Notes to the Consolidated Financial Statements

1 General Information

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

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

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

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 financial statements have been prepared as if the Company had been the holding company of the companies comprising the Group throughout the accounting years presented.

The consolidated financial statements have been approved for issue by the Board of Directors on 20 April 2006.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

2.1 Basis of preparation (continued)

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations and effective for the financial year beginning 1 January 2005

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The Group has elected to adopt Amendment to HKAS 19, Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures, ahead of its effective date of 1 January 2006. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 21, 23, 24, 27, 33 and 37 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest and other disclosures.
- HKASs 2, 8, 16 and 21 affect certain disclosures in the financial statements.
- HKASs 7, 10, 12, 14, 18, 23, 27, 33, 37 and HKAS-Int 15 do not have any impact as the Group's accounting policies already comply with the standards.
- HKAS 24 has affected the identification of related parties and some other related party disclosures.

2.1 Basis of preparation (continued)

The adoption of new/revised HKFRS (continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is immediately expensed in the income statement. In prior years, leasehold land was accounted for at valuation less accumulated depreciation and accumulated impairment.

The early adoption of revised HKAS 19 provides an option of recognizing actuarial gains and losses in full in the period in which they occur, outside profit or loss, in equity. The Group has elected to take the option to recognize all actuarial gains and losses, including those actuarial gains and losses previously included as part of the transitional unrecognized liabilities. In prior years, cumulative unrecognized net actuarial gains and losses, to the extent of the amount in excess of 10% of the greater of the present value of the plan obligations and the fair value of plan assets, were recognized in the financial statements over the average remaining service lives of employees.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Prior to this:

– the fair value of derivative financial instruments was not recognized in the balance sheet; and
– the trade and other receivables are initially recognized without discounting to the net present value at the effective interest rate.

In accordance with the provisions of HKAS 32 and HKAS 39:

– the fair value of derivative financial instruments is recognized in the balance sheet and any change in the fair value is recorded in the income statement; and
– Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

The adoption of HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for trademarks. Prior to this, trademarks were:

– amortized on a straight-line basis over a period of not exceeding 20 years; and
– assessed for impairment at each balance sheet date.

In accordance with the provisions of HKAS 36 and HKAS 38:

– the Group ceased amortization of trademarks with indefinite useful lives from 1 January 2005;
– from the year ended 31 December 2005 onwards, such trademarks are tested annually for impairment, as well as when there are indications of impairment.

2.1 Basis of preparation (continued)

The adoption of new/revised HKFRS (continued)

The adoption of HKFRS 2 has resulted in a change in accounting policy for share-based payment. Prior to this, the provision of share options to employees did not result in a charge to the income statement. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortized over the relevant vesting periods to the income statement.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Prior to the change, the Group did not have any goodwill recorded. Following the adoption, goodwill is not required to be amortized but is tested annually for impairment, as well as when there are indications of impairment.

All relevant changes in the accounting policies have been made in accordance with the transitional provisions of the respective standards, which require retrospective application to prior year comparatives other than:

– HKAS 36 and HKAS 38 – prospective accounting for trademarks from 1 January 2005.
– HKAS 39 – recognizes all derivatives at fair value in the balance sheet on 1 January 2005 and adjusts the balance to retained earnings as at that date.
– HKAS-Int 15 – does not require recognition of incentives for leases commencing before 1 January 2005.
– HKFRS 3 – prospective from 1 January 2005.

2.1 Basis of preparation (continued)

Effect of changes in accounting policies on consolidated income statement

	Effect of adopting					
	HKAS 17 US$'000 (a)	HKAS 19 US$'000 (a)	HKFRS 2 US$'000 (a)	HKAS 36 & HKAS 38 US$'000 (b)	HKAS 39 US$'000 (b)	Total US$'000
Year 2005						
Increase in other gains	975	–	–	–	–	975
Decrease in cost of sales	42	–	–	–	–	42
Decrease/(increase) in administrative expenses	33	106	(537)	62	54	(282)
Increase in taxation	(297)	–	–	–	–	(297)
Total increase/(decrease) in profit	753	106	(537)	62	54	438
Increase/(decrease) in earnings per share						
Basic	0.24 cents	0.03 cents	(0.17 cents)	0.02 cents	0.02 cents	0.14 cents
Diluted	0.24 cents	0.03 cents	(0.17 cents)	0.02 cents	0.02 cents	0.14 cents
Year 2004						
Decrease in cost of sales	42	–	–	–	–	42
Decrease in administrative expenses	33	43	–	–	–	76
Increase in taxation	(24)	–	–	–	–	(24)
Total increase in profit	51	43	–	–	–	94
Increase in earnings per share						
Basic	0.02 cents	0.02 cents	–	–	–	0.04 cents
Diluted	0.02 cents	0.02 cents	–	–	–	0.04 cents

(a) adjustments which take effect retrospectively

(b) adjustments which take effect prospectively from 1 January 2005

2.1 Basis of preparation (continued)

Effect of changes in accounting policies on consolidated balance sheets

	Effect of adopting					
	HKAS 17 US$'000 (a)	HKAS 19 US$'000 (a)	HKFRS 2 US$'000 (a)	HKAS 36 & HKAS 38 US$'000 (b)	HKAS 39 US$'000 (b)	Total US$'000
At 1 January 2004 (Equity only)						
Increase/(decrease) in equity:						
Properties revaluation reserve	(2,281)	–	–	–	–	(2,281)
Accumulated losses	555	(1,076)	–	–	–	(521)
Minority interest	(112)	–	–	–	–	(112)
At 31 December 2004						
Increase/(decrease) in assets:						
Lease premium for land	416	–	–	–	–	416
Property, plant and equipment	(2,879)	–	–	–	–	(2,879)
Surplus on pension schemes	–	(1,150)	–	–	–	(1,150)
Deferred tax assets	132	–	–	–	–	132
Increase/(decrease) in equity/liabilities:						
Properties revaluation reserve	(1,961)	–	–	–	–	(1,961)
Accumulated losses	286	(1,836)	–	–	#	(1,550)
Minority interest	(112)	–	–	–	–	(112)
Deferred tax liabilities	(544)	–	–	–	–	(544)
Deficit on pension schemes	–	592	–	–	–	592
Post employment benefit liabilities	–	94	–	–	–	94

(a) *adjustments which take effect retrospectively*

(b) *adjustments which take effect prospectively from 1 January 2005*

*Adjustment for the adoption of HKAS 39 amounted to US$118,000 (note 14) has been debited to accumulated losses at 1 January 2005 in accordance with the HKFRS*

2.1 Basis of preparation (continued)

Effect of changes in accounting policies on consolidated balance sheets (continued)

	Effect of adopting					
	HKAS 17 US$'000 (a)	HKAS 19 US$'000 (a)	HKFRS 2 US$'000 (a)	HKAS 36 & HKAS 38 US$'000 (b)	HKAS 39 US$'000 (b)	Total US$'000
At 31 December 2005						
Increase/(decrease) in assets:						
Intangible assets	–	–	–	62	–	62
Lease premium for land	395	–	–	–	–	395
Property, plant and equipment	(1,808)	–	–	–	–	(1,808)
Surplus on pension schemes	–	(823)	–	–	–	(823)
Deferred tax assets	138	186	–	–	–	324
Increase/(decrease) in equity/liabilities:						
Employee share-based compensation reserve	–	–	537	–	–	537
Properties revaluation reserve	(986)	–	–	–	–	(986)
Retained earnings	64	(1,774)	(537)	62	(64)	(2,249)
Minority interest	(112)	–	–	–	–	(112)
Deferred tax liabilities	(241)	–	–	–	–	(241)
Deficit on pension schemes	–	622	–	–	–	622
Post employment benefit liabilities	–	515	–	–	–	515
Trade and other payables	–	–	–	–	64	64

(a) adjustments which take effect retrospectively

(b) adjustments which take effect prospectively from 1 January 2005

2.1 Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective

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

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

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

HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006)

This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1 January 2006.

HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006)

This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognized at their fair value, and subsequently measured at the higher of (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management is currently assessing the impact of HKAS 39 and HKFRS 4 on the Company's and the Group's operations.

HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006)

HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

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

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

2.1 Basis of preparation (continued)

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

HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6 and Amendment	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

2.2 Consolidation

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

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

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

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

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

2.3 Segment reporting

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

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

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

2.5 Property, plant and equipment

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

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

Buildings	shorter of the period of the leases or 2%
Warehouse automated storage retrieval system	5% -25%
Furniture, plant and machinery	6.7% -33.3%

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

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

Change in accounting estimates

According to HKAS 16, the useful life of an asset shall be reviewed at least at each financial year-end. A revision of the useful lives of certain property, plant and equipment was carried out during the year by management. The change in accounting estimates on the useful lives of fixed assets has decreased the depreciation charge by US$520,000 and increased in the deferred tax charge by US$140,000 for the current year and is expected to have similar impact for each subsequent financial year.

2.6 Intangible assets

Trademarks

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

Computer software

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

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

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

2.7 Impairment of non-financial assets

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

2.8 Investments

From 1 January 2004 to 31 December 2004:

Other long term investments represented investments in securities, other than subsidiaries, associates and jointly controlled entities. Investments were stated at cost less any provision for impairment losses.

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

From 1 January 2005 onwards:

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

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

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

2.8 Investments (continued)

From 1 January 2005 onwards: (continued)

(b) Loans and receivables

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

(c) Held-to-maturity investments

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

(d) Available-for-sale financial assets

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

Purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

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

2.8 Investments (continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

2.9 Inventories

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

2.10 Trade and other receivables

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

2.11 Cash and cash equivalents

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

2.12 Share capital

Ordinary shares are classified as equity.

2.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

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

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

2.14 Deferred income tax

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

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

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

2.15 Employee benefits

(a) Pension obligations

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

2.15 Employee benefits (continued)

(a) Pension obligations (continued)

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in full in the period in which they occur, outside profit or loss, in equity. Past-service costs are recognized immediately as income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

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

(b) Share-based compensation

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

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

(c) Profit-sharing and bonus plans

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

2.16 Revenue recognition

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

(a) Sales of goods

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

(b) Sales of services

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

(c) Interest income

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

2.17 Leases

(a) Operating lease

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

(b) Finance lease

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

2.18 Dividend distribution

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

2.19 Core operating profit

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

2.20 Comparatives

As further explained in note 2.1, due to the adoption of the new/revised HKFRS during the current year, the accounting treatment and presentation of certain items in the accounts have been revised to comply with the new requirements. Accordingly, certain comparatives have been restated to conform with the current year presentation.

3 Financial risk management

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

(a) Foreign exchange risk

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

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

(b) Credit risk

Credit risk arises when sales are made on deferred credit terms. The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

3 Financial risk management (continued)

(c) Cash flow and fair value interest rate risk

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

4 Critical accounting estimates and assumptions

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

(a) Allowance for doubtful accounts

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

(b) Excess and obsolete inventory

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

(c) Income taxes

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

5 Revenue and segment information

(a)

	2005	2004
	US$'000	US$'000
Total invoiced amounts	**918,123**	659,734
Less: Collections on behalf of principals*	**(96,593)**	(74,858)
Revenue	**821,530**	584,876

* 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 accounts 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 HKAS18 ''Revenue'', such collections on behalf of principals was deducted from the total invoiced amounts to arrive at the revenue earned by the Group.

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

	2005	2004
	US$'000	US$'000
Sales of goods	**703,579**	498,031
Rendering of services	**117,951**	86,845
Revenue	**821,530**	584,876

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

5 Revenue and segment information (continued)

Primary reporting format – business segments

2005

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

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

5 Revenue and segment information (continued)

Primary reporting format – business segments (continued)

2004

	Logistics US$'000 (Restated)	Marketing US$'000 (Restated)	Manufacturing US$'000 (Restated)	Corporate US$'000 (Restated)	Inter-segment elimination US$'000 (Restated)	Group total US$'000 (Restated)
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	6,647	9,104	4,392	(6,822)		13,321
Finance costs, net						(687)
Share of profit of a jointly controlled entity	–	25	–	–		25
Profit before taxation						12,659
Taxation						(1,096)
Profit for the year						11,563
Total assets	63,702	168,996	38,940	42,199		313,837
Total liabilities	51,617	114,903	27,164	39,057		232,741
Capital expenditure	6,828	4,147	4,378	2,913		18,266
Depreciation and amortization	3,318	1,726	1,445	998		7,487
Impairment of inventory	–	1,027	46	–		1,073
Provision/(reversal) of impairment of trade receivables	22	(306)	–	–		(284)

5 Revenue and segment information (continued)

Secondary reporting format – geographical segments

	Revenue 2005 US$'000	Total assets 2005 US$'000	Capital expenditure 2005 US$'000
Hong Kong	**230,230**	**103,466**	**2,751**
Taiwan	**18,211**	**28,696**	**252**
Thailand	**121,095**	**54,704**	**4,994**
Malaysia	**131,658**	**52,724**	**2,893**
Singapore	**60,207**	**30,302**	**800**
the Philippines	**137,173**	**26,799**	**1,250**
Indonesia	**8,354**	**7,439**	**218**
PRC	**101,203**	**60,105**	**2,479**
Brunei	**18,444**	**9,067**	**124**
	826,575	**373,302**	**15,761**
Less: Inter-segment elimination	**(5,045)**	**–**	**–**
Total	**821,530**	**373,302**	**15,761**

	Revenue 2004 US$'000	Total assets 2004 US$'000 (Restated)	Capital expenditure 2004 US$'000
Hong Kong	220,503	97,691	6,425
Taiwan	12,964	29,894	2,121
Thailand	110,169	50,474	1,493
Malaysia	125,302	50,651	5,069
Singapore	44,796	25,127	257
the Philippines	14,639	6,118	242
Indonesia	8,225	5,137	114
PRC	39,921	41,831	2,476
Brunei	12,427	6,914	69
	588,946	313,837	18,266
Less: Inter-segment elimination	(4,070)	–	–
Total	584,876	313,837	18,266

6 Intangible assets

	Group		
	Software costs US$'000	Trademarks US$'000	Total US$'000
At 1 January 2004			
Cost	4,614	1,228	5,842
Accumulated amortization	(2,321)	(122)	(2,443)
Net book value	2,293	1,106	3,399
Year ended 31 December 2004			
Opening net book value	2,293	1,106	3,399
Exchange adjustment	5	–	5
Additions	2,772	–	2,772
Amortization expense (note 20)	(629)	(62)	(691)
Closing net book value	4,441	1,044	5,485
At 31 December 2004			
Cost	7,394	1,228	8,622
Accumulated amortization	(2,953)	(184)	(3,137)
Net book value	4,441	1,044	5,485
Year ended 31 December 2005			
Opening net book value	4,441	1,044	5,485
Exchange adjustment	(3)	–	(3)
Additions	2,274	–	2,274
Amortization expense (note 20)	(904)	–	(904)
Closing net book value	5,808	1,044	6,852
At 31 December 2005			
Cost	9,674	1,228	10,902
Accumulated amortization	(3,866)	(184)	(4,050)
Net book value	5,808	1,044	6,852

Software costs include internally generated capitalized software development costs and other costs.

Amortization of US$55,000 (2004: US$35,000) is included in the marketing and logistics expenses; and US$849,000 (2004: US$656,000) in administrative expenses in the consolidated income statement.

7 Lease premium for land

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

	Group	
	2005	2004
	US$'000	US$'000
Outside Hong Kong, held on:		
Leases of over 50 years	**269**	271
Leases of between 10 to 50 years	**126**	145
	395	416

	2005	2004
	US$'000	US$'000
Opening	**416**	431
Exchange difference	**1**	–
Disposals	**(7)**	–
Amortization of prepaid operating lease payment (note 20)	**(15)**	(15)
	395	416

8 Property, plant and equipment

	Group			
	Buildings US$'000	**Warehouse automated storage retrieval system** US$'000	**Furniture, plant and machinery** US$'000	**Total** US$'000
At 1 January 2004				
Cost	24,105	15,494	63,280	102,879
Accumulated depreciation	(2,575)	–	(40,032)	(42,607)
Net book value	21,530	15,494	23,248	60,272
Year ended 31 December 2004				
Opening net book value	21,530	15,494	23,248	60,272
Exchange adjustment	(193)	114	277	198
Acquisition of a subsidiary	–	–	2	2
Additions	475	–	14,049	14,524
Transfer from related companies	–	–	970	970
Transfer/disposals to related companies	(4,524)	–	(982)	(5,506)
Reclassification	–	(449)	449	–
Disposals	(14,611)	(14,874)	(314)	(29,799)
Depreciation	(236)	(285)	(6,260)	(6,781)
Closing net book value	2,441	–	31,439	33,880
At 31 December 2004				
Cost	3,070	–	76,791	79,861
Accumulated depreciation	(629)	–	(45,352)	(45,981)
Net book value	2,441	–	31,439	33,880

8 Property, plant and equipment (continued)

	Group			
	Buildings US$'000	**Warehouse automated storage retrieval system** US$'000	**Furniture, plant and machinery** US$'000	**Total** US$'000
Year ended 31 December 2005				
Opening net book value	2,441	–	31,439	33,880
Exchange adjustment	8	–	(191)	(183)
Additions	492	–	12,995	13,487
Disposals	(35)	–	(296)	(331)
Depreciation	(90)	–	(7,412)	(7,502)
Closing net book value	2,816	–	36,535	39,351
At 31 December 2005				
Cost	3,528	–	78,015	81,543
Accumulated depreciation	(712)	–	(41,480)	(42,192)
Net book value	2,816	–	36,535	39,351

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

	2005 **US$'000**	2004 US$'000
Cost – capitalized finance leases	**530**	506
Accumulated depreciation	**(318)**	(192)
Net book value	**212**	314

Depreciation expense of US$1,477,000 (2004: US$1,579,000) has been expensed in cost of sales, US$4,235,000 (2004: US$3,272,000) in marketing and logistics expenses and US$1,790,000 (2004: US$1,930,000) in administrative expenses.

9 Interests in subsidiaries

	Company	
	2005	2004
	US$'000	US$'000
Unlisted shares, at cost (note (a))	**23,988**	23,988
Amount due from a subsidiary (note (b))	**16,302**	10,062
	40,290	34,050

(a) Particulars of principal subsidiaries are set out in note 31 to the consolidated financial statements.

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

10 Inventories

	Group	
	2005	2004
	US$'000	US$'000
Finished goods and merchandise	**84,022**	70,584
Raw materials	**8,498**	8,706
Work in progress	**1,435**	1,542
	93,955	80,832
Less: Provision for obsolescence	**(2,881)**	(2,751)
	91,074	78,081

The cost of inventories recognized as expense and included in cost of sales amounted to US$592,932,000 (2004: US$405,002,000).

The Group recognized an inventory write-down of US$1,110,000 (2004: US$1,073,000). The amount has been included in cost of sales in the consolidated income statement.

11 Trade and other receivables

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Trade receivables	**134,792**	114,291
Less: provision for impairment of receivables	**(1,498)**	(1,799)
Trade receivables, net (note (a))	**133,294**	112,492
Other receivables, prepayments, and deposits	**37,768**	24,501
Due from related companies (note (b) and note 30(c))	**1,299**	3,113
	172,361	140,106
Less: non-current portion: prepayments and deposits	**(4,858)**	(3,031)
	167,503	137,075

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

Notes:

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

	Group	
	2005	2004
	US$'000	US$'000
Less than 90 days	**124,552**	103,984
91-180 days	**6,165**	6,248
181-360 days	**1,788**	2,096
Over 360 days	**789**	164
	133,294	112,492

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

The Group has recognized a loss of US$397,000 (2004: reversal of provision for impairment loss of US$284,000) for the impairment of its trade receivables during the year ended 31 December 2005. The loss has been included in marketing and logistics expenses in the consolidated income statement.

11 Trade and other receivables (continued)

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

	Group	
	2005	2004
	US$'000	US$'000
Trade (i)	**1,299**	1,995
Non-trade (ii)	**–**	1,118
	1,299	3,113

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

(ii) the balances were unsecured, interest-free and had no fixed terms of repayment. The non-trade balance at 31 December 2004 represented recoverable expenses from LFD incurred for Global Offering which was subsequently settled in 2005.

12 Cash and cash equivalents

	Group		Company	
	2005	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000
Bank balance and cash	**20,446**	28,108	**–**	–
Short-term bank deposits	**37,039**	24,858	**12,393**	17,859
	57,485	52,966	**12,393**	17,859

The effective interest rate on short-term bank deposits was 3.86% (2004: 0.73%); these deposits have an average maturity of 32 days.

12 Cash and cash equivalents (continued)

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	Group		Company	
	2005	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000
Bank balances and cash	**20,446**	28,108	**–**	–
Deposits with maturity less than three months	**35,745**	23,828	**12,393**	17,859
Bank overdrafts (note 15)	**(206)**	(1,324)	**–**	–
	55,985	50,612	**12,393**	17,859

13 Share capital and options

	Ordinary shares	
	No. of shares (thousands)	**US$'000**
Authorized:		
At 1 January 2004	12	12
Increase in authorized ordinary share capital (note (a)(i))	99,988	99,988
Sub-division of shares (note (a)(ii))	900,000	–
At 31 December 2004 and at 31 December 2005	1,000,000	100,000
Issued and fully paid:		
At 1 January 2004	12	12
Sub-division of shares (note (a)(ii))	108	–
Issue of shares arising from the reorganization (note (b))	239,880	23,988
Issue of shares by placing and public offer (note (c))	69,000	6,900
At 31 December 2004 and at 31 December 2005	309,000	30,900

13 Share capital and options (continued)

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

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

(i) the authorized share capital for 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 of US$0.1 each.

(b) On 20 November 2004, a total of 239,880,000 shares of US$0.1 each were allotted and issued to LFD, all credited as fully paid, as consideration for the acquisition by the Company from LFD of its entire interest 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.

(c) 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.

(d) The share capital presented in the consolidated balance sheet as at 1 January 2004 represented the share capital of the Company, arising from the transactions as described in note (b) above, which is deemed to have been in issue throughout the accounting periods presented in these financial statements in accordance with the reorganization as set out in note 1.

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

13 Share capital and options (continued)

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

	2005		2004	
	Average exercise price HK$ per share	**Share options**	Average exercise price HK$ per share	Share options
At 1 January	**4.825**	**13,500,000**	–	–
Granted	**8.600**	**4,999,500**	4.825	13,500,000
Lapsed	**4.825**	**(729,000)**	–	–
At 31 December	**5.887**	**17,770,500**	4.825	13,500,000

All outstanding options were not exercisable at 31 December 2005. No shares have been allotted and issued under the Share Option Scheme subsequent to 31 December 2005.

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

		Share options	
Expiry date	**Exercise price HK$ per share**	**31 December 2005**	31 December 2004
31 December 2008	4.825	**4,257,000**	4,500,000
31 December 2009	4.825	**4,257,000**	4,500,000
31 December 2010	4.825	**4,257,000**	4,500,000
31 December 2009	8.600	**1,666,500**	–
31 December 2010	8.600	**1,666,500**	–
31 December 2011	8.600	**1,666,500**	–
		17,770,500	13,500,000

The fair value of options granted during the years ended 31 December 2005 and 2004 was determined using the Black-Scholes Valuation model based on the following assumptions:

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

14 Reserves

	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, as previously reported	–	2,281	70,850	(35,427)	1,922	39,626
Effect of adopting HKAS 17	–	(2,281)	–	555	–	(1,726)
Effect of adopting HKAS 19	–	–	–	(1,076)	–	(1,076)
	–	–	70,850	(35,948)	1,922	36,824
Exchange differences	–	–	–	–	103	103
Issue of shares by placing and public offer (note (13(c))	21,019	–	–	–	–	21,019
Transfer to accumulated losses	–	–	(11,400)	11,400	–	–
Actuarial losses from post employment benefits recognized in reserve	–	–	–	(803)	–	(803)
Profit for the year	–	–	–	10,640	–	10,640
Dividends	–	–	–	(21,958)	–	(21,958)
At 31 December 2004	21,019	–	59,450	(36,669)	2,025	45,825
Company and subsidiaries	21,019	–	59,450	(36,669)	2,025	45,825

14 Reserves (continued)

	Group						
	Share premium US$'000	Employee share-based compensation reserve (note (b)) US$'000	Properties revaluation reserve US$'000	Merger reserve (note (a)) US$'000	Accumulated losses/ retained earnings US$'000	Exchange reserve US$'000	Total US$'000
At 1 January 2005	21,019	–	–	59,450	(36,669)	2,025	45,825
Opening adjustment for adopting HKAS 39	–	–	–	–	(118)	–	(118)
	21,019	–	–	59,450	(36,787)	2,025	45,707
Exchange differences	–	–	–	–	–	(783)	(783)
Transfer to accumulated losses/ retained earnings	–	–	–	(43,000)	43,000	–	–
Actuarial losses from post employment benefits recognized in reserve:							
– gross	–	–	–	–	(230)	–	(230)
– tax	–	–	–	–	186	–	186
Profit for the year	–	–	–	–	13,333	–	13,333
Dividends	–	–	–	–	(2,386)	–	(2,386)
Employee share option benefits	–	537	–	–	–	–	537
At 31 December 2005	21,019	537	–	16,450	17,116	1,242	56,364
Company and subsidiaries	21,019	537	–	16,450	17,116	1,242	56,364

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 financial statements and the nominal value of shares of the Company issued in exchange thereof, net of subsequent transfer to accumulated losses/retained earnings.

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

14 Reserves (continued)

	Company			
	Share premium US$'000	**Accumulated losses** US$'000	**Employee share-based compensation reserve** US$'000	**Total** US$'000
At 1 January 2004	–	–	–	–
Issue of shares (note 13(c))	21,019	–	–	21,019
Loss for the year (note 24)	–	(97)	–	(97)
At 31 December 2004	21,019	(97)	–	20,922
Profit for the year (note 24)	–	2,482	–	2,482
Dividends	–	(2,386)	–	(2,386)
Employee share option benefits	–	–	537	537
As at 31 December 2005	21,019	(1)	537	21,555

The Company did not have any reserves available for distribution to shareholders as at 31 December 2005 and 2004.

15 Bank loans and other borrowings

	Group	
	2005 **US$'000**	2004 US$'000
Non-current		
Unsecured bank loan	**30,174**	30,110
Obligations under finance leases	**42**	138
	30,216	30,248
Current		
Unsecured bank overdrafts (note 12)	**206**	1,324
Unsecured bank loans	**20,126**	13,728
Obligations under finance leases	**112**	133
	20,444	15,185
Total borrowings	**50,660**	45,433

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

15 Bank loans and other borrowings (continued)

The maturity of borrowings is as follows:

	Group			
	Bank loans and overdrafts		Obligations under finance leases	
	2005	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000
Within 1 year	**20,332**	15,052	**112**	133
Between 1 and 2 years	**30,174**	–	**40**	106
Between 2 and 5 years	**–**	30,110	**2**	32
Wholly repayable within 5 years	**50,506**	45,162	**154**	271

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

	2005							2004						
	HK$	**NTD**	**PHP**	**THB**	**MYR**	**SGD**	**US$**	HK$	NTD	PHP	THB	MYR	SGD	US$
Bank overdrafts	**7.9%**	**–**	**–**	**–**	**6.5%**	**5.3%**	**–**	5.0%	–	–	–	6.5%	5.2%	5.3%
Bank loans	**4.9%**	**2.0%**	**10.5%**	**5.3%**	**3.8%**	**4.5%**	**–**	0.9%	2.1%	12.0%	2.9%	3.5%	2.1%	–
Obligations under finance leases	**10%**	**–**	**–**	**–**	**9.9%**	**4.5%**	**–**	10%	–	–	–	9.9%	5.9%	–

The carrying amounts of borrowings approximate to their fair value.

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

	Group	
	2005	2004
	US$'000	US$'000
Hong Kong dollars	**30,234**	30,199
Taiwan dollars	**13,724**	5,537
Philippine peso	**3,301**	2,780
Thai baht	**1,537**	1,260
Malaysian ringgit	**1,427**	1,602
Singapore dollars	**437**	3,831
US dollars	**–**	224
	50,660	45,433

15 Bank loans and other borrowings (continued)

Finance lease liabilities were payable as follows:

	Group	
	2005	2004
	US$'000	US$'000
Within one year	**127**	147
In the second year	**47**	118
In the third to fifth year	**2**	39
	176	304
Future finance charges on finance leases	**(22)**	(33)
Present value of finance lease liabilities	**154**	271

16 Deferred taxation

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

Deferred tax liabilities:

	Group		
	Accelerated tax depreciation	**Others**	**Total**
	US$'000	US$'000	US$'000
At 1 January 2004, previously reported	6,195	589	6,784
Effect of adopting HKAS 17	(700)	–	(700)
At 1 January 2004, restated	5,495	589	6,084
Exchange differences	(9)	(1)	(10)
Credited to consolidated income statement	(3,516)	(18)	(3,534)
At 31 December 2004	1,970	570	2,540
Exchange differences	(22)	(7)	(29)
Charged/(credited) to consolidated income statement	180	(397)	(217)
At 31 December 2005	2,128	166	2,294

16 Deferred taxation (continued)

Deferred tax assets:

	Group			
	Tax losses US$'000	Decelerated tax depreciation US$'000	Provisions and others US$'000	Total US$'000
At 1 January 2004	(1,300)	(457)	(1,268)	(3,025)
Exchange differences	(31)	3	(18)	(46)
(Credited)/charged to consolidated income statement	(368)	286	(504)	(586)
At 31 December 2004	(1,699)	(168)	(1,790)	(3,657)
Exchange differences	18	8	8	34
Credited to consolidated income statement	(174)	(126)	(1,608)	(1,908)
Credited to equity	–	–	(186)	(186)
At 31 December 2005	(1,855)	(286)	(3,576)	(5,717)

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

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

	Group	
	2005 US$'000	2004 US$'000
Deferred tax assets	**(4,546)**	(1,951)
Deferred tax liabilities	**1,123**	834

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 2005, US$35,922,000 (2004:US$59,952,000) of the Group's unrecognized tax losses is carried forward against future taxable income; of which US$1,339,000 (2004: US$30,609,000) will expire by 2010 (2004: 2009).

16 Deferred taxation (continued)

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

	Group	
	2005	2004
	US$'000	US$'000
Deferred tax assets to be received after more than 12 months	**(4,546)**	(1,951)
Deferred tax liabilities to be settled after more than 12 months	**1,123**	834

17 Pensions and other post retirement assets/(obligations)

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Assets on:		
– surplus on pension schemes – defined benefit plans (note (a))	**546**	370
Obligations on:		
– defined contribution plan payables (note 18)	**(709)**	(644)
– deficit on pension schemes – defined benefit plans (note (b))	**(1,244)**	(1,064)
– post employment benefit liabilities (note (c))	**(1,850)**	(902)
	(3,803)	(2,610)

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

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

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

17 Pensions and other post retirement assets/(obligations) (continued)

(a) Surplus on pension schemes – defined benefit plans

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Fair value of plan assets	**3,951**	3,800
Present value of funded obligations	**(3,405)**	(3,430)
Surplus on pension schemes (note (e))	**546**	370

As at 31 December 2005, the level of funding represented 116.0% of present value of obligations.

(b) Deficit on pension schemes – defined benefit plans

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Present value of funded obligations	**(3,041)**	(2,574)
Fair value of plan assets	**1,797**	1,510
Deficit on pension schemes (note (e))	**(1,244)**	(1,064)

As at 31 December 2005, the level of funding represented 59.1% of present value of obligations.

17 Pensions and other post retirement assets/(obligations) (continued)

(c) Post employment benefit liabilities

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Present value of funded obligations	**(3,010)**	(2,462)
Unrecognized transitional liabilities (note)	**1,160**	1,560
Post employment benefit liabilities(note (e))	**(1,850)**	(902)

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

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

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Surplus on pension schemes:		
Current service cost (note i)	**204**	203
Interest cost (note ii)	**116**	145
Expected return on plan assets	**(240)**	(262)
Expense on surplus on pension schemes (note (e))	**80**	86
Deficit on pension schemes:		
Current service cost (note i)	**364**	323
Interest cost (note ii)	**114**	94
Expected return on plan assets	**(75)**	(63)
Expense on deficit on pension schemes (note (e))	**403**	354
Pension costs – defined benefit plans (note 21)	**483**	440

17 Pensions and other post retirement assets/(obligations) (continued)

(d) The amounts recognized in the consolidated income statement: (continued)

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Post employment benefit liabilities		
Current service cost (note i)	**119**	41
Interest cost (note ii)	**139**	118
Amortization of transitional liability	**396**	390
Post employment benefit costs (note (e) and note 21)	**654**	549

The actual return on plan assets was US$217,000 (2004: US$82,000).

Note i Current service cost represents the increase in the defined benefit obligations resulting from employee service in the current year,
Note ii Interest cost represents the increase in the present value of the defined benefit obligations over the relevant period of time.

(e) Movement included in the consolidated balance sheet:

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Surplus on pension schemes:		
At 1 January, previously reported	**1,520**	3,366
Effect of early adoption of HKAS 19	**(1,150)**	(599)
At 1 January, restated	**370**	2,767
Total expenses – (note (d))	**(80)**	(86)
Gain/(loss) recognized through reserves	**250**	(569)
Employer's contribution/(refunded)	**6**	(1,736)
Exchange differences	**–**	(6)
At 31 December (note (a))	**546**	370

17 Pensions and other post retirement assets/(obligations) (continued)

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

	Group	
	2005	2004
	US$'000	US$'000
		(Restated)
Deficit on pension schemes:		
At 1 January, previously reported	**(472)**	(324)
Effect of early adoption of HKAS 19	**(592)**	(477)
At 1 January, restated	**(1,064)**	(801)
Total expenses – (note (d))	**(403)**	(354)
Loss recognized through reserves	**(59)**	(140)
Employer's contribution	**277**	241
Exchange differences	**5**	(10)
At 31 December (note (b))	**(1,244)**	(1,064)
Post employment benefit liabilities:		
At 1 January, previously in trade and other payables	**(808)**	(545)
Effect of early adoption of HKAS 19	**(94)**	–
At 1 January, restated	**(902)**	(545)
Total expenses – (note (d))	**(654)**	(549)
Loss recognized through reserves	**(421)**	(94)
Benefit payment	**109**	255
Exchange differences	**18**	31
At 31 December (note (c))	**(1,850)**	(902)

17 Pensions and other post retirement assets/(obligations) (continued)

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

	2005 %	2004 %
Discount rate	**4.25-14**	3.25-10
Expected rate of future salary increases	**2.5-10**	3-8
Expected rate of return on plan assets	**6.5-12**	3.25-10

18 Trade and other payables

	Group	
	2005 **US$'000**	2004 US$'000 (Restated)
Trade payable (note (a))	**161,513**	132,308
Other payables and accruals	**55,551**	46,902
Defined contribution plan payables (note 17)	**709**	644
Due to related companies (note (b) & note 30(c))	**2,475**	1,625
	220,248	181,479
Less: non-current portion: other payables and accruals	**(2,762)**	(476)
	217,486	181,003

Notes:

(a) *The aging analysis of the Group's trade payable based on invoice date was as follows:*

	Group	
	2005 **US$'000**	2004 US$'000
Less than 90 days	**144,531**	114,418
91-180 days	**13,721**	15,969
181-360 days	**2,260**	913
Over 360 days	**1,001**	1,008
	161,513	132,308

18 Trade and other payables (continued)

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

	Group	
	2005	2004
	US$'000	US$'000
Trade (i)	**2,475**	869
Non-trade (ii)	**–**	756
	2,475	1,625

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

(ii) The balances were unsecured, interest-free and had no fixed terms of repayment. The non-trade balance at 31 December 2004 represented consideration payable for acquisition of additional interests in a subsidiary which is subsequently settled in 2005.

19 Other gains

	2005	2004
	US$'000	US$'000
		(Restated)
Gain on disposal of properties	**1,860**	860
Realized exchange gain upon settlement of long term intergroup loan	**540**	–
Service fee income	**611**	–
Other gains	**3,011**	860

20 Operating profit

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

	2005 US$'000	2004 US$'000 (Restated)
Loss on disposal of a subsidiary	–	227
Other expenses	–	227
Employee benefit expense (note 21)	**90,322**	74,376
Depreciation of		
Owned property, plant and equipment	**7,376**	6,667
Leased property, plant and equipment	**126**	114
Gain on disposal of plant and equipment	**(115)**	(299)
Operating leases		
Hire of plant and machinery	**1,071**	1,130
Buildings	**21,840**	16,123
Auditors' remuneration	**831**	646
Amortization of prepaid operating lease payment (note 7)	**15**	15
Amortization of intangible assets (note 6)	**904**	691
Provision for warranty	**352**	513
Provision/(reversal of provision) for bad and doubtful debts	**397**	(284)
Provision for obsolete inventories	**1,110**	1,073
Costs of inventories sold	**592,932**	405,002
Loss on disposal of investments	**11**	–
Losses on forward contracts not qualifying as hedges	**102**	–
Exchange gain	**(84)**	(54)
Net exchange loss/(gain)	**18**	(54)

21 Employee benefit expense

	2005 US$'000	2004 US$'000 (Restated)
Wages and salaries	**85,292**	70,798
Share option expenses	**537**	–
Pension costs – defined contribution plans	**3,356**	2,589
Pension costs – defined benefit plans (note 17(d))	**483**	440
Post employment benefits (note 17(d))	**654**	549
	90,322	74,376

(a) Directors' and senior management's emoluments

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

Name of Director	Fees US$'000	Salary US$'000	Discretionary bonuses US$'000	Other benefits (note) US$'000	Employer's contribution to pension scheme US$'000	Total payable US$'000	Share-based compensation US$'000	Total payable and charged in the accounts US$'000
Victor FUNG Kwok King	13	–	–	–	–	13	–	13
Benedict CHANG Yew Teck	10	346	50	206	2	614	99	713
Joseph Chua PHI	10	277	236	132	2	657	50	707
Rajesh Vardichand RANAVAT	10	248	195	94	2	549	45	594
William FUNG Kwok Lun	10	–	–	–	–	10	–	10
Jeremy Paul Egerton HOBBINS	13	–	–	–	–	13	–	13
LAU Butt Farn	14	–	–	–	–	14	–	14
Derrick LEE Meow Chan	10	–	–	–	–	10	–	10
John Estmond STRICKLAND	14	–	–	–	–	14	–	14
William Winship FLANZ	15	–	–	–	–	15	–	15
FU Yu Ning	17	–	–	–	–	17	–	17
LEE Hau Leung	17	–	–	–	–	17	–	17
	153	871	481	432	6	1,943	194	2,137

21 Employee benefit expense (continued)

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

The remuneration of each director for the year ended 31 December 2004 is set out below:

Name of Director	Fees US$'000	Salary US$'000	Discretionary bonuses US$'000	Other benefits (note) US$'000	Employer's contribution to pension scheme US$'000	Total payable US$'000	Share-based compensation US$'000	Total payable and charged in the accounts US$'000
Victor FUNG Kwok King	4	–	–	–	–	4	–	4
Benedict CHANG Yew Teck	4	280	239	151	1	675	–	675
Joseph Chua PHI	4	262	114	120	1	501	–	501
Rajesh Vardichand RANAVAT	4	265	83	55	2	409	–	409
William FUNG Kwok Lun	4	–	–	–	–	4	–	4
Jeremy Paul Egerton HOBBINS	4	–	–	–	–	4	–	4
LAU Butt Farn	4	–	–	–	–	4	–	4
Derrick LEE Meow Chan	4	–	–	–	–	4	–	4
John Estmond STRICKLAND	2	–	–	–	–	2	–	2
William Winship FLANZ	5	–	–	–	–	5	–	5
FU Yu Ning	3	–	–	–	–	3	–	3
LEE Hau Leung	3	–	–	–	–	3	–	3
	45	807	436	326	4	1,618	–	1,618

Note:

Other benefits include housing and other allowances.

21 Employee benefit expense (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include the three directors (2004: three) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individuals whose emoluments were the highest in the Group for the year are as follows:

	2005	2004
	US$'000	US$'000
Basic salaries and other benefits	**595**	544
Share options expenses	**49**	–
Bonuses	**135**	84
Pensions	**3**	3
	782	631

The emoluments fell within the following bands:

	Number of employees	
	2005	2004
Emolument bands		
US$260,001 – US$325,000 (HK$2,000,001 – HK$2,500,000)	**–**	1
US$325,001 – US$390,000 (HK$2,500,001 – HK$3,000,000)	**2**	1
	2	2

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

22 Finance costs, net

	2005	2004
	US$'000	US$'000
Interest expense on bank loans and overdrafts	**2,784**	2,229
Interest expense of finance leases	**8**	14
Interest expense on balances with related companies	**–**	185
	2,792	2,428
Interest income from bank deposits	**(1,936)**	(1,336)
Interest income from related parties	**–**	(405)
	856	687

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

23 Taxation

Hong Kong profits tax has not been provided as the Group has no assessable profit in Hong Kong for the years ended 2005 and 2004. 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 income statement for the year represents:

	2005	2004
	US$'000	US$'000
		(Restated)
Current taxation:		
– Overseas	**5,953**	5,216
Deferred taxation (note 16)	**(2,125)**	(4,120)
Taxation charges	**3,828**	1,096

23 Taxation (continued)

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

	2005 US$'000	2004 US$'000 (Restated)
Profit before taxation	**18,107**	12,659
Tax calculated at the domestic rates applicable to profits in the countries concerned	**5,007**	3,396
Expenses not deductible for taxation purposes	**910**	630
Eliminated income subject to tax	**124**	615
Income not subject to taxation	**(239)**	(148)
Increase in unrecognized tax losses	**455**	595
Decrease in unrecognized temporary differences	**(497)**	(200)
Utilization of previously unrecognized:		
– tax losses	**(1,081)**	(929)
– capital and reinvestment allowance	**(13)**	(785)
Recognition of previously unrecognized tax losses	**(1,097)**	(818)
Recognition of previously unrecognized deferred tax assets	**(293)**	–
Under/(over) provision in prior years	**473**	(122)
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)
Others	**79**	–
Taxation charge	**3,828**	1,096

The weighted average applicable tax rate was 28% (2004: 27%). The increase is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

24 Profit attributable to shareholders

The profit attributable to shareholders included a profit of US$2,482,000 (2004: loss of US$97,000) which is dealt with in the financial statements of the Company.

25 Earnings per share

Basic

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

	2005	2004
Profit attributable to shareholders of the Company (US$'000)	**13,333**	10,640
Weighted average number of ordinary shares in issue (thousands) (note)	**309,000**	244,488
Basic earnings per share (US$ cents per share)	**4.31**	4.35

Diluted

The diluted earnings per share is based on the weighted average number of 309,000,000 (2004: 244,488,000) shares in issue during the year plus the weighted average number of 3,060,000 (2004: Nil) shares deemed to have been issued at no consideration if all outstanding options had been exercised.

	2005	2004
Profit attributable to shareholders of the Company (US$'000)	**13,333**	10,640
Weighted average number of ordinary shares in issue (thousands) (note)	**309,000**	244,488
Effect on dilution of share options (thousands)	**3,060**	–
Adjusted weighted average number of ordinary shares (thousands)	**312,060**	244,488
Diluted earnings per share (US$ cents per share)	**4.27**	4.35

Note:

In determining the weighted average number of ordinary shares deemed to be in issue during 2004, a total of 239,880,000 ordinary shares were deemed to be in issue since 1 January 2004 after taking into consideration the effect of the Reorganization.

26 Dividends

	2005 US$'000	2004 US$'000
Interim, paid before the Reorganization (note)	–	10,558
Special, paid before the Reorganization (note)	–	11,400
Interim dividend paid of HK6.00cents (equivalent to US0.77cent)(2004:N/A)per share	**2,386**	–
Proposed dividend after balance sheet date of HK14.00 cents (equivalent to US1.8 cents) (2004:Nil) per share	**5,575**	–
	7,961	21,958

At a meeting held on 20 April 2006, the Directors proposed a final dividend of HK14 cents (equivalent to US1.8 cents) per share. The proposed dividends are not reflected as dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

Note The amounts represented dividends paid by the subsidiaries to their then shareholders before the Reorganization. The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful.

27 Notes to the consolidated cash flow statements

(a) Cash generated from operations:

	2005 US$'000	2004 US$'000 (Restated)
Operating profit	**18,963**	13,321
Amortization of intangible assets	**904**	691
Depreciation charge	**7,502**	6,781
Amortization of prepaid operating lease payment	**15**	15
Loss on disposal of long-term investments	**11**	–
Loss on disposal of a subsidiary	–	227
Gain on disposal of property, plant and equipment	**(1,975)**	(1,159)
Share option expenses	**537**	–
Dividends received from unlisted investments	–	(27)
Operating profit before working capital changes	**25,957**	19,849
Increase in inventories	**(13,449)**	(21,222)
Increase in trade and other receivables and surplus on pension schemes	**(34,129)**	(17,609)
Increase in trade and other payables, deficit on pension schemes and post employment benefit liabilities	**41,415**	39,746
Opening adjustment for HKAS 39	**(118)**	–
Net cash inflow generated from operations	**19,676**	20,764

27 Notes to the consolidated cash flow statements (continued)

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

	Share capital US$'000	Share premium US$'000	Bank loans US$'000	Minority interest US$'000	Obligations under finance leases US$'000
At 1 January 2004	24,000	–	42,459	4,160	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 interest's share of profits	–	–	–	923	–
Exchange differences	–	–	509	63	–
Acquisition of additional interest in a subsidiary	–	–	–	(750)	–
At 31 December 2004	30,900	21,019	43,838	4,371	271
At 1 January 2005	**30,900**	**21,019**	**43,838**	**4,371**	**271**
Cash inflow from bank loans	**–**	**–**	**14,080**	**–**	**–**
Cash outflow from bank loans and finance lease	**–**	**–**	**(7,559)**	**–**	**(138)**
Dividends paid to minority shareholders in subsidiaries	**–**	**–**	**–**	**(233)**	**–**
Non-cash movements:					
Inception of finance lease	**–**	**–**	**–**	**–**	**21**
Minority interest's share of profits	**–**	**–**	**–**	**946**	**–**
Exchange differences	**–**	**–**	**(59)**	**(26)**	**–**
At 31 December 2005	**30,900**	**21,019**	**50,300**	**5,058**	**154**

27 Notes to the consolidated cash flow statements (continued)

(c) Disposal of interest in a subsidiary

	2005 US$'000	2004 US$'000
Net assets of a subsidiary disposed of:		
Trade and other receivables	–	9
Bank balances and cash	–	396
Taxation payable	–	(131)
Other payables	–	(21)
	–	253
Loss on disposal of interest in a subsidiary	–	(227)
	–	26
Satisfied by cash	–	26
Analysis of the net outflow in respect of disposal of interest in a subsidiary:		
Sales proceeds	–	26
Bank balances and cash disposed of	–	(396)
Net cash outflow in respect of the disposal of interest in a subsidiary	–	(370)

No disposal of subsidiaries during 2005.

27 Notes to the consolidated cash flow statements (continued)

(d) Acquisition of a subsidiary

	2005 US$'000	2004 US$'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 interest in 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 acquisitions of a subsidiary:		
Cash consideration	–	(5,107)
Bank balances and cash acquired	–	4,128
Net cash outflow in respect of acquisition of a subsidiary	–	(979)

No acquisition of subsidiary was made 2005.

(e) Included in the bank balances and cash of the Group as at 31 December 2005, US$15,885,000 (2004: US$11,670,000) were denominated in Renminbi, of which the remittance is subject to foreign exchange control.

28 Contingent liabilities

Bank guarantees

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

	Group	
	2005	2004
	US$'000	US$'000
As security in favor of local tax and customs authorities in accordance with local regulations	**9,032**	9,201
For purchase of goods in favor of suppliers	**9,145**	7,756
Performance bonds and others	**566**	155
For rental payment in favor of the landlords	**4,665**	3,456
	23,408	20,568

The Company has corporate guarantee in respect of banking facilities granted to subsidiaries amounted to US$40,000,000 at 31 December 2005 (2004: Nil).

29 Commitments

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

	Group	
	2005	2004
	US$'000	US$'000
Property, plant and equipment	**150**	3,637

(b) Commitments under operating leases

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

	Group			
	Buildings		Other	
	2005	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000
Not later than one year	**16,650**	13,807	**516**	567
Later than one year and not later than five years	**49,575**	40,998	**451**	732
Later than five years	**76,246**	70,088	**–**	75
	142,471	124,893	**967**	1,374

The Company did not have any commitments at 31 December 2005 (2004: Nil).

30 Significant related party transactions

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

(a) The significant transactions carried out with the related parties:

	Note	Group 2005 US$'000	Group 2004 US$'000
Continuing transactions with fellow subsidiaries and related companies			
– Sale of goods and materials	(i)	**937**	1,205
– Revenue from rendering of logistic services	(i)	**3,071**	5,442
– Service fee income	(ii)	**611**	–
– Rental recharge to	(iii)	**1,331**	899
– Rental expense	(iii)	**2,832**	2,460
Non-recurring transactions with fellow subsidiaries			
– Purchase of goods and materials	(i)	**1,097**	10,434
– Rental expense	(iii)	**–**	653
– Administrative overhead recharge to	(iv)	**–**	947
– Transfer of fixed assets from	(v)	**248**	970
– Transfer of fixed assets to	(v)	**–**	982
– Sales of land and buildings	(vi)	**–**	5,384
– Purchase of investments	(vii)	**–**	750
– Selling expenses recharge to	(iv)	**–**	1,065

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

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

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

(iv) Administrative overhead recharge and selling expenses recharge were charged on actual cost recovery basis.

(v) Fixed assets were transferred at a value by reference to independent valuer (2004: at net book value).

(vi) Land and buildings were sold at a value by reference to independent valuer.

(vii) Other investments were 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.

30 Significant related party transactions (continued)

(b) Key management compensation

	2005 US$'000	2004 US$'000
Salaries and other short-term employee benefits	**1,937**	1,614
Share-based compensation	**194**	–
Post employment benefits	**6**	4
	2,137	1,618

(c) Year-end balances with related parties

	Note	2005 US$'000	2004 US$'000
Due from related companies			
– an immediate holding company	(i)	**–**	1,118
– fellow subsidiaries	(ii)	**1,299**	1,995
		1,299	3,113
Due to related companies			
– fellow subsidiaries	(iii)	**2,475**	1,625

(i) The previous year balance related to recharge of expense for global offering. The balances were unsecured, interest-free and had no fixed terms of repayment. They were all settled in 2005.

(ii) The balances arose from sales/services/recharge of administrative and rental expense. They were unsecured, interest-free and with terms of repayment according to the credit terms granted.

(iii) The balances arose from purchase/rental expenses/recharge of administrative expense and acquisition of additional interest in a subsidiary amounted to US$2,475,000 (2004: US$869,000) and Nil (2004: US$756,000) respectively. They were unsecured, interest-free and with terms of repayment according to the credit terms granted or the respective sales and purchase agreement.

31 Principal subsidiaries

As at 31 December 2005, the Company held interests in the following principal subsidiaries.

Name	Place of Incorporation	Principal activities	Place of operation	Particulars of issued/ paid up share capital	Interest held
Directly held:					
IDS Group Limited	British Virgin Islands ("BVI")	Investment holding	Hong Kong	949,165 ordinary shares of US$1 each	100%
Indirectly held:					
IDS Logistics (Hong Kong) Limited	Hong Kong	Provision of logistics services	Hong Kong	10,000 ordinary shares of HK$1 each	100%
IDS Logistics (Taiwan) Limited	Hong Kong	Provision of logistics and packaging services	Taiwan	2 ordinary shares of HK$100 each	100%
IDS (Hong Kong) Limited	Hong Kong	Marketing and distribution of consumer and pharmaceutical products	Hong Kong	14,600,000 ordinary shares of HK$10 each	100%
IDS Services (Malaysia) Sdn. Bhd.	Malaysia	Marketing and distribution of consumer , pharmaceutical and medical equipment products	Malaysia	14,231,002 ordinary shares of RM1 each	100%
IDS Manufacturing Sdn. Bhd.	Malaysia	Manufacturing of pharmaceutical, foods and toiletries products	Malaysia	33,000,000 ordinary shares of RM1 each	100%
IDS Logistics Services (M) Sdn. Bhd.	Malaysia	Provision of logistics services	Malaysia	2,000,000 ordinary shares of RM1 each	100%

31 Principal subsidiaries (continued)

Indirectly held: (continued)

Name	Place of Incorporation	Principal activities	Place of operation	Particulars of issued/ paid up share capital	Interest held
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%
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%
IDS Marketing (Philippines), Inc.	Philippines	Marketing and distribution of consumer products	Philippines	110,000 shares of Pesos100 each	100%
Shanghai IDS Shen Hong Logistics Co., Ltd. 上海英和申宏商業服務有限公司* (note (a))	PRC	Provision of logistics services	PRC	US$5,000,000	80%
Nanjing IDS Marketing Company Limited 南京利豐英和商貿有限公司* (note (b))	PRC	Import/export and marketing of general merchandise	PRC	US$10,000,000	100%
IDS Logistics Services Pte. Ltd.	Singapore	Provision of logistics services	Singapore	28,296,962 ordinary shares of S$1 each	100%
IDS Marketing (Singapore) Pte. Ltd.	Singapore	Marketing and distribution of healthcare products	Singapore	300,000 ordinary shares of S$1 each 60,000 preference shares of S$1 each	100%

31 Principal subsidiaries (continued)

Indirectly held: (continued)

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 Baht250 each	100%
IDS Marketing (Thailand) Limited	Thailand	Marketing and distribution of consumer and pharmaceutical products	Thailand	160,000 ordinary shares of Baht100 each 55,000 preference shares of Baht100 each	100%
IDS Manufacturing Limited (formerly known as LFD Manufacturing Limited)	Thailand	Manufacturing of household, pharmaceutical and personal care products	Thailand	4,695,000 ordinary shares of Baht100 each	100%

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

* *The legal name of the company is in Chinese.*

Notes:

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

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