VALUE

Dedicated management day after day and wisdom accumulated year upon year create COSCO Pacific's unique value. We have established excellent internal structures and standards, and we strive for the best results while upholding our values.

Nectar is gathered through hard work, and well-structured beehives testify to bees' achievements.

FINANCIAL REVIEW

Overall Analysis of Results

Profit attributable to equity holders of COSCO Pacific for the year 2013 was US$702,676,000 (2012: US$342,194,000), a 105.3% increase compared with last year. Excluding profit from the discontinued container manufacturing business, profit attributable to equity holders of COSCO Pacific for 2013 was US$286,206,000 (2012: US$280,299,000), a 2.1% increase compared with last year. Profit from the discontinued container manufacturing business included a net gain of US$393,411,000 on the disposal of its equity interest in CIMC and the share of profit of CIMC of US$23,059,000 during the year (2012: US$61,895,000).

Profit from the terminals business for 2013 was US$186,767,000 (2012: US$188,964,000), a 1.2% decrease compared with last year. In 2013, the throughput of the Group's container terminals was 61,284,891 TEU (2012: 55,685,225 TEU), a 10.1% increase compared with last year. Equity throughput increased to 17,196,297 TEU (2012: 15,638,070 TEU), a 10.0% increase compared with last year. With regard to terminals in which the Group has controlling stakes, Piraeus Terminal in Greece and Guangzhou South China Oceangate Terminal showed strong performances during the year, recording a profit of US$23,051,000 (2012: US$19,864,000) and US$8,282,000 (2012: US$6,182,000) respectively, representing a 16.0% increase and a 34.0% increase respectively compared with last year. Xiamen Ocean Gate Terminal, a subsidiary of the Group which started operation in

May 2012, is still in a ramp-up period. Its full-year loss in 2013, together with its acquisition of Xiamen Tongda Terminal in March 2013, amounted to a total loss of US$14,112,000 for the year (2012: a loss of US$11,039,000). In respect of non-controlled terminals, the tax holiday of 50% income tax relief for Qingdao Qianwan Terminal and Shanghai Pudong Terminal expired at the end of 2012, resulting in a decrease in profit at these terminals. In addition, COSCO-HIT Terminal recorded a decline in profit compared with last year due to rising borrowing costs and a strike. However, Taicang Terminal, in which the Group acquired an equity interest in August 2013, contributed a share of profit of US$1,437,000 for the year, partly offsetting the decrease in the profit from non-controlled terminals. The combination of the above factors resulted in a slight decrease in the profit of the terminals business of COSCO Pacific in 2013.

The container leasing, management and sale businesses recorded a profit of US$125,259,000 (2012: US$139,522,000) for the year, a 10.2% decrease compared with last year. As at 31 December 2013, the fleet size of the Group increased to 1,888,200 TEU (31 December 2012: 1,855,597 TEU), a 1.8% increase compared with last year.

With regard to the container manufacturing business, the Group completed the disposal of its 21.8% equity interest in CIMC on 27 June 2013, recording a net gain of US$393,411,000 on the disposal. COSCO Pacific's share of profit of CIMC for 2013, which is limited to the profit for the period from January to May as the disposal of its equity interest in CIMC was completed in June 2013, was US$23,059,000 (January to December of 2012: US$61,895,000), a 62.7% decrease compared with last year. Including the net gain on the disposal of its equity interest in CIMC and the share of profit from CIMC for the year, the profit from the discontinued container manufacturing business amounted to US$416,470,000 (2012: US$61,895,000).

Financial Analysis

Revenue

Revenue of the Group for 2013 was US$798,626,000 (2012: US$735,500,000), an 8.6% increase compared with last year. The revenue was primarily derived from the terminals business of US$455,071,000 (2012: US$402,161,000) and the container leasing, management and sale businesses of US$347,747,000 (2012: US$336,224,000).

Revenue from terminals business for 2013 increased by 13.2% compared with last year. The increase was mainly derived from Piraeus Terminal, Guangzhou South China Oceangate Terminal and Xiamen Ocean Gate Terminal. The throughput of Piraeus Terminal reached 2,519,664 TEU (2012: 2,108,090 TEU) in 2013, contributing a revenue of US$155,429,000 (2012: US$134,773,000) to the Group, a 15.3% increase compared with last year. The throughput of Guangzhou South China Oceangate Terminal was 4,449,311 TEU (2012: 4,230,574 TEU) in 2013, and its revenue increased to US$132,329,000 (2012: US$119,270,000), a 10.9% increase compared with last year. In addition, Xiamen Ocean Gate Terminal, which commenced operation in May 2012 and acquired Xiamen Tongda Terminal in March 2013, recorded a revenue of US$19,275,000 in total (2012: US$6,372,000) during the year, a 202.5% increase compared with last year.

In respect of the container leasing, management and sale businesses, revenue for 2013 was US$347,747,000 (2012: US$336,224,000), a 3.4% increase compared with last year. The revenue primarily included container leasing income and revenue from the disposal of returned containers. As at 31 December 2013, the fleet capacity of owned containers and sale-and-leaseback containers reached 1,085,507 TEU and 250,290 TEU respectively (31 December 2012: 995,961 TEU and 229,283 TEU respectively). With an increase in the fleet size during the year, revenue from container leasing for 2013 increased to US$290,883,000 (2012: US$280,514,000), a 3.7% increase compared with last year. On the other hand, the number of returned containers disposed of during 2013 was 35,714 TEU (2012: 31,671 TEU). The revenue from the disposal of returned containers was US$42,967,000 (2012: US$42,606,000).

Cost of sales

Cost of sales mainly comprised operating expenses of the terminal companies in which the Group has controlling stakes, depreciation charges on owned containers, net carrying amount of returned containers disposed of and rental expenses of sale-and-leaseback containers. Cost of sales in 2013 was US$480,457,000 (2012: US$420,218,000), a 14.3% increase compared with last year. Of this, cost of sales of terminals business in which the Group has controlling stakes was US$310,696,000 (2012: US$268,574,000), a 15.7% increase compared with last year. The increase was mainly attributable to a rise in the related cost of sales resulting from an increase in the business volume of terminals business in which the Group has controlling stakes. In addition, the cost of sales of Xiamen Ocean Gate Terminal, which commenced operation in May 2012, has been fully included in 2013. Cost of sales of the container leasing, management and sale businesses was US$169,989,000 (2012: US$151,658,000), a 12.1% increase compared with last year. Of this, depreciation charges for containers were US$110,507,000 (2012: US$102,407,000). The net carrying amount of returned containers disposed of in 2013 was US$20,165,000 (2012: US$17,023,000).

Administrative expenses

Administrative expenses in 2013 were US$90,058,000 (2012: US$91,919,000), a 2.0% decrease compared with last year. The overall administrative expenses of COSCO Pacific decreased in the year as controlled subsidiaries controlled costs strictly.

Finance costs

The Group's finance costs in 2013 were US$84,539,000 (2012: US$77,263,000), a 9.4% increase compared with last year. The rise in finance costs was primarily attributable to an increase in the average balance of bank loans of the Group to US$2,607,329,000 (2012: US$2,300,291,000) in 2013, a 13.3% increase compared with last year. In addition, Xiamen Ocean Gate Terminal commenced operation in May 2012, and its interest expenses were expensed-off once its berths and terminal equipment were ready for use, which caused an increase in finance costs. Taking into account capitalised interest, the average cost of bank borrowings in 2013, including the amortisation of transaction costs relating to bank loans and notes, was 3.41%, compared with 3.78% last year.

Other operating income/ (expenses), net

Net other operating income for the year was US$18,708,000 (2012: US$4,025,000), which included a net exchange gain of US$11,468,000 (2012: a net exchange loss of US$1,211,000) for 2013.

Share of profit contribution from jointly controlled entities and associates

Excluding the share of profit of CIMC which has been disposed of, the profit contribution from jointly controlled entities and associates for 2013 amounted to US$153,910,000 (2012: US$161,143,000), representing a decrease of 4.5% compared with last year. The decrease was mainly attributable to Qingdao Qianwan Terminal, COSCO-HIT Terminal and Shanghai Pudong Terminal. The tax holiday of 50% income tax relief for Qingdao Qianwan Terminal and Shanghai Pudong Terminal expired at the end of 2012 and hence the income tax for 2013 needs to be provided for in full. The Group's share of profit of Qingdao Qianwan Terminal for the year was US$29,521,000 (2012: US$37,689,000), a 21.7% decrease compared with last year. The Group's share of profit of Shanghai Pudong Terminal for the year was US$19,686,000 (2012: US$21,588,000), an 8.8% decrease compared with last year. Meanwhile, as a result of a rise in borrowing costs and the strike, COSCO-HIT Terminal recorded a profit of US$16,203,000 (2012: US$22,163,000) for 2013, representing a 26.9% decrease compared with last year. However, Taicang Terminal, in which the Group acquired an interest in August 2013, contributed a share of profit of US$1,437,000. In addition, Shanghai Terminal received a tax rebate in 2013. The Group's share of profit of Shanghai Terminal for 2013 was US$4,656,000 (2012: US$2,413,000), partly offsetting the decrease.

Income tax expenses

During the year, income tax expenses amounted to US$33,497,000 (2012: US$27,905,000). This included a provision of US$14,282,000 (2012: US$15,403,000) for withholding income tax in respect of the profit distribution by certain investments of the Group.

Discontinued operation

Profit from discontinued operation represents profit derived from the container manufacturing business. The Group completed the disposal of its 21.8% equity interest in CIMC on 27 June 2013, recording a net gain of US$393,411,000 on the disposal. In addition, the Group has recognised its share of profit of CIMC of US$23,059,000 (January to December of 2012: US$61,895,000) for the year, a 62.7% decrease compared with last year. Including the net gain on the disposal of its equity interest in CIMC and the share of profit of CIMC for the year, the total profit from the discontinued container manufacturing business amounted to US$416,470,000 (2012: US$61,895,000).

Financial Position

Cash flow

Cash inflow of the Group remained steady in 2013. During the year, net cash from operating activities amounted to US$476,544,000 (2012: US$427,345,000). The Group borrowed bank loans of US$283,691,000 (2012: US$1,165,121,000) in 2013 and issued US$300,000,000 of 10-year guaranteed notes in January 2013. During the year, the Group repaid loans of US$900,523,000 (2012: US$726,641,000), and in October 2013 the Group repaid the US$300,000,000 of 10-year notes issued in 2003.

During the year, an amount of US$531,526,000 (2012: US$710,372,000) was paid in cash by the Group for the expansion of berths and purchase of property, plant and equipment, of which US$255,198,000 (2012: US$371,691,000) was for the purchase of new containers. In addition, the total cash outflow for capital investment by COSCO Pacific amounted to US$104,311,000 in 2013, comprising US$52,319,000 for the acquisition of the equity interest in Taicang Terminal, net equity investment of US$31,794,000 for the acquisition of the equity interest in Xiamen Tongda Terminal and US$20,198,000 used for capital injection in Ningbo Yuan Dong Terminal. 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 31 December 2013, the Group's total outstanding bank borrowings and cash balance amounted to US$2,046,210,000 (31 December 2012: US$2,601,697,000) and US$1,237,551,000 (31 December 2012: US$849,330,000) respectively. Banking facilities available but unused amounted to US$504,575,000 (31 December 2012: US$636,285,000).

Assets and liabilities

As at 31 December 2013, the Group's total assets and total liabilities were US$7,551,304,000 (31 December 2012: US$7,363,858,000) and US$2,707,810,000 (31 December 2012: US$3,146,465,000) respectively. Net assets were US$4,843,494,000, representing an increase of 14.8% as compared with US$4,217,393,000 at the end of 2012. Net current assets at the end of 2013 amounted to US$650,796,000 (31 December 2012: net current liabilities of US$48,302,000). As at 31 December 2013, the net asset value per share of the Company was US$1.66 (31 December 2012: US$1.51).

As at 31 December 2013, the net debt-to-total equity ratio had decreased to 16.7% (31 December 2012: 41.6%). Including the discontinued operation, the interest coverage was 9.9 times (2012: 5.9 times). As at 31 December 2013, certain of the Group's property, plant and equipment with an aggregate net book value of US$65,473,000 (31 December 2012: US$18,828,000) were pledged as securities against bank borrowings of US$275,785,000 (31 December 2012: US$197,858,000).

Debt analysis

	As at 31 December 2013		As at 31 December 2012	
By repayment term	**US$**	**(%)**	**US$**	**(%)**
Within the first year	**275,785,000**	**13.5**	775,042,000	29.8
Within the second year	**567,710,000**	**27.7**	414,914,000	15.9
Within the third year	**144,492,000**	**7.1**	558,290,000	21.5
Within the fourth year	**270,678,000**	**13.2**	162,898,000	6.3
Within the fifth year and after	**787,545,000**	**38.5**	690,553,000	26.5
	2,046,210,000*	**100.0**	2,601,697,000*	100.0
By borrowing category				
Secured borrowings	**275,277,000**	**13.5**	197,858,000	7.6
Unsecured borrowings	**1,770,933,000**	**86.5**	2,403,839,000	92.4
	2,046,210,000*	**100.0**	2,601,697,000*	100.0
By borrowing denominated currency				
US dollar borrowings	**1,375,387,000**	**67.2**	1,621,148,000	62.3
RMB borrowings	**395,546,000**	**19.3**	782,691,000	30.1
Euro borrowings	**275,277,000**	**13.5**	197,858,000	7.6
	2,046,210,000*	**100.0**	2,601,697,000*	100.0

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

Financial guarantee contracts

As at 31 December 2013, the Group provided guarantees on a loan facility granted to an associate of US$21,094,000 (31 December 2012: US$24,428,000).

Contingent liabilities

A statement of claim was issued on 19 October 2009 by Aronis-Drettas-Karlaftis Consultant Engineers S.A. ("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$8,000,000) in total. The Company and Piraeus Terminal defended all material claims at the trial hearing held on 30 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$41,000) 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 was first scheduled to take place on 13 November 2012 but was then postponed to 26 November 2013 due to the strike called by the Association of the Justices of the Greek courts. Subsequently, the hearing was further adjourned by the Court of Appeals of Athens to 21 October 2014 at the request of ADK. According to the rules of Greek Civil Procedure, the hearing cannot be adjourned again, except if the courts are closed for whatever reason on 21 October 2014. 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 as far as possible with the Group's functional currency of major cash receipts and underlying assets. Borrowings for the 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 are denominated in their respective functional currencies so as to minimise foreign exchange exposure in investments.

As at 31 December 2013, 14.7% of the Group's total borrowings were fixed rate. At the end of 2012, after adjustment of the fixed rate borrowings for interest rate swap contracts, 3.8% of the Group's total borrowings were at a fixed rate as at 31 December 2012. The Group continues to monitor and regulate its fixed and floating rate debt portfolio from time to time in light of market conditions, with a view to minimising its potential interest rate exposure.

Event after the balance sheet date

On 13 March 2014, COSCO Ports (ACT) Limited, a wholly-owned subsidiary of the Company and Sea Prime Holdings Limited, a wholly-owned subsidiary of HPH Trust, entered into a 50:50 joint venture arrangement for the establishment of a joint venture company, COSCO-HPHT ACT Limited, to acquire an 80% equity interest in Asia Container Terminal. The total consideration paid by the Group under the Subscription Agreement and Assignment Deeds is HK$1,648,000,000 (equivalent to approximately US$212,335,000). Completion of the subscription and assignment took place on 13 March 2014.