Management Discussion and Analysis

Financial performance

The Group's turnover for the year ended 31 December 2002 was approximately HK$341.5 million, representing an increase of approximately 139% as compared with last year. The results from ordinary activities attributable to shareholders turned from net loss of approximately HK$11.2 million in 2001 to net profit of approximately HK$30 million in 2002.

Business review and segment information

During the year ended 31 December 2002, other than the manufacture and sale of casual wear as the principal activity, the Group has successfully diversified into other businesses including oil trading and oil transportation. Further, in March 2003, the Group announced to propose to acquire two floating storage units and operating licenses, with an intention to develop oil storage, blending and transshipment businesses.

The Group's oil transportation business commenced in the second half of 2002 upon acquisitions of two oil tankers, namely Asian Tiger and Oriental Tiger. Subsequent to the year end, the Group also chartered two oil tankers. To date, the Group's operating fleet comprised four oil tankers (of which three are VLCCs) with a total of approximately 975,000 dwt. The financial performances of these oil tankers contributed significantly to the Group with a turnover of approximately HK$47.7 million and segment results of approximately HK$33.7 million in the year of 2002.

During the year, the Group has become more active in oil trading business. For the year 2002, oil trading business contributed to the Group's turnover and segment results of approximately HK$158 million and HK$1.1 million respectively as compared to approximately HK$1.4 million and HK$0.047 million in 2001. The improvement was backed by respectable growth in oil trading activities in the People's Republic of China (the "PRC"), which is the Group's primary trading area. Following the PRC's entry to the World Trade Organisation, the country's oil import quota system is being progressively relaxed by 15 per cent each year from 2002 to 2005 – when it will be fully deregulated. The Group's oil trading business has been benefiting from this gradual relaxation.

The financial performance of the garment business has improved this year and the segment results turned from loss of approximately HK$2.9 million in 2001 to approximately HK$1 million profit. The turnover has slightly decreased from approximately HK$142 million to approximately HK$136 million this year. During the year, competition in the casual wear market in the PRC has been very intense due to new brands entering the market and rising sophistication in market demand. The Group's management has closely monitored the PRC apparel market and adjusted its marketing and pricing policy in order to maintain the competitiveness of the Group's products. During the year, the Group also successfully explored the apparel market in the United States of America and started OEM business for certain brands. The gross profit margin of the garment business has increased from approximately 10% in 2001 to 13% in 2002.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows, term loans and overdraft facilities provided by banks in Hong Kong and the PRC. As at 31 December 2002, the Group had cash and cash equivalents of approximately HK$61,836,000 (31 December 2001: HK$42,621,000), comprising an equivalent of approximately HK$20.7 million denominated in US dollars, an equivalent of approximately HK$29.4 million denominated in Reminbi, and approximately 11.7 million in Hong Kong dollars. As at 31 December 2002, the Group had interest-bearing bank borrowings of approximately HK$33.5 million (31 December 2001: HK$30.5 million), of which approximately HK$26.7 million was fixed-interest bearing and denominated in Reminbi, and the remaining was floating-interest bearing and denominated in Hong Kong dollars. Approximately HK$32.9 million of the Group's bank borrowings were of maturity within one year. The Directors expect that all the bank borrowings will be either renewed or rolled over upon the maturity and will continue to provide funding to the Group's operation. The Group's investment property and leasehold land and buildings have been pledged to banks to secure the Group's bank borrowings.

On 12 July 2002, the Company placed 515,000,000 new shares at HK$0.27 per share. Net proceeds from the placement of new shares amounted to approximately HK$138 million, out of which approximately HK$116 million have been utilized for the acquisitions of the two oil tankers as mentioned above. The remaining balance of HK$22 million is retained by the Company as general working capital of the Group. The placement has broadened the capital base of the Company and provided additional funding to the Group.

As at 31 December 2002, the Group had current assets of approximately HK$225.4 million (31 December 2001: HK$141.1 million). The Group's current ratio decreased from 4.1 at 31 December 2001 to 3.5 as at 31 December 2002. As at 31

December 2002, the Group had total assets of approximately HK$374.9 million (31 December 2001: HK$175.3 million) and total liabilities of approximately HK$64.5 million (31 December 2001: HK$35.4 million). The gearing of the Group, measured as total debts to assets, had improved from 0.2 as at 31 December 2001 to 0.17 as at 31 December 2002. The proposed acquisition of the two floating storage units and the operating licenses as mentioned below should not have any material impact to the Group's working capital position as the consideration will be satisfied by issue of Company's shares.

During the year, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 December 2002.

Acquisition of floating storage units and operating licenses

On 4 March 2003, the Group entered into an agreement to acquire two floating storage units (the "FSUs") and the operating licenses from three connected persons (within the meaning of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) of the Company ("Connected Persons") at an aggregate consideration of approximately HK$139 million. The consideration will be satisfied by way of issue of approximately 397 million shares of HK$0.01 each in the share capital of the Company at a price of HK$0.35 per share to Great Logistics Holdings Limited (as directed by the Connected Persons), the holding company of the Group.

A special general meeting ("SGM") will be held on 25 April 2003 to approve the proposed acquisition. Should the acquisition be completed, the Group's net assets value will be increased by approximately HK$139 million before expenses.

Prospects

The year 2002 marked a very important milestone for the Group. During the year, the management team has implemented new business strategies and models which led to the Group's successful diversification from a sole garment business operation into new areas including the integrated oil transportation and trading businesses, achieving marked improvement in profitability and risk management. As part of our new long-term corporate strategy, the Group will continue to diversify into and develop other high value-added services such as oil storage, blending, and transshipment that can further enhance the Group's earnings capability and profit growth.

Given the PRC's fast growing economy, its need for oil import is tremendous. The Group has already made great strides in targeting the PRC market with its fleet of oil tankers, which currently has a capacity of approximately 975,000 dwt. The Group has planned to further expand its capacity and develop a highly efficient, flexible, and competitive fleet of oil tankers this year, which will become a new major force in the global oil transportation industry.

During the first half of this year, the Group plans to complete the acquisition of two floating storage units strategically located in Malaysian waters near the eastern and western coast of Singapore from the Connected Persons. With storage capacity of 70,000 and 155,000 cubic metres respectively, these two floating storage units are the only ones of its kind approved by the Malaysian Government and can provide customers with integrated services such as storage, blending, and transshipment for a wide variety of petroleum products. This proposed acquisition will underpin a steady income stream for the Group and will be proposed for approval at the Company's SGM on 25 April 2003. Besides this new initiative, the Group will study the feasibility of investing in other on-shore or off-shore storage facilities, which will further strengthen the Group's storage and transportation businesses.

Another key mission of the Group this year is to further develop its oil trading business. The PRC is now the third largest oil importer and has the fastest growing demand for petroleum products in the world. Leveraging upon its management team's more than 20 years of experience and extensive client network in oil trading, together with the FSUs' competitive advantage in providing storage, blending, and transshipment services, the Group will be well positioned to develop its oil trading operation, which will represent an integral part of its core business.

In 2002, the Group's garment business has shown solid improvement. The industry this year will remain highly competitive and the Group will make every effort to maintain its edge in the garment business.

Looking ahead, the Group will strive to develop into a fully integrated, one-stop oil services provider by undergoing internal restructuring to consolidate its oil transportation, trading, storage, transshipment, and other related businesses. This unique business model promises greater return and value creation for the Company and its shareholders. 2003 will serve as a year of major growth and development for the Group, laying a firm and important foundation for a prosperous future in many years to come.

Employees and Remuneration

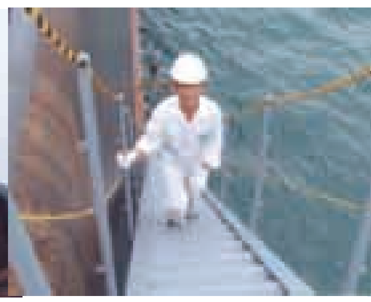
As at 31 December 2002, the Group had employed approximately 270 employees in Hong Kong and the PRC and approximately 70 crews on board of the two oil tankers owned by the Group. The employees and crews are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a new share option scheme (took effective on 31 May 2002) of which the Board may, at its discretion, grant options to employees of the Group. No options have been granted or exercised under the new share option scheme during the year ended 31 December 2002. The outstanding share options of 37,060,000 under the old scheme adopted on 18 May 1998 were all lapsed after 2 February 2003.

Risk management

The Group has established a risk management team to assess the potential risks that it may encounter and formulate appropriate contingency plans. The Group's risk management policies are listed out as follows:

- All general oceanic risks must be backed by sufficient insurance policies
- Prudent assessment of market risk and selection of working partners
- Thorough study on investment projects
- Emphasis on continual training and develop to enhance risk management on fleet operation and trading activities
- Use appropriate financial instruments to minimize market exposure when necessary

All of the Group's shipments are well covered by comprehensive insurance policy. The Group also adopts the highest safety standards and conducts continuous training and on-board exercises to maintain a high level of awareness and competence among crew personnel on environmental protection and crisis or emergency situation. The Group also adopts a very stringent credit control policy over its trading partners' credit risks. The Group's oil transportation and trading contracts are mostly settled in US Dollars, while the garment sales and purchase contracts are conducted in Renminbi, US Dollars and Hong Kong Dollars. Hence, the Group did not have any significant exposure to foreign currency fluctuations. In the future, the Group will continue to scrutinize closely and take appropriate preventive measures over the possibilities of risks emerged from oil trading, foreign exchange exposure, and oil price fluctuations.



Environment, Health and Safety (EH & S)

EH & S is foremost on the Group's agenda in its oil transportation and FSU operations. The standard in place ensures safe ship operation, a clean marine environment, and sustainable development of the world at all time.

The Group's EH & S policy as listed in its Safety Management Manual, is benchmarked against the ISM Code and is approved and certified by the China Classification Society. In sum, the Group's fleet will at all time:-

- Implement safe management;
- Improve the level of preventive control;
- Ensure safe shipping operations;
- Keep all crew members healthy;
- Protect sea environment; and
- Offer high quality services to clients

The Group's EH & S policy's objectives are to:

- Prevent and take suitable measures against marine casualties that will cause accidental pollution of the marine environment;
- Provide a safe working environment for all shipboard personnel and train them to recognize the need to work in a healthy and safe environment;
- Prevent sea and air pollution;
- Prevent damage to property;
- Adopt the good culture of total safety in all aspects of shipboard operations;
- Promote sustainable global business development; and
- Guarantee that all tasks will be undertaken in accordance with mandatory rules and regulations that govern the marine industry.

The Group will continue to implement initiatives to enhance its EH & S Standard. This includes:

- Providing continuous training on EH & S awareness and knowledge to both on-shore and shipboard personnel towards minimising crisis management response time and maximising the use of onboard equipment and resources to limit any potential impact on the environment should a pollution or other emergency situation arises
- Promoting on-board exercises to guarantee the efficiency of crew personnel.
- Conducting once a year, an unannounced drill where a full-scale crisis situation is simulated to practise, check and find improvement, with all relevant agencies involved, including spill response organizations as per SOPEP (Shipboard Oil Pollution Emergency Plan) requirements. The last drill was carried out in September 2002 on FSU Titan Mars by the Parent Company, which was the operator then.

APPLICATION OF PROCEEDS

Applications of Proceeds of New Issue

The Group raised approximately HK$31.5 million, net of related expenses, from the issue of 40 million new shares at HK$1.00 per share in connection with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited on 17 June 1998. As at 31 December 2002, the net proceeds have been applied as follows:

– as to approximately HK$12 million, to set up 12 outlets in 8 provinces in the PRC;
– as to approximately HK$5 million, to expand the Group's product range including sport apparel and ladies' apparel; and
– as to approximately HK$6.5 million, for the general working capital requirements of the Group.

The balance of the proceeds of approximately HK$8 million has been placed in bank accounts. Due to the sluggish retail market and the economic downturn during the year, the Group did not set up any new outlets in the PRC. At present, the Directors do not have any other plans in relation to the use of such proceeds.

Applications of Proceeds of Placement of New Shares

During the year, the Group also raised approximately HK$138 million from issuance of 515 million new shares of the Company at HK$0.27 per share.

The net proceeds were originally intended to have been applied as to approximately HK$60 million for acquisition of oil tanker(s) with the balance of approximately HK$78 million as general working capital. In view of the continuing potential growth in the oil transportation business, more proceeds have been applied for the acquisition of oil tankers. As at 31 December 2002, a total of approximately HK$116 million net proceeds have been applied to acquire two oil tankers during the year with the balance of approximately HK$22 million applied as general working capital.