

REPORT OF THE DIRECTORS

The directors ("Directors") of the Singamas Container Holdings Limited ("Singamas"/the "Company") 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, 2006.

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 principal activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 20, 22 and 23, respectively to the financial statements.

An analysis of the Group's revenue and contribution to profit before taxation for the year ended 31st December, 2006 by principal activity is as follows:

ANALYSIS BY PRINCIPAL ACTIVITY

	Revenue US\$'000	Contribution to profit before taxation US\$'000
Manufacturing	890,376	20,834
Logistics services		
Container depot/terminal	20,094	6,389
Mid-stream	13,541	3,326
	<u>924,011</u>	<u>30,549</u>
Finance costs		(17,732)
Investment income		1,540
Changes in fair value of derivative financial instruments		7,468
Share of results of associates		1,189
Share of results of jointly controlled entities		<u>(477)</u>
Profit before taxation		<u>22,537</u>

REPORT OF THE DIRECTORS *(Continued)*

An analysis of the Group's revenue for the year ending 31st December, 2006 by geographical market is as follows:

ANALYSIS BY GEOGRAPHICAL MARKET

	Revenue
	US\$'000
United States	253,456
Europe	201,415
Hong Kong	159,024
Taiwan	67,889
People's Republic of China (other than Hong Kong and Taiwan)	64,398
South Korea	55,734
Others	122,095
	924,011

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 57.

The Directors recommended the payment of a final dividend of HK3 cents per ordinary share (2005: HK9 cents). Together with the interim dividend of HK4 cents per ordinary share (2005: HK9 cents), total dividend for the year would be HK7 cents per ordinary share (2005: HK18 cents). Subject to approval at the forthcoming annual general meeting, the proposed final dividend is payable on or before 31st July, 2007 to those shareholders whose names appear on the register of members of the Company on Friday, 1st June, 2007. The register of members of the Company will be closed from Tuesday, 29th May, 2007 to Friday, 1st June, 2007, both days inclusive, during which period no transfer of shares will be effected.

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 127 to 128.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity and note 36 to the financial statements, respectively.

REPORT OF THE DIRECTORS *(Continued)*

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year are set out in note 17 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 20, 22 and 23, respectively to the financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2006, the Group had bank balances and cash of US\$80,659,000 (2005: US\$102,604,000) and total interest-bearing borrowings of US\$332,829,000 (2005: US\$158,402,000). This represented a gearing ratio, calculated on the basis of the Group's total interest-bearing borrowings over equity attributable to equity holders of the Company, of 1.47 (2005: 0.73) 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\$80,659,000) over equity attributable to equity holders of the Company, of 1.12 (2005: 0.26). The increase in total interest-bearing borrowings was largely attributable to:

- the consolidation of the liabilities of Qingdao Pacific Container Co., Ltd. ("Qingdao Pacific"), a former jointly controlled entity of the Company;
- the additional working capital requirements from Ningbo Pacific Container Co., Ltd. ("Ningbo Pacific") and Hui Zhou Pacific Container Co., Ltd. ("Hui Zhou Pacific"), the Group's two newly established dry freight container factories that have commenced commercial operations in July 2006; and
- the additional working capital requirements from the expanded Tianjin Pacific Container Co., Ltd. after its relocation to a larger site in July 2006.

After completion of the Company's acquisition of an additional 40% equity interest in Qingdao Pacific from Hiking Group Co., Ltd. ("Hiking Group") and following certain amendments to the terms of the joint venture agreement of Qingdao Pacific, Qingdao Pacific has become a subsidiary of the Company with effect from 1st June, 2006.

Higher interest rates and lower profitability of the year affected the interest coverage ratio of the Group. Accordingly, the interest coverage ratio of the Group's profit before interest, tax, depreciation and amortisation (EBITDA) to total net interest expense decreased to 3.24 times in 2006, compared to 10.52 times in 2005.

REPORT OF THE DIRECTORS *(Continued)*

TREASURY POLICIES

The Group maintains a conservative approach on foreign exchange exposure management. The Group's revenues are mostly transacted in US\$ and maintain cash balances mainly in US\$, same is true for its machinery and raw material purchases. To a lesser extent some operating expenses are transacted in other currencies including Hong Kong dollars, Chinese Renminbi ("RMB") and Indonesian Rupiah. To minimise currency risk exposure, a majority of the Group's borrowings, approximately 60% of the total as at 31st December, 2006 was in US\$ with the balance in RMB. The Group also entered into foreign currency swap contract to manage its RMB exposure. As at 31st December 2006, the foreign currency swap contract has an outstanding nominal amount of HK\$77.5 million (2005: nil).

A 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 as at year end date, the maturity profile spread over a period of four years with US\$233,792,000 repayable within one year and US\$99,037,000 within two to four years. The Group's borrowings are principally on a floating rate basis. As at 31st December, 2006, the Company has outstanding interest rate swap contracts with an aggregate notional amount of US\$137.5 million (2005: US\$50 million) 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 37 to the financial statements. No interest was capitalised by the Group during the year.

ACQUISITION AND DISPOSAL

During 2006, the Group made the following acquisition and disposal:

- acquired an additional 40% equity interest in Qingdao Pacific from Hiking Group; and
- disposed of 20%, 7% and 2% equity interest in Hui Zhou Pacific respectively to China Shipping Investment Co., Ltd. ("China Shipping"), Mitsubishi Corporation and Mitsubishi Corporation (Hong Kong) Limited.

The acquisition was financed by internal resources of the Group and as at the date of this Annual Report, this acquisition was fully paid up.

REPORT OF THE DIRECTORS *(Continued)*

CONNECTED TRANSACTIONS

During the year, the Company had entered into the following connected transactions:

1. On 29th May, 2006, the Company entered into a share transfer agreement with Hiking Group under which the Company agreed to purchase from Hiking Group a 40% equity interest in Qingdao Pacific at a consideration of US\$4,800,000 in cash which has been funded by internal resources of the Group. At the time of this transaction, in view that Hiking Group was a substantial shareholder of Qingdao Pacific, in which Hiking Group was holding 45% equity interest, Hiking Group was a connected person and the entering into of this agreement constituted a connected transaction under the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("HKEx").

Based on the five size tests performed, certain percentage ratios exceeded 5% but less than the 25% thresholds, this transaction also constituted a discloseable transaction under the Listing Rules. As certain percentage ratios and total consideration exceeded 2.5% and HK\$10,000,000, this transaction would normally be subject to independent shareholders' approval under the Listing Rules. Pacific International Lines (Private) Limited ("PIL") (the controlling and substantial shareholder of the Company as defined under the Listing Rules) and Mr. Teo Siong Seng (a shareholder and director of PIL), both considered as a closely allied group of shareholders of the Company under the Listing Rules, who were not interested in this transaction other than their respective shareholdings held in the Company, had given written confirmations to the Company to approve this transaction. No shareholder, including PIL and this aforesaid shareholder, is required to abstain from voting. Accordingly, the Company had applied to HKEx for and been granted a waiver from the requirements under Rule 14A.43 of the Listing Rules and obtained written independent shareholders' approval in lieu of holding a general meeting in respect of this transaction.

2. On 20th September, 2006, the Company entered into a share transfer agreement with China Shipping under which the Company agreed to sell a 20% equity interest in Hui Zhou Pacific at a cash consideration of US\$8,071,000 to China Shipping. At the time of this transaction, China Shipping was holding 20% equity interest in Ningbo Pacific while the remaining interest of 80% is held by Singamas. In view that China Shipping is a substantial shareholder of Ningbo Pacific, China Shipping is a connected person of Singamas as defined under the Listing Rules. Based on five tests performed, each of the relevant percentage ratios was less than 2.5%. Accordingly, under Rule 14A.32 of the Listing Rules, the entering into of this share transfer agreement was exempt from the independent shareholders' approval requirements, and would only be subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules.

Details of the aforesaid connected transactions had been disclosed by way of a press notice in compliance with the Listing Rules.

REPORT OF THE DIRECTORS *(Continued)*

CONTINUING CONNECTED TRANSACTIONS

During 2006, the Group had the following continuing connected transactions:

1. On 12th January, 2005, Singamas Terminals (Hong Kong) Limited ("STHK"), a company engaged in the business of provision of mid-stream services and a wholly owned-subsiidiary of the Company, entered into a terminal agreement (the "Terminal Agreement") with Pacific International Lines (H.K.) Limited ("PILHK") to take effect retrospectively from 1st January, 2005, for a term of three years. PILHK, a company in which Messrs. Chang Yun Chung, Teo Siong Seng and Teo Tiou Seng, directors and shareholders of PIL, have beneficial interests, is an associate of PIL, the controlling and substantial shareholder of the Company, as defined under the Listing Rules. Since the Terminal Agreement involves transactions, which occur on a recurring basis over a period of time, the transactions constitute continuing connected transactions of the Company under the Listing Rules and are subject to the requirements of reporting, announcement and independent shareholders' approval under the Listing Rules.

It was estimated that the amount of STHK's transactions with PILHK, on annual basis, for the three years commencing 1st January, 2005 would exceed 1% threshold in Rules 14A.31(7) but would not exceed 2.5% for each of the percentage ratios, other than the profits ratio, in the threshold tests in Rule 14A.34 of the Listing Rules. Accordingly, the transactions are only subject to the reporting and announcement requirements of the Listing Rules and are exempt from the independent shareholders' approval requirements. Details of these continuing connected transactions had been disclosed by way of a press notice in compliance with the Listing Rules.

2. On 11th April 2006, Singamas Management Services Limited ("SMSL"), a wholly-owned subsidiary of the Company, entered into a master purchase agreement (the "Master Purchase Agreement") with PIL for the sales of containers and other related equipment by the Group to PIL Group. In view that PIL is the controlling and substantial shareholder of the Company, as defined under the Listing Rules, PIL is a connected person of the Company and the entering into of the Master Purchase Agreement would constitute a continuing connected transaction. As the Master Purchase Agreement involves transactions, which occur on a recurring basis over a period of time, the transactions constitute continuing connected transactions of the Company. In view of certain percentage ratios would exceed 25% on an annual basis for the financial year ending 31st December 2006 and for the two following financial years commencing from 1st January 2007, the transactions are subject to the reporting, announcement and independent shareholders' approval requirements of the Listing Rules. After obtaining the approval from the independent shareholders on 18th May, 2006, the Master Purchase Agreement has taken effect from 19th May, 2006 and will be ending on 31st December 2008.

REPORT OF THE DIRECTORS *(Continued)*

The aforesaid continuing connected transactions have been approved by the Directors and the independent non-executive Directors have reviewed these transactions and are in the opinion that:-

- (a) those continuing connected transactions between STHK and PILHK are entered into in the ordinary and usual course of business of the Group and in accordance with the agreement governing them. They are conducted on normal commercial terms no less favourable than those available to or from independent third parties. The terms are fair and reasonable and in the interests of the shareholders of the Company as a whole. The total amount of such transactions for the year ended 31st December, 2006 did not exceed the annual cap of HK\$60 million;
- (b) those continuing connected transactions between SMSL and PIL are entered into in the ordinary and usual course of business of the Group and in accordance with the agreement and the underlying purchases orders governing them. They are conducted on normal commercial terms no less favourable than those available to or from independent third parties. The terms are fair and reasonable and in the interests of the shareholders of the Company as a whole. The total amount of such transactions for the year ended 31st December, 2006 did not exceed the annual cap of US\$46,425,000 (equivalent to approximately HK\$359,793,750).

The auditors of the Company have issued letters to the Directors in relation to the compliance of the conditions prescribed in the Listing Rules in respect of the aforesaid continuing connected transactions.

CHARGES ON ASSETS

As at 31st December, 2006, certain assets of the Group with aggregate carrying value of US\$487,000 (2005:US\$6,062,000) were pledged as securities for credit facilities granted by banks to subsidiaries in the PRC.

CONTINGENT LIABILITIES

During 2006, the Company provided guarantees to banks as securities for bank facilities granted to certain subsidiaries and a jointly controlled entity in the PRC. As at 31st December, 2006, total amount of bank facilities of which guarantees were provided, utilised by the jointly controlled entity was US\$2,240,000.

SHARE CAPITAL

Details of share capital are set out in note 35 to the financial statements.

CORPORATE GOVERNANCE

The Company committed to maintaining a high standard of corporate governance and has taken appropriate steps to adopt and comply with the provisions of the Code on Corporate Governance Practices during the year ended 31st December, 2006.

REPORT OF THE DIRECTORS *(Continued)*

Further information on the Company's corporate governance practices is set out in the "Corporate Governance Report", "Remuneration Committee Report" and "Audit Committee Report".

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of the Directors, all of the Directors have complied with, for any part of the accounting period covered by this Annual Report, the required standard set out in the Model Code and its code of conduct regarding directors' securities transaction.

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. Jin Xu Chu

Mr. Teo Tiou Seng

Mr. Kuan Kim Kin[#]

Mr. Ngan Man Kit, Alexander^{*}

Mr. Ong Ka Thai^{*}

Mr. Soh Kim Soon^{*}

^{*} *Independent Non-executive Director*

[#] *Non-executive Director*

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. A director so appointed as to the office of managing director, shall be subject to retirement by rotation at least once every three years but shall be eligible for re-election.

The term of office for independent non-executive directors of the Company is for a year and is subject to retirement and re-election at the annual general meeting in accordance with the Company's articles of association.

The Company has received annual confirmation of independence from Mr. Ngan Man Kit, Alexander, Mr. Ong Ka Thai and Mr. Soh Kim Soon and considered them as independent.

REPORT OF THE DIRECTORS *(Continued)*

DIRECTORS' INTERESTS

As at 31st December, 2006, the interests or short positions of the Directors 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 HKEx 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 contained in the Listing Rules, to be notified to the Company and HKEx 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	–	304,120,178 <i>(Note)</i>	49.76
Mr. Teo Siong Seng	Beneficial Owner	13,234,000	–	2.17

Note: These shares are held by PIL in which Mr. Chang Yun Chung is interested in aggregate, in 165,600,000 shares representing 89.61% of the issued share capital of PIL. Mr. Chang Yun Chung's interest in shares of PIL comprises a personal interest in 26,425,000 shares and corporate interests in 58,500,000 shares through South Pacific International Holdings Limited, a company in which he holds 1.87% of the issued share capital and 80,675,000 shares through Y. C. Chang & Sons Private Limited, a company in which he holds 2.86% 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 1,200,000 shares and 800,000 shares respectively and representing 0.65% and 0.43% of the issued share capital of PIL.

The Company currently does not have any share option scheme.

Other than those disclosed in note 44 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 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.

REPORT OF THE DIRECTORS *(Continued)*

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 HKEx 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 contained in the Listing Rules, to be notified to the Company or HKEx; 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, 2006, according to the register kept by the Company pursuant to Section 336 of the SFO, and so far as was known to any Director, 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:

Name	Notes	Number of Ordinary Shares of HK\$0.10 Each		Percentage of Total Issued Shares
		Direct Interest	Indirect Interest	
Madam Lee Kheng Wah	(1)	–	304,120,178 (L) [#]	49.76
PIL	(2)	304,120,178 (L) [#]	–	49.76
Y.C. Chang & Sons Private Limited	(3)	–	304,120,178 (L) [#]	49.76

[#] (L) – Long Position

Notes:

- (1) Madam Lee Kheng Wah, as the spouse of Mr. Chang Yun Chung, is deemed to be interested in these shares.
- (2) A full explanation of these shares is disclosed under the section headed "Directors' Interest" above.
- (3) 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.

REPORT OF THE DIRECTORS *(Continued)*

Save as disclosed above, there was no other person known to the Directors, other than the Directors, who, as at 31st December, 2006, 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.

DIRECTORS' SERVICE AGREEMENT

Mr. Teo Siong Seng entered into a service agreement with the Company. Unless terminated by cause, the service agreement is valid for an initial term of three years which commenced on 1st January, 2005. Thereafter, the service agreement is valid for a further three years, unless terminated by either party giving at least three months' notice. As 31st December, 2006, no other Directors or proposed directors had any existing service contract or proposed service contract with the Company or any of its subsidiaries 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	15.2
Percentage of purchases attributable to the Group's five largest suppliers	39.6
Percentage of sales attributable to the Group's largest customer	10.8
Percentage of sales attributable to the Group's five largest customers	34.2

During the year, none of the Directors nor their associates or any shareholder (which to the knowledge of the Directors owns more than 5% 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.

REPORT OF THE DIRECTORS *(Continued)*

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 Scheme are set out in note 13 to the financial statements.

PARTICULAR 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 21 under the Directors and Senior Management Profile section of this Annual Report.

REMUNERATION POLICIES AND EMPLOYEE RELATIONS

As at 31st December, 2006, the Group, including its subsidiaries but excluding associates and jointly controlled entities, employed 12,344 (2005: 6,580) full-time employees. Staff costs (including Directors' emoluments) amounted to US\$51.5 million (2005: 36.6 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 awarded 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 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.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this Annual Report.

REPORT OF THE DIRECTORS *(Continued)*

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

On 20th May, 2005, the Company entered into a facility agreement (the "Facility Agreement") with a syndicate of banks in respect of the US\$100,000,000 term loan and revolving credit facilities ("Facility") for a term of five years for the purposes of refinancing the US\$40,000,000 term loan and revolving credit facilities provided to the Company under a facility agreement dated 30th September, 2003 between the Company and a group of financial institutions named therein and funding certain business acquisitions and the working capital requirements of the Group. The Facility Agreement includes conditions to the effect that PIL, a substantial and controlling shareholder of the Company, continues to be the controlling shareholder (as defines in the Listing Rules) and the single largest beneficial shareholder of the Company. A breach of the above conditions would constitute an event of default under the Facility Agreement. If such an event of default occurs, all amounts outstanding under the Facility may become immediately due and payable. This disclosure is made in accordance with the continuing disclosure requirement under the Listing Rules.

AUDITORS

A resolution for the re-appointment of Messrs. Deloitte Touche Tohmatsu as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Chang Yun Chung

Chairman

Hong Kong, 11th April, 2007