Oil Transportation · Trading · Storage · Blending · Transshipment

Titan - The Energy Link Across the Globe

# TITAN (HOLDINGS) LIMITED

## INTERIM REPORT 2003

The board of directors (the "Board" or "Directors") of Titan (Holdings) Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2003 (the "Period"). The unaudited consolidated results had been reviewed by the Company's audit committee (the "Audit Committee").

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2003** | 2002 |
| | | **(Unaudited)** | (Unaudited) |
| | Notes | **HK$'000** | HK$'000 |
| TURNOVER | 2 | **379,672** | 68,962 |
| Cost of sales | | **(321,519)** | (58,397) |
| Gross profit | | **58,153** | 10,565 |
| Other revenue | | **747** | 926 |
| Selling and distribution costs | | **(3,584)** | (4,283) |
| Administrative expenses | | **(12,099)** | (4,913) |
| Other operating expenses | | **(409)** | (202) |
| PROFIT FROM OPERATING ACTIVITIES | 4 | **42,808** | 2,093 |
| Finance costs | 5 | **(1,284)** | (1,084) |
| PROFIT BEFORE TAX | | **41,524** | 1,009 |
| Tax | 6 | **(380)** | (347) |
| PROFIT BEFORE MINORITY INTERESTS | | **41,144** | 662 |
| Minority interests | | **106** | (769) |
| NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | **41,250** | (107) |
| DIVIDEND | 7 | **Nil** | Nil |
| EARNINGS/(LOSS) PER SHARE | 8 | | |
| Basic | | **HK1.136 cents** | HK(0.004) cent |
| Diluted | | **HK1.135 cents** | N/A |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Issued capital HK$'000 | Share premium account HK$'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 2003 (Audited) | **35,365** | **190,991** | **18,261** | **6,319** | **157** | **58,903** | **309,996** |
| Issue of new shares | **3,970** | **134,994** | **–** | **–** | **–** | **–** | **138,964** |
| Net profit for the Period | **–** | **–** | **–** | **–** | **–** | **41,250** | **41,250** |
| At 30 June 2003 (Unaudited) | **39,335** | **325,985** | **18,261** | **6,319** | **157** | **100,153** | **490,210** |

| | Issued capital HK$'000 | Share premium account HK$'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 2002 (Audited) | 30,015 | 56,171 | 18,261 | 6,635 | – | 28,872 | 139,954 |
| Share options exercised | 200 | 2,460 | – | – | – | – | 2,660 |
| Net loss for the period | – | – | – | – | – | (107) | (107) |
| At 30 June 2002 (Unaudited) | 30,215 | 58,631 | 18,261 | 6,635 | – | 28,765 | 142,507 |

## CONDENSED CONSOLIDATED BALANCE SHEET

| | Notes | **30 June 2003 (Unaudited) HK$'000** | 31 December 2002 (Audited) HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Fixed assets | | **230,422** | 146,521 |
| Investment property | | **2,910** | 2,910 |
| Intangible assets | | **51,570** | – |
| | | **284,902** | 149,431 |
| CURRENT ASSETS | | | |
| Inventories | | **42,892** | 40,417 |
| Accounts and bills receivables | 9 | **191,437** | 78,273 |
| Contracts in progress | | **15,818** | – |
| Bunker oil | | **17,983** | 3,292 |
| Prepayments, deposits and other receivables | | **41,389** | 41,603 |
| Cash and cash equivalents | | **65,381** | 61,836 |
| | | **374,900** | 225,421 |
| CURRENT LIABILITIES | | | |
| Interest-bearing bank loans | | **(90,166)** | (32,872) |
| Accounts and bills payables | 10 | **(68,344)** | (22,992) |
| Other payables and accruals | | **(9,983)** | (8,068) |
| Tax payable | | **(380)** | – |
| | | **(168,873)** | (63,932) |
| NET CURRENT ASSETS | | **206,027** | 161,489 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **490,929** | 310,920 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank loans | | **(515)** | (614) |
| | | **490,414** | 310,306 |
| MINORITY INTERESTS | | **(204)** | (310) |
| | | **490,210** | 309,996 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 11 | **39,335** | 35,365 |
| Reserves | | **450,875** | 274,631 |
| | | **490,210** | 309,996 |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended 30 June | |
|---|---|---|
| | **2003** | 2002 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Net cash outflow from operating activities | **(51,126)** | (10,618) |
| Net cash outflow from investing activities | **(2,524)** | (909) |
| Net cash inflow from financing activities | **57,195** | 13,892 |
| INCREASE IN CASH AND CASH EQUIVALENTS | **3,545** | 2,365 |
| Cash and cash equivalents at beginning of period | **61,836** | 42,621 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | **65,381** | 44,986 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents | **65,381** | 41,351 |
| Time deposits with original maturity of less than three months when acquired | **–** | 4,000 |
| Bank overdrafts | **–** | (365) |
| | **65,381** | 44,986 |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

## 1. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements for the Period of the Group have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The accounting policies adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 December 2002 except for the adoption of SSAP 12 (Revised) "Income taxes" which is effective for the first time for the accounting period commencing on or after 1 January 2003.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current or prior accounting periods.

### Intangible assets

Purchased licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 20 years.

## 2. 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 and floating storage units operation during the Period. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

## 3. SEGMENT INFORMATION

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 other business segments.

The following table presents revenue and results for the Group's business segments.

| | Manufacture and sale of apparel | | Trading of oil products | | Oil Transportation | | Floating Storage Units Operation | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Six months ended 30 June | | Six months ended 30 June | | Six months ended 30 June | | Six months ended 30 June | | Six months ended 30 June | |
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Segment revenue: | | | | | | | | | | |
| Sales to external customers | **62,855** | 67,457 | **137,774** | 1,505 | **172,304** | – | **6,739** | – | **379,672** | 68,962 |
| Segment results | **(464)** | 2,336 | **1,001** | 34 | **44,934** | – | **2,267** | – | **47,738** | 2,370 |
| Unallocated revenue | | | | | | | | | **168** | 926 |
| Unallocated expenses | | | | | | | | | **(5,098)** | (1,203) |
| Profit from operating activities | | | | | | | | | **42,808** | 2,093 |
| Finance costs | | | | | | | | | **(1,284)** | (1,084) |
| Profit before tax | | | | | | | | | **41,524** | 1,009 |
| Tax | | | | | | | | | **(380)** | (347) |
| Profit before minority interests | | | | | | | | | **41,144** | 662 |
| Minority interests | | | | | | | | | **106** | (769) |
| Net profit/(loss) from ordinary activities attributable to shareholders | | | | | | | | | **41,250** | (107) |

## 4. PROFIT FROM OPERATING ACTIVITIES

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

| | Six months ended 30 June | |
|---|---|---|
| | **2003** | 2002 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Cost of inventories sold | **187,406** | 58,397 |
| Depreciation and amortisation | **6,018** | 2,064 |
| Interest income | **(168)** | (786) |

## 5. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2003** | 2002 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Interest on bank loans and overdrafts wholly repayable within five years | **1,108** | 1,084 |
| Interest on trust receipt loans, secured | **176** | – |
| | **1,284** | 1,084 |

## 6. TAX

| | Six months ended 30 June | |
|---|---|---|
| | **2003** | 2002 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Current period provision: | | |
| Hong Kong | **–** | 347 |
| Elsewhere | **380** | – |
| | **380** | 347 |

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the Period (2002: 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.

No provision for deferred tax had been made as the Group did not have any significant unprovided deferred tax in respect of the Period (2002: Nil).

## 7. DIVIDEND

The Board does not recommend the payment of any interim dividend in respect of the Period (2002: Nil).

## 8. 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 Period of approximately HK$41,250,000 (2002: net loss of HK$107,000) and the weighted average of 3,630,825,016 (2002: 3,013,433,702) ordinary shares in issue during the Period.

The calculation of diluted earnings per share for the Period is based on the net profit from ordinary activities attributable to shareholders for the Period of approximately HK$41,250,000. The weighted average number of ordinary shares used in the calculation is the 3,630,825,016 ordinary shares in issue during the Period, as used in the basic earnings per share calculation, and the weighted average of 2,120,020 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the Period.

Diluted loss per share for the six months ended 30 June 2002 had not been disclosed as the share options had an anti-dilutive effect on the basic loss per share for that period.

## 9. ACCOUNTS AND BILLS RECEIVABLES

The Group normally allows a general credit period ranging from 30 to 120 days to its business-related customers, except for certain well-established customers, where the credit period can be extended.

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

| | **30 June 2003 (Unaudited) HK$'000** | 31 December 2002 (Audited) HK$'000 |
|---|---|---|
| 1 – 3 months | **151,803** | 65,295 |
| 4 – 6 months | **21,517** | 10,068 |
| 7 – 12 months | **18,117** | 2,910 |
| | **191,437** | 78,273 |

## 10. ACCOUNTS AND BILLS PAYABLES

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:

| | **30 June 2003 (Unaudited) HK$'000** | 31 December 2002 (Audited) HK$'000 |
|---|---|---|
| 1 – 3 months | **63,930** | 21,336 |
| 4 – 6 months | **4,034** | 1,461 |
| 7 – 12 months | **380** | 195 |
| | **68,344** | 22,992 |

## 11. ISSUED CAPITAL

The following is a summary of the authorised share capital and the movements in the issued share capital of the Company:

| | **30 June 2003 (Unaudited) HK$'000** | 31 December 2002 (Audited) HK$'000 |
|---|---|---|
| Authorised: | | |
| 10,000,000,000 ordinary shares of HK$0.01 each | **100,000** | 100,000 |
| Issued and fully paid: | | |
| 3,933,543,000 (31 December 2002: 3,536,500,000) ordinary shares of HK$0.01 each | **39,335** | 35,365 |

| | **Number of shares in issue '000** | **Issued share capital** HK$'000 |
|---|---|---|
| As at 1 January 2003 (Audited) | **3,536,500** | 35,365 |
| Issue of new shares | **397,043** | 3,970 |
| As at 30 June 2003 (Unaudited) | **3,933,543** | 39,335 |

## 12. RELATED PARTY TRANSACTIONS

(i) During the Period, the Group acquired two floating storage units and the rights to operate these floating storage units from the Company's ultimate holding company and certain companies owned by Ms. Tsoi Yuk Yi, the spouse of Mr. Tsoi Tin Chun who is the chairman of the Company. The consideration of approximately US$17.8 million was 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 ("Great Logistics"), the holding company of the Company, at a price of HK$0.35 per share.

(ii) At 30 June 2003, certain of the Group's banking facilities were secured by a personal guarantee given by a director of the Company.

## 13. CONTINGENT LIABILITIES

At 30 June 2003, the Group had bills discounted with recourse amounted to HK$6,265,000 (31 December 2002: HK$4,589,000).

At 30 June 2003, the banking facilities granted to certain subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$63,983,000 (31 December 2002: HK$11,377,000).

## 14. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leased its investment property under an operating lease arrangement for a term of three years.

At 30 June 2003, the Group had total future minimum lease receivable under non-cancellable operating lease falling due as follows:

| | **30 June 2003 (Unaudited) HK$'000** | 31 December 2002 (Audited) HK$'000 |
|---|---|---|
| Within one year | **154** | 13,464 |
| In the second to fifth years, inclusive | **294** | – |
| | **448** | 13,464 |

### (b) As lessee

The Group leases certain vessels and leasehold land and buildings under operating lease arrangements. Lease for each 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 30 June 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **30 June 2003 (Unaudited) HK$'000** | 31 December 2002 (Audited) HK$'000 |
|---|---|---|
| Within one year | **84,972** | 70,087 |
| In the second to fifth years, inclusive | **78** | 410 |
| | **85,050** | 70,497 |

## 15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the Period's presentation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Performance

The Group's turnover for the Period was approximately HK$380 million, representing a substantial increase of approximately 450% as compared with the same period of last year. The results from ordinary activities attributable to shareholders turned from net loss of approximately HK$107,000 last period to net profit of approximately HK$41,250,000 for the Period.

### Business Review and Segment Information

By means of the implementation of new diversification strategies, the Group's operational results from the first half of 2003 have continued the growth momentum from the previous year. As a recognition of the Company's efforts in transforming into a fully integrated, one-stop oil service provider, the HSI Services Limited has announced in August 2003 to re-classify the Company under the Oil and Resources sector under the Hang Seng Composite Index ("HSCI"). These achievements have demonstrated the Group's commitment to re-navigate its business directions towards oil-related businesses and to bring positive return to the shareholders.

During the Period, the oil transportation business has continued its strong momentum from last year and the chartering of two additional Very Large Crude Carriers ("VLCCs") has yielded new and significant returns for the Group. The successful acquisition of the two Floating Storage Units ("FSUs") has not only expanded the Group's business lines, but has also added sound and stable source of profit confirmed by the short period of operations subsequent to the acquisition. The oil trading business has made significant progress in terms of its trading volume, products portfolio and new market development.

The Group's oil transportation business commenced in the second half of 2002. To date, the Group's operating fleet comprised four oil tankers with a total capacity of approximately 975,000 dwt. The financial performances of these oil tankers contributed significantly to the Group with a turnover of approximately HK$172 million and segment results of approximately HK$44.9 million for the Period.

During the Period, oil trading business contributed to the Group's turnover and segment results of approximately HK$138 million and HK$1 million respectively as compared to approximately HK$1.5 million and HK$0.034 million in the same period of last year. 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 into the World Trade Organisation, the country's oil import quota system is being progressively relaxed each year and is expected to bring forth immense business opportunities for the Group.

The Group's FSUs commenced operation in late May 2003 following the completion of the acquisitions. It contributed to the Group's turnover and segment results of approximately HK$7 million and HK$2.3 million respectively.

The financial performance of the garment business has deteriorated for the Period and the segment results turned from profit of approximately HK$2.3 million last period to approximately HK$0.5 million loss for the Period. As a result of the setback in the PRC consumer markets due to problems associated with the recent Severe Acute Respiratory Syndrome virus, the turnover has decreased from approximately HK$67 million to approximately HK$63 million this Period. In addition, competition in the casual wear market in the PRC has been intense due to new brands entering the market and rising sophistication in market demand. The gross profit margin of the garment business in the PRC market has decreased to approximately 13% from 15% in the same period of last year.

**Liquidity and Financial Resources**

The Group generally finances its operations with internally generated cash flows, term loans and trade finance facilities provided by banks in Hong Kong, Singapore and the PRC. As at 30 June 2003, the Group had cash and cash equivalents of approximately HK$65,381,000 (31 December 2002: HK$61,836,000), comprising an equivalent of approximately HK$29.8 million denominated in US dollars, an equivalent of approximately HK$27.8 million denominated in Renminbi, and approximately HK$7.8 million in Hong Kong dollars.

At 30 June 2003, the Group had interest-bearing bank borrowings of approximately HK$90.7 million (31 December 2002: HK$33.5 million), of which approximately HK$26.7 million was fixed-interest bearing and denominated in Renminbi, and the remainder was floating-interest bearing and denominated in Hong Kong dollars and US dollars. Approximately HK$90.2 million of the Group's bank borrowings as at 30 June 2003 had maturity within one year. Out of the total floating-interest bearing bank borrowings, approximately HK$57.5 million were trust receipt loans, of which over 95% were fully repaid subsequent to 30 June 2003. The directors expect that the bank borrowings denominated in Renminbi, which were obtained in the PRC, will be either renewed or rolled over upon maturity and continue to provide funding to the Group. At 30 June 2003, certain of the Group's assets with net book value of HK$132,860,000 were pledged to banks.

At 30 June 2003, the Group had current assets of approximately HK$374.9 million (31 December 2002: HK$225.4 million). The Group's current ratio was approximately 2.2 as at 30 June 2003 as compared with approximately 3.5 as at 31 December 2002. At 30 June 2003, the Group had total assets of approximately HK$659.8 million (31 December 2002: HK$374.9 million) and total liabilities of approximately HK$169.4 million (31 December 2002: HK$64.5 million). The gearing of the Group, measuring as total liabilities to total assets, was approximately 0.26 as at 30 June 2003 as compared with approximately 0.17 as at 31 December 2002. The changes in the current ratio and the gearing ratio were mainly attributable to the substantial increase in oil-related business activities during the Period.

The Group's oil related business contracts are mostly settled in US dollars, while the garment sales and purchase contracts are conducted in Renminbi, US dollars and Hong Kong dollars. The reporting currency of the Group is Hong Kong dollar and the exchange rates of Renminbi and US dollar against Hong Kong dollar were relatively stable during the Period. The directors consider that the Group has no significant exposure to foreign exchange fluctuations. During the Period, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 June 2003.

**Outlook for the Second Half of 2003**

China's strong economic growth and the resultant escalating demand for crude oil have created a favorable environment for the industry. In the first half of 2003, crude oil import recorded a year on year growth rate of 32.8%, with total crude oil import expected to exceed 80 million tons for the whole year, compared with 69.5 million tons in the previous year. The burgeoning demand for crude oil provides the Group with promising prospects for the Group's oil transportation business. As such, the Group will utilize its decades of solid experience and extensive business networks in the PRC, particularly with the Chinese oil majors, to capitalize on such opportunities. The Group will also consider further expanding its fleet (including VLCCs and small to medium sized tankers) to accommodate the increased demand in the Asia Pacific region (particularly the Greater China area) if need be. While scrutinizing prudently the moving trend of international freight rates, the Group is also fully aware of the importance in having the capability to undertake proper management, precise planning, in addition to stringent cost control over the operations of its fleet. The Group is confident that such strategy will be able to bring stable and positive return to the Company's shareholders.

With acquisition completed in late May 2003, the two FSUs have recently commenced operations and contributions are expected to be reflected in the latter half of 2003. FSUs are unique assets to the Group not only because they enable the Group to maneuver inventory control to further facilitate its oil trading operations, but also because they allow the Group to expand its customer base by way of providing oil storage, blending, and transshipment services to vessels that stop by them. The operations are expected to provide a stable income source to the Group in the second half of the year given that the two FSUs are located amid a major international shipping route where traffic flow is constant. The Group will also endeavor its best to achieve a higher profit margin and further reduce their operating costs. To further improve the profitability of these operations, the Group may also consider expanding its oil storage business by increasing the current storage capacities of the FSUs as well as probing the feasibility of onshore storage operations subject to the market demand, in hopes of achieving establishing an oil storage facility in every strategic location in the Asia Pacific Region (particular in the PRC).

Oil trading not only provides an additional income stream to the Group, but it also synergistically optimizes and complements other integral business segments of the Group. The Group applies a stringent risk management and exercises conservative trading practices in its oil trading business line. Given the progressive deregulation of the oil trading market in the PRC following its WTO entry, the oil trading business is expected to gradually become one of the major profit contributors to the Group. The Group is contemplating further developing its oil trading business into other oil related fields such as trading of petrochemical products and establishing a complete bunkering supply chain at various busy ports in the Asia Pacific Region (particular in the PRC) by launching a series of bunkering points in order to meet the requirements of its different customers.

The business expansion and the strategic acquisition accomplished in the first half of 2003 has further strengthened the Group's businesses and market recognition as well as to underpinning its future growth. By further integrating and consolidating each integral segment of its oil businesses efficiently together, the Group is confident that it will continue to grow and thus the future prospect of the Group looks promising.

### Number and Remuneration of Employees

At 30 June 2003, the Group employed approximately 260 employees in Hong Kong and the PRC and approximately 120 crews on board of the Group's fleet and FSU. The employees and crews are remunerated with basic salary, bonuses and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Board may, at its discretion, grant options to employees of the Group. No options have been granted during the Period.

## DIRECTOR'S INTEREST IN SHARES

As at 30 June 2003, the directors or chief executive of the Company have the following interests or short positions in shares, underlying shares and debenture of the Company or any associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

| Name of director | Number of ordinary shares in the capital of the Company held and nature of interest Corporate |
|---|---|
| Mr. Tsoi Tin Chun | 2,197,542,509 |

These shares are owned by Great Logistics. Mr. Tsoi Tin Chun is deemed to be interested in the voting shares of Great Logistics as a result of his holdings in Titan Oil Pte Ltd. ("Titan Oil"), the ultimate holding company of Great Logistics. Great Logistics' issued share capital is beneficially and wholly owned by Titan Oil, which is in turn owned as to 95% by Mr. Tsoi Tin Chun and as to 5% by Ms. Tsoi Yuk Yi, the spouse of Mr. Tsoi Tin Chun.

Save as disclosed above, none of the directors or chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the paragraphs headed "Director's interest in shares" above and "Share options" mentioned below, at no time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

## SHARE OPTIONS

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 (the "New Scheme") on 31 May 2002. No share options were granted under the New Scheme since the adoption date on 31 May 2002.

The movements of the share options granted by the Company under the Old Scheme are as follows:

| | Number of share options | | | | | | |
|---|---|---|---|---|---|---|---|
| Category or name of participant | At 1 January 2003 | Exercised during the Period | Lapsed during the Period | At 30 June 2003 | Date of grant of share options* | Exercise period of share options | Exercise price of share options** HK$ |
| **Director** | | | | | | | |
| Mr. Tsoi Kwing Ming | 14,000,000 | – | (14,000,000) | – | 2 February 2000 | 2 March 2000 to 2 February 2003 | 0.133 |
| **Other employees** | | | | | | | |
| In aggregate | 23,060,000 | – | (23,060,000) | – | 2 February 2000 | 2 March 2000 to 2 February 2003 | 0.133 |
| | 37,060,000 | – | (37,060,000) | – | | | |

* 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.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the following persons (other than directors or chief executive of the Company) had interests or short positions in the shares and underlying shares as recorded in the register required to be kept under section 336 of the SFO:

| Name | Number of shares held | Percentage of holding |
|---|---|---|
| Great Logistics | 2,197,542,509# | 55.87 |
| Titan Oil *(Note 1)* | 2,197,542,509# | 55.87 |
| Ms. Tsoi Yuk Yi *(Note 2)* | 2,197,542,509# | 55.87 |
| Ms. Tse Lai Hing | 280,000,000 | 7.12 |
| Mr. Tse Yin Tuen *(Note 3)* | 280,000,000 | 7.12 |

# The shareholding is duplicated in the "Director's interest in shares" disclosed above.

*Note 1:* Titan Oil is beneficially interested in the entire issued share capital of Great Logistics. Therefore it is deemed to be interested in the 2,197,542,509 shares in the capital of the Company held by Great Logistics.

*Note 2:* Ms. Tsoi Yuk Yi is the spouse of Mr. Tsoi Tin Chun, the chairman of the Company. Ms. Tsoi Yuk Yi is also beneficially interested in 5% of the issued share capital of Titan Oil, which in turn is beneficially interested in the entire issued share capital of Great Logistics. Therefore, Ms. Tsoi Yuk Yi is deemed to be interested in the 2,197,542,509 shares in the capital of the Company held by Great Logistics.

*Note 3:* Mr. Tse Yin Tuen is the spouse of Ms. Tse Lai Hing. Therefore, Mr. Tse Yin Tuen is deemed to be interested in the 280,000,000 shares in the capital of the Company held by Ms. Tse Lai Hing.

Save as disclosed above, no persons had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Period.

## CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange. The independent non-executive directors of the Company were not appointed for specific terms, but are subject to retirement by rotation and re-election in accordance with the Company's bye-laws.

## AUDIT COMMITTEE

The interim results of the Group for the Period had not been audited, but had been reviewed by the Audit Committee.

On behalf of the Board
**Tsoi Tin Chun**
*Chairman*

Hong Kong, 26 August 2003