

REPORT OF THE DIRECTORS

The directors of the Company (the “Directors”) have pleasure in submitting to the shareholders their report and the audited financial statements of the Company and the Group for the year ended 31st December, 2002.

Principal Activities

The principal activities of the Company are investment holding and provision of management services to its subsidiaries, associates and jointly controlled entities. The activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 17, 19 and 20, respectively to the financial statements.

An analysis of the Group’s turnover and contribution to profit before taxation for the year ended 31st December, 2002 by principal activity is as follows:

Analysis by principal activity

	Turnover US\$’000	Contribution to profit before taxation US\$’000
Container manufacturing	141,420	8,866
Logistics services		
Container depot/terminal	23,593	3,356
Mid-stream	15,624	2,646
	180,637	14,868
Finance costs		(1,829)
Investment income		120
Share of results of associates		8,023
Share of results of jointly controlled entities		(185)
Profit before taxation		20,997

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An analysis of the Group's turnover for the year ended 31st December, 2002 by geographical market is as follows:

Analysis by geographical market

	Turnover US\$'000
United States	44,222
Europe	40,161
PRC (other than Hong Kong and Taiwan)	39,018
Hong Kong	32,968
Others	24,268
	<hr/>
	180,637

Results and Appropriations

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 34.

The Directors recommend the payment of a final dividend of HK6 cents per share (2001: HK2 cents per share). The final dividend is payable on or before 30th May, 2003 to those shareholders whose names appear on the Register of Members of the Company on Wednesday, 23rd April, 2003.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 83 to 84.

Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

Property, Plant and Equipment

Details of the movements in property, plant and equipment during the year are set out in note 15 to the financial statements.

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Particulars of Principal Subsidiaries, Associates and Jointly Controlled Entities

Particulars regarding the principal subsidiaries, associates and jointly controlled entities of the Company are set out in notes 17, 19 and 20, respectively to the financial statements.

Liquidity

As at 31st December, 2002, the Group had bank balances and cash of US\$21.6 million (2001: US\$18.4 million) and total borrowings of US\$58.1 million (2001: US\$57 million). This represented a gearing ratio, calculated on the basis of the Group's total borrowings over shareholders' funds, of 0.81 (2001: 0.98) and a net debt to equity ratio, calculated on the basis of the Group's net borrowings (after deducting bank balances and cash of US\$21.6 million) over shareholders' fund, of 0.51 (2001: 0.67). The slight increase in total borrowings was largely attributable to the increase in working capital financing requirements as a result from higher production. The interest coverage ratio of the Group's profit before interest, tax, depreciation and amortisation (EBITDA) to total net interest expense was 16.65 times in 2002, compared to 7.73 times in 2001.

Treasury Policies

The Group maintains a conservative approach on foreign exchange exposure management. The Group's revenues are mostly transacted in US\$ and maintains cash balances mainly in US\$, same is true for its machinery and material purchases. To a much lesser extent some operating expenses are transacted in other currencies including Hong Kong dollars, Chinese Renminbi ("RMB") and Indonesian Rupiah. The majority of the Group's borrowings, approximately 88.8 per cent. of the total as at 31st December, 2002 was in US\$ with the balance mainly in RMB. This policy adheres to the Group's principle to match its revenue stream with borrowings in same currency to minimize currency exposure.

The majority of the Group's borrowings is arranged on a short term revolving basis for the financing of the Group's daily working capital requirements. Of the total borrowings at the year end date, the maturity profile spread over a period of four years with US\$43 million repayable within one year and US\$15.1 million within two to four years. The Group's borrowings are principally on a floating rate basis. As the Group's borrowings are largely on short term basis, no hedging instruments are used by the Group since the effect of the interest rate exposure is nominal.

Bank Borrowings

Details of bank borrowings of the Group and the Company are set out in note 30 to the financial statements. No interest was capitalised by the Group during the year.

Capital Expenditure

To capture a larger market share and maintain its competitiveness and product quality, the Group incurred a total of US\$3.6 million in capital expenditure during the year, which was largely used in the purchase of property, plant and equipment for the expansion of the production capacity and replacement of the existing assets.

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Acquisitions

During 2002, the Group committed to invest a total of US\$22.2 million to acquire the followings:

- an additional 46.22 per cent. of the entire issued share capital in Singamas Refrigerated Container Limited ("Singamas Refrigerated"), a company holding 88.64 per cent. equity interest in Shanghai Reeferco Container Co., Ltd. ("Shanghai Reeferco") (a refrigerated container manufacturing factory in Shanghai, PRC);
- an additional 35 per cent. equity interest in Tianjin Pacific Container Co., Ltd. ("Tianjin Pacific") (a dry freight and specialised container manufacturing factory in Tianjin, PRC);
- a 65 per cent. equity interest in Shanghai Hyundai Container Manufacturing Co., Ltd. (a dry freight and specialised container manufacturing factory in Shanghai, PRC and has renamed to Shanghai Baoshan Pacific Container Co., Ltd. after this acquisition) through the Company's 60 per cent. owned-subsiary - Shanghai Pacific International Container, Co., Ltd.;
- 40 per cent. equity interest in Fuzhou Singamas Warehousing & Trading Co., Ltd. (a container depot in Fuzhou, PRC);
- 55 per cent. equity interest in Qingdao Pacific Container Co., Ltd. (a dry freight and specialised container manufacturing factory in Qingdao, PRC); and
- an additional 20 per cent. equity interest in Shunde Shun An Da Pacific Container Co., Ltd. ("Shun An Da") (a dry freight and specialised container manufacturing factory in Shunde, PRC).

These investments were approved by the Directors and were financed internally and by bank borrowings on a medium term committed basis.

On 5th July, 2002, the Company entered into a Purchase and Sale Agreement with ChinaVest IV, L.P., ChinaVest IV-A, L.P., ChinaVest IV-B, L.P., Chine Investissement 2000 and Garden Capital Limited under which the Company agreed to purchase from these entities 4,083,333 issued ordinary shares (with voting right) ("Ordinary Shares") and 9,506,000 redeemable preference shares ("Redeemable Preference Shares") of Singamas Refrigerated, which together represent 46.22 per cent. of Singamas Refrigerated's entire issued share capital, at a total consideration of US\$10,806,000. Since each of ChinaVest IV, L.P. and Garden Capital Limited is a substantial shareholder of Singamas Refrigerated and the consideration given on this acquisition represents more than 15 per cent. of the audited consolidated tangible net assets of the Group, this investment is considered as a connected and discloseable transaction in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). This investment was approved by the shareholders of the Company in the extraordinary general meeting held on 15th August, 2002. The consideration was satisfied partly by cash in instalments totaling US\$9,506,000 for the Redeemable Preference Shares and partly by the issue of new ordinary shares of the Company in the value equivalent to US\$1,300,000 for the Ordinary Shares to be issued in August 2003. The cash consideration has been funded by internal resources and banking financing. The Ordinary Shares will be transferred to the Company in August 2003 and at which time, Singamas Refrigerated will become the wholly owned-subsiary of the Company and the Company's effective equity interest in Shanghai Reeferco, through Singamas Refrigerated, will increase from 52.47 per cent. to 88.64 per cent..

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Acquisitions (continued)

On 17th September, 2002, the Company entered into a share transfer agreement with Habatec-Tectrans Beteiligungs GmbH ("Habatec") to acquire from Habatec 35 per cent. equity interest in Tianjin Pacific. Since Habatec is a substantial shareholder of Tianjin Pacific, Habatec is a connected person and entering into this agreement constitutes a connected transaction under the Listing Rules. Upon completion of this acquisition in November 2002, the Company's equity interest in Tianjin Pacific increased from 55 per cent. to 90 per cent.

On 4th November, 2002, the Company entered into a share transfer agreement with SSCMC Transportation Co., Ltd. ("SSCMC Transportation"). Under this agreement, the Company agreed to acquire from SSCMC Transportation 20 per cent. equity interest in Shun An Da. In view that the audited net tangible asset value of Shun An Da represents more than 15 per cent. of the audited consolidated net tangible asset value of the Company as at 31st December, 2001, entering into this agreement constitutes a discloseable transaction under the Listing Rules. Upon completion of this acquisition in January 2003, the Company's equity interest in Shun An Da has increased from 40 per cent. to 60 per cent..

Details of the above connected and/or discloseable transactions have been disclosed by way of a press notice in compliance with the Listing Rules.

Charges on Assets

As at 31st December, 2002, certain assets of the Group with aggregate carrying value of US\$15,664,000 (2001: US\$13,744,000) were pledged as securities for credit facilities granted by banks to subsidiaries in Indonesia and the PRC, and the shareholdings of the Company in an associate and two jointly controlled entities were pledged as securities for loan facilities granted to the Company. The Group's share of net assets and the Company's investment costs of the associate and two jointly controlled entities were US\$19,731,000 and US\$14,000,000 respectively.

Contingent Liabilities

During 2002, the Company provided guarantees to banks as securities for finance lease and bank facilities granted to certain subsidiaries and jointly controlled entities and an associate in Indonesia and the PRC. As at 31st December, 2002, total amount of lease and bank facilities, of which guarantees were provided, utilised by the associate and the jointly controlled entities was US\$17,885,000.

Share Capital

There was no movement in the share capital of the Company during the year. Details of share capital are set out in note 27 to the financial statements.

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Directors

The Directors during the year and up to the date of this Annual Report are:

Mr. Chang Yun Chung (also known as Mr. Teo Woon Tiong)
Mr. Teo Siong Seng
Mr. Hsueh Chao En
Mr. Teo Tiou Seng
Mr. Kuan Kim Kin[#]
Mr. Ong Ka Thai^{*}
Mr. Soh Kim Soon^{*}

^{*} Independent Non-Executive Director

[#] Non-Executive Director

In accordance with Articles 92, 93 and 98 of the Company's Articles of Association, Messrs. Teo Siong Seng and Hsueh Chao En retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Audit Committee

Pursuant to the requirements of the Listing Rules, an Audit Committee of the Company was established on 24th August, 1998 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997. During the year under review, the Committee met five times.

The Audit Committee is answerable to the Board and the principal duties of the Committee include the review of the Company's financial reporting process and internal controls.

Directors' Interests

As at 31st December, 2002, the interests of the Directors in the listed securities of the Company as recorded in the Register maintained by the Company pursuant to Section 29 of Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as notified to the Company were as follows:

Name	Number of Ordinary Shares of HK\$0.10 each		Percentage of issued shares
	Personal Interests	Corporate Interests	
Mr. Chang Yun Chung	–	285,660,178 ^(Note)	62.64
Mr. Teo Siong Seng	10,234,000	–	2.24
Mr. Teo Tiou Seng	1,114,000	–	0.24

Note: These shares are held by Pacific International Lines (Private) Limited ("PIL") (an associated corporation, within the meaning of the SDI Ordinance, of the Company) in which Mr. Chang Yun Chung is interested, in aggregate, in 16,525,000 shares representing 89.42 per cent. of the issued share capital of that company. Mr. Chang Yun Chung's interest in shares of PIL comprises a personal interest in 2,642,500 shares and corporate interests in 5,850,000 shares through South Pacific International Holdings Limited, a company in which he holds 55.75 per cent. of the issued share capital and 8,032,500 shares through Y C Chang & Sons Private Limited, a company in which he holds 2.86 per cent. of the issued share capital.

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Directors' Interests (continued)

Details of the total share options held by the Directors during the year and as at 31st December, 2001 are listed below:

Name	Date of Grant	Exercise Price (HK\$)	Number of Share Options as at 31st December, 2002 & 2001
Mr. Teo Siong Seng	8th October, 1994	1.908	1,500,000
	15th May, 1995	1.440	1,500,000
Mr. Hsueh Chao En	8th October, 1994	1.908	400,000
			<hr/>
			3,400,000

Options granted shall not be exercised until the expiry of six months after the date of grant and in any event such period shall not exceed a period of 10 years from the date of grant. The exercise price is determined by the Board and shall be the price being not less than 80 per cent. of the average closing prices of the Company's ordinary shares traded on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant.

Further details of the Share Option Scheme of the Company are set out in note 28 to the financial statements.

Other than those disclosed in note 37 to the financial statements (which in the opinion of the Directors were carried out in ordinary course of the Group's business), no contracts of significance in relation to the Group's business to which the Company, its holding company, fellow subsidiaries or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party of any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, with the exception of the Share Option Scheme, details of which are described above.

Other than as disclosed above, none of the Directors, nor their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the Directors, nor their spouses or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such right during the year.

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Substantial Interests in the Share Capital of the Company

Other than the interests of certain directors disclosed under the section headed "Directors' Interests" above, the Register of Substantial Shareholders maintained under section 16(1) of the SDI Ordinance discloses no other person having an interest of 10 per cent. or more in the issued share capital of the Company as at 31st December, 2002.

Corporate Governance

Throughout the year ended 31st December, 2002 the Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules. The term of office of each non-executive director and independent non-executive director of the Company is the period up to his retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Directors' Service Agreement

Mr. Teo Siong Seng has entered into a service agreement with the Company. Unless terminated by cause, the service agreement is for an initial term of three years which commenced on 1st April, 2000. Thereafter, the service agreement is valid for a further three years, unless terminated by either party giving at least six months' notice. No other Directors or proposed directors has any existing service contract or proposed service contract with the Company which is not terminable by the Company within one year without payment of compensation.

Major Customers and Suppliers

The percentages of the Group's purchases and sales attributable to major suppliers and customers are as follows:

	Percentage
Percentage of purchases attributable to the Group's largest supplier	8.6
Percentage of purchases attributable to the Group's five largest suppliers	32.7
Percentage of sales attributable to the Group's largest customer	17.2
Percentage of sales attributable to the Group's five largest customers	42.8

During the year, none of the Directors or their associates or any shareholder (which to the knowledge of the Directors owns more than 5 per cent. of the Company's share capital) had an interest in the major suppliers or customers noted above.

Purchase, Sale or Redemption of Listed Securities

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

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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Retirement Benefits Scheme

Details of the Retirement Benefits Schemes are set out in note 10 to the financial statements.

Particulars of Directors and Senior Management Executives

Brief biographical details of the Directors and Senior Management Executives of the Company are set out on pages 18 to 20 under the Directors and Senior Management Profile section of this Annual Report.

Remuneration Policies and Employee Relations

As at 31st December, 2002, the Group, including its subsidiaries but excluding associates and jointly controlled entities, employed 2,724 (2001: 2,749) full-time employees. Staff costs (including directors' emoluments) amounted to US\$16.1 million (2001: US\$14.8 million) for the year. All full-time salaried employees, except for factory workers and contract employees, are being paid on a monthly basis, plus a discretionary performance bonus. Factory workers are being remunerated based on a basic wage plus production incentive. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. To further enhance the capability of its human resource, the Group provides on-the-job training to its employees.

Other than the subsidiaries in the PRC, neither the Company nor any of its other subsidiaries has established a labour union. The Company and its subsidiaries; however, are not subject to any collective agreements. The Group has maintained good relationships with its employees. None of the Group's employees is represented by a labour union.

The Company has adopted a Share Option Scheme for employees, details of which are set out in note 28 to the financial statements.

Events after the Balance Sheet Date

Details of significant events after the balance sheet date are set out in note 38 to the financial statements.

Auditors

A resolution will be submitted to the Annual General Meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Chang Yun Chung

Chairman

Hong Kong, 24th March, 2003