

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

1. Group reorganisation and basis of presentation

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

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

The Reorganisation is accounted for using the merger accounting as permitted by the Statement of Standard Accounting Practice ("SSAP") Number 27 "Accounting for group reconstructions" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated interim accounts of the Group for the six months ended 30 June 2004, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

The unaudited condensed consolidated interim accounts have been prepared in accordance with SSAP Number 25 "Interim financial reporting", issued by the HKICPA. The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the preparation of the Accountants' Report as set out in Appendix I of the Prospectus.

2. Principal accounting policies

The unaudited condensed consolidated interim accounts have been prepared under the historical cost convention.

The basis of preparation and the principal accounting policies adopted are consistent with those followed in the preparation of the Company's Accountants' Report as set out in Appendix I to the Prospectus.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

3. Turnover, revenues and segment information

- (a) The Group is principally engaged in the manufacturing and trading of garment and textile products and the provision of freight forwarding and logistic service. Revenues recognised during the period are as follows:

	Six months ended	
	30 June	
	2004	2003
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Turnover –		
Sales of garment and textile products		
– third parties	263,595	280,980
– a jointly controlled entity (<i>Note 19</i>)	626	–
Provision for freight forwarding and logistic services		
– third parties	5,724	14,550
– related companies (<i>Note 19</i>)	129	1,080
Provision for system consultancy services	295	178
	270,369	296,788
Other revenues –		
Interest income on bank deposits	64	55
Management fee income from		
– an associate (<i>Note 19</i>)	72	72
– a third party	117	171
Rental income from		
– related companies (<i>Note 19</i>)	99	55
– a third party	4	–
Commission income from		
– a related company and an associate (<i>Note 19</i>)	515	376
– a third party	21	38
	892	767
Total revenues	271,261	297,555

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS

(Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

3. Turnover, revenues and segment information (Continued)

(b) Primary reporting segment – business segment

	Six months ended 30 June 2004				Group total US\$'000 (Unaudited)
	Garment US\$'000 (Unaudited)	Freight forwarding/ logistics services US\$'000 (Unaudited)	System consultancy US\$'000 (Unaudited)	Elimination US\$'000 (Unaudited)	
Segment revenues					
External revenue	264,221	5,853	295	-	270,369
Inter segment revenue	-	3,073	819	(3,892)	-
	<u>264,221</u>	<u>8,926</u>	<u>1,114</u>	<u>(3,892)</u>	<u>270,369</u>
Segment results	<u>15,337</u>	<u>2,482</u>	<u>62</u>	<u>-</u>	<u>17,881</u>
Finance costs					(428)
Share of profits less losses of associated companies					343
Share of profits less losses of jointly controlled entities					(271)
Profit before taxation					17,525
Taxation					(4,398)
Profit after taxation					13,127
Minority interests					(7)
Profit attributable to shareholders					<u>13,120</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

3. Turnover, revenues and segment information (Continued)

(b) Primary reporting segment – business segment (Continued)

	Six months ended 30 June 2003				Group total US\$ '000 (Unaudited)
	Garment US\$ '000 (Unaudited)	Freight forwarding/ logistics services US\$ '000 (Unaudited)	System consultancy US\$ '000 (Unaudited)	Elimination US\$ '000 (Unaudited)	
Segment revenues					
External revenue	280,980	15,630	178	–	296,788
Inter segment revenue	–	2,583	976	(3,559)	–
	<u>280,980</u>	<u>18,213</u>	<u>1,154</u>	<u>(3,559)</u>	<u>296,788</u>
Segment results	<u>18,804</u>	<u>1,420</u>	<u>(703)</u>	<u>–</u>	19,521
Finance costs					(733)
Share of profits less losses of associated companies					377
Share of profits less losses of jointly controlled entities					<u>86</u>
Profit before taxation					19,251
Taxation					<u>(5,548)</u>
Profit after taxation					13,703
Minority interests					<u>(37)</u>
Profit attributable to shareholders					<u>13,666</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS

(Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004**3. Turnover, revenues and segment information** (Continued)

(c) Secondary reporting segment – geographical segment

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

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

	Six months ended	
	30 June	
	2004	2003
	US\$ '000	US\$ '000
	(Unaudited)	(Unaudited)
The United States	200,158	226,619
Europe	20,452	10,183
Commonwealth of Northern Mariana Islands	2,461	11,943
Japan	24,748	14,446
Canada	2,357	1,628
Hong Kong	1,963	1,740
Korea	2,274	2,389
The Philippines	855	811
Australia	888	682
Mexico	645	354
Cambodia	130	145
Others	13,438	25,848
	270,369	296,788

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

4. Discontinuing operations

In May 2004, the Group disposed of its entire interest in certain subsidiaries engaged in garment manufacturing in Mexico (the "Mexican Operations") and system consultancy operations (the "System Consultancy Operations") to its then shareholders by way of a distribution in specie. In addition, as part of the Group's restructuring, the Group also transferred its entire interest in Aero Micronesia, Inc. (the "Aircargo Operations") to THC Communications Corporation, a related company, in December 2003 at a consideration of US\$925,000, which resulted in a loss of approximately US\$94,000. The results of these subsidiaries were presented as discontinuing operations. The turnover and results of the above discontinuing operations for the six months ended 30 June 2004 are as follows:

	Mexican Operations		System Consultancy Operations		Aircargo Operations		Total	
	Six months ended 30 June 2004		Six months ended 30 June 2004		Six months ended 30 June 2004		Six months ended 30 June 2004	
	2003	2004	2003	2004	2003	2004	2003	2004
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	13,911	4,196	1,154	1,114	-	10,961	26,026	5,310
Cost of sales	(12,050)	(5,195)	(38)	(77)	-	-	(12,088)	(5,272)
Gross (loss)/profit	1,861	(999)	1,116	1,037	-	10,961	13,938	38
Selling and distribution expenses	(19)	(11)	-	-	-	-	(19)	(11)
General and administrative expenses	(967)	(1,367)	(1,745)	(980)	-	(10,428)	(13,140)	(2,347)
Other income/(expenses), net	1	(23)	(74)	5	-	83	10	(18)
Operating (loss)/profit	876	(2,400)	(703)	62	-	616	789	(2,338)
Finance costs	(89)	(42)	-	-	-	(186)	(275)	(42)
(Loss)/profit before taxation	787	(2,442)	(703)	62	-	430	514	(2,380)
Taxation	-	-	-	-	-	-	-	-
(Loss)/Profit after taxation	787	(2,442)	(703)	62	-	430	514	(2,380)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS

(Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

5. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended	
	30 June	
	2004	2003
	US\$ '000	US\$ '000
	(Unaudited)	(Unaudited)
Crediting		
Exchange gains, net	2,272	1,738
Gain on disposal of fixed assets, net	283	–
Write-back of provision regarding a class action lawsuit	–	2,772
	<u> </u>	<u> </u>
Charging		
Amortisation of goodwill	203	174
Depreciation of fixed assets	4,337	6,695
Loss on disposal of fixed assets, net	–	136
Provision for impairment in value of long-term investments	18	–
Staff costs	55,998	59,434
	<u> </u>	<u> </u>

6. Finance costs

	Six months ended	
	30 June	
	2004	2003
	US\$ '000	US\$ '000
	(Unaudited)	(Unaudited)
Interest expense on bank loans and overdrafts	428	733
	<u> </u>	<u> </u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS
(Continued)
FOR THE SIX MONTHS ENDED 30 JUNE 2004

7. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the six months ended 30 June 2004 (2003: 17.5%). Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the unaudited condensed consolidated profit and loss account represents:

	Six months ended	
	30 June	
	2004	2003
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Current taxation:		
– Hong Kong profits tax	610	92
– Overseas taxation	3,784	5,451
	4,394	5,543
Share of taxation attributable to jointly controlled entities	4	5
Taxation charge	4,398	5,548

8. Dividends

No dividend has been paid or declared by the Company since its incorporation.

During the six months ended 30 June 2004 and prior to the completion of the Reorganisation (see Note 1), certain wholly-owned subsidiaries of the Company declared dividends of approximately US\$7.4 million to their then shareholders. As part of the Reorganisation, such amounts were capitalised by the then shareholders.

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

9. Earnings per share

The basic earnings per share is calculated based on the Group's profit attributable to shareholders of approximately US\$13,120,000 (2003: US\$13,666,000) and weighted average number of 674,999,075 (2003: 674,999,000) ordinary shares deemed to be in issue during the period as if the share capital of the Company outstanding immediately after the share exchange in connection with the Reorganisation (see Note 1) and the related subsequent capitalisation issue as described in Note 16(e) had been in existence throughout the period.

Diluted earnings per share is not presented as the Company has no dilutive potential ordinary shares as at 30 June 2004 and 2003.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS

(Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

10. Fixed assets

Movements of fixed assets were:

	As at 30 June 2004 US\$ '000 (Unaudited)	As at 31 December 2003 US\$ '000 (Audited)
Cost –		
At beginning of period/year	108,623	109,670
Acquisition of a subsidiary	245	–
Disposal of subsidiaries by way of distribution in specie	(6,585)	–
Additions	10,644	15,130
Disposals	(604)	(16,252)
Exchange differences	(2)	75
	<u>112,321</u>	<u>108,623</u>
At end of period/year	<u>112,321</u>	<u>108,623</u>
Accumulated depreciation –		
At beginning of period/year	(49,637)	(47,426)
Disposal of subsidiaries by way of distribution in specie	2,925	–
Additions	(4,337)	(10,204)
Disposals	311	8,012
Exchange differences	32	(19)
	<u>(50,706)</u>	<u>(49,637)</u>
At end of period/year	<u>(50,706)</u>	<u>(49,637)</u>
Net book value –		
At end of period/year	<u>61,615</u>	<u>58,986</u>
At beginning of period/year	<u>58,986</u>	<u>62,244</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS
(Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

11. Goodwill

	As at 30 June 2004 US\$'000 (Unaudited)	As at 31 December 2003 US\$'000 (Audited)
Cost –		
At beginning of period/year	3,765	3,765
Acquisition of a subsidiary	1,698	–
Disposal of subsidiaries by way of distribution in specie	(374)	–
	<u>5,089</u>	<u>3,765</u>
At end of period/year	<u>5,089</u>	<u>3,765</u>
Accumulated amortisation –		
At beginning of period/year	(1,036)	(687)
Amortisation charge	(203)	(349)
Disposal of subsidiaries by way of distribution in specie	374	–
	<u>(865)</u>	<u>(1,036)</u>
At end of period/year	<u>(865)</u>	<u>(1,036)</u>
Net book value –		
At end of period/year	<u>4,224</u>	<u>2,729</u>
At beginning of period/year	<u>2,729</u>	<u>3,078</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS

(Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004**12. Trade receivables**

The Group normally granted credit terms to its customers ranging from 30 to 60 days.

The ageing analysis of the trade receivables is as follows:

	As at 30 June 2004 US\$ '000 (Unaudited)	As at 31 December 2003 US\$ '000 (Audited)
Current	36,058	29,296
0 to 30 days	13,949	16,344
31 to 60 days	8,443	7,736
61 to 90 days	2,497	1,550
Over 91 days	5,371	3,682
	66,318	58,608

13. Trade and bills payables

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

	As at 30 June 2004 US\$ '000 (Unaudited)	As at 31 December 2003 US\$ '000 (Audited)
Current	15,060	19,516
0 to 30 days	3,235	5,869
31 to 60 days	272	1,371
61 to 90 days	74	1,300
Over 91 days	2,156	2,968
	20,797	31,024

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS
(Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

14. Bank loans

	As at 30 June 2004 US\$'000 (Unaudited)	As at 31 December 2003 US\$'000 (Audited)
Bank loans	69,400	5,500
Current portion of long-term bank loans	(1,600)	(1,800)
	<u>67,800</u>	<u>3,700</u>

As at 30 June 2004, the Group's bank loans are secured by:

- (a) personal guarantees provided by certain Tan's Family members (see Note 19);
- (b) corporate guarantees provided by Luen Thai Holding Company Limited and Tan Holdings Corporation, companies beneficially owned by the Tan's Family (see Note 19); and
- (c) corporate guarantee provided by the Company.

The banks have agreed in principle that the guarantees mentioned in (a) and (b) above be released and replaced by a corporate guarantee to be issued by the Company upon the listing of the Company's shares on the Stock Exchange.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS

(Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

14. Bank loans (Continued)

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

	As at 30 June 2004 US\$ '000 (Unaudited)	As at 31 December 2003 US\$ '000 (Audited)
Within one year	1,600	1,800
In the second year	66,600	1,700
In the third to fifth years	1,200	2,000
	69,400	5,500

15. Short-term bank loans and overdrafts

	As at 30 June 2004 US\$ '000 (Unaudited)	As at 31 December 2003 US\$ '000 (Audited)
Short-term bank loans	258	2,322
Trust receipts bank loans	21,742	15,784
Bank overdrafts	14,882	10,031
	36,882	28,137

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS
(Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

16. Share capital

	Number of shares	Nominal value <i>US\$'000</i>
Authorised – ordinary shares of US\$0.01 each		
Upon incorporation (a)	50,000	50
Increase in authorised share capital (a)	14,950,000	14,950
Share subdivision (b)	<u>1,485,000,000</u>	<u>–</u>
At 30 June 2004	<u><u>1,500,000,000</u></u>	<u><u>15,000</u></u>
Issued and fully paid – ordinary shares of US\$0.01 each		
Upon incorporation (a & c)	1	–
Share subdivision (b)	99	–
Issuance of shares (c)	<u>900</u>	<u>–</u>
At 30 June 2004	<u><u>1,000</u></u>	<u><u>–</u></u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS

(Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004**16. Share capital** (Continued)*Note:*

- (a) The Company was incorporated on 15 March 2004 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On 31 May 2004, the authorised share capital was increased to US\$15,000,000 divided into 15,000,000 shares of US\$1 each, by the creation of 14,950,000 shares of US\$1 each.
- (b) On 31 May 2004, each ordinary share of US\$1 each was sub-divided into 100 shares of par value US\$0.01 each.
- (c) Upon incorporation, one share of US\$1 was allotted and issued at par as nil paid. Pursuant to the Reorganisation referred to in Note 1, on 27 June 2004, 900 shares of US\$0.01 each were allotted, issued and credited as fully paid at par.
- (d) On 15 July 2004, the Company issued 225,000,000 shares of US\$0.01 each at approximately HK\$2.975 (equivalent of US\$0.38) per share in connection with the listing of the Company's shares on the Stock Exchange (the "Listing"), and raised net proceeds of approximately HK\$624.25 million (equivalent of approximately US\$80.55 million).
- (e) Immediately after the Listing, 674,999,000 shares were allotted and issued, credited as fully paid at par value of US\$0.01 each to the then existing shareholders of the Company in proportion to their respective shareholding, by the capitalisation of US\$6,479,990 from the share premium account. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued in connection with the Listing as described in (d) above.
- (f) In addition, on 4 August 2004, the Company issued 2,300,000 additional shares at approximately HK\$2.975 (equivalent of US\$0.38) per share pursuant to the exercise of over allotment option under the global offering of the Company's shares, and raised net proceeds of approximately HK\$6.67 million (equivalent of approximately US\$0.86 million).
- (g) The share capital presented in the condensed consolidated balance sheet as at 31 December 2003 represents the share capital of the Company, arising on incorporation, from the share exchange transaction described in Note 1 above, which is deemed to have been in issue throughout the accounting periods presented in these interim accounts in accordance with the basis of preparation referred to in Note 1. The difference between the nominal value of these shares and the aggregate of the nominal value of shares of the subsidiaries acquired pursuant to the Reorganisation is accounted for as merger reserve as at 31 December 2003.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

17. Reserves

	Share capital	Merger Reserve (a)	Retained earnings	Share Issuance costs	Exchange reserve	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
As at 1 January 2003	-	4,322	73,727	-	(3,968)	74,081
Exchange differences arising on translation of foreign subsidiaries	-	-	-	-	150	150
Profit attributable to shareholders	-	-	13,666	-	-	13,666
As at 30 June 2003	<u>-</u>	<u>4,322</u>	<u>87,393</u>	<u>-</u>	<u>(3,818)</u>	<u>87,897</u>
As at 1 January 2004	-	4,322	55,438	-	(4,101)	55,659
Exchange differences arising on translation of foreign subsidiaries	-	-	-	-	348	348
Dividends	-	-	(7,400)	-	-	(7,400)
Disposal of subsidiaries by way of distribution in specie (note b)	-	-	7,007	-	-	7,007
Reserve from the Reorganisation	-	7,400	-	-	-	7,400
Share issuance costs	-	-	-	(3,502)	-	(3,502)
Profit attributable to shareholders	-	-	13,120	-	-	13,120
As at 30 June 2004	<u>-</u>	<u>11,722</u>	<u>68,165</u>	<u>(3,502)</u>	<u>(3,753)</u>	<u>72,632</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS

(Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004**17. Reserves** (Continued)

Note –

- (a) The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Reorganisation and the nominal value of the Company's shares issued in exchange thereof. For 2003 comparatives, please see Note 16(g).
- (b) As detailed in Note 4 and as part of the Reorganisation, the Group disposed of its entire interest in the Mexican Operations and the System Consultancy Operations to its then shareholders by way of distribution in specie in May 2004. At the date of the distribution, the Mexican Operations and the System Consultancy Operations were in net deficit position. As a result, an amount of approximately US\$7 million resulting from such distribution in specie was transferred to retained earnings.

18. Commitments

- (a) Capital commitments for fixed assets:

	As at 30 June 2004 US\$'000 (Unaudited)	As at 31 December 2003 US\$'000 (Audited)
Contracted but not provided for	8,083	1,550
Authorised but not contracted for	–	1,088
	8,083	2,638

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

18. Commitments (Continued)

(b) Commitments under operating leases

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

	As at 30 June 2004 US\$'000 (Unaudited)	As at 31 December 2003 US\$'000 (Audited)
Land and buildings		
– Not later than one year	2,286	1,945
– Later than one year and not later than five years	5,331	4,512
– Later than five years	7,005	4,554
	14,622	11,011
Facilities and equipment		
– Not later than one year	48	298
– Later than one year and not later than five years	23	613
	71	911

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

18. Commitments (Continued)

(c) Foreign currency forward contracts

	As at	As at
	30 June	31 December
	2004	2003
	US\$ '000	US\$ '000
	(Unaudited)	(Audited)
Commitment to sell £4,000,000	7,108	–

19. Related party transactions

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

Mr. Tan Siu Lin, Mr. Tan Henry, Mr. Tan Willie and Mr. Tan Cho Lung, Raymond, directors of the Company, together with their close family members are collectively referred to as the Tan's Family.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

19. Related party transactions (Continued)

(a) Transactions with related parties

During the six months ended 30 June 2004, the Group had the following significant transactions with related companies, associates and jointly controlled entities which were carried out in the normal course of the Group's business. The following related companies are beneficially owned by the Tan's Family.

	Six months ended	
	30 June	
	2004	2003
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Revenue –		
Revenue from related companies		
– Commission income	42	18
– Freight forwarding and logistic service income	129	1,080
– Rental income	99	55
Revenue from a jointly controlled entity		
– Sales to a jointly controlled entity	626	–
Revenue from associates		
– Commission income	473	358
– Management fee income	72	72
	—————	—————

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS

(Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004**19. Related party transactions** (Continued)

	Six months ended	
	30 June	
	2004	2003
	US\$ '000	US\$ '000
	(Unaudited)	(Unaudited)
Expenses paid/payable to related companies –		
Manpower human resources service fees	4,874	4,931
Rental expenses	567	559
Administrative expenses	48	61
Food supplies expenses	246	228
Packaging expenses	825	857
Insurance expenses	462	542
Travelling expenses	402	338
Technological support service fees	526	61
Repair and maintenance expenses	151	175
Subcontracting fee to jointly controlled entities	889	875

In the opinion of the Directors of the Company, the above related party transactions are carried out in the ordinary course of business and in accordance with the terms mutually agreed by the respective parties.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

19. Related party transactions (Continued)

(b) Balances with related parties

As at 30 June 2004, the Group had the following significant balances with related companies which are beneficially owned by the Tan's Family, and certain jointly controlled entities:

	As at 30 June 2004 US\$'000 (Unaudited)	As at 31 December 2003 US\$'000 (Audited)
Due from a related company (i)	1,609	5,817
Due from jointly controlled entities (i)	1,441	–
Due to related companies (i)	3,206	27,038
Due to jointly controlled entities (i)	299	–
Long-term loans from related companies (ii)	–	43,029

Note–

(i) All the amounts due from/(to) related companies and jointly controlled entities were unsecured, non-interest bearing and had no fixed repayment dates.

(ii) The long-term loans from related companies were unsecured, non-interest bearing and all have been settled as at 30 June 2004.

(c) As at 30 June 2004, certain banking facilities of the Group were guaranteed by the corporate guarantees given by Tan Holdings Corporation and Luen Thai Holding Company Limited, companies beneficially owned by the Tan's Family, and personal guarantees given by certain Tan's Family members. The creditor banks have agreed in principle that the guarantees above be released and replaced by a corporate guarantee to be issued by the Company upon the listing of the Company's shares on the Stock Exchange.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS

(Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

20. Contingent liabilities and litigations

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

21. Significant subsequent events

Save as disclosed in Note 16 and 19, the Group did not have any significant events which took place subsequent to the balance sheet date.