Container fleet capacity was up

8.9%↑

Revenue rose

10.2%

Profit rose

20.9%

OPERATIONAL REVIEW

CONTAINER LEASING, MANAGEMENT AND SALE

The Group's container leasing, management and sale businesses, operated and managed by Florens, had a satisfactory performance in 2011, driven by the growth in the size of the Group's container fleet during the year and an increase in the number of containers on hire.

Long-term leases accounted for

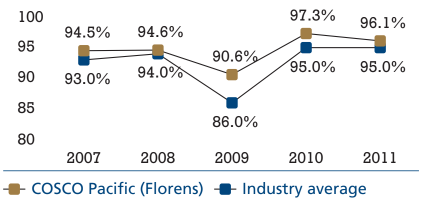
93.8%

of the total revenue of container leasing

Overall average utilisation rate was

96.1%

Utilisation rate maintained at a relatively high level



Continuing on from the strong demand of 2010, the leasing market for containers developed well in the first half of 2011. The demand for container leasing services was so high that most container shipping lines had confirmed full-year container leasing plans during the first quarter.

Affected by the intensifying Eurozone sovereign debt crisis in the second half of 2011, global economic growth slowed significantly and demand slackened, leading to a corresponding downturn for the container leasing industry.

Increase in on-hire containers contributed to profit growth

The Group's container leasing, management and sale businesses, operated and managed by Florens, had a satisfactory performance in 2011. Profit increased by 20.9% to US$116,508,000 (2010: US$96,366,000), driven by the growth in the size of the Group's container fleet during the year and an increase in the number of containers on hire.

The Group's container leasing business maintains an optimal balance of leases, with containers leased mainly on a long-term basis so as to maintain a relatively high utilisation rate and provide a stable source of income. Long-term leases accounted for 93.8% (2010: 92.7%) of the total revenue of the container leasing in 2011 while revenue from master leases accounted for 6.2% (2010: 7.3%).

The overall average utilisation rate of the Group's containers was 96.1% (2010: 97.3%), which was slightly higher than the industry average of approximately 95.0% (2010: approximately 95.0%).

Benefiting from satisfactory leasing revenue, businesses recorded steady growth

In 2011, revenue from the Group's container leasing, management and sale businesses reached US$276,547,000 (2010: US$250,898,000), representing an increase of 10.2%. The growth was mainly attributable to increased revenue from container leasing.

Revenue from container leasing was US$246,782,000 (2010: US$207,245,000), representing an increase of 19.1%. Revenue from container leasing represented 89.2% of the total revenue of the container leasing, management and sale businesses (2010: 82.6%). The fleet size of owned containers and sale-and-leaseback containers increased by 18.4% to 1,103,443 TEUs (2010: 931,719 TEUs), driving the growth of revenue from container leasing.

Revenue from managed containers increased 10.3% to US$8,181,000 (2010: US$7,416,000), representing 3.0% (2010: 3.0%) of the total revenue. Although the fleet size of managed containers fell 3.7% to 674,349 TEUs (2010: 700,064 TEUs), the net operating income increased as a result of a decrease in the operating expense of managed containers.

Revenue from the disposal of returned containers declined by 46.2% to US$18,245,000 (2010: US$33,895,000), representing 6.6% (2010: 13.5%) of the total revenue. The decrease in revenue from the sale business was mainly due to a decrease in the number of disposed returned containers to 9,826 TEUs (2010: 28,674 TEUs).

The solid growth of leasing revenue drove the overall business growth of container leasing, management and sale

	2011 US$	Year-on-year change	Percentage of total divisional revenue
Container leasing	**246,782,000**	+19.1%	89.2%
Disposal of returned containers	**18,245,000**	-46.2%	6.6%
Container management	**8,181,000**	+10.3%	3.0%
Others	**3,339,000**	+42.6%	1.2%
Total revenue	**276,547,000**	**+10.2%**	**100.0%**

Container fleet increased

8.9%↑

Expanding container fleet to drive business growth

As of 31st December 2011, the Group's container fleet had reached 1,777,792 TEUs (2010: 1,631,783 TEUs), representing an 8.9% increase. The Group remained the world's third largest container leasing company, with a market share of approximately 12.5% (2010: approximately 13.0%). The average age of containers in the fleet was 5.89 years (2010: 5.36 years).

During the year, the Group ordered 118,755 TEUs of new containers (2010: 111,625 TEUs). Among these, 56,050 TEUs were purchased for COSCON (2010: 14,900 TEUs), accounting for 47.2% (2010: 13.3%) of the total new containers, while 62,705 TEUs were for international customers (2010: 96,725 TEUs), representing 52.8% (2010: 86.7%) of the total new containers. The capital expenditure for the purchase of new containers was US$315,788,000 (2010: US$250,364,000).

In addition, Florens signed purchase and leaseback contracts with two shipping companies in the second half of 2011. Under these contracts, the Group purchased their owned containers and leased them back to the companies. The container fleet size amounted to 66,476 TEUs, involving a total investment of US$117,108,000. The objective of this transaction was to expand our container fleet size and market share, and most importantly to increase rental income and secure stable returns.

During the year, the number of containers returned from COSCON upon expiry of 10-year leases was 7,335 TEUs (2010: 40,992 TEUs).

The Group purchased containers of

185,231 TEUs

Owned container fleet size increased by

7.4%

Fleet capacity movement

	2011 (TEUs)	2010 (TEUs)	Year-on-year change (%)
Fleet capacity at 1st January	**1,631,783**	1,582,614	+3.1
New containers purchased	**118,755**	111,625	+6.4
Purchase and leaseback of shipping lines' owned containers	**66,476**	–	N/A
Managed containers deposited by a third party	**4,056**	4,402	-7.9
Containers returned from COSCON upon expiry of leases			
– Total	**(7,335)**	(40,992)	-82.1
– Re-leased	**360**	5,863	-93.9
– Disposed of and pending for disposal	**(6,975)**	(35,129)	-80.1
Ownership transferred to customers upon expiry of finance leases	**(3,599)**	(162)	+2,121.6
Defective containers written off	**(56)**	(59)	-5.1
Total loss of containers declared and compensated by customers	**(32,648)**	(31,508)	+3.6
Fleet capacity at 31st December	**1,777,792**	**1,631,783**	**+8.9**

A balanced development of container leasing, management and sale businesses

While expanding its container fleet, the Group is ensuring a balanced development of the container leasing, management and sale businesses to lower investment risk. In May 2011, the Group completed the sale of 111,189 TEUs of containers to a jointly controlled entity of ING Bank and DBS Bank, for a consideration equivalent to the net book value at the date of disposal. The containers were leased back to COSCON upon completion of the transaction.

The cash consideration of the disposal of these containers was US$198,000,000. The transaction increased the Group's cash flow and allowed the Group to reduce its gearing ratio. In addition, leasing back the containers enabled the Group to retain commercial control over the containers and sub-lease to its customer, with the Group retaining the profit from the sub-lease over the lease term.

As a result of these actions, the Group's container fleet mix has seen adjustments during the year. The owned container fleet reached 874,160 TEUs (2010: 813,625 TEUs), which represented 49.2% (2010: 49.8%) of the total container fleet. The sale-and-leaseback container fleet size amounted to 229,283 TEUs (2010: 118,094 TEUs), which represented 12.9% (2010: 7.3%) of the total container fleet size. The managed container fleet size amounted to 674,349 TEUs (2010: 700,064 TEUs), representing 37.9% (2010: 42.9%) of the total fleet size.

Classified by customer, COSCON leased 547,077 TEUs (2010: 499,106 TEUs), while international customers took up 1,230,715 TEUs (2010: 1,132,677 TEUs), which represented 30.8% (2010: 30.6%) and 69.2% (2010: 69.4%) of the total fleet size respectively.

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

As of 31st December	Leasing customers	2011 (TEUs)	2010 (TEUs)	Year-on-year change (%)
Owned containers	COSCON	**317,794**	381,012	-16.6
Owned containers	International customers	**556,366**	432,613	+28.6
Sale-and-leaseback containers	COSCON	**229,283**	118,094	+94.2
Managed containers	International customers	**674,349**	700,064	-3.7
Total		**1,777,792**	**1,631,783**	**+8.9**

As of 31st December	Leasing customers	2011 % of the total	2010 % of the total	Year-on-year change (pp)
Owned containers	COSCON	**17.9**	23.3	-5.4
Owned containers	International customers	**31.3**	26.5	+4.8
Sale-and-leaseback containers	COSCON	**12.9**	7.3	+5.6
Managed containers	International customers	**37.9**	42.9	-5.0
Total		**100.0**	**100.0**	**–**

Container leasing business focuses on long-term leasing to maintain rental income growth steadily

According to a forecast made in February 2012 by Clarkson, global shipping capacity will increase by about 1,300,000 TEUs in 2012. The addition of new vessels and the replacement of old containers will generate considerable demand for new containers. In addition, Clarkson estimated 7.7% growth in global container traffic in 2012 and the Group has a cautiously optimistic outlook for the container leasing business.

The majority of containers purchased in 2011 has been rented out on long-term leases and will drive container leasing income growth in 2012. In addition, most of the new containers were leased out at relatively high rental rates in the first quarter of 2011, with a satisfactory rental yield.

Furthermore, since the revenue from long-term leases accounts for 93.8% of the total revenue from container leasing, rental income is forecast to grow steadily in 2012.

As the global economic outlook for 2012 remains uncertain, the Group has made prudent capital expenditure plans for the purchase of new containers.

We believe that the successful business model of container leasing, management and sale can sustain market challenges.

The Group has a strong risk management system to evaluate the credit risk of customers. Core customers of the Group are reliable container shipping lines, and during the year, 70.3% (2010: 70.8%) of the container rental income of the Group came from the world's top ten container shipping lines. The Group's focus on long-term leasing reduces risk further, since it allows the utilisation rate to be maintained at a relatively high level and lowers exposure to market cycles.