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Unless otherwise specified for information derived from various official government and independent industry sources, the information and statistics in this section relating to the container trade, shipping and leasing industries are extracted from a report we commissioned from Harrison Consulting. The information in such sources may not be consistent with information compiled by other institutions within or outside China. Due to the inherent time-lag involved in collecting any industry and economic data, some or all of the data contained in this section may only represent the state of affairs at the time such data was collected. As such, you should also take into account subsequent movements in the container trade, shipping and leasing industries when you evaluate the information contained in this section.

We believe that the sources of such information are appropriate sources and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us. No representation is given as to the accuracy of such information.

REPORT COMMISSIONED FROM HARRISON CONSULTING

Harrison Consulting is an independent market research company. We commissioned Harrison Consulting to conduct an analysis of, and to report on, the container trade, shipping and leasing industries. The report commissioned has been prepared by Harrison Consulting independent of our influence. We paid Harrison Consulting a consultancy fee of approximately US$15,000 for issuing the report.

The Harrison Consulting report we commissioned includes information on the container trade, shipping and leasing industries, such as world container trade growth, container manufacturing in China, container leasing types and leasing rates, market share and ranking of global container leasing companies, and outlook for the container leasing industry, which are quoted in this document. Harrison Consulting’s independent research was undertaken through both primary and secondary research obtained from various sources within the relevant industries. Primary research involves direct formal and informal contact with shipping lines, container lessors, related financial institutions and container manufacturers. Secondary research involves reviewing authorized industry journals, independent research reports and data based on Harrison Consulting’s own proprietary research database. In addition, the Harrison Consulting report is also drafted based on Harrison Consulting’s experience and market insight through its long-term and sustaining monitoring of the industries that are included in its report. The systematic analysis and methodology applied by Harrison Consulting in drafting the industry report is consistent with professional standards and market research practice.

DEVELOPMENT OF WORLD ECONOMY AND CONTAINER TRADE

World GDP, Trade and Container Trade Growth

As a result of progressive global trade deregulation, the rapid expansion of many developing economies, and the inherent efficiencies of containerization, container trade has grown at an average annual rate of 8% to 9% for over 30 years. In the last 10 years growth has been driven by the increasing globalization of trade and the emergence of China as the world’s leading manufacturing base. During this time container traffic has grown most rapidly on intra-Asian trades, as the region has increased its share of world container volumes from approximately 20% to 30%. Given the rate of
INDUSTRY OVERVIEW

economic development and the increasing number of bilateral free trade agreements within Asia, this trend is expected to continue in the medium term.

The graph below compares cumulative growth in world GDP, trade, container trade and world container fleet over the period from 1980 to 2010. This shows two important points: (i) world trade has grown at a faster rate than global GDP, especially in the past 20 years; and (ii) due to the efficiencies of containerization, world container trade has grown at a faster rate than world trade generally, leading to the continued expansion of the world container fleet over the past 30 years.

Cumulative World GDP, Trade, Container Trade and Container Fleet Growth, 1980-2010

Based on the same data, the graph below compares year-on-year growth in world GDP with year-on-year growth in container trade. The graph shows that container trade grew at 2.5 to 3.0 times of the rate of GDP growth in most of the past 30 years. Container trade growth projections for 2011 and 2012 are based on the latest International Monetary Fund forecasts for world GDP growth and the assumption that container trade will grow at 2.5 times the rate of GDP growth.

GDP and Container Trade Growth, 1980-2012E

Source: Harrison Consulting
CONTAINERIZATION

Benefits of Containerization

The large-scale use of containers in international trade, driven by the three simple but far-reaching concepts and benefits outlined below, has brought huge capacity and efficiency gains to shipping and transformed international trade.

<table>
<thead>
<tr>
<th>Benefits of Containerization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loading 20-30 tons of cargo on a ship (several hours work for a team of dockworkers by conventional means) today takes one crane driver about 45 seconds.</td>
</tr>
<tr>
<td>Cargo is loaded at origin and moved by truck, rail, and ship to its ultimate destination without intermediate handling, significantly reducing loss, pilferage, and security risks.</td>
</tr>
<tr>
<td>Standard-dimension containers can be handled and transported rapidly and safely with standardized handling equipment throughout the world.</td>
</tr>
</tbody>
</table>

Growth of Container Shipping

Since its beginnings in the late 1960s, containerization has become an integral part of globalization, supporting an industry today which:

- deploys a fleet of over 5,000 container ships with an aggregate capacity of over 15 million TEU on-board slots;
- transports 1.5 billion tons of containerized cargo with an estimated value of US$4 trillion per year;
- generates approximately 500 million TEU of container moves through the world’s container ports annually; and
- produces annual revenues of US$200 billion for the container shipping lines.

Based on the United Nations Conference on Trade and Development (the “UNCTAD”) data, the graph below shows the composition of the world merchant fleet in dead-weight tons by main vessel type for each year from 1980 to 2010.

World Vessel Fleet in Dead-Weight Tons Segmented by Main Vessel Type, 1980-2010

Source: UNCTAD
INDUSTRY OVERVIEW

UNCTAD estimates that while the container-ship segment has increased from approximately 1% to 13% of the world merchant fleet over the last 30 years, the containerized portion of all dry-cargo shipments by weight has increased from approximately 5% in 1980 to 25% in 2010. Lloyd’s Maritime Intelligence Unit estimates that in terms of the U.S. dollar value of cargo carried, over 50% of all seaborne trade is containerized. The graph below compares the world merchant fleet by vessel type in dead-weight tons with seaborne trade based on the estimated U.S. dollar value of cargo carried.

**Segmentation of World Merchant Fleet in Dead-Weight Tons and Seaborne Trade (U.S. Dollars)**

Drivers of Global Container Trade Growth

Although the exact size of the container-shipping sector relative to the total shipping market varies depending on how it is measured, its steadily increasing share of world seaborne trade is apparent. This is being caused both by wider regulatory, economic and technological changes and by greater efficiencies within container shipping itself.

**External Drivers of Container Trade Growth**

- The deregulation and globalization of trade.
- Production outsourcing by developed-nation multinationals and the rise of large new indigenous manufacturing centers in Asia.
- Large-scale, long-distance intermodal supply chains.
- Advances in technology and increasing levels of disposable income in developed economies encouraging the manufacture and international transportation of new consumer electronics products.
- Rising living standards in developing economies generating new demand for containerized imports.

**Internal Drivers of Container Trade Growth**

- The increased speed, safety, efficiency and reliability of containerization.
- They reduced cost of long-distance intermodal transport to the point where it is now a relatively insignificant part of the value of the goods transported.
INDUSTRY OVERVIEW

- Greater economies of scale from new and larger container ships.
- The switch of cargo from break-bulk to containers.
- Greater reliability and reduced cost of supply-chain management through the use of internet-based information systems.
- Improved access to real-time container tracking information for a wide range of users.

Increasing Importance of Asia to World Container Trade

Asia is now becoming a major global container trade center and is the driver of demand growth on the world’s three largest trades: Asia-Europe and the transpacific which between them make up approximately 30%, and intra-Asia which makes up another 30% of total container trade. On the Asia-Europe and transpacific deep-sea routes growing volumes of Asian manufactured goods have been driving container export growth for some time, and a rise in Asian domestic consumption is now driving a rapid increase in container imports into the region. Intra-Asian trade is being driven by the rapid expansion of regional economies, the proliferation of bilateral free trade agreements, and improving living standards in large and growing population centres. Container traffic growth has for over a decade generally been strongest on trades to, from and within Asia.

The effect of this is illustrated in the table and graphs below, which show periodic TEU throughput from 1980 to 2010 at the world’s 20 largest container ports. The data demonstrate that throughput at Asian ports has grown at twice the rate that it has grown at non-Asian ports. As a consequence the portion of top 20 throughput handled by Asian ports has risen from less than 40% in 1980 to nearly 80% in 2010. By far the largest driver of the rise in Asian port throughput has been China. In 1980 when no mainland Chinese port was ranked in the top 20, Hong Kong handled 1.4 million TEU, 8% of top 20 port throughput. In 2010 the top 20 Chinese ports of Shanghai, Hong Kong, Shenzhen, Ningbo, Guangzhou, Qingdao, Tianjin and Xiamen handled 128 million TEU, 50% of top 20 container port throughput.

Throughput at Top 20 Container Ports, 1980-2010

<table>
<thead>
<tr>
<th>Millions of TEU</th>
<th>1980</th>
<th>1990</th>
<th>2000</th>
<th>2010</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Throughput at top 20 Asian Ports</td>
<td>6.7</td>
<td>24.7</td>
<td>68.0</td>
<td>201.0</td>
<td>12.0%</td>
</tr>
<tr>
<td>Throughput at top 20 Non-Asian Ports</td>
<td>10.6</td>
<td>19.6</td>
<td>37.9</td>
<td>53.8</td>
<td>5.6%</td>
</tr>
<tr>
<td>Total Top 20 Container Port Throughput</td>
<td>17.3</td>
<td>44.3</td>
<td>105.9</td>
<td>254.8</td>
<td>9.4%</td>
</tr>
<tr>
<td>Asian Ports’ share of Top 20 Throughput</td>
<td>38.7%</td>
<td>55.8%</td>
<td>64.4%</td>
<td>78.8%</td>
<td>—</td>
</tr>
</tbody>
</table>

Source: Harrison Consulting
INDUSTRY OVERVIEW

Throughput at Top 20 Container Ports Split between Asian and Non-Asian Terminals, 1980-2010

![Graph showing throughput at top 20 container ports split between Asian and Non-Asian Terminals from 1980 to 2010.](image)

*Source: Harrison Consulting*

Based on forecasts from IHS Global Insight private consumption in the medium term will rise more rapidly in Asia than in the USA or Europe, and will drive a correspondingly faster rate of growth in container imports traffic.

Private Consumption, Retail Sales and Merchandise Import Growth Forecasts, CAGR 2010-2015E

<table>
<thead>
<tr>
<th>Private Consumption Growth</th>
<th>Retail Sales Growth</th>
<th>Merchandise Import Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific: 5.2%</td>
<td>USA: 2.3%</td>
<td>Europe: 1.8%</td>
</tr>
<tr>
<td></td>
<td>Asia Pacific: 8.7%</td>
<td>USA: 3.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Europe: 0.6%</td>
</tr>
<tr>
<td>Asia Pacific: 14.2%</td>
<td>USA: 8.4%</td>
<td>Europe: 8.3%</td>
</tr>
</tbody>
</table>

*Source: IHS Global Insight*

CONTAINER FLEET AND CARGOES

Container Fleet

At the end of 2010 the size of the global container fleet was approximately 28 million TEU, 55% of which was owned by shipping lines and other operators, and 45% by container lessors and investors. The size of the global container fleet declined only in 2009 (for the first time in its history since 1970s) because of the widespread financial crisis, but has resumed its growth in 2010 in line with expanding container trade.
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World Container Fleet 1980-2012E (Millions of TEU)

Containers and Container Cargoes

Containers are large steel boxes built to International Standardization Organization (ISO) norms and used for the intermodal carriage of freight. They are constructed with a steel frame and steel corner castings and are fully or partially enclosed with steel panels and doors. Containers used in international trade are generally 8-foot wide, 8-foot 6-inch (standard) or 9-foot 6-inch (high-cube) high, and 20-foot, 40-foot or 45-foot long. Containers can be divided into four main categories:

- **Dry-freight containers.** Dry-freight standard containers are fitted with a steel roof, end and side panels, wooden floors and steel doors. Dry-freight containers make up almost 90% of the global container fleet, and are used to carry a wide range of semi-finished and finished manufactured goods, raw materials and agricultural produce.

- **Dry-freight specials.** Dry-freight special containers are similar to dry-freight standard containers but modified in some way for specific cargoes or uses. These include open-top, flat-rack, bulk, super-ventilated and open-side containers.

- **Refrigerated.** Refrigerated containers (or “reefers”) have insulated stainless steel side and roof panels, composite floors, and an external temperature-control unit affixed to the front of the container by which the internal temperature of the container is controlled. Reefers carry frozen and chilled food produce such as meat, fish, fruit and vegetables.

- **Tanks.** Tank containers consist of a stainless steel cylinder set within an ISO steel frame. Tanks are used for the carriage of industrial chemicals in liquid form and potable liquids such as fruit juices and wines.
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The table below shows the composition of the world container fleet in TEU and in investment-value terms.

*Container Fleet by Container Type, as of June 30, 2011*

<table>
<thead>
<tr>
<th>Container types</th>
<th>Percentage of total fleet</th>
<th>Sample cargoes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dry-freight standard</td>
<td>89% 60%</td>
<td>Manufactured goods, furniture, appliances and clothing</td>
</tr>
<tr>
<td>Dry-freight special</td>
<td>4% 7%</td>
<td>Sheet glass, large machinery, vehicles and grains</td>
</tr>
<tr>
<td>Reefer</td>
<td>6% 23%</td>
<td>Frozen and chilled meat, fish, fruit and vegetable</td>
</tr>
<tr>
<td>Tank</td>
<td>1% 10%</td>
<td>Industrial chemicals and potable liquids</td>
</tr>
</tbody>
</table>

Source: Harrison Consulting

KEY CONTAINER INDUSTRY PARTICIPANTS

**Container Manufacturers**

In a decade of rapid expansion in the container manufacturing sector, China increased its share of world container production from less than 10% in 1990 to over 80% by 2000. It has consolidated its position and in 2010 produced over 95% of world production. The chart below shows the market share of the major manufacturers in the world.

*Market Share of World’s Leading Container Manufacturers, 2010*

In response to strong demand growth, container production capacity rose rapidly between 2000 and 2008, but fell back in 2009 as a lack of orders forced some factories to close. The graph below shows estimated maximum annual capacity based on two-shift working, and compares this with annual production. This analysis reflects the over-capacity that faced the manufacturers in 2008 and 2009.
Industry Overview

Container Production Capacity and Production, 2000-2010 (Millions of TEU)

Demand for new containers was strong in the early months of 2011, and some manufacturers have indicated that they will increase capacity. For example, Singamas indicated that it expects to increase production capacity from 750,000 TEU in 2010 to 850,000 TEU in 2011.

Container Shipping Lines

Container shipping has developed in parallel with the growth in container trade to become a sizeable global business. It is dominated by the 20 largest shipping lines which in aggregate accounted for approximately 80% of the global carrying capacity in 2010. The five largest shipping lines alone, including Maersk Line (Denmark), Mediterranean Shipping (Switzerland), CMA CGM (France), Evergreen Marine (Taiwan) and Hapag-Lloyd (Germany), accounted for approximately 40% of the global carrying capacity in 2010.
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Top 30 Container Shipping Lines’ Market Share, as of December 31, 2010

![Pie chart showing market share of top 30 container shipping lines as of December 31, 2010.]

Source: Harrison Consulting

Selected Major Lines’ Aggregate Quarterly Net Income, Q1 2008 – Q1 2011 ( Millions of U.S. Dollars)

![Bar chart showing aggregate quarterly net income of selected major lines from Q1 2008 to Q1 2011.]

Source: Harrison Consulting

Six of the world’s top 50 container shipping lines (COSCO, CSCL, SITC, Hainan PO Shipping, Sinotrans and Grand China Logistics) are based in China. Together with Hong Kong’s OOCL, they represent approximately 10% of the global container shipping market.
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The continuing growth of container export traffic from China and the privileged access to domestic cargo enjoyed by Chinese carriers will help assist Chinese container shipping lines to increase their share of the world market in the future. The chart below shows that over the last decade CSCL has been the fastest-growing major Asian container line.

Comparison of Average Annual Growth Rate of Major Asian Container Shipping Lines’ Fleet, 2000-2010

![Graph showing the average annual growth rate of major Asian container shipping lines’ fleet, 2000-2010. CSCL has the highest growth rate at 14%, followed by MOL with 12%, and so on.]

Source: Harrison Consulting

Container Lessors

For most of its history, the container leasing market has been dominated by lessors based in the U.S., and six of the top 10 lessors (Textainer, Triton, TAL International, SeaCube, Cronos and CAI) are currently based in U.S. Asia is, however, increasing its presence, with Chinese-owned lessors Florens and the Company among the top 10. GE SeaCo also recently moved its headquarters from London to Singapore.

In recent years, there has been a trend towards greater concentration in the container leasing industry. This is because the economies of scale enjoyed by the larger lessors provide them with a cost advantage over smaller competitors, which in turn enables them to access the significant levels of capital investment they need to grow their businesses.

The leading global lessors have grown both organically through the purchase of new containers and inorganically through a series of fleet acquisitions in 2008, 2009 and 2010. Set out below are a number of the fleet acquisitions made by leading lessors since 2008:

<table>
<thead>
<tr>
<th>Acquirer or Manager</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textainer</td>
<td>Gateway, Capital Lease, Capital Intermodal, Xines and Amficon</td>
</tr>
<tr>
<td>SeaCube</td>
<td>Carlisle, Interpool and Magnum Lease</td>
</tr>
<tr>
<td>CAI</td>
<td>Consent Leasing</td>
</tr>
<tr>
<td>Cronos</td>
<td>UES Hamburg</td>
</tr>
</tbody>
</table>

Source: Harrison Consulting

As of December 31, 2010, the top five container lessors accounted for over 60% of the global container fleet and the top 15 container lessors accounted for 95% of it. The table below shows the
fleets of the top 15 lessors, firstly in TEU and then in CEU at the end of 2010. It also shows the CEU market share of each lessor.

**Top 15 Container Lessors by Fleet Size, as of December 31, 2010**

<table>
<thead>
<tr>
<th>Lessor</th>
<th>Owned Percentage in terms of TEU</th>
<th>Owned TEU</th>
<th>Total TEU</th>
<th>Global market share in terms of TEU</th>
<th>Owned CEU</th>
<th>Total CEU</th>
<th>Global market share in terms of CEU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textainer</td>
<td>45%</td>
<td>1,035,000</td>
<td>2,300,000</td>
<td>18.2%</td>
<td>972,974</td>
<td>2,162,165</td>
<td>15.9%</td>
</tr>
<tr>
<td>Triton</td>
<td>100%</td>
<td>1,750,000</td>
<td>1,750,000</td>
<td>13.9%</td>
<td>1,826,413</td>
<td>1,826,413</td>
<td>13.5%</td>
</tr>
<tr>
<td>TAL</td>
<td>95%</td>
<td>1,327,150</td>
<td>1,397,000</td>
<td>11.1%</td>
<td>1,489,677</td>
<td>1,568,081</td>
<td>11.6%</td>
</tr>
<tr>
<td>Florens</td>
<td>54%</td>
<td>880,740</td>
<td>1,631,000</td>
<td>12.9%</td>
<td>832,411</td>
<td>1,541,502</td>
<td>11.4%</td>
</tr>
<tr>
<td>GE SeaCo</td>
<td>100%</td>
<td>910,000</td>
<td>910,000</td>
<td>7.2%</td>
<td>1,224,926</td>
<td>1,224,926</td>
<td>9.0%</td>
</tr>
<tr>
<td>SeaCube</td>
<td>61%</td>
<td>488,000</td>
<td>800,000</td>
<td>6.3%</td>
<td>601,084</td>
<td>985,383</td>
<td>7.3%</td>
</tr>
<tr>
<td>Cronos</td>
<td>10%</td>
<td>65,000</td>
<td>650,000</td>
<td>5.2%</td>
<td>81,521</td>
<td>815,205</td>
<td>6.0%</td>
</tr>
<tr>
<td>CAI</td>
<td>32%</td>
<td>246,400</td>
<td>770,000</td>
<td>6.1%</td>
<td>227,377</td>
<td>710,553</td>
<td>5.2%</td>
</tr>
<tr>
<td>Gold</td>
<td>7%</td>
<td>35,700</td>
<td>510,000</td>
<td>4.0%</td>
<td>31,577</td>
<td>451,095</td>
<td>3.3%</td>
</tr>
<tr>
<td><strong>The Company</strong></td>
<td><strong>85%</strong></td>
<td><strong>344,945</strong></td>
<td><strong>405,963</strong></td>
<td><strong>3.2%</strong></td>
<td><strong>316,505</strong></td>
<td><strong>369,963</strong></td>
<td><strong>2.7%</strong></td>
</tr>
<tr>
<td>Exsi</td>
<td>80%</td>
<td>29,600</td>
<td>37,000</td>
<td>0.3%</td>
<td>296,000</td>
<td>370,000</td>
<td>2.7%</td>
</tr>
<tr>
<td>Beacon</td>
<td>100%</td>
<td>250,000</td>
<td>250,000</td>
<td>2.0%</td>
<td>280,397</td>
<td>280,397</td>
<td>2.1%</td>
</tr>
<tr>
<td>UES</td>
<td>5%</td>
<td>15,000</td>
<td>300,000</td>
<td>2.4%</td>
<td>13,268</td>
<td>265,350</td>
<td>1.9%</td>
</tr>
<tr>
<td>Eurotainer</td>
<td>80%</td>
<td>16,000</td>
<td>20,000</td>
<td>0.2%</td>
<td>160,000</td>
<td>200,000</td>
<td>1.5%</td>
</tr>
<tr>
<td>Blue Sky</td>
<td>5%</td>
<td>6,500</td>
<td>130,000</td>
<td>1.0%</td>
<td>6,028</td>
<td>120,563</td>
<td>0.9%</td>
</tr>
<tr>
<td>Other</td>
<td>30%</td>
<td>225,000</td>
<td>750,000</td>
<td>6.0%</td>
<td>203,400</td>
<td>678,000</td>
<td>5.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,625,035</strong></td>
<td><strong>12,610,963</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>8,563,558</strong></td>
<td><strong>13,569,596</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>5.0%</strong></td>
</tr>
</tbody>
</table>

Source: Harrison Consulting

The container lessors earn revenue from three principal sources (i) the leasing of their owned container assets (ii) the leasing of container assets owned by third-parties (iii) the trading of containers in the secondary market.

The split by lessor varies considerably, but the container fleets of most major lessors are made up partly of owned containers (approximately 60% of the overall lessor fleet) and partly of managed containers (approximately 40% of the overall lessor fleet). The potential conflict of interest that arises when investors place their container assets with managers who also manage their own fleets is addressed by the provision of regular (typically quarterly) fleet management reports to investors. Such reports have generally enabled investors to satisfy themselves that their assets are being managed in accordance with agreed procedures and in a non-discriminatory manner.

Although all container lessors need to dispose of their own older containers, not all of them trade (i.e. buy and sell) containers in the secondary market. The two major leasing company traders are Textainer and TAL who combine the disposal of their own older containers with the buying and selling of third-party equipment to run profitable trading businesses. There are also specialist container trading companies such as Mobile Mini, WCT and Royal Wolf, which are not directly affiliated with specific container lessors or shipping lines. Any conflict of interest in this sector, where a trader could be selling both his own and third-party equipment, is generally resolved by contractual terms between owner and selling agent which agree sales approval procedures, minimum sale prices and/or incentives to maximize sale prices, and which do not commit either party to supply or dispose of specific quantities of equipment.
INDUSTRY OVERVIEW

In comparison with the container shipping lines, whose volatile earnings’ performance is reviewed above, container lessor earnings are more stable. The chart below compares the aggregate net income of a selection of 10 container shipping lines with the aggregate net income of a selection of five lessors (both selections comprising approximately 50% of their respective markets). The chart shows aggregate net income numbers for each group as a percentage of their 2005 net income.

CONTAINER LEASING

Rationale for Leasing

Approximately 45% of the global container fleet (approximately 12.5 million TEU) is either owned or managed by container lessors. Operators such as container shipping lines and other freight transportation companies lease a significant portion of their container fleets for several reasons:

- **Proving alternative source of financing**
  Container lessors provide an alternative source of capital for the shipping lines and other freight transportation companies who operate in a high-growth and capital-intensive business.

  Before 2008, the shipping lines placed 55% to 60% and the lessors placed 40% to 45% of new container orders. However, as a result of the shipping lines’ need to conserve cash due to their losses in 2009, their share of new orders has fallen. In 2010, shipping lines accounted for approximately 40% of new container orders, with the lessors accounting for the balance. Based on current buying patterns and attempts by the shipping lines to maintain the owned portion of their container fleets, it is expected that they will place approximately 50% of new container orders in 2011.

- **Enhancing operational flexibility**
  Leased containers can be used to meet short-term peaks in demand, unplanned requirements in specific locations, or the provisioning of potentially temporary new services. Leased containers can also be used to supply high-demand locations where operators have frequent container shortages.
INDUSTRY OVERVIEW

- **Achieving operational cost savings**
  
  Shipping lines can reduce their operational costs by picking up containers in low demand locations and redelivering them to high demand locations.

- **Improving fleet mix flexibility**
  
  The availability of leased containers facilitates operators’ constant need to adjust the type, age, owned percentage and geographical disposition of their fleets.

As illustrated by the graph below, operators leased a significant portion of their container fleets during 1998 to 2010:

*Container Fleet Split between Lessors and Operators, 1998-2010*

![Container Fleet Split](image)

*Source: Harrison Consulting*

**Key Features of Leasing Operations**

To manage the operational aspects of their business, the lessors require customized management information systems capable of tracking large number of container fleets in multiple locations, and of billing a range of rental, administration, handling, repair and other charges to customers around the world. They also require a network of third-party depot facilities in or near major container port locations.

However, although lessor tracking systems need to be able to manage large numbers of containers, the scope of the information they track is considerably less than that of the operators. Lessors typically do not record location or status data relating to containers while they are on lease, as the lessees are responsible for the containers. Therefore, for containers delivered under a five-year lease, the only tracking data normally recorded by the lessor are the lease-out information on day one of the lease and the return information at the end of the lease five years later.
INDUSTRY OVERVIEW

Utilization is one of the most important business performance indicators for lessors. If a container is off-lease, it not only ceases to generate rental income, but also starts to incur storage cost. As a result, the lessors are focused on keeping depot stocks as low as possible. This can be done by:

- offering lessees various incentives to extend rather than terminate existing leases.
- training and maintaining operational and administrative staff to ensure the prompt approval of container repairs by lessees and the prompt and proper completion of repair work by depots where containers are redelivered.
- marketing depot facilities to lessees as soon as they are available and offering appropriate financial incentives in order to lease containers from surplus areas.
- negotiating customized positioning leases to lessees who can be incentivized to use containers under one-way leases from surplus to demand locations.
- selling surplus containers where it is economically viable to do so.
- position containers to high demand locations through shipping lines.

Container Leasing Market Competitive Landscape

The top 10 container lessors, as of December 31, 2010, are reviewed briefly below:

**Textainer Group Holdings.** Founded in 1979 and headquartered in the U.S., NYSE-listed Textainer is the world’s largest container lessor, with a fleet of approximately 2.3 million TEU. The company has grown its fleet through a combination of new equipment purchases, fleet acquisitions and management agreements.

**Triton Container International.** Founded in 1980 and headquartered in the USA, Triton was acquired from the Pritzker family by private equity firms Warburg Pincus and Vestar Capital in 2011. Triton’s fleet of approximately 1.75 million TEU, built entirely through organic growth, includes 100,000 TEU of reefer containers.

**Florens.** Founded in 1987 and headquartered in Hong Kong, Florens is owned by container terminal operator Cosco Pacific and has a fleet of approximately 1.63 million TEU. Florens has grown its business by buying containers from sister company CIMC and by leasing a significant portion of its fleet to sister company Cosco Container Lines.

**TAL International.** Founded in 1963 and headquartered in the U.S., NYSE-listed TAL International has a fleet of over 1.3 million TEU. TAL International has grown mainly through the purchase of new containers, and in addition to its dry-freight-standard fleet has significant quantities of dry-freight special and reefer containers.

**GE SeaCo.** Singapore-headquartered GE SeaCo was formed in 1998 and has a fleet of some 900,000 TEU which includes the world’s second-largest reefer fleet of 110,000 TEU, as well as tank containers and a wide range of dry-freight specials.

**SeaCube Container Leasing.** Private equity group Fortress acquired the container portfolios of former lessors Interpool and Carlisle in 2007, consolidated the container portfolios into a new fleet, rebranded it as SeaCube and floated it on the NYSE in 2010. SeaCube’s portfolio of approximately 800,000 TEU includes the world’s largest reefer fleet of 120,000 TEU.

**Cronos Group.** Founded in 1978 and headquartered in the U.S., Cronos was restructured in 2010, with Kelso & Company taking a majority stake and Transportation Capital Group also increasing
its stake. Cronos’s fleet of approximately 650,000 TEU is one of the most diversified in the industry, comprising a mix of dry-freight, reefer, tank and pallet-wide containers.

**CAI International.** Founded in 1989 and headquartered in the U.S., NYSE-listed CAI has a fleet of approximately 770,000 TEU. CAI operates some reefer containers but is a predominantly dry-freight-standard container fleet.

**Gold Container.** Founded in 1983 and headquartered in France, Gold is part of France’s Touax Group. It has a fleet of approximately 500,000 TEU of dry-freight-standard containers.

**The Company.** The Company, a subsidiary of China Shipping Group incorporated in Hong Kong in 1997, started leasing containers to Independent Third Parties in 2006. Through the purchase of containers from the world’s leading manufacturers including its sister company Shanghai Logistics Equipment, the Company has expanded rapidly and currently has a fleet of over 400,000 TEU, comprising both dry-freight and reefer containers.

### Comparison of the Company with Other Leading Lessors

The chart below compares the utilization and average age of the fleets of selected leading lessors.

<table>
<thead>
<tr>
<th>Selected Lessors’ Container Fleet Utilization and Average Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Company</td>
</tr>
<tr>
<td>Average utilization rate in 2010 ........................ 99.05%</td>
</tr>
<tr>
<td>Average fleet age as of December 31, 2010 (in years) ....... 4.45</td>
</tr>
</tbody>
</table>

**Notes:**
(1) As of June 30, 2010
(2) Estimate based on earlier filings

These data show that the Company has a younger container fleet as of December 31, 2010 and higher average utilization rate in 2010, as compare to Florens, SeaCube, TAL and Textainer. Because the container fleet operated by the Company comprises newer containers which have been placed on fixed-term leases directly from factory, the Company at this phase of its development does not have to remarket older containers that are redelivered from expired leases, and can focus on securing long-term leases, allowing the Company to currently maintain a higher fleet utilization.

The graph below compares the rate at which the container fleet of the Company and a selection of major lessors have been growing since 2006. This shows that although the Company’s container fleet is not yet one of the largest, it has been growing at a faster rate than those of some competitors.

During the period from 2006 to 2010, the global container fleet grew by approximately 22%, from 23.1 million TEU to 28.2 million TEU, and the lessor-owned container fleet owned by lessors grew by approximately 25%, from 10.2 million TEU to 12.7 million TEU. During the same periods, the Company’s container fleet grew by 55%, from 262,049 TEU to 405,963 TEU, and the Company increased its share of the lessor-owned container fleet from 2.6% to 3.2%. During the period from 2011 to 2015, the global container fleet is expected to grow at an annual rate of approximately 7%, reaching 39.5 million TEU by the end of 2015.
INDUSTRY OVERVIEW

Selected Lessors’ Container Fleet Growth, 2006-2010 (2006 = 100%)

CONTAINER PRICES, ECONOMIC USEFUL LIFE, LEASE PER DIEM RATES AND LEASE TYPES

New Container Prices

The price of a 20-foot standard dry-freight container, which serves as a benchmark for other types of dry-freight container, can fluctuate significantly from month to month, but over the last decade it has been on an upward trend, which is in line with the increase in the cost of steel over the same period. The reefer container price has been on a gradual downward trend over most of the last 20 years. Depending on demand, a shortage of production capacity could drive prices higher in the short term, but it is equally possible that prices could ease as manufacturers increase capacity.
Industry Overview


The key driver of the dry-freight container price is the cost of steel. The graph below compares the cost of Chinese hot-rolled coil steel with the price of the 20-foot standard dry-freight container over the last six years.

Steel and Container Price Comparison, January 2006-June 2011 (January 2006 = 100%)
INDUSTRY OVERVIEW

Used Container Prices

Demand for containers in the secondary (predominantly non-marine) market is currently strong. As a consequence, prices in some Asian locations, where shortages are particularly acute, are close to record levels.

The graph below shows that although both new and used container prices have fluctuated considerably over the last 20 years, the resale market price of a 12-to-15-year-old 20-foot standard dry-freight container has remained above 40% of the then-prevailing new container price. Other dry-freight container types have usually achieved resale prices of 25% to 35% of new container prices. Resale prices for reefer containers have been around 20% of prices for new equipment of the same type.

Price of Used 20-foot Standard Dry-Freight Container (12 to 15 years old), 1990-H1 2011 (U.S. Dollars)

Economic Useful Life

Practice has varied over the years, but container lessors have generally assumed a useful life of 12 to 15 years for dry-freight standard and dry-freight special containers, and 12 years for reefer containers.
INDUSTRY OVERVIEW

Lease Per Diem Rates

As initial lease per diem rates are calculated by applying the lessor’s required rate of return to the new container price, fluctuations in container price are reflected in corresponding changes in the lease per diem rates charged to lessees. The graph below shows that although initial long-term lease per diem rates can vary considerably from year to year, they are correlated to the new container price.

20-foot Standard Dry-Freight Container Price and Initial Lease Per Diem Rate, 2000-2011E (U.S. Dollars)

Container Lease Types

Container lessors offer their containers under two main types of lease: operating lease and lease purchase or finance lease. Operating lease primarily comprises fix-term lease and master lease.

Operating Lease

Fixed-term lease

Fixed-term lease primarily consists of long-term lease, which typically has a term of three to eight years, and short-term lease, which typically has a term of less than three years. Approximately 75% of the world’s leased container fleet is on fixed-term leases, which typically has a term of three to five years. Under a fixed-term lease, the operator typically takes delivery of the containers from either factory or depot, uses them for the carriage of cargo and pays a fixed per diem rental charge for the duration of the lease, and returns the containers to agreed lessor depot locations at the end of the lease term. Currently almost all new lessor-acquired containers delivered from factory are being placed on fixed-term lease, assuring lessors of a minimum return over the first five-to-eight years of the container’s economic life. Per diem rates on new fixed-term leases are usually a function of the lessor’s required rate of return and the then-prevailing new container price. The shortage of containers in 2010 enabled lessors to negotiate significant margin improvements on these new-container leases, with average cash-on-cash returns rising from approximately 11% to 12% in 2008 and 2009 to approximately 14% to 15% in 2010 and up to March 2011. Current market conditions indicate that these higher cash-on-cash returns is probable to be maintained in the immediate future.
**Master lease agreement**

The majority of the remaining 25% of the leased container fleet is on master lease agreements. Master lease agreements are typically agreed for a one-year term, during which period the lessee is able to take delivery and return containers at any time in a range of agreed locations. Master lease agreements sometimes stipulate minimum on-lease periods (typically 30 to 60 days) but there is usually no fixed on-lease quantity. Master lease agreements are supplied primarily from lessor depots rather than factories. The per diem rates charged by lessors for used containers supplied from their depots are a function of several factors including the location and age of the containers, the price of new containers and the overall balance of supply and demand for used containers.

**Finance Lease**

A small portion of the leased fleet is on a type of finance lease under which the lessee has either an option or obligation to purchase the containers at the end of the lease term rather than return them to the lessor. In these cases, the lessor sets the per diem rental charge to earn the required return based on the value of the equipment, the lease term and the end-of-lease payment.

**SUPPLY AND DEMAND**

The delivery lead time for new containers is 30 to 90 days and is significantly shorter than the two-to-three-year delivery lead time for container ships. As a result, the container fleet is able to adjust to changing market conditions far more quickly than the container ship fleet. When trade demand slowed in the second half of 2008, container lessors and operators held on ordering containers and the delivery of new containers to the container fleet ceased almost immediately. In contrast to this, container ship owners and operators are still taking delivery of vessels ordered in the trade boom from 2006 to 2007. In 2009, as a result of this and continuing annual retirements of approximately 4% of the containers in operation, the container fleet shrank but the container ship fleet continued to expand. As a result, while the trade upturn in 2010 was more than sufficient to absorb all surplus containers, it was not sufficient to absorb idle container ship tonnage.

*Annual Container Ship and Container Fleet Additions Compared with Annual Trade Growth, 2000-2010*

[Graph showing the comparison of annual container ship and container fleet additions with annual trade growth from 2000 to 2010.]

*Source: Harrison Consulting*
INDUSTRY OVERVIEW

The very different supply-demand conditions in the container trade and container ship sectors are illustrated in the chart below. This shows that while container trade and the container fleet have grown at a similar pace over the last 10 years, the container ship fleet has grown at a considerably faster rate which has led to an over-supply of vessel capacity. Although some of this excess capacity has been absorbed by the widespread introduction of slow steaming, there is still an over-supply of vessel capacity as compared to demand for vessel capacity from container trade.

Comparative Growth in Container Trade, Container Ship Fleet and Container Fleet, 2000-2010

In contrast there was an acute shortage of containers in 2010, which is expected to continue in 2011. This is reflected in the utilization rates of the lessor fleets, which reached all-time highs. The chart below shows that the composite utilization rate of the leading lessors rose from 87.4% in the third quarter of 2009 to 98.1% in the third quarter of 2010, and has remained at or near this level since then.

When allowance is made for containers which have been returned damaged to the lessors by the shipping lines and need repairing before they can be re-leased, there is little available depot stock anywhere in the world. This fact, combined with the fact that new container production space was fully booked for most of 2010, left shipping lines struggling to find enough containers, and created a favorable position for container lessors.
INDUSTRY OVERVIEW

Average Container Fleet Utilization Rate of Textainer, TAL International, SeaCube and CAI (Q1 2008-Q2 2011E)

<table>
<thead>
<tr>
<th></th>
<th>Q1-08</th>
<th>Q2-08</th>
<th>Q3-08</th>
<th>Q4-08</th>
<th>Q1-09</th>
<th>Q2-09</th>
<th>Q3-09</th>
<th>Q4-09</th>
<th>Q1-10</th>
<th>Q2-10</th>
<th>Q3-10</th>
<th>Q4-10</th>
<th>Q1-11</th>
<th>Q2-11E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>94.8%</td>
<td>95.2%</td>
<td>96.5%</td>
<td>95.3%</td>
<td>91.4%</td>
<td>88.4%</td>
<td>87.4%</td>
<td>88.6%</td>
<td>91.6%</td>
<td>95.5%</td>
<td>98.1%</td>
<td>98.2%</td>
<td>98.3%</td>
<td>98.6%</td>
</tr>
</tbody>
</table>

Source: Harrison Consulting

OUTLOOK FOR CONTAINER LEASING

The table below summarizes the key trends identified in this “Industry Overview” section, assesses whether their effect is likely to be shorter or longer term, and outlines their impact on container leasing:

<table>
<thead>
<tr>
<th>Long-Term Macroeconomic, Regulatory and Technological Trends Driving Demand for Containers</th>
<th>Short-Term or One-Off Factors Affecting Demand for Leased Containers</th>
<th>Impact on Container Leasing Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Deregulation and globalization of world trade driving growth of seaborne trade, and container shipping’s increasing share of this trade.</td>
<td>• Contraction of the world container fleet in 2009 leading to a shortage of equipment when trade recovered in 2010.</td>
<td>• Demand for large volumes of new containers in China.</td>
</tr>
<tr>
<td>• Increasing world population and improving living standards driving expansion of international container trade.</td>
<td>• Rapid increase in container-ship capacity (redeployment of idle tonnage and delivery of new vessels) requiring matching increases in container-box fleets.</td>
<td>• Higher cash-on-cash margins on initial long-term leases.</td>
</tr>
<tr>
<td>• Expansion of Asian manufacturing capacity leading to rapid container export growth from the region.</td>
<td>• Volatile container-line earnings restricting the availability of capital to buy new containers, making the lines more dependent on leasing.</td>
<td>• Shipping line willingness to on-hire containers in normally surplus locations, leading to improved lease economics and substantially reduced equipment storage and positioning costs.</td>
</tr>
<tr>
<td>• Strong Asian economic growth creating greater consumer spending power and growth of container imports.</td>
<td>• Slow steaming increasing the number of containers required to move the same amount of cargo on an annual basis.</td>
<td>• Improvements to renewal lease terms.</td>
</tr>
<tr>
<td>• Increasing efficiency of container shipping driving low-cost, long-distance intermodal freight transport.</td>
<td>• Changes to Chinese labour laws making container manufacturers more reluctant to increase production capacity to meet potentially short-term peaks in demand.</td>
<td>• Opportunities to conclude sale and leaseback and new equipment lease purchase transactions with shipping lines.</td>
</tr>
<tr>
<td>• Container fleet attrition at a rate of 4% to 5% per year.</td>
<td>• The shortage of containers in the secondary market driving up resale prices to record levels, increasing the proceeds received by lessors from the disposal of older containers.</td>
<td></td>
</tr>
</tbody>
</table>
INDUSTRY OVERVIEW

High new dry-freight container prices and volatility of demand from the highly cyclical container shipping industry are the two major challenges to the container leasing industry. Taken as a whole, the trends summarized above create growing demand for containers at a time when shipping line access to supply is constrained. There should therefore be opportunities for container lessors to:

(a) Expand operating-lease business significantly without creating undue pressure on per diem rates or fleet utilization.
(b) Improve lease economics on in-fleet equipment.
(c) Reduce storage and positioning costs on in-fleet equipment.
(d) Expand container finance-lease business with capital-constrained shipping lines.
(e) Dispose of older equipment into the secondary market at historically high prices.