1. REORGANIZATION

The Company was incorporated in Bermuda on 25 September 2003. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 7 December 2004. Pursuant to a group reorganization (the "Reorganization") in preparation for the listing of the shares of the Company on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 20 November 2004. The Reorganization involved companies under common control and the Company and its subsidiaries resulting from the Reorganization are regarded as a continuing group. Accordingly, the Reorganization has been accounted for on the basis of merger accounting, under which consolidated accounts have been prepared as if the Company had been the holding company of the companies comprising the Group throughout the accounting years presented.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The accounts are prepared under the historical cost convention except that certain properties and the warehouse automated storage retrieval system have been stated at valuation.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(a) Basis of preparation (cont'd)

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(b) Consolidation (cont'd)

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortized goodwill or goodwill taken to reserves and which was not previously charged or recognized in the consolidated profit and loss account and any related accumulated exchange reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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 for by the Company on the basis of dividends received and receivable.

(c) Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of the jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of net assets of the jointly controlled entities and goodwill (net of accumulated amortization) on acquisition.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(d) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill (net of accumulated amortization) on acquisition.

(e) Translation of foreign currencies

Transactions in foreign currencies are translated at the market rates or forward contract rates ruling at the transaction dates, where appropriate. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date or at the forward contract rates, where applicable. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries, the jointly controlled entity and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Unrealized differences on net investments in foreign subsidiaries, the jointly controlled entity and associated companies (including intra-group balances of an equity nature) and related long-term liabilities are taken directly to reserves.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(f) Intangibles

(i) *Software costs*
Software costs are stated at cost less accumulated amortization and accumulated impairment losses. Software costs are amortized over the estimated useful lives on a straight-line basis. In general, software costs are amortized over not more than 7 years.

(ii) *Trademarks*
Expenditure on acquired trademarks is capitalized and amortized using the straight-line method over their estimated useful lives, but not exceeding 20 years.

(g) Property, plant and equipment

(i) *Property, warehouse automated storage retrieval system ("ASRS"), plant and equipment*
Land and buildings and ASRS are stated at valuation which is determined by directors based on independent valuations performed every three years. The additions during the intervening years are stated at cost and the directors review the carrying value of the land and buildings and the ASRS and adjustment is made where there has been a material change. The valuations are on a replacement cost basis or an open market value basis related to ASRS and the individual properties, and separate values are not attributed to land and buildings. Increases in valuation are credited to the fixed assets revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same asset and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(g) Property, plant and equipment (cont'd)

(i) *Property, warehouse automated storage retrieval system ("ASRS"), plant and equipment (cont'd)*
Other property, plant and equipment comprising furniture, plant and machinery are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) *Depreciation*
Land and buildings are depreciated over the shorter of the period of the lease and their estimated useful lives while other property, plant and equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Land and buildings	shorter of the period of the lease or 2%
ASRS	5%–25%
Furniture, plant and machinery	10%–25%

Improvements are capitalized and depreciated over their expected useful lives to the Group.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(h) Impairment and gain or loss on sale of intangible and tangible assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that property, plant and equipment and intangible assets including goodwill previously written off against reserves are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognized to reduce the asset to its recoverable amount. Such impairment losses are recognized in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease. Reversal of impairment losses is credited to the profit and loss account to the extent of impairment losses previously charged to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(i) Assets under leases

(i) *Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalized at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(j) Other long-term investments

Other long-term investments represent investment securities which are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to the fair value. The impairment loss is recognized as an expense in the profit and loss account. Reversal of impairment loss is credited to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(k) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realizable value. Cost, calculated principally on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(l) Trade and other receivables

Provision is made against trade and other receivables to the extent they are considered to be doubtful. Trade and other receivables in the balance sheet are stated net of such provision.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment and bank overdrafts.

(n) Warranty provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

The Group recognizes a provision for repairs or replacement of products still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

(o) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long-service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(o) Employee benefits (cont'd)

(ii) *Profit sharing and bonus plans*

Provisions for profit sharing and bonus plans, which are expected to be due wholly within 12 months after the balance sheet date, are recognized when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) *Pension obligations*

The Group operates a number of defined benefit and defined contribution plans for its employees, the assets of which are generally held in separate trustee-administered funds or being invested through insurance companies. The pension plans are generally funded by payments from employees and by the relevant companies in the Group, taking account of the recommendations of independent qualified actuaries.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are not reduced by contribution forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(o) Employee benefits (cont'd)

(iii) *Pension obligations (cont'd)*

For defined benefit plans, pension costs are assessed using the projected unit credit method: the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans each year. The pension obligation is measured as the present value of the estimated future cash outflows using the market return on high quality corporate bonds or government bonds of the appropriate currency and term. Actuarial gains and losses are recognized over the average remaining service lives of employees. Past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested.

(p) Deferred taxation

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(p) Deferred taxation (cont'd)

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognized as a provision.

(r) Revenue recognition

Revenue from the sale of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to clients and title has passed. Collections on behalf of principals are not accounted for as revenue.

Revenue from the rendering of services and service fee income are recognized when the services are rendered.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(r) Revenue recognition (cont'd)

Interest income is recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognized when the right to receive payment is established.

Operating lease rental income is recognized on a straight-line basis.

(s) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(t) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment assets comprise operating assets and exclude items such as taxation and certain corporate intangible assets and corporate property, plant and equipment. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings which are included as corporate liabilities. Capital expenditure comprises additions to intangible assets, property, plant and equipment.

In respect of geographical segment reporting, sales are based on the country in which the client is located. Total assets and capital expenditure are where the assets are located.

3. REVENUE AND SEGMENT INFORMATION

(a)

	2004 US$'000	2003 US$'000
Total invoiced amounts	**659,734**	650,512
Less: Collections on behalf of principals (see below)	**(74,858)**	(58,698)
Revenue	**584,876**	591,814

Collections on behalf of principals

Among other services, the Group has provided standalone credit and cash management service to its clients who usually have their own selling and marketing capabilities. Under this arrangement, the Group generally does not bear any inventory and/or account receivable risks of the invoiced amount, though invoices are issued in the Group's name.

The net amount paid to the Group's clients under this arrangement was recorded as collections on behalf of principals. In accordance with Statement of Standard Accounting Practice 18 "Revenue" issued by HKICPA, such collections on behalf of principals were deducted from the total invoiced amounts, to arrive at the revenue earned by the Group.

3. REVENUE AND SEGMENT INFORMATION (cont'd)

(b) The Group is principally engaged in the provision of logistics services, the marketing and distribution of consumer and healthcare products and manufacturing. Revenues recognized during the year are as follows:

	2004 US$'000	2003 US$'000
Revenue		
Sales of goods	**498,031**	523,346
Rendering of services	**86,845**	68,468
	584,876	591,814
Other revenues		
Dividend income from related companies and other unlisted investments	**27**	120
Gross rental income	**133**	140
Service fee from related parties	**58**	316
Service fee from third parties	**43**	261
	261	837
Total revenues	**585,137**	592,651

3. REVENUE AND SEGMENT INFORMATION (cont'd)

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
Mainland China ("PRC") — Marketing and Logistics
Brunei — Marketing

3. REVENUE AND SEGMENT INFORMATION (cont'd)

Primary reporting format — business segments

2004	Logistics US$'000	Marketing US$'000	Manufacturing US$'000	Corporate US$'000	Inter-segment elimination US$'000	Group total US$'000
Sales of goods	—	375,902	122,414	—	(285)	498,031
Rendering of services	94,251	4,034	1,417	—	(12,857)	86,845
Revenue	94,251	379,936	123,831	—	(13,142)	584,876
Segment results	6,612	9,041	4,373	(6,823)		13,203
Finance costs, net						(687)
Share of profits of a jointly controlled entity	—	25	—	—		25
Profit before taxation						12,541
Taxation						(1,072)
Profit after taxation						11,469
Minority interests						(923)
Profit attributable to shareholders						10,546
Total assets	64,022	171,603	39,494	42,199		317,318
Total liabilities	51,048	115,258	27,284	39,009		232,599
Capital expenditure	6,828	4,147	4,378	2,913		18,266
Depreciation and amortization	3,319	1,781	1,464	998		7,562

3. REVENUE AND SEGMENT INFORMATION (cont'd)

Primary reporting format — business segments (cont'd)

2003	Logistics US$'000	Marketing US$'000	Manufacturing US$'000	Corporate US$'000	Inter-segment elimination US$'000	Group total US$'000
Sales of goods	3,882	419,878	99,866	—	(280)	523,346
Rendering of services	74,882	4,192	1,548	—	(12,154)	68,468
Revenue	78,764	424,070	101,414	—	(12,434)	591,814
Segment results	3,571	9,400	2,467	(2,341)		13,097
Finance costs, net						(1,335)
Share of profits less losses of						
— a jointly controlled entity	—	34	—	—		34
— associated companies	—	—	—	256		256
Profit before taxation						12,052
Taxation						(2,908)
Profit after taxation						9,144
Minority interests						(776)
Profit attributable to shareholders						8,368
Segment assets	44,113	136,696	33,750	102,336		316,895
Interests in a jointly controlled entity	—	4,848	—	—		4,848
Total assets	44,113	141,544	33,750	102,336		321,743
Total liabilities	43,660	107,413	24,969	77,803		253,845
Capital expenditure	4,134	2,214	1,938	6,487		14,773
Depreciation and amortization	3,137	1,148	1,365	3,078		8,728
Reversal of impairment	—	—	—	(3,528)		(3,528)

3. REVENUE AND SEGMENT INFORMATION (cont'd)

Secondary reporting format — geographical segments

	Revenue 2004 US$'000	Total assets 2004 US$'000	Capital expenditure 2004 US$'000
Hong Kong	225,018	98,841	6,425
Taiwan	12,964	29,894	2,121
Thailand	110,169	50,474	1,493
Malaysia	125,302	51,368	5,069
Singapore	44,796	25,127	257
the Philippines	14,639	6,118	242
Indonesia	8,225	6,655	114
PRC	39,921	41,927	2,476
Brunei	12,427	6,914	69
	593,461	317,318	18,266
Less: Inter-segment elimination	(8,585)	—	—
Total	584,876	317,318	18,266

3. REVENUE AND SEGMENT INFORMATION (cont'd)

Secondary reporting format — geographical segments (cont'd)

	Revenue 2003 US$'000	Total assets 2003 US$'000	Capital expenditure 2003 US$'000
Hong Kong	202,771	76,270	3,708
Taiwan	14,262	13,435	67
Thailand	95,051	56,229	5,650
Malaysia	101,164	80,373	2,462
Singapore	40,596	49,836	55
the Philippines	104,693	12,817	766
Indonesia	8,215	8,495	155
PRC	18,831	13,873	1,873
Brunei	9,504	5,567	37
	595,087	316,895	14,773
Less: Inter-segment elimination	(3,273)	—	—
Interests in a jointly controlled entity	—	4,848	—
Total	591,814	321,743	14,773

4. OPERATING PROFIT

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

	2004 US$'000	2003 US$'000
Gain on disposal of other investments	—	(234)
Loss/(gain) on disposal of subsidiaries, associated companies and change in structure, net	227	(866)
Reversal of provision in respect of amounts due from related companies	—	(700)
Reversal of impairment loss on property, plant and equipment, net	—	(3,528)
Other expenses/(income), net	227	(5,328)
Staff costs *(note 10)*	74,419	57,092
Depreciation of		
Owned property, plant and equipment	6,757	8,368
Leased property, plant and equipment	114	38
Operating leases		
Hire of plant and machinery	1,130	1,084
Land and buildings	16,123	9,247
Auditors' remuneration	646	456
Amortization of intangible assets *(note 12)*	691	322
Provision for warranty	513	227
(Reversal of provision)/provision for bad and doubtful debts	(284)	409
Provision for obsolescence	1,073	723
Costs of inventories sold (excluding provision for obsolescence)	405,002	430,012
Net exchange gain	(54)	(666)
Gain on disposal of property, plant and equipment	(1,159)	(49)

5. FINANCE COSTS, NET

	2004 US$'000	2003 US$'000
Interest expense on bank loans and overdrafts	2,229	2,272
Interest expense of finance leases	14	15
Interest expense on balances with related companies	185	488
	2,428	2,775
Interest income from bank deposits	(1,336)	(385)
Interest income from related parties	(405)	(1,055)
Finance costs, net	687	1,335

6. **TAXATION**

Hong Kong profits tax has not been provided as the Group has no assessable profit in Hong Kong for the years ended 31 December 2004 and 2003. Taxation on overseas profits has been calculated on the estimated assessable profit 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 profit and loss account for the year represents:

	2004 US$'000	2003 US$'000
Current taxation:		
— Overseas taxation	5,216	2,668
Deferred taxation *(note 24)*	(4,144)	185
	1,072	2,853
Share of taxation attributable to:		
Associated companies	—	55
Taxation charges	1,072	2,908

6. **TAXATION (cont'd)**

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:

	2004 US$'000	2003 US$'000
Profit before taxation	12,541	12,052
Tax calculated at the domestic rates applicable to profits in the countries concerned	3,372	3,239
Expenses not deductible for taxation purposes	630	386
Eliminated income subject to tax	615	138
Income not subject to taxation	(148)	(445)
Increase in unrecognized tax losses	595	649
Decrease in unrecognized temporary differences	(200)	(394)
Utilization of previously unrecognized:		
— tax losses	(929)	(747)
— capital and reinvestment allowance	(785)	—
Recognition of previously unrecognized tax losses	(818)	—
(Under)/over provision in prior years	(122)	82
Reversal of deferred tax liabilities upon disposals of property, plant and equipment	(1,072)	—
Decrease in opening net deferred tax liabilities resulting from a decrease in tax rate	(66)	—
Taxation charge	1,072	2,908

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders included a loss of US$97,000 (2003: US$nil) which is dealt with in the accounts of the Company.

8. DIVIDENDS

	2004 US$'000	2003 US$'000
Dividends paid by the subsidiaries to its then shareholders before the Reorganization:		
Interim, paid	**10,558**	11,022
Special, paid	**11,400**	—
	21,958	11,022

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of these accounts.

9. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of US$10,546,000 (2003: US$8,368,000).

The basic earnings per share is based on the weighted average number of 244,488,000 (2003: 240,000,000) ordinary shares in issue during the year. In determining the weighted average number of ordinary shares deemed to be in issue, a total of 239,880,000 ordinary shares were deemed to be in issue since 1 January 2003 after taking into consideration of the effect of the Reorganization as detailed in note 21(c).

No diluted earnings per share has been presented for the year ended 31 December 2004 as the exercise of share options would be anti-dilutive.

10. STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

Details of staff costs are as follows:

	2004 US$'000	2003 US$'000
Wages and salaries	**71,347**	54,460
Pension costs-defined contribution plans	**2,589**	2,303
Pension costs-defined benefit plans *(note 20(c))*	**483**	329
	74,419	57,092

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to Directors during the year are as follows:

	2004 US$'000	2003 US$'000
Fees	45	—
Other emoluments:		
Basic salaries, allowances and benefits in kind	1,133	878
Discretionary bonuses	436	277
Contributions to pensions schemes for Directors (and past directors)		
— as Directors	4	4
	1,618	1,159

Directors' fees disclosed above included US$13,000 (2003: US$nil) paid to independent non-executive directors.

Before the Reorganization, Li & Fung (Distribution) Limited ("LFD"), the immediate holding company of the Company, granted its share options to the Directors of the Company for their services provided for LFD's subsidiaries, including companies comprising the Group. During 2004, total outstanding share options of 727,000 (2003: 710,000) were granted to executive and non-executive directors of the Company.

These share options were terminated on 18 November 2004 and replaced by the share of the Company held by Capital Joint Holdings Limited, a company held by the management of LFD and the Company.

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

(a) Directors' emoluments (cont'd)

By the written resolution dated 4 November 2004 and amended by a committee of the board on 22 November 2004, the Company adopted a share option scheme. On 14 December 2004, 4,410,000 share options were granted to the executive directors at the exercise price of HK$4.825, which was the market value of the share at the date of grant.

During the year, no options were exercised, cancelled or lapsed.

The emoluments of the Directors fell within the following bands:

	Number of Directors 2004	2003
Emolument bands		
US$nil–US$130,000 (HK$nil–HK$1,000,000)	9	6
US$130,001–US$195,000 (HK$1,000,001–HK$1,500,000)	—	1
US$390,001–US$455,000 (HK$3,000,001–HK$3,500,000)	1	1
US$455,001–US$520,000 (HK$3,500,001–HK$4,000,000)	1	—
US$520,001–US$585,000 (HK$4,000,001–HK$4,500,000)	—	1
US$650,001–US$708,000 (HK$5,000,001–HK$5,500,000)	1	—
	12	9

None of the Directors of the Company waived any emoluments during the year (2003: nil).

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

(b) **Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include 3 Directors (2003: 2) 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:

	2004	2003
	US$'000	US$'000
Basic salaries, allowances and benefits in kind	**544**	689
Bonuses	**84**	92
Pensions	**3**	5
	631	786

The emoluments fell within the following bands:

	Number of employees	
	2004	2003
Emolument bands		
US$195,001–US$260,000 (HK$1,500,001–HK$2,000,000)	**—**	2
US$260,001–US$325,000 (HK$2,000,001–HK$2,500,000)	**1**	1
US$325,001–US$390,000 (HK$2,500,001–HK$3,000,000)	**1**	—
	2	3

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

(c) 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.

12. INTANGIBLE ASSETS

		Group	
	Software costs	Trademarks	Total
	US$'000	US$'000	US$'000
Cost			
At 1 January 2004	4,614	1,228	5,842
Exchange adjustment	8	—	8
Additions	2,772	—	2,772
At 31 December 2004	7,394	1,228	8,622
Accumulated amortization			
At 1 January 2004	2,321	122	2,443
Exchange adjustment	3	—	3
Charges for the year *(note 4)*	629	62	691
At 31 December 2004	2,953	184	3,137
Net book value			
At 31 December 2004	4,441	1,044	5,485
At 31 December 2003	2,293	1,106	3,399

13. PROPERTY, PLANT AND EQUIPMENT

	Group			
	Land and buildings US$'000	Warehouse automated storage retrieval system US$'000	Furniture, plant and machinery US$'000	Total US$'000
Cost or valuation:				
At 1 January 2004	26,584	15,494	63,280	105,358
Exchange adjustment	(228)	114	641	527
Acquisition of a subsidiary	—	—	2	2
Additions	475	—	14,049	14,524
Transfer from related companies	—	—	2,066	2,066
Transfer/disposals to related companies	(6,338)	—	(1,603)	(7,941)
Reclassification	—	(476)	476	—
Disposals	(14,944)	(15,132)	(2,120)	(32,196)
At 31 December 2004	5,549	—	76,791	82,340
Accumulated depreciation and accumulated impairment losses:				
At 1 January 2004	2,165	—	40,032	42,197
Exchange adjustment	(35)	—	364	329
Charge for the year	326	285	6,260	6,871
Transfer from related companies	—	—	1,096	1,096
Transfer/disposals to related companies	(1,814)	—	(621)	(2,435)
Reclassification	—	(27)	27	—
Disposals	(333)	(258)	(1,806)	(2,397)
At 31 December 2004	309	—	45,352	45,661
Net book value:				
At 31 December 2004	5,240	—	31,439	36,679
At 31 December 2003	24,419	15,494	23,248	63,161

13. PROPERTY, PLANT AND EQUIPMENT (cont'd)

(a) The analysis of the cost or valuation of the above assets is as follows:

	Group			
	Land and buildings	Warehouse automated storage retrieval system	Furniture, plant and machinery	Total
	US$'000	US$'000	US$'000	US$'000
At 31 December 2004				
At cost	607	—	76,791	77,398
At valuation	4,942	—	—	4,942
	5,549	—	76,791	82,340
At 31 December 2003				
At cost	6,401	—	63,280	69,681
At valuation	20,183	15,494	—	35,677
	26,584	15,494	63,280	105,358

13. PROPERTY, PLANT AND EQUIPMENT (cont'd)

(b) The Group's interests in land and buildings at their net book values are analyzed as follows:

	Group 2004 US$'000	Group 2003 US$'000
Outside Hong Kong, held on:		
Freehold	1,081	3,807
Leases of over 50 years	1,765	14,546
Leases of between 10 to 50 years	2,394	5,956
Leases of less than 10 years	—	110
	5,240	24,419

(c) Land and buildings and ASRS were revalued at 31 December 2002 on the basis of their open market value or replacement cost carried out by 哈爾濱華通資產評估有限公司, CB Richard Ellis, Agency For Real Estate Affairs, Jones Lang Lasalle, Raine & Horne International Zaki & Partners Sdn Bhd and Shanghai Cai Rui Assets Evaluation Company Limited, independent firms of qualified valuers. The revaluation surplus net of applicable deferred taxes was credited to reserves.

(d) The carrying amount of land and buildings at 31 December 2004 would have been US$2,612,000 (2003: US$25,613,000) had they been stated at cost less accumulated depreciation and accumulated impairment losses.

(e) The net book value of furniture, plant and machinery held by the Group under finance leases amounted to US$314,000 as at 31 December 2004 (2003: US$172,000).

14. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	Group 2004 US$'000	Group 2003 US$'000
Share of net assets	—	4,848

The Group held interests in a jointly controlled entity in 2003:

Name	Place of establishment and operation	Principal activities	Effective % of ownership/ voting power/ profit sharing
Nanjing IDS Marketing Company Limited (formerly known as Nanjing Li & Fung JDH Trading Company Limited)	PRC	Import/export and marketing of general merchandise	49%

An agreement was signed by the Group on 12 March 2004 to acquire the remaining 51% interest of the above company. The company became a wholly owned subsidiary of the Company during the year.

15. OTHER LONG-TERM INVESTMENTS

	Group 2004 US$'000	2003 US$'000
Investment securities:		
Unlisted shares, at cost	**16**	16

Other long-term investments mainly represent ordinary shares of other companies in which the Group has less than 20% shareholding.

16. INTERESTS IN SUBSIDIARIES

	Company 2004 US$'000	2003 US$'000
Unlisted shares/investments, at cost *(note (a))*	**23,988**	—
Amounts due from subsidiaries *(note (b))*	**10,062**	—
	34,050	—

(a) Particulars of principal subsidiaries are set out in note 29 to the accounts.

(b) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

17. INVENTORIES

	Group 2004 US$'000	2003 US$'000
Finished goods and merchandise	**70,584**	47,595
Raw materials	**8,706**	8,995
Work in progress	**1,542**	1,105
	80,832	57,695
Less: Provision for obsolescence	**(2,751)**	(2,318)
	78,081	55,377

As at 31 December 2004, inventories stated at net realizable value amounted to US$1,506,000 (2003: US$1,145,000).

18. TRADE AND OTHER RECEIVABLES

	Group 2004 US$'000	2003 US$'000
Trade receivables *(note (a))*	**112,492**	95,673
Other receivables, prepayments, and deposits	**24,581**	15,573
Due from related companies *(note (b))*	**3,113**	57,672
	140,186	168,918

18. TRADE AND OTHER RECEIVABLES (cont'd)

Notes:

(a) The Group normally granted credit terms to its customers ranging from 30 to 90 days. At 31 December, the aging analysis of the Group's trade receivable was as follows:

	Group	
	2004	2003
	US$'000	US$'000
Less than 90 days	**103,984**	87,662
91-180 days	**6,248**	6,213
181-360 days	**2,096**	1,386
Over 360 days	**164**	412
	112,492	95,673

Provision for bad and doubtful debts as at 31 December 2004 amounted to US$1,799,000 (2003: US$2,550,000) have been deducted from the above trade receivables.

(b) The amounts due from related companies can be analyzed as follows:

	Group	
	2004	2003
	US$'000	US$'000
Trade (i)	**1,995**	642
Non-trade (ii)	**1,118**	57,030
	3,113	57,672

(i) The trade balances were aged less than 90 days and the credit terms granted to related companies are no more than those granted to other third party customers.

(ii) The balances are unsecured, interest free and have no fixed terms of repayment. The non-trade balance in 2004 mainly represented recoverable expenses from LFD incurred for Global Offering which was subsequently settled after year end. As at 31 December 2003, US$8,337,000 was interest bearing at the relevant prevailing interest rate.

19. TRADE AND OTHER PAYABLES

	Group	
	2004	2003
	US$'000	US$'000
Trade payables *(note (a))*	**132,308**	98,944
Other payables and accruals	**47,710**	39,824
Obligations on pension — defined contribution plans *(note 20)*	**644**	487
Obligations on pension — defined benefits plans *(note 20)*	**472**	324
Due to related companies *(note (b))*	**1,625**	56,582
	182,759	196,161

Notes:

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

	Group	
	2004	2003
	US$'000	US$'000
Less than 90 days	**114,418**	83,342
91-180 days	**15,969**	11,383
181-360 days	**913**	2,211
Over 360 days	**1,008**	2,008
	132,308	98,944

19. TRADE AND OTHER PAYABLES (cont'd)

(b) The amounts due to related companies can be analyzed as follows:

	Group	
	2004	2003
	US$'000	US$'000
Trade (i)	**869**	—
Non-trade (ii)	**756**	56,582
	1,625	56,582

(i) The trade balances were aged less than 90 days and the credit terms granted by related companies are no more than those granted from other third party suppliers.

(ii) The balances are unsecured, interest free and have no fixed terms of repayment. The non-trade balance in 2004 mainly represented consideration payable for acquisition of additional interests in a subsidiary which is subsequently settled after year end. As at 31 December 2003, US$6,643,000 was interest bearing at the prevailing interest rate.

20. PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS)

	Group	
	2004	2003
	US$'000	US$'000
Assets on:		
— pensions-defined benefits plans *(note (a))*	**1,520**	3,366
Obligations on:		
— pensions-defined contribution plans	**(644)**	(487)
— pensions-defined benefits plans *(note (b))*	**(472)**	(324)
	(1,116)	(811)

20. PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS) (cont'd)

(a) Assets on pensions-defined benefits plans

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 major plans are valued by qualified actuaries annually using the projected unit credit method. Defined benefit plans in Hong Kong, the Philippines and Taiwan are valued by Watson Wyatt.

(i) The amounts of assets recognized in the consolidated balance sheet are determined as follows:

	Group	
	2004	2003
	US$'000	US$'000
Fair value of plan assets	**3,799**	6,112
Present value of funded obligations	**(3,430)**	(3,346)
Present value of over-funded assets	**369**	2,766
Unrecognized actuarial losses	**1,151**	600
Pension assets in the consolidated balance sheet	**1,520**	3,366

As at 31 December 2004, the ratio of fair value of plan assets to present value of funded obligations was 110.8%.

20. PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS) (cont'd)

(a) Assets on pensions-defined benefits plans (cont'd)

(ii) The limit of assets to be recognized in the consolidated balance sheet are disclosed as follows:

	Group	
	2004	2003
	US$'000	US$'000
Cumulative unrecognized net actuarial losses and past service cost	1,151	600
Present value of available future refunds and reductions in future contributions	369	2,766
Limit	1,520	3,366

20. PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS) (cont'd)

(b) Obligations on pensions-defined benefits plans

The amounts of liabilities recognized in the consolidated balance sheet are determined as follows:

	Group	
	2004	2003
	US$'000	US$'000
Present value of funded obligations	**(2,575)**	(1,807)
Fair value of plan assets	**1,510**	1,006
Present value of unfunded obligations	**(1,065)**	(801)
Unrecognized actuarial losses	**593**	477
Pension liabilities in the consolidated balance sheet	**(472)**	(324)

As at 31 December 2004, the ratio of fair value of plan assets to present value of funded obligations was 58.6%.

20. PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS) (cont'd)

(c) The amount recognized in the consolidated profit and loss account were as follows:

	Group	
	2004	2003
	US$'000	US$'000
For pension assets:		
Current service cost	203	202
Interest cost	145	135
Expected return on plan assets	(262)	(234)
Net actuarial loss recognized	17	—
	103	103
For pension liabilities:		
Current service cost	323	185
Interest cost	94	59
Expected return on plan assets	(63)	(41)
Net actuarial loss recognized	26	23
	380	226
Total, included in staff costs *(note 10)*	483	329

20. PENSIONS AND OTHER POST RETIREMENT ASSETS/(OBLIGATIONS) (cont'd)

(d) Movement included in the consolidated balance sheet:

	Group	
	2004	2003
	US$'000	US$'000
Pension assets:		
At 1 January	3,366	3,452
Total expenses — *(note 20(c))*	(103)	(103)
Cash refunded to employer	(1,736)	—
Exchange differences	(7)	17
At 31 December	1,520	3,366
Pension liabilities:		
At 1 January	(324)	(247)
Exchange differences	(9)	7
Total expenses — *(note 20(c))*	(380)	(226)
Actual benefits paid	241	142
At 31 December	(472)	(324)

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

	2004	2003
	%	%
Discount rate	3.25–10	3.25–10
Expected rate of return on plan assets	3.25–10	3.25–10
Expected rate of future salary increases	3–8	3–8

21. SHARE CAPITAL AND OPTIONS

	Ordinary shares	
	No. of shares	US$'000
Authorized:		
At the date of incorporation and at 31 December 2003 *(note (a))*	12,000	12
Increase in authorized share capital *(note (b)(i))*	99,988,000	99,988
Sub-division of shares *(note (b)(ii))*	900,000,000	—
At 31 December 2004	1,000,000,000	100,000
Issued and fully paid:		
At the date of incorporation and at 31 December 2003 *(note (a))*	12,000	12
Sub-division of shares *(note (b)(ii))*	108,000	—
Issue of shares arising from the Reorganization *(note (c))*	239,880,000	23,988
Issue of shares by placing and public offer *(note (d))*	69,000,000	6,900
At 31 December 2004	309,000,000	30,900

21. SHARE CAPITAL AND OPTIONS (cont'd)

Details of the changes in the Company's share capital are as follows:

(a) The Company was incorporated on 25 September 2003 with an authorized capital of US$12,000, divided into 12,000 shares of US$1.0 each. 12,000 shares were allotted and issued to LFD for cash at par on 26 September 2003.

(b) Pursuant to the written resolutions of the shareholder of the Company on 4 November 2004,

(i) the authorized share capital of the Company was increased from US$12,000 to US$100,000,000, divided into 100,000,000 shares of US$1.0 each.

(ii) each issued and unissued share of US$1.0 each was sub-divided into ten shares of US$0.1 each.

As a result, the authorized share capital of the Company is US$100,000,000 divided into 1,000,000,000 shares.

(c) On 20 November 2004, a total of 239,880,000 shares were allotted and issued to LFD, all credited as fully paid, as consideration for the acquisition by the Company from LFD of its entire interests in IDS Group Limited (other than one issued share already owned by the Company) pursuant to the share swap agreement signed on the same date.

21. SHARE CAPITAL AND OPTIONS (cont'd)

(d) Pursuant to the written resolutions of the shareholder of the Company passed on 4 November 2004, the global offering was approved. The Company completed its global offering and issued the shares as follows:

(i) issued 60,000,000 shares of US$0.1 each at a price of HK$3.50 per share on 7 December 2004; and

(ii) issued 9,000,000 shares of US$0.1 each at a price of HK$3.50 per share on 9 December 2004, upon the full exercise of an over-allotment option.

The listing proceeds of the aforementioned shares, net of direct listing expenses amounted to approximately US$27.9 million. The resulting share premium amounted to approximately US$21,019,000.

(e) The share capital presented in the consolidated balance sheet as at 31 December 2003 represented the share capital of the Company, arising from the transactions as described in notes (a) and (c) above, which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the reorganization as set out in note 1.

21. SHARE CAPITAL AND OPTIONS (cont'd)

Details of share options granted by the Company pursuant to the share option scheme and the share options outstanding at 31 December 2004, are as follows:

Date of grant	Subscription price per share	Exercisable period	Share options granted during the year	As at 31 December 2004
14 December 2004	HK$4.825	1 January 2007– 31 December 2010	13,500,000	13,500,000

The terms of the scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

No shares have been allotted and issued under the share option scheme subsequent to 31 December 2004.

22. RESERVES

	Group				
	Properties revaluation reserve	Merger reserve (note a)	Accumulated losses	Exchange reserve	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2003	7,101	76,350	(43,684)	(402)	39,365
Exchange differences	—	—	—	2,110	2,110
Disposal of subsidiaries, properties, plant and equipment					
— release of deferred taxation	—	—	805	—	805
— realization of reserves	(4,820)	—	4,606	214	—
Profit for the year	—	—	8,368	—	8,368
Transfer to accumulated losses	—	(5,500)	5,500	—	—
Dividends	—	—	(11,022)	—	(11,022)
At 31 December 2003	2,281	70,850	(35,427)	1,922	39,626
Company and subsidiaries	2,281	70,850	(35,376)	1,922	39,677
A jointly controlled entity	—	—	(51)	—	(51)
At 31 December 2003	2,281	70,850	(35,427)	1,922	39,626

22. RESERVES (cont'd)

	Group					
	Share premium US$'000	Properties revaluation reserve US$'000	Merger reserve (note a) US$'000	Accumulated losses US$'000	Exchange reserve US$'000	Total US$'000
At 1 January 2004	—	2,281	70,850	(35,427)	1,922	39,626
Exchange differences	—	—	—	—	103	103
Issue of shares by placing and public offer *(note (21(d))*	21,019	—	—	—	—	21,019
Realization of reserve upon disposal of property, plant and equipment	—	(320)	—	320	—	—
Transfer to accumulated losses	—	—	(11,400)	11,400	—	—
Profit for the year	—	—	—	10,546	—	10,546
Dividends	—	—	—	(21,958)	—	(21,958)
At 31 December 2004	21,019	1,961	59,450	(35,119)	2,025	49,336
Company and subsidiaries	21,019	1,961	59,450	(35,119)	2,025	49,336
At 31 December 2004	21,019	1,961	59,450	(35,119)	2,025	49,336

22. RESERVES (cont'd)

Note:

(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 as set out in Note 1 of these accounts and the nominal value of shares of the Company issued in exchange thereof.

		Company	
		Accumulated	
	Share premium	loss	Total
	US$'000	US$'000	US$'000
At the date of incorporation and at 31 December 2003	—	—	—
Issue of shares *(note 21(d))*	21,019	—	21,019
Loss for the year	—	(97)	(97)
As at 31 December 2004	21,019	(97)	20,922

The Company did not have any reserves available for distribution to shareholders as at 31 December 2004 and 2003.

23. BANK LOANS AND OTHER BORROWINGS

As at 31 December 2004, bank loans, bank overdrafts and other borrowings were repayable as follows:

	Group	
	2004	2003
	US$'000	US$'000
On demand and within one year		
Unsecured bank overdrafts	**1,324**	9,616
Unsecured bank loans	**13,728**	42,459
Obligations under finance leases	**133**	86
	15,185	52,161
In the third to fifth year		
Unsecured bank loan	**30,110**	—
In the second to fifth year, by instalments		
Obligations under finance leases	**138**	68
	45,433	52,229

23. BANK LOANS AND OTHER BORROWINGS (cont'd)

Finance lease liabilities were payable as follows:

	Group	
	2004	2003
	US$'000	US$'000
Within one year	147	96
In the second year	118	55
In the third to fifth year	39	17
	304	168
Future finance charges on finance leases	(33)	(14)
Present value of finance lease liabilities	271	154
The present value of finance lease liabilities is as follows:		
Within one year	133	86
In the second year	106	53
In the third to fifth year	32	15
	271	154

24. 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		Others		Total	
	2004	2003	**2004**	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
At 1 January	**6,195**	7,736	**589**	554	**6,784**	8,290
Exchange differences	**(9)**	180	**(1)**	3	**(10)**	183
Disposal of a subsidiary	**—**	(1,120)	**—**	—	**—**	(1,120)
(Credited)/charged to profit and loss account	**(3,540)**	204	**(18)**	32	**(3,558)**	236
Credited to equity	**—**	(805)	**—**	—	**—**	(805)
At 31 December	**2,646**	6,195	**570**	589	**3,216**	6,784

Deferred tax assets	Group							
	Tax losses		Decelerated tax depreciation		Provisions and others		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
At 1 January	**(1,300)**	(1,891)	**(457)**	(332)	**(1,268)**	(639)	**(3,025)**	(2,862)
Exchange differences	**(31)**	(53)	**3**	(29)	**(18)**	(30)	**(46)**	(112)
(Credited)/charged to profit and loss account	**(368)**	644	**286**	(96)	**(504)**	(599)	**(586)**	(51)
At 31 December	**(1,699)**	(1,300)	**(168)**	(457)	**(1,790)**	(1,268)	**(3,657)**	(3,025)

24. DEFERRED TAXATION (cont'd)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off 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 date:

	Group	
	2004	2003
	US$'000	US$'000
Deferred tax assets	**(1,819)**	(554)
Deferred tax liabilities	**1,378**	4,313

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 2004, US$59,952,000 (2003: US$73,918,000) of the Group's unrecognized tax losses is carried forward against future taxable income; of which US$30,609,000 (2003: US$40,737,000) will expire within 5 years.

The amounts shown in the balance sheet include the following:

	Group	
	2004	2003
	US$'000	US$'000
Deferred tax assets to be received after more than 12 months	**(1,819)**	(554)
Deferred tax liabilities to be settled after more than 12 months	**1,378**	4,313

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operations:

	2004	2003
	US$'000	US$'000
Operating profit	**13,203**	13,097
Amortization of intangible assets	**691**	322
Depreciation charge	**6,871**	8,406
Reversal of impairment loss on property, plant and equipment	**—**	(3,528)
Gain on disposal of long-term investments	**—**	(234)
Loss/(gain) on disposal of subsidiaries	**227**	(1,009)
Loss on disposal/winding up of associates	**—**	143
Gain on disposal of property, plant and equipment	**(1,159)**	(49)
Dividends received from unlisted investments	**(27)**	(120)
Operating profit before working capital changes	**19,806**	17,028
Increase in inventories	**(21,222)**	(3,406)
Increase in pension assets, trade and other receivables	**(17,609)**	(10,836)
Increase in trade and other payables	**39,789**	17,178
Net cash inflow generated from operations	**20,764**	19,964

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Analysis of changes in financing during the year

	Share capital US$'000	Share premium US$'000	Bank loans US$'000	Minority interests US$'000	Obligations under finance leases US$'000
At 1 January 2003	24,000	—	9,249	3,251	140
Cash inflow from bank loans	—	—	35,573	—	—
Cash outflow from bank loans and finance lease	—	—	(2,484)	—	(76)
Dividends paid to minority shareholders in subsidiaries	—	—	—	(436)	—
Non-cash movements:					
Inception of finance lease	—	—	—	—	89
Minority interests' share of profits	—	—	—	776	—
Exchange differences	—	—	121	31	1
Disposals of interests in subsidiaries	—	—	—	650	—
At 31 December 2003	24,000	—	42,459	4,272	154
At 1 January 2004	24,000	—	42,459	4,272	154
Cash inflow from bank loans	—	—	48,002	—	—
Cash outflow from bank loans and finance lease	—	—	(47,132)	—	(139)
Dividends paid to minority shareholders in subsidiaries	—	—	—	(25)	—
Net proceeds from shares issued	6,900	21,019	—	—	—
Non-cash movements:					
Inception of finance lease	—	—	—	—	256
Minority interests' share of profits	—	—	—	923	—
Exchange differences	—	—	509	63	—
Acquisition of additional interests in a subsidiary	—	—	—	(750)	—
At 31 December 2004	30,900	21,019	43,838	4,483	271

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(c) Disposal of interests in subsidiaries

	2004 US$'000	2003 US$'000
Net assets of subsidiaries disposed of:		
Property, plant and equipment	—	4,733
Trade and other receivables	9	8,861
Bank balances and cash	396	34
Taxation payable	(131)	(41)
Deferred tax liabilities	—	(1,120)
Other payables	(21)	(7,863)
Minority shareholders' interests	—	650
	253	5,254
(Loss)/gain on disposal of interests in subsidiaries	(227)	1,009
	26	6,263
Satisfied by cash	26	6,263

Analysis of the net (outflow)/inflow in respect of disposal of interests in subsidiaries:

	2004 US$'000	2003 US$'000
Sales proceeds	26	6,263
Cash and cash equivalents disposed of:		
Bank balances and cash	(396)	(34)
Net cash (outflow)/inflow in respect of the disposal of interests in subsidiaries	(370)	6,229

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(d) Acquisition of a subsidiary

	2004 US$'000	2003 US$'000
Net assets:		
Property, plant and equipment	2	—
Inventories	944	—
Trade and other receivables	6,129	—
Bank balances and cash	4,128	—
Trade and other payables	(1,223)	—
	9,980	—
Transfer from interests in a jointly controlled entity	(4,873)	—
Net asset acquired	5,107	—
Satisfied by cash	5,107	—
The subsidiary acquired contributed :		
Net cash inflow from operating activities	2,936	—
Net cash outflow from investing activities	(829)	—

Analysis of the net outflow in respect of acquisition of a subsidiary:

	2004 US$'000	2003 US$'000
Cash consideration	(5,107)	—
Bank balances and cash in hand acquired	4,128	—
Net cash outflow in respect of acquisition of a subsidiary	(979)	—

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(e) The dividends declared amounting to US$11,022,000 for the year ended 31 December 2003 were credited to non-trade amounts due to related companies in 2003.

(f) Included in the bank balances and cash of the Group as at 31 December 2004, US$11,670,000 (2003: US$5,703,000) were denominated in Renminbi, of which the remittance is subject to foreign exchange control.

26. CONTINGENT LIABILITIES

Bank guarantees

The Group has the following outstanding bank guarantees issued by banks in the ordinary course of business:

	Group	
	2004	2003
	US$'000	US$'000
As security in favor of local tax and customs authorities in accordance with local regulations	**9,201**	29,445
For purchase of goods in favor of suppliers	**7,756**	6,408
Performance bonds and others	**155**	273
For rental payment in favor of the landlords	**3,456**	—
	20,568	36,126

The Company did not have any contingent liabilities at 31 December 2004 (2003: Nil).

27. COMMITMENTS

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

	Group	
	2004	2003
	US$'000	US$'000
Property, plant and equipment	**3,637**	185

(b) Commitments under operating leases

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

	Group			
	Land and buildings		Others	
	2004	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000
Not later than one year	**13,807**	4,749	**567**	463
Later than one year and not later than five years	**40,998**	11,230	**732**	494
Later than five years	**70,088**	16,618	**75**	—
	124,893	32,597	**1,374**	957

The Company did not have any commitments at 31 December 2004 (2003: Nil).

28. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to related party transactions undertaken in connection with the Reorganization and balances maintained with related companies set out in Note 18(b) and Note 19(b), during the year, the Group entered into various transactions with related parties including holding company, certain fellow subsidiaries and other entities, directly or indirectly, controlled or significantly influenced by the holding company.

Set out below is a summary of significant related party transactions during the year:

		Group	
		2004	2003
	Note	US$'000	US$'000
Continuing transactions with fellow subsidiaries and related companies			
— Sale of goods and materials	(a)	1,205	994
— Revenue from rendering of logistics services including cost reimbursement	(a)	5,442	7,101
— Revenue from provision of billing agent service	(a)	135	—
— Administrative overhead recharge to	(c)	506	232
— Administrative overhead recharge from	(c)	65	76
— Rental recharge to	(b)	899	25
— Rental expense	(b)	2,460	91

28. SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd)

		Group	
		2004	2003
	Note	US$'000	US$'000
Discontinuing transactions with fellow subsidiaries			
— Rental recharge to	(b)	233	15
— Rental expense	(b)	653	3,273
— Administrative overhead recharge to	(c)	947	1,001
— Administrative overhead recharge from	(c)	129	90
— Interest income	(f)	405	1,055
— Interest expenses	(f)	185	488
— Sales of land and buildings	(e)	5,384	—
— Transfer of fixed assets to	(d)	982	23,944
— Transfer of fixed assets from	(d)	970	881
— Transfer of intangible assets from	(d)	—	1,722
— Sale of subsidiaries	(g)	—	6,263
— Sale of associated companies	(g)	—	1,967
— Sale of investments	(h)	—	566
— Purchase of investments	(h)	750	405
— Sales of goods and materials	(a)	55	560
— Purchase of goods and materials	(a)	10,434	96
— Revenue from rendering of logistics services	(a)	366	665
— Selling expenses recharge	(c)	1,065	—
— Service fee income	(c)	58	316
— Management fee payable	(c)	—	6,349

28. SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd)

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

(b) Rental income/expenses were charged on normal commercial terms based on relevant lease agreements entered.

(c) Management fee, service fee, administrative overhead recharge and selling expenses recharge are charged on actual cost recovery basis.

(d) Fixed assets and intangible assets were transferred at net book value.

(e) Land and buildings were sold at market value.

(f) Interest income and expenses were charged at the relevant prevailing interest rates.

(g) These subsidiaries and associated companies were sold at their respective historical costs of investment.

(h) Other investments were sold/purchased at market value.

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.

29. PRINCIPAL SUBSIDIARIES

As at 31 December 2004, 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 Borneo Sdn Bhd	Brunei Darussalam	General merchandising, shipping and insurance agency	Brunei Darussalam	3,000,000 ordinary shares of B$1 each	70%
IDS Logistics (Hong Kong) Limited	Hong Kong	Provision of logistics services	Hong Kong	10,000 ordinary shares of HK$1 each	100%
IDS Logistics International Limited	Hong Kong	Provision of supply chain management services	Hong Kong	2 ordinary shares of HK$1 each	100%
IDS Logistics (Taiwan) Limited	Hong Kong	Provision of logistics and packaging services	Taiwan	2 ordinary shares of HK$100 each	100%

29. PRINCIPAL SUBSIDIARIES (cont'd)

Name	Place of incorporation	Principal activities	Place of operation	Particulars of issued/paid up share capital	Interest held
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%
PT. Singa Jaya Kapita	Indonesia	Investment holding	Indonesia	10,000,000 shares of Rp1,000 each	85%
PT. IDS Marketing Indonesia (formerly known as PT. JDH Erindo Jaya)	Indonesia	Marketing and distribution of consumer products	Indonesia	200 shares of Rp5,000,000 each	84.15%
PT. Slumberland Indonesia *(note (a))*	Indonesia	Marketing, distribution and manufacturing of mattresses and bed related products	Indonesia	750,000 shares of Rp2,046 each	40.08%
PT. IDS Manufacturing Indonesia (formerly known as PT. Tensia Manufacturing Indonesia)	Indonesia	Manufacturing of personal care and household products	Indonesia	12,000 shares of Rp37,800 each	99.25%

29. PRINCIPAL SUBSIDIARIES (cont'd)

Name	Place of incorporation	Principal activities	Place of operation	Particulars of issued/paid up share capital	Interest held
IDS Manufacturing Sdn. Bhd.	Malaysia	Investment holding	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%
JDH Logic-Med Sdn. Bhd.	Malaysia	Marketing and distribution of medical equipments and related products	Malaysia	165,000 ordinary shares of RM1 each	100%
JDH Pharmaceutical Sdn. Bhd.	Malaysia	Marketing and distribution of medicine and pharmaceutical products	Malaysia	400,000 ordinary shares of RM1 each	100%
LFD Manufacturing Sdn. Bhd.	Malaysia	Manufacturing of pharmaceutical, foods and toiletries products	Malaysia	3,000,000 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 RM1 each	80%

29. PRINCIPAL SUBSIDIARIES (cont'd)

Name	Place of incorporation	Principal activities	Place of operation	Particulars of issued/paid up share capital	Interest held
Slumberland Marketing Sdn. Bhd.	Malaysia	Marketing and distribution of mattresses and bed related products	Malaysia	2 ordinary shares of RM1 each	80%
IDS Logistics (Philippines), Inc.	Philippines	Provision of logistics services	Philippines	100,000 shares of Pesos100 each	100%
Shanghai IDS Shen Hong Logistics Co., Ltd.	PRC	Provision of logistics services	PRC	US$5,000,000	80%
Slumberland Harbin Co., Ltd.	PRC	Marketing, distribution and manufacturing of mattresses and bed related products	PRC	RMB3,278,000	80%
Slumberland Soft Furniture Shanghai Co., Ltd.	PRC	Marketing, distribution and manufacturing of mattresses and bed related products	PRC	US$1,100,000	80%

29. PRINCIPAL SUBSIDIARIES (cont'd)

Name	Place of incorporation	Principal activities	Place of operation	Particulars of issued/paid up share capital	Interest held
Nanjing IDS Marketing Company Limited (formerly known as Nanjing Li & Fung JDH Trading Company Limited)	PRC	Import/export and marketing of general merchandise	PRC	US$10,000,000	100%
IDS Logistics International Pte. Limited	Singapore	Provision of supply chain management services	Singapore	2 ordinary shares of S$1 each	100%
IDS Logistics Services Pte. Ltd.	Singapore	Provision of logistics services	Singapore	28,296,962 ordinary shares of S$1 each	100%
IDS Marketing (Singapore) Pte. Ltd. (formerly known as JDH 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%
Slumberland (S) Pte Ltd	Singapore	Marketing and distribution of mattresses and bed related products	Singapore	400,000 ordinary shares of S$1 each	80%
JDH Marketing (Thailand) Limited	Thailand	Marketing and distribution of consumer products	Thailand	2,100,000 ordinary shares of Baht 100 each	100%

29. PRINCIPAL SUBSIDIARIES (cont'd)

Name	Place of incorporation	Principal activities	Place of operation	Particulars of issued/paid up share capital	Interest held
IDS Logistics (Thailand) Limited	Thailand	Provision of logistics services	Thailand	1,215,000 ordinary shares of Baht 250 each	100%
IDS Marketing (Thailand) Limited (formerly known as JDH Borneo (Thailand) Limited)	Thailand	Marketing and distribution of consumer and pharmaceutical products	Thailand	160,000 ordinary shares of Baht 100 each 55,000 preference shares of Baht 100 each	100%
LFD Manufacturing Limited	Thailand	Manufacturing of household, pharmaceutical and personal care products	Thailand	4,695,000 ordinary shares of Baht 100 each	100%
Slumberland (Thailand) Limited	Thailand	Marketing, distribution and manufacturing of mattresses and bed related products	Thailand	4,900 ordinary shares of Baht 100 each 5,100 preference shares of Baht 100 each	80% 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.

Notes:

(a) Drs. John Melonda & Rekan acted as the statutory auditor of the entity for the year.

(b) Shanghai IDS Shen Hong Logistics Co., Ltd. is a joint venture entity and Slumberland Harbin Co., Ltd., Slumberland Soft Furniture Shanghai Co., Ltd. and Nanjing IDS Marketing Company Limited are foreign investment enterprises.

30. ULTIMATE HOLDING COMPANY

The Directors regard King Lun Holdings Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

31. SUBSEQUENT EVENTS

On 9 March 2005, IDS Marketing (Philippines), Inc. ("IDS Marketing Philippines"), a subsidiary of the Company entered into an acquisition and service agreement with JDH (Philippines), Inc. ("JDH Philippines"), a subsidiary of LFD, pursuant to which IDS Marketing Philippines has conditionally agreed to acquire from JDH Philippines certain inventory, motor vehicles and IT equipment (the "Assets") and to provide certain services to JDH Philippines. The aggregate purchase price for the Assets will not exceed US$2,520,000 and the service fees payable by JDH Philippines for the services will be not more than US$1,293,000.

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

32. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 7 April 2005.