OPERATIONAL REVIEW

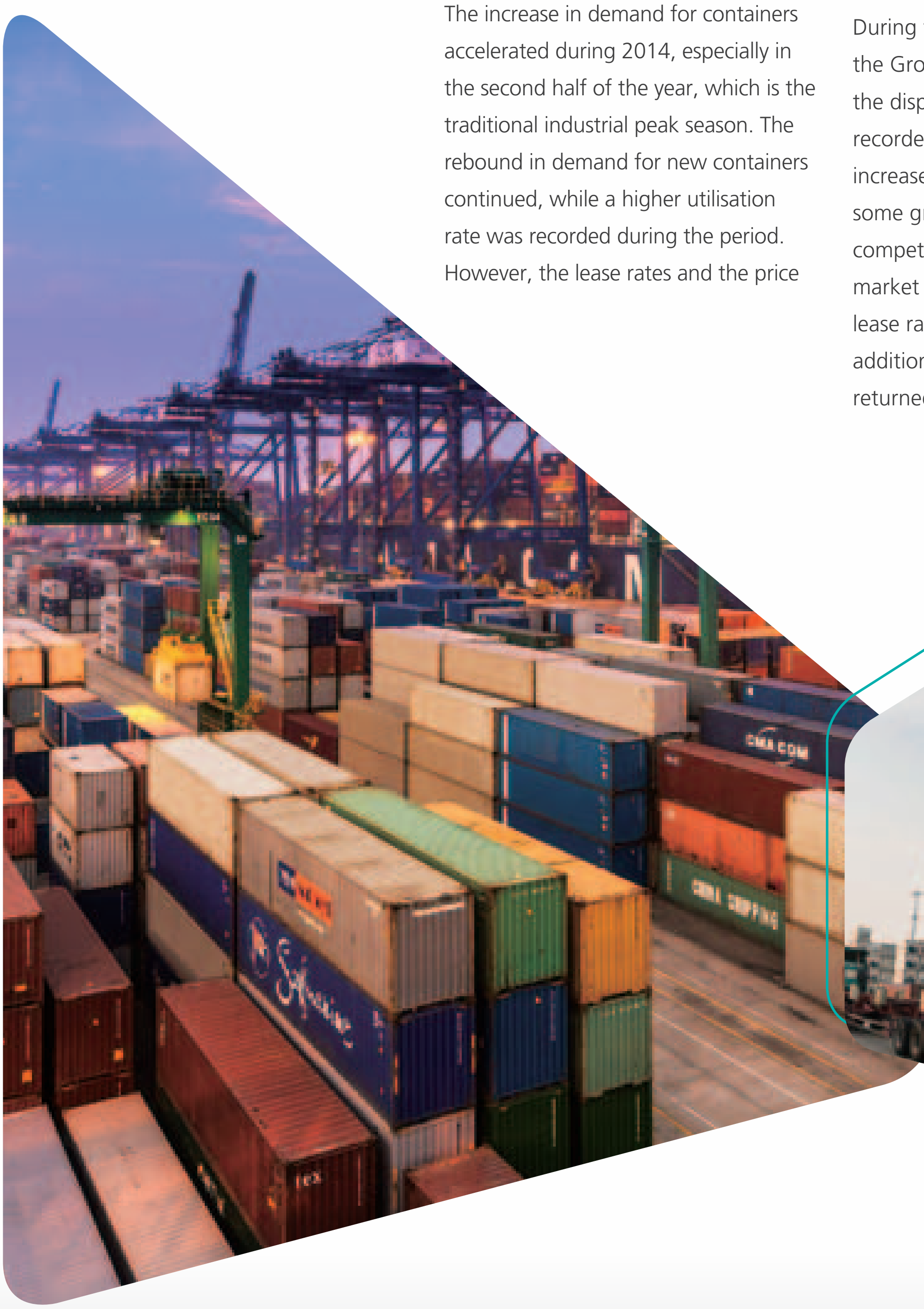
CONTAINER

LEASING, MANAGEMENT AND SALE

1 Adjusting Supply to Demand to Minimise Margin Pressures

The increase in demand for containers accelerated during 2014, especially in the second half of the year, which is the traditional industrial peak season. The rebound in demand for new containers continued, while a higher utilisation rate was recorded during the period. However, the lease rates and the price of new containers remained at a low level because of ample market supply, intense competition in the industry and the expiration of some containers that were leased at higher rates. These factors put pressure on the container leasing industry's gross margin.

During the year, both the number of the Group's containers on hire and the disposal of returned containers recorded growth, leading to an increase in overall revenue. Despite some growth in market demand, competition in the container leasing market was fierce, curbing container lease rates and resale prices. In addition, the average carrying value of returned containers disposed of was



higher than in 2013. As a result, profit from container leasing, management and sale businesses dropped 23.6% to US$95,757,000 (2013: US$125,259,000).

Long-term leases accounted for 96.2% (2013: 95.5%) of the Group's total revenue from container leasing in 2014, while revenue from master leases accounted for 3.8% (2013: 4.5%). With a strategic focus on long-term leasing, the Group enjoyed stable income growth. The overall average utilisation rate of the Group's containers remained stable during the year, at 95.3% (2013: 94.5%), higher than the industry average of approximately 94.0% (2013: approximately 93.9%).

Revenue and Utilisation Rate Increased Steadily

In 2014, revenue from the Group's container leasing, management and sale businesses reached US$357,075,000 (2013: US$347,747,000), representing an increase of 2.7%. The growth was mainly attributable to the increase in revenue from container leasing and the disposal of returned containers.

Revenue from container leasing was US$295,774,000 (2013: US$290,883,000), an increase of 1.7%, and accounted for 82.8% (2013: 83.6%) of the total revenue of the container leasing, management and sale businesses. The fleet size of owned containers and sale-and-leaseback containers grew 2.6% to 1,370,324 TEU (2013: 1,335,797 TEU). Although the Group's overall average utilisation rate increased, the market lease rates were relatively low, curbing revenue growth.

Revenue from the disposal of returned containers increased by 11.2% to US$47,773,000 (2013: US$42,967,000), accounting for 13.4% (2013: 12.4%) of the total revenue of the container leasing, management and sale businesses. Revenue from the disposal of returned containers recorded year-on-year growth as a result of a larger number of disposed returned containers, although resale prices were lower. The number of disposed returned containers surged 42.4% to 50,860 TEU (2013: 35,714 TEU). During the year, the number of containers returned from COSCON was 43,382 TEU (2013: 36,193 TEU).

The fleet size of managed containers was down 2.7% to 537,454 TEU (2013: 552,403 TEU). As a result, revenue from managed containers decreased by 13.8% to US$6,377,000 (2013: US$7,398,000), accounting for 1.8% (2013: 2.1%) of the total revenue of the container leasing, management and sale businesses.

The Group has a prudent and comprehensive risk management framework to evaluate the credit risk pertaining to individual customers. Core customers of the Group are reliable container shipping lines and in 2014, 79.5% (2013: 74.9%) of the Group's container leasing revenue was contributed by the world's top ten container shipping lines.

Revenue Breakdown of Container Leasing, Management and Sale Businesses

	2014 US$	Year-on-year change	Percentage of total
Container leasing	295,774,000	+1.7%	82.8%
Disposal of returned containers	47,773,000	+11.2%	13.4%
Container management	6,377,000	-13.8%	1.8%
Others	7,151,000	+10.0%	2.0%
Total	**357,075,000**	**+2.7%**	**100.0%**

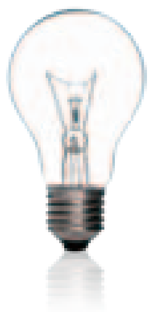
Utilisation rate

95.3%

2 Keeping on Top of Market Changes and Responding Flexibly

Container fleet size

1,907,778TEU



The Group has adhered to its steady investment strategy and operational model in container leasing business development, and has been prudent in formulating and adjusting its plans to purchase containers in light of changes in market conditions.

As of 31 December 2014, the Group's container fleet had reached 1,907,778 TEU (2013: 1,888,200 TEU), up 1.0%. COSCO Pacific was one of the world's five largest container leasing companies with a market share of approximately 11.0% (2013: approximately 11.3%). The average age of containers in the fleet was 6.5 years (2013: 6.35 years).

Balancing the Development of the Container Fleet, Effectively Reducing Operational Risk

During the year, the Group purchased 161,106 TEU (2013: 151,500 TEU) of new containers. Among these, 137,830 TEU (2013: 138,459 TEU) were purchased for COSCON, accounting for 85.6% (2013: 91.4%) of total new containers, while 23,276 TEU (2013: 13,041 TEU) were for international customers, representing 14.4% (2013: 8.6%) of total new containers. The capital expenditure on new containers amounted to US$305,803,000 (2013: US$288,754,000).

The Group's 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 minimise operational risk as well as achieve overall business stability. The Group's owned container fleet stood at 1,083,756 TEU (2013: 1,085,507 TEU), which represented 56.8% (2013: 57.5%) of the total container fleet. The fleet size of sale-and-leaseback containers and managed containers amounted to 824,022 TEU (2013: 802,693 TEU), which represented 43.2% (2013: 42.5%) of the total fleet size.

Fleet Capacity Movement

	2014 (TEU)	2013 (TEU)	Change (%)
Fleet capacity at 1 January	**1,888,200**	1,855,597	+1.8
New containers purchased	**161,106**	151,500	+6.3
Total number of returned containers disposed of and pending for disposal	**(52,710)**	(35,649)	+47.9
Managed containers (disposed of or declared lost and compensated for by customers)	**(78,593)**	(77,950)	+0.8
Others [Note]	**(10,225)**	(5,298)	+93.0
Fleet capacity at 31 December	**1,907,778**	1,888,200	+1.0

Note: Others include ownership transferred to customers upon expiry of finance leases, defective containers written off, owned containers declared lost and compensated for by customers.

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

As of 31 December	Leasing customers	2014 (TEU)	2013 (TEU)	Change (%)
Owned containers	COSCON	**519,492**	490,191	+6.0
Owned containers	International customers	**564,264**	595,316	-5.2
Sale-and-leaseback containers	COSCON	**286,568**	250,290	+14.5
Managed containers	International customers	**537,454**	552,403	-2.7
Total		**1,907,778**	**1,888,200**	**+1.0**

As of 31 December	Leasing customers	2014 Percentage of total	2013 Percentage of total	Change (pp)
Owned containers	COSCON	**27.2**	26.0	+1.2
Owned containers	International customers	**29.6**	31.5	-1.9
Sale-and-leaseback containers	COSCON	**15.0**	13.2	+1.8
Managed containers	International customers	**28.2**	29.3	-1.1
Total		**100.0**	**100.0**	**–**

The Group's customers are global container shipping lines and COSCON is a major customer. As classified by customer, COSCON leased 806,060 TEU (2013: 740,481 TEU), while international customers took up 1,101,718 TEU (2013: 1,147,719 TEU), which represented 42.2% (2013: 39.2%) and 57.8% (2013: 60.8%) of the total fleet size respectively.

Embracing the "New Normal", Being Flexible in Operational Strategies

According to Drewry's forecast, global shipping capacity will increase 7.2% in 2015, higher than the estimated 5.3% growth in demand, representing a surplus of capacity in the shipping industry. Nevertheless, with declining bunker costs, container shipping profitability is expected to improve because of lower operating costs, and this will support a sustainable rebound in the demand for container leasing services.

Looking to the year ahead, the outlook for global economic growth remains uncertain, while oversupply is yet to be absorbed by the shipping industry. Intense competition is therefore expected to remain a feature of the container leasing industry. Although the demand for new containers has rebounded, container lease rates and container resale prices remain at low levels. Moreover, the strong US dollar is dragging down the prices of steel and other commodities, which puts further pressure on resale prices. We expect 2015 will still be a challenging year for the Group's container leasing business, and anticipate only a sluggish recovery.

The Group will continue to pursue its prudent investment strategy and business development model, promptly and flexibly adjusting its plans to purchase new containers, and seek the balanced development of its container fleets, thus rigorously managing operational risk. Meanwhile, the Group will maintain its marketing focus on long-term leasing to minimise cyclical risks, with a view to ensuring a stable income stream.