

# Notes to Financial Statements

31 December 2002

## 1. Corporate Information

During the year, the Group was involved in the following principal activities:

- (i) manufacture and sale of apparel;
- (ii) trading of oil products;
- (iii) provision of oil transportation services.

In the opinion of the directors, the ultimate holding company is Titan Oil Pte. Ltd., which is incorporated in Singapore.

## 2. Impact of New and Revised Hong Kong Statements of Standard Accounting Practice

The following new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11(Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated summary statement of changes in equity is now presented in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

## 2. Impact of New and Revised Hong Kong Statements of Standard Accounting Practice (Continued)

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing, and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits and the recognition of an accrual as at the balance sheet date. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 24 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities ("the Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

## 3. Summary of Significant Accounting Policies

### *Basis of preparation*

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain fixed assets, as further explained below.

### *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

# Notes to Financial Statements

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## 3. Summary of Significant Accounting Policies *(Continued)*

### ***Subsidiaries***

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### ***Related parties***

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

### ***Impairment of assets***

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### 3. Summary of Significant Accounting Policies *(Continued)*

#### ***Fixed assets and depreciation***

Fixed assets, other than the investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than the investment properties, are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Leasehold land and buildings	The shorter of the lease terms and 50 years
Leasehold improvements	The shorter of the lease terms and 5 to 10 years
Vessels	3 to 10 years
Plant and machinery	5 to 10 years
Furniture, office equipment and motor vehicles	5 to 10 years

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

#### ***Investment properties***

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

# Notes to Financial Statements

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## 3. Summary of Significant Accounting Policies *(Continued)*

### *Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

### *Inventories*

Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of operating activities. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### *Cash and cash equivalents*

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### *Bunker oil*

Bunker oil is stated at cost less any provisions considered necessary by the directors. Cost is determined on the weighted average cost method basis.

### *Deferred tax*

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### 3. Summary of Significant Accounting Policies *(Continued)*

#### ***Revenue recognition***

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) revenue from the provision of oil transportation services:
  - (i) from voyage chartering, on a percentage of completion basis, which is determined on the time proportion method of each individual vessel voyage;
  - (ii) from time chartering, in the period in which the vessels are let out and on the straight-line basis over the lease terms;
- (c) rental income, on a time proportion basis over the lease terms; and
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

#### ***Employee benefits***

##### *Pension Scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Each of the subsidiaries operating in the People's Republic of China except Hong Kong ("Mainland China") participates in the retirement benefits scheme (the "RB Scheme") operated by the local municipal government in Fujian Province, Mainland China. These subsidiaries are required to contribute a certain percentage of their payroll to the RB Scheme to fund the benefits. The only obligation of the Group with respect to the RB Scheme is to pay the ongoing required contributions under the RB Scheme. Contributions under the RB Scheme are charged to the profit and loss account as they become payable in accordance with the rules of the RB Scheme.

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## 3. Summary of Significant Accounting Policies (Continued)

### *Employee benefits (Continued)*

#### *Share options scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which have lapsed, are deleted from the register of outstanding options.

#### *Foreign currencies*

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the consolidated profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has had no material effect on the amounts of the previously reported cash flows of the prior year.

## 4. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (i) manufacture and sale of apparel;
- (ii) trading of oil products; and
- (iii) oil transportation.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.



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## 4. Segment Information (Continued)

### (a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments.

	Manufacture and sale of apparel		Trading of oil products		Oil transportation		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:								
Sales to external customers	135,804	141,741	157,951	1,351	47,746	-	341,501	143,092
Segment results	1,005	(2,920)	1,140	47	33,727	-	35,872	(2,873)
Interest income							742	1,016
Unallocated expenses							(3,521)	(7,218)
Profit/(loss) from operating activities							33,093	(9,075)
Finance costs							(2,646)	(2,179)
Profit/(loss) before tax							30,447	(11,254)
Tax							(106)	(8)
Profit/(loss) before minority interests							30,341	(11,262)
Minority interests							(310)	40
Net profit/(loss) from ordinary activities attributable to shareholders							30,031	(11,222)
Segment assets	176,344	167,441	15,472	39	175,369	-	367,185	167,480
Unallocated assets							7,667	7,826
Total assets							374,852	175,306
Segment liabilities	5,930	4,130	12,064	58	11,219	-	29,213	4,188
Unallocated liabilities							35,333	31,164
Total liabilities							64,546	35,352
Other segment information:								
Depreciation	3,882	3,947	194	-	1,243	-	5,319	3,947
Net deficit on revaluation of leasehold land and buildings recognised directly in equity	316	450	-	-	-	-	316	450
Unallocated other non-cash expenses							560	5,343
Capital expenditure	1,039	5,023	1,351	-	118,643	-	121,033	5,023
Unallocated capital expenditure							-	970
							121,033	5,993

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## 4. Segment Information (Continued)

### (b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

	Asia		North America		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:						
Sales to external customers	293,279	138,950	48,222	4,142	341,501	143,092
Other segment information:						
Segment assets	254,475	175,306	2,977	–	257,452	175,306
Unallocated assets					117,400	–
					374,852	175,306
Capital expenditure	2,390	5,993	–	–	2,390	5,993
Unallocated capital expenditure					118,643	–
					121,033	5,993

## 5. Turnover

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; gross income arising from the provision of oil transportation services. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

An analysis of turnover is as follows:

	2002 HK\$'000	2001 HK\$'000
Sale of goods	293,755	143,092
Provision of oil transportation services	47,746	–
	341,501	143,092

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## 6. Profit/(Loss) from Operating Activities

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	<b>274,605</b>	128,424
Cost of services rendered	<b>13,427</b>	–
Depreciation	<b>5,319</b>	3,947
Minimum lease payments under operating leases on leasehold land and buildings	<b>1,683</b>	3,085
Staff costs (excluding directors' remuneration – note 7):		
Wages and salaries	<b>10,357</b>	2,666
Retirement scheme contributions	<b>112</b>	38
Auditors' remuneration	<b>1,080</b>	900
Provision for other receivables	–	3,990
Deficit on revaluation of an investment property in Hong Kong	<b>560</b>	700
Deficit/(surplus) on revaluation of leasehold land and buildings in Hong Kong	<b>(36)</b>	653
Gross rental income	<b>(171)</b>	(550)
Less: Outgoings	<b>9</b>	19
Net rental income	<b>(162)</b>	(531)
Gain on disposal of fixed assets	–	(29)
Gain on disposal of a subsidiary	–	(70)
Interest income	<b>(742)</b>	(1,016)

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## 7. Directors' Remuneration

Details of the remuneration of the directors of the Company for the year disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive directors	353	–
Non-executive director	–	–
Independent non-executive directors	–	–
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	422	2,213
Non-executive director	–	–
Independent non-executive directors	–	–
Retirement scheme contributions:		
Executive directors	15	26
Non-executive director	–	–
Independent non-executive directors	–	–
	<b>790</b>	<b>2,239</b>

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil – HK\$1,000,000	11	7
HK\$1,000,001 – HK\$1,500,000	–	1
	<b>11</b>	<b>8</b>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no share options were granted to the directors of the Company in respect of their services to the Group, further details of which are set out in note 24 to the financial statements.

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## 7. Directors' Remuneration (Continued)

During the year, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group, or as compensation for loss of office.

## 8. Five Highest Paid Employees

The five highest paid employees during the year included two (2001: three) directors, details of whose remuneration are disclosed in note 7 above. Details of the remuneration of the remaining three (2001: two) non-director, highest paid employees are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	1,163	427
Retirement scheme contributions	31	19
	<b>1,194</b>	446

The remuneration of the remaining three (2001: two) non-director, highest paid employees during the years ended 31 December 2002 and 2001 fell within the range of nil to HK\$1,000,000.

During the year, no share options were granted to the three non-director, highest paid employees in respect of their services to the Group, further details of which are set out in note 24 to the financial statements.

During the year, no emoluments were paid by the Group to the three non-director, highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

## 9. Finance Costs

	Group	
	2002 HK\$'000	2001 HK\$'000
Interests on bank loans and overdrafts wholly repayable within five years	2,442	2,113
Interests on trust receipt loans, secured	204	36
Interest on finance lease	-	30
	<b>2,646</b>	2,179

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## 10. Tax

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2001: 16%). Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2002 HK\$'000	2001 HK\$'000
Group:		
Hong Kong	–	8
Elsewhere	114	–
Overprovision in prior year	(8)	–
	106	8

No provision for deferred tax had been made as the Group did not have any significant unprovided deferred tax in respect of the year (2001: Nil).

The revaluations of the Group's leasehold land and buildings and investment property do not constitute timing differences and, consequently, there is no deferred tax thereon.

## 11. Net Profit/(Loss) from Ordinary Activities Attributable to Shareholders

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is approximately HK\$1,776,000 (2001: HK\$10,012,000).

## 12. Dividend

The directors do not recommend the payment of any final dividend (2001: Nil) in respect of the year.

## 13. Earnings/(Loss) per Share

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$30,031,000 (2001: net loss of HK\$11,222,000), and the weighted average of 3,261,595,890 (2001: 2,765,883,562) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2002 is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$30,031,000. The weighted average number of ordinary shares used in the calculation is the 3,261,595,890 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 20,622,201 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

Diluted loss per share for the year ended 31 December 2001 had not been disclosed as the share options outstanding had an anti-dilutive effect on the basic loss per share for that year.

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## 14. Fixed Assets

### Group

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Vessels HK\$'000	Plant and machinery HK\$'000	Furniture, office equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	15,210	5,478	–	22,119	4,022	46,829
Additions	–	1,177	118,643	19	1,194	121,033
Transfer from investment property (note 15)	2,740	–	–	–	–	2,740
Transfer to investment property	(2,910)	–	–	–	–	(2,910)
Deficit on revaluation	(500)	–	–	–	–	(500)
Exchange realignment	–	127	–	513	75	715
At end of year	14,540	6,782	118,643	22,651	5,291	167,907
Analysis of cost or valuation:						
At cost	–	6,782	118,643	22,651	5,291	153,367
At valuation	14,540	–	–	–	–	14,540
	14,540	6,782	118,643	22,651	5,291	167,907
Accumulated depreciation:						
At beginning of year	–	3,130	–	9,331	3,468	15,929
Provided during the year	220	1,127	1,243	2,264	465	5,319
Transfer to investment property	(36)	–	–	–	–	(36)
Written back on revaluation	(184)	–	–	–	–	(184)
Exchange realignment	–	73	–	216	69	358
At end of year	–	4,330	1,243	11,811	4,002	21,386
Net book value:						
At 31 December 2002	14,540	2,452	117,400	10,840	1,289	146,521
At 31 December 2001	15,210	2,348	–	12,788	554	30,900

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## 14. Fixed Assets (Continued)

The Group's leasehold land and buildings included above are held under the following terms:

	Group	
	2002 HK\$'000	2001 HK\$'000
Medium term leases in Hong Kong	2,740	2,910
Medium term lease in Mainland China	11,800	12,300
	<b>14,540</b>	15,210

During the year, the Group's leasehold land and buildings in Hong Kong ("Property A") was reclassified to investment property as a result of the change in use. On the date of change in use, Property A was revalued on an open market, existing use basis by LCH (Asia-Pacific) Surveyors Limited ("LCH"), an independent firm of professionally qualified valuers, at HK\$2,910,000 (note 15). A surplus of approximately HK\$36,000 arising therefrom has been credited to the profit and loss account.

During the year, the Group's investment property in Hong Kong ("Property B") was reclassified to leasehold land and buildings as a result of the change in use. On the date of change in use, Property B was revalued on an open market, existing use basis by LCH at HK\$2,740,000. A deficit of approximately HK\$560,000 (note 15) arising therefrom has been charged to the profit and loss account.

At 31 December 2002, Property B was revalued on an open market, existing use basis, and the leasehold land and buildings in Mainland China were revalued on a depreciated replacement cost basis, by LCH at HK\$2,740,000 (2001: HK\$2,910,000) and HK\$11,800,000 (2001: HK\$12,300,000), respectively. A net deficit of approximately HK\$316,000 (2001: HK\$450,000) arising from the surplus on revaluation of Property B of approximately HK\$31,000 and the deficit on revaluation of the leasehold land and buildings in Mainland China of HK\$347,000 was charged to the fixed asset revaluation reserve.

Had the Group's leasehold land and buildings in Hong Kong been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK\$2,710,000 (2001: HK\$4,950,000).

Had the Group's leasehold land and buildings held in Mainland China been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK\$5,515,000 (2001: HK\$5,665,000).

At 31 December 2002, the Group's leasehold land and buildings with carrying values of HK\$2,740,000 (2001: HK\$2,910,000) and HK\$11,800,000 (2001: HK\$12,300,000) held in Hong Kong and Mainland China, respectively, were pledged to secure certain banking facilities granted to the Group (note 21).



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## 15. Investment Property

	Group	
	2002 HK\$'000	2001 HK\$'000
Valuation:		
At beginning of year	3,300	4,000
Transfer from leasehold land and buildings (note 14)	2,910	–
Transfer to leasehold land and buildings (note 14)	(2,740)	–
Deficit on revaluation (note 14)	(560)	(700)
At end of year	2,910	3,300

The Group's investment property is held under a medium term lease in Hong Kong.

At 31 December 2002, the investment property was revalued on an open market, existing use basis by LCH at HK\$2,910,000 (2001: HK\$3,300,000). No surplus or deficit on revaluation has arisen thereon.

At 31 December 2002, the Group's investment property was pledged to secure certain banking facilities granted to the Group (note 21).

## 16. Interests in Subsidiaries

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	61,124	61,116
Due from subsidiaries	225,289	86,444
Due to subsidiaries	(253)	–
	286,160	147,560
Provision for impairment	(8,586)	(8,586)
	277,574	138,974

The balances with subsidiaries are unsecured, interest-free and are not repayable before 31 December 2003.

# Notes to Financial Statements

31 December 2002

## 16. Interests in Subsidiaries (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<b>Directly held</b>				
Ever Lasting Resources Limited	British Virgin Islands	Ordinary US\$1,000	100	Investment holding
Titan Oil (Asia) Ltd.*	British Virgin Islands	Ordinary US\$1	100	Investment holding
Titan FSU Investment Ltd.*	British Virgin Islands	Ordinary US\$1,000	100	Investment holding
<b>Indirectly held</b>				
Explorer Enterprises Garment Co., Ltd., Shishi City	Mainland China	RMB20,000,000	100	Manufacture and sale of apparel
Fortune Carnival Investment Limited	Hong Kong	Ordinary HK\$2	100	Trading of apparel
Fujian Shitelan Sports Product Co., Ltd.	Mainland China	HK\$20,000,000	100	Manufacture and sale of apparel
Gemtex Apparel Limited	Hong Kong	Ordinary HK\$100,000	60	Trading of apparel
Kaffin Limited	Hong Kong	Ordinary HK\$1,000,000	100	Properties holding
Titan Asian Tiger Limited*	Hong Kong	Ordinary HK\$2	100	Oil transportation

# Notes to Financial Statements

31 December 2002

## 16. Interests in Subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Titan Oil (HK) Co. Limited*	Hong Kong	Ordinary HK\$2	100	Oil transportation
Titan Oriental Tiger Limited*	Hong Kong	Ordinary HK\$100	100	Oil transportation
Titan Oil Trading Limited*	Hong Kong	Ordinary HK\$10,000	100	Trading of oil products

\* Incorporated during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 17. Inventories

	Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	2,163	2,533
Work in progress	5,660	1,480
Finished goods	32,594	37,557
	<b>40,417</b>	41,570

At the balance sheet date, no inventories (2001: Nil) were stated at net realisable value.

# Notes to Financial Statements

31 December 2002

## 18. Accounts and Bills Receivables

The Group normally allows credit terms to well-established customers ranging from 90 to 120 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The aging analysis of accounts and bills receivables, net of provisions, as at balance sheet date, based on the date of recognition of the sale, is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
1 – 3 months	65,295	32,021
4 – 6 months	10,068	5,503
7 – 12 months	2,910	1,904
	<b>78,273</b>	39,428

## 19. Cash and Cash Equivalents

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	43,339	25,357	1,654	43
Deposits with financial institutions	18,497	10,523	–	–
Time deposits with banks	–	6,741	–	–
Cash and cash equivalents	<b>61,836</b>	42,621	<b>1,654</b>	43

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi (“RMB”) amounted to HK\$29,379,000 (2001: HK\$27,814,000). RMB is not freely convertible into foreign currencies. Subject to Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

# Notes to Financial Statements

31 December 2002

## 20. Interest-Bearing Bank Loans

	Group	
	2002 HK\$'000	2001 HK\$'000
Trust receipt loans, secured	4,239	2,037
Bank loans, secured and repayable:		
Within one year	28,633	27,656
In the second year	200	190
In the third to fifth years, inclusive	414	615
	<b>29,247</b>	28,461
	<b>33,486</b>	30,498
Portion classified as current liabilities	<b>(32,872)</b>	(29,693)
Long term portion	<b>614</b>	805

## 21. Banking Facilities

At the balance sheet date, the Group's banking facilities were secured by the following:

- (i) the Group's leasehold land and buildings in Hong Kong and Mainland China with carrying values of HK\$2,740,000 and HK\$11,800,000, respectively (note 14);
- (ii) the Group's investment property with a carrying value of HK\$2,910,000 (note 15);
- (iii) personal guarantees given by a director of the Company, and certain properties situated in Mainland China jointly held by certain directors of the Group and independent third parties; and
- (iv) corporate guarantees given by the Company and an independent third party.

# Notes to Financial Statements

31 December 2002

## 22. Accounts and Bills Payables

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aging analysis of the accounts and bills payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
1 – 3 months	21,336	2,313
4 – 6 months	1,461	–
7 – 12 months	195	–
	<b>22,992</b>	2,313

## 23. Share Capital

	2002 HK\$'000	2001 HK\$'000
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.01 each	<b>100,000</b>	100,000
<i>Issued and fully paid:</i>		
3,536,500,000 (2001: 3,001,500,000) ordinary shares of HK\$0.01 each	<b>35,365</b>	30,015

- (a) On 30 May 2001, the Company entered into a placing agreement for placement of 500,000,000 ordinary shares in the Company of HK\$0.01 each at a price of HK\$0.04 per share to certain independent third party investors. The placement was completed on 22 June 2001 and proceeds of approximately HK\$19,400,000, net of expenses, were raised by the Company. The excess of the share issue proceeds over the nominal value of the shares issued amounting to approximately HK\$14,400,000 was credited to the share premium account.
- (b) On 25 June 2002, the Company entered into another placing agreement for placement of 515,000,000 ordinary shares in the Company of HK\$0.01 each at a price of HK\$0.27 per share to certain independent third party investors. The placement was completed on 12 July 2002 and proceeds of approximately HK\$137,510,000, net of expenses, were raised by the Company. The excess of the net share issue proceeds over the nominal value of the shares issued amounting to approximately HK\$132,360,000 was credited to the share premium account.

# Notes to Financial Statements

31 December 2002

## 23. Share Capital (Continued)

- (c) The subscription rights attaching to 20,000,000 share options were exercised at the subscription price of HK\$0.133 per share (note 24), resulting in the issue of 20,000,000 shares of HK\$0.01 each for a total consideration, before expenses, of HK\$2,660,000. The excess of the share issue proceeds over the nominal value of the shares issued amounting to approximately HK\$2,460,000 was credited to the share premium account.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Notes	Number of shares in issue '000	Issued share capital HK\$'000
At 1 January 2001		2,501,500	25,015
Issue of shares	(a)	500,000	5,000
At 31 December 2001 and 1 January 2002		3,001,500	30,015
Issue of shares	(b)	515,000	5,150
Share options exercised	(c)	20,000	200
At 31 December 2002		3,536,500	35,365

### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 24 to the financial statements.

## 24. Share Option Scheme

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company's share option scheme which was adopted on 18 May 1998 (the "Old Scheme") was terminated and replaced by a new share option scheme at the annual general meeting held on 31 May 2002 (the "New Scheme"). During the year, no share options were granted under either the Old Scheme or the New Scheme.

## 24. Share Option Scheme (Continued)

A summary of the Old Scheme and the New Scheme is set out below:

	Old Scheme	New Scheme
Purpose	To provide incentives and rewards to eligible participants who contribute to the success of the operations of the Group.	To provide incentives and rewards to eligible participants who contribute to the success of the operations of the Group.
Participants	Full time employees and executive directors of the Company and its subsidiaries.	(i) Full time employees and directors of the Company and its subsidiaries; and  (ii) any suppliers, consultants, agents and advisors of the Group.
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report	Not applicable	242,090,000 ordinary shares and 10% of the issued share capital.
Maximum entitlement of each participant	Maximum number of shares issuable under share options to each eligible participant is limited to 25% of the aggregate of all shares of the Company subject to the Old Scheme.	Maximum number of shares issuable under share options to each eligible participant within any 12-month period, including exercised and outstanding options, is limited to 1% of the shares of the Company in issue at any time.
Period within which the ordinary shares must be taken up under an option	No option will be exercisable later than 10 years after the commencement date on which the option was granted and accepted.	No option will be exercisable later than 10 years after the New Scheme has been adopted by the shareholders of the Company.
Minimum period for which an option must be held before it can be exercised	None	None



# Notes to Financial Statements

31 December 2002

## 24. Share Option Scheme (Continued)

	Old Scheme	New Scheme
Amount payable on acceptance	HK\$1.00	HK\$1.00
Period within which payments/calls/loans must be made/repaid	Not applicable	Not applicable
Basis of determining the exercise price	<p>Determined by the directors at their discretion, but shall not be less than the higher of:</p> <p>(i) 80% of the average closing price of the ordinary shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of grant of the share options; or</p> <p>(ii) the nominal value of the ordinary shares of the Company.</p>	<p>Determined by the board of directors at their discretion based on the highest of:</p> <p>(i) the closing price of ordinary shares of the Company on the Stock Exchange at the date of offer;</p> <p>(ii) the average closing price of the ordinary shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of the offer; or</p> <p>(iii) the nominal value of the ordinary shares of the Company.</p>
The remaining life of scheme	The scheme was terminated on 31 May 2002.	The scheme remains in force until 31 May 2012.

# Notes to Financial Statements

31 December 2002

## 24. Share Option Scheme (Continued)

The following share options under the Old Scheme were outstanding during the year:

Name or category of participant	Number of share options				At 31 December 2002	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of the Company's shares at exercise date of options*** HK\$
	At 1 January 2002	Granted during the year	Exercised during the year	Lapsed during the year					
Directors									
Mr. Tsoi Kwing Ming	14,000,000	-	-	-	14,000,000	2 February 2000	2 March 2000 to 2 February 2003	0.133	-
Mr. Leung Kam Pui <sup>‡</sup>	10,000,000	-	(10,000,000)	-	-	2 February 2000	2 March 2000 to 2 February 2003	0.133	0.225
	24,000,000	-	(10,000,000)	-	14,000,000				
Other employees									
In aggregate	33,060,000	-	(10,000,000)	-	23,060,000	2 February 2000	2 March 2000 to 2 February 2003	0.133	0.225
	57,060,000	-	(20,000,000)	-	37,060,000				

# Mr. Leung Kam Pui resigned as a director of the Company during the year.

\* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

\*\*\* The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all the exercises of options within the disclosure category.

The 20,000,000 share options exercised during the year resulted in the issue of 20,000,000 ordinary shares of the Company and new share capital of HK\$200,000 and share premium of HK\$2,460,000 (before issue expenses), as detailed in note 23 to the financial statements.

At the balance sheet date, the Company had 37,060,000 share options outstanding under the Old Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 37,060,000 additional ordinary shares of the Company and additional share capital of HK\$370,600 and share premium of HK\$4,558,380 (before issue expenses). All share options outstanding at the balance sheet date expired on 2 February 2003.

# Notes to Financial Statements

31 December 2002

## 25. Reserves

### (a) Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Fixed asset revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2001	41,771	18,261	7,085	–	40,094	107,211
Issue of new shares	15,000	–	–	–	–	15,000
Share issue expenses	(600)	–	–	–	–	(600)
Deficit on revaluation	–	–	(450)	–	–	(450)
Net loss for the year	–	–	–	–	(11,222)	(11,222)
At 31 December 2001 and 1 January 2002	56,171	18,261	6,635	–	28,872	109,939
Issue of new shares	133,900	–	–	–	–	133,900
Share options exercised	2,460	–	–	–	–	2,460
Share issue expenses	(1,540)	–	–	–	–	(1,540)
Net deficit on revaluation	–	–	(316)	–	–	(316)
Exchange realignment	–	–	–	157	–	157
Net profit for the year	–	–	–	–	30,031	30,031
At 31 December 2002	<b>190,991</b>	<b>18,261</b>	<b>6,319</b>	<b>157</b>	<b>58,903</b>	<b>274,631</b>

# Notes to Financial Statements

31 December 2002

## 25. Reserves (Continued)

### (b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2001	41,771	60,916	2,864	105,551
Issue of new shares	15,000	–	–	15,000
Share issue expenses	(600)	–	–	(600)
Net loss for the year	–	–	(10,012)	(10,012)
At 31 December 2001 and 1 January 2002	56,171	60,916	(7,148)	109,939
Issue of new shares	133,900	–	–	133,900
Share options exercised	2,460	–	–	2,460
Share issue expenses	(1,540)	–	–	(1,540)
Net loss for the year	–	–	(1,776)	(1,776)
At 31 December 2002	<b>190,991</b>	<b>60,916</b>	<b>(8,924)</b>	<b>242,983</b>

The contributed surplus of the Group arose as a result of the Group reorganisation carried out on 18 May 1998 and represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

# Notes to Financial Statements

31 December 2002

## 26. Note to the Consolidated Cash Flow Statement

### *Disposal of a subsidiary*

	Note	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:			
Prepayments, deposits and other receivables		–	10,113
Other payables and accruals		–	(3,413)
Tax payable		–	(6,692)
		–	8
Gain on disposal of a subsidiary	6	–	70
		–	78
Satisfied by:			
Cash		–	78

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2002 HK\$'000	2001 HK\$'000
Cash consideration and net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	78

The subsidiary disposed of during the year ended 31 December 2001 had no significant impact on the Group's consolidated turnover or net loss for that year.

## 27. Operating Lease Arrangements

### (a) As lessor

During the year ended 31 December 2002, the Group leases its vessel under an operating lease arrangement for a term of six months. During the year ended 31 December 2001, the Group leased its investment property under an operating lease arrangement for a term of four years.

At 31 December 2002, the Group had total future minimum lease receivable under non-cancellable operating lease falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	13,464	140

### (b) As lessee

The Group leases a vessel and certain leasehold land and buildings under operating lease arrangements. Lease for the vessel is negotiated for a term of one year, and leases for leasehold land and buildings are negotiated for terms ranging from one to five years.

At 31 December 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	70,087	2,013
In the second to fifth years, inclusive	410	1,075
	70,497	3,088

## 28. Commitments

At the balance sheet date, neither the Group nor the Company had any significant commitments.

# Notes to Financial Statements

31 December 2002

## 29. Contingent Liabilities

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bills discounted with recourse	4,589	–	–	–
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	42,100	11,000
	4,589	–	42,100	11,000

At 31 December 2002, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$11,377,000 (2001:HK\$3,023,000).

## 30. Related Party Transaction

During the year, accounts and other payables of the Group of approximately HK\$11,142,000 (2001: Nil) were settled by Mr. Tsoi Tin Chun, the chairman of the Company, and companies beneficially owned by him on behalf of the Group. The Group repaid HK\$10,367,000 to the aforementioned parties on an reimbursement basis. The remaining balances due to the aforementioned parties of HK\$775,000, which were unsecured, interest-free and have no fixed terms of repayment, were included in "Other payables and accruals" in the consolidated balance sheet.

## 31. Post Balance Sheet Event

On 4 March 2003, the Group entered into a conditional agreement with Titan Mars Pte. Ltd. (“Vendor A”), Titan Oil Tank Pte. Ltd. (“Vendor B”) and Titan Oil Pte. Ltd. (“Vendor C”), whereby Vendor A, Vendor B and Vendor C agreed to sell and the Group agreed to purchase (i) a floating storage unit which is strategically located within the port limit of the east coast of Malaysia; (ii) a floating storage unit which is strategically located within the port limit of the west coast of Malaysia; (iii) the right to undertake floating storage operations within the port limit of the east coast of Malaysia pursuant to a licence issued by the Ministry of Transport of Malaysia; and (iv) the right to undertake floating storage operations within the port limit of the west coast of Malaysia pursuant to a licence issued by the Ministry of Transport of Malaysia (collectively referred to as the “FSUs”). The consideration payable by the Group is US\$17.8 million (equivalent to approximately HK\$138,965,000), which will be satisfied by way of the issue of 397,042,509 ordinary shares of HK\$0.01 each in the share capital of the Company to Great Logistics Holdings Limited, the holding company of the Company which is wholly owned by Vendor C, at a price of HK\$0.35 per share.

Vendor A and Vendor B are wholly and beneficially owned by Ms. Tsoi Yuk Yi, the spouse of Mr. Tsoi Tin Chun who is the chairman of the Company. Vendor C is the ultimate holding company of the Company. According to the Listing Rules, this transaction constitutes a discloseable connected transaction which is subject to the approval of independent shareholders at a special general meeting on 25 April 2003. Further details of this transaction are set out in a circular to shareholders dated 9 April 2003.



# Notes to Financial Statements

31 December 2002

## 31. Post Balance Sheet Event (Continued)

An adjusted condensed pro forma consolidated balance sheet of the Group as at 31 December 2002, which is based on the audited net assets of the Group as at 31 December 2002 and adjusted as if the aforesaid transaction, before the related expenses, had taken place on 31 December 2002, is presented below:

	<b>Audited consolidated balance sheet as at 31 December 2002</b>	<b>Pro forma post balance sheet event adjustment  Issue of new shares for acquiring the FSUs</b>	<b>Pro forma consolidated balance sheet as at 31 December 2002</b>
	HK\$'000	HK\$'000	HK\$'000
Non-current assets	149,431	138,965	288,396
Current assets	225,421		225,421
Current liabilities	(63,932)		(63,932)
Net current assets	161,489		161,489
Non-current liabilities	(614)		(614)
Minority interests	(310)		(310)
Net assets	309,996		448,961
Share capital	35,365	3,970	39,335
Reserves	274,631	134,995	409,626
	309,996		448,961

## 32. Comparative Amounts

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

## 33. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 23 April 2003.