1 Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands on 15th March 2004 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

On 27th June 2004, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK"), the Company acquired the entire issued share capital of Luen Thai Overseas Limited ("LTO") through a share exchange and became the holding company of LTO and its subsidiaries. Details of the Reorganisation are set out in the prospectus of the Company dated 30th June 2004. The Company's shares were listed on the SEHK on 15th July 2004.

The consolidated 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"). They have been prepared under the historical cost convention.

The Reorganisation is accounted for using the merger accounting as permitted by the Statement of Standard Accounting Practice ("SSAP") Number 27 "Accounting for group reconstructions" issued by HKICPA. The consolidated accounts of the Group for the year ended 31st December 2004, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

The comparative figures on the balance sheet of the Company as at 31st December 2003 have not been presented as the Company was not incorporated at that day.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below.

(a) Recently issued accounting standard

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 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already 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.

2 Principal accounting policies (continued)

(b) Group accounting

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

(i) Consolidation

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 dates of acquisition or up to the effective dates of disposal, as appropriate.

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

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 unamortised goodwill or negative goodwill or goodwill/ negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation 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.

(ii) Joint ventures

A joint venture 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 jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

2 Principal accounting policies (continued)

(b) Group accounting (continued)

(iii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for a long-term basis 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.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition. Goodwill is recognised as an asset in the balance sheet and is amortised using the straight-line method over its estimated useful life of 10 years.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the purchase price of the asset and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated at rates sufficient to write off the cost of fixed assets less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Freehold land	Nil
Leasehold land	Over the unexpired period of the lease
Buildings	5%
Leasehold improvements	6.7%-20% or over the unexpired period of the lease, whichever is shorter
Plant and machinery	10%-20%
Furniture, fixtures and equipment	20%-33$^1/_3$%
Motor vehicles	20%-33$^1/_3$%

2 Principal accounting policies (continued)

(d) Fixed assets (continued)

The plant components are depreciated over the period to overhaul. Major costs incurred in restoring the plant components to its normal working condition to allow continued use of the overall asset are capitalised and depreciated over the period to the next overhaul. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated profit and loss account.

(e) Construction-in-progress

Construction-in-progress represents buildings, plant and machinery under construction and pending installation and is stated at cost. Cost includes the costs of construction of buildings, the costs of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to other fixed assets and depreciated in accordance with the policy as stated in note 2(d) in this Section.

(f) Long-term investments

Long-term investments 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 investment will be reduced to its fair value.

The impairment loss is recognised as an expense in the consolidated profit and loss account. This impairment loss is written back to the consolidated 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.

(g) Inventories

Inventories comprising raw materials, work-in-progress and finished goods, are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses necessary to make the sale. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2 Principal accounting policies (continued)

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the consolidated balance sheet are stated net of such provision.

(i) Export textile quota

Purchased permanent textile quotas are stated at the lower of amortised costs and market value and are amortised on a straight-line basis over five years. Temporary textile quotas are charged to the consolidated profit and loss account when used or expired. Allocated quota entitlements are not capitalised.

(j) Cash and cash equivalents

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

(k) Provisions

Provisions are recognised 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, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(l) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual 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 recognised until the time of leave.

(ii) Pension obligations

Defined contribution plans

The Group participates in a number of defined contribution plans throughout the world, the assets of which are generally held in separate trustee – administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

2 Principal accounting policies (continued)

(l) Employee benefits (continued)

(ii) Pension obligations (continued)

Defined benefit plans

For defined benefit plans, pension costs are assessed using the projected unit credit method: the cost of providing pensions is charged to the consolidated profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans each year. The pension obligation is measured at the present value of the estimated future cash outflows using discount rate determined by reference to market yield on high quality bonds which have terms of maturity approximating the terms of the related liability. Actuarial gains and losses are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

(iii) Long service payments

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfills certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The obligation is calculated using the projected unit credit method, discounted to present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The discount rate is the yield at balance sheet date on high quality corporate bonds which have terms to maturity approximating the terms of the related liability.

(m) 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 recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, 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.

2 Principal accounting policies (continued)

(n) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised 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 recognised 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 recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

(o) 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 consolidated profit and loss account on a straight-line basis over the lease periods.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

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

(q) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. 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. Exchange differences arising in these cases are dealt with in the consolidated profit and loss account.

The balance sheet of subsidiaries, jointly controlled entities 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 account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

2 Principal accounting policies (continued)

(r) Revenue recognition

(i) Sale of goods

Sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(ii) Freight forwarding and logistics and system consultancy services income

Freight forwarding and logistics and system consultancy services income are recognised when services are rendered.

(iii) Interest income

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

(iv) Rental income

Rental income is recognised on a straight-line basis over the lease periods.

(v) Management and commission income

Management and commission income is recognised when services are rendered.

(s) 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 as the secondary reporting format.

Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude interests in jointly controlled entities and interests in associated companies. Segment liabilities represent operating liabilities. Capital expenditure represents additions to fixed assets.

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

3 Turnover, revenues and segment information

(a) Turnover and other revenues

The Group is principally engaged in the manufacturing and trading of garment and textile products, the provision of freight forwarding and logistics and system consultancy services. Revenues recognised during the year are as follows:

	2004 US$'000	2003 US$'000
Turnover –		
Sales of garment and textile products		
– third parties	537,933	512,722
– a jointly controlled entity *(note 32)*	3,465	–
Provision of freight forwarding and logistics services		
– third parties	10,659	29,177
– related companies and a jointly controlled entity *(note 32)*	1,414	2,463
Provision of system consultancy services	295	562
	553,766	544,924
Other revenues –		
Interest income on bank deposits	671	98
Management fee income from		
– a third party	189	–
– a related company, a jointly controlled entity and an associated company *(note 32)*	540	140
Rental income from		
– a related company and a jointly controlled entity *(note 32)*	144	154
Commission income from		
– related companies and an associated company *(note 32)*	1,005	687
Others	94	153
	2,643	1,232
Total revenues	556,409	546,156

3 Turnover, revenues and segment information (continued)

(b) Segment information

(i) Primary reporting segment – business segments

	2004				
	Garment US$'000	Freight forwarding/ logistics services US$'000	System consultancy US$'000	Elimination US$'000	Group Total US$'000
Segment revenues					
External revenue	541,398	12,073	295	–	553,766
Inter segment revenue	–	4,658	819	(5,477)	–
	541,398	16,731	1,114	(5,477)	553,766
Segment results	32,861	5,440	62	–	38,363
Finance costs	(1,432)	–	–		(1,432)
Share of profits of associated companies	2	527	–		529
Share of losses of jointly controlled entities	(829)	–	–		(829)
Profit before taxation					36,631
Taxation	(5,547)	(676)	–		(6,223)
Profit after taxation					30,408
Minority interests	–	(47)	–		(47)
Profit attributable to shareholders					30,361
Segment assets	329,772	20,208	–		349,980
Interests in associated companies	9	2,918	–		2,927
Interests in jointly controlled entities	852	–	–		852
					353,759
Segment liabilities	169,511	9,722	–		179,233
Capital expenditure	31,265	1,090	60		32,415
Amortisation charge	462	–	–		462
Depreciation charge	8,891	553	167		9,611
Other non-cash expenses	1,243	44	–		1,287

3 Turnover, revenues and segment information (continued)

(b) Segment information (continued)

(i) Primary reporting segment – business segments (continued)

	2003				
	Garment US$'000	Freight forwarding/ logistics services US$'000	System consultancy US$'000	Elimination US$'000	Group Total US$'000
Segment revenues					
External revenue	512,722	31,640	562	–	544,924
Inter segment revenue	–	4,331	2,611	(6,942)	–
	512,722	35,971	3,173	(6,942)	544,924
Segment results	30,512	4,710	(1,228)	–	33,994
Finance costs	(1,002)	(360)	–		(1,362)
Share of profits of associated companies	2	679	–		681
Share of profits of jointly controlled entities	18	–	–		18
Profit before taxation					33,331
Taxation	(8,832)	(844)	–		(9,676)
Profit after taxation					23,655
Minority interests	–	(89)	–		(89)
Profit attributable to shareholders					23,566
Segment assets	222,389	16,810	1,559		240,758
Interests in associated companies	11	2,376	–		2,387
Interests in jointly controlled entities	1,498	–	–		1,498
					244,643
Segment liabilities	175,996	12,330	441		188,767
Capital expenditure	14,336	510	284		15,130
Amortisation charge	349	–	–		349
Depreciation charge	8,622	1,233	349		10,204
Other non-cash expenses	327	266	–		593

3 Turnover, revenues and segment information (continued)

(b) Segment information (continued)

(ii) Secondary reporting segment – geographical segments

The Group's revenue is mainly derived from customers located in the United States, Asia and Europe, while the Group's business activities are conducted predominantly in Hong Kong, the People's Republic of China (the "PRC"), Commonwealth of Northern Mariana Islands, the Philippines and the United States.

The following table provides an analysis of the Group's sales by geographical location of customers:

	2004	2003
	US$'000	US$'000
The United States	**411,662**	414,138
Europe	**47,349**	31,149
Commonwealth of Northern Mariana Islands	**7,907**	27,406
Japan	**45,039**	28,709
Canada	**4,870**	3,873
Hong Kong	**3,017**	3,222
Korea	**3,982**	3,468
The Philippines	**1,544**	1,812
Australia	**1,662**	1,187
Mexico	**1,381**	1,093
Cambodia	**365**	301
Others	**24,988**	28,566
	553,766	544,924

3 Turnover, revenues and segment information (continued)

(b) Segment information (continued)

(ii) Secondary reporting segment – geographical segments (continued)

The following is an analysis of the carrying amount of segment assets and capital expenditure, analysed by the geographical area in which the assets are located:

Segment assets

	2004	2003
	US$'000	US$'000
The United States	**44,236**	46,101
The PRC	**68,855**	41,685
Hong Kong	**154,481**	55,397
The Philippines	**39,096**	39,886
Commonwealth of Northern Mariana Islands	**33,238**	36,377
Mexico	**–**	7,937
Cambodia	**6,052**	8,325
Others	**4,022**	5,050
	349,980	240,758
Interests in associated companies	**2,927**	2,387
Interests in jointly controlled entities	**852**	1,498
	353,759	244,643

Capital expenditure

	2004	2003
	US$'000	US$'000
The United States	**146**	478
The PRC	**21,118**	9,283
Hong Kong	**3,096**	755
The Philippines	**4,918**	3,155
Commonwealth of Northern Mariana Islands	**2,146**	643
Mexico	**103**	337
Cambodia	**790**	446
Others	**98**	33
	32,415	15,130

4 Discontinuing operations

In May 2004 and in connection with its Reorganisation (see note 1), the Group disposed of its entire interests in garment manufacturing in Mexico (the "Mexican Operations") and system consultancy operations (the "System Consultancy Operations") to its then shareholder by way of a distribution in specie in 2004. In addition, as part of the Reorganisation, the Group also transferred its entire interest in Aero Micronesia, Inc. (the "Aircargo Operations") to THC Communications Corporation, a related company, in December 2003 at US$925,000, which resulted in a loss of approximately US$94,000. The results of these subsidiaries were presented as discontinuing operations. The turnover, results and cash flow of the above discontinuing operations for the year ended 31st December 2004 are as follows:

	Mexican Operations		System Consultancy Operations		Aircargo Operations		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
Turnover	**4,196**	15,038	**1,114**	3,173	**–**	21,427	**5,310**	39,638
Cost of sales	**(5,195)**	(13,416)	**(77)**	(259)	**–**	–	**(5,272)**	(13,675)
Gross (loss)/profit	**(999)**	1,622	**1,037**	2,914	**–**	21,427	**38**	25,963
Selling and distribution expenses	**(11)**	(636)	**–**	–	**–**	–	**(11)**	(636)
General and administrative expenses	**(1,367)**	(2,028)	**(980)**	(4,148)	**–**	(20,115)	**(2,347)**	(26,291)
Other (expenses)/income, net	**(23)**	56	**5**	6	**–**	154	**(18)**	216
Operating (loss)/profit	**(2,400)**	(986)	**62**	(1,228)	**–**	1,466	**(2,338)**	(748)
Finance costs	**(42)**	(184)	**–**	–	**–**	(360)	**(42)**	(544)
(Loss)/profit before taxation	**(2,442)**	(1,170)	**62**	(1,228)	**–**	1,106	**(2,380)**	(1,292)
Taxation	**–**	(232)	**–**	–	**–**	(376)	**–**	(608)
(Loss)/profit after taxation	**(2,442)**	(1,402)	**62**	(1,228)	**–**	730	**(2,380)**	(1,900)
Net operating cash (outflow)/inflow	**(1,013)**	1,648	**380**	11	**–**	(280)	**(633)**	1,379
Net investing cash inflow/(outflow)	**3**	(83)	**(129)**	(284)	**–**	1,078	**(126)**	711
Net financing cash inflow/(outflow)	**1,258**	(2,021)	**(65)**	–	**–**	–	**1,193**	(2,021)
Total net cash inflow/(outflow)	**248**	(456)	**186**	(273)	**–**	798	**434**	69

4 Discontinuing operations (continued)

The carrying amounts of total assets and total liabilities of the discontinuing operations were as follows:

	Mexican Operations		System Consultancy Operations		Total	
	As at 1st May 2004 US$'000	As at 31st December 2003 US$'000	**As at 1st May 2004 US$'000**	As at 31st December 2003 US$'000	**As at 1st May 2004 US$'000**	As at 31st December 2003 US$'000
Total assets	**9,524**	16,658	**2,238**	1,559	**11,762**	18,217
Total liabilities	**16,280**	20,955	**2,489**	441	**18,769**	21,396

5 Operating profit

Operating profit is stated after crediting and charging the following:

	2004 US$'000	2003 US$'000
Crediting		
Exchange gains, net	**677**	1,803
Write-back of provision regarding a class action lawsuit	**–**	2,772
Write-back of provision for inventory obsolescence	**–**	682
Charging		
Auditors' remuneration	**697**	442
Amortisation of goodwill	**462**	349
Customers' claims	**3,725**	2,874
Depreciation of fixed assets	**9,611**	10,204
Loss on disposal of fixed assets, net	**214**	158
Loss on disposal of subsidiaries	**–**	220
Operating leases		
– office premises and warehouses	**4,467**	6,175
– plant and machinery	**161**	299
Provision for doubtful debts	**859**	593
Provision for inventory obsolescence	**428**	–
Quota expenses	**8,382**	8,631
Repair and maintenance on fixed assets	**2,294**	4,503
Staff costs *(note 11)*	**112,612**	118,681

6 Finance costs

	2004 US$'000	2003 US$'000
Interest expense on bank loans and overdrafts	**1,432**	1,362

7 Taxation

Hong Kong profits tax has been provided at the rates of 17.5% (2003: 17.5%) on the estimated assessable profit for the year. 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 represents:

	2004 US$'000	2003 US$'000
Current taxation:		
– Hong Kong profits tax	**913**	851
– Overseas taxation	**7,753**	8,350
Over-provision in prior years	**(1,994)**	–
Deferred taxation relating to the origination and reversal of temporary differences *(note 28)*	**(467)**	446
	6,205	9,647
Share of taxation attributable to jointly controlled entities	**18**	29
Taxation charge	**6,223**	9,676

7 Taxation (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2004 **US$'000**	2003 US$'000
Profit before taxation	**36,631**	33,331
Calculated at a taxation rate of 17.5% (2003: 17.5%)	**6,410**	5,833
Effect of different taxation rates in other countries	**3,488**	3,897
Income not subject to taxation	**(2,729)**	(2,241)
Expenses not deductible for taxation purposes	**774**	1,108
Tax losses not probable to be utilised in the foreseeable future and not recognised	**952**	1,125
Utilisation of previously unrecognised tax losses	**(678)**	(46)
Over-provision in prior years	**(1,994)**	–
Taxation charge	**6,223**	9,676

8 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately US$5,991,000.

9 Dividends

	2004 **US$'000**	2003 US$'000
Dividends paid by the subsidiaries to their then shareholders before the Reorganisation *(note a)*	**7,400**	41,855
Proposed final dividend – US 0.52 cent (2003: Nil) per share	**5,161**	–
	12,561	41,855

(a) During 2004 and prior to the completion of the Reorganisation (see note 1), certain wholly-owned subsidiaries of the Company declared dividends of approximately US$7,400,000 to their then shareholders. As part of the Reorganisation, such amounts were capitalised by the then shareholders.

The rates of dividend and the number of shares ranking for dividends paid by the subsidiaries to their then shareholders before the Reorganisation are not presented as such information is not meaningful having regard to the purpose of these accounts.

10 Earnings per share

The basic earnings per share is calculated based on the Group's profit attributable to shareholders of approximately US$30,361,000 (2003: US$23,566,000) and weighted average number of approximately 780,117,000 (2003: 675,000,000) ordinary shares deemed to be in issue throughout the year on the assumption that the Reorganisation (see note 1) had been completed on 1st January 2003.

The Company has no dilutive potential ordinary shares as at 31st December 2004.

11 Staff costs – including Directors' emoluments

	2004	2003
	US$'000	US$'000
Wages, salaries and allowances	**108,378**	113,146
Unutilised annual leave	**461**	591
Termination benefits	**679**	780
Pension costs		
Defined contribution plans *(note 24(a))*	**669**	1,965
Defined benefit plans *(note 24(b))*	**388**	371
Long service payments *(note 24(c))*	**57**	67
Others	**1,980**	1,761
	112,612	118,681

12 Emoluments for Directors and five highest paid individuals

(a) Directors' emoluments

	2004 US$'000	2003 US$'000
Fees	**27**	–
Salaries and allowances	**896**	557
Bonus	**56**	159
Pension scheme contributions	**5**	5
	984	721

None of the Directors of the Company waived any emoluments paid by the companies now comprising the Group during the year.

Directors' fees disclosed above include US$27,000 (2003: Nil) payable to independent non-executive Directors.

The emoluments of the Directors of the Company fell within the following bands:

	2004	2003
	Number of Directors	
Executive Directors		
Emolument bands		
Nil to US$129,000 (equivalent to Nil to HK$1,000,000)	**–**	1
US$129,001 to US$194,000 (equivalent to HK$1,000,001 to HK$1,500,000)	**1**	1
US$194,001 to US$258,000 (equivalent to HK$1,500,001 to HK$2,000,000)	**3**	2
	4	4
Non-executive Directors		
Emolument bands		
Nil to US$129,000 (equivalent to Nil to HK$1,000,000)	**3**	3
	3	3

12 Emoluments for Directors and five highest paid individuals (continued)

(b) Five highest paid individuals

During the year, the five highest paid individuals included 3 Directors (2003: 2) whose emoluments are included in note 12(a) above. The aggregate amounts of emoluments of the remaining 2 (2003: 3) are as follows:

	2004	2003
	US$'000	US$'000
Basic salaries and allowances	**704**	744
Bonus	**–**	280
Pension scheme contributions	**2**	1
	706	1,025

The emoluments fell within the following bands:

	2004	2003
	Number of individuals	
Emolument bands		
US$258,001 to US$323,000 (equivalent to HK$2,000,001 to HK$2,500,000)	**1**	1
US$323,001 to US$387,000 (equivalent to HK$2,500,001 to HK$3,000,000)	**1**	1
US$387,001 to US$452,000 (equivalent to HK$3,000,001 to HK$3,500,000)	**–**	1
	2	3

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

13 Fixed assets

	Land and buildings US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Construction-in-progress US$'000	Total US$'000
Cost							
At 1st January 2004	20,490	19,913	39,118	21,474	3,507	4,121	108,623
Additions	9,647	2,250	9,584	7,295	527	3,112	32,415
Acquisition of a subsidiary	–	420	–	1,722	57	–	2,199
Disposals of fixed assets	–	(518)	(2,243)	(1,056)	(358)	–	(4,175)
Transfers from/(to) construction-in-progress	3,368	489	–	–	–	(3,857)	–
Disposal of a subsidiary	–	(401)	(1,217)	(494)	–	–	(2,112)
Disposal of subsidiaries by way of distribution in specie	(1,789)	(728)	(2,080)	(1,864)	(123)	–	(6,584)
Exchange differences	(1)	(22)	(5)	(40)	(15)	–	(83)
At 31st December 2004	31,715	21,403	43,157	27,037	3,595	3,376	130,283
Accumulated depreciation							
At 1st January 2004	(3,528)	(12,417)	(16,560)	(14,664)	(2,468)	–	(49,637)
Charge for the year	(1,208)	(1,840)	(3,060)	(3,085)	(418)	–	(9,611)
Acquisition of a subsidiary	–	(342)	–	(1,558)	(54)	–	(1,954)
Disposals of fixed assets	–	222	940	742	314	–	2,218
Disposal of a subsidiary	–	154	609	466	–	–	1,229
Disposal of subsidiaries by way of distribution in specie	442	441	907	1,037	97	–	2,924
Exchange differences	–	14	2	66	32	–	114
At 31st December 2004	(4,294)	(13,768)	(17,162)	(16,996)	(2,497)	–	(54,717)
Net book value							
At 31st December 2004	27,421	7,635	25,995	10,041	1,098	3,376	75,566
At 31st December 2003	16,962	7,496	22,558	6,810	1,039	4,121	58,986

13 Fixed assets (continued)

Notes:

(a) The Group's interests in land and buildings at their net book value are analysed as follows:

	2004 **US$'000**	2003 US$'000
Outside Hong Kong, held on:		
Freehold	**955**	2,541
Leases of over 50 years	**2,089**	2,139
Leases of between 10 to 50 years	**24,256**	12,161
Leases of less than 10 years	**121**	121
	27,421	16,962

(b) The construction-in-progress mainly represents factories and office buildings under construction in the PRC. Upon completion, the accumulated cost under construction-in-progress will be transferred to fixed assets.

14 Interests in associated companies

	2004 **US$'000**	2003 US$'000
Share of net assets	**2,927**	2,387
Unlisted equity investments, at cost	**604**	604

The aggregate amount of profits retained by associated companies included in the Group's retained earnings amounted to approximately US$2,312,000 as at 31st December 2004 (2003: US$1,783,000).

Details of the Group's principal associated companies are disclosed in note 35.

15 Interests in jointly controlled entities

	2004 US$'000	2003 US$'000
Share of net assets	**208**	1,498
Loan to a jointly controlled entity	**644**	–
	852	1,498
Unlisted investments, at cost	**2,370**	2,370

The aggregate amount of accumulated losses retained by the jointly controlled entities included in the Group's retained earnings amounted to approximately US$1,246,000 as at 31st December 2004 (2003: US$417,000).

Loan to a jointly controlled entity is unsecured, non-interest bearing and not repayable within the next twelve months.

Details of the Group's principal jointly controlled entities are disclosed in note 35.

16 Long-term investments

	2004 US$'000	2003 US$'000
Unlisted club debentures, at cost	**1,556**	1,477
Less: provision for impairment losses	**(147)**	(147)
	1,409	1,330
Unlisted equity securities, at cost	**1,382**	1,382
Less: provision for impairment losses	**(1,382)**	(1,382)
	–	–
	1,409	1,330

17 Goodwill

	2004 US$'000	2003 US$'000
Cost		
At 1st January	**3,765**	3,765
Acquisition of a subsidiary *(note 30(c))*	**1,698**	–
Disposal of subsidiaries by way of distribution in specie *(note 30(e))*	**(374)**	–
At 31st December	**5,089**	3,765
Accumulated amortisation and impairment losses		
At 1st January	**(1,036)**	(687)
Amortisation for the year	**(462)**	(349)
Disposal of subsidiaries by way of distribution in specie *(note 30(e))*	**374**	–
At 31st December	**(1,124)**	(1,036)
Net book value		
At 31st December	**3,965**	2,729
At 1st January	**2,729**	3,078

18 Other non-current assets

Other non-current assets mainly represent refundable rental and utility deposits not refundable within the next twelve months.

19 Inventories

	2004 US$'000	2003 US$'000
Raw materials	**23,016**	17,976
Work-in-progress	**13,431**	14,651
Finished goods	**26,121**	35,206
	62,568	67,833

There were no inventories stated at net realisable value as at 31st December 2004 (2003: Nil).

As at 31st December 2004, certain inventories were held under trust receipts bank loan arrangement.

20 Trade receivables

During the year, the Group normally granted credit terms to its customers ranging from 30 to 60 days. The ageing analysis of the trade receivables is as follows:

	2004	2003
	US$'000	US$'000
Current	**38,390**	29,296
0 to 30 days	**20,396**	16,344
31 to 60 days	**8,996**	7,736
61 to 90 days	**3,018**	1,550
Over 90 days	**4,315**	3,682
	75,115	58,608

21 Trade and bills payables

The ageing analysis of trade and bills payables is as follows:

	2004	2003
	US$'000	US$'000
Current	**19,890**	19,516
0 to 30 days	**5,253**	5,869
31 to 60 days	**1,956**	1,371
61 to 90 days	**811**	1,300
Over 90 days	**2,156**	2,968
	30,066	31,024

22 Bank loans

	2004	2003
	US$'000	US$'000
Bank loans	**55,600**	5,500
Current portion of long-term bank loans	**(1,600)**	(1,800)
	54,000	3,700

As at 31st December 2004, the Group's bank loans were secured by the corporate guarantee provided by the Company.

22 Bank loans (continued)

All bank loans are wholly repayable within five years. The Group's bank loans were repayable as follows:

	2004 **US$'000**	2003 US$'000
Within one year	**1,600**	1,800
In the second year	**54,000**	1,700
In the third to fifth years	**–**	2,000
	55,600	5,500

23 Short-term bank loans and overdrafts

	2004 **US$'000**	2003 US$'000
Short-term bank loans	**–**	2,322
Trust receipts bank loans	**29,164**	15,784
Bank overdrafts	**12,628**	10,031
	41,792	28,137

24 Other long-term liabilities

	2004 **US$'000**	2003 US$'000
Pension obligations:		
Defined benefits plans *(note 24(b))*	**1,129**	832
Provision for long service payments *(note 24(c))*	**468**	746
	1,597	1,578

(a) Defined contribution plans

During the year, the Group maintained various defined contribution retirement schemes for its employees, which are managed by independent trustees. Employees' and employer's contributions are based on various percentages of employees' gross salaries and length of service. The total contributions to the defined contribution retirement schemes were approximately US$669,000 for the year ended 31st December 2004 (2003: US$1,965,000).

24 Other long-term liabilities (continued)

(b) Defined benefit plans

The Group's major defined benefit plans are in the Philippines.

The benefit entitlements under the unfunded defined benefit plans are calculated based on the final salary and the length of service of the Group's employees. The Group's defined benefit plans in the Philippines are valued by Mercer Human Resource Consulting Ltd, an independent qualified actuary valuer, using the projected unit credit method and the valuation method as prescribed by SSAP Number 34.

The amounts recognised in the consolidated balance sheet are determined as follows:

	2004 **US$'000**	2003 US$'000
Present value of unfunded obligations	**1,270**	841
Unrecognised actuarial losses	**(141)**	(9)
Liability in the consolidated balance sheet	**1,129**	832

The amounts recognised in the consolidated profit and loss account are as follows:

	2004 **US$'000**	2003 US$'000
Current service cost	**300**	310
Interest cost	**88**	61
Total, included in staff costs *(note 11)*	**388**	371

Of the total charge, US$349,000 (2003: US$334,000) and US$39,000 (2003: US$37,000) were included in cost of sales and administrative expenses respectively.

Movements of the liability recognised in the consolidated balance sheet are as follows:

	2004 **US$'000**	2003 US$'000
At 1st January	**832**	659
Total expense – as shown above	**388**	371
Payments made	**(91)**	(198)
At 31st December	**1,129**	832

24 Other long-term liabilities (continued)

(b) Defined benefit plans (continued)

The principal actuarial assumptions used are as follows:

	2004	2003
Discount rate	**12%**	11%
Expected rate of future salary increases	**7.5%**	6%

(c) Long service payments

Provision for long service payments represents the Group's obligation for long service payments to its employees in Hong Kong on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance.

The obligation is calculated using the projected unit credit method, discounted to its present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. Such long service payment obligation is valued by Mercer Human Resource Consulting Ltd, an independent qualified actuary valuer, using the projected unit credit method, as prescribed by SSAP Number 34.

The amounts recognised in the consolidated balance sheet are determined as follows:

	2004 **US$'000**	2003 US$'000
Present value of unfunded obligations	**737**	895
Unrecognised actuarial losses	**(269)**	(149)
Liability in the consolidated balance sheet	**468**	746

The amounts recognised in the consolidated profit and loss account are as follows:

	2004 **US$'000**	2003 US$'000
Current service cost	**18**	15
Interest cost	**34**	42
Net actuarial losses recognised	**5**	10
Total, included in staff costs *(note 11)*	**57**	67

The above charges were included in administrative expenses.

24 Other long-term liabilities (continued)

(c) Long service payments (continued)

Movements of the provision for long service payments of the Group are as follows:

	2004 **US$'000**	2003 US$'000
At 1st January	**746**	1,085
Total expenses – as shown above	**57**	67
Payments made	**(335)**	(406)
At 31st December	**468**	746

The principal actuarial assumptions used are as follows:

	2004	2003
Discount rate	**3.0%**	4.5%
Expected rate of future salary increases	**3.0%**	3.0%

25 Share capital

	Number of shares	**Nominal value** US$'000
Authorised – ordinary shares of US$0.01 each		
Upon incorporation *(note 25(a))*	**50,000**	50
Increase in authorised share capital *(note 25(a))*	**14,950,000**	14,950
Share subdivision *(note 25(b))*	**1,485,000,000**	–
At 31st December 2004	**1,500,000,000**	15,000
Issued and fully paid – ordinary shares of US$0.01 each		
Upon incorporation *(note 25(c))*	**1**	–
Share subdivision *(note 25(b))*	**99**	–
Issuance of shares upon Reorganisation *(note 25(c))*	**900**	–
Capitalisation upon issue of new shares *(note 25(e))*	**674,999,000**	6,750
New issue of shares *(notes 25(d) and 25(f))*	**227,300,000**	2,273
At 31st December 2004	**902,300,000**	9,023

25 Share capital (continued)

Notes:

(a) The Company was incorporated on 15th March 2004 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. On 31st May 2004, the authorised share capital was increased to US$15,000,000 divided into 15,000,000 shares of US$1 each, by the creation of 14,950,000 shares of US$1 each.

(b) On 31st May 2004, each ordinary share of US$1 each was sub-divided into 100 shares of par value US$0.01 each.

(c) Upon incorporation, one share of US$1 was allotted and issued at par as nil paid. Pursuant to the Reorganisation referred to in note 1, on 27th June 2004, 900 shares of US$0.01 each were allotted, issued and credited as fully paid at par.

(d) On 15th July 2004, the Company issued 225,000,000 shares of US$0.01 each at approximately HK$2.975 (equivalent of US$0.38) per share in connection with the listing of the Company's shares on the SEHK (the "Listing"), and raised net proceeds of approximately HK$618.84 million (equivalent of approximately US$79.85 million).

(e) Immediately after the Listing, 674,999,000 shares were allotted and issued, credited as fully paid at par value of US$0.01 each to the then existing shareholders of the Company in proportion to their respective shareholding, by the capitalisation of US$6,749,990 from the share premium account. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued in connection with the Listing as described in note 25(d) above.

(f) In addition, on 4th August 2004, the Company issued 2,300,000 additional shares at approximately HK$2.975 (equivalent of US$0.38) per share pursuant to the exercise of over allotment option under the global offering of the Company's shares, and raised net proceeds of approximately HK$6.67 million (equivalent of approximately US$0.86 million).

(g) The share capital presented in the consolidated balance sheet as at 31st December 2003 represents the share capital of the Company, arising on incorporation, from the share exchange transaction, which is deemed to have been in issue throughout the year ended 31st December 2003 in accordance with the basis of preparation referred to in note 1. The difference between the nominal value of these shares and the aggregate of the nominal value of shares of the subsidiaries acquired pursuant to the Reorganisation is accounted for as merger reserve as at 31st December 2003.

26 Share option

The Company's share option scheme (the "Scheme") was adopted for a period of 10 years commencing 27th June 2004 pursuant to a written resolution of the then sole shareholder of the Company on 27th June 2004.

Under the Scheme, the Company may grant options to selected full-time employees and Directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to eligible advisors and consultants to the Company and its subsidiaries at the discretion of the Board of Directors.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of the listing of the shares, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at the date of such grant, without prior approval from the Company's shareholders.

Options may be exercised at any time within the relevant exercise period. The exercise price is determined by the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share on the date of the grant.

Movements of share options during the year ended 31st December 2004 were:

			Number of shares		
Date of grant	**Exercise period**	**Subscription price per share**	**Beginning of year**	**Granted**	**End of year**
			'000	'000	'000
28th December 2004	From 28th December 2004 to 27th December 2007	HK$4.1	–	7,757	7,757
			–	7,757	7,757

27 Reserves

(a) Group

	Share premium US$'000	Merger reserve *(note (i))* US$'000	Exchange reserve US$'000	Retained earnings *(note (iv))* US$'000	Total US$'000
As at 1st January 2003	–	4,322	(3,968)	73,727	74,081
Exchange differences arising on translation of foreign subsidiaries	–	–	(133)	–	(133)
Profit attributable to shareholders	–	–	–	23,566	23,566
Dividends	–	–	–	(41,855)	(41,855)
As at 31st December 2003	–	4,322	(4,101)	55,438	55,659
As at 1st January 2004	–	4,322	(4,101)	55,438	55,659
Reserve from the Reorganisation	–	7,400	–	–	7,400
Disposal of subsidiaries by way of a distribution in specie *(note (ii))*	–	–	–	7,007	7,007
Net proceeds from issuance of new shares *(notes 25(d) and 25(f))*	78,436	–	–	–	78,436
Capitalisation of share premium *(note 25(e))*	(6,750)	–	–	–	(6,750)
Profit attributable to shareholders	–	–	–	30,361	30,361
Dividends	–	–	–	(7,400)	(7,400)
Exchange differences arising on translation of foreign subsidiaries	–	–	492	–	492
As at 31st December 2004	71,686	11,722	(3,609)	85,406	165,205

27 Reserves (continued)

(b) Company

	Share premium US$'000	Merger reserve *(note (iii))* US$'000	Retained earnings *(note (v))* US$'000	Total US$'000
As at 15th March 2004 (date of incorporation)	–	–	–	–
Reserve from the Reorganisation	–	71,564	–	71,564
Net proceeds from issuance of new shares *(notes 25(d) and 25(f))*	78,436	–	–	78,436
Capitalisation of share premium *(note 25(e))*	(6,750)	–	–	(6,750)
Profit attributable to shareholders	–	–	5,991	5,991
As at 31st December 2004	71,686	71,564	5,991	149,241

Notes:

(i) The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Reorganisation and the nominal value of the Company's shares issued in exchange thereof. For 2003 comparatives, please see note 25(g).

(ii) As detailed in note 4 and as part of the Reorganisation, the Group disposed of its entire interest in the Mexican Operations and the System Consultancy Operations to its then shareholders by way of distribution in specie in May 2004. At the date of the distribution, the Mexican Operations and the System Consultancy Operations were in net deficit position. As a result, an amount of approximately US$7 million resulting from such distribution in specie was transferred to retained earnings.

(iii) The Company's merger reserve represents the difference between the aggregate net asset value of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition of the subsidiaries through the share exchange under the Group reorganisation.

(iv) The Group's retained earnings of US$85,406,000 as at 31st December 2004 includes the proposed final dividend of US$5,161,000 for the year.

(v) The Company's retained earnings of US$5,991,000 includes the proposed final dividend of US$5,161,000 for the year.

28 Deferred taxation

The movements in the deferred tax (assets)/liabilities, net are as follows:

	2004 **US$'000**	2003 US$'000
As at 1st January	**(345)**	(796)
Deferred taxation (credited)/charged to the consolidated profit and loss account *(note 7)*	**(467)**	446
Exchange differences	**(10)**	5
As at 31st December	**(822)**	(345)

Deferred income tax assets are recognised for tax loss carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of approximately US$3,421,000 as at 31st December 2004 (2003: US$4,832,000) to carry forward against future taxable income. These tax losses have an expiry date from 2005 to 2006.

The movements in deferred tax assets/(liabilities) (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

	Provisions and reserves for losses		Accelerated tax depreciation		Others		Total	
	2004 **US$'000**	2003 US$'000	**2004** **US$'000**	2003 US$'000	**2004** **US$'000**	2003 US$'000	**2004** **US$'000**	2003 US$'000
As at 1st January	**213**	600	**(1)**	(38)	**133**	234	**345**	796
Credited/(charged) to the consolidated profit and loss account	**69**	(380)	**64**	37	**334**	(103)	**467**	(446)
Exchange differences	**(2)**	(7)	**–**	–	**12**	2	**10**	(5)
As at 31st December	**280**	213	**63**	(1)	**479**	133	**822**	345

28 Deferred taxation (continued)

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 income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004	2003
	US$'000	US$'000
Deferred tax assets	**(822)**	(418)
Deferred tax liabilities	**–**	73
	(822)	(345)
The amounts shown in the consolidated balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	**(822)**	(418)
Deferred tax liabilities to be settled after more than 12 months	**–**	73

29 Interests in subsidiaries

In the Company's balance sheet, interests in subsidiaries consist of:

	2004
	US$'000
Unlisted shares	**71,564**
Amounts due from subsidiaries	**86,679**
	158,243

The outstanding balances with subsidiaries are unsecured, non-interest bearing and not repayable within the next twelve months.

Particulars of the principal subsidiaries are set out in note 35.

30 Notes to the consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash inflow generated from operations

	2004	2003
	US$'000	US$'000
Profit before taxation	**36,631**	33,331
Share of profits of associated companies	**(529)**	(681)
Share of losses/(profits) of jointly controlled entities	**829**	(18)
Interest income	**(671)**	(98)
Interest expense	**1,432**	1,362
Amortisation of goodwill	**462**	349
Depreciation of fixed assets	**9,611**	10,204
Loss on disposal of fixed assets, net	**214**	158
Loss on disposal of subsidiaries	**–**	220
Operating profit before working capital changes	**47,979**	44,827
Decrease in inventories	**2,908**	12,967
(Increase)/Decrease in trade receivables	**(18,290)**	16,219
Decrease in deposits, prepayments and other receivables	**1,172**	473
(Increase)/Decrease in amounts due from related companies	**(2,285)**	291
(Increase)/Decrease in amounts due from jointly controlled entities and associated companies	**(3,523)**	290
Decrease in amounts due to related companies	**(15,935)**	(8,886)
Increase/(Decrease) in amounts due to jointly controlled entities and associated companies	**312**	(1,254)
Increase in trade and bills payables	**457**	2,809
Increase/(Decrease) in other payables and accruals	**2,996**	(2,668)
Increase/(Decrease) in other long-term liabilities	**19**	(166)
Net cash inflow generated from operations	**15,810**	64,902

30 Notes to the consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year:

	Share capital and share premium US$'000	Long-term bank loans US$'000	Short-term bank loans US$'000	Long-term loans from related companies US$'000	Total US$'000
Balance at 1st January 2003	–	7,300	4,872	47,846	60,018
New loans	–	–	–	25,000	25,000
Repayment of loans	–	(1,800)	(2,550)	(29,817)	(34,167)
Balance at 31st December 2003	–	5,500	2,322	43,029	50,851
New loans	–	67,581	877	–	68,458
Repayment of loans	–	(17,281)	–	(37,605)	(54,886)
Distribution in specie	–	(200)	(3,199)	(5,424)	(8,823)
Net proceeds from issuance of new shares	80,709	–	–	–	80,709
Balance at 31st December 2004	80,709	55,600	–	–	136,309

(c) Acquisition of a subsidiary

	2004 US$'000
Net assets acquired	
Fixed assets	**245**
Inventories	**1,027**
Trade receivables	**44**
Deposits, prepayments and other receivables	**45**
Cash and bank balances	**22**
Trade and bills payables	**(330)**
Other payables and accruals	**(236)**
Taxation payable	**(15)**
	802
Goodwill	**1,698**
	2,500
Satisfied by	
Cash	**2,500**

30 Notes to the consolidated cash flow statement (continued)

(c) Acquisition of a subsidiary (continued)

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

	2004 **US$'000**	2003 US$'000
Cash consideration	**2,500**	–
Cash and bank balances acquired	**(22)**	–
Net cash outflow in respect of the acquisition of a subsidiary	**2,478**	–

30 Notes to the consolidated cash flow statement (continued)

(d) Disposal of a subsidiary:

	2004 US$'000	2003 US$'000
Net assets disposed		
Fixed assets	**883**	6,156
Inventories	**–**	630
Trade receivables	**–**	3,707
Deposits, prepayment and other receivables	**8**	1,160
Cash and bank balances	**33**	1,457
Amounts due from related companies	**4,638**	–
Long-term investments	**–**	35
Other non-current assets	**531**	2
	6,093	13,147
Trade and bills payables	**(29)**	(10,624)
Other payables and accruals	**(2,825)**	(1,295)
Amounts due to related companies	**(3,233)**	–
	(6,087)	(11,919)
Less: Minority shareholders' interests	**–**	(83)
Net assets disposed	**6**	1,145
Loss on disposal of a subsidiary	**–**	(220)
Satisfied by		
Cash	**6**	925
Analysis of the net outflow of cash and cash equivalents in connection with the disposal of a subsidiary:		
Cash consideration	**6**	925
Cash and bank balances transferred	**(33)**	(1,457)
Net outflow of cash and cash equivalents in connection with the disposal of a subsidiary	**(27)**	(532)

30 Notes to the consolidated cash flow statement (continued)

(e) As detailed in note 4 and as part of the Reorganisation, the Group disposed of its entire interest in the Mexican Operations and the System Consultancy Operations to its then shareholders by way of distribution in specie in May 2004 and with the details as follows:

	2004 **US$'000**
Net liabilities distributed	
Fixed assets	**3,660**
Inventories	**3,384**
Trade receivables	**1,827**
Deposits, prepayment and other receivables	**550**
Amounts due from related companies	**340**
Cash and bank balances	**1,559**
Long-term investments	**129**
Other non-current assets	**313**
	11,762
Trade and bills payables	**(1,716)**
Other payables and accruals	**(1,187)**
Amounts due to related companies	**(7,043)**
Short-term bank loans	**(3,199)**
Long-term bank loans	**(200)**
Long-term loan from a related company	**(5,424)**
	(18,769)
Net liabilities distributed	**(7,007)**
Analysis of the net outflow of cash and cash equivalents in connection with the distribution in specie relating to the Reorganisation:	
Cash and bank balances transferred	**(1,559)**

(f) **Major non-cash transaction**

During 2004 and prior to the completion of the Reorganisation (see note 1), certain wholly-owned subsidiaries of the Company declared dividends of approximately US$7,400,000 to their then shareholders, such amount were capitalised by the then shareholders.

31 Commitments

(a) Capital commitments for fixed assets

	2004 US$'000	2003 US$'000
Contracted but not provided for	**5,643**	1,550
Authorised but not contracted for	**–**	1,088
	5,643	2,638

(b) Commitments under operating leases

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

	2004 US$'000	2003 US$'000
Land and buildings		
– Not later than one year	**2,703**	1,945
– Later than one year and not later than five years	**6,333**	4,512
– Later than five years	**3,132**	4,554
	12,168	11,011
Facilities and equipment		
– Not later than one year	**65**	298
– Later than one year and not later than five years	**37**	613
	102	911

(c) Others

As at 31st December 2004, the Group had commitments in respect of outstanding foreign exchange contracts to sell GBP 1,200,000 (2003: Nil) for HK$16,420,560 (2003: Nil).

32 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other parties or exercise significant influence over the other parties in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Mr. Tan Siu Lin, Mr. Tan Henry, Mr. Tan Willie and Mr. Tan Cho Lung, Raymond, Executive Directors of the Company, together with their close family members are collectively referred to as the Tan Family. The related companies of the Group are beneficially owned by the Tan Family.

(a) Transactions with related parties

During the year, the Group had the following significant transactions with related companies, jointly controlled entities and associated companies.

	2004 US$'000	2003 US$'000
Revenue –		
Revenue from related companies		
– Commission income	**78**	39
– Freight forwarding and logistics service income	**1,388**	2,463
– Rental income	**141**	154
– Management fee income	**74**	–
Revenue from jointly controlled entities		
– Sales to a jointly controlled entity	**3,465**	–
– Management fee income	**317**	–
– Freight forwarding and logistics service income	**26**	–
– Subcontracting income	**148**	–
– Rental income	**3**	–
Revenue from an associated company		
– Commission income	**927**	648
– Management fee income	**149**	140
Expense –		
Expenses paid/payable to related companies		
– Administrative and support service	**9,145**	9,656
– Rental expenses	**887**	1,111
– Administrative expenses	**91**	104
– Office and other supplies	**456**	423
– Packaging expenses	**1,321**	1,453
– Insurance expenses	**1,230**	1,182
– Travel related services	**863**	777
– Technological support service fees	**1,526**	120
– Repair and maintenance expenses	**296**	318
– Management fee	**32**	–
Expenses paid/payable to jointly controlled entities and an associated company		
– Subcontracting fee	**1,700**	1,546
– Rental expenses	**5**	5

32 Related party transactions (continued)

(a) Transactions with related parties (continued)

The above related party transactions were carried out in accordance with the terms mutually agreed by the respective parties.

In addition, as at 31st December 2004, a jointly controlled entity, namely Yuen Thai Industrial Company Limited, has utilised the Group's banking facilities of approximately US$2,170,000 (2003: Nil). Moreover, the Group has recharged certain material costs and other expenses to this jointly controlled entity with a total amount of approximately US$2,951,000.

(b) Amounts due from/(to) related companies, jointly controlled entities and associated companies

As at 31st December 2004, the outstanding balances with the related companies, jointly controlled entities and associated companies are unsecured, interest free and with no pre-determined repayment terms.

33 Contingent liabilities and litigation

The Group is involved in various labour lawsuits and claims arising from the normal course of business. The Directors believe that the Group has substantial legal and factual bases for their position and are of the opinion that losses arising from these lawsuits, if any, will not have a material adverse impact on the results of the operations or the financial position of the Group. Accordingly, no provision for such liabilities has been made in the accounts. In addition, an estimate of its financial effect is not disclosed as it is not practicable to do so.

34 Post balance sheet date event

On 24th January 2005, the Group entered into a placing agreement and subscription agreement. Pursuant to the placing agreement, an independent placing agent agreed to place 90,200,000 existing shares owned by Capital Glory Limited, a beneficial shareholder of the Company, at a placing price of HK$4.07 per ordinary share. Pursuant to the subscription agreement, the Company allotted and issued to Capital Glory Limited 90,200,000 new shares at the placing price of HK$4.07 subject to the completion of the above placing. The net proceeds from the above placement amounted to approximately US$46,500,000.

35 Particulars of subsidiaries, jointly controlled entities and associated companies

The following subsidiaries, jointly controlled entities and associated companies of the Company as at 31st December 2004 principally affected the Group's results for the year or form a substantial portion of the Group's net assets. To give details of other subsidiaries, jointly controlled entities and associated companies would result in particulars of excessive length.

Name of companies	Place of Incorporation/ establishment	Issued/registered and fully paid share capital	Equity interest attributable to the Group	Principal activities and place of operations
Apparel-Tech International, Inc.	The Philippines	2,000,000 ordinary shares of Peso 1 each	100%	Garment manufacturing in the Philippines
Asialink Shipping Lines, Inc.	The Philippines	5,000 ordinary shares of Peso 100 each	100%	Shipping agent in the Philippines
Candice Apparel, Inc.	The Philippines	25,000 ordinary shares of Peso 100 each	100%	Garment manufacturing in the Philippines
Chatelaine, Inc.	The United States ("USA")	100 ordinary shares with total paid-in capital of US$10,000	100%	Import and distribution of apparel in the USA
Chelton Force Limited	British Virgin Islands	1 ordinary share of US$1 each	100%	Investment holding
Concorde Garment Manufacturing Corporation	Commonwealth of Northern Mariana Islands	1,510,000 ordinary shares of US$1 each	100%	Garment manufacturing in Saipan
Consolidated Transportation Services, Inc.	Commonwealth of Northern Mariana Islands	1,000,000 ordinary shares of US$1 each	100%	Provision of freight forwarding and logistics services in Saipan
Consolidated Transportation Services (FSM), Inc	Pohnpei	100,000 ordinary shares of US$1 each	90%	Provision of freight forwarding and logistics services in Pohnpei

35 Particulars of subsidiaries, jointly controlled entities and associated companies (continued)

Name of companies	Place of Incorporation/ establishment	Issued/registered and fully paid share capital	Equity interest attributable to the Group	Principal activities and place of operations
Consolidated Transportation Services, Incorporated (Guam)	Guam	400,000 ordinary shares of US$1 each	100%	Provision of freight forwarding and logistics services in Guam
Consolidated Transportation Services, Inc. (Belau)	Palau	100,000 ordinary shares of US$1 each	80%	Provision of freight forwarding and logistics services in Palau
CTSI Holdings Limited	British Virgin Islands	1 ordinary share of US$1 each	100%	Investment holding
CTSI Logistics, Inc.	The United States	10,000 ordinary shares with total paid-in capital of US$100,000	100%	Provision of freight and logistics services in the USA
CTSI Logistics Inc.	Cambodia	100 ordinary shares of Riels 380,000 each	100%	Provision of freight forwarding and logistics services in Cambodia
CTSI Logistics (Korea), Inc.	Korea	60,000 ordinary shares of Won 5,000 each	60%	Provision of freight forwarding and logistics services in Korea
CTSI Logistics Limited	Hong Kong	100,000 ordinary shares of HK$10 each	100%	Provision of freight forwarding and logistics services in Hong Kong

35 Particulars of subsidiaries, jointly controlled entities and associated companies (continued)

Name of companies	Place of Incorporation/ establishment	Issued/registered and fully paid share capital	Equity interest attributable to the Group	Principal activities and place of operations
CTSI Logistics Phils., Inc.	The Philippines	100,000 ordinary shares of Peso 100 each	100%	Provision of freight forwarding and logistics services in the Philippines
Designs Apparel International, Inc.	The Philippines	2,500,000 ordinary shares of Peso 1 each	100%	Garment manufacturing in the Philippines
Dongguan Luen Thai Garment Co., Ltd.	The People's Republic of China	Registered capital of HK$185,350,000 with total paid-in capital of HK$156,344,135	100%	Garment manufacturing in the PRC
Fortune Investment Overseas Limited	British Virgin Islands	1 ordinary share of US$1 each	100%	Investment holding
GJM (HK) Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Trading of garment products in Hong Kong
G.J.M. (H.K.) Manufacturing Limited	Hong Kong	2 ordinary shares of HK$100 each	100%	Investment holding
GJM (Qingyuan) Light Industrial Development Limited	The People's Republic of China	Registered capital of HK$62,000,000 with total paid-in capital of HK$12,500,000	100%	Property holding in the PRC

35 Particulars of subsidiaries, jointly controlled entities and associated companies (continued)

Name of companies	Place of Incorporation/ establishment	Issued/registered and fully paid share capital	Equity interest attributable to the Group	Principal activities and place of operations
GJM (UK) Limited	United Kingdom ("UK")	1 ordinary share of GBP 1 each	100%	Garment distributor in the UK
GJM (USA), Inc.	The United States	200 ordinary shares with total paid-in capital of US$100,000	100%	Distribution of garments in the USA
Golden Dragon Apparel, Inc.	The Philippines	62,000 ordinary shares of Peso 100 each	100%	Garment manufacturing in the Philippines
Highest Power Limited	Cayman Islands	1 ordinary share of US$1 each	100%	Investment holding in the Philippines
Kingsmere, Inc.	The United States	100 ordinary shares with total paid-in capital of US$310,000	100%	Investment holding
L & T International Group Phils., Inc.	The Philippines	20,000 ordinary shares of Peso 100 each	100%	Garment manufacturing in the Philippines
Luen Thai Garment (Cambodia) Co., Ltd.	Cambodia	100 ordinary shares of US$8,000 each	100%	Garment manufacturing in Cambodia
Luen Thai International Group Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Sourcing and manufacturing of textile and garment products in Hong Kong
Luen Thai Overseas Limited	Bahamas	16,685,804 ordinary share of US$1 each	100%	Investment holding

35 Particulars of subsidiaries, jointly controlled entities and associated companies (continued)

Name of companies	Place of Incorporation/ establishment	Issued/registered and fully paid share capital	Equity interest attributable to the Group	Principal activities and place of operations
Panyu G.J.M. Garment Manufacturing Factory	The People's Republic of China	Registered capital of US$5,500,000 with total paid-in capital of US$4,874,560	100%	Garment manufacturing in the PRC
Philippine Luen Thai Holdings Corporation	The Philippines	260,000 ordinary shares of Peso 100 each	100%	Investment holding
Power Might Limited	British Virgin Islands	12,207,164 ordinary shares of US$1 each	100%	Investment holding
Starcar Garments Enterprises, Inc.	The Philippines	8,000 ordinary shares of Peso 100 each	100%	Garment manufacturing in the Philippines
Sunny Force Limited	British Virgin Islands	1 ordinary share of US$1 each	100%	Investment holding
TellaS Ltd.	The United States	100 ordinary shares with total paid-in capital of US$100,000	100%	Import and distribution of garments in the USA
Tomwell Limited	Hong Kong	2 ordinary shares of HK$10	100%	Garment manufacturing in the PRC

All subsidiaries of the Company are indirectly held except for Luen Thai Overseas Limited.

35 Particulars of subsidiaries, jointly controlled entities and associated companies (continued)

Name of companies	Place of Incorporation/ establishment	Issued/registered and fully paid share capital	Equity interest attributable to the Group	Principal activities and place of operations
Associated companies:				
CTSI Logistics (Taiwan), Inc.	Taiwan	10,000,000 ordinary shares of TWD 10 each	49%	Provision of freight forwarding and logistics services in Taiwan
LT Investment Co. Ltd.	Cambodia	25 ordinary shares of US$8,000 each	49%	Property holding in Cambodia
Mariana Express Lines Ltd.	British Virgin Islands	1,000,000 ordinary shares of US$1 each	22.5%	Provision of freight forwarding and logistics services in the Philippines
Jointly controlled entities:				
Shenzhen Li Da Silk Garment Company Limited	The People's Republic of China	Rmb2,400,000	25%	Garment manufacturing in the PRC
Suzhou F&T Garments Manufacture Co., Ltd.	The People's Republic of China	US$210,000	80%	Garment manufacturing in the PRC
Suzhou Nantai Garments Co., Ltd.	The People's Republic of China	US$210,000	50%	Garment manufacturing in the PRC

35 Particulars of subsidiaries, jointly controlled entities and associated companies (continued)

Name of companies	Place of Incorporation/ establishment	Issued/registered and fully paid share capital	Equity interest attributable to the Group	Principal activities and place of operations
Jointly controlled entities: (continued)				
Wuxi Liantai Garments Co., Ltd.	The People's Republic of China	Registered capital of US$2,050,000 with total paid-in capital of US$1,241,400	50%	Garment manufacturing in the PRC
Yuen Thai Industrial Company Limited	Hong Kong	2 ordinary shares of HK$1 each	50%	Manufacturing of sports and active wear in the PRC

36 Ultimate holding company

The Directors regard Helmsley Enterprises Limited, a company incorporated in Bahamas, as being the ultimate holding company.

37 Approval of accounts

The accounts were approved by the Board of Directors on 21st April 2005.