Vice Chairman's Report

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QIU Jinguang
Vice Chairman and Managing Director

Steady Profit Growth Despite a Downtrend in the Economy and the Industry

During the past year, amidst a deceleration of global economic growth, the ports industry encountered numerous challenges and global container throughput growth slowed markedly. The container leasing market remained depressed and the industry continued to face a severe operating environment. The Group nevertheless achieved profit growth despite the tremendous downward pressure, with profit attributable to equity holders increasing by 30.4% to US$381,644,000. Excluding the US$79,152,000 write back of provision on the disposal of the 21.8% equity interest in CIMC in 2013, the profit attributable to equity holders of the Company rose 3.3% to US$302,492,000, US$9,733,000 higher than in 2014. Achieving stable profit growth in 2015 was due to the tireless hard work of all members of management and staff.

In 2015, the Group adhered to its consistently effective operational strategies, which include enhancement of the management, upgrading services, imposing effective cost control measures and establishing long-term strategic cooperation with customers, with a view to ensuring sustainable business development.

Impacted by slowing global economic growth and the decline in China's imports and exports, the growth in the Group's container throughput and in profit from the terminals business moderated. Yet steady progress was maintained during the year. Equity throughput rose marginally, by 1.1% year-on-year, to 19,262,210 TEU and profit from the terminals business rose by 5.7% to US$233,653,000, primarily due to the profit turnaround at Xiamen Ocean Gate Terminal, whose business volume has continued to increase. This terminal contributed a profit of US$137,000, a substantial improvement as compared to the loss of US$6,858,000 recorded in

2014. Meanwhile, those terminals with a larger profit contribution to the Group's terminals business had stable growth in both throughput and profit. Among them, the profits from Yantian Terminals and Qingdao Qianwan Terminal increased by 8.5% to US$53,667,000 and 9.9% to US$42,898,000 respectively.

During the year, the shipping markets in the Far East and in the Mediterranean region turned sluggish. In response to this, Piraeus Terminal strengthened its marketing efforts and customer services, contributing to stable throughput growth of 1.6%, which together with enhanced operational efficiency saw the terminal's profit rise by 18.1% in Euro terms. However, as a result of the depreciation of the Euro against the US dollar, the profit in US dollar terms decreased slightly, by 0.5% to US$28,845,000.

The container leasing business was affected by overcapacity and falling prices for the raw materials used in containers, and new container prices and market lease rates continued to decline. Market conditions were difficult and competition remained fierce. In 2015, the net profit of the Group's container leasing, management and sale businesses decreased 13.5% to US$82,849,000.

The Group's revenue fell 8.3% to US$798,151,000 in 2015. Within this, the revenue from the terminals business declined by 5.8% to US$486,772,000. The decline was mainly due to the depreciation of the Euro and Renminbi against the US Dollar. Revenue from the container leasing, management and sale businesses fell by 11.6% to US$315,675,000.

Healthy Financial Position

The Group has always taken a prudent approach to the optimisation and expansion of its assets and the scale of its operations. In 2015, the Group's capital expenditure amounted to US$689,439,000, of which US$484,465,000 was spent on the terminals business, mainly for the acquisition of Kumport Terminal and the construction work at the Western Part of Pier 3 of Piraeus Terminal. The capital expenditure of the container leasing business amounted to US$204,743,000, of which US$204,020,000 was used to purchase 120,414 TEU of new containers.

The Group has maintained a healthy financial position. As at the end of 2015, the consolidated net bank borrowings and the cash balance amounted to US$1,113,076,000 and US$909,287,000 respectively, while the net debt-to-total equity ratio was 21.5%. In addition, banking facilities available but unused amounted to US$927,288,000.

Strengthening our Presence in the Mediterranean Region and Capitalising on the Opportunities Arising from "One Belt, One Road"

COSCO Pacific has adhered to its established strategies and made further progress in building its global terminal network. Since taking over Piraeus Terminal, COSCO Pacific has implemented three major strategies, namely to be a major logistics distribution centre, the most important container transshipment centre in the Eastern Mediterranean, and transforming Piraeus Terminal into a gateway port for Southern Europe through the development of sea-rail intermodal transport services connected with the "China-European Sea-rail Express".

Piraeus Terminal has made steady progress in its development. The construction project at the Western Part of Pier 3 was launched in January 2015, and the project to increase the handling capacity of Pier 2 was completed by phases during 2015. With the terminal's facilities and operational capacity thus improved, the annual handling capacity of Piraeus Terminal reached 4.3 million TEU at the end of 2015, enhancing its profitability. The terminal won several "2015 Transport and Logistics Awards" in May, jointly organised by the Supply Chain Institute of Southeastern & Central Europe Ltd ("SCISCE") and Boussias Communications, in recognition of the safety, promptness and quality of its multimodal transport solution.

To strengthen its strategic position in the Mediterranean region, the Group completed the acquisition of a 26% effective equity interest in Kumport Terminal at a consideration of US$386,114,000 at the end of 2015. Located in Istanbul, Kumport Terminal is the third largest container terminal in Turkey and the "Gateway to the Black Sea". It connects to the Bosphorus Strait, which is the only shipping route into the Black Sea. With its privileged location, Kumport Terminal is well placed to become a transshipment port for the Black Sea region and complements Piraeus Terminal's role as the hub for the Mediterranean region, thus enhancing the Group's competitive advantage in the area.

COSCO Pacific is committed to capitalising on the opportunities arising from the "One Belt, One Road" and Yangtze River Economic Belt initiatives to extend its presence in the Mediterranean. Greece and Turkey lie on the 21st century Maritime Silk Road strategic route, and therefore Piraeus Terminal and Kumport Terminal will benefit from the "One Belt, One Road" strategy put forward by the Chinese government. With increasing economic integration between Asia and Europe, these two terminals can leverage their positions as a transshipment hub and feeder ports for Europe and the Mediterranean, to facilitate trade and economic exchange between the two continents.

Enhancing Competitiveness through the Significant Opportunities Presented by SOE Reform

The Group capitalised on the opportunities arising from the reorganisation of its parent company COSCO and China Shipping Group to announce a strategic acquisition and disposal on 11 December 2015. The Group proposed to acquire CSPD at a consideration of approximately RMB7.63 billion and disposal of Florens at a consideration of approximately RMB7.78 billion. I wish to thank the shareholders for their trust and support, with the reorganisation proposal overwhelmingly passed by independent shareholders at the Special General Meeting held on 1 February 2016.

Backed by its parent company's powerful shipping fleet, COSCO Pacific is committed to focusing on the development of its terminals business, which is the key driver of the Group's profit. It is pursuing opportunities to expand through investment in overseas terminals, in order to optimise its container terminal network. The Group has therefore been increasing the scale of its terminals business over the years, and ranks fourth in the world by total container throughput, and sixth in the world based on equity throughput. In 2015, 73.8% of the Group's core profit was attributable to the terminals business.

The reorganisation presented the Group with a golden opportunity to advance its terminals business. By acquiring a portfolio of terminal assets, the Group is gearing up to increase its global network and market share, strengthening its dominant position in the Greater China region and its leading position in the global container terminals industry. The synergy between the Group's container leasing business and its terminal operations is very limited, hence our main strategy is to focus on the terminals business. The disposal of the container leasing, management and sale businesses allows the Group to concentrate resources on the development of its terminals business to enhance its competitiveness and performance. It also aligns with the Group's strategy for the "One Belt, One Road" policy to seize the opportunities to invest in hub ports and expand its global container terminal network. The reorganisation is thus in line with the Group's strategy and is favorable to the sustainable development and growth of the terminals business, as well as value creation over the long term.

Based on the total throughput of the world's container terminals market in 2014, following the acquisition, the Group's total global market share increased from 9.9% to 11.6% in terms of total throughput, making it the second largest operator in the world, while its global market share in terms of equity throughput increased from 2.8% to 3.6%, making it the sixth largest globally, thereby advancing the Group's position in the global market. In addition, the Group's position in the Greater China area has been strengthened, with its market share increasing from 27.0% to 32.2%. Furthermore, its terminal network in China has been extended to the Southwestern coastal region, so that it covers China's five main coastal port clusters.

The reorganisation proposal was completed in March 2016, marking an important milestone in the Group's development. COSCO Pacific has transformed into a pure terminal operator and will bring together its success in developing globally with CSPD's expertise in domestic container terminal, maximising multimodal synergies so as to optimise terminal utilisation rates, generate operational efficiencies and improve cost control.

COSCO Pacific has enjoyed a privileged position among its peers thanks to the long-standing support of the container shipping fleet of its parent company. Following the reorganisation of COSCO and China Shipping Group, according to the figures provided by China COSCO, the capacity of the enlarged container shipping fleet reaching 1.6 million TEU, representing approximately 8% of the world's total container shipping fleet capacity. COSCO Pacific, being the listed terminal flagship of the parent company, will therefore receive even greater support from one of the world's top tier container shipping fleets. Benefiting from synergies with its parent company, the Group's global competitiveness will become more pronounced.

COSCO Pacific will strive to develop a comprehensive global terminal network through continual adherence to its four strategic areas of focus: (1) seizing development opportunities in hub ports in line with the trend towards mega-vessels; (2) enhancing COSCO Pacific's brand value by optimising the operational models of the terminal subsidiaries; (3) strengthening the profitability of the terminals business through innovative approaches to equity investments in terminal projects; and (4) 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.

Management of Social Responsibility

COSCO Pacific strives to incorporate environmental protection technologies into its operations in order to meet emission reduction goals and reduce the costs of its terminal operations. During the year, COSCO Pacific progressively pushed forward energy saving and emission reduction initiatives such as replacing bunker fuel with electricity to power equipment, installing LED lighting systems, developing fully automated terminals, and introducing smart trailer deployment systems, so as to improve energy saving management.

As at the end of 2015, 85% of the gantry cranes at the Group's terminal subsidiaries in Mainland China have completed bunker fuel to electricity retrofitting. This saves at least 6,000 tons of oil and reduces carbon emissions by at least 20,000 tons of standard coal equivalents each year. In addition, energy consumption for lighting is 66% lower at those sites where LED lighting has been installed. As a result, the Group's "green initiative" goals for 2015 were met.

Energy saving and emissions reduction are long-term commitments COSCO Pacific makes to society. The Group will continue to bring social well-being into its decision-making process and integrate these commitments into the daily operations of its subsidiaries to work together towards low-carbon projects.

Use the Benefits of the Reorganisation to Unlock Intrinsic Value

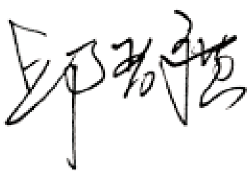
The macro-economic environment is expected to face various challenges in 2016. China's investment and manufacturing will weaken in line with the ongoing rebalancing of its economy, which will cause further downward pressure on the country's foreign trade. The shipping industry still suffers from overcapacity. Market conditions for the ports industry will continue to be affected by sluggish growth in global trade and the prolonged hard times for the shipping industry. Furthermore, competition in the container leasing industry will remain fierce due to oversupply and plunging raw material prices for containers, putting pressure on container lease rates and the resale prices.

Looking at the year ahead, competition within the ports industry will intensify as economic growth slows. COSCO Pacific will complete the post-reorganisation work, so as to bring the economies of scale and synergies with the parent company into full play. It will manage risk while seizing investment opportunities, focusing on the development of its global terminal network and improving its global container hub network based on its four areas of strategic focus, so as to achieve sustainable development and growth in profitability.

The Group believes that the market advantages gained from the reorganisation, combined with the core competencies it has accumulated over the years, will enhance its competitiveness. In the face of challenging market conditions, the Group has a strong operating capacity. In order to enhance our corporate value we will continue to expand the scale of our businesses and strengthen our COSCO Pacific branding.

Acknowledgements

To acknowledge the support of our shareholders and meet their expectations, COSCO Pacific will make every effort to succeed in a market where both challenges and opportunities exist. On behalf of the management, I would like to extend my gratitude to the staff of COSCO Pacific around the world for their devotion to the task, and to the management and staff of Florens for their substantial contribution to COSCO Pacific over the past two decades.



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