group's trade and bills receivables are approximately the same as their carrying values.

A significant portion of the Group's business are on sight letter of credit, usance letter of credit up to a tenor of 120 days, documents against payment or customers' letter of credit to suppliers. The balance of the business is on open account terms which is often covered by customers' standby letters of credit, bank guarantees, credit insurance or under a back-to-back payment arrangement with suppliers.

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

Certain subsidiaries of the Group discounted bills receivable balances amounting to HK$305,366,000 (31 December 2009: HK$302,123,000) to banks in exchange for cash as at 30 June 2010. The transactions have been accounted for as collateralized bank advances.

As at 30 June 2010, trade receivables of HK$149,165,000 (31 December 2009: HK$106,773,000) were pledged as security for the Group's borrowings.

10 TRADE AND BILLS PAYABLE

The ageing analysis of trade and bills payable based on invoice date is as follows:

	Current to 90 days *HK$'000*	91 to 180 days *HK$'000*	181 to 360 days *HK$'000*	Over 360 days *HK$'000*	Total *HK$'000*
Balance at 30 June 2010 (unaudited)	12,678,676	300,880	34,064	95,713	13,109,333
Balance at 31 December 2009 (audited)	11,744,955	109,297	44,873	105,988	12,005,113

The fair values of the Group's trade and bills payables are approximately the same as their carrying values.

11 LONG-TERM LIABILITIES

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
Long-term loans from non-controlling interests	38,867	38,867
Balance of purchase consideration payable for acquisitions	5,632,115	3,422,340
Long-term notes – unsecured	6,977,775	3,872,325
Balance of purchase consideration payable for acquisitions to be settled by shares issued andheld by escrow agent	365,595	464,050
License royalty payables	1,117,145	450,039
	14,131,497	8,247,621
Current portion of balance of purchase consideration payable for acquisitions	(1,357,793)	(1,138,668)
Current portion of balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	(365,595)	(323,700)
Current portion of license royalty payables	(376,432)	(219,652)
	12,031,677	6,565,601

12 SHARE CAPITAL AND OPTIONS

	No. of shares *(in thousand)*	*HK$'000*
Authorized		
At 1 January 2010, ordinary shares of HK$0.025 each	4,000,000	100,000
At 30 June 2010, ordinary shares of HK$0.025 each *(Note)*	**6,000,000**	**150,000**
Issued and fully paid		
At 1 January 2010, ordinary shares of HK$0.025 each	3,776,118	94,403
Exercise of share options	35,756	894
At 30 June 2010, ordinary shares of HK$0.025 each	**3,811,874**	**95,297**

Note: Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 18 May 2010, the Company's authorized share capital was increased from HK$100,000,000 to HK$150,000,000 by the creation of an additional 2,000,000,000 new shares of HK$0.025 each in the capital of the Company.

Details of share options granted by the Company pursuant to the Share Option Scheme and the share options outstanding at 30 June 2010 are as follows:

			Number of Share Options				
Grant Date	Exercise Price *HK$*	Exercisable period	As at 1/1/2010	Granted	Exercised	Lapsed	As at 30/6/2010
20/6/2005	13.45	20/6/2007 – 19/6/2010	4,301,800	–	(4,221,800)	(80,000)	–
20/6/2005	13.45	20/6/2008 – 19/6/2011	8,302,400	–	(5,401,800)	(176,000)	2,724,600
20/6/2005	13.45	20/6/2009 – 19/6/2012	12,225,200	–	(4,822,000)	(176,000)	7,227,200
23/1/2006	13.72	20/6/2007 – 19/6/2010	169,200	–	(169,200)	–	–
23/1/2006	13.72	20/6/2008 – 19/6/2011	682,000	–	(165,000)	–	517,000
23/1/2006	13.72	20/6/2009 – 19/6/2012	762,000	–	(245,000)	–	517,000
19/6/2006	15.65	20/6/2007 – 19/6/2010	8,000	–	(8,000)	–	–
19/6/2006	15.65	20/6/2008 – 19/6/2011	368,000	–	(124,000)	–	244,000
19/6/2006	15.65	20/6/2009 – 19/6/2012	990,000	–	(530,000)	–	460,000
02/2/2007	25.50	20/6/2008 – 19/6/2011	1,379,000	–	(487,000)	–	892,000
02/2/2007	25.50	20/6/2009 – 19/6/2012	5,218,000	–	(2,398,000)	–	2,820,000
13/7/2007	29.93	20/6/2009 – 19/6/2012	1,327,000	–	(693,000)	–	634,000
24/1/2008	25.55	01/3/2009 – 28/2/2011	25,296,500	–	(10,380,500)	(356,000)	14,560,000
24/1/2008	25.55	01/3/2010 – 29/2/2012	24,734,000	–	(3,059,000)	(356,000)	21,319,000
24/1/2008	25.55	01/3/2011 – 28/2/2013	24,734,000	–	–	(356,000)	24,378,000
21/5/2008	30.00	01/3/2009 – 28/2/2011	2,238,500	–	(473,000)	(30,000)	1,735,500
21/5/2008	30.00	01/3/2010 – 29/2/2012	1,400,000	–	(197,500)	(30,000)	1,172,500
21/5/2008	30.00	01/3/2011 – 28/2/2013	1,400,000	–	–	(30,000)	1,370,000
13/8/2008	26.20	01/3/2009 – 28/2/2011	1,174,900	–	(451,900)	–	723,000
13/8/2008	26.20	01/3/2010 – 29/2/2012	1,697,100	–	(411,900)	–	1,285,200
13/8/2008	26.20	01/3/2011 – 28/2/2013	1,697,100	–	–	–	1,697,100
24/2/2009	17.22	01/3/2010 – 29/2/2012	2,729,000	–	(1,325,000)	(66,000)	1,338,000
24/2/2009	17.22	01/3/2011 – 28/2/2013	2,408,000	–	–	(60,000)	2,348,000
14/8/2009	27.80	01/3/2010 – 29/2/2012	1,792,500	–	(193,200)	(19,200)	1,580,100
14/8/2009	27.80	01/3/2011 – 28/2/2013	2,123,700	–	–	(25,500)	2,098,200
25/3/2010	41.52	01/3/2011 – 28/2/2013	–	2,733,100	–	–	2,733,100
		Total	129,157,900	2,733,100	(35,756,800)	(1,760,700)	94,373,500

Subsequent to 30 June 2010, 1,563,400 Shares have been allotted and issued under the Option Scheme.

13 OTHER RESERVES

	Shares held by escrow agent for settlement of acquisition consideration	Capital reserve	Employee share–based compen–sation reserve	Revaluation reserve	Hedging reserve	Exchange reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2010	(464,050)	27,157	311,027	1,297	6,112	(274,152)	(392,609)
Comprehensive income							
Currency translation differences	–	–	–	–	–	(344,862)	(344,862)
Net fair value losses onavailable–for–sale financial assets,net of tax	–	–	–	(1,542)	–	–	(1,542)
Net fair value gains on cash flowhedges, net of tax	–	–	–	–	31,415	–	31,415
Transactions with owners							
Employee share option scheme:							
– value of employee services	–	–	27,257	–	–	–	27,257
– transfer to share premium	–	–	(136,112)	–	–	–	(136,112)
Release of shares held by escrow agent for settlementof acquisition consideration	98,455	–	–	–	–	–	98,455
Transfer to capital reserve	–	477	–	–	–	–	477
At 30 June 2010	(365,595)	27,634	202,172	(245)	37,527	(619,014)	(717,521)

	Shares held by escrow agent for settlement of acquisition consideration	Capital reserve	Employee share–based compen–sation reserve	Revaluation reserve	Hedging reserve	Exchange reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2009	(464,050)	25,307	241,102	–	943	(309,759)	(506,457)
Comprehensive income							
Currency translation differences	–	–	–	–	–	65,776	65,776
Net fair value gains onavailable–for–sale financial assets,net of tax	–	–	–	2,909	–	–	2,909
Net fair value losses on cash flowhedges, net of tax	–	–	–	–	(43,434)	–	(43,434)
Transactions with owners							
Employee share option scheme:							
– value of employee services	–	–	31,960	–	–	–	31,960
– transfer to share premium	–	–	(16,597)	–	–	–	(16,597)
At 30 June 2009	(464,050)	25,307	256,465	2,909	(42,491)	(243,983)	(465,843)

14 BUSINESS COMBINATIONS

During the period, the Group completed several acquisitions with a total estimated performance-based consideration of approximately HK$4,395,753,000. These acquisitions were made with the aims to expand the Group's existing scale of operation and enlarge the Group's market presence.

On 25 February 2010, the Group entered into an agreement to acquire the entire issued share capital of Visage Group Limited ("Visage Group"). Visage Group is a leading private-label apparel supplier to leading high street and mass retailers in the UK. Visage Group has strong expertise and capabilities in design and product development in men's, ladies and childrenswear.

In May 2010, the Group acquired the entire interest of Hong Kong–based Jackel Group, which services the beauty industry in primary packaging, fragrance and personal care.

In June 2010, the Group acquired the entire business of the Hong Kong–based HTP Group, which is a design driven jeanswear specialist.

The Group consolidated the results of these acquired businesses upon obtaining their controls through acquiring the entire/predominate voting rights in their respective board of directors. Individual acquisitions of Visage Group, Jackel Group and HTP Group, and certain other smaller acquisitions, and their aggregate, have no significant contribution to the revenue and profit of the Group from either their dates of acquisition or for the six months ended 30 June 2010, had these acquisitions occurred on 1 January 2010.

Details of provisional net assets acquired and goodwill are as follows:

	Total
	HK$'000
Purchase consideration	4,395,753
Less: provisional fair value of net assets acquired	(1,067,936)
Goodwill	3,327,817

The goodwill is attributable to the profitability and the synergies expected to arise from the acquired businesses.

As at the date of this interim report, the Group has yet to finalize the fair value assessments for new assets acquired from these acquisitions. The Group expects to finalize the purchase price allocations by 31 December 2010. Acquisition–related costs have been recognized as administrative expenses in the consolidated profit and loss account.

The carrying amounts of the assets and liabilities of the acquired businesses approximate their provisional fair values and are as follows:

	Total
	HK$'000
Net assets acquired	
Intangible assets	622,341
Property, plant and equipment	102,304
Inventories	318,837
Trade and bills receivable	726,598
Other receivables, prepayments and deposits	36,249
Taxation	6,122
Cash and bank balances	423,572
Trade and bills payables	(749,105)
Accrued charges and sundry payables	(418,839)
Deferred taxation	(143)
Provisional fair value of net assets acquired	1,067,936

15 CONTINGENT LIABILITIES

	Unaudited 30 June 2010	**Audited 31 December 2009**
	HK$'000	*HK$'000*
Guarantees in respect of banking facilities granted to associated companies	5,850	5,850

16 COMMITMENTS

(A) Operating Lease Commitments

At 30 June 2010, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited 30 June 2010	**Audited 31 December 2009**
	HK$'000	*HK$'000*
Within one year	405,720	451,966
In the second to fifth year inclusive	1,074,198	1,177,030
After the fifth year	1,327,660	1,364,779
	2,807,578	2,993,775

(B) Capital Commitments

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
Contracted but not provided for:		
Property, plant and equipment	80,288	33,526

17 RELATED PARTY TRANSACTIONS

Pursuant to certain sale and leaseback agreements and some other properties tenancy agreements entered into by the Group with certain entities indirectly wholly owned by Dr William Fung Kwok Lun and a trust established for the family of Dr Victor Fung Kwok King, the Group paid rental of HK$55,701,000 for the six months ended 30 June 2010 (2009: HK$60,546,000).

On 23 May 2008, the Company entered into the 2008 Logistics Agreement (the "2008 Logistics Agreement") with LF 1937, a substantial shareholder of the Company, pursuant to which LF 1937 and certain other entities, such as Integrated Distribution Services Group Limited, with LF 1937 as a common substantial shareholder would provide a variety of logistics services to the Group. The 2008 Logistics Agreement covers the scope of services contemplated under the original PB Logistics Agreement entered into on 14 September 2007 between the Group and Integrated Distribution Services Group Limited. In respect of the 2008 Logistics Agreement the Group paid logistics service charges of HK$77,340,000 for the six months ended 30 June 2010 (2009: HK$58,950,000).

Save as above, the Group had no material related party transactions during the period.

18 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(A) Market Risk

(i) Foreign exchange risk

The Group operates globally with almost all of its sales and purchases traded in foreign currencies, mostly in US dollar. HK dollar is pegged to US dollar at a range between 7.75 to 7.85 and the foreign exchange exposure between US dollar and HK dollar is therefore limited.

The Group is exposed to foreign exchange risk arising from various currency exposures mainly to the extent of its receivables and payables in currencies other than US dollar, such as Euro dollar and Sterling Pound. To minimize such risks, sales and purchases are generally transacted in the same currency.

Foreign exchange risk arising from sales and purchases transacted in different currencies are managed by the Group treasury with the use of foreign exchange forward contracts. Pursuant to the Group policy in place, foreign exchange forward contracts, or any other financial derivatives, are entered into by the Group for hedging purposes. The Group has not entered into any financial derivatives for speculation.

The Group's cash is mainly kept in either HK dollar or US dollar to minimize the foreign exchange risk.

(ii) *Price risk*

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as available-for-sale financial assets. The Group maintained these equity securities investments for long-term strategic purpose and the Group's overall exposure to price risk is not significant.

At 30 June 2010 and up to the date of the Group's interim financial report, the Group held no material financial derivative instruments except for certain foreign exchange forward contracts entered into for hedging of foreign exchange risk exposure on sales and purchases transacted in different currencies ((i) above). At 30 June 2010, fair value of foreign exchange forward contracts entered into by the Group amounted to HK$47,088,000 (31 December 2009: HK$2,620,000), which have been reflected in full in the Group's consolidated balance sheet as derivative financial instruments (assets).

(iii) *Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises mainly from its bank deposits of various major currencies, US dollar denominated long-term notes and the US dollar denominated available-for-sale debt security. Bank deposits at variable rates expose the Group to cash flow interest rate risk. Long-term notes and available-for-sale debt security issued at fixed interest rate expose the Group to fair value interest rate risk. However, the Group's policy is to maintain a diversified mix of variable and fixed rate borrowings based on prevailing market condition.

(B) Credit Risk

Credit risk mainly arises from trade and other receivables and cash and bank balances of the Group. Most of the Group's cash and bank balances are held in major global financial institutions.

The Group has stringent policies in place to manage its credit risk with trade and other receivables, which include but are not limited to the measures set out below:

(i) A significant portion of business is secured by back-to-back payment arrangement or covered by letters of credit, customers' standby letters of credit, bank guarantees or credit insurance;

(ii) Certain trade receivable balances on open account term are factored to external financial institutions without recourse;

(iii) The Group's credit control team makes assessment of each individual customer and vendor and determines the credit limits based on, among other factors, their trading and settlement history and their respective financial background.

(C) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash on hand and the availability of funding through an adequate amount of committed credit facilities from the Group's bankers.

Management monitors rolling forecasts of the Group's liquidity reserve (comprises undrawn borrowing facility and cash and cash equivalents) on the basis of expected cash flow.

19 EVENTS AFTER BALANCE SHEET DATE

In July 2010, the Group completed the acquisition of substantially all assets of Cipriani Accessories Inc. and its affiliate, The Max Leather Group. Cipriani Accessories Inc., is a leading designer, distributor and importer of men's and women's accessories in the US, Mexico and Canada.

In the same month, the Group issued additional long term notes of US$350 million (equivalent to approximately HK$2,730 million), which have a maturity date of 13 May 2020 and bear a fixed interest rate of 5.25% per annum. These additional long term notes consolidated and form a single series with the long term notes of US$400 million (equivalent to approximately HK$3,120 million) issued in May 2010 and both would rank pari passu with each others. Fund raised with these long term notes are primarily intended for business development and acquisitions.

In August 2010, the Group completed another two acquisitions namely, Jimlar Corporation and Kenas Furniture Group. Jimlar Corporation is an U.S. – based leading designer, distributor and supplier of footwear in the U.S. and internationally. Kenas Furniture is a China's leading furniture trading companies which sells furniture to premier retailers and brands overseas. Kenas Furniture Group, based in shanghai, has strong in–house capabilities in furniture design and product development.

20 APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board of Directors on 12 August 2010.

4. INDEBTEDNESS STATEMENT

As at the close of business on 30 June 2010, being the latest practicable date for the purpose of this indebtedness statement, the Li & Fung Group had the following indebtedness:

	HK$'million
Bank overdrafts	
– Secured*	177.0
– Unsecured	163.6
Unsecured long-term notes with principal amount of US$900 million	6,977.8
Guarantee in respect of banking facilities granted to an associated company	5.9

* Bank overdrafts of approximately HK$177.0 million were secured by certain inventories and trade receivables of the Li & Fung Group.

Save as aforesaid and apart from intra-group liabilities and normal trade debts payable, neither Li & Fung nor any of its subsidiaries had, at the close of business of 30 June 2010, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptance or acceptance credit, debentures, mortgages, charges, hire purchase or other finance lease commitments, guarantees or other material contingent liabilities.

5. MATERIAL CHANGES

Other than the issuances of additional long-term notes in May and July 2010 of US$ 400 million (HK$3.1 billion) and US$350 million (HK$2.7 billion) respectively and the completion of certain acquisitions by the Li & Fung Group as disclosed in Li & Fung's interim report for the six months ended 30 June 2010, the Li & Fung Directors confirm that, there were no material changes in the financial or trading position or outlook of the Li & Fung Group since 31 December 2009, the date to which the last published audited consolidated financial statements of the Li & Fung Group were made up, up to the Latest Practicable Date.

*For illustrative purposes only, the following unaudited pro forma financial information of the Enlarged Group is extracted from the unaudited pro forma financial information as set out in the circular of Li & Fung dated 27 August 2010 (the "**Circular**"). The unaudited pro forma financial information is prepared in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the Proposal on the Enlarged Group's financial information.*

(I) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative and unaudited pro forma financial information of the Enlarged Group ("Unaudited Pro Forma Financial Information"), including the unaudited pro forma consolidated balance sheet as of 30 June 2010, the unaudited pro forma consolidated profit and loss account for the year ended 31 December 2009, the unaudited pro forma adjusted earnings per share for the year ended 31 December 2009, the unaudited pro forma adjusted net tangible liabilities and unaudited pro forma adjusted net assets as of 30 June 2010, which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed acquisition of 100% of issued share capital of IDS by the Company, as if it had taken place on 30 June 2010 for the unaudited pro forma consolidated balance sheet, the unaudited pro forma adjusted net tangible liabilities and unaudited pro forma adjusted net assets; and on 1 January 2009 for the unaudited pro forma consolidated profit and loss account and the unaudited pro forma adjusted earnings per share.

The Proposal allows the Scheme Shareholders (other than the Committed Shareholders, which have irrevocably undertaken to elect the Share Alternative) to elect either the Cash Alternative or the Share Alternative. The Unaudited Pro Forma Financial Information presents two scenarios illustrating the impact on the financial position as at 30 June 2010 and results of operations for the year ended 31 December 2009 of the Enlarged Group on the assumption that: (i) all Scheme Shareholders, other than the Committed Shareholders, elect the Cash Alternative, all IDS Optionholders exercise their outstanding IDS Share Options to become the Scheme Shareholders prior to the Record Date and Mikenwill exercises the Mikenwill Call Option to become Scheme Shareholders prior to the Record Date ("Maximum Cash Outlay Scenario"); and (ii) all Scheme Shareholders elect the Share Alternative, all IDS Optionholders exercise their outstanding IDS Share Options to become the Scheme Shareholders prior to the Record Date and Mikenwill exercises the Mikenwill Call Option to become the Scheme Shareholders prior to the Record Date ("Maximum Share Swap Scenario").

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position or results of operations of the Group had the acquisition been completed as at 30 June 2010 or 1 January 2009, where applicable, or at any future dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

A. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP AS OF 30 JUNE 2010 (MAXIMUM CASH OUTLAY SCENARIO)

			Pro forma adjustments			
	The Group as at 30 June 2010	IDS Group as at 30 June 2010	Other pro forma adjustments			Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
Assets						
Intangible assets	22,516,139	699,918			5,624,801	28,840,858
Investment in subsidiaries	–	–	7,264,845		(7,264,845)	–
Properties, plant and equipment	1,366,428	910,049				2,276,477
Prepaid premium for land leases	2,376	26,723				29,099
Associated companies	34,903	1,498				36,401
Available-for-sale financial assets	679,039	–				679,039
Deferred tax assets	72,355	101,735				174,090
Other assets	110,486	94,224				204,710
Inventories	2,609,449	1,921,241				4,530,690
Trade and other receivables	16,259,395	2,418,406			(38,140)	18,639,661
Derivative financial instruments	47,088	–				47,088
Cash and bank balances	5,763,666	819,086	(4,382,849)	(48,635)	338,584	2,489,852
	49,461,324	6,992,880				57,947,965
Liabilities						
Trade and other payables	(16,550,907)	(3,788,492)			38,140	(20,301,259)
Balance of purchase consideration payable for acquisitions	(5,997,710)	–				(5,997,710)
Taxation	(570,941)	(52,229)				(623,170)
Bank advances for discounted bills	(305,366)	–				(305,366)
Bank loans	–	(1,520,555)				(1,520,555)
Bank overdrafts	(340,608)	(139,214)				(479,822)
Long term notes	(6,977,775)	–				(6,977,775)
Deferred taxation	(92,777)	(31,824)				(124,601)
Other liabilities	(64,645)	(99,201)				(163,846)
	(30,900,729)	(5,631,515)				(36,494,104)
Net assets	18,560,595	1,361,365				21,453,861

			Pro forma adjustments			
	The Group as at 30 June 2010	**IDS Group as at 30 June 2010**	**Other pro forma adjustments**			**Pro forma Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
Capital and reserves						
Share capital	95,297	251,722	2,007		(251,722)	97,304
Reserves	18,499,885	1,030,738	2,879,989	(48,635)	(1,049,738)	21,312,239
Shareholders' funds attributable to shareholders of the Company	18,595,182	1,282,460				21,409,543
Non-controlling interests	(34,587)	78,905				44,318
Total Equity	18,560,595	1,361,365				21,453,861
Net assets attributable to shareholders of the Company	18,595,182	1,282,460	2,881,996	(48,635)	(1,301,460)	21,409,543
Net assets per share attributable to shareholders of the Company (HK$) *(Note 8)*	4.88					5.50
Net tangible liabilities attributable to shareholders of the Company *(Note 9)*	(3,920,957)	582,542	2,881,996	(48,635)	(6,926,261)	(7,431,315)
Net tangible liabilities per share attributable to shareholders of the Company (HK$) *(Note 8)*	(1.03)					(1.91)

B. UNAUDITED PRO FORMA CONSOLIDATED PROFIT AND LOSS ACCOUNT OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2009 (MAXIMUM CASH OUTLAY SCENARIO)

		Pro forma adjustments			
	The Group for the year ended 31 December 2009	IDS Group for the year ended 31 December 2009	Other pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 4*	*Note 5*	
Turnover	104,478,983	14,056,084		(157,006)	118,378,061
Cost of sales	(92,406,211)	(10,390,559)			(102,796,770)
Gross profit	12,072,772	3,665,525			15,581,291
Other income	644,686	4,680			649,366
Total margin	12,717,458	3,670,205			16,230,657
Operating expenses	(8,727,352)	(3,473,262)	(48,635)	157,006	(12,092,243)
Core operating profit	3,990,106	196,943			4,138,414
Non-core operating expenses net of income	(110,600)	157,958		(19,000)	28,358
Operating profit	3,879,506	354,901			4,166,772
Interest income	90,763	12,683			103,446
Interest expenses	(372,109)	(45,973)			(418,082)
Share of profits less losses of associated companies	7,787	585			8,372
Profit before taxation	3,605,947	322,196			3,860,508
Taxation	(240,222)	(82,127)			(322,349)
Profit after taxation	3,365,725	240,069			3,538,159
Non-controlling interests	3,382	(7,410)			(4,028)
Profit attributable to shareholders of the Company	3,369,107	232,659			3,534,131
Earnings per share (HK$) *(Notes 6 and 7)*	0.91				0.93

C. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP (MAXIMUM CASH OUTLAY SCENARIO)

1. The amounts are extracted from the unaudited consolidated balance sheet of the Group as of 30 June 2010 as set out in the interim report of the Company for the six months ended 30 June 2010 and audited consolidated profit and loss account of the Group for the year ended 31 December 2009 as set out in the annual report of the Company for the year ended 31 December 2009 respectively, with regrouping of certain figures.

2. The amounts are extracted from the unaudited consolidated balance sheet of the IDS Group as of 30 June 2010 as set out in the interim results announcement of IDS for the six months ended 30 June 2010 and the audited consolidated income statement of the IDS Group for the year ended 31 December 2009, as set out in the annual report of IDS for the year ended 31 December 2009, and converted into Hong Kong dollars using an exchange rate of US$1.00 to HK$7.80.

3. The adjustment represents the consideration comprising cash of HK$4,383 million and the issuance of new shares of the Company of HK$2,882 million (determined using the fair value of shares of the Company as at 6 August 2010, being the last trading day in the Company's shares in the week immediately preceding the Announcement Date) for the acquisition of 100% effective interest in the IDS Group. The funding is mainly from the Company's internal cash resources.

   Since the fair value of the Shares of the Company at the date of completion of the acquisition may be substantially different from their fair values used in preparing this Unaudited Pro Forma Financial Information, the consideration amount at the date of completion of the acquisition may be different from the amounts presented above and the difference may be significant.

4. The adjustment represents the recognition of estimated direct costs of transaction related to the acquisition to be incurred by the Company of approximately HK$49 million.

5. The adjustment represents consolidation entries for the elimination of investment costs of the Company, share capital and pre-acquisition reserves of the IDS Group, elimination of intercompany transactions and balances, the recognition of intangible assets (including goodwill) and its corresponding amortisation and receipt of cash proceeds of approximately HK$339 million assuming 21,590,500 outstanding IDS Share Options as at the Announcement Date being exercised in full prior to the acquisition.

   Following implementation of the Proposal, the identifiable assets and liabilities of the IDS Group will be accounted for in the consolidated financial statements of the Group at fair value under the purchase method of accounting in accordance with Hong Kong Financial Reporting Standard No.3 (Revised), "Business Combinations" ("HKFRS 3 (Revised)"). For the purpose of the Unaudited Pro Forma Financial Information, the Directors have estimated the fair values of the identifiable assets and liabilities of the IDS Group as at 30 June 2010. The Directors consider the book values of the tangible assets approximate their respective fair values and estimate that the aggregate fair values of identifiable intangible assets arising from the acquisition and the goodwill (collectively referred to as "intangible assets" in the Unaudited Pro Forma Financial Information) approximate, but not exceed, HK$5,625 million, with an estimated annual amortisation of intangible assets of approximately HK$19 million.

Since the fair values of the identifiable assets and liabilities of the IDS Group at the date of completion of the acquisition may be substantially different from their fair values used in preparing this Unaudited Pro Forma Financial Information, the amounts of the fair values of the identifiable assets and liabilities at the date of completion of the acquisition may be different from the amounts presented above and the difference may be significant.

6. The weighted average number of shares used for the calculation of the unaudited pro forma consolidated earnings per share of the Enlarged Group attributable to shareholders of the Company for the year ended 31 December 2009 is 3,781,543,000 shares, comprising the Company's weighted average number of shares of 3,701,265,000 for the year ended 31 December 2009 and 80,278,000 shares to be issued pursuant to the acquisition of the IDS Group.

7. The Group adopted HKFRS 3 (Revised) in preparing the unaudited pro forma consolidated profit and loss account for the year ended 31 December 2009, pursuant to which all transaction costs related to the acquisition are expensed. The Directors consider that the estimated acquisition-related costs of approximately HK$49 million are non-recurring in nature. If this amount of HK$49 million is excluded, the unaudited pro forma consolidated profit attributable to shareholders of the Company of the Enlarged Group would have been HK$3,583 million and the unaudited pro forma earnings per share excluding such non-recurring acquisition-related costs would be HK$0.95.

8. The number of shares used for the calculation of the unaudited pro forma consolidated net tangible liabilities per share and the unaudited pro forma consolidated net assets per share of the Enlarged Group attributable to shareholders of the Company as of 30 June 2010 is 3,892,152,000 shares, comprising the number of the Company's issued shares of 3,811,874,000 as of 30 June 2010 and 80,278,000 shares to be issued pursuant to the acquisition of the IDS Group.

9. The unaudited pro forma adjusted net tangible liabilities of the Enlarged Group as at 30 June 2010 are based on the unaudited pro forma consolidated balance sheet of the Enlarged Group set out in Section A above, being the amount of the unadjusted pro forma adjusted net assets attributable to shareholders of the Company of the Enlarged Group as at 30 June 2010 of approximately HK$21,410 million less the amount of in tangible assets of approximately HK$28,841 million.

10. Other than the above adjustments, no adjustments have been made to the unaudited pro forma consolidated balance sheet to reflect any trading results or other transactions of the Group and the IDS Group entered into subsequent to 30 June 2010. In addition, other than the above adjustments, no adjustments have been made to the unaudited pro forma consolidated profit and loss account to reflect any trading results or other transactions of the Group and the IDS Group entered into subsequent to 31 December 2009.

D. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP AS OF 30 JUNE 2010 (MAXIMUM SHARE SWAP SCENARIO)

		Pro forma adjustments				
	The Group as at 30 June 2010	IDS Group as at 30 June 2010	Other pro forma adjustments			Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
Assets						
Intangible assets	22,516,139	699,918			5,624,801	28,840,858
Investment in subsidiaries	–	–	7,264,845		(7,264,845)	–
Properties, plant and equipment	1,366,428	910,049				2,276,477
Prepaid premium for land leases	2,376	26,723				29,099
Associated companies	34,903	1,498				36,401
Available-for-sale financial assets	679,039	–				679,039
Deferred tax assets	72,355	101,735				174,090
Other assets	110,486	94,224				204,710
Inventories	2,609,449	1,921,241				4,530,690
Trade and other receivables	16,259,395	2,418,406			(38,140)	18,639,661
Derivative financial instruments	47,088	–				47,088
Cash and bank balances	5,763,666	819,086		(48,635)	338,584	6,872,701
	49,461,324	6,992,880				62,330,814
Liabilities						
Trade and other payables	(16,550,907)	(3,788,492)			38,140	(20,301,259)
Balance of purchase consideration payable for acquisitions	(5,997,710)	–				(5,997,710)
Taxation	(570,941)	(52,229)				(623,170)
Bank advances for discounted bills	(305,366)	–				(305,366)
Bank loans	–	(1,520,555)				(1,520,555)
Bank overdrafts	(340,608)	(139,214)				(479,822)
Long term notes	(6,977,775)	–				(6,977,775)
Deferred taxation	(92,777)	(31,824)				(124,601)
Other liabilities	(64,645)	(99,201)				(163,846)
	(30,900,729)	(5,631,515)				(36,494,104)
Net assets	18,560,595	1,361,365				25,836,710

		Pro forma adjustments				
	The Group as at 30 June 2010	IDS Group as at 30 June 2010	Other pro forma adjustments			Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
Capital and reserves						
Share capital	95,297	251,722	5,059		(251,722)	100,356
Reserves	18,499,885	1,030,738	7,259,786	(48,635)	(1,049,738)	25,692,036
Shareholders' funds attributable to shareholders of the Company	18,595,182	1,282,460				25,792,392
Non-controlling interests	(34,587)	78,905				44,318
Total Equity	18,560,595	1,361,365				25,836,710
Net assets attributable to shareholders of the Company	18,595,182	1,282,460	7,264,845	(48,635)	(1,301,460)	25,792,392
Net assets per share attributable to shareholders of the Company (HK$) *(Note 8)*	4.88					6.43
Net tangible liabilities attributable to shareholders of the Company *(Note 9)*	(3,920,957)	582,542	7,264,845	(48,635)	(6,926,261)	(3,048,466)
Net tangible liabilities per share attributable to shareholders of the Company (HK$) *(Note 8)*	(1.03)					(0.76)

E. UNAUDITED PRO FORMA CONSOLIDATED PROFIT AND LOSS ACCOUNT OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2009 (MAXIMUM SHARE SWAP SCENARIO)

		Pro forma adjustments			
	The Group for the year ended 31 December 2009	IDS Group for the year ended 31 December 2009	Other pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 4*	*Note 5*	
Turnover	104,478,983	14,056,084		(157,006)	118,378,061
Cost of sales	(92,406,211)	(10,390,559)			(102,796,770)
Gross profit	12,072,772	3,665,525			15,581,291
Other income	644,686	4,680			649,366
Total margin	12,717,458	3,670,205			16,230,657
Operating expenses	(8,727,352)	(3,473,262)	(48,635)	157,006	(12,092,243)
Core operating profit	3,990,106	196,943			4,138,414
Non-core operating expenses net of income	(110,600)	157,958		(19,000)	28,358
Operating profit	3,879,506	354,901			4,166,772
Interest income	90,763	12,683			103,446
Interest expenses	(372,109)	(45,973)			(418,082)
Share of profits less losses of associated companies	7,787	585			8,372
Profit before taxation	3,605,947	322,196			3,860,508
Taxation	(240,222)	(82,127)			(322,349)
Profit after taxation	3,365,725	240,069			3,538,159
Non-controlling interests	3,382	(7,410)			(4,028)
Profit attributable to shareholders of the Company	3,369,107	232,659			3,534,131
Earnings per share (HK$) *(Notes 6 and 7)*	0.91				0.91

F. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP (MAXIMUM SHARE SWAP SCENARIO)

1. The amounts are extracted from the unaudited consolidated balance sheet of the Group as of 30 June 2010 as set out in the interim report of the Company for the six months ended 30 June 2010 and audited consolidated profit and loss account of the Group for the year ended 31 December 2009 as set out in the annual report of the Company for the year ended 31 December 2009 respectively, with regrouping of certain figures.

2. The amounts are extracted from the unaudited consolidated balance sheet of the IDS Group as of 30 June 2010 as set out in the interim results announcement of IDS for the six months ended 30 June 2010 and the audited consolidated income statement of the IDS Group for the year ended 31 December 2009, as set out in the annual report of IDS for the year ended 31 December 2009, and converted into Hong Kong dollars using an exchange rate of US$1.00 to HK$7.80.

3. The adjustment represents the consideration through the issuance of new shares of the Company of HK$7,265 million (determined using the fair value of shares of the Company as at 6 August 2010, being the last trading day in the Company's shares in the week immediately preceding the Announcement Date) for the acquisition of 100% effective interest in the IDS Group.

   Since the fair value of the Shares of the Company at the date of completion of the acquisition may be substantially different from their fair values used in preparing this Unaudited Pro Forma Financial Information, the consideration amount at the date of completion of the acquisition may be different from the amounts presented above and the difference may be significant.

4. The adjustment represents the recognition of estimated direct costs of transaction related to the acquisition to be incurred by the Company of approximately HK$49 million.

5. The adjustment represents consolidation entries for the elimination of investment costs of the Company, share capital and pre-acquisition reserves of the IDS Group, elimination of intercompany transactions and balances, the recognition of intangible assets (including goodwill) and its corresponding amortisation and receipt of cash proceeds of approximately HK$339 million assuming 21,590,500 outstanding IDS Share Options as at the Announcement Date being exercised in full prior to the acquisition.

   Following implementation of the Proposal, the identifiable assets and liabilities of the IDS Group will be accounted for in the consolidated financial statements of the Group at fair value under the purchase method of accounting in accordance with Hong Kong Financial Reporting Standard No. 3 (Revised), "Business Combinations" ("HKFRS 3 (Revised)"). For the purpose of the Unaudited Pro Forma Financial Information, the Directors have estimated the fair values of the identifiable assets and liabilities of the IDS Group as at 30 June 2010. The Directors consider the book values of the tangible assets approximate their respective fair values and estimate that the aggregate fair values of identifiable intangible assets arising from the acquisition and the goodwill (collectively referred to as "intangible assets" in the Unaudited Pro Forma Financial Information) approximate, but not exceed, HK$5,625 million, with an estimated annual amortisation of intangible assets of approximately HK$19 million.

Since the fair values of the identifiable assets and liabilities of the IDS Group at the date of completion of the acquisition may be substantially different from their fair values used in preparing this Unaudited Pro Forma Financial Information, the amounts of the fair values of the identifiable assets and liabilities at the date of completion of the acquisition may be different from the amounts presented above and the difference may be significant.

6. The weighted average number of shares used for the calculation of the unaudited pro forma consolidated earnings per share of the Enlarged Group attributable to shareholders of the Company for the year ended 31 December 2009 is 3,903,628,000 shares, comprising the Company's weighted average number of shares of 3,701,265,000 for the year ended 31 December 2009 and 202,363,000 shares to be issued pursuant to the acquisition of the IDS Group.

7. The Group adopted HKFRS 3 (Revised) in preparing the unaudited pro forma consolidated profit and loss account for the year ended 31 December 2009, pursuant to which all transaction costs related to the acquisition are expensed. The Directors consider that the estimated acquisition-related costs of approximately HK$49 million are non-recurring in nature. If this amount of HK$49 million is excluded, the unaudited pro forma consolidated profit attributable to shareholders of the Company of the Enlarged Group would have been HK$3,583 million and the unaudited pro forma earnings per share excluding such non-recurring acquisition-related costs would be HK$0.92.

8. The number of shares used for the calculation of the unaudited pro forma consolidated net tangible liabilities per share and the unaudited pro forma consolidated net assets per share of the Enlarged Group attributable to shareholders of the Company as of 30 June 2010 is 4,014,237,000 shares, comprising the number of the Company's issued shares of 3,811,874,000 as of 30 June 2010 and 202,363,000 shares to be issued pursuant to the acquisition of the IDS Group.

9. The unaudited pro forma adjusted net tangible liabilities of the Enlarged Group as at 30 June 2010 are based on the unaudited pro forma consolidated balance sheet of the Enlarged Group set out in Section D above, being the amount of the unadjusted pro forma adjusted net assets attributable to shareholders of the Company of the Enlarged Group as at 30 June 2010 of approximately HK$25,792 million less the amount of in tangible assets of approximately HK$28,841 million.

10. Other than the above adjustments, no adjustments have been made to the unaudited pro forma consolidated balance sheet to reflect any trading results or other transactions of the Group and the IDS Group entered into subsequent to 30 June 2010. In addition, other than the above adjustments, no adjustments have been made to the unaudited pro forma consolidated profit and loss account to reflect any trading results or other transactions of the Group and the IDS Group entered into subsequent to 31 December 2009.

(II) REPORT FROM THE REPORTING ACCOUNTANT

The following is a reproduction of the report on the unaudited pro forma financial information to the Li & Fung Directors, contained in the Circular, received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix VI to this document, a copy of the following report is available for inspection. Page references included in the report set forth below refer to pages in the Circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF LI & FUNG LIMITED

We report on the unaudited pro forma financial information set out on pages I-1 to I-11 under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix I to the circular dated 27 August 2010 (the "Circular") of Li & Fung Limited (the "Company"), in connection with the proposed acquisition of Integrated Distribution Services Group Limited by way of privatisation pursuant to a scheme of arrangement (under section 99 of the Companies Act 1981 of Bermuda) (the "Transaction") by the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Transaction might affect the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages I-1 to I-11 of the Circular.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis Of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial

Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unaudited consolidated balance sheet of the Group as at 30 June 2010 as set out in the "Unaudited Pro Forma Financial Information of the Enlarged Group" section of this circular with the unaudited condensed interim financial report of the Group for the six months ended 30 June 2010 as set out in the interim report of the Company for the six months ended 30 June 2010, comparing the audited consolidated profit and loss account of the Group for the year ended 31 December 2009 as set out in the "Unaudited Pro Forma Financial Information of the Enlarged Group" section of this circular with the audited consolidated accounts of the Group for the year ended 31 December 2009 as set out in the annual report of the Company for the year ended 31 December 2009, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

– the financial position of the Group as at 30 June 2010 or any future date, or

– the results and earnings per share of the Group for the year ended 31 December 2009 or any future periods.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information Listing Rules. as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 August 2010

1. RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the Takeovers Code for the purposes of giving information with regard to the Scheme, the IDS Group and the Li & Fung Group.

The IDS Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document relating to the IDS Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document by the IDS Group have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any statement relating to the IDS Group contained in this document misleading.

2. MARKET PRICES

(a) The lowest and highest closing prices per IDS Share as quoted on the Stock Exchange during the Disclosure Period were HK$11.66 on 22 February 2010 and HK$25.05 on 10 September 2010 respectively.

(b) The table below sets out the closing prices of the IDS Shares on the Stock Exchange (i) on the last trading day of each of the calendar months during the Disclosure Period, (ii) on the IDS Price Reference Day, (iii) on 9 August 2010 (being the last trading day in IDS Shares immediately preceding the Announcement Date) and (iv) on the Latest Practicable Date on which trading of the IDS Shares took place:

	Closing price per IDS Share *(HK$)*
26 February 2010	12.10
31 March 2010	14.20
30 April 2010	14.16
31 May 2010	13.00
30 June 2010	13.56
30 July 2010	15.00
6 August 2010	14.70
9 August 2010	15.42
31 August 2010	22.60
Latest Practicable Date	25.05

3. INTERESTS AND SHORT POSITIONS OF IDS DIRECTORS AND CHIEF EXECUTIVE OF IDS

As at the Latest Practicable Date, the interests and short positions of the IDS Directors and chief executive of IDS in the shares, underlying shares and debentures of IDS and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required, pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"); or (c) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, to be notified to IDS and the Stock Exchange were as follows:

(a) Long position in IDS Shares and underlying shares of IDS:

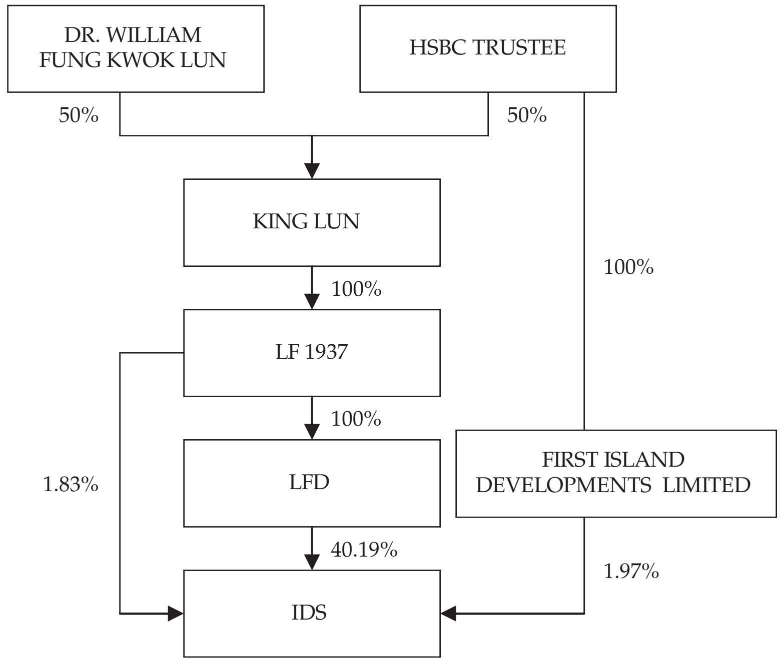
	Number of IDS Shares						
Name of IDS Director	Personal interest	Family interest	Trust / Corporate interest	Other interest	Equity derivatives (IDS Share Options)	Total	Percentage of issued share capital
Dr. Victor Fung Kwok King[4]	2,405,509	—	143,353,661[1]	—	—	145,759,170	44.73%
Dr. William Fung Kwok Lun[4]	—	—	136,932,371[1]	—	—	136,932,371	42.02%
Mr. Benedict Chang Yew Teck	5,662,573	—	—	97,000[2a]	5,450,000[2b & c]	11,209,573	3.44%
Mr. Joseph Chua Phi	1,469,632	—	—	—	2,695,000	4,164,632	1.27%
Mr. Lau Butt Farn	610,549	—	—	—	—	610,549	0.18%
Mr. John Estmond Strickland	—	—	—	22,000[3]	—	22,000	0.00%

Notes:

(1) As at the Latest Practicable Date, King Lun through its wholly-owned subsidiary, LF 1937, held 100% interest in LFD. LFD directly held 130,962,364 IDS Shares, representing approximately 40.19% of the issued share capital of the IDS. LF 1937 directly held 5,970,007 IDS Shares, representing approximately 1.83% of the issued share capital of IDS.

King Lun was (a) 50% owned by HSBC Trustee (which also through First Island Developments Limited indirectly held 6,421,290 IDS Shares, representing approximately 1.97% of the issued share capital of IDS), and (b) 50% owned by Dr. William Fung Kwok Lun. Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun were deemed to have interests in these IDS Shares through their respective interests in King Lun and indirect interests in LFD and LF 1937 as set out above.

The interests of Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun in the IDS Shares are summarised 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 IDS Shares.

(b) the beneficial interests of Mr. Benedict Chang Yew Teck in 3,350,000 underlying IDS Shares deriving from options granted by IDS to Mr. Benedict Chang Yew Teck, the details of which are set out in the section headed ''Interest in the IDS Share Options'' below; and

(c) the deemed interest of Mr. Benedict Chang Yew Teck in 2,100,000 underlying IDS Shares deriving from the Mikenwill Call Option.

(3) Mr. John Estmond Strickland and his wife, Mrs. Anthea Evadne Strickland, were joint beneficial owners of these IDS Shares.

(4) Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun are also Li & Fung Directors.

(b) Short position in IDS Shares and underlying shares of IDS

By virtue of the SFO, each of Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun was taken as at the Latest Practicable Date, to have short position through LF 1937 in respect of an aggregate of 2,100,000 underlying IDS Shares, representing approximately 0.64% of the total issued share capital of IDS. Such interest comprised LF 1937's short position in 2,100,000 underlying IDS Shares (being regarded as unlisted physically settled equity derivatives) deriving from the Mikenwill Call Option granted by LF 1937 to Mikenwill.

(c) Interests in the IDS Share Options

Details of the IDS Share Options which were granted to the IDS Directors under the IDS Option Scheme and remained valid and outstanding as at the Latest Practicable Date are set out below:

Name of IDS Director	Number of IDS Share Options outstanding	Exercise Price per IDS Share (HK$)	Grant date	Exercise period
Mr. Benedict Chang Yew Teck	380,000	15.100	15/12/06	01/01/11-31/12/12
	330,000	25.550	12/12/07	01/01/10-31/12/11
	330,000	25.550	12/12/07	01/01/11-31/12/12
	330,000	25.550	12/12/07	01/01/12-31/12/13
	330,000	6.640	14/11/08	01/01/11-31/12/12
	330,000	6.640	14/11/08	01/01/12-31/12/13
	330,000	6.640	14/11/08	01/01/13-31/12/14
	330,000	12.776	27/11/09	01/01/12-31/12/13
	330,000	12.776	27/11/09	01/01/13-31/12/14
	330,000	12.776	27/11/09	01/01/14-31/12/15
Mr. Joseph Chua Phi	210,000	8.600	16/12/05	01/01/09-31/12/10
	210,000	8.600	16/12/05	01/01/10-31/12/11
	265,000	15.100	15/12/06	01/01/11-31/12/12
	220,000	25.550	12/12/07	01/01/10-31/12/11
	220,000	25.550	12/12/07	01/01/11-31/12/12
	220,000	25.550	12/12/07	01/01/12-31/12/13
	220,000	6.640	14/11/08	01/01/11-31/12/12
	220,000	6.640	14/11/08	01/01/12-31/12/13
	220,000	6.640	14/11/08	01/01/13-31/12/14
	230,000	12.776	27/11/09	01/01/12-31/12/13
	230,000	12.776	27/11/09	01/01/13-31/12/14
	230,000	12.776	27/11/09	01/01/14-31/12/15

Save as disclosed above, as at the Latest Practicable Date, none of the IDS Directors and chief executive of IDS held any interest or short position in the shares, underlying shares and debentures of IDS or any of its associated corporations (within the meaning of Part XV of the SFO) (a) were required, pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to the Model Code; or (c) were required; pursuant to section 352 of the SFO, to be entered in the register referred to therein, to be notified to IDS and the Stock Exchange.

4. OTHER INTERESTS

(a) Save as disclosed above, none of the IDS Directors had interests in any IDS Shares, warrants, options, derivatives or convertible securities in IDS as at the Latest Practicable Date.

(b) As at the Latest Practicable Date, save for the Committed Shareholders, no person who owned or controlled IDS Shares and/or convertible securities, warrants, options or derivatives in respect of the IDS Shares had irrevocably committed himself, herself or itself to vote in favour of or against the Scheme at the Court Meeting.

(c) The Common Directors will not vote at the Court Meeting. As at the Latest Practicable Date, each of Mr. John Estmond Strickland, Mr. Joseph Chua Phi and Mr. Benedict Chang Yew Teck intended to vote in favour of the Scheme at the Court Meeting. Save as disclosed above, as at the Latest Practicable Date, none of the IDS Directors directly held any IDS Shares and/or convertible securities, warrants, options or derivatives in respect of the IDS Shares.

(d) As at the Latest Practicable Date, save for Dr. Victor Fung Kwok King, Dr. William Fung Kwok Lun, Mr. Lau Butt Farn, Mr. John Estmond Strickland and Mr. Joseph Chua Phi, whose interests in Li & Fung Shares are disclosed in the section headed "Explanatory Statement — Other Effects of the Proposal — Shareholding Structure of Li & Fung" in this document, neither IDS nor any of the IDS Directors was interested in any Li & Fung Shares, warrants, options, derivatives or convertible securities in Li & Fung.

(e) As at the Latest Practicable Date, no subsidiary of IDS, or any pension fund of IDS or of any other member of the IDS Group or any adviser to IDS as specified in class (2) of the definition of "associate" under the Takeovers Code (but excluding exempt principal traders) owned or controlled any IDS Shares, Li & Fung Shares, or convertible securities, warrants, options or derivatives in respect of IDS Shares and/or Li & Fung Shares.

(f) As at the Latest Practicable Date, save for the 6,421,290 IDS Shares held by HSBC Trustee through First Island Developments Limited and the 55,825,000 Li & Fung Shares directly held by HSBC Trustee, no IDS Shares, Li & Fung Shares, or convertible securities, warrants, options or derivatives in respect of the IDS Shares or the Li & Fung Shares were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with IDS.

(g) As at the Latest Practicable Date, neither IDS nor any of its associates by virtue of classes (1), (2), (3) or (4) of the definition of "associate" under the Takeovers Code had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person and there were no IDS Shares, Li & Fung Shares, or convertible securities, warrants, options or derivatives in respect of the IDS Shares or the Li & Fung Shares which IDS or any IDS Director has borrowed or lent.

(h) None of the IDS Directors have since 31 December 2009, being the date to which the latest published audited financial statements of IDS were made up, any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the IDS Group, or are proposed to be acquired or disposed of by or leased to any member of the IDS Group.

(i) Save as disclosed above, none of the IDS Directors was materially interested in any contract or arrangement entered into by any member of the IDS Group subsisting at the Latest Practicable Date, and which was significant in relation to the business of the IDS Group taken as a whole.

5. DEALINGS IN SECURITIES OF IDS AND/OR LI & FUNG

(a) During the Disclosure Period:

(i) Mr. Benedict Chang Yew Teck (1) disposed of 53,000, 605,000 1,345,000 and 2,000,000 IDS Shares on 21 April, 27 April, 28 April and 24 August 2010 respectively ; (2) disposed of 600,000 IDS Shares jointly held with his wife on 24 August 2010; (3) exercised 380,000 IDS Share Options on 11 June 2010 to subscribe for 380,000 IDS Shares at an exercise price of HK$8.60 each; and (4) exercised 760,000 IDS Share Options on 8 September 2010 to subscribe for 760,000 IDS Shares at an exercise price of HK$15.10 each.

(ii) LF 1937, a wholly-owned subsidiary of King Lun which is in turn 50% owned by HSBC Trustee, the trustee of a trust established for the benefit of the family members of Dr. Victor Fung Kwok King, and 50% owned by Dr. William Fung Kwok Lun, transferred 2,100,000 IDS Shares to Mikenwill's nominee, Mr. Benedict Chang Yew Teck, an executive IDS Director, on 17 June 2010 upon its exercise of the Mikenwill Call Option;

(iii) Mr. Joseph Chua Phi (1) disposed of 300,000, 169,000, 300,000 and 250,000 IDS Shares on 11 May, 12 May, 24 August and 25 August 2010 respectively; (2) exercised 375,000 IDS Share Options on 5 July 2010 to subscribe for 375,000 IDS Share at an exercise price of HK$4.825 each; (3) exercised 265,000 IDS Share Options on 26 July 2010 to subscribe for 265,000 IDS Share at an exercise price of HK$15.10 each; and (4) exercised 265,000 IDS Share Options on 30 July 2010 to subscribe for 265,000 IDS Share at an exercise price of HK$15.10 each;

(b) Save as disclosed above, during the Disclosure Period, none of IDS nor the IDS Directors had dealt for value in any IDS Shares, Li & Fung Shares and/or convertible securities, warrants, options or derivatives in respect of the IDS Shares and/or the Li & Fung Shares.

(c) During the period from the commencement of the Offer Period and ending on the Latest Practicable Date, none of the subsidiaries of IDS, any pension funds of IDS or of any of its subsidiaries or advisers to IDS as specified in class (2) of the definition of "associate" under the Takeovers Code, had dealt for value in any IDS Shares, Li &

Fung Shares and/or convertible securities, warrants, options or derivatives in respect of the IDS Shares and/or the Li & Fung Shares.

(d) During the period from the commencement of the Offer Period and ending on the Latest Practicable Date, no fund managers (other than exempted fund managers) and who managed funds on a discretionary basis connected with IDS had dealt for value in any IDS Shares, Li & Fung Shares and/or convertible securities, warrants, options or derivatives in respect of the IDS Shares and/or the Li & Fung Shares.

6. SHARE CAPITAL

(a) Authorised and issued share capital

The authorised and issued share capital of IDS as at the Latest Practicable Date were as follows:

	US$
Authorised:	
1,000,000,000 ordinary shares of US$0.10 each	100,000,000
Issued and fully paid or credited as fully paid:	
325,855,000 ordinary shares of US$0.10 each	32,585,500

Since 31 December 2009 (being the date to which the latest audited consolidated financial statements of the IDS Group were made) and up to the Latest Practicable Date, a total of 4,724,500 IDS Shares have been issued as a result of exercise of the outstanding options granted by IDS pursuant to its share option scheme. All the issued IDS Shares rank pari passu with each other in all respects including the right as to dividends, voting rights and right on return of capital.

IDS Shares are listed on the Stock Exchange and none of the securities of IDS are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

(b) **Share options**

Details of the IDS Share Options which remained outstanding as at the Latest Practicable Date, other than those disclosed in the section headed "3. Interests and Short Positions of IDS Directors and Chief Executive of IDS — (c) Interests in the IDS Share Options" in this Appendix, are as follows:

Number of IDS Share Options outstanding	Exercise Price per IDS Share (HK$)	Grant date	Exercise period
131,000	4.825	14/12/04	01/01/09-31/12/10
148,500	8.600	16/12/05	01/01/09-31/12/10
313,500	8.600	16/12/05	01/01/10-31/12/11
305,000	15.100	15/12/06	01/01/09-31/12/10
375,000	15.100	15/12/06	01/01/10-31/12/11
685,000	15.100	15/12/06	01/01/11-31/12/12
1,737,000	25.550	12/12/07	01/01/10-31/12/11
1,737,000	25.550	12/12/07	01/01/11-31/12/12
1,737,000	25.550	12/12/07	01/01/12-31/12/13
987,000	6.640	14/11/08	01/01/11-31/12/12
987,000	6.640	14/11/08	01/01/12-31/12/13
987,000	6.640	14/11/08	01/01/13-31/12/14
1,080,000	12.776	27/11/09	01/01/12-31/12/13
1,080,000	12.776	27/11/09	01/01/13-31/12/14
1,080,000	12.776	27/11/09	01/01/14-31/12/15

Save as disclosed above, as at the Latest Practicable Date, IDS did not have any options, warrants, derivatives or other convertible securities outstanding.

7. LITIGATION

As at the Latest Practicable Date, none of IDS or any of its subsidiaries was engaged in any litigation or arbitration of material importance and, so far as the IDS Directors are aware, no litigation or arbitration of material importance is pending or threatened by or against IDS or any of its subsidiaries.

8. MATERIAL CONTRACT

No contracts (not being contracts entered into in the ordinary course of business of the IDS Group) were entered into by the IDS Group after the date two years immediately preceding the Announcement Date and up to and including the Latest Practicable Date which were or might be material.

9. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the IDS Directors had entered into any service contract with any member of the IDS Group or any associated company of IDS which:

(a) (including both continuous and fixed term contracts) had been entered into or amended within 6 months before the Announcement Date;

(b) were continuous contracts with a notice period of 12 months or more; or

(c) were fixed term contracts with more than 12 months to run irrespective of the notice period.

10. EXPERT

The following is the qualification of the expert who has given its opinion or advice which is contained in this document:

Name	Qualification
ANZ	a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and an authorised financial institution under the SFO licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities, the independent financial adviser to IDS in respect of the Proposal

As at the Latest Practicable Date, ANZ:

(i) was not interested, directly or indirectly in any assets which have been acquired or disposed of by or leased to IDS and Li & Fung since 31 December 2009, being the date to which the latest published audited financial statements of IDS and Li & Fung were made up; and

(ii) did not have any shareholding interest in any member of the IDS Group and of the Li & Fung Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the IDS Group and of the Li & Fung Group.

11. CONSENT

ANZ has given and has not withdrawn its written consent to the issue of this document with the inclusion in this document of the text of its letter and references to its name, in the form and context in which it is included.

12. MISCELLANEOUS

(a) None of the IDS Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Scheme.

(b) Save for the Irrevocable Undertaking given by Dr. Victor Fung Kwok King, there is no agreement or arrangement (including any compensation arrangement) between any of the IDS Directors and any other person (on the other part) which is conditional on or dependence upon the outcome of the Scheme or otherwise connected with the Scheme.

(c) The registered office of IDS is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business in Hong Kong is at 18th Floor, IDS LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, N.T., Hong Kong.

(d) The registered office of ANZ is at 43/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

(e) The company secretary of IDS is Ms. Yuen Ying Kwai who is a fellow member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.

(f) IDS's branch share registrar and transfer office in Hong Kong is Tricor Abacus Limited, whose registered office is at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(g) As at the Latest Practicable Date, there was no material contract entered into by Li & Fung in which any of the IDS Directors had a material personal interest.

(h) Unless otherwise specified, all time references contained in this document refer to Hong Kong time.

(i) The English language texts of this document, the pink form of proxy, the white form of proxy and the Election Form enclosed shall prevail over their respective Chinese language texts.

(j) This document together with the documents as set out in Appendix VI to this document will be displayed on IDS's website at www.idsgroup.com, Li & Fung's website at www.lifung.com and on the website of the SFC at www.sfc.hk until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier.

1. RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the Takeovers Code for the purposes of giving information with regard to the Scheme, the Li & Fung Group and the IDS Group.

The Li & Fung Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the IDS Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by the IDS Group) have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any statement contained in this document (other than that relating to the IDS Group) misleading.

2. MARKET PRICES

(a) The lowest and highest closing prices per Li & Fung Share as quoted on the Stock Exchange during the Disclosure Period were HK$32.75 on 25 May 2010 and HK$43.20 on 10 September 2010 respectively.

(b) The table below sets out the closing prices of the Li & Fung Shares on the Stock Exchange (i) on the last trading day of each of the calendar months during the Disclosure Period, (ii) on the Li & Fung Price Reference Day, (iii) on 9 August 2010 (being the last trading day in IDS Shares immediately preceding the Announcement Date) and (iv) on the Latest Practicable Date on which trading of the Li & Fung Shares took place:

	Closing price per Li & Fung Share *(HK$)*
26 February 2010	36.10
31 March 2010	38.20
30 April 2010	38.05
31 May 2010	33.80
30 June 2010	35.15
30 July 2010	35.60
6 August 2010	35.90
9 August 2010	37.70
31 August 2010	39.40
Latest Practicable Date	43.20

3. INTERESTS AND SHORT POSITIONS OF LI & FUNG DIRECTORS AND CHIEF EXECUTIVE OF LI & FUNG

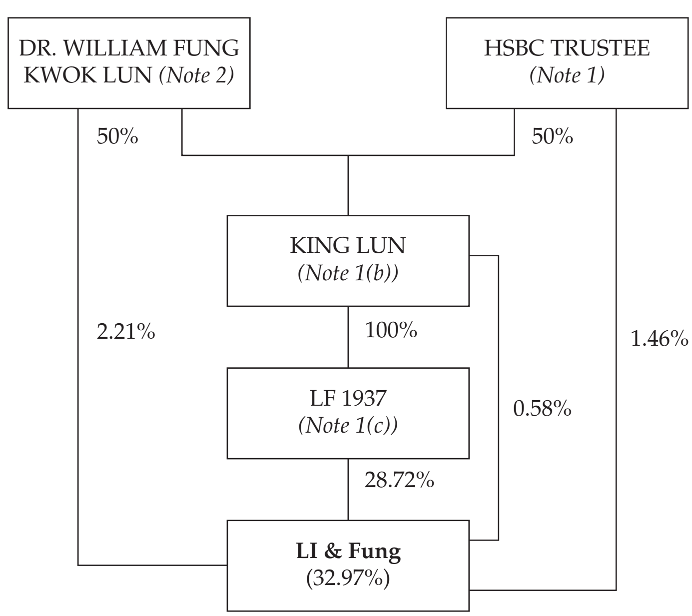
As at the Latest Practicable Date, the interests and short positions of the Li & Fung Directors and chief executive of Li & Fung in the shares, underlying shares and debentures of Li & Fung and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required, pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to the Model Code; or (c) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, to be notified to Li & Fung and the Stock Exchange were as follows:

(a) Long Position in Li & Fung Shares and underlying Li & Fung Shares

	Number of Shares					
Name of Li & Fung Director	Personal interest	Family interest	Trust/ Corporate Interest	Equity derivatives (options)	Total	Percentage of issued share capital
Dr. Victor Fung Kwok King	—	—	1,173,370,880[1]	—	1,173,370,880	30.76%
Dr. William Fung Kwok Lun	70,851,330	4,400	1,129,703,080[2]	1,320,000[3]	1,201,878,810	31.51%
Mr. Spencer Theodore Fung*	352,000	—	1,173,370,880[1]	705,000[3]	1,174,427,880	30.79%
Mr. Bruce Philip Rockowitz	3,587,800	—	32,411,510[4]	22,620,880[5]	58,620,190	1.54%
Prof. Franklin Warren McFarlan	—	—	57,200[6]	—	57,200	0.00%
Mr. Martin Tang Yue Nien	—	—	20,000[7]	—	20,000	0.00%

* *Son of Dr. Victor Fung Kwok King*

The following chart illustrates the interests of Dr. Victor Fung Kwok King and Mr. Spencer Theodore Fung under Note (1) below and the interests of Dr. William Fung Kwok Lun under Note (2) below:



Notes:

As at the Latest Practicable Date,

(1) Each of Dr. Victor Fung Kwok King and Mr. Spencer Theodore Fung was deemed to have interests in 1,173,370,880 Li & Fung Shares held in the following manner:

(a) 55,825,000 Li & Fung Shares were directly held by HSBC Trustee;

(b) 21,945,880 Li & Fung Shares were directly held by King Lun; and

(c) 1,095,600,000 Li & Fung Shares were indirectly held by King Lun through its wholly-owned subsidiary, LF 1937.

(2) 12,157,200 Li & Fung Shares of these 1,129,703,080 Li & Fung Shares were held by Golden Step Limited, a company beneficially owned by Dr. William Fung Kwok Lun. The balance of 1,117,545,880 Li & Fung Shares were directly and indirectly held by King Lun as mentioned in Note (1) (b) and (c) above.

(3) These interests represented the interests in underlying Li & Fung Shares in respect of the Li & Fung Share Options granted by Li & Fung to these Li & Fung Directors as beneficial owners, the details of which are set out in the section headed "Interests in the Li & Fung Share Options" below.

(4) These Li & Fung Shares were held by HMHL.

(5) These interests represented:

(a) the beneficial interests of Mr. Bruce Philip Rockowitz in 675,000 underlying Li & Fung Shares in respect of the Li & Fung Share Options granted by Li & Fung to Mr. Bruce Philip Rockowitz, the details of which are set out in the section headed "Interests in the Li & Fung Share Options" below; and

(b) the deemed interests of Mr. Bruce Philip Rockowitz in 21,945,880 underlying Li & Fung Shares in respect of options granted by King Lun to HMHL to purchase such Li & Fung Shares in four tranches during the period from 25 December 2010 to 24 December 2019 with each tranche having an exercisable period of six years pursuant to an agreement between King Lun and HMHL.

(6) These Li & Fung Shares were held by a trust established for the benefit of Prof. Franklin Warren McFarlan.

(7) These Li & Fung Shares were held by a trust of which Mr. Martin Tang Yue Nien was a beneficiary.

(8) Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun are also IDS Directors.

(b) Short positions in Li & Fung Shares and underlying Li & Fung Shares

Under an agreement made between King Lun and HMHL, options were granted by King Lun to HMHL to purchase 54,945,880 Li & Fung Shares in 10 tranches during the period from 25 December 2004 to 24 December 2019, with each tranche having an exercisable period of six years. Such interest constitutes, for the purposes of the SFO, a short position of King Lun under unlisted physically settled equity derivatives. By virtue of the SFO, each of Dr. Victor Fung Kwok King, Dr. William Fung Kwok Lun and Mr. Spencer Theodore Fung was taken as at the Latest Practicable Date to have short position through King Lun, in which all of them were deemed to have interests as disclosed above, in respect of an aggregate of 21,945,880 underlying Li & Fung Shares, representing 0.58% of the total issued share capital of Li & Fung.

(c) Interests in the Li & Fung Share Options

Details of the Li & Fung Share Options which were granted to the Li & Fung Directors under the existing share option scheme of Li & Fung and remained valid and outstanding as at the Latest Practicable Date are set out below:

LI & Fung Director	Number of Li & Fung Share Options Outstanding	Exercise Price per Li & Fung Share (HK$)	Grant Date	Exercisable Period
Dr. William Fung Kwok Lun	440,000	25.55	24/1/2008	01/3/2010-29/2/2012
	880,000	25.55	24/1/2008	01/3/2011-28/2/2013
Mr. Bruce Philip Rockowitz	225,000	25.55	24/1/2008	01/3/2010-29/2/2012
	450,000	25.55	24/1/2008	01/3/2011-28/2/2013
Mr. Spencer Theodore Fung	176,000	25.55	24/1/2008	01/3/2009-28/2/2011
	176,000	25.55	24/1/2008	01/3/2010-29/2/2012
	176,000	25.55	24/1/2008	01/3/2011-28/2/2013
	177,000	41.52	25/3/2010	01/3/2011-28/2/2013

Save as disclosed above, as at the Latest Practicable Date, none of the Li & Fung Directors and chief executive of Li & Fung hold any interest or short position in the shares, underlying shares and debentures of Li & Fung or any of its associated corporation (within the meaning of Part XV of the SFO) which (a) were required, pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to the Model Code; or (c) were required; pursuant to section 352 of the SFO, to be entered in the register referred to therein, to be notified to Li & Fung and the Stock Exchange.

4. OTHER INTERESTS

As at the Latest Practicable Date:

(i) no benefit was to be given by Li & Fung to any IDS Director as compensation for loss of office or otherwise in connection with the Proposal;

(ii) save for the Irrevocable Undertakings, no agreement, arrangement or understanding (including any compensation arrangement) existed between Li & Fung or any person acting in concert with it (including the Interested Shareholders other than the Committed Shareholders) and any IDS Director, recent IDS Director, IDS Shareholder or recent IDS Shareholder having any connection with or dependent upon the Proposal; and

(iii) save as disclosed in the paragraph headed "3. Interests and Short Positions of Li & Fung Directors and Chief Executive of Li & Fung — (c) Interests in the Li & Fung Share Options" in this Appendix, the sections headed "Explanatory Statement — Other Effects of the Proposal — Shareholding Structure of IDS" and "Explanatory Statement — Other Effects of the Proposal — Shareholding Structure of Li & Fung" in this document, neither Li & Fung nor any persons acting in concert with it (including the Li & Fung Directors) had any Li & Fung Shareholding or IDS Shareholding.

5. DEALINGS IN IDS SHAREHOLDINGS AND/OR LI & FUNG SHAREHOLDINGS

For the purpose of this paragraph, “interested” and “interests” have the same meanings as ascribed thereto in Part XV of the SFO, “Li & Fung Shareholdings” means Li & Fung Shares and any other equity share capital of Li & Fung, securities of Li & Fung which carry substantially the same rights as Li & Fung Shares, and convertible securities, warrants, options and derivatives in respect of any of them, and “IDS Shareholdings” means IDS Shares and any other securities of IDS which carry voting rights, and convertible securities, warrants, options and derivatives in respect of any of them.

(a) During the Disclosure Period:

(i) Li & Fung granted 177,000 Li & Fung Share Options to Mr. Spencer Theodore Fung on 25 March 2010 to subscribe for 177,000 Li & Fung Shares at an exercise price of HK$41.52 each;

(ii) Mr. Spencer Theodore Fung exercised 36,000 Li & Fung Share Options on 12 April 2010 to subscribe for 36,000 Li & Fung Shares at an exercise price of HK$13.45 each;

(iii) Dr. William Fung Kwok Lun exercised 1,320,000 Li & Fung Share Options on 7 May 2010 to subscribe for 1,320,000 Li & Fung Shares at an exercise price of HK$25.55 each;

(iv) 11,000,000 Li & Fung Shares were transferred from King Lun to HMHL on 7 May 2010 pursuant to an agreement between King Lun and HMHL whereby call options were granted by King Lun to HMHL to purchase 54,945,880 Li & Fung Shares in 10 tranches during the period from 25 December 2004 to 24 December 2019;

(v) Mr Bruce Philip Rockowitz exercised a total of 880,000 and 675,000 Li & Fung Share Options on 7 May 2010 to subscribe for 880,000 and 675,000 Li & Fung Shares at an exercise price of HK$13.45 and HK$25.55 each respectively;

(vi) A trust of which Mr. Martin Tang Yue Nien was a beneficiary purchased 10,000 and another 10,000 Li & Fung Shares at an average price of HK$36.35 and HK$35.85 per Li & Fung Share on 10 May 2010 and 14 May 2010 respectively;

(vii) 2,100,000 IDS Shares were transferred by LF 1937 to Mikenwill on 17 June 2010 upon its exercise of the Mikenwill Call Option;

(viii) J.P. Morgan Securities Ltd purchased 150,000 Li & Fung Shares at an average price of HK$33.2187 each on 27 May 2010; and

(ix) J.P. Morgan Whitefriars Inc. (London Branch) purchased 2,000 Li & Fung Shares at the price of HK$35.35 each on 8 July 2010.

(b) Save as disclosed above, during the Disclosure Period:

(i) none of the Li & Fung Directors have dealt for value in any IDS Shareholdings and any Li & Fung Shareholdings; and

(ii) neither Li & Fung nor any person acting in concert with it (including the Interested Shareholders other than those disclosed above) have dealt for value in any IDS Shareholdings and any Li & Fung Shareholdings.

(c) As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and Li & Fung or any person acting in concert with it (including the Interested Shareholders) and neither Li & Fung nor any persons acting in concert with it (including the Interested Shareholders) had borrowed or lent any IDS Shareholding or Li & Fung Shareholding, except that the J.P. Morgan group (other than exempt principal traders and exempt fund managers) had borrowed 150,000 Li & Fung Shares, representing approximately 0.004% of the issued share capital of Li & Fung.

(d) As at the Latest Practicable Date, save for the 6,421,290 IDS Shares held by HSBC Trustee through First Island Developments Limited and the 55,825,000 Li & Fung Shares directly held by HSBC Trustee, no interest in IDS Shareholdings or Li & Fung Shareholdings was managed on a discretionary basis by fund managers (other than exempt fund managers) connected with Li & Fung.

6. SHARE CAPITAL

(a) Authorised and issued share capital

The authorised and issued share capital of Li & Fung as at the Latest Practicable Date were as follows:

	HK$
Authorised:	
6,000,000,000 ordinary shares of HK$0.025 each	150,000,000
Issued and fully paid or credited as fully paid:	
3,814,760,286 ordinary shares of HK$0.025 each	95,369,007.15

Since 31 December 2009 (being the date to which the latest audited consolidated financial statements of the Li & Fung Group were made) and up to the Latest Practicable Date, a total of 38,642,900 Li & Fung Shares have been issued as a result of exercise of the outstanding options granted by Li & Fung pursuant to its share option scheme. All the issued Li & Fung Shares rank pari passu with each other in all respects including the right as to dividends, voting rights and right on return of capital.

During the two financial years preceding the Announcement Date, no re-organisation of capital of Li & Fung has taken place.

During the period from 31 December 2009 to the Latest Practicable Date, Li & Fung did not repurchase any Li & Fung Shares.

(b) Share options

Details of the Li & Fung Share Options which remained valid and outstanding as at the Latest Practicable Date, other than those disclosed in the paragraph headed "3. Interests and Short Positions of Li & Fung Directors and Chief Executive of Li & Fung — (c) Interests in the Li & Fung Share Options" in this Appendix, are as follows:

Number of Li & Fung Share Options Outstanding	Exercise Price per Li & Fung Share (HK$)	Grant Date	Exercisable Period
2,527,600	13.45	20/6/2005	20/6/2008-19/6/2011
6,982,200	13.45	20/6/2005	20/6/2009-19/6/2012
517,000	13.72	23/1/2006	20/6/2008-19/6/2011
517,000	13.72	23/1/2006	20/6/2009-19/6/2012
194,000	15.65	19/6/2006	20/6/2008-19/6/2011
460,000	15.65	19/6/2006	20/6/2009-19/6/2012
801,000	25.50	02/2/2007	20/6/2008-19/6/2011
2,601,500	25.50	02/2/2007	20/6/2009-19/6/2012
634,000	29.93	13/7/2007	20/6/2009-19/6/2012
13,220,000	25.55	24/1/2008	01/3/2009-28/2/2011
20,175,000	25.55	24/1/2008	01/3/2010-29/2/2012
22,872,000	25.55	24/1/2008	01/3/2011-28/2/2013
1,635,500	30.00	21/5/2008	01/3/2009-28/2/2011
1,168,500	30.00	21/5/2008	01/3/2010-29/2/2012
1,370,000	30.00	21/5/2008	01/3/2011-28/2/2013
675,300	26.20	13/8/2008	01/3/2009-28/2/2011
1,254,600	26.20	13/8/2008	01/3/2010-29/2/2012
1,697,100	26.20	13/8/2008	01/3/2011-28/2/2013
996,000	17.22	24/2/2009	01/3/2010-29/2/2012
2,348,000	17.22	24/2/2009	01/3/2011-28/2/2013
1,486,800	27.80	14/8/2009	01/3/2010-29/2/2012
2,098,200	27.80	14/8/2009	01/3/2011-28/2/2013
2,556,100	41.52	25/3/2010	01/3/2011-28/2/2013

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Li & Fung Group) were entered into by the Li & Fung Group after the date two years immediately preceding the Announcement Date and up to and including the Latest Practicable Date which were or might be material:

(a) a placing agreement dated 5 May 2009 entered into between Li & Fung, LF 1937 and Citigroup Global Markets Asia Limited and Goldman Sachs (Asia) L.L.C. relating to the placing of 120,290,000 Li & Fung Shares by LF 1937 to independent professional, institutional and/or individual investors at a placing price of HK$22.55 per Li & Fung Share;

(b) a subscription agreement dated 5 May 2009 entered into between Li & Fung and LF 1937 relating to the subscription of the same number of Li & Fung Shares by LF 1937 at the same price of HK$22.55 per Li & Fung Share;

(c) a subscription agreement dated 6 May 2010 entered into between Li & Fung and Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited and J.P. Morgan Securities Ltd. for the distribution of the US$400 million 5.25% notes due 2020 issued by Li & Fung at an issue price of 99.854% of their principal amount; and

(d) a subscription agreement dated 9 July 2010 entered into between Li & Fung and Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited and J.P. Morgan Securities Ltd. for the distribution of the US$350 million 5.25% notes due 2020 issued by Li & Fung at an issue price of 103.852% of their principal amount (plus an amount corresponding to accrued interest in respect of the period from, including, 13 May 2010 to, but excluding, 16 July 2010), which were consolidated and formed a single series with the US$400 million 5.25% notes due 2020 issued by Li & Fung at an issue price of 99.854% of their principal amount on 13 May 2010.

8. LITIGATION

As at the Latest Practicable Date, no member of the Li & Fung Group was engaged in litigation or arbitration of material importance and, so far as the Li & Fung Directors were aware, no litigation or claim of material importance was pending or threatened by or against any member of the Li & Fung Group.

9. PRINCIPAL MEMBERS OF LI & FUNG'S CONCERT GROUP

The principal members of the Li & Fung's concert group and their correspondence addresses are set out below:

(a) Li & Fung's Director	Correspondence Address
Dr. Victor Fung Kwok King	11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong
Dr. William Fung Kwok Lun	11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong
Mr. Bruce Philip Rockowitz	11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong
Mr. Spencer Theodore Fung	11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong

(a) **Li & Fung's Director** / **Correspondence Address**

Li & Fung's Director	Correspondence Address
Mr. Paul Edward Selway-Swift	11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong
Mr. Allan Wong Chi Yun	11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong
Prof. Franklin Warren McFarlan	11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong
Mr. Makoto Yasuda	11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong
Mr. Martin Tang Yue Nien	11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong

(b)

Company	Correspondence Address
King Lun	11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong
LF 1937	11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong
LFD	11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong

LFD is a wholly-owned subsidiary of LF 1937, which is in turn wholly-owned by King Lun. King Lun is 50% owned by Dr. William Fung Kwok Lun and 50% owned by HSBC Trustee, the trustee of a trust established for the benefit of the family members of Dr. Victor Fung Kwok King. The directors of both LF 1937 and LFD are Dr. Victor Fung Kwok King, Dr. William Fung Kwok Lun, Mr. Jeremy Paul Egerton Hobbins, Mr. Lau Butt Farn and Mr. James Siu Kai Lau. The directors of King Lun are Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun.

10. EXPERT

The following is the qualification of the expert who has given its opinion or advice which is contained in this document:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants

11. CONSENT

(a) J.P. Morgan has given and has not withdrawn its written consent to the issue of this document with the inclusion in this document of references to its name in the form and context in which it is included.

(b) PricewaterhouseCoopers has given and has not withdrawn its written consent to the issue of this document with the inclusion in this document of the text of its letter and references to its name in the form and context in which they are included respectively.

12. MISCELLANEOUS

(a) The emoluments of the Li & Fung Directors will not be affected by the Scheme or by any other associated transactions.

(b) Li & Fung was incorporated in Bermuda under the Companies Act on 25 October 1991. Its registered office is at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and the head office and principal place of business of Li & Fung in Hong Kong is at 11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong. The Li & Fung executive Directors are Dr. William Fung Kwok Lun, Mr. Bruce Philip Rockowitz and Mr. Spencer Theodore Fung, the Li & Fung non-executive Director is Dr. Victor Fung Kwok King, and the Li & Fung independent non-executive Directors are Mr. Paul Edward Selway-Swift, Mr. Allan Wong Chi Yun, Prof. Franklin Warren McFarlan, Mr. Makoto Yasuda and Mr. Martin Tang Yue Nien.

(c) The address of J.P. Morgan is 28th Floor, Chater House, 8 Connaught Road Central, Hong Kong.

(d) Li & Fung does not have any intention or agreement, arrangement or understanding to transfer, charge or pledge any IDS Shares acquired pursuant to the Scheme to any other person.

(e) The English text of this document and the forms of proxy shall prevail over the Chinese text.

(f) This document together with the documents as set out in Appendix VI to this document will be displayed on Li & Fung's website at *www.lifung.com*, IDS's website at *www.idsgroup.com* and on the website of the SFC at *www.sfc.hk* until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at 18th Floor, IDS LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, N.T., Hong Kong from 9:00 a.m. to 5:00 p.m. on any weekday (public holidays excepted) and on the website of IDS at *www.idsgroup.com*, the website of Li & Fung at *www.lifung.com* and the website of the SFC at *www.sfc.hk* until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is the earliest:

(a) the Memorandum of Association and Bye-Laws of IDS;

(b) the Memorandum of Association and Bye-Laws of Li & Fung;

(c) the letter from the IDS Board, the text of which is set out on pages 13 to 30 of this document;

(d) the letter of recommendation from the IDS IBC, the text of which is set out on pages 31 to 32 of this document;

(e) the letter of recommendation from ANZ, the text of which is set out on pages 33 to 66 of this document;

(f) the annual reports of IDS for each of the two financial years ended 31 December 2009;

(g) the interim report of IDS for the six months ended 30 June 2010;

(h) the annual reports of Li & Fung for each of the two financial years ended 31 December 2009;

(i) the interim report of Li & Fung for the six months ended 30 June 2010;

(j) the report on the unaudited pro forma financial information of the Enlarged Group from PricewaterhouseCoopers, the text of which is set out in Appendix III to this document;

(k) the material contracts referred to in the section headed "Material Contracts" in Appendix V to this document;

(l) the written consents referred to in the section headed "Consent" in Appendix IV and Appendix V to this document; and

(m) the Irrevocable Undertakings.

IN THE SUPREME COURT OF BERMUDA
CIVIL JURISDICTION
(Commercial List)

2010: NO. 298

IN THE MATTER OF

INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED

and

IN THE MATTER OF SECTION 99 OF THE COMPANIES ACT 1981

SCHEME OF ARRANGEMENT

between

INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED

and

THE HOLDERS OF THE SCHEME SHARES (as defined herein)

PRELIMINARY

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions shall bear the meanings respectively set opposite them:

"Common Directors"	Dr. Victor Fung Kwok King, Dr. William Fung Kwok Lun and Mr. Lau Butt Farn, being directors of the Company who are also directors of Li & Fung and/or Li & Fung (1937) Limited
"Company"	Integrated Distribution Services Group Limited, a company incorporated in Bermuda with limited liability
"Companies Act"	The Companies Act 1981 of Bermuda
"Court"	the Supreme Court of Bermuda

"Court Meeting"	a meeting of the Independent Shareholders to be convened at the direction of the Court at which the Scheme (with or without modification) will be voted upon, or any adjournment thereof;
"Director(s)"	director(s) of the Company
"Effective Date"	the date on which this Scheme becomes effective in accordance with paragraph 6 of this Scheme;
"Hong Kong"	The Hong Kong Special Administrative Region of the People's Republic of China;
"Independent Shareholders"	all Shareholder(s), other than Li & Fung and persons acting in concert with it (including the Interested Shareholders)
"Interested Shareholders"	the Related Shareholders and the Common Directors
"Latest Practicable Date"	10 September 2010, being the latest practicable date prior to the printing of the Scheme Document in which this Scheme is contained for the purposes of ascertaining certain information for inclusion therein
"Li & Fung"	Li & Fung Limited, a company incorporated in Bermuda with limited liability;
"Li & Fung Director(s)"	director(s) of Li & Fung
"Li & Fung Share(s)"	ordinary share(s) of HK$0.025 each in the share capital of Li & Fung
"Proposal"	the proposal for the acquisition of the Company by Li & Fung by way of the privatisation pursuant to the Scheme and the cash offer to the holders of share options granted by the Company to cancel their outstanding share options, which is conditional on the Scheme becoming effective
"Record Date"	22 October 2010, or such other date as shall have been announced to the Shareholders, being the record date for determining entitlements of the Shareholders under the Scheme
"Register"	the register of members of the Company

"Related Shareholders"	Li & Fung (1937) Limited, Li & Fung (Distribution) Limited, First Island Developments Limited and Dr. Victor Fung Kwok King
"Scheme"	this scheme of arrangement between the Company and the Scheme Shareholders in its present form or with or subject to any modification or addition or condition which the Court may approve or impose
"Scheme Document"	the document dated 14 September 2010 sent by the Company to the Shareholders and holders of the outstanding share options granted by the Company in connection with this Scheme
"Scheme Shareholders"	the Shareholders whose names appear on the Register on the Record Date
"Scheme Shares"	all the Shares held by the Scheme Shareholders as at the Record Date
"SGM"	a special general meeting of the Shareholders to be convened for the purposes of passing all necessary resolutions for the implementation of the Proposal
"Shareholder(s)"	registered holder(s) of Share(s)
"Share(s)"	ordinary share(s) of US$0.10 each in the share capital of the Company
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong.

(B) The Company was incorporated on 25 September 2003 in Bermuda under the Companies Act with an authorised share capital of US$100,000,000 divided into 1,000,000,000 Shares. As at the Latest Practicable Date, the Company had an authorised share capital of US$100,000,000 divided into 1,000,000,000 Shares of which 325,855,000 Shares had been issued and were fully paid or credited as fully paid.

(C) Li & Fung was incorporated on 25 October 1991 in Bermuda under the Companies Act with an authorised share capital of HK$10,000 divided into 1,000,000 Li & Fung Shares. As at the Latest Practicable Date, Li & Fung had an authorised share capital of HK$150,000,000 divided into 6,000,000,000 Li & Fung Shares of which 3,814,760,286 Li & Fung Shares had been issued and were fully paid or credited as fully paid.

(D) The primary purpose of this Scheme is that on the Effective Date, all the Scheme Shares should be cancelled and extinguished and that the Company will become a wholly-owned subsidiary of Li & Fung.

(E) As at the Latest Practicable Date, neither Li & Fung, nor any person acting in concert with it (excluding the Interested Shareholders) owned or controlled any Shares or any convertible securities, warrants or options in respect of any Shares.

(F) Li & Fung has agreed to appear by Conyers Dill & Pearman at the hearing of the petition to sanction this Scheme and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by Li & Fung for the purpose of giving effect to this Scheme.

THE SCHEME

PART I

CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

1. On the Effective Date:

   (a) the Company shall allot and issue 120,000 Shares to Li & Fung nil paid prior to the cancellation and extinguishment of the Scheme Shares referred to in paragraph 1(b) below;

   (b) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares; and

   (c) the Company shall apply an amount of approximately HK$93,600 of the credit arising in its books of account as a result of the reduction of its share capital referred to in paragraph 1(b) above in crediting as fully-paid the 120,000 Shares allotted and issued to Li & Fung nil paid and the balance shall be credited to a reserve account in the books of account of the Company.

PART II

CONSIDERATION FOR CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

2. In consideration of the cancellation and extinguishment of the Scheme Shares pursuant to paragraph 1 of this Scheme, Li & Fung will, subject to paragraph 3 of this Scheme, in respect of each Scheme Shareholder as appearing in the Register at 4:30 p.m. (Hong Kong time) on the Record Date, either:

   (a) ***Cash Alternative:*** pay to each such Scheme Shareholder HK$21.00 in cash for every Scheme Share held; or

   (b) ***Share Alternative:*** if the Scheme Shareholder so elects, allot and issue 0.585 Li & Fung Share to each such Scheme Shareholder for every Scheme Share held.

3. (a) In any case where the Li & Fung Directors or the Directors have been advised that the making available, offer for subscription or purchase and allotment and issuance of the Li & Fung Shares to the overseas Scheme Shareholder (i) may be prohibited by the law of the jurisdiction in which such overseas Scheme Shareholder is located; or (ii) is prohibited unless certain conditions or requirements have been complied with which the Li & Fung Directors or the Directors regard as unduly burdensome by reason of delay, expense or otherwise; Li & Fung will appoint a person selected by the Li & Fung Directors

(the "**Agent**") to ascertain the amount of the net proceeds of sale, after deduction of any expenses (such as the Securities and Futures Commission transaction levy, The Stock Exchange of Hong Kong Limited trading fee, stamp duty and brokerage fee), which would have been received by the relevant overseas Scheme Shareholder if he had elected the Share Alternative and sold the Li & Fung Shares which would have been issued to him under the Share Alternative at the closing price of the Li & Fung Shares as at the Record Date.

(b) If such amount is equal to or less than the amount which would be payable to such overseas Scheme Shareholder if he had elected the Cash Alternative, Li & Fung will arrange cheques for the Cash Alternative to be sent to the relevant overseas Scheme Shareholder in accordance with the provisions of paragraph 4 of this Scheme which apply to the payment of the Cash Alternative.

(c) If such amount is higher than the amount which would be payable to such overseas Scheme Shareholder if he had elected the Cash Alternative, Li & Fung will issue the relevant Li & Fung Shares to the Agent who will then sell the same in the market as soon as practicable. The net proceeds of sale will be paid to the relevant overseas Scheme Shareholder. Such payment shall be full satisfaction of his rights to the Li & Fung Shares to which he would have otherwise been entitled under this Scheme except that no payment will be made of any amount of less than HK$10.00 which will be retained for the benefit of Li & Fung. The proceeds of sale will be based on the average selling price per Li & Fung Share sold by the Agent. The payment of the net proceeds of sale will be made in the manner set out in paragraphs 4(b) to 4(g) of this Scheme.

PART III

GENERAL

4. (a) Not later than 10 days after the Effective Date, Li & Fung shall:

(i) in respect of the Scheme Shareholders (as appearing in the Register at 4:30 p.m. (Hong Kong time) on the Record Date) who are to receive cash under the Cash Alternative in respect of their holdings of Scheme Shares, send or cause to be sent to such Scheme Shareholders cheques in respect of the sums payable to such Scheme Shareholders pursuant to paragraph 2(a) of this Scheme; and

(ii) in respect of the Scheme Shareholders (as appearing in the Register at 4:30 p.m. (Hong Kong time) on the Record Date) who are to receive Li & Fung Shares under the Share Alternative, allot and issue, credited as fully paid, the requisite number of Li & Fung Shares and send or cause to be sent to such Scheme Shareholders certificates in respect of the requisite number of Li & Fung Shares to be issued.

(b) Unless indicated otherwise in writing to the branch share registrar of the Company in Hong Kong, (being Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong) all such cheques and certificates shall be sent through the post (by airmail where appropriate) in pre-paid envelopes addressed to such Scheme Shareholders as follows:

(i) in the case of each sole Scheme Shareholder, the registered address of such Scheme Shareholder as appearing in the Register as at 4:30 p.m. (Hong Kong time) on the Record Date; or

(ii) in the case of joint Scheme Shareholders, the registered address as appearing in the Register as at 4:30 p.m. (Hong Kong time) on the Record Date of the joint Scheme Shareholder in respect of the relevant joint holding.

(c) All cheques shall be made payable to the order of the person or persons to whom, in accordance with the provisions of paragraph 4(b) of this Scheme, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Company and Li & Fung for the moneys expressed to be represented thereby.

(d) All cheques and certificates shall be posted at the risk of the addressees and other persons entitled thereto and the Company, Li & Fung and any other persons involved in the Scheme shall not be liable for any loss or delay in transmission.

(e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph 4(b) of this Scheme, Li & Fung shall have the right to cancel or countermand payment of any such cheque which has not then been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company shall hold such monies on trust for those entitled under the terms of this Scheme until the expiry of six years from the Effective Date and shall prior to such date make payments thereout of the sums payable pursuant to paragraph 2 of this Scheme to persons who satisfy the Company that they are respectively entitled thereto, provided that the cheques referred to in paragraph 4(b) of this Scheme of which they are payees have not been cashed. Any payments made by the Company hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to paragraph 2 of this Scheme, calculated at the annual rate prevailing from time to time at the licensed bank in which the monies are deposited, subject, if applicable, to the deduction of interest tax or any withholding or other tax or any other deduction required by law and subject also to the deduction of any expenses. The Company shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of the Company to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

(f) On the expiry of six years from the Effective Date, Li & Fung shall be released from any further obligation to make any payments under this Scheme and the Company shall thereafter transfer to Li & Fung the balance (if any) of the sums standing to the credit of the deposit account referred to in paragraph 4(e) of this Scheme including accrued interest subject, if applicable, to the deduction of interest tax or any withholding or other tax or any other deduction required by law and subject also to the deduction of any expenses.

(g) The preceding sub-paragraphs of this paragraph 4 shall take effect subject to any prohibition or condition imposed by law.

5. As from the Effective Date, all certificates representing the Scheme Shares shall cease to have effect as documents or evidence of title and every holder thereof shall be bound, on the request of the Company, to deliver up to the Company the certificate(s) in respect of its, his or her entire holding of Scheme Shares.

6. All mandates or other instructions to the Company in force at 9:00 a.m. in Hong Kong on the Effective Date in relation to the Scheme Shares (including elections for the payment of dividends by way of scrip) shall cease to be valid as effective mandates or instructions.

7. This Scheme shall become effective as soon as a copy of the Order of the Court sanctioning this Scheme under section 99 of the Companies Act shall have been delivered to the Registrar of Companies in Bermuda for registration.

8. The Company and Li & Fung may jointly consent for and on behalf of all concerned to any modification(s) of or addition(s) to this Scheme or to any condition(s) which the Court may see fit to approve or impose.

9. Unless this Scheme shall have become effective on or before 31 December 2010, (or such later date, if any, as Li & Fung and the Company may agree and the Court may allow), this Scheme shall lapse.

10. In the event that the Scheme becomes effective, the costs of the Scheme will be borne by Li & Fung. In the event the Scheme is not approved at the Court Meeting or the SGM, the Company and Li & Fung shall bear their own expenses incurred in connection with the Scheme.

11. The new Li & Fung Shares to be allotted and issued pursuant to paragraph 2(b) of this Scheme shall be identical and shall rank pari passu in all respects both inter se and with all other Li & Fung Shares in issue on the Record Date.

Dated 14 September 2010

NOTICE OF COURT MEETING

IN THE SUPREME COURT OF BERMUDA, CIVIL JURISDICTION (Commercial List)

2010: NO. 298

IN THE MATTER OF

INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED

and

IN THE MATTER OF SECTION 99 OF THE COMPANIES ACT 1981

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an Order dated 9 September 2010 (the "**Order**") made in the above matter, the Court has directed Integrated Distribution Services Group Limited (the "**Company**") to convene a meeting (the "**Court Meeting**") of the Independent Shareholders (as defined in the Scheme mentioned below), for the purpose of considering and, if thought fit, approving (with or without modification(s)) a scheme of arrangement (the "**Scheme**") proposed to be made between the Company and the Scheme Shareholders (as defined in the Scheme) and that such Court Meeting will be held at Pheasant-Jasmine Room, 1st Floor, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong on 7 October 2010 at 11:00 a.m. (Hong Kong time) at which place and time all the shareholders of the Company are requested to attend.

A copy of the Scheme and a copy of the explanatory statement required to be furnished pursuant to section 100 of the Companies Act 1981 of Bermuda are incorporated in the composite document (the "**Document**") of which this Notice forms part. A copy of the Document can also be obtained from the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong during normal working hours.

The Independent Shareholders may vote in person at the Court Meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead. A pink form of proxy for use at the Court Meeting is enclosed with the Document. None of the Interested Shareholders (as defined in the Scheme) may vote at the Court Meeting.

In the case of joint holders of a share of the Company, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s), and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint shareholding.

It is requested that forms appointing proxies be lodged with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the time appointed for the Court Meeting, but if the forms are not so lodged they may be handed to the Chairman of the Court Meeting at the Court Meeting. Completion and return of the form of proxy shall not preclude an Independent Shareholder from attending and voting in person at the Court Meeting and, in such event, the returned form of proxy shall be deemed to have been revoked.

By the Order, the Court has appointed Dr. Fu Yu Ning, a director of the Company, or failing him, Mr. Andrew Tung Lieh Cheung, also a director of the Company, or failing him, any other person who is a director of the Company as at the date of the Order to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the result thereof to the Court.

The Scheme will be subject to the subsequent approval of the Court as set out in the explanatory statement contained in the Document.

Dated this 14th day of September 2010

Conyers Dill & Pearman
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Attorneys for the Company

INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2387)

NOTICE IS HEREBY GIVEN that a special general meeting of the shareholders of Integrated Distribution Services Group Limited (the "**Company**") will be held at Pheasant-Jasmine Room, 1st Floor, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong on 7 October 2010 at 11:30 a.m. (Hong Kong time) (or immediately after the meeting of the shareholders of the Company convened by the direction of the Supreme Court of Bermuda at the same place and on the same day shall have been concluded or adjourned, whichever is the later), for the purposes of considering and, if thought fit, passing the following resolution as a special resolution of the Company:

SPECIAL RESOLUTION

"**THAT**:

(a) for the purposes of giving effect to the scheme of arrangement dated 14 September 2010 (the "**Scheme**"), in the form of the print contained in the composite document of which this notice forms part dated 14 September 2010 which has been submitted to this meeting and for the purposes of identification has been signed by the Chairman of this meeting, between the Company and the Scheme Shareholders (as defined in the Scheme), with any modifications thereof or additions thereto or subject to any conditions approved or imposed by the Court (as defined in the Scheme), on the Effective Date (as defined in the Scheme):

(i) the Company shall allot and issue 120,000 Shares (as defined in the Scheme) to Li & Fung (as defined in the Scheme) nil paid prior to the cancellation and extinguishment of the Scheme Shares (as defined in the Scheme) referred to in (ii) below;

(ii) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;

(iii) the Company shall apply an amount of approximately HK$93,600 of the credit arising in its books of account as a result of the reduction of its share capital referred to in (ii) above in crediting as fully-paid the 120,000 Shares allotted and issued to Li & Fung nil paid and the balance shall be credited to a reserve account in its books of account; and

(b) the directors of the Company be and are hereby authorised to do all acts and things as considered by them to be necessary or desirable in connection with the completion of the Scheme, including (without limitation) the giving of consent to any modifications of, or additions to, the Scheme, which the Court may see fit to impose and to do all other acts and things as considered by them to be necessary or desirable in connection with the Proposal (as defined in the Scheme)."

By Order of the Board of
INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED
Yuen Ying Kwai
Company Secretary

Hong Kong, 14 September 2010

Registered office:
Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda

Principal place of business in Hong Kong:
18th Floor
IDS LiFung Centre
2 On Ping Street, Siu Lek Yuen
Shatin, N.T.
Hong Kong

Notes:

1. A shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his/her stead. A proxy need not be a shareholder of the Company, but must attend the meeting in person to represent him/her.

2. A white form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon.

3. To be valid, the white form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a certified copy thereof, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting concerned and, in such event, his/her form of proxy shall be deemed to have been revoked.

4. In the case of joint holders of a share of the Company, any one of such joint holders may vote at the meeting either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of such holders whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased shareholder in whose name any share of the Company stands shall for this purpose be deemed joint holders thereof.

5. At the meeting, the chairman thereof will exercise his power under the Bye-Laws of the Company to put the above resolution to the vote by way of a poll.

6. The register of members of the Company will be closed Tuesday, 5 October 2010 to Thursday, 7 October 2010 (both dates inclusive) during which period no transfer of shares of the Company will be registered. In order to be entitled to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 4 October 2010.

The following is a sample of the Option Offer Letter being sent to the IDS Optionholders in connection with the Option Offer.

J.P.Morgan

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED
Financial Adviser to Li & Fung Limited

14 September 2010

To IDS Optionholders

Dear Sir or Madam,

PROPOSED ACQUISITION BY
LI & FUNG LIMITED
OF
INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED
BY WAY OF PRIVATISATION
PURSUANT TO A SCHEME OF ARRANGEMENT
(UNDER SECTION 99 OF THE COMPANIES ACT)

INTRODUCTION

A scheme document (the "**Scheme Document**") dated the same date as this letter issued jointly by Li & Fung Limited ("**Li & Fung**") and Integrated Distribution Services Group Limited ("**IDS**") is enclosed with this letter. Terms used but not defined in this letter shall have the same meanings as in the Scheme Document. This letter should be read in conjunction with the Scheme Document.

On 12 August 2010, Li & Fung and IDS jointly announced that on the same date, Li & Fung requested the IDS Board to put forward a proposal to the Scheme Shareholders regarding a proposed acquisition of IDS by way of privatisation pursuant to a scheme of arrangement under Section 99 of the Companies Act involving cancellation of all the Scheme Shares and allotment and issue of new IDS Shares to Li & Fung. As stated in the Announcement, as part of the Proposal, Li & Fung will make a comparable cash offer to the IDS Optionholders to cancel their outstanding IDS Share Options, subject to the Scheme becoming effective.

This letter explains the actions you may take in relation to your outstanding IDS Share Options. You are advised to refer to the Scheme Document when considering them.

Your attention is also drawn to the terms and conditions of the IDS Option Scheme, including without limitation paragraph 6.6(f) of the IDS Option Scheme.

TERMS OF THE OPTION OFFER

On behalf of Li & Fung, we are making an offer, which is conditional on the Scheme becoming effective, to you on the following terms.

Any outstanding IDS Share Options, to the extent not exercised on or prior to the Record Date, will lapse upon the Scheme becoming effective. You may accept the Option Offer by lodging a completed form of acceptance in respect of the Option Offer ("**Form of Acceptance**") by the prescribed deadline and, if the Option Offer becomes unconditional, you will be entitled to receive a cash consideration (the "**Option Offer Price**") for each IDS Share Option, being:

- HK$16.175 for each 2004 Option;
- HK$12.40 for each 2005 Option;
- HK$5.90 for each 2006 Option;
- HK$14.36 for each 2008 Option; and
- HK$8.224 for each 2009 Option.

The Option Offer Price above represents the "see-through" price of that outstanding IDS Share Option, being the amount equivalent to the amount calculated by deducting the exercise price per IDS Share payable on exercise of the relevant IDS Share Option from the cash consideration in the amount of HK$21.00 per Scheme Share under the Cash Alternative.

For the 2007 Options, of which the exercise price per IDS Share is higher than the cash consideration per Scheme Share under the Cash Alternative, the "see-through" price is zero and you will be entitled to receive a cash offer of HK$1.00 for every 10,000 2007 Options held by you.

The Option Offer is conditional upon the Scheme becoming effective. The Conditions of the Scheme are set out in the section headed "Explanatory Statement — Conditions of the Scheme" in the Scheme Document. In addition, all payments in respect of the Option Offer Price will be made by cheques in Hong Kong dollars. You may face delays or obstacles in changing Hong Kong dollars to other currency or cashing such cheques in certain locations or situations. You are further advised to refer to the sections headed "Explanatory Statement — Registration, payment and despatch of Li & Fung Share certificates" and "Explanatory Statement — Overseas Scheme Shareholders and IDS Optionholders" in the Scheme Document.

Your attention is drawn to the letter from the IDS IBC to the IDS Independent Shareholders and the IDS Optionholders set out on pages 31 to 32 of the Scheme Document and the letter from ANZ, the independent financial adviser to the IDS IBC, set out on pages 33 to 66 of the Scheme Document which contain the recommendation of the IDS IBC and of ANZ, respectively, in relation to the Scheme and the Option Offer.

COURSES OF ACTION AVAILABLE TO IDS OPTIONHOLDERS

In summary, the choices available to you in respect of your outstanding IDS Share Options are:

(a) to the extent any of your outstanding IDS Share Options is not exercised on or prior to the Record Date, you may accept the Option Offer in accordance with its terms, as set out in this letter and in the Scheme Document, by allowing such unexercised outstanding IDS Share Options to be cancelled on the Effective Date and elect on the enclosed Form of Acceptance, by not later than 4:30 p.m. (Hong Kong time) on Friday, 22 October 2010 (or such later date as may be notified to you through announcement(s)), to receive the Option Offer Price if the Scheme becomes effective;

(b) you may in accordance with the terms of the IDS Option Scheme exercise all or any of your outstanding IDS Share Options (to the extent not already exercised) to its full extent or to the extent specified in your notice of exercise of IDS Share Options to IDS at any time after the date of this letter (being 14 September 2010) and up to 5:30 p.m. (Hong Kong time) on 15 October 2010. Any IDS Shares issued as a result of the exercise of such outstanding IDS Options as mentioned above will be subject to and eligible to participate in the Scheme. Please refer to the Scheme Document for details of the Proposal and the Scheme in this regard; or

(c) do nothing, in which case, if the Scheme becomes effective, your outstanding IDS Share Options will lapse automatically on the Effective Date, and you will receive neither the Option Offer Price nor the Cancellation Consideration.

Each outstanding IDS Share Option you hold is independent and you should make a separate decision for each one.

For further details, please refer to the remaining sections of this letter, the Scheme Document and the terms of the IDS Option Scheme.

OUTSTANDING IDS SHARE OPTIONS HELD AS AT THE LATEST PRACTICABLE DATE

Information on the outstanding IDS Share Options held by you as at the Latest Practicable Date is available from the company secretary of IDS. If there is any exercise of your outstanding IDS Share Options after the Latest Practicable Date, you may accept the Option Offer only in respect of such outstanding IDS Share Options which remain unexercised as at the Record Date.

LAPSED IDS SHARE OPTIONS

Please note that nothing in this letter or the Scheme Document serves to extend the life of an IDS Share Option which lapses, will lapse, or has already lapsed, under the terms of the IDS Option Scheme. You cannot exercise or accept the Option Offer in respect of an IDS Share Option which has lapsed or will have lapsed by the Effective Date.

INDEPENDENT FINANCIAL ADVICE

The information provided in this letter is intended to give you factual details on which to base your decision as to the action you wish to take.

If you are in any doubt as to any aspect of this letter, the Scheme Document or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

DECLARATION

By returning the Form of Acceptance, you thereby:-

(a) confirm that each IDS Share Option in respect of which you make an election is valid and subsisting, free from all liens, charges, mortgages and third party interests of any nature whatsoever and you acknowledge that any option certificate in respect of such IDS Share Option shall become void once that IDS Share Option has been cancelled as a result of your acceptance of the Option Offer pursuant to your decisions shown on the Form of Acceptance;

(b) confirm that the decisions which you have made on the Form of Acceptance cannot be withdrawn or altered;

(c) authorise Li & Fung, IDS and/or J.P. Morgan and/or such person or persons as any of them may direct to do all acts and things and to execute any document as may be necessary or desirable to give effect to or in consequence of the acceptance you have made on the Form of Acceptance, and you hereby undertake to execute any further assurance that may be required in respect of such acceptance;

(d) undertake to confirm and ratify any action properly or lawfully taken on your behalf by any attorney appointed by or pursuant to this letter and the Form of Acceptance; and

(e) confirm you have read, understood and agreed to the terms and conditions of the Option Offer (including without limitation those set out in this letter and the Form of Acceptance), and that you have received the Scheme Document and this letter.

GENERAL

(a) All communications, notices, Forms of Acceptance, cheques, certificates and other documents of any nature to be delivered by or sent to or from IDS Optionholders will be delivered by or sent to or from them, or their designated agents, at their risk, and none of J.P. Morgan, Li & Fung or IDS accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.

(b) The provisions set out in the Form of Acceptance form part of the terms of the Option Offer.

(c) The Option Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.

(d) Due execution of the Form of Acceptance in respect of the Option Offer will constitute an authority to Li & Fung and/or J. P. Morgan and/or such person or persons as any of them may direct to complete and execute on behalf of the accepting IDS Optionholder, the Form of Acceptance and any document and to do any other act that may be necessary or expedient for the purpose of cancelling, or vesting in Li & Fung or such person(s) as Li & Fung shall direct, all rights of the IDS Optionholders in respect of the outstanding IDS Share Options which are the subject of such acceptance.

(e) The delivery of the Form of Acceptance, duly signed, may, if Li & Fung determines it appropriate, be as effective as if it were duly completed and received notwithstanding that it is not completed or received strictly in accordance with the Form of Acceptance and this letter, including the date specified for receipt.

(f) By completing the Form of Acceptance in respect of a particular outstanding IDS Share Option, you irrevocably and at your own risk elect to authorise Li & Fung to send to you (or to any other payee you specify in the Form of Acceptance), or procure the sending to you (or to any such payee) of, the cash to which you are entitled.

ACTIONS TO BE TAKEN

You should return the duly completed Form of Acceptance to Li & Fung c/o IDS, at 1st Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong, for the attention of the Li & Fung Board and marked “IDS – Option Offer”, so as to reach Li & Fung not later than 4:30 p.m. (Hong Kong time) on Friday, 22 October 2010 (or such later time and/or date as may be notified through announcement(s)). If you do not complete an Form of Acceptance, subject to and conditional upon the Scheme becoming effective, your IDS Share Options will lapse.

Before forwarding the Form of Acceptance to the Li & Fung Board, please ensure that you have signed the Form of Acceptance and that your signature has been witnessed.

As stated above, the Option Offer is conditional upon the Scheme becoming effective. Unless the Scheme becomes effective, and therefore the Option Offer becomes unconditional, on or before 31 December 2010 (or such later date as may be proposed by Li & Fung and permitted by the Executive), the Option Offer will lapse.

Assuming the Option Offer becomes unconditional on Friday, 22 October 2010 (Hong Kong time), cheques for the Option Offer Price are expected to be despatched on or before Monday, 1 November 2010.

No acknowledgment of receipt of any Form of Acceptance or other document evidencing the grant of the outstanding IDS Share Options or other documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

Yours faithfully,
For and on behalf of
J.P. Morgan Securities (Asia Pacific) Limited
David Lau
Executive Director