Notes To The Consolidated Financial Statements

1 GENERAL INFORMATION

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION

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

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

Amendments to published standards effective in 2006

The Group early adopted Amendment to HKAS 19, Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures in financial year ended 31 December 2005. The early adoption of revised HKAS 19 provides an option of recognizing actuarial gains and losses in full in the period in which they occur, outside profit or loss, in equity.

The Group elected to take the option to recognize all actuarial gains and losses, including those actuarial gains and losses previously included as part of the transitional unrecognized liabilities. In prior years, cumulative unrecognized net actuarial gains and losses, to the extent of the amount in excess of 10% of the greater of the present value of the plan obligations and the fair value of plan assets, were recognized in the income statement over the average remaining service lives of employees.

2.1 BASIS OF PREPARATION (continued)

Standards, amendments and interpretations effective in 2006

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

HKAS 21(Amendment)	Net Investment in a Foreign Operation
HKAS 39(Amendment)	The Fair Value Option
HKAS 39(Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

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

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

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

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

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

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

HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006)

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

2.1 BASIS OF PREPARATION (continued)

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

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

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

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

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

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

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

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

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

2.2 CONSOLIDATION

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

(a) Subsidiaries

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

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

2.2 CONSOLIDATION (continued)

(a) Subsidiaries (continued)

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

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

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

(b) Transactions and minority interests

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

2.3 SEGMENT REPORTING

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

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

2.4 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

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

2.4 FOREIGN CURRENCY TRANSLATION (continued)

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

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

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

2.5 PROPERTY, PLANT AND EQUIPMENT

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

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

Buildings	shorter of the lease period or 2%
Furniture, plant and machinery	6.7% – 33.3%

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

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

2.6 INTANGIBLE ASSETS

Goodwill

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

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

Trademarks

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

Computer software

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

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

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

Customer base

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

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

2.7 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

2.8 FINANCIAL ASSETS

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

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

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

(b) Loans and receivables

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

(c) Held-to-maturity investments

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

(d) Available-for-sale financial assets

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

Purchases and sales of financial assets are recognized on trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise.

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

2.8 FINANCIAL ASSETS (continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.9 INVENTORIES

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

2.10 TRADE AND OTHER RECEIVABLES

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

2.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits with banks with original maturities of less than three months, and bank overdrafts. Bank overdrafts are shown within bank loans and other borrowings in current liabilities on the balance sheet.

2.12 SHARE CAPITAL

Ordinary shares are classified as equity.

2.13 BORROWINGS

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

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

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

2.14 DEFERRED INCOME TAX

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

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

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

2.15 EMPLOYEE BENEFITS

(a) Pension obligations

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

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in full in the period in which they occur, outside profit or loss, in equity.

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

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

2.15 EMPLOYEE BENEFITS (continued)

(b) Share-based compensation

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

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

(c) Profit-sharing and bonus plans

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

2.16 PROVISIONS

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

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

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

2.17 REVENUE RECOGNITION

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

(a) Sales of goods

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

2.17 REVENUE RECOGNITION (continued)

(b) Sales of services

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

(c) Interest income

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

2.18 LEASES

(a) Operating lease

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

(b) Finance lease

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

2.19 DIVIDEND DISTRIBUTION

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

2.20 CORE OPERATING PROFIT

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

3 FINANCIAL RISK MANAGEMENT

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

(a) Foreign exchange risk

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

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

(b) Credit risk

Credit risk arises when sales are made on deferred credit terms. The Group has no significant concentrations of credit risk, as the Group has a large number of customers internationally dispersed. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

(c) Cash flow and fair value interest rate risk

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

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(a) Allowance for doubtful accounts

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

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

(b) Excess and obsolete inventory

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

(c) Income taxes

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

(d) Fair value of assets acquired in business combinations

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

(e) Fair value of derivatives and other financial instruments

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

(f) Estimated impairment of goodwill

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

5 REVENUE AND SEGMENT INFORMATION

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

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

Primary reporting format — business segments
The Group is organized on a worldwide basis into the following business segments:

Logistics
Marketing
Manufacturing

Secondary reporting format — geographical segments
The Group operates in the following geographical areas:

Hong Kong	—	Marketing and Logistics
Taiwan	—	Logistics
Thailand	—	Marketing, Logistics and Manufacturing
Malaysia	—	Marketing, Logistics and Manufacturing
Singapore	—	Marketing and Logistics
the Philippines	—	Marketing and Logistics
Indonesia	—	Marketing and Manufacturing
PRC	—	Marketing and Logistics
Brunei	—	Marketing
the US	—	Logistics

5 REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format — business segments

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

	Logistics	Marketing	Manufacturing	Corporate (Note)	Inter-segment elimination	Group total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Sales of goods	–	707,691	120,037	–	(235)	827,493
Rendering of services	155,531	7,567	16,729	–	(13,709)	166,118
Revenue	155,531	715,258	136,766	–	(13,944)	993,611
Gross profit	144,061	117,218	7,647	–	(10,999)	257,927
Marketing, logistics and administrative expenses	(131,270)	(104,922)	(2,558)	(10,065)	10,999	(237,816)
Core operating profit	12,791	12,296	5,089	(10,065)	–	20,111
Other gains	–	–	–	7,997		7,997
Other expenses	–	(1,050)	–	–		(1,050)
Segment results	12,791	11,246	5,089	(2,068)		27,058
Finance costs, net						(1,442)
Profit before taxation						25,616
Taxation						(1,725)
Profit for the year						23,891
Total assets	137,556	273,336	43,762	85,480		540,134
Total liabilities	129,061	214,241	26,781	53,818		423,901
Capital expenditure	4,868	2,350	2,535	2,627		12,380
Capital expenditure arising from acquisition of a subsidiary/business	35,130	–	–	22,424		57,554
Depreciation and amortization	4,262	2,431	1,447	1,503		9,643
Impairment of inventory	69	1,045	–	–		1,114
Impairment of trade receivables	(2)	611	113	–		722

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

5 REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format — business segments (continued)

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

	Logistics	Marketing	Manufacturing	Corporate (Note)	Inter-segment elimination	Group total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Sales of goods	–	570,966	132,952	–	(339)	703,579
Rendering of services	127,030	4,932	1,361	–	(15,372)	117,951
Revenue	127,030	575,898	134,313	–	(15,711)	821,530
Gross profit	117,112	104,731	6,533	–	(11,414)	216,962
Marketing, logistics and administrative expenses	(106,747)	(93,486)	(2,605)	(9,586)	11,414	(201,010)
Core operating profit	10,365	11,245	3,928	(9,586)	–	15,952
Other gains	–	611	–	2,400		3,011
Segment results	10,365	11,856	3,928	(7,186)		18,963
Finance costs, net						(856)
Profit before taxation						18,107
Taxation						(3,828)
Profit for the year						14,279
Total assets	71,309	209,834	46,431	45,728		373,302
Total liabilities	54,779	155,911	28,274	42,016		280,980
Capital expenditure	5,681	4,243	4,303	1,534		15,761
Depreciation and amortization	4,015	2,040	1,235	1,131		8,421
Impairment of inventory	182	342	586	–		1,110
Impairment of trade receivables	7	385	5	–		397

5 REVENUE AND SEGMENT INFORMATION (continued)

Secondary reporting format — geographical segments

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

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

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

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

6 INTANGIBLE ASSETS

	Group				
	Goodwill US$'000	**Customer base** US$'000	**Software costs** US$'000	**Trademarks** US$'000	**Total** US$'000
At 1 January 2005					
Cost	–	–	7,394	1,228	8,622
Accumulated amortization	–	–	(2,953)	(184)	(3,137)
Net book value	–	–	4,441	1,044	5,485
Year ended 31 December 2005					
Opening net book value	–	–	4,441	1,044	5,485
Exchange adjustment	–	–	(3)	–	(3)
Additions	–	–	2,274	–	2,274
Amortization expense (note 20)	–	–	(904)	–	(904)
Closing net book value	–	–	5,808	1,044	6,852
At 31 December 2005					
Cost	–	–	9,674	1,228	10,902
Accumulated amortization	–	–	(3,866)	(184)	(4,050)
Net book value	–	–	5,808	1,044	6,852
Year ended 31 December 2006					
Opening net book value	**–**	**–**	**5,808**	**1,044**	**6,852**
Acquisition of a subsidiary/ business	**28,123**	**3,060**	**332**	**–**	**31,515**
Exchange adjustment	**–**	**–**	**96**	**–**	**96**
Additions	**–**	**–**	**2,484**	**–**	**2,484**
Disposals	**–**	**–**	**(9)**	**–**	**(9)**
Amortization expense (note 20)	**–**	**(67)**	**(1,375)**	**–**	**(1,442)**
Closing net book value	**28,123**	**2,993**	**7,336**	**1,044**	**39,496**
At 31 December 2006					
Cost	**28,123**	**3,060**	**13,232**	**1,228**	**45,643**
Accumulated amortization	**–**	**(67)**	**(5,896)**	**(184)**	**(6,147)**
Net book value	**28,123**	**2,993**	**7,336**	**1,044**	**39,496**

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

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

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

6 INTANGIBLE ASSETS (continued)

Impairment tests for goodwill

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

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

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

7 LEASE PREMIUM FOR LAND

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

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

8 PROPERTY, PLANT AND EQUIPMENT

	Group		
	Buildings US$'000	Furniture, plant and machinery US$'000	Total US$'000
At 1 January 2005			
Cost	3,070	76,791	79,861
Accumulated depreciation	(629)	(45,352)	(45,981)
Net book value	2,441	31,439	33,880
Year ended 31 December 2005			
Opening net book value	2,441	31,439	33,880
Exchange adjustment	8	(191)	(183)
Additions	492	12,995	13,487
Disposals	(35)	(296)	(331)
Depreciation	(90)	(7,412)	(7,502)
Closing net book value	2,816	36,535	39,351
At 31 December 2005			
Cost	3,528	78,015	81,543
Accumulated depreciation	(712)	(41,480)	(42,192)
Net book value	2,816	36,535	39,351

8 PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

9 INTEREST IN A SUBSIDIARY

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

Notes:

(a) Particulars of principal subsidiaries are set out in note 32 to the consolidated financial statements.

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

10 INVENTORIES

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

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

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

11 TRADE AND OTHER RECEIVABLES

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

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

Notes:

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

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

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

(b) *The amounts due from related companies are trade in nature. The trade balances were aged less than 90 days and the credit terms granted to related companies were no more favorable than those granted to other third party customers.*

12 CASH AND CASH EQUIVALENTS

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

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

13 SHARE CAPITAL AND OPTIONS

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

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

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

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

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

13 SHARE CAPITAL AND OPTIONS (continued)

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

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

		Share options	
Expiry date	**Exercise price HK$ per share**	**31 December 2006**	31 December 2005
31 December 2008	4.825	**4,080,000**	4,257,000
31 December 2009	4.825	**4,080,000**	4,257,000
31 December 2010	4.825	**4,080,000**	4,257,000
31 December 2009	8.600	**1,549,500**	1,666,500
31 December 2010	8.600	**1,549,500**	1,666,500
31 December 2011	8.600	**1,549,500**	1,666,500
31 December 2010	15.100	**1,610,000**	–
31 December 2011	15.100	**1,610,000**	–
31 December 2012	15.100	**1,610,000**	–
		21,718,500	17,770,500

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

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

14 RESERVES

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

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

Notes:

(a) *Merger reserve represented the difference between the sum of the nominal value and share premium of shares of the subsidiaries acquired from LFD for the purpose of the reorganization of the group and the nominal value of shares of the Company issued in exchange thereof, net of subsequent transfer to accumulated loss/retained earnings.*

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

14 RESERVES (continued)

	Company			
	Share premium US$'000	(Accumulated losses)/retained earnings US$'000	Employee share based compensation reserve US$'000	Total US$'000
At 1 January 2005	21,019	(97)	–	20,922
Profit for the year (note 24)	–	2,482	–	2,482
Dividends	–	(2,386)	–	(2,386)
Employee share option benefits	–	–	537	537
At 31 December 2005	21,019	(1)	537	21,555
Profit for the year (note 24)	**–**	**8,880**	**–**	**8,880**
Dividends	**–**	**(8,357)**	**–**	**(8,357)**
Employee share option benefits	**–**	**–**	**980**	**980**
As at 31 December 2006	**21,019**	**522**	**1,517**	**23,058**

15 BANK LOANS AND OTHER BORROWINGS

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

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

15 BANK LOANS AND OTHER BORROWINGS (continued)

The maturity of borrowings is as follows:

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

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

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

The carrying amounts of borrowings approximate their fair value.

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

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

15 BANK LOANS AND OTHER BORROWINGS (continued)

Finance lease liabilities were payable as follows:

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

16 DEFERRED TAXATION

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

Deferred tax liabilities:

	Group			
	Accelerated tax depreciation US$'000	**Fair value gains** US$'000	**Others** US$'000	**Total** US$'000
At 1 January 2005	1,970	–	570	2,540
Exchange differences	(22)	–	(7)	(29)
Charged/(credited) to consolidated income statement	180	–	(397)	(217)
At 31 December 2005	2,128	–	166	2,294
Exchange differences	**200**	**–**	**7**	**207**
Charged/(credited) to consolidated income statement	**878**	**–**	**(26)**	**852**
Acquisition of a subsidiary/business	**179**	**146**	**8,135**	**8,460**
At 31 December 2006	**3,385**	**146**	**8,282**	**11,813**

16 DEFERRED TAXATION (continued)

Deferred tax assets:

	Group			
	Tax losses US$'000	**Decelerated tax depreciation** US$'000	**Provisions and others** US$'000	**Total** US$'000
At 1 January 2005	(1,699)	(168)	(1,790)	(3,657)
Exchange differences	18	8	8	34
Credited to consolidated income statement	(174)	(126)	(1,608)	(1,908)
Credited to equity	–	–	(186)	(186)
At 31 December 2005	(1,855)	(286)	(3,576)	(5,717)
Exchange differences	**(134)**	**(32)**	**(270)**	**(436)**
Credited to consolidated income statement	**(4,379)**	**(171)**	**(956)**	**(5,506)**
Acquisition of business	**–**	**–**	**(8,135)**	**(8,135)**
Credited to equity	**–**	**–**	**(44)**	**(44)**
At 31 December 2006	**(6,368)**	**(489)**	**(12,981)**	**(19,838)**

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

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

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

Deferred income tax assets are recognized for tax losses carried forwards to the extent that realization of the related tax benefit through the future taxable profits is probable. As at 31 December 2006, US$9,827,000 (2005: US$35,922,000) of the Group's unrecognized tax losses is carried forward against future taxable income; of which US$8,658,000 (2005: US$1,339,000) will expire by 2011 (2005: 2010).

16 DEFERRED TAXATION (continued)

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

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

17 PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS)

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

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

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

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

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

(a) Surplus on pension schemes — defined benefits plans

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

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

(b) Deficit on pension schemes — defined benefits plans

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

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

(c) Post employment benefit liabilities

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

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

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

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

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

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

Note i: Current service cost represents the increase in the defined benefit obligations resulting from employee service in the current year.

Note ii: Interest cost represents the increase in the present value of the defined benefit obligations over the relevant period of time.

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

(e) Movement included in the consolidated balance sheet:

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

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

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

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

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

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

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

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

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

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

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

18 TRADE AND OTHER PAYABLES

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

Notes:

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

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

(b) The amounts due to related companies are trade in nature. The trade balances were aged less than 90 days and the credit terms granted by related companies were no more favorable than those granted from other third party suppliers.

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

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

19 OTHER GAINS

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

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

20 OPERATING PROFIT

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

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

21 EMPLOYEE BENEFIT EXPENSE

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

(a) Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 December 2006 is set out below:

Name of Director	Fees US$'000	Salary US$'000	Discretionary bonuses US$'000	Other benefits (Note) US$'000	Employer's contribution to pension scheme US$'000	Total payable US$'000	Share-based compensation US$'000	Total payable and charged in the income statement US$'000
Victor FUNG Kwok King	22	–	–	–	–	22	–	22
Benedict CHANG Yew Teck	10	347	399	209	2	967	214	1,181
Joseph Chua PHI	10	277	347	133	2	769	112	881
Rajesh Vardichand RANAVAT	10	249	200	94	2	555	88	643
William FUNG Kwok Lun	10	–	–	–	–	10	–	10
Jeremy Paul Egerton HOBBINS	14	–	–	–	–	14	–	14
LAU Butt Farn	15	–	–	–	–	15	–	15
Derrick LEE Meow Chan	4	–	–	–	–	4	–	4
John Estmond STRICKLAND	19	–	–	–	–	19	–	19
William Winship FLANZ	21	–	–	–	–	21	–	21
FU Yu Ning	19	–	–	–	–	19	–	19
LEE Hau Leung	19	–	–	–	–	19	–	19
	173	873	946	436	6	2,434	414	2,848

21 EMPLOYEE BENEFIT EXPENSE (continued)

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

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

Name of Director	Fees	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	13	–	–	–	–	13	–	13
Benedict CHANG Yew Teck	10	346	50	206	2	614	99	713
Joseph Chua PHI	10	277	236	132	2	657	50	707
Rajesh Vardichand RANAVAT	10	248	195	94	2	549	45	594
William FUNG Kwok Lun	10	–	–	–	–	10	–	10
Jeremy Paul Egerton HOBBINS	13	–	–	–	–	13	–	13
LAU Butt Farn	14	–	–	–	–	14	–	14
Derrick LEE Meow Chan	10	–	–	–	–	10	–	10
John Estmond STRICKLAND	14	–	–	–	–	14	–	14
William Winship FLANZ	15	–	–	–	–	15	–	15
FU Yu Ning	17	–	–	–	–	17	–	17
LEE Hau Leung	17	–	–	–	–	17	–	17
	153	871	481	432	6	1,943	194	2,137

Note: Other benefits include housing and other allowance.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three directors (2005: three) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individuals whose emoluments were the highest in the Group for the year are as follows:

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

21 EMPLOYEE BENEFIT EXPENSE (continued)

(b) Five highest paid individuals (continued)

The emoluments fell within the following bands:

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

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

22 FINANCE COSTS, NET

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

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

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

23 TAXATION

Hong Kong profits tax has not been provided as the Group's assessable profits in Hong Kong for the years ended 2006 and 2005 have been offset against tax losses from prior years. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

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

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

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

The weighted average applicable tax rate was 24% (2005: 28%). The decrease is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

24 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of US$8,880,000 (2005: US$2,482,000).

25 EARNINGS PER SHARE

Basic

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

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

Diluted

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

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

26 DIVIDENDS

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

At a meeting held on 20 March 2007, the directors proposed a final dividend of HK28.00 cents (equivalent to US3.58 cents) per share. The proposed dividends are not reflected as dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Cash generated from operations:

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

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)

(b) Analysis of changes in financing and investing during the year

	Share capital US$'000	Share premium US$'000	Bank loans US$'000	Minority Interest US$'000	Obligations under finance leases US$'000
At 1 January 2005	30,900	21,019	43,838	4,371	271
Cash inflow from bank loans	–	–	14,080	–	–
Cash outflow from bank loans and finance lease	–	–	(7,559)	–	(138)
Dividends paid to minority shareholders	–	–	–	(233)	–
Non-cash movements:					
Inception of finance lease	–	–	–	–	21
Minority interest's share of profits	–	–	–	946	–
Exchange differences	–	–	(59)	(26)	–
At 31 December 2005	30,900	21,019	50,300	5,058	154
Cash inflow from bank loans	**–**	**–**	**119,756**	**–**	**–**
Cash outflow from bank loans and finance lease	**–**	**–**	**(74,946)**	**–**	**(83)**
Dividends paid to minority shareholders	**–**	**–**	**–**	**(460)**	**–**
Non-cash movements:					
Acquisition of business	**–**	**–**	**–**	**–**	**109**
Minority interest's share of profits	**–**	**–**	**–**	**703**	**–**
Minority interest arising from disposal of subsidiaries	**–**	**–**	**–**	**1,520**	**–**
Minority interest's share of actuarial losses from post employment benefits, net of deferred tax recognized in equity	**–**	**–**	**–**	**(15)**	**–**
Exchange differences	**–**	**–**	**1,998**	**279**	**–**
At 31 December 2006	**30,900**	**21,019**	**97,108**	**7,085**	**180**

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)

(c) Acquisition of a subsidiary

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

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

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

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)

(d) Acquisition of business

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

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

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

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

28 CONTINGENT LIABILITIES

Bank guarantees

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

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

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

29 COMMITMENTS

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

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

(b) Commitments under operating leases

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

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

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

30 BUSINESS COMBINATIONS

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

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

Details of net assets acquired and goodwill are as follows:

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

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

30 BUSINESS COMBINATIONS (continued)

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

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

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

31 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

31 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

Key management compensation

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

Year-end balances with related parties

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

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

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

32 PRINCIPAL SUBSIDIARIES

As at 31 December 2006, the Company held interests in the following principal subsidiaries.

Name	Place of Incorporation	Principal activities	Place of operation	Particulars of issued/paid up share capital	Interest held
Directly held:					
IDS Group Limited	British Virgin Islands ("BVI")	Investment holding	Hong Kong	949,165 ordinary shares of US$1 each	100%
Indirectly held:					
IDS Logistics (Hong Kong) Limited	Hong Kong	Provision of logistics services	Hong Kong	10,000 ordinary shares of HK$1 each	100%

32 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of Incorporation	Principal activities	Place of operation	Particulars of issued/paid up share capital	Interest held
IDS Logistics (Taiwan) Limited	Hong Kong	Provision of logistics and packaging services	Taiwan	2 ordinary shares of HK$100 each	100%
IDS (Hong Kong) Limited	Hong Kong	Marketing and distribution of consumer and pharmaceutical products	Hong Kong	14,600,000 ordinary shares of HK$10 each	100%
IDS Services (Malaysia) Sdn. Bhd.	Malaysia	Marketing and distribution of consumer, pharmaceutical, and medical equipment products	Malaysia	14,231,002 ordinary shares of RM1 each	100%
IDS Manufacturing Sdn. Bhd.	Malaysia	Manufacturing of pharmaceutical, foods and toiletries products	Malaysia	33,000,000 ordinary shares of RM1 each	100%
IDS Logistics Services (M) Sdn. Bhd.	Malaysia	Provision of logistics services	Malaysia	2,000,000 ordinary shares of RM1 each	100%
IDS Enterprises Sdn. Bhd.	Malaysia	Provision of logistics services	Malaysia	7,500,000 ordinary shares of RM1 each	100%
Slumberland (M) Sdn. Bhd.	Malaysia	Marketing, distribution and manufacturing of mattresses and bed related products	Malaysia	2,000,000 ordinary shares of RM 1 each	67.5%
Slumberland Marketing Sdn. Bhd.	Malaysia	Marketing and distribution of mattresses and bed related products	Malaysia	2 ordinary shares of RM1 each	67.5%

32 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of Incorporation	Principal activities	Place of operation	Particulars of issued/paid up share capital	Interest held
IDS Logistics (Philippines), Inc.	Philippines	Provision of logistics services	Philippines	100,000 shares of Pesos100 each	100%
IDS Marketing (Philippines), Inc.	Philippines	Marketing and distribution of consumer products	Philippines	110,000 shares of Pesos100 each	100%
Shanghai IDS Shen Hong Logistics Co., Ltd. 上海英和申宏商業服務有限公司* (note a)	PRC	Provision of logistics services	PRC	Registered capital of US$5,000,000	80%
Nanjing IDS Marketing Company Limited 南京利豐英和商貿有限公司* (note b)	PRC	Import/export and marketing of general merchandise	PRC	Registered capital of US$5,000,000	100%
IDS Logistics Services Pte. Ltd.	Singapore	Provision of logistics services	Singapore	28,296,962 ordinary shares of S$1 each	100%
IDS Marketing (Singapore) Pte. Ltd.	Singapore	Marketing and distribution of healthcare products	Singapore	300,000 ordinary shares of S$1 each 60,000 preference shares of S$1 each	100%
IDS Logistics (Thailand) Limited	Thailand	Provision of logistics services	Thailand	1,215,000 ordinary shares of Baht250 each	100%

32 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of Incorporation	Principal activities	Place of operation	Particulars of issued/paid up share capital	Interest held
IDS Marketing (Thailand) Limited	Thailand	Marketing and distribution of consumer and pharmaceutical products	Thailand	160,000 ordinary shares of Baht100 each 55,000 preference shares of Baht100 each	100%
IDS Manufacturing Limited	Thailand	Manufacturing of household, pharmaceutical and personal care products	Thailand	4,695,000 ordinary shares of Baht100 each	100%
IDS Impac Ltd.	US	Distribution and warehousing services	US	100 common stock of US$0.01 each	100%

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

* The legal name of the company is in Chinese

Notes:

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

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