CONTAINER LEASING, MANAGEMENT AND SALE

Container leasing, management and sale businesses profit growth

19.8%

The impact of weaker demand in the second half of 2011 continued to influence the container leasing service market in the first quarter of 2012. However, demand bounced back quickly in late March, evidenced by strong demand from shipping companies for long-term leasing contracts for new containers. The container leasing market recovered dramatically in the second quarter, with prices of new containers and container lease rates both surging. However, the peak season was shorter than expected and demand softened again from August 2012.

The Group's container leasing, management and sale businesses, operated and managed by Florens, had a satisfactory performance in 2012. Profit increased by 19.8% to US$139,522,000 (2011: US$116,508,000), driven by an increase in the number of containers on hire resulting from the stable growth in the size of the Group's container fleet during the year and a sharp increase in the number of disposed returned containers upon expiry of 10-year leases.

The Group's container leasing business maintains an optimal balance of leases, with containers leased mainly on a long-term basis so as to provide a stable source of income and maintain a relatively high utilisation rate. Long-term leases accounted for 94.3% (2011: 93.8%) of the total revenue of the container leasing in 2012, while revenue from master leases accounted for 5.7% (2011: 6.2%).

Although the market demand for container leasing services softened compared to 2011, the Group's container leasing business had a stable performance in 2012. This reflects the Group's proven strategy within container leasing of engaging mainly in long-term leasing activity to ensure stable lease income and maintain a high utilisation rate.

The overall average utilisation rate of the Group's containers was maintained at a relatively high level. In 2012, the average utilisation rate was 95.3% (2011: 96.1%), higher than the industry average of approximately 94.8% (2011: approximately 95.0%).

Steady Growth in Leasing and Strong Growth in Disposal of Returned Containers

In 2012, revenue from the Group's container leasing, management and sale businesses reached US$336,224,000 (2011: US$276,547,000), representing an increase of 21.6%. The growth was mainly attributable to the steady increase in revenue from container leasing, while the revenue from disposal of returned containers recorded significant growth.

Revenue from container leasing was US$280,514,000 (2011: US$246,782,000), representing an increase of 13.7%. Revenue from container leasing represented 83.4% (2011: 89.2%) of the total revenue of the container leasing, management and sale businesses. The fleet size of owned containers and sale-and-leaseback containers increased by 11.0% to 1,225,244 TEU (2011: 1,103,443 TEU), driving the growth of revenue from container leasing.

At the same time, revenue from the disposal of returned containers increased strongly by

Container leasing, management and sale businesses revenue growth

21.6%

Owned and sale-and-leaseback container fleet increased by

11.0%

Revenue breakdown of container leasing, management and sale businesses

	2012 US$	Year-on-year change	Percentage of total
Container leasing	**280,514,000**	+13.7%	83.4%
Disposal of returned containers	**42,606,000**	+133.5%	12.7%
Container management	**7,492,000**	-8.4%	2.2%
Others	**5,612,000**	+68.1%	1.7%
Total	**336,224,000**	**+21.6%**	**100.0%**

Disposed returned containers rose

2.2times

to 31,671 TEU

133.5% to US$42,606,000 (2011: US$18,245,000), representing 12.7% (2011: 6.6%) of the total revenue. The sharp increase in revenue from the disposal of returned containers business was mainly due to an increase of 2.2 times in the number of disposed returned containers to 31,671 TEU (2011: 9,826 TEU).

However, revenue from managed containers decreased by 8.4% to US$7,492,000 (2011: US$8,181,000), as the fleet size declined to 630,353 TEU (2011: 674,349 TEU), a decrease of 6.5%, representing 2.2% (2011: 3.0%) of the total revenue.

Container Fleet Size Grows Steadily

As of 31st December 2012, the Group's container fleet had reached 1,855,597 TEU (2011: 1,777,792 TEU), representing a 4.4% increase. The Group was the world's fourth largest container leasing company, with a market share of approximately 12.0% (2011: approximately 12.5%). The average age of containers in the fleet was 6.13 years (2011: 5.89 years).

During the year, the Group purchased 162,742 TEU (2011: 118,755 TEU) of new containers. Among these, 120,000 TEU (2011: 56,050 TEU) were

New containers purchased

162,742TEU

Fleet capacity growth

4.4%

Fleet capacity movement

	2012 (TEU)	2011 (TEU)	Change (%)
Fleet capacity at 1st January	**1,777,792**	1,631,783	+8.9
New containers purchased	**162,742**	118,755	+37.0
Purchase and leaseback of shipping lines' owned containers	–	66,476	-100.0
Managed containers deposited by a third party	–	4,056	-100.0
Containers returned from COSCON upon expiry of leases			
– Total	**(28,098)**	(7,335)	+283.1
– Re-leased	**352**	360	-2.2
– Disposed of and pending for disposal	**(27,746)**	(6,975)	+297.8
Ownership transferred to customers upon expiry of finance leases	–	(3,599)	-100.0
Defective containers written off	**(451)**	(56)	+705.4
Total loss of containers declared and compensated by customers	**(56,740)**	(32,648)	+73.8
Fleet capacity at 31st December	**1,855,597**	1,777,792	+4.4

Owned container fleet growth

13.9%

purchased for COSCON, accounting for 73.7% (2011: 47.2%) of total new containers, while 42,742 TEU (2011: 62,705 TEU) were for international customers, representing 26.3% (2011: 52.8%) of total new containers. The capital expenditure on new containers was US$371,668,000 (2011: US$315,788,000).

During the year, the number of containers returned from COSCON upon expiry of 10-year leases was 28,098 TEU (2011: 7,335 TEU).

Increase in Fleet Size of Owned Containers Drives Leasing Revenue Growth

While expanding its container fleet, the Group is ensuring a balanced development of the container leasing, management and sale businesses to lower investment risk. The owned container fleet reached 995,961 TEU (2011: 874,160 TEU), which represented 53.7% (2011: 49.2%) of the total container fleet. The sale-and-leaseback container fleet size amounted to 229,283 TEU (2011: 229,283 TEU), which represented 12.3% (2011: 12.9%) of the total container fleet size. The managed container fleet size amounted to 630,353 TEU (2011: 674,349 TEU), representing 34.0% (2011: 37.9%) of the total fleet size.

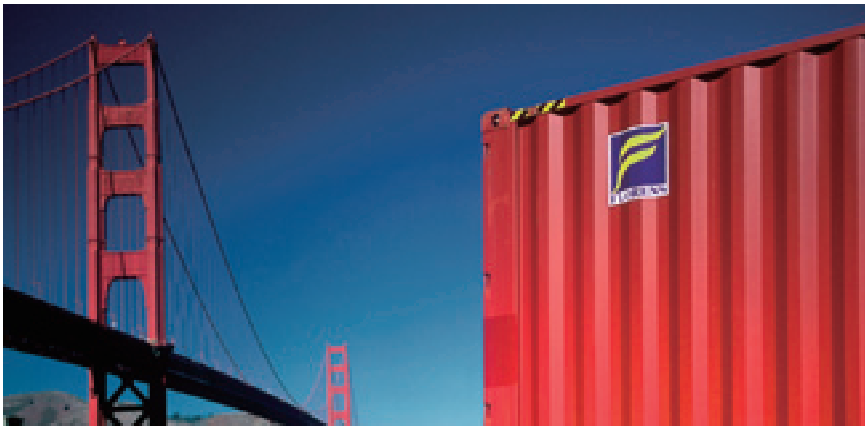
Classified by customer, COSCON leased 638,631TEU (2011: 547,077 TEU), while international customers took up 1,216,966 TEU (2011: 1,230,715 TEU), which represented 34.4% (2011: 30.8%) and 65.6% (2011: 69.2%) of the total fleet size respectively.

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

As of 31st December	Leasing customers	**2012 (TEU)**	2011 (TEU)	Change (%)
Owned containers	COSCON	**409,348**	317,794	+28.8
Owned containers	International customers	**586,613**	556,366	+5.4
Sale-and-leaseback containers	COSCON	**229,283**	229,283	–
Managed containers	International customers	**630,353**	674,349	-6.5
Total		**1,855,597**	1,777,792	+4.4

As of 31st December	Leasing customers	**2012 Percentage of total**	2011 Percentage of total	Change (pp)
Owned containers	COSCON	**22.1**	17.9	+4.2
Owned containers	International customers	**31.6**	31.3	+0.3
Sale-and-leaseback containers	COSCON	**12.3**	12.9	-0.6
Managed containers	International customers	**34.0**	37.9	-3.9
Total		**100.0**	100.0	–

The Group believes the market demand for container leasing services in 2013 will be stable and it is still cautiously optimistic about the prospects for its container leasing business.



Steady Growth in Leasing Revenue and Stable Disposal of Returned Containers Revenue

According to a forecast made in December 2012 by Drewry, global container traffic will increase by 4.6% and global shipping capacity will increase by about 1,262,000 TEU in 2013. The addition of new vessels and the replacement of old containers will generate considerable demand for new containers. Furthermore, shipping companies are likely to continue to choose leasing to meet the majority of their demand for containers. Therefore, the Group believes the market demand for container leasing services will be stable and it is still cautiously optimistic about the prospects for its container leasing business.

The Group believes that the revenue from container leasing will continue to grow steadily in 2013. The new containers purchased by the Group in 2012 have already been booked by shipping companies and therefore the Group's revenue generated from leasing business is expected to increase in 2013.

The Group expects the number of new containers purchased in 2013 to be comparable with that of 2012, and the increase in the number of containers on hire will therefore boost profit growth. In 2013, the Group will continue adhering to its prudent operations model, implement its strategy of ordering containers according to market demand and strive to maintain a relatively high overall average utilisation rate.

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, 72.1% (2011: 70.3%) 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 the exposure to market cycles.

For the disposal of returned containers, the Group is of the view that revenue will be relatively stable in 2013. Although we expect the total number of containers disposed to be lower than 2012, market demand and the disposal price of containers will remain stable.