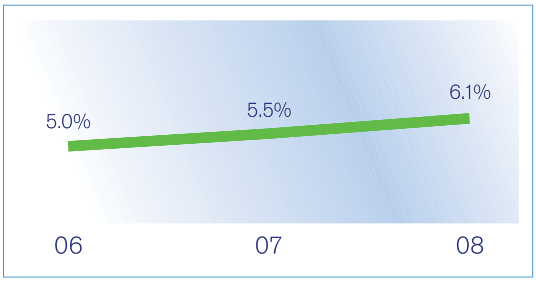
Operational Review
Terminals

Commencement of Piraeus Terminal concession
Gain in market share to 6.1% of world throughput
Strong performance from Bohai Rim region

COSCO Pacific maintained its position as the world's fifth largest operator of container terminals. Our strategy during the past four years has been to obtain controlling stakes in new terminal investments, expanding our global terminal networks and diversify our terminal investments. This has led to increased global market share, strong revenue growth and equity throughput rising faster than total throughput.

2006–2008 global market share



2006–2009 equity throughput outperforms total throughput

Top 10 global container ports throughput

Rank		Port	Throughput (TEUs)	y-o-y change	
2009	(2008)		2009	2009	(2008)
1	(1)	Singapore	25,867,000	-13.5%	(+7.0%)
2	(2)	Shanghai	25,002,000	-10.7%	(+7.0%)
3	(3)	Hong Kong	21,040,000	-14.1%	(+2.1%)
4	(4)	Shenzhen	18,250,000	-14.8%	(+1.5%)
5	(5)	Busan	11,980,000	-10.9%	(+1.0%)
6	(8)	Guangzhou	11,190,000	+4.9%	(+18.8%)
7	(6)	Dubai	11,120,000	-6.0%	(+11.0%)
8	(7)	Ningbo	10,503,000	-3.9%	(+19.0%)
9	(10)	Qingdao	10,260,000	+2.4%	(+9.1%)
10	(9)	Rotterdam	9,743,000	-9.6%	(+0.0%)

Source: The websites of Hong Kong Port Development Council and China Association Container Branch

Top 10 China container ports throughput

Rank		Port	Throughput (TEUs)	y-o-y change	
2009	(2008)		2009	2009	(2008)
1	(1)	Shanghai	25,002,000	-10.7%	(+7.0%)
2	(2)	Shenzhen	18,250,000	-14.8%	(+1.5%)
3	(4)	Guangzhou	11,190,000	+4.9%	(+18.8%)
4	(3)	Ningbo	10,503,000	-3.9%	(+19.0%)
5	(5)	Qingdao	10,260,000	+2.4%	(+9.1%)
6	(6)	Tianjin	8,700,000	+2.4%	(+19.7%)
7	(7)	Xiamen	4,680,000	-7.0%	(+10.3%)
8	(8)	Dalian	4,552,000	+1.1%	(+18.1%)
9	(9)	Lianyungang	3,021,000	+1.3%	(+48.2%)
10	(10)	Yingkou	2,537,000	+24.6%	(+7.5%)

Source: The website of China Association Container Branch

Strong Revenue Growth

The profit contribution from the terminals division decreased 30.7% year-on-year to US$83,554,000 (2008: US$120,557,000). Revenue increased by 40.1% year-on-year to US$119,593,000 (2008: US$85,353,000).

The strong growth in revenue is attributable to a full year contribution from 80% owned subsidiary Jinjiang Pacific Terminal, which was consolidated in April 2008, as well as the addition of Piraeus Terminal as a wholly-owned subsidiary in October 2009. The decline in profit reflects the fall in throughput and higher depreciation expense. In addition, Guangzhou South China Oceangate Terminal and Piraeus Terminal are still in early phases of ramping up, hence both recorded losses for the year.

Challenging Operating Environment

The container terminal market experienced its first decline in throughput on record in 2009, as merchandise trade declined severely in the wake of the financial crisis that erupted in the US in late 2008. According to Drewry, global port throughput in 2009 is estimated to have fallen by 11.6% to 463,600,000 TEUs from 524,500,000 TEUs in 2008.

The fall in import and export volumes was the result of a recessionary environment in the major developed economies, exacerbated by tight credit conditions. Even though China managed to achieve strong GDP growth of 8.7% for the year, this was achieved largely through increased investment in fixed assets, which led to growth in raw materials imports, rather than a continued expansion of exports.

The contraction of exports was especially severe in the early part of 2009, with China's container throughput slumping by 16% in February, according to the Ministry of Communications. In November and December, however, volumes rose substantially, reversing the usual seasonal pattern of fourth quarter weakness. For the year, throughput fell by 6.0%.

The effects of the downturn were especially severe in the Pearl River Delta and Yangtze River Delta regions, whose economies are closely tied to global trade. The Bohai Rim region, which has more exposure to Asian and domestic trade, outperformed those two regions. Yingkou Port and Guangzhou Port, both of which cater mainly to domestic trade, posted the strongest performances.

Operational Review

Terminals

Increasing Global Market Share

According to the report on global container terminal operators released by Drewry in July 2009, COSCO Pacific ranked as the fifth largest operator in the world in 2008 (2007: fifth) with a 6.1% share of the global market (2007: 5.5%). This year-on-year increase of 0.6 percentage points represents the highest increase in market share among the top 10 terminal operators.

Top 10 global container terminal operators

Rank 2008	(2007)	Container terminal operator	Market share 2008	(2007)
1	(1)	HPH	13.0%	(13.3%)
2	(2)	APM Terminals	12.3%	(12.1%)
3	(3)	PSA	11.4%	(11.0%)
4	(4)	DP World	8.9%	(8.7%)
5	(5)	COSCO Pacific	6.1%	(5.5%)
6	(6)	MSC	3.1%	(2.9%)
7	(7)	Eurogate	2.5%	(2.7%)
8	(8)	Evergreen	2.0%	(2.1%)
9	(10)	HHLA	1.4%	(1.5%)
10	(9)	SSA Marine	1.4%	(1.6%)

Source: Drewry Shipping Consultants Limited (July 2009)

Throughput Returns to Growth in the Final Quarter

2009 quarterly total throughput y-o-y growth rate

Beginning in the final quarter of 2008, COSCO Pacific's container throughput began to suffer from the impact of the financial crisis on global container trade, with especially steep declines during the first two quarters of 2009. Throughput showed improvement in the third quarter and returned to growth in the final quarter after three consecutive quarters of decline. Throughput for the year fell 5.1% (2008: +17.7%) to 43,549,810 TEUs (2008: 45,878,875 TEUs), a decrease of 2,329,065 TEUs (2008: an increase of 6,896,270 TEUs).

Our China Throughput Outperforms the China Market

For the China terminals, excluding Hong Kong, the decline in throughput amounted to 4.0%, outperforming the China market, where throughput in 2009 declined by 6.0%. This good performance resulted from the Group's high exposure in Bohai Rim and increased investment in domestic ports in recent years.

Equity Throughput Outperforms Total Throughput

Equity throughput vs total throughput

	Equity throughput (TEUs)	y-o-y change	Total throughput (TEUs)	y-o-y change
Bohai Rim	3,686,517	+2.6%	17,487,346	+2.2%
Yangtze River Delta	1,908,243	-10.3%	8,383,257	-11.8%
Pearl River Delta and Southeast Coast	2,839,351	-3.6%	13,308,775	-8.5%
China	8,434,111	-2.7%	39,179,378	-4.8%
China (excluding Hong Kong)	7,753,639	-0.5%	37,818,433	-4.0%
Overseas	1,269,336	-3.0%	4,370,432	-7.6%
Total	**9,703,447**	**-2.7%**	**43,549,810**	**-5.1%**

To enhance its leadership as a global terminal operator, the Group has placed increasing emphasis on obtaining controlling stakes in new terminal investments, and now holds such investments in six terminals: Piraeus Terminal (100%), Zhangjiagang Win Hanverky Terminal (51%), Yangzhou Yuanyang Terminal (55.59%), Quan Zhou Pacific Terminal (71.43%), Jinjiang Pacific Terminal (80%) and Xiamen Ocean Gate Terminal (70%).

For the year, the Group's equity throughput was 9,703,447 TEUs (2008: 9,973,805 TEUs). Throughput on an equity basis declined by only 2.7% year-on-year, 2.4 percentage points less than the decrease in total throughput, an encouraging indication of the success of the Group's strategy. The outperformance reflected the addition of Piraeus Terminal in October 2009, a first full year contribution from Jinjiang Pacific Terminal, which consolidated in April 2008, and a strong volume rebound at the Quan Zhou Pacific Terminal.

Balanced Geographical Terminal Network

During 2009, the Group added a total of 3,700,000 TEUs of handling capacity in seven berths at four locations, including one berth of 600,000 TEUs at Ningbo Yuan Dong Terminal, one berth of 600,000 TEUs at Quan Zhou Pacific Terminal and one berth of 900,000 TEUs at Yantian Terminal, as well as the four berths at Piraeus Terminal of 1,600,000 TEUs.

Following the expansion, as at 31st December 2009, the annual handling capacity of the Group's operating terminal companies in the Bohai Rim region reached 15,100,000 TEUs at 31 container berths and 600,000 vehicles at two automobile berths. The Yangtze River Delta region capacity was 9,700,000 TEUs at 24 berths and 6,550,000 tons of break bulk cargo at five berths. The Pearl River Delta and Southeast Coast capacity rose to 20,500,000 TEUs at 27 berths and 2,500,000 tons of break bulk cargo at 3 berths. Overseas, the Group had 6,750,000 TEUs of capacity at 14 berths.

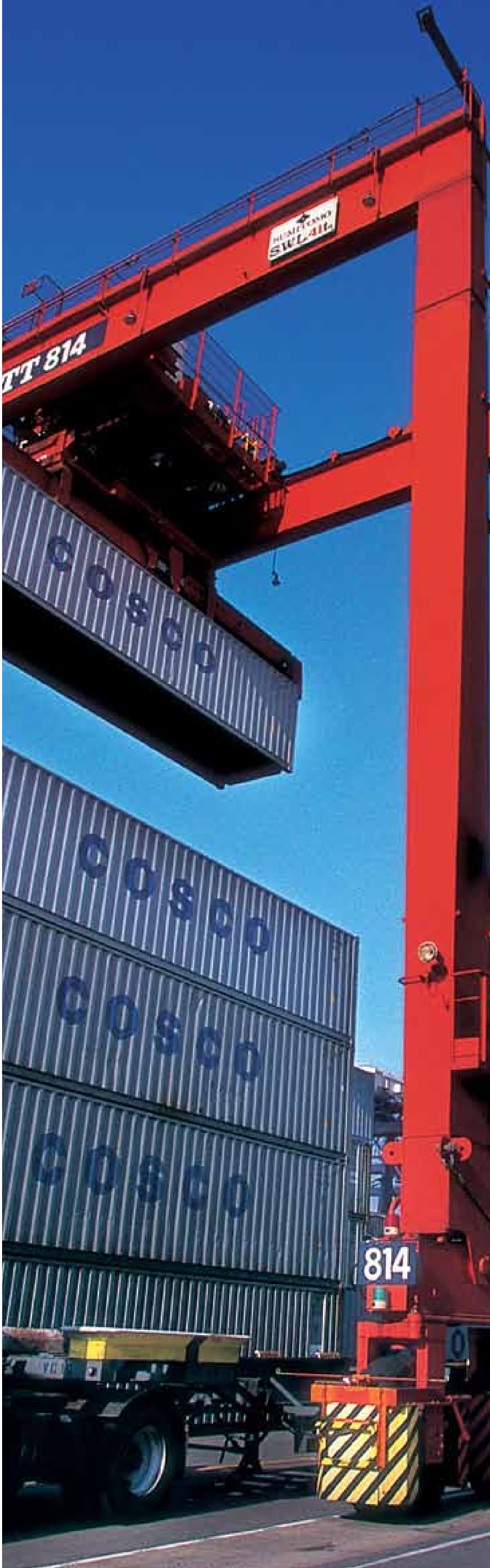
2009 newly launched capacity

Terminal companies	No. of Berths	Annual handling capacity (TEUs)	Equity annual handling capacity (TEUs)
Ningbo Yuan Dong Terminal	1	600,000	120,000
Quan Zhou Pacific Terminal	1	600,000	428,580
Yantian Terminal	1	900,000	40,050
China	3	2,100,000	588,630
Piraeus Terminal	4	1,600,000	1,600,000
Total	**7**	**3,700,000**	**2,188,630**

Regional breakdown of operating berths and annual handling capacity

	No. of Berths	Annual handling capacity	% of total annual handling capacity
Bohai Rim			
Container berths	31	15,100,000 TEUs	29.0%
Automobile berths	2	600,000 vehicles	100.0%
Total no. of berths	33		
Yangtze River Delta			
Container berths	24	9,700,000 TEUs	18.6%
Break-bulk cargo berths	5	6,550,000 tons	72.4%
Total no. of berths	29		
Pearl River Delta and Southeast Coast			
Container berths	27	20,500,000 TEUs	39.4%
Break-bulk cargo berths	3	2,500,000 tons	27.6%
Total no. of berths	30		
China			
Container berths	82	45,300,000 TEUs	87.0%
Break-bulk cargo berths	8	9,050,000 tons	100.0%
Automobile berths	2	600,000 vehicles	100.0%
Total no. of berths	92		
Overseas			
Total no. of berths	14	6,750,000 TEUs	13.0%
Total no. of container berths	**96**	**52,050,000 TEUs**	
Total no. of break-bulk cargo berths	**8**	**9,050,000 tons**	
Total no. of automobile berths	**2**	**600,000 vehicles**	
Total no. of berths	**106**		

Operational Review
Terminals



Throughput by Region

Regional breakdown of total throughput

	Total throughput (TEUs)	y-o-y change	% of total	% of total y-o-y change
Bohai Rim	17,487,346	+2.2%	40.2%	+2.9pp
Yangtze River Delta	8,383,257	-11.8%	19.2%	-1.5pp
Pearl River Delta and Southeast Coast	13,308,775	-8.5%	30.6%	-1.1pp
China	39,179,378	-4.8%	90.0%	+0.3pp
China (excluding Hong Kong)	37,818,433	-4.0%	86.8%	+1.0pp
Overseas	4,370,432	-7.6%	10.0%	-0.3pp
Total	**43,549,810**	**-5.1%**	**100%**	**–**

The share in total throughput accounted for by the Group's four major regions showed the effects of its investment in new ports, as well as the change in patterns of trade.

The Bohai Rim region saw throughput increase by 2.2% to 17,487,346 TEUs (2008: 17,103,887 TEUs), accounting for 40.2% of the total throughput (2008: 37.3%). The outperformance was mainly driven by Qingdao Qianwan Terminal.

Throughput in the Yangtze River Delta fell sharply by 11.8% to 8,383,257 TEUs (2008: 9,503,821 TEUs), accounting for 19.2% of the total throughput (2008: 20.7%). The region was the worst performer among all regions as Shanghai Port experienced a severe decline in exports, which badly affected Shanghai Terminal, Shanghai Pudong Terminal and feeder ports along Yangtze River.

The throughput in the Pearl River Delta and Southeast Coast fell to 13,308,775 TEUs (2008: 14,539,711 TEUs), a decrease of 8.5% year-on-year, accounting for 30.6% of the total throughput (2008: 31.7%). The internationally oriented Pearl River Delta terminals saw volumes fall 10.0%, while the Southeast Coast recorded a 9.7% rise.

The share of overseas terminal companies in total throughput held steady at 10.0% in 2009. Their total throughput fell by 7.6% to 4,370,432 TEUs (2008: 4,731,456 TEUs), as the severe decline in world trade affected the terminals in Antwerp and Singapore.

Bohai Rim

Throughput of Bohai Rim terminal companies

	2009 (TEUs)	2008 (TEUs)	y-o-y change
Qingdao Qianwan Terminal	8,961,785	8,715,098	+2.8%
Qingdao Cosport Terminal	1,145,352	1,099,937	+4.1%
Dalian Port Container Co., Ltd.	2,906,768	2,742,503	+6.0%
Dalian Port Terminal	1,509,401	1,656,968	-8.9%
Tianjin Five Continents Terminal	1,940,933	1,938,580	+0.1%
Yingkou Terminal	1,023,107	950,801	+7.6%
Total	**17,487,346**	**17,103,887**	**+2.2%**
As a percentage of total throughput	**40.2%**	**37.3%**	**+2.9pp**

The throughput of Qingdao Qianwan Terminal in 2009 rose 2.8% to reach 8,961,785 TEUs (2008: 8,715,098 TEUs), as a result of the successful affiliation of new routes. Qingdao Cosport Terminal handled 1,145,352 TEUs (2008: 1,099,937 TEUs), up 4.1% on strong domestic trade. The market share of the two terminals in Qingdao Port was 98.5%.

In December 2009, Qingdao New Qianwan Terminal and China Merchants International Container Terminal (Qingdao) Co., Ltd. (China Merchants Qingdao), a subsidiary of the China Merchants Holdings (International) Company Limited, formed a 50:50 joint venture company, Qingdao Qianwan United Container Terminal Co., Ltd.

The joint venture operates four berths owned by Qingdao New Qianwan Terminal and five berths owned by China Merchants Qingdao. The total investment is approximately RMB6,000,000,000 (equivalent to approximately US$878,709,000). The joint venture began operations in January 2010. The venture will assist the development of container terminal business at Qingdao Port.

Dalian Port Container Co. Ltd, saw throughput increase 6.0% to 2,906,768 TEUs (2008: 2,742,503 TEUs). In June 2009, the Group signed an agreement for the disposal of its 8.13% stake in the terminal company to the Dalian Port (PDA) Company Limited for a total consideration of RMB140,605,000 (equivalent to approximately US$20,581,000). The transaction was completed in January 2010, yielding a pre-tax gain on disposal of US$7,020,000 which will be recognised in the first half of 2010. The disposal serves to dispose of a terminal investment in which the Group has only a minority stake.

Dalian Port Terminal is located in the bonded port area in Dalian Port and only handles international cargo. After very strong growth in 2008 Dalian Port Terminal saw throughput decline by 8.9% to 1,509,401 TEUs (2008: 1,656,968 TEUs), affected by the decrease in international trade.

Throughput at Tianjin Five Continents Terminal was broadly unchanged at 1,940,933 TEUs (2008: 1,938,580 TEUs), led by increased handling of domestic cargo in the fourth quarter.

Yingkou Terminal recorded a 7.6% rise in throughput to 1,023,107 TEUs (2008: 950,801 TEUs) on the back of strong domestic trade.

Operational Review
Terminals

Yangtze River Delta

Throughput of Yangtze River Delta terminal companies

	2009 (TEUs)	2008 (TEUs)	y-o-y change
Shanghai Pudong Terminal	2,291,281	2,779,109	-17.6%
Shanghai Terminal	2,979,849	3,681,785	-19.1%
Ningbo Yuan Dong Terminal	1,117,169	903,865	+23.6%
Zhangjiagang Win Hanverky Terminal	715,413	710,831	+0.6%
Yangzhou Yuanyang Terminal	221,046	267,970	-17.5%
Nanjing Longtan Terminal	1,058,499	1,160,261	-8.8%
Total	**8,383,257**	**9,503,821**	**-11.8%**
As a percentage of total throughput	**19.2%**	**20.7%**	**-1.5pp**
Break-bulk cargo throughput (tons)	**14,212,852**	**11,882,066**	**+19.6%**

The throughput of Shanghai Pudong Terminal declined by 17.6% to 2,291,281 TEUs (2008: 2,779,109 TEUs), as shipping companies adjusted their routes. This also affected Shanghai Terminal, where throughput fell by 19.1% to 2,979,849 TEUs (2008: 3,681,785 TEUs).

Ningbo Yuan Dong Terminal, which began operations in 2007, continued to perform well, with throughput surging 23.6% to 1,117,169 TEUs (2008: 903,865 TEUs). A new container berth of 600,000 TEUs annual handling capacity was launched in the third quarter of 2009, driving throughput growth in the second half.

Zhangjiagang Win Hanverky Terminal, Yangzhou Yuanyang Terminal and Nanjing Longtan Terminal are branch line ports and feeder ports located in the Yangtze River Basin which connect cargo sources on the lower and middle reaches of the Yangtze River with the Shanghai Port. Their performance thus partly mirrored the slowdown at the main Shanghai terminals.

The three terminal companies together handled 1,994,958 TEUs in 2009 (2008: 2,139,062 TEUs), representing a 6.7% decrease from the previous year. The decline narrowed markedly in the final quarter, however, and Zhangjiagang Win Hanverky Terminal has recorded monthly year-on-year growth since July 2009 on higher transhipment cargo.

In April 2009, the Group participated in a capital increase in Nanjing Longtan Terminal. This transaction provided capital for the development of five container berths of the phase II of the Longtan port area in Nanjing Port and was in accord with the terms of the joint venture agreement signed in 2005. Total project investment is RMB2,207,700,000 (equivalent to approximately US$324,662,000). The new berths of the expansion project are expected to launch in 2011. Annual handling capacity of the five berths is 1,000,000 TEUs.

Pearl River Delta & Southeast Coast

Throughput of Pearl River Delta and Southeast Coast terminal companies

	2009 (TEUs)	2008 (TEUs)	y-o-y change
COSCO-HIT Terminal	1,360,945	1,752,251	-22.3%
Yantian Terminal	8,579,013	9,683,493	-11.4%
Guangzhou South China Oceangate Terminal	2,158,291	2,000,130	+7.9%
Quan Zhou Pacific Terminal	936,136	910,058	+2.9%
Jinjiang Pacific Terminal	274,390	193,779	+41.6%
Total	**13,308,775**	**14,539,711**	**-8.5%**
As a percentage of total throughput	**30.6%**	**31.7%**	**-1.1pp**
Break-bulk cargo throughput (tons)	**2,760,569**	**1,773,157**	**+55.7%**

The severe recession in Europe and the United States continued to pressure exports from the Pearl River Delta, exacerbated by further reductions in routes to these markets during the early part of the year. This badly affected those container terminals with a high exposure to international trade flowing to these two regions.

COSCO-HIT Terminal in Hong Kong handled 1,360,945 TEUs during the year (2008: 1,752,251 TEUs), down 22.3% year-on-year. Though registering a decline, Yantian Terminal outperformed the Shenzhen port, with throughput falling by only 11.4% to 8,579,013 TEUs (2008: 9,683,493 TEUs). This followed the launch of the fifth berth of the phase three expansion project as scheduled in the third quarter of 2009, the strengthening of the port's domestic cargo and international transhipment business and the successful establishment of a sea-rail container transportation business in 2008.

Guangzhou South China Oceangate Terminal, however, saw a 7.9% increase, buoyed by the high proportion of its cargoes being domestic trade. For the year, throughput at the terminal rose to 2,158,291 TEUs (2008: 2,000,130 TEUs).

The Group owns controlling stakes in Quan Zhou Pacific Terminal and Jinjiang Pacific Terminal, both located in Quanzhou Port on China's Southeast Coast. They are the only terminals handling containers at Quanzhou Port and mainly handle domestic cargo. During 2009, the terminals performed well, helped by Quanzhou's position as China's third largest domestic port.

On the back of strong domestic trade, Quan Zhou Pacific Terminal handled 936,136 TEUs (2008: 910,058 TEUs), a 2.9% increase, while Jinjiang Pacific Terminal, which began operations in 2008, handled a total of 274,390 TEUs in 2009 (2008: 193,779 TEUs), an increase of 41.6%.

Operational Review
Terminals

Overseas

Throughput of overseas terminal companies

	2009 (TEUs)	2008 (TEUs)	y-o-y change
Piraeus Terminal	166,062	-	NA
Suez Canal Terminal	2,659,584	2,392,516	+11.2%
COSCO-PSA Terminal	904,829	1,247,283	-27.5%
Antwerp Terminal	639,957	1,091,657	-41.4%
Total	**4,370,432**	**4,731,456**	**-7.6%**
As a percentage of total throughput	**10.0%**	**10.3%**	**-0.3pp**

The Group has three established container terminals in the Port of Singapore, Port of Antwerp in Belgium and Port Said Port in Egypt. In October, the Group took over the operation of Piraeus Terminal in Greece. The four overseas terminals handled a combined total of 4,370,432 TEUs in 2009 (2008: 4,731,456 TEUs), a decrease of 7.6%.

Piraeus Terminal

On 1st October 2009, the Group's wholly-owned subsidiary Piraeus Terminal took over Pier 2, which has an annual handling capacity of 1,600,000 TEUs, pursuant the concession agreement signed in November 2008 with Piraeus Port Authority S.A. (PPA) regarding the operation and development of Piers 2 and 3 of the Piraeus Port in Greece.

On 30th September 2009, Piraeus Terminal and PPA concluded an agreement under which PPA has agreed to provide the labour and other services required for the smooth operation of the terminal until 31st May 2010, in exchange for a service fee. The agreement stipulates both agreed wage levels and levels of productivity. Under the agreement, beginning on 1st February 2010, employees of Piraeus Terminal may gradually replace PPA staff.

On 1st October 2009, the Labour Unions of Piraeus Port began strike actions to express their views on privatisation issues. Following negotiations, the strike actions were terminated on 19th October and normal operations resumed. For the period from 1st October 2009 to 31st December 2009, Piraeus Terminal recorded throughput of 166,062 TEUs.

The concession right is for 30 years and is extendable for five years. The Group plans to upgrade Pier 2 and construct Pier 3, projects that are expected to complete by the end of 2015. Upon completion, the annual handling capacity of Pier 2 will increase by 1,000,000 TEUs to 2,600,000 TEUs and Pier 3 will have an annual handling capacity of 1,100,000 TEUs, for a combined capacity of 3,700,000 TEUs.

Piraeus Port is the largest container terminal in Greece, and the country's primary transhipment port, serving Eastern Europe, the Mediterranean, the Balkans and Black Sea. With the steady growth of trade between China and these regions, demand for related shipping and transhipment services will increase. With the support of the COSCO Group and shipping companies the Group intends to develop Piraeus Terminal into an important transhipment terminal, contributing steady cash flow and a favourable investment return for the Group.

Suez Canal Terminal

Suez Canal Terminal at Port Said Port built on its earlier momentum to record a rise in throughput of 11.2% to 2,659,584 TEUs (2008: 2,392,516 TEUs). The growth was driven by the fleets of COSCON, Kawasaki Kisen Kaisha and Yang Ming Marine Transport Corporation beginning berthing at Suez Canal Terminal in early 2008.

COSCO-PSA and Antwerp Terminal

COSCO-PSA Terminal in the Port of Singapore was badly hit by the severe decline in exports from the Singapore region, with throughput falling sharply by 27.5% to 904,829 TEUs (2008: 1,247,283 TEUs). Antwerp Terminal likewise suffered from the fall in world trade, with throughput down 41.4% year-on-year to 639,957 TEUs (2008: 1,091,657 TEUs), following the cancellation in late 2008 of many Europe-Asia routes.

Outlook

The Group's container terminals, especially those most exposed to international trade flows, saw throughput return to growth in the final two months of 2009. There is some cause for optimism that this pattern will continue during 2010, and that global throughput volumes will increase for the full year.

There are, however, a number of uncertainties. The recovery in global trade could falter, once inventory has been restocked, given the weak state of consumer finances. A "double dip" recession could occur. Given this situation, the Group will remain prudent in its capital expenditure plans. No new terminal investments have been entered into since 2009 and hence only projects committed before 2009 will require expenditure. In addition to exercising prudence in relation to expansion, the Group will maintain tight control over costs.

Nonetheless, the 3,700,000 TEUs of new capacity added in late 2009 will boost throughput and hence revenues, while a further 10,450,000 TEUs is expected to come in line during 2010. This comprises 5,250,000 TEUs at Qingdao Qianwan United Terminal, 1,800,000 TEUs at Tianjin Euroasia Terminal, 600,000 TEUs at Ningbo Yuan Dong Terminal, 900,000 TEUs at Yantian Terminal and 1,900,000 TEUs at Suez Canal Terminal. The rise in throughput may not be mirrored by equally strong increases in profit contribution, however, given that a number of terminals and berths will still in a ramp-up phase.

Overall, the Group's strategy is to maintain a well balanced portfolio of terminal assets. To this end, in China the Group is investing not only in major coastal hub ports, but also allocates resources to branch line and feeder ports that handle domestic and international cargo. The development of China's internal economy should mean that domestic cargo growth will outpace that in international cargo, and hence developing a hub-and-spoke network including second tier ports in China may offer good growth potential. The current challenges to the container terminals industry globally may also provide opportunities to acquire high quality assets at attractive valuations.

2010 expected new berths and their annual handing capacity

Terminal companies	No. of berths	Annual handling capacity (TEUs)	Equity annual handling capacity (TEUs)	Expected time for operation to commerce
Qingdao Qianwan United Terminal	9	5, 250,000	420,000	First quarter
Tianjin Euroasia Terminal (Beigangchi at Tianjing Port)	3	1,800,000	540,000	Third quarter
Ningbo Yuan Dong Terminal (phase five of Beilun at Ningbo Port)	1	600,000	120,000	Second quarter
Yantian Terminal (phase III expansion project)	1	900,000	40,050	Second half
China	14	8,550,000	1,120,050	
Suez Canal Terminal (phase II project at East Port Said Port)	3	1,900,000	380,000	Second half
Total	**17**	**10,450,000**	**1,500,050**	

Operational Review
Terminals

Terminal Portfolio

Terminal companies	Shareholding	No. of berths	Depth (m)	Annual handling capacity (TEUs)
Bohai Rim		44		24,450,000
Qingdao Qianwan Container Terminal Co., Ltd.	20%	11	17.5	6,500,000
Qingdao New Qianwan Container Terminal Co., Ltd.	16%	6	15.0–20.0	3,600,000
Qingdao Qianwan United Container Terminal Co., Ltd.	8%	9	15.0–20.0	5,250,000
Qingdao Cosport International Container Terminals Co., Ltd.	50%	1	13.5	600,000
Dalian Port Container Terminal Co., Ltd.	20%	6	13.5–17.8	4,200,000
Dalian Automobile Terminal Co., Ltd.	30%	2	11.0	600,000 (vehicles)
Tianjin Port Euroasia International Container Terminal Co., Ltd.	30%	3	15.5	1,800,000
Tianjin Five Continents International Container Terminal Co., Ltd.	14%	4	15.7	1,500,000
Yingkou Container Terminals Company Limited	50%	2	14.0	1,000,000
Yangtze River Delta		42		15,900,000
Shanghai Pudong International Container Terminals Limited	30%	3	12.0	2,300,000
Shanghai Container Terminals Limited	10%	10	9.4–10.5	3,700,000
Shanghai Xiangdong International Container Terminal Co., Ltd.	10%	4	15.0	3,200,000
Ningbo Yuan Dong Terminals Limited	20%	5	15.0	3,000,000
Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	51%	3	10.0	1,000,000
Yangzhou Yuanyang International Ports Co., Ltd.	55.59%	2	12.0	700,000
		5	8.0–12.0	6,550,000 (tons of break-bulk cargo)
Nanjing Port Longtan Container Co., Ltd.	20%	10	12.0	2,000,000
Pearl River Delta and Southeast Coast		38		24,700,000
COSCO-HIT Terminals (Hong Kong) Limited	50%	2	15.5	1,800,000
Yantian International Container Terminals Co., Ltd.	5%	5	14.0–15.5	4,500,000
Yantian International Container Terminals (Phase III) Limited	4.45%	10	16.0	9,000,000
Guangzhou South China Oceangate Container Terminal Co., Ltd.	39%	6	14.5	4,200,000
Quan Zhou Pacific Container Terminal Co., Ltd.	71.43%	4	7.0–15.1	1,600,000
		2	5.1–9.6	1,000,000 (tons of break-bulk cargo)
Jinjiang Pacific Ports Development Co., Ltd.	80%	2	10.2–14.0	800,000
		3	7.9–9.8	4,200,000 (tons of break-bulk cargo)
Xiamen Ocean Gate Container Terminal Co., Ltd.	70%	4	17.0	2,800,000
Overseas		22		13,300,000
Piraeus Container Terminal S.A.	100%	6	14.0–16.0	3,700,000
Suez Canal Container Terminal S.A.E.	20%	8	16.0	5,100,000
COSCO-PSA Terminal Private Limited	49%	2	15.0	1,000,000
Antwerp Gateway NV	20%	6	17.0	3,500,000
Total no. of berths		**146**		
Total no. of container berths/Annual handling capacity		**134**		**78,350,000**
Total no. of break-bulk cargo berths/ Annual handling capacity		**10**		**11,750,000 (tons of break-bulk cargo)**
Total no. of automobile berths/Annual handling capacity		**2**		**600,000 (vehicles)**

Note 1: Terminal portfolio includes all terminal projects for which agreements have been signed on or before 31st December 2009. It includes operating and non-operating terminal companies, berths and annual handling capacity.

Note 2: The Group signed an agreement for the disposal of its 8.13% stake in Dalian Port Container Co., Ltd. in June 2009.

Operational Review
Container Leasing, Management and Sale

Unprecedented market challenges
Solid performance with utilisation outperforming industry average
Well established lease mix generating stable revenue
Adjustment of fleet growth
Effective risk management

COSCO Pacific owns the world's second largest container leasing company, with a fleet size of 1,582,614 TEUs as at 31st December 2009 (2008: 1,621,222 TEUs), accounting for approximately 14.3% (2008: approximately 13.6%) of the global container leasing market. It is operated and managed by its wholly-owned subsidiary Florens.

Top 10 container leasing companies

	Fleet size (TEUs)	Market share
Textainer Group	2,305,000	21.1%
COSCO Pacific (Florens)	1,582,614*	14.3%
Triton Container	1,485,000	13.6%
TAL International	1,050,000	9.6%
GE SeaCo	960,000	8.8%
CAI International	770,000	7.1%
Gold Container	500,000	4.6%
UES International HK	460,000	4.2%
Cronos Group	440,000	4.0%
Seacastle Container Leasing	390,000	3.6%

Source: World Cargo News, September 2009

* The container fleet size of Florens as at 31st December 2009

Unprecedented Market Challenges

The container leasing industry was hit hard by the global recession in 2009. According to Drewry, global container shipping volume saw a substantial decline, falling by 11.7% from 148,900,000 TEUs in 2008 to 131,500,000 TEUs in 2009.

The first quarter of 2009 was the toughest, as the abundant lay-up capacity forced shipping lines to return containers to leasing companies upon expiry of leasing contracts. With demand for container leasing in decline, the industry reduced substantially its purchase of new containers and as a result global leasing fleet capacity shrank by 3.4% to 10,900,000 TEUs in June 2009, according to World Cargo News. This was the first decline in the industry's more than 40 year history.

The ratio of on-hire to off-hire containers only finally came into balance in July 2009. There was a modest recovery in leasing demand in the third quarter due to shipping lines operating their fleets in slow steaming mode to reduce fuel costs, requiring larger volumes of containers for their fleets.

Operational Review

Container Leasing, Management and Sale

Solid Performance with Utilisation Outperforming Industry Average

Faced with these unprecedented market challenges, the Group's container leasing, management and sale businesses inevitably came under pressure and the fleet capacity shrunk by 2.4% to 1,582,614 TEUs. Despite its average utilisation rate dropping by four percentage points to 90.6% (2008: 94.6%), the Group's fleet continued to perform well above the industry average, which stood at 86.0% in 2009 (2008: 94.0%), an eight percentage points decrease from the previous year.

A solid customer base and relatively young fleet, with an average age of 4.96 years (2008: 4.15 years) was a competitive strength that helped the Group survive the severe downturn, to achieve a solid performance in 2009. The Group's customer base includes COSCON, the world's sixth largest container line, and other international container shipping companies. The total number of customers was 306 (2008: 300). Another critical success factor was the percentage of the Group's leases under long term contracts, which was approximately 15 percentage points higher than the industry average of about 74.0% in 2009.

Top 10 container shipping lines

	Fleet capacity (TEUs)
Maersk Line	1,743,248
MSC	1,481,042
CMA CGM	934,613
Evergreen	591,070
APL	519,744
COSCON	493,654
Hapag-Lloyd	463,033
CSCL	443,150
Hanjing	400,033
NYK	359,608

Source: CI Online (January 2010)

Well Established Lease Mix Generating Stable Revenue

As at 31st December 2009, the Group leased a total of 527,891 TEUs (2008: 552,219 TEUs) of containers to COSCON on 10-year long term leases, which represented 33.4% (2008: 34.0%) of the Group's total container fleet.

For those 332,591 TEUs (2008: 314,077 TEUs) of containers available for leasing to other international customers, 82.4% (2008: 80.7%) were leased under long term contracts ranging from three to eight years.

As a result of this well established lease mix, 93.2% (2008: 92.2%) of the Group's leasing revenue was generated by containers under long-term leases. These containers provided stable revenue for the Group's container leasing division, and hence lowered its investment risk.

The remaining 722,132 TEUs (2008: 755,926 TEUs) were managed containers and these accounted for 45.6% (2008: 46.6%) of its total fleet. These managed containers provided another revenue stream for the Group, which received management fee from the owners based on the containers' operating performance.

Breakdown of owned, managed and sale-and-leaseback containers

As at 31st December	Leasing Customers	2009 (TEUs)	2008 (TEUs)	y-o-y change
Owned Containers	COSCON	409,797	433,125	-5.4%
Owned Containers	International customers	332,591	314,077	+5.9%
Managed Containers	International customers	722,132	755,926	-4.5%
Sale-and-leaseback Containers	COSCON	118,094	118,094	–
Total		**1,582,614**	**1,621,222**	**-2.4%**
As at 31st December	**Leasing Customers**	**2009 % of total**	**2008 % of total**	**y-o-y change**
Owned Containers	COSCON	25.9%	26.7%	-0.8pp
Owned Containers	International customers	21.0%	19.4%	+1.6pp
Managed Containers	International customers	45.6%	46.6%	-1.0pp
Sale-and-leaseback Containers	COSCON	7.5%	7.3%	+0.2pp
Total		100%	100%	

Profit contribution from the container leasing, management and sale division decreased 37.9% year-on-year to US$71,375,000 (2008: US$114,975,000). Total revenue from this division was US$229,831,000 (2008: US$252,620,000). Among these, container leasing revenue accounted for 86.2% (2008: 80.1%) of the divisional total revenue. The global economic downturn and the fall in the volume of containerised shipping led to a drop of utilisation, together with a reduction in fleet size. As a result, the leasing revenue decreased 2.2% year-on-year to US$198,069,000 (2008: US$202,437,000).

Revenue from disposal of returned containers fell by 41.9% to US$22,844,000 (2008: US$39,352,000) owing to a 32.8% decline in disposal volume and a 13.6% drop in average sales price. The disposal revenue of returned containers accounted for 9.9% of total revenue (2008: 15.6%).

The management fee charged depends on the operating performance of the managed containers, but the decrease of on-hire volume and the increase of operating expenses of the managed containers, together with the 4.5% drop of fleet size, led to a decrease of the net operating income of the managed containers. As a result, management fee income declined 23.6% to US$6,470,000 (2008: US$8,465,000), accounting for 2.8% (2008: 3.4%) of the total revenue.

Adjustment of Fleet Growth

The severe decline in container leasing demand led the Group to reduce substantially its purchase of new containers in 2009, which fell by 90.2% to 15,000 TEUs (2008: 152,752 TEUs). Among these new containers 3,600 TEUs (2008: 64,802 TEUs) were ordered for COSCON, accounting for 24.0% (2008: 42.4%) of the Group's new purchases for the year. The remaining 76.0% (2008: 57.6%) or 11,400 TEUs (2008: 87,950 TEUs), were built for international customers.

The Group paid particular attention to the continued demand for reefers and specialised containers within an overall market that was extremely challenging. The Group purchased 6,000 TEUs of reefers and specialised containers in the first half of 2009, and another 9,000 TEUs of dry containers in December as demand picked up.

Operational Review
Container Leasing, Management and Sale

Fleet capacity movement

	2009 (TEUs)	2008 (TEUs)	y-o-y change
Fleet capacity as at 1st January	1,621,222	1,519,671	+6.7%
New containers purchased	15,000	152,752	-90.2%
Containers returned from COSCON upon expiry of leases			
Total	(26,589)	(28,770)	-7.6%
Re-leased	9,113	2,867	+217.9%
Disposed of and pending for disposal	(17,476)	(25,903)	-32.5%
Ownership transferred to customers upon expiry of finance leases	(556)	(828)	-32.9%
Defective containers written off	(2)	(230)	-99.1%
Total loss of containers declared and compensated by customers	(35,574)	(24,240)	+46.8%
Fleet capacity as at 31st December	**1,582,614**	**1,621,222**	**-2.4%**

Effective Risk Management

The Group has implemented a set of risk management principles to evaluate customer credit. The Group focuses its customer targeting on well-established container shipping companies, especially those among the world's top ten. During the year, the container leasing rental revenue from the world's top ten container shipping companies accounted for 77.7% (2008: 80.7%) of the Group's total container leasing revenue.

The Group also limits its risks by providing more long-term leasing services, which enable it to maintain a higher utilisation rate and reduce cyclical market risks. For the year ended 31st December 2009, 93.2% (2008: 92.2%) of the Group's total container leasing revenue was generated by long-term leases.

To ensure its long-term business success, since 2006 the Group has been strengthening its asset light business model through sale-and-manage-back and sale-and-leaseback container contracts. The complementary advantages of the leasing, management and sale of containers lower the Group's investment risks while consolidating its leading industry position by allowing it to expand market share.

Outlook

COSCO Pacific strongly believes that the successful business model of its container leasing, management and sale division is capable of meeting the market challenges that lie ahead. The Group is well positioned to achieve a stronger business performance as the global economy recovers. Global trade and container traffic showed signs of improvement towards the end of 2009, and the Group is optimistic that this trend will continue into 2010.

Operating efficiency of the Group's container leasing division has improved further in the first two months of 2010. During this period, the average utilisation rate increased to 93.1%, representing a 2.5 percentage points rise from the full year average in 2009. The on-going slow steaming operations of shipping lines and the strong upturn in cargo volume are likely to translate into stronger container leasing demand, and hence higher utilisation and profitability for the Group in 2010.

Operational Review

Container Manufacturing

The Group maintained its position as the world's largest container manufacturer, via its 21.8% stake in CIMC.

The continued contraction in the global container shipping market, especially in the first half of 2009, resulted in a further decline in demand for new containers, especially dry containers. This led to a temporary halt to the manufacture of dry containers at CIMC towards the end of 2008. The halt in production extended into 2009, although some plants reopened in the fourth quarter.

These unfavourable market conditions naturally led to a decline in operating profit at CIMC, which was partly offset by profits realised on the sale of securities held for investment.

In the first half of 2009, in order to simplify the shareholder structure of its container manufacturing business, the Group disposed of its 20% stake in Shanghai CIMC Reefer to CIMC for a total consideration of US$16,400,000. This allowed the Group to record a pre-tax gain on the disposal of US$5,516,000 which was recognised in the first half of 2009.

Despite this gain, the profit contribution from the container manufacturing business to the Group declined by 21.5% from US$39,316,000 in 2008 to US$30,876,000.

Logistics

At the interim results, the Group announced the disposal of its entire 49% interest in COSCO Logistics to China COSCO, under an agreement signed in August 2009. The disposal is designed to allow the Group to concentrate its resources on its core terminal business.

The total cash consideration, which was paid upon completion in March 2010, amounted to RMB2,000,000,000 (equivalent to approximately US$292,900,000). The disposal generated a gain net of tax and direct expenses of approximately US$85,000,000, which will be recognised in the 2010 financial year. The proceeds will be used for investments in terminals and to improve working capital.

The Group's subsidiary CP Logistics, the immediate shareholder of COSCO Logistics, is further entitled to receive a special distribution in cash equivalent to 49% of 90% of the distributable annual net profit for the first nine months of 2009. The special distribution is payable on or before 30th June 2010.

The net profit contribution from COSCO Logistics due to the Group for 2009 amounted to US$25,627,000, compared with a contribution of US$25,006,000 recorded in 2008.