VICE CHAIRMAN'S REPORT

The Group pays attention to management efficiency in order to enhance the value of the terminal business, to increase customer satisfaction through optimising its cost structure and to enhance the operational efficiency of our terminals.

2014 Overview of the Economy and the Industry

The global economy remained sluggish in 2014, with a varied pattern across different countries, and world trade consequently only managed to grow in the low single digits. In China, the rate of economic growth declined slightly and foreign trade has entered a period of more modest expansion.

Despite the subdued global economic picture, growth in global port container throughput improved. According to the forecast made by Drewry in December 2014, the growth in global container handling in 2014 increased by 1.1 percentage points to 5.0% as compared to 2013. The overall increase in throughput for China's ports was stable at 6.1%, but thanks to the rise in global container traffic, China's largest ports saw faster throughput growth than in 2013.

Although the rise in demand for containers from shipping companies remained largely unchanged during 2014, rental yields, lease rates as well as resale prices for old containers remained at low levels owing to intense competition, pressuring the profit margin of the container leasing industry.

Adhering to our Established Strategies Achieved a Steady Performance

In response to the prevailing conditions, including the mixed fortunes of the global economy and the structural adjustments to China's foreign trade, the management of the Group focused its efforts on optimising management performance and enhancing operational outcomes to strengthen core competences. This was in accordance with the strategy we set in 2013 to focus on the development of the terminals and container leasing businesses. As a result, the Group turned in a stable performance during the year.

The Group revenue in 2014 was US$870,091,000, an increase of US$71,465,000 or 8.9% compared with 2013. The terminals business saw satisfactory results, with revenue increasing by 13.6% to US$516,993,000. The increase was mainly attributable to Piraeus Terminal, Guangzhou South China Oceangate Terminal and Xiamen Ocean Gate Terminal. Revenue from the container leasing, management and sale businesses increased by 2.7% to US$357,075,000.

The Group's gross profit increased by US$5,688,000 or 1.8% to US$323,857,000 compared with 2013 and the gross profit margin decreased by 2.6 percentage points to 37.2%, among which, gross profit from the terminals business increased while that of the container leasing, management and sale businesses decreased. Excluding the discontinued operation (a net gain from the disposal of CIMC and the share of profit from CIMC in 2013), profit attributable to equity holders of the Company was US$292,759,000, an increase of US$6,553,000 or 2.3% compared with 2013.

Steady Progress in Terminal Operations

During the past year, the Group's terminals business achieved successes in marketing, and its operations made steady progress. This was reflected in the 10.8% growth in equity throughput for the year to 19,047,214 TEU, which exceeded the expectations set by management at the beginning of the year. This increase drove the profit from the terminals business up by US$34,211,000 or 18.3% compared with 2013 to US$220,978,000. Thanks to the optimisation of operations at the terminals business, the growth in profit surpassed that in equity throughput. Total throughput increased by 9.9% over 2013 to 67,326,122 TEU.

Focus on Developing the Terminals Business

The Group continued to monitor market opportunities to invest in high quality terminals and on 13 March 2014 acquired a 40% effective equity interest in Asia Container Terminal in Hong Kong for a consideration of approximately US$212,335,000. The terminal contributed a profit of US$1,599,000 and interest on the Group's shareholder loan amounting to US$2,916,000 during the year. More efficient management of the new terminal and COSCO-HIT Terminal will increase the synergies between the two facilities.

In addition to seizing this new investment opportunity, the Group focused on enhancing the operating capacity of its existing terminals. The amendment agreement of the concession agreement signed by Piraeus Terminal and Piraeus Port Authority S.A. became effective following ratification by the Hellenic Parliament and construction of the Western Part of Pier 3 commenced in late January 2015. The construction and the installation of mechanical equipment is expected to be completed by 2021. The expansion project will enhance the facility and increase the operational capacity of Piraeus Terminal. It will also be favourable to the port's position as an international transshipment hub, consistent with our top three goals for Piraeus Terminal, including to become a major logistics distribution centre and the most important container transshipment centre in the Eastern Mediterranean. The Group also launched sea-rail intermodal transport services at Piraeus to develop the terminal as the gateway port for Southern Europe.

A Challenging Market for the Container Leasing Business

During the year, container leasing and sale businesses faced pressure on gross profit margins. With abundant supply causing keen competition, new container prices and leasing rates remained at low levels. Meanwhile, some leases with higher leasing rates expired, resale prices for containers were weak and the average carring value for returned containers

was higher year-on-year. As a result of these pressures, the profit from the Group's container leasing, management and sale businesses declined by US$29,502,000 as compared to 2013 to US$95,757,000, representing a decrease of 23.6%.

In its business development, the Group has adhered to its steady investment strategy and operational model, and has been prudent in formulating and adjusting its plans to purchase containers in light of changes in market conditions. Faced with a market experiencing intense competition, the Group revised down the number of new containers purchased from 190,000 TEU as originally budgeted to 161,106 TEU during the year. As at 31 December 2014, COSCO Pacific's container fleet size increased by 1.0% to 1,907,778 TEU.

A Solid Financial Position

During the year, the Group's capital expenditure on the terminals business amounted to US$387,576,000, of which US$279,919,000 was used for investment in new projects and US$107,657,000 for berth expansion and the purchase of machinery and equipment in the terminal subsidiaries. Capital expenditure on the purchase of new containers at the container leasing business amounted to US$305,803,000.

As at 31 December 2014, the Group's consolidated net bank borrowings amounted to US$743,714,000, compared with US$808,659,000 as at 31 December 2013. The net debt-to-total-equity ratio was 14.7% and the cash balance was US$1,116,479,000. Banking facilities available but unused amounted to US$475,694,000. The Group's solid financial position creates a strong foundation for it to focus on capturing investment opportunities in high quality terminals.

Our Four Areas of Strategic Focus

The Group is committed to enhancing the operations and profitability of its terminals business and will adhere to the four areas of focus listed below to enhance the strategic value of its terminals.

Focus on seizing development opportunities in hub ports in line with the trend towards mega-vessels:

Mega-vessels have become mainstream in the shipping industry, and accordingly we will develop our global hub network based on the network of main routes for international shipping as well as COSCON's hub strategy.

Focus on enhancing COSCO Pacific's brand value by optimising the operational model of the terminal subsidiaries:

In 2015, the Group will roll out enhancements to marketing and services, cost optimisation, business model innovation and management excellence to raise the productivity and sustainability of its terminals with controlling stakes.

Focus on strengthening the profitability of the terminals business through innovative approaches to equity investments in terminal projects:

In addition to increasing steadily our investment in terminals with controlling stakes, the Company will target innovative ways to make equity investments in terminal projects in accordance with our target of increasing revenue and mitigating risks in order to strengthen the profitability of the terminals business. While the primary focus will be on China, the Group will also expand its global terminal network and diversify its terminal investment geographically.

Focus on driving the development of a global terminal portfolio by capitalising on the opportunities from the "One Belt, One Road" and the Yangtze River Economic Belt Initiatives:

The Group will leverage the synergy between its terminals and the shipping business of COSCO to capture the strategic opportunities arising in the Yangtze River Economic Belt and Maritime Silk Road. The strategic positioning of COSCO's fleets as well as COSCO's long-standing shipping route callings at global container hubs are fundamental to the development of the Group's terminals business. COSCO Pacific will thus align the direction and strategy for its terminals business with global development strategies for COSCO's fleet and its shipping route network.

Value Creation Through Management Efficiency

Management Efficiency and Strengthening Core Competence

The Group pays attention to management efficiency in order to enhance the value of the terminals business. We have reduced berthing times by enhancing the operational efficiency of our terminals and have given ships a longer time for slow steaming, thus reducing shipping companies' fuel costs. At the same time as increasing customer satisfaction, the Group is committed to opitimising its own cost structure, through measures such as the implementation of more centralised procurement among the terminal subsidiaries, reducing operating costs through greater automation and substituting bunker fuel-powered equipment with electrical-powered equipment to reduce energy costs. These measures not only increase productivity but meet the need to protect the environment through energy saving and carbon emissions reduction at ports. To create further value, the Group is committed to developing value-added services in addition to loading in terminals to grow the revenue of its terminals business. These include terminal logistics and warehousing, sea-rail intermodal transport services and other related services.

The Group expects competition in container leasing to remain intense in 2015, challenging our performance in this segment. As a result, we are prioritising the implementation of stringent quality control, cost control and risk management measures. We are committed to enhancing marketing, implementing stringent risk management and quality control, and unlocking value in the container leasing business through excellence in customer service and management.

The Group will also create value through strengthening customer marketing and increasing its efforts to lease off-hire containers. In the fourth quarter of 2014, we successfully developed an e-commerce platform for the sale of returned containers. This provides a faster and more convenient trading channel, while increasing our ability to sell to end-users and small and medium sized customers. The online platform will also enable us to extend our marketing footprint.

Despite the uncertainties that prevail in the container leasing market, with our risk management capability in container leasing business, we are confident of securing stable cash inflow from the segment, providing momentum for investment and sustainable growth.

Corporate Social Responsibility

In addition to optimising operations, COSCO Pacific regards corporate citizenship as very important and supports policies on environmental protection and improvement. We take environmental protection into account in our decisions and strive to reduce the impact on the environment from our operations and business development projects.

The Group encourages its subsidiaries to adopt energy saving technologies and pay due attention to environmental protection when expanding capacity. For instance, at our terminals in mainland China where we are the controlling shareholder, we have substituted bunker fuel-powered equipment with electrical-powered equipment and implemented energy recovery technologies for energy saving. We have completed 87% of the "bunker fuel to electricity" retrofitting project for fuel engine hangers, and expect to reduce our consumption of bunker fuel significantly and boost the use of clean energy.

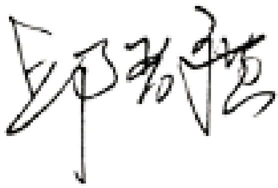
The automated loading and unloading system at Xiamen Ocean Gate Terminal conducted a trial run on 19 December 2014. It is the first fully-electrical and fully-intelligent automated container terminal project in China. In addition to enhancing operational capacity and efficiency, the system achieves zero-emissions at site. Xiamen Ocean Gate Terminal is also collaborating with Xiamen University to protect the local ecosystem.

Florens has actively participated in the design of containers that use environmentally friendly materials and in research on lightweight containers, which will contribute to reducing energy consumption and improving environmental protection.

Last year, the Group correctly identified the market dynamics and captured the opportunities to progress the sustainable development of its businesses. Looking at the year ahead, we will continue to pursue efficient management and strive to increase the Group's intrinsic value.

Appreciation

When the market environment is challenging, the importance of good management becomes ever more apparent. I am deeply honoured to have the trust of the Board of Directors and to have been appointed as Vice-Chairman of the Group. I shall work closely with our Chairman to supervise the efficiency drive across the entire Group management and will strive unceasingly to create shareholder value and increase returns to shareholders.



QIU Jinguang
Vice Chairman and Managing Director
24 March 2015