FINANCIAL REVIEW

Overall Analysis of Results

Profit attributable to equity holders for the year 2012 was US$342,194,000 (2011: US$388,771,000), a 12.0% decrease compared with last year. Excluding non-recurring items[Note], profit attributable to equity holders for 2012 was US$342,194,000 (2011: US$364,373,000), a 6.1% decrease compared with last year. Excluding the non-recurring items and the share of profit of CIMC, profit attributable to equity holders rose by 14.6% to US$280,299,000 (2011: US$244,574,000). The Group recorded a decrease in profit in 2012 due to a relatively significant decline in the share of profit of CIMC during the year. The decrease was partly offset by growth in the terminal business and container leasing business in 2012 compared with last year.

Profit from terminal business for 2012 was US$188,964,000 (2011: US$184,890,000), a slight increase of 2.2% compared with last year. Excluding the gain of US$12,557,000 on the disposal of Qingdao Cosport Terminal in 2011, profit from terminal business for 2012 increased by 9.7% compared with last year. In 2012, the throughput of container terminals reached 55,685,225 TEU (2011: 50,695,897 TEU), a 9.8% increase compared with last year. Piraeus Terminal in Greece continued to show strong performance during the year, recording a profit of US$19,864,000 (2011: US$6,502,000) in 2012, a rise of 2.1 times compared with last year, driving the profit growth from terminal business. However, the increase in the profit from terminal business was partly offset by the initial loss of Xiamen Ocean Gate Terminal, a subsidiary of the Group which commenced operation in May 2012.

With regard to container leasing, management and sale businesses, a profit of US$139,522,000 (2011: US$116,508,000) was recorded during the year, a 19.8% increase compared with last year. As at 31st December 2012, the container fleet size of the Group increased to 1,855,597 TEU (31st December 2011: 1,777,792 TEU), a 4.4% increase compared with last year.

Note: Non-recurring items in 2011 included gain of US$11,841,000 on release of exchange reserve upon reclassification of Guangzhou South China Oceangate Terminal from a jointly controlled entity to a subsidiary and a gain of US$12,557,000 on the disposal of Qingdao Cosport Terminal.

The container manufacturing business was affected by the downturn in the domestic and global economy, which coupled with weaker overall market demand, the demand for containers dropped significantly compared with last year, resulting in a decline in CIMC's earnings and profitability compared with last year. Therefore, COSCO Pacific's share of profit from CIMC in 2012 decreased to US$61,895,000 (2011: US$119,799,000), a significant decrease of 48.3% compared with last year.

Financial Analysis

Revenue

Revenue of the Group for 2012 was US$735,500,000 (2011: US$599,159,000), a 22.8% increase compared with last year. The revenue was primarily derived from the terminal business of US$402,161,000 (2011: US$323,339,000) and the container leasing, management and sale businesses of US$336,224,000 (2011: US$276,547,000).

Revenue from all the terminal companies with controlling stakes recorded a year-on-year increase in 2012. The total revenue from terminal business of the Group increased by 24.4% compared with last year, which was mainly derived from Piraeus Terminal and Guangzhou South China Oceangate Terminal. The throughput of Piraeus Terminal reached 2,108,090 TEU (2011: 1,188,148 TEU) in 2012, contributing a revenue of US$134,773,000 (2011: US$101,420,000) to the Group during the year, a 32.9% increase compared with last year. The throughput of Guangzhou South China Oceangate Terminal was 4,230,574 TEU (2011: 3,914,348 TEU) in 2012, and its revenue increased to US$119,270,000 (2011: US$94,889,000), a 25.7% increase compared with last year.

Revenue from container leasing, management and sale businesses primarily included container leasing income and revenue from the disposal of returned containers. As at 31st December 2012, the fleet capacity of owned containers and sale-and-leaseback containers reached 995,961 TEU and 229,283 TEU respectively (31st December 2011: 874,160 TEU and 229,283 TEU respectively). Revenue from container leasing for the year was US$280,514,000 (2011: US$246,782,000), a 13.7% increase compared with last year. On the other hand, the number of returned containers disposed of during 2012 was 31,671 TEU (2011: 9,826 TEU). As a result, the revenue from sale of returned containers was US$42,606,000 (2011: US$18,245,000).

Cost of sales

Cost of sales mainly comprised depreciation charges on owned containers, net carrying amount of returned containers disposed of, rental expenses of sale-and-leaseback containers and operating expenses of the terminal companies with controlling stakes. Cost of sales in 2012 was US$420,218,000 (2011: US$340,141,000), a 23.5% increase compared with last year. Of this, cost of sales of terminal business was US$268,574,000 (2011: US$218,231,000), a 23.1% increase compared with last year. The increase was mainly attributable to a rise in the related cost of sales resulted from an increase in the throughput of terminals with controlling stakes. Besides, the commencement of operation of Xiamen Ocean Gate Terminal in May 2012 also caused an increase in the cost of sales during the year. Cost of sales of container leasing, management and sale businesses was US$151,658,000 (2011: US$121,918,000) in 2012, a 24.4% increase compared with last year. Of this, depreciation charges for containers increased to US$102,407,000 (2011: US$87,191,000) as a result of increased container fleet size. In addition, the net carrying amount of disposed returned containers increased to US$17,023,000 (2011: US$10,232,000) as a result of the increase in the number of returned containers sold during the year.

Administrative expenses

Administrative expenses in the year were US$91,919,000 (2011: US$89,323,000), a 2.9% increase compared with last year. In 2012, the Group further increased marketing efforts and enhanced research and project development, resulting in higher administrative expenses.

Other operating income, net

Net other operating income in 2012 was US$4,025,000 (2011: US$9,705,000), which included a net exchange loss of US$1,211,000 (2011: a net exchange gain of US$4,305,000).

Finance costs

The Group's finance costs in 2012 were US$77,263,000 (2011: US$58,419,000), a 32.3% increase compared with last year. Finance costs included interest expenses and the amortisation of transaction costs over bank loans and notes. The rise in finance costs was primarily due to an increase in the average balance of bank loans of the Group to US$2,300,291,000 (2011: US$2,076,681,000) during the year, a 10.8% increase compared with last year. In addition, the successive upward adjustment of the benchmark interest rate for RMB loans in the People's Republic of China ("PRC") last year was fully reflected in 2012, which, coupled with the higher cost of new loans in the displacement loans to the Group's subsidiary, Florens, also led to increased finance costs. In addition, Xiamen Ocean Gate Terminal commenced operation in May 2012. Its interest expenses were expensed-off once its berths and terminal equipment were ready for use and caused an increase in finance costs. Taking into account capitalised interest, the average cost of bank borrowings in 2012, including the amortisation of transaction costs over bank loans and notes, was 3.78% (2011: 3.27%).

Share of profits less losses of jointly controlled entities and associates

The net profit contribution from jointly controlled entities for 2012 amounted to US$96,461,000 (2011: US$96,638,000), representing a slight decrease of 0.2% compared with last year. Of this, the throughput of Qingdao Qianwan Terminal rose by 13.0% to 14,045,503 TEU (2011: 12,426,090 TEU) in 2012. The Group's share of profit of Qingdao Qianwan Terminal for the year increased to US$37,689,000 (2011: US$35,513,000), a 6.1% increase compared with last year. In addition, the throughput of Tianjin Euroasia Terminal rose by 26.3% to 1,705,667 TEU (2011: 1,350,962 TEU) in 2012. Tianjin Euroasia Terminal returned to profitability in 2012 and contributed a share of profit of US$1,020,000 (2011: loss of US$974,000). However, the throughput of Shanghai Pudong Terminal decreased by 9.9% to 2,151,297 TEU (2011: 2,388,156 TEU) in 2012. The Group's share of profit of Shanghai Pudong Terminal for 2012 was US$21,588,000 (2011: US$24,151,000), a 10.6% decrease compared with last year.

The share of net profit from associates for 2012 was US$126,577,000 (2011: US$179,290,000), a 29.4% decrease compared with last year. The decrease was mainly due to a 48.3% decrease in the profit from CIMC. In 2011, CIMC achieved record high earnings for its container business, which was attributable to abundant orders fully taking up its production capacity, coupled with rising prices. However, in 2012, the prolonged downturn in the global economy and the continued decline in investment and demand in the PRC showed adverse impact on the performance of CIMC. For CIMC, the first quarter was an off-season for containers, with weaker demand than usual. Despite relatively strong demand witnessed in the second and the third quarters, the results for the year decreased significantly compared with last year due to the exceptionally large base of last year. In addition, the weakened demand for containers in the fourth quarter compared with the second and the third quarters also contributed to a significant decrease of 48.3% in the share of profit of CIMC for 2012 to US$61,895,000 (2011: US$119,799,000).

Gain on disposal of a jointly controlled entity, net of tax

To optimise the Group's terminal business structure, the Group completed the disposal of 50% equity interest in Qingdao Cosport Terminal on 28th April 2011, making a gain after tax of US$12,557,000 in 2011. No such gain was recorded in 2012.

Gain on release of exchange reserve upon reclassification from a jointly controlled entity to a subsidiary

Guangzhou South China Oceangate Terminal was previously a jointly controlled entity of the Group. By virtue of the clause in an agreement entered into by the Group and the other shareholder of Guangzhou South China Oceangate Terminal, the joint control of Guangzhou South China Oceangate Terminal expired on 31st December 2010. Accordingly, the Group has accounted for Guangzhou South China Oceangate Terminal as a subsidiary from 1st January 2011 and a gain of US$11,841,000 on release of exchange reserve was recorded last year. No such gain was recorded in 2012.

Income tax expenses

During the year, income tax expenses amounted to US$27,905,000 (2011: US$28,771,000). This included a provision of approximately US$15,403,000 (2011: US$20,808,000) mainly for withholding income tax in respect of the profit distribution by certain investments of the Group in the PRC.

Financial Position

Cash flow

Cash inflow of the Group remained steady in 2012. During the year, net cash from operating activities amounted to US$427,345,000 (2011: US$331,933,000). The Group borrowed bank loans of US$1,165,121,000 (2011: US$605,318,000) and repaid US$726,641,000 (2011: US$536,866,000) in 2012.

During the year, an amount of US$710,372,000 (2011: US$666,969,000) was paid in cash by the Group for the expansion of berths and purchase of property, plant and equipment, of which US$371,691,000 (2011: US$458,282,000) was for the purchase of containers. In addition, the total cash outflow for capital investment and shareholder's loan by the Group amounted to US$81,287,000 in 2012, mainly comprising US$45,000,000 for acquiring the equity interest in Cheer Dragon Investment Limited and its associate Kao Ming Terminal, US$29,732,000 used for capital injection in Ningbo Yuan Dong Terminal and US$6,049,000 used for providing a shareholder's loan by Piraeus Terminal to its jointly controlled entity, Piraeus Consolidation and Distribution Centre S.A.

Financing and credit facilities

As at 31st December 2012, the Group's total outstanding bank borrowings and cash balance amounted to US$2,601,697,000 (31st December 2011: US$2,167,994,000) and US$849,330,000 (31st December 2011: US$581,069,000) respectively. Banking facilities available but unused amounted to US$636,285,000 (31st December 2011: US$1,041,658,000).

Assets and liabilities

As at 31st December 2012, the Group's total assets and total liabilities increased to US$7,363,858,000 (31st December 2011: US$6,472,184,000) and US$3,146,465,000 (31st December 2011: US$2,592,025,000) respectively. Net assets were US$4,217,393,000, an increase of 8.7% as compared with that of US$3,880,159,000 as at the end of 2011. Notes with principal amount of US$300,000,000 will mature on 3rd October 2013. As such, net current liabilities of the Group recorded as at 31st December 2012 amounted to US$48,302,000 (31st December 2011: net current assets of US$50,698,000).

As at 31st December 2012, net asset value per share of the Company was US$1.51 (31st December 2011: US$1.43).

As at 31st December 2012, net debt-to-total equity ratio was 41.6% (31st December 2011: 40.9%), and the interest coverage was 5.9 times (2011: 8.3 times). As at 31st December 2012, certain of the Group's property, plant and equipment with an aggregate net book value of US$18,828,000 (31st December 2011: US$19,277,000) were pledged as securities against bank borrowings of US$197,858,000 (31st December 2011: US$130,682,000).

Debt analysis

	As at 31st December 2012		As at 31st December 2011	
	US$	(%)	US$	(%)
By repayment term				
Within the first year	**775,042,000**	**29.8**	594,524,000	27.4
Within the second year	**414,914,000**	**15.9**	732,863,000	33.8
Within the third year	**558,290,000**	**21.5**	328,158,000	15.1
Within the fourth year	**162,898,000**	**6.3**	48,307,000	2.2
Within the fifth year and after	**690,553,000**	**26.5**	464,142,000	21.5
	2,601,697,000*	**100.0**	2,167,994,000*	100.0
By category				
Secured borrowings	**197,858,000**	**7.6**	130,682,000	6.0
Unsecured borrowings	**2,403,839,000**	**92.4**	2,037,312,000	94.0
	2,601,697,000*	**100.0**	2,167,994,000*	100.0
By denominated currency				
US dollar borrowings	**1,621,148,000**	**62.3**	1,175,832,000	54.3
RMB borrowings	**782,691,000**	**30.1**	861,480,000	39.7
Euro borrowings	**197,858,000**	**7.6**	130,682,000	6.0
	2,601,697,000*	**100.0**	2,167,994,000*	100.0

* Net of unamortised discount on notes and transaction costs on borrowings and notes.

Financial guarantee contracts

As at 31st December 2012, the Group provided guarantees on a loan facility granted to an associate of US$24,428,000 (31st December 2011: US$27,513,000).

Contingent liabilities

A statement of claim was issued on 19th October 2009 by ADK against the Company and Piraeus Terminal, a wholly owned subsidiary of the Company, in a civil claim at the Court of First Instance of Athens in Greece alleging non-payment of fees for design services and project management services. The plaintiff has claimed approximately Euro 5,800,000 (equivalent to approximately US$7,700,000) in total. The Company and Piraeus Terminal have defended all material claims at the trial hearing held on 30th November 2010.

The Court of First Instance of Athens has issued and pronounced judgment on the case and has dismissed the aforementioned statement of claim in its entirety both as regards the Company and as regards Piraeus Terminal, and has awarded to the Company and Piraeus Terminal part of the legal expenses in the amount of Euro 30,000 (equivalent to approximately US$40,000) against the plaintiff (ADK). The plaintiff has filed an appeal against the judgment of the Court of First Instance of Athens according to Greek procedural law. The hearing of this appeal before the Court of Appeals of Athens has been re-scheduled from 13th November 2012 to 26th November 2013 due to the strike called by the Association of the Justices of the Greek courts. The directors and management of the Company, having taken legal advice, are of the view that the Company and Piraeus Terminal have good rebuttal to the arguments set forth in the appeal document. Nonetheless, it is still not possible to predict the final outcome of this litigation with certainty. No provision has been made for the claims.

Treasury policy

The Group manages its foreign exchange risk by matching the currencies of its loans with the Group's functional currency of major cash receipts and underlying assets as far as possible. Borrowings for container leasing business are mainly denominated in US dollar, which is the same currency as the majority of its revenue and expenses so as to minimise potential foreign exchange exposure.

The financing activities of jointly controlled entities and associates were denominated in their respective functional currencies so as to minimise foreign exchange exposure in investments.

The Group continues to exercise stringent control over the use of financial derivatives to hedge against its interest rates exposure. As at 31st December 2012, outstanding interest rate swap contracts comprised nominal principal amounting to US$200,000,000 (31st December 2011: US$200,000,000) in total whereby the Group agreed to pay the banks interest at floating rates ranging from 105 basis points to 116 basis points (31st December 2011: 105 basis points to 116 basis points) above 6-month US dollar LIBOR in return for receiving interests from the banks at a fixed interest rate of 5.875% per annum (31st December 2011: 5.875%).

As at 31st December 2012, after adjustment of the fixed rate borrowings for the interest rate swap contracts, 3.8% (31st December 2011: 4.6%) of the Group's total borrowings were in fixed rate. The Group continues to monitor and regulate its fixed and floating rate debt portfolio from time to time in light of the market conditions, with a view to minimising its potential interest rate exposure.

Events after the balance sheet date

(a) On 24th January 2013, CP Finance (2013), a wholly owned subsidiary of the Company and as the Issuer, and the Company entered into a subscription agreement with BOCI Asia Limited, Deutsche Bank AG, Singapore Branch, J.P. Morgan Securities plc and UBS AG, Hong Kong Branch (as the joint bookrunners and the joint lead managers) in relation to an international offering of US$300,000,000 4.375% guaranteed notes due 2023 to be issued by the Issuer and guaranteed by the Company. The net proceeds from the issuance of the Guaranteed Notes will be used primarily for the capital investment for the expansion of the Group's terminal and container leasing businesses, the repayment of the Group's existing indebtedness and general corporate purposes. The Guaranteed Notes were successfully issued on 31st January 2013.

(b) On 24th January 2013, the Group entered into an equity transfer agreement to acquire 39.04% equity interest in Taicang Terminal from COSCO, the ultimate controlling shareholder of the Company. Consideration for the acquisition is approximately RMB323,109,000 (equivalent to approximately US$51,400,000). The completion of the acquisition is subject to the satisfaction of certain conditions precedent as specified in the agreement.

(c) On 25th February 2013, Xiamen Ocean Gate Terminal, a subsidiary terminal of the Group, entered into an equity transfer agreement with its non-controlling shareholder, Xiamen Haicang Investment Group Co., Ltd., to acquire 100% equity interest in Xiamen Haitou Tongda Terminal. Consideration for the acquisition is RMB205,864,000 (equivalent to approximately US$32,800,000). The completion of the acquisition is subject to the satisfaction of certain conditions precedent as specified in the agreement.