VICE CHAIRMAN'S REPORT

STRENGTHEN SUSTAINABLE GROWTH

"During the year, COSCO Pacific strived to enhance its marketing competence so as to strengthen business growth. We are also moving forward solidly with new development projects so as to build momentum for sustainable business growth."

Despite only a moderate pick-up in the global economy and the decelerating growth of the shipping industry, the Group maintained a solid rate of business growth in 2013. During the year, revenue rose 8.6% to US$798,626,000, of which 57% derived from the terminals business and 43% from the container leasing business. The Group invested US$285,101,000 to upgrade the facilities of its terminal subsidiaries so as to enhance their handling capacity and market competitiveness. Terminal subsidiaries throughput rose 11.3% to 10,911,715 TEU driving revenue up by 13.2%. Meanwhile, the Group invested US$288,754,000 to purchase 151,500 TEU of new containers for container leasing services. The owned and sale-and-leaseback containers fleet expanded 9.0% to 1,335,797 TEU contributing a 3.4% of container leasing turnover growth.

Cost of sales was up 14.3% to US$480,457,000 in 2013. This was largely driven by costs to support the business growth and the rising cost of depreciation on terminals and containers. As a result, the Group's profit performance came under a certain degree of pressure. Gross profit rose slightly by 0.9% to US$318,169,000 and gross profit margin declined 3.1 percentage points to 39.8%. Looking at the bottom line, the Group's profit attributable to equity holders from continuing operations rose 2.1% to US$286,206,000.

Solid Profit Performance of Terminals Business

The Group's business portfolio comprises terminals situated at prime locations in four major port areas in China, namely the Pearl River Delta, Yangtze River Delta, Bohai Rim and Southeast Coast, together with four hub ports overseas, namely Piraeus in Greece, Port Said in Egypt, Singapore and Antwerp in Belgium. These terminals are well positioned to exploit their competitive edge. In 2013, container throughput rose 10.1% to 61,284,891 TEU. Relating to the Group's effective shareholding in these terminals, equity throughput rose 10.0% to 17,196,297 TEU. Both measures outperformed global throughput growth of about 3.3% and mainland China throughput growth of about 6.7%.

Despite this satisfactory throughput performance, net profit of the terminals business decreased slightly by 1.2% to US$186,767,000. Tax rate increases in some major terminals added pressure to profit performance. The tax holidays for Qingdao Qianwan Terminal and Shanghai Pudong Terminal expired in 2013, increasing their corporate income tax rates for the year by 12.5 percentage points. Meanwhile, the corporate income tax rate payable by Piraeus Terminal rose by 6.0 percentage points because of an increase in tax rates by the Greek government. These three terminals contributed a substantial portion, amounting to 38.7%, of the Group's total net profit from terminals. As such, their increased tax rates exerted some pressure on profitability. Excluding these non-recurring incremental expenses, profit from terminals was stable.

Challenges of Container Leasing Market

Against a background of weak container traffic growth and container leasing demand, the global production of dry containers dropped 17.8% to 1,270,000 TEU and the Group slowed down the expansion of its container fleet. As at 31 December 2013, the container fleet capacity had increased by 1.8% to 1,888,200 TEU, while the overall average utilisation rate in 2013 fell slightly to 94.5% (2012: 95.3%). Meanwhile, competition in the container leasing market intensified and new container leasing rates fell,

which was reflected in a 14.0% decline in the average price for a new 20-foot dry container to US$2,150 and a decrease in the rental yield to 9.4% (2012: 11.0%). Gross profit margins for new container leasing and for disposal of used containers came under pressure during the year. As a result, net profit for the container leasing business fell 10.2% to US$125,259,000.

Strengthen Sustainable Growth

During the year, the Group engaged in five new terminal projects in China and overseas. We paid particular attention to projects that would create synergies with our existing terminals, so as to increase the Group's market share in the regions where they are located and to enhance profitability. Asia Container Terminal is a strong example that will become a new profit contributor in 2014. In addition, the Group enhanced the development of its diversified terminals business and comprehensive container leasing services.

Acquisition of 40% equity interest in Asia Container Terminal

The Group has seized the opportunity to invest in a high quality terminal in Hong Kong. In March 2014, the Group announced its acquisition of 40% effective interest in Asia Container Terminal for a total consideration of HK$1,648,000,000 (equivalent to approximately US$212,335,000). Asia Container Terminal handled 1,131,854 TEU of throughput in 2013. The terminal is located at Terminal 8 west of Kwai Chung in Hong Kong adjacent to Terminal 8 east, which is being operated by an existing Group terminal, namely COSCO-HIT Terminal, in which the Group currently holds a 50% equity interest. In 2013, container throughput at COSCO-HIT Terminal reached 1,639,275 TEU. The combined quay length of the two terminals is 1,380 metres and there are four berths. The combined annual handling capacity will be approximately 3,400,000 TEU. The Group's container terminal market share in the Pearl River Delta is expected to increase following the acquisition. Furthermore, both terminals will enjoy the synergies of greater flexibility and efficiency enhancement. This will help to attract an increasing number of large container vessels to call, supporting growth in volume and profit at the Group's terminals business.

Acquisition of 70% equity interest in Xiamen Tongda Terminal

In March 2013, Xiamen Ocean Gate Terminal, a subsidiary of the Group, acquired 100% equity interest in Xiamen Tongda Terminal, which operates a break-bulk cargo berth at Xiamen Haicang Berth No. 13 with a quay length of 298 metres. The Group holds an effective stake of 70% of this terminal, with a total consideration of RMB205,864,000 (equivalent to approximately US$33,575,000). This berth is adjacent to the Group's Xiamen Ocean Gate Terminal Berth No. 14. It provides support to the development of domestic feeder routes, linking the terminal to Fujian and Northern Guangdong and thus expands the terminal's sources of cargo. From April to December 2013, the berth's break-bulk cargo throughput amounted to about 2,450,000 tons.

Acquisition of 39.04% equity interest in Taicang Terminal

In July 2013, the Group acquired 39.04% equity interest in Taicang Terminal from COSCO Group, its ultimate parent company, for a total consideration of RMB323,109,000 (equivalent to approximately US$52,319,000). The terminal has a quay length of 930 metres, fitted with two container berths and two break-bulk berths with annual handling capacities of 550,000 TEU and 4,000,000 tons respectively. From August to December 2013, the container throughput was 235,759 TEU and break-bulk cargo throughput was about 1,970,000 tons. This acquisition enhances the Group's share of the container terminal market in the Yangtze River Delta and strengthens the development of the Group's diversified terminals business.

Investment in 25% equity interest in Dongjiakou Ore Terminal at Qingdao

During the year, another major development for our diversified terminals business was the investment in a 25% equity interest in Dongjiakou Ore Terminal. In January 2014, the Group joined forces with Qingdao Port Group, China Merchants Group and IMG Group to establish a joint-venture company to operate an iron ore terminal in Dongjiakou at the port of Qingdao. In line with its shareholding, the Group invested capital amounting to RMB350,000,000. There are two berths and a total of 882 metres of quay length. Depth alongside is 23 metres, allowing the berths to handle super- Panamax bulk carriers. Annual handling capacity is 29,000,000 tons. This terminal is well positioned in Shandong province and provides efficient and professional iron ore handling services to its customers. The outlook for the business is thus very positive.

Expansion plan for Piraeus Terminal

Piraeus Terminal is a wholly-owned subsidiary of the Group, which commenced its concession right to operate Pier 2 of Piraeus Port in October 2009. In 2011, we started to build Pier 3 east, with the first berth commencing operation in mid 2013. The business growth of Piraeus Terminal has been remarkable, with throughput reaching 2,519,664 TEU in 2013. Container throughput for the years 2010 to 2013 achieved a compound annual growth rate ("CAGR") of 54.4%, which has facilitated gradual profit growth at the terminal. The Group will further enhance its container handling capability so as to provide an even higher quality of terminal services to its customers. To this end, Piraeus Terminal reached an agreement with Piraeus Port Authority S.A. in November 2013 in relation to the amendment to its concession agreement. This amendment agreement will be signed after approval by the Hellenic Court of Audit and will only become effective after it has been ratified by the Hellenic Parliament.

Comprehensive container leasing services

The Group has maintained a prudent strategy for developing its container leasing business. In order to strike a balance between return on investment and risk, we have expanded our container fleet conservatively. Meanwhile, the Group will also adjust the timing and scope of its investments in response to changes in market conditions. In order to meet customer demand, the Group provides comprehensive container leasing and management services to its customers. In the past two years, the Group has accelerated the expansion of its owned container fleet, which recorded a CAGR of 11.4%. As at 31 December 2013, the Group's owned container fleet had reached 1,085,507 TEU, accounting for 57.5% of the total container fleet. The Group also develops managed and sale-and-lease back container fleet as it continues to grow its container fleet capacity, so as to consolidate its leading position in the global container leasing market.

A responsible corporate citizen

COSCO Pacific is not only committed to enhancing operational efficiency but also attaches high importance to its corporate social responsibility. In 2013, we were the proud recipient of a number of awards from renowned financial and legal magazines in Asia, including *Business Digest, Capital Magazine, The Asset, Corporate Governance Asia* and *Asia Legal Business*. These awards reflect market recognition for our corporate governance, corporate management, corporate values, social sustainability, legal practices, financial performance and investor relations. The Company will continue to dedicate its efforts in striving for higher returns to shareholders and to serving its other stakeholders and communities well. In order to strengthen communications with stakeholders, we have appointed the Hong Kong Business Environmental Council as our consultant to assist the Company in enhancing its disclosure on corporate social responsibility matters since 2014.

2014 Outlook

In 2013, COSCO Pacific set a clear direction for business development to focus on the terminals and container leasing businesses. We are facing opportunities and challenges in 2014. The management team will apply its efforts fully to align planning and execution in relation to the Company's corporate strategy. We firmly believe that it is crucially important to enhance our core competence because it will be a key factor to achieving sustainable business growth.

Looking ahead, against a backdrop of modest global economic growth, we see opportunities to develop our terminals and container leasing businesses. The Group will monitor closely changes in market conditions so as to seize business growth opportunities. We are moving forward solidly towards our long-term objective of achieving a higher return for our shareholders by building a robust and sustainable business platform.

WANG Xingru
Vice Chairman and Managing Director
25 March 2014

Source of container leasing market consensus:
Drewry Maritime Research (January 2014)