

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, 2003.

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 18, 20 and 21, respectively to the financial statements.

An analysis of the Group's turnover and contribution to profit before taxation for the year ended 31st December, 2003 by principal activity is as follows:

Analysis by principal activity

| | Turnover US\$'000 | Contribution to profit before taxation US\$'000 |
|---|-----------------------------|---|
| Container manufacturing | 415,572 | 22,321 |
| Logistics services | | |
| Container depot/terminal | 18,090 | 4,663 |
| Mid-stream | 17,050 | 2,739 |
| | <hr/> 450,712 | 29,723 |
| Finance costs | | (4,105) |
| Investment income | | 299 |
| Share of results of associates | | 1,088 |
| Share of results of jointly controlled entities | | 5,100 |
| Profit before taxation | | <hr/> <hr/> 32,105 |

An analysis of the Group's turnover for the year ended 31st December, 2003 by geographical market is as follows:

Analysis by geographical market

| | Turnover US\$'000 |
|---------------------------------------|-----------------------------|
| Europe | 117,049 |
| Hong Kong | 110,709 |
| United States | 101,404 |
| PRC (other than Hong Kong and Taiwan) | 33,345 |
| Others | 88,205 |
| | <hr/> <hr/> 450,712 |

Results and Appropriations

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 38.

The Directors recommend the payment of a final dividend of HK6 cents per share (2002: HK6 cents per share). Together with the interim dividend of HK3 cents, total dividend for the year was HK9 cents (2002: HK6 cents). Subject to approval at the forthcoming annual general meeting, the proposed final dividend is payable on or before 30th June, 2004 to those shareholders whose names appear on the Register of Members of the Company on Wednesday, 19th May, 2004.

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 30 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.

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 18, 20 and 21, respectively to the financial statements.

Liquidity

As at 31st December, 2003, the Group had bank balances and cash of US\$44.5 million (2002: US\$21.6 million) and total interest-bearing borrowings of US\$119.2 million (2002: US\$58.1 million). This represented a gearing ratio, calculated on the basis of the Group's total interest-bearing borrowings over shareholders' funds, of 1.14 (2002: 0.81) and a net debt to equity ratio, calculated on the basis of the Group's net interest-bearing borrowings (after deducting bank balances and cash of US\$44.5 million) over shareholders' fund, of 0.72 (2002: 0.51). The significant increase in total interest-bearing borrowings was largely attributable to the consolidation of the bank borrowings of Guangdong Shun An Da Pacific Container Co., Ltd. ("Shun An Da"), formerly known as Shunde Shun An Da Pacific Container Co., Ltd., after it became a subsidiary of the Company with effect from 1st January, 2003. The interest coverage ratio of the Group's profit before interest, tax, depreciation and amortisation (EBITDA) to total net interest expense was 11.45 times in 2003, compared to 16.65 times in 2002.

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 84.6 per cent. of the total as at 31st December, 2003 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 minimise 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\$79.2 million repayable within one year and US\$40 million within two to four years. The Group's borrowings are principally on a floating rate and short term basis. As at 31st December, 2003, the Company has outstanding interest rate swap with its notional amount of US\$40 million (2002: nil) to hedge against the floating rate interest risk for a term loan granted for the financing of various business acquisitions of the Company.

Bank Borrowings

Details of bank borrowings of the Group and the Company are set out in note 31 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\$14.2 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.

Acquisitions

During 2003, the Group committed to invest a total of US\$9.9 million to acquire the followings:

- an additional 35 per cent. equity interest in Shanghai Baoshan Pacific Container Co., Ltd. ("Shanghai Baoshan"), formerly known as Shanghai Hyundai Container Manufacturing Co., Ltd. (a dry freight and specialised container manufacturing factory in Shanghai, the PRC);
- an additional 8.052 per cent. equity interest in Shanghai Jifa Logistics Co., Ltd. ("Shanghai Jifa") (a container depot in Shanghai, the PRC);
- an additional 19 per cent. equity interest in Foshan Shunde Leliu Wharf & Container Co., Ltd. ("SLWC"), formerly known as Shunde Leliu Wharf & Container Co., Ltd. (a river container terminal in Shunde, Foshan, the PRC);

- an additional 10 per cent. equity interest in Shun An Da (a dry freight and specialised container manufacturing factory in Shunde, Foshan, the PRC).

As at the balance sheet date, the first three investments were completed.

These investments were and will be financed internally and by bank borrowings on a medium term committed basis.

On 9th January, 2003, the Company entered into a share transfer agreement with Pacific International Lines (Private) Limited (“PIL”) to acquire from PIL 35 per cent. equity interest in Shanghai Baoshan at a consideration of US\$1,522,500, which was satisfied in a form of corporate guarantee provided by the Company in favour of a bank of Shanghai Baoshan. Since PIL is a controlling shareholder of the Company, PIL is a connected person and entering into this agreement constitutes a connected transaction under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). Upon completion of this acquisition in February 2003, the Group’s effective interest in Shanghai Baoshan increased from 39 per cent. (indirectly held through Shanghai Pacific International Container Co., Ltd., a 60 per cent. owned-subsiidiary of the Company) to 74 per cent..

On 20th January, 2003, the Company’s wholly-owned subsidiary, Singamas Warehouse (Shanghai) Company Limited, entered into a share transfer agreement with a third party to acquire an additional 8.052 per cent. equity interest in Shanghai Jifa at a cash consideration of US\$2,956,000. Upon completion of this acquisition in January 2003, the Group’s effective interest in Shanghai Jifa increased from 16.948 per cent. to 25 per cent..

On 12th February, 2003, Singamas Terminals (China) Limited, a wholly-owned subsidiary of the Company entered into a share transfer agreement with a third party to acquire 19 per cent. equity interest in SLWC at a cash consideration of US\$3,800,000. In view that the unaudited net tangible asset value of SLWC as at 31st December, 2002 represented 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 April 2003, the Group’s effective interest in SLWC increased from 40 per cent. to 59 per cent..

On 13th November, 2003, the Company entered into a share transfer agreement with SSCMC Transportation Co., Ltd. (“SSCMC Transportation”) to acquire from SSCMC Transportation an additional 10 per cent. equity interest in Shun An Da at a cash consideration of US\$1,800,000. Since SSCMC Transportation is a substantial shareholder of Shun An Da, SSCMC Transportation is a connected person and entering into this agreement constitutes a connected transaction under the Listing Rules. Upon completion of this agreement in January 2004, the Company’s equity interest in Shun An Da has increased from 60 per cent. to 70 per cent..

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

Share Placement

A Placement Agreement and a Subscription Agreement were entered into on 14th April, 2003.

Report of the Directors *(Continued)*

Under the terms of the Placement Agreement, a total of 60,000,000 existing shares held originally by PIL was placed to independent parties at the price of HK\$2.15 per share ("Placing Price"). Pursuant to the Subscription Agreement, PIL subscribed for 60,000,000 new shares ("New Shares") issued by the Company at HK\$2.09 per new share, arrived at the equivalent of the Placing Price net of expenses related to the Placing.

Immediately after the completion of the Placing and Subscription, the issued share capital of the Company was enlarged by the allotment of the New Shares. As a result, PIL's shareholding interest in the Company at that time was diluted from approximately 62.18 per cent. to 55 per cent. of the issued share capital.

The net proceeds from the completion of the Placing and Subscription were approximately HK\$125,400,000. These were used for general funding purposes, including the financing of the Group's acquisitions of an additional 36.17 per cent. interest in Shanghai Reeferco Container Co., Ltd. and an additional 20 per cent. interest in Shun An Da, the repayment of a bank loan advanced to the Company for the acquisition of an additional 19 per cent. interest in SLWC and the formation of a joint venture company, Qingdao Pacific Container Co., Ltd., to operate a dry freight and specialised container factory in Qingdao, the PRC.

Charges on Assets

As at 31st December, 2003, certain assets of the Group with aggregate carrying value of US\$7,681,000 (2002: US\$15,664,000) were pledged as securities for credit facilities granted by banks to subsidiaries in the PRC.

Contingent Liabilities

During 2003, the Company provided guarantees to banks as securities for bank facilities granted to certain subsidiaries and jointly controlled entities in the PRC. As at 31st December, 2003, total amount of bank facilities, of which guarantees were provided, utilised by the jointly controlled entities was US\$20,132,000.

Share Capital

During the year, the Company issued a total of 66,416,000 new ordinary shares. Details of share capital are set out in note 28 to the financial statements.

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. Ngan Man Kit, Alexander* *(appointed on 1st July, 2003)*

Mr. Ong Ka Thai*

Mr. Soh Kim Soon*

* Independent Non-Executive Director

Non-Executive Director

Report of the Directors (Continued)

In accordance with the provisions of the Company's Articles of Association, every director not being a managing director shall retire from office 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 four 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, 2003, the interests or short positions of the Directors of the Company in the shares of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required notification to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director is taken or deemed to have under such provisions of the SFO); or which (b) were required pursuant to Section 352 of the SFO to be entered into the register maintained by the Company; or which (c) were required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

| Name | Capacity | Number of Ordinary Shares of HK\$0.10 each | | Percentage of Issued Shares |
|---------------------|------------------|---|-----------------------|-----------------------------------|
| | | Personal Interest | Corporate Interest | |
| Mr. Chang Yun Chung | Beneficial Owner | – | 289,308,178 (Note) | 55.38 |
| Mr. Teo Siong Seng | Beneficial Owner | 13,234,000 | – | 2.53 |

Note: These shares are held by PIL (an associated corporation, within the meaning of Part XV of the SFO, 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 PIL. 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 59.95 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. Messrs. Teo Siong Seng and Teo Tiou Seng, directors of the Company, both of their interests in shares of PIL comprise personal interests in 120,000 shares and 80,000 shares respectively and representing 0.65 per cent. and 0.43 per cent. of the issued share capital of PIL.

Details of the share option scheme of the Company are set out in note 29 to the financial statements.

Other than those disclosed in note 39 to the financial statements (which were approved by the Independent Non-Executive Directors and in the opinion of the Directors were carried out on normal commercial terms and in ordinary course of the Group's business), no contracts of significance in relation to the Group's business to

Report of the Directors *(Continued)*

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 in note 29 to the financial statements.

Save as disclosed above, none of Directors, nor their associates, had any other interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which (a) were required notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive is taken or deemed to have under such provisions of the SFO); or which (b) were required pursuant to Section 352 of the SFO to be entered into the register maintained by the Company; or which (c) were required, pursuant to the Model Code for Securities Transaction by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company or the Stock Exchange; and none of the Directors, nor their spouse 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.

Substantial Shareholders' Interests

As at 31st December, 2003, according to the register kept by the Company pursuant to Section 336 of the SFO, and so far as was known to any director of the Company, the following persons (other than the interests of certain Directors disclosed under the section headed "Directors' Interests" above), had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly interested in 10% or more of the issued share capital of the Company, carrying rights to vote in all circumstances at general meetings of the Company together with the number of shares in which they were deemed to be interested were:

| Name | Notes | Number of Ordinary Shares of HK\$0.10 Each | | Percentage of Total Issued Shares |
|--|-------|--|-------------------|-----------------------------------|
| | | Direct Interest | Indirect Interest | |
| CDC IXIS Asset Management Asia Ltd. | | 26,700,000(L)# | – | 5.11 |
| INVESCO Asia Limited (in its capacity as manager/adviser for various accounts) | | 27,718,000(L)# | – | 5.31 |
| J.P. Morgan Chase & Co. | (1) | – | 83,730,000(L)# | 16.03 |
| | | – | 34,286,000(P)# | 6.56 |
| Madam Lee Kheng Wah | (2) | – | 289,308,178(L)# | 55.38 |
| PIL | (3) | 289,308,178(L)# | – | 55.38 |
| Y.C. Chang & Sons Private Limited | (4) | – | 289,308,178(L)# | 55.38 |

(L) - Long Position; (P) - Lending Pool

Report of the Directors *(Continued)*

Notes:

- (1) *These shares in which J.P. Morgan Chase & Co. is deemed to be interested, were held via J.P. Morgan Fleming Asset Management (UK) Limited, JF International Management Inc., JF Asset Management (Taiwan) Limited, JF Asset Management Limited and JP Morgan Chase Bank, respectively.*
- (2) *Madam Lee Kheng Wah, as the spouse of Mr. Chang Yun Chung, is deemed to be interested in these shares.*
- (3) *A full explanation of these shares is disclosed under the section headed "Directors' Interests" above.*
- (4) *As Y.C. Chang & Sons Private Limited directly controls one-third or more of the voting rights in the shareholders' meeting of PIL, in accordance with SFO, Y.C. Chang & Sons Private Limited is deemed to be interested in PIL's interests in the Company's issued shares.*

Save as disclosed above, there was no other person known to the Directors, other than the Directors, who, as at 31st December, 2003, had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Corporate Governance

Throughout the year ended 31st December, 2003 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 and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Directors' Service Agreement

As at 31st December, 2003, no 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 | 16.5 |
| Percentage of purchases attributable to the Group's five largest suppliers | 39.6 |
| Percentage of sales attributable to the Group's largest customer | 12.2 |
| Percentage of sales attributable to the Group's five largest customers | 40.6 |

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 was entered into or existed during the year.

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, 2003, the Group, including its subsidiaries but excluding associates and jointly controlled entities, employed 5,476 (2002: 2,724) full-time employees. Staff costs (including directors' emoluments) amounted to US\$26.3 million (2002: US\$16.1 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 had adopted a Share Option Scheme for employees on 17th June, 1993 which had expired on 16th June, 2003, details of which are set out in note 29 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, 23rd March, 2004