

# OPERATIONAL REVIEW

# CONTAINER

## LEASING, MANAGEMENT AND SALE



The price of containers experienced a downward trend during 2013 that was caused by weak demand for container leasing services. Although container shipping lines increased capacity in the first half of the year, container trade subsequently lost momentum as a result of the protracted weakness of the global economy. A rebound in demand for new containers emerged only at the end of the second quarter of 2013 and did not continue into the second half of the year.

The Group's container leasing, management and sale businesses are operated and managed by Florens. During the year, both the number of containers on hire and the disposal of returned containers upon expiry of 10-year leases recorded growth, thus leading to an increase in overall revenue. The market price of containers and the overall average utilisation rate of the Group's containers, on



the other hand, decreased as a result of the weak demand for container leasing. Profit therefore decreased by 10.2% to US\$125,259,000 (2012: US\$139,522,000).

Long-term leases accounted for 95.5% (2012: 94.3%) of the Group's total revenue from container leasing in 2013, while revenue from master leases accounted for 4.5% (2012:

5.7%). With containers leased mainly on a long-term basis, the Group enjoys a stable source of income and the overall average utilisation rate of the Group's containers remained stable during the year. Overall average utilisation was 94.5% (2012: 95.3%), higher than the industry average of approximately 93.9% (2012: approximately 94.8%).

## Steady Growth in Leasing Revenue



### Revenue Breakdown of Container Leasing, Management and Sale Businesses

	2013 US\$	Year-on-year change	Percentage of total
Container leasing	<b>290,883,000</b>	+3.7%	83.6%
Disposal of returned containers	<b>42,967,000</b>	+0.8%	12.4%
Container management	<b>7,398,000</b>	-1.3%	2.1%
Others	<b>6,499,000</b>	+15.8%	1.9%
<b>Total</b>	<b>347,747,000</b>	<b>+3.4%</b>	<b>100.0%</b>

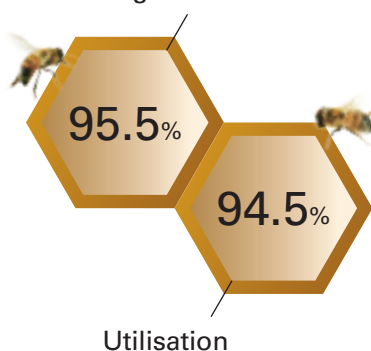
In 2013, revenue from the Group's container leasing, management and sale businesses reached US\$347,747,000 (2012: US\$336,224,000), representing an increase of 3.4%. The growth was mainly attributable to the increase in revenue from container leasing.

Revenue from container leasing was US\$290,883,000 (2012: US\$280,514,000), representing an increase of 3.7%. Revenue from container leasing represented 83.6% (2012: 83.4%) 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 9.0% to 1,335,797 TEU (2012: 1,225,244 TEU). The decreases in the Group's overall average utilisation rate and the prevailing market lease rates limited revenue growth in container leasing.

Revenue from the disposal of returned containers increased by 0.8% to US\$42,967,000 (2012: US\$42,606,000), representing 12.4% (2012: 12.7%) of the total revenue of the container leasing, management and sale businesses. Although the number of disposed returned containers increased by 12.8% to 35,714 TEU (2012: 31,671 TEU), growth in revenue from the disposal

Proportion of total container leasing revenue from long-term leases

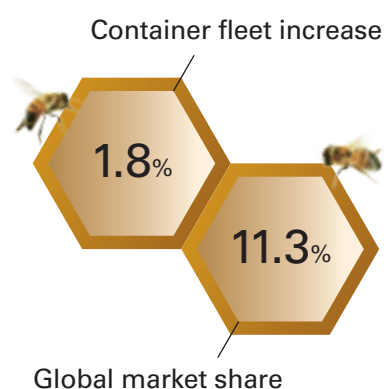


of returned containers was minimal as a result of the lower resale prices achieved. During the year, the number of containers returned from COSCON upon expiry of 10-year leases was 36,193 TEU (2012: 28,098 TEU).

Revenue from managed containers decreased by 1.3% to US\$7,398,000 (2012: US\$7,492,000), as the fleet size declined to 552,403 TEU (2012: 630,353 TEU), a decrease of 12.4%, and represented 2.1% (2012: 2.2%)

of the total revenue of the container leasing, management and sale businesses.

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 74.9% (2012: 72.1%) of the container leasing revenue of the Group came from the world's top ten container shipping lines.



### Maintained our Rank as the World's Fourth Largest Container Leasing Company

#### Fleet Capacity Movement

	2013 (TEU)	2012 (TEU)	Change (%)
Fleet capacity at 1 January	1,855,597	1,777,792	+4.4
New containers purchased	151,500	162,742	-6.9
Containers returned from COSCON upon expiry of leases			
– Total	(36,193)	(28,098)	+28.8
– Re-leased	544	352	+54.5
– Disposed of and pending for disposal	(35,649)	(27,746)	+28.5
Ownership transferred to customers upon expiry of finance leases	(231)	–	N/A
Defective containers written off	(19)	(451)	- 95.8
Owned containers declared lost and compensated for by customers	(5,048)	(12,744)	- 60.4
Managed containers disposal of or declared lost and compensated for by customers	(77,950)	(43,996)	+77.2
Fleet capacity at 31 December	1,888,200	1,855,597	+1.8

As of 31 December 2013, the Group's container fleet had reached 1,888,200 TEU (2012: 1,855,597 TEU), up 1.8%. The Group was the world's fourth largest container leasing company, with a market share of approximately 11.3% (2012: approximately 12.0%). The average age of containers in the fleet was 6.35 years (2012: 6.13 years).

During the year, the Group purchased 151,500 TEU (2012: 162,742 TEU) of new containers. Among these, 138,459 TEU (2012: 120,000 TEU) were purchased for COSCON, accounting for 91.4% (2012: 73.7%) of total new containers, while 13,041 TEU (2012: 42,742 TEU) were for international customers, representing 8.6% (2012: 26.3%) of total new containers. The capital expenditure on new containers was US\$288,754,000 (2012: US\$371,668,000).



## Breakdown of Owned, Sale-and-leaseback and Managed Containers

As of 31 December	Leasing customers	2013 (TEU)	2012 (TEU)	Change (%)
Owned containers	COSCON	490,191	409,348	+19.7
Owned containers	International customers	595,316	586,613	+1.5
Sale-and-leaseback containers	COSCON	250,290	229,283	+9.2
Managed containers	International customers	552,403	630,353	-12.4
<b>Total</b>		<b>1,888,200</b>	<b>1,855,597</b>	<b>+1.8</b>

As of 31 December	Leasing customers	2013 Percentage of total	2012 Percentage of total	Change (pp)
Owned containers	COSCON	26.0	22.1	+3.9
Owned containers	International customers	31.5	31.6	-0.1
Sale-and-leaseback containers	COSCON	13.2	12.3	+0.9
Managed containers	International customers	29.3	34.0	-4.7
<b>Total</b>		<b>100.0</b>	<b>100.0</b>	<b>-</b>

The Group's business investment strategy is to expand its container fleet, while balancing the development of fleets of owned containers, sale-and-leaseback containers and managed containers in order to lower investment risk as well as achieve overall business stability. The Group's owned container fleet reached 1,085,507 TEU (2012: 995,961 TEU), which represented 57.5% (2012: 53.7%) of the total container fleet. The sale-and-leaseback container fleet size and the managed container fleet size amounted to 802,693 TEU (2012: 859,636 TEU), which represented 42.5% (2012: 46.3%) of the total fleet size.

The Group's customers are global container shipping lines and COSCON is one of the major customers. Classified by customer, COSCON leased 740,481 TEU (2012: 638,631 TEU), while international customers took up 1,147,719 TEU (2012:

1,216,966 TEU), which represented 39.2% (2012: 34.4%) and 60.8% (2012: 65.6%) of the total fleet size respectively.

### Container Leasing Demand is Expected to Increase in 2014

Looking to the year ahead, there remains uncertainty about the global economic recovery, while the shipping industry is yet to reach an equilibrium. Although new container prices have rebounded in early 2014, leasing rental yields and container resale prices are still at low levels. In 2014, the operating environment of the container leasing industry is expected to remain highly competitive as a result rental yield is still under pressure. Meanwhile, resale prices are expected to remain at a low level resulting in a decline in profit from the disposal of returned containers.

According to a forecast made in December 2013 by Drewry, global container traffic will increase by 4.2% in 2014, representing an improvement from 3.1% in 2013. Meanwhile, global shipping capacity will increase by 5.8% to 18,286,000 TEU. Container leasing demand is also expected to increase in 2014. The Group will be vigilant in observing market demand when planning the purchase of new containers.

The Group will continue to adhere to its prudent investment strategy and operation model in its business development, carefully implementing its plan to purchase new containers and seek the balanced development of its container fleets, so as to minimise the investment risks. Meanwhile, the Group will retain its focus on long-term leasing with a view to lowering its exposure to market cycles, so as to achieve stable income.