Frequently Asked Questions

1. What significant business achievements has Singamas made in 2004?

A. In 2004, Singamas continued to strengthen our core business – container manufacturing. Accordingly, we have acquired the remaining 30 per cent. stake of Guangdong Shun An Da Pacific Container Co., Ltd., the Group's principal container factory, making it a wholly-owned subsidiary of Singamas. To satisfy the increasing new container demand arising from burgeoning export and new container vessel delivery in the years ahead, in October 2004, Singamas placed 88,811,000 new shares to institutional investors and raised a total of HK$338.5 million (equivalent to approximately US$43.4 million) in net proceeds. This fund will be used mainly for expanding and relocating Tianjin Pacific Container Co., Ltd. (a dry freight and specialised container factory) and constructing a new dry freight container factory in Eastern Guangdong Province. It is expected that these two projects will complete by end of 2005 and will commence full operations in January 2006, whereby the Group's maximum annual production capacity will increase to 1.2 million TEUs by 2006.

2. The global container industry has become an oligopoly. What long-term plans does Singamas have to further capture market share?

A. Market share is not our main focus. We feel that it is more important to meet customers' demand and to maintain or expand our profitability. It is not Singamas' business objective to grow market share at the expense of our profit. In order to maintain profit growth, we need to be competitive in the market. Since we have already achieved economies of scale and possess multi-location delivery capability, as a major player in the market, our competitiveness is unquestionable. In order to meet the increasing container demand in the years ahead, we have been actively expanding our production capacity and we will be capturing market share along the way.

3. Singamas has been actively consolidating its business and increasing production capacity through acquisitions, plant relocation and construction. What makes Singamas so confident about the future demand for containers?

A. As global trade flow and demand for PRC manufactured goods continue to increase, demand for containers and logistics services will follow. According to market statistics, global container trade growth in 2005 is projected at around 10.3 per cent., and shipping capacity is expected to grow at above 10 per cent. in 2005 and about 12 to 14 per cent. in 2006. Trade growth, increasing worldwide container traffic, the phasing in of many new and bigger container vessels in the next few years, increasing containerisation, port congestion in North America and Europe and expected increase in replacement of old container from 2007 onwards are expected to give rise to steady demand for new containers.

4. How are you doing with the construction of the new Guangdong plant?

A. The site has been selected and our land application is now under the final approval stage. Once approval is obtained from the relevant local authorities (which is expected to be granted within one month's time) construction could begin. Based on our schedule, this new plant will be ready for trial production before the end of 2005 and commercial operation will commence in January 2006.

5. What impact did the continuously high raw material costs have on the Group's turnover and margin? Why haven't raw material costs come down even with the PRC Government implementing economic austerity measures?

A. The high raw material costs, especially hot rolled Corten steel thin plate used in container manufacturing, have increased our selling prices. We have been able to pass on the cost increments to our customers and as a result, we were able to maintain our overall margin. As the economic austerity measures implemented by the PRC Government are targeted mainly at domestic investments and overheated primary industries and investments, they have minimal impact on the export market, the market of which is driving new container demand. Moreover, the steel plate used in container manufacturing is very specialised with limited supply. The high demand and short supply situation drove up raw material costs and as demand will remain strong, we do not expect raw material costs to come down in the foreseeable future.

6. Taking into account the continuously high material costs and tight raw material supply in the PRC, has Singamas been exploring other possible sources for raw materials?

A. We have always been sourcing raw materials locally from PRC suppliers as well as from overseas. The procurement decision largely depends on supply, price, quality and delivery time. This is an ongoing decision process. However, if supply is available, we tend to purchase more from the local PRC suppliers as it is more convenient and generally lower in price. On the other hand, thin steel plates are normally sourced from overseas suppliers in Japan, Korea and Taiwan.

7. Some economists expect PRC export growth to slow down and thus container demand to also grow less rapidly in the coming years. How will that affect the Group's business?

A. Even if PRC export growth were to slow down in the coming years, we expect the PRC's export market will continue to grow positively. As long as the export market remains healthy, there will always be demand for new containers. Besides, the phasing in of many new and bigger container vessels and increasing containerisation will create additional demand for containers in the next few years. We also expect that the replacement cycle for old containers will pick up by year 2007/2008 when those below US$1,800 old containers are up for refurbishment. In view of these aforesaid factors, we do not perceive any significant impact on our business from the slowing down of export growth.

8. How will the lifting of textile quotas, consistently high oil prices and weak US dollar affect the Group's business?

A. We expect that:

- the lifting of textile quotas will increase the PRC's exports and new container demand;
- consistently high oil prices will keep raw materials costs at relatively high levels; thus, container selling prices will remain high;
- weak US dollars should not have a material impact on the Group's business since a majority of the Group's revenues and costs are in US dollars; and
- continual high oil price and weak US dollars may affect consumer demand.

9. What is the expected group production in 2005? What will the price trend of containers be like in 2005?

A. The current market conditions are very favourable for container manufacturers. We expect our production in 2005 to grow at a healthy rate. In view of the high material costs, we expect container selling prices to remain high in 2005.

10. What are the major benefits of operating a comprehensive container factory and depot/terminal network? Does the Group have any plans to further extend its existing network to other parts of the region?

A. The major benefits of operating on a comprehensive container factory and depot/terminal network are:

- customers are better served as the Group is providing them "one-stop" services;
- enhancing the Group's multi-location delivery capability; and
- increasing the Group's competitiveness in the market.

As said above, we will further extend our existing network by establishing a new factory in Eastern Guangdong Province. Other than this new factory, we also have some other plans in mind but they are still under discussion and too early to be disclosed at the moment. We will make relevant announcements in due course as soon as our plans are materialised.

11. Singamas' long-term strategy is to become a total logistics company, what has been done during the year in relation to strengthening its logistics operations or extending its service scope to include more container related services?

A. As part of the Group's long-term strategy is to become a total logistics company that offers a full range of container related services through investments and business consolidations, Singamas increased its effective equity interest in Xiamen Superchain Logistics Development Co., Ltd., a container logistics company in Xiamen, from 6.83 per cent. to 14.02 per cent. under a share transfer agreement entered into in March 2004. The move further enhanced our presence in the container logistics industry in the PRC.

In line with the Group's development strategy, Singamas' wholly-owned subsidiary – Singamas Terminals (China) Limited entered into another share transfer agreement in December 2004 to acquire the remaining 40 per cent. equity interest in Tianjin Singamas Container Co., Ltd. ("TSC"). Upon completion of the transaction, TSC will become a wholly-owned subsidiary of the Group and we will be able to further develop our depot network and market coverage in the PRC.

The Group believes that by gradually expanding the scope of its container related services, it will be able to capture more opportunities arising from the healthy growth of the PRC economy in the years ahead. In line with this business objective, our Shanghai depot has obtained a freight forwarder licence at the end of 2003 and our Qingdao depot will be applying this licence in 2005.

12. What is the Group's future dividend policy?

A. The Group is still expanding and we need to reserve certain portion of our profit to fund our expansion plans. Besides, it is one of Singamas' objectives to pay down bank borrowings to lower our gearing ratios. At the same time, we realise the need to provide our shareholders a reasonable return for their investment made in our Company by making a stable stream of dividend payments to them. Our Board's current guideline on future dividend payout is about 25 to 30 per cent. of the Group's consolidated net profit for the year.

Note: "A" means "Answer".