FINANCIAL REVIEW

Overall Analysis of Results

Profit attributable to equity holders of COSCO Pacific for the year 2014 was US$292,759,000 (2013: US$702,676,000), a 58.3% decrease compared with last year. Excluding profit from the discontinued container manufacturing business for the year 2013, profit attributable to equity holders of COSCO Pacific for 2014 increased by 2.3%. Profit from the discontinued container manufacturing business for the year of 2013 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, which did not recur in 2014.

Profit from the terminals business for 2014 was US$220,978,000 (2013: US$186,767,000), an 18.3% increase compared with last year. In 2014, the throughput of container terminals reached 67,326,122 TEU (2013: 61,284,891 TEU), a 9.9% increase compared with last year. Equity throughput increased to 19,047,214 TEU (2013: 17,196,297 TEU), a 10.8% increase compared with last year. With regard to terminals in which the Group has controlling stakes, Piraeus Terminal in Greece showed strong performance during the year, with an increase of 18.5% in throughput as compared with last year, recording a profit of US$28,980,000 (2013: US$23,051,000), a 25.7% increase compared with last year. In addition, the operation of Xiamen Ocean Gate Terminal has improved. It saw a significant increase of 32.3% in container throughput as a result of more shipping routes being introduced in the year, and its loss narrowed to US$6,858,000 (2013: a loss of US$14,112,000), representing a decrease in the loss of 51.4% as compared with last year. In respect of non-controlled terminals, profit contributions from Qingdao Qianwan Terminal, Shanghai Pudong Terminal and COSCO-PSA Terminal attributable to the Group were all improved for the year, and operation of Antwerp Terminal recorded a turnaround from loss to profit during the year. Meanwhile, the Group completed the acquisition of a 39.04% equity interest in Taicang Terminal in July 2013. It also completed its investment in Qingdao Port Dongjiakou Ore Terminal and its acquisition of an equity interest in Asia Container Terminal in 2014. All of these new terminals thus made profit contributions during the year. On the other hand, due to an increase in operating costs and the expiry of the tax holiday of 50% income tax relief for Phase III of Yantian Terminals, profit from Yantian Terminals decreased during the year.

The container leasing, management and sale businesses recorded a profit of US$95,757,000 (2013: US$125,259,000) in 2014, a 23.6% decrease compared with last year. As at 31 December 2014, the fleet size of the Group was 1,907,778 TEU (31 December 2013: 1,888,200 TEU), a 1.0% increase compared with last year.

Financial Analysis

Revenue

Revenue of the Group for 2014 was US$870,091,000 (2013: US$798,626,000), an 8.9% increase compared with last year. The revenue was primarily derived from the terminals business at US$516,993,000

(2013: US$455,071,000) and the container leasing, management and sale businesses at US$357,075,000 (2013: US$347,747,000).

Total revenue from the terminals business for 2014 increased by 13.6% compared with last year. The increase was mainly derived from Piraeus Terminal in Greece, Guangzhou South China Oceangate Terminal and Xiamen Ocean Gate Terminal. The throughput of Piraeus Terminal reached 2,986,904 TEU (2013: 2,519,664 TEU) in 2014, contributing revenue of US$178,466,000 (2013: US$155,429,000) to the Group for the year, a 14.8% increase compared with last year. The throughput of Guangzhou South China Oceangate Terminal was 4,647,266 TEU (2013: 4,449,311 TEU) in 2014, and its revenue increased to US$144,138,000 (2013: US$132,329,000), an 8.9% increase compared with last year. In 2014, container throughput of Xiamen Ocean Gate Terminal increased by 32.3% as compared with last year. This, together with a higher tariff charged and its completion of the acquisition of Xiamen Tongda Terminal in March 2013, increased the revenue generated from Xiamen Ocean Gate Terminal to US$39,199,000 (2013: US$19,275,000) during the year, a 103.4% increase compared with last year.

In respect of the container leasing, management and sale businesses, revenue generated in 2014 was US$357,075,000 (2013: US$347,747,000), a 2.7% increase compared with last year, which primarily included container leasing income and revenue from the disposal of returned containers. As at 31 December 2014, the fleet capacity of owned containers and sale-and-leaseback containers reached 1,083,756 TEU and 286,568 TEU respectively (31 December 2013: 1,085,507 TEU and 250,290 TEU respectively). Revenue from container leasing for 2014 was US$295,774,000 (2013: US$290,883,000), an increase of 1.7% as compared with last year. In respect of the container sale business, although the resale price of returned containers decreased by 21.9% as compared with last year, the revenue from the disposal of returned containers increased to US$47,773,000 (2013: US$42,967,000) as the number of returned containers disposed of during 2014 increased 42.4% to 50,860 TEU (2013: 35,714 TEU) compared with last year.

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 2014 was US$546,234,000 (2013: US$480,457,000), a 13.7% increase compared with last year. Of this, the cost of sales of the terminal business was US$337,344,000 (2013: US$310,696,000), an 8.6% increase compared with last year. The increase was mainly attributable to a rise in the related cost of sales resulted from an increase in business volume of terminal business in which the Group has controlling stakes. Cost of sales of container leasing, management and sale businesses was US$208,940,000 (2013: US$169,989,000), a 22.9% increase compared with last year. During the year, the depreciation charge for containers increased to US$124,329,000 (2013: US$110,507,000). The year of 2014 recorded an increased number of returned containers disposed of and a higher net carrying amount for these returned containers as over last year. As a result, the net carrying amount of returned containers disposed of increased to US$40,848,000 (2013: US$20,165,000).

Administrative expenses

Administrative expenses in 2014 were US$93,201,000 (2013: US$90,058,000), a 3.5% increase compared with last year.

Other operating (expenses)/income, net

Net other operating expenses for the year were US$3,231,000 (2013: other operating income of US$18,708,000), which included a net exchange loss of US$7,600,000 (2013: a net exchange gain of US$11,468,000) for 2014.

Finance costs

The Group's finance costs in 2014 were US$72,506,000 (2013: US$84,539,000), a 14.2% decrease compared with last year. The finance costs decreased mainly because financial arrangements were further enhanced during the year. Meanwhile, the Group's US$300,000,000 10-year notes issued in 2003 expired and were repaid in October 2013, contributing to the decreased finance costs in 2014. The average balance of bank loans was reduced to US$1,984,945,000 (2013: US$2,607,329,000) for the year, a 23.9% decrease compared with last year. Taking into account the capitalised interest, the average cost of bank borrowings in 2014, including the amortisation of transaction costs over bank loans and notes, was 3.63% (2013: 3.41%).

Share of profit contribution from joint ventures and associates

Excluding the share of profit of CIMC which has been disposed of, the profit contribution from joint ventures and associates for 2014 amounted to US$171,225,000 (2013: US$153,910,000), representing an increase of 11.3% compared with last year. Due to the increase in throughput, profit contributions from Qingdao Qianwan Terminal, Shanghai Pudong Terminal and COSCO-PSA Terminal attributable to COSCO Pacific were all improved for the year, and the operation of Antwerp Terminal recorded a turnaround from a loss to a gain in the year. The Group's share of profit from Qingdao Qianwan Terminal for 2014 was US$39,034,000 (2013: US$29,521,000), a 32.2% increase compared with last year. The Group's share of profit from Shanghai Pudong Terminal for the year was US$20,689,000 (2013: US$19,686,000), a 5.1% increase compared with last year. The Group's share of profit from COSCO-PSA Terminal for the year was US$3,536,000 (2013: US$1,077,000), a 228.3% increase compared with last year. The Group's share of profit from Antwerp Terminal for the year was US$4,469,000 (2013: a loss of US$319,000). Meanwhile, the Group completed the acquisition of a 39.04% equity interest in Taicang Terminal in July 2013. It also completed investment in Dongjiakou Ore Terminal and acquisition of an equity interest in Asia Container Terminal in 2014. All of these new terminals made profit contributions during the year. On the other hand, due to an increase in operating costs and the expiry of the tax holiday of 50% income tax relief for Phase III of Yantian Terminals, profit from Yantian Terminals decreased to US$49,446,000 (2013: 54,906,000) for the year, representing a decrease of 9.9%.

Income tax expenses

During the year, income tax expenses amounted to US$38,995,000 (2013: US$33,497,000). This included a provision of approximately US$13,525,000 (2013: US$14,282,000) for withholding income tax in respect of the profit distribution from 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 recognised its share of profit of CIMC of US$23,059,000 in 2013. Including the net gain on the disposal of its equity interest in CIMC and the share of profit of CIMC, the total profit from the discontinued container manufacturing business amounted to US$416,470,000 in 2013.

Financial Position

Cash flow

The Group's cash inflow remained steady in 2014. During the year, net cash generated from operating activities amounted to US$464,952,000 (2013: US$476,544,000). In 2014, the Group borrowed bank loans of US$266,050,000 (2013: US$283,691,000) and repaid loans of US$419,114,000 (2013: US$900,523,000).

During the year, an amount of US$376,759,000 (2013: US$531,526,000) was paid in cash by the Group for the expansion of berths and the purchase of property, plant and equipment, of which US$280,348,000 (2013: US$255,198,000) was for the purchase of new containers. In addition, the total cash outflow for capital investment by COSCO Pacific amounted to US$279,919,000 in 2014, comprising US$212,335,000 for the investment in Asia Container Terminal, net equity investment of US$57,330,000 for Dongjiakou Ore Terminal and US$10,254,000 used for capital injection in Ningbo Yuan Dong Terminal. Cash outflow in aggregate for capital investment by COSCO Pacific amounted to US$104,311,000 in 2013, mainly comprising US$52,319,000 for acquiring the equity interest in Taicang Terminal, net equity investment of US$31,794,000 for Xiamen Tongda Terminal and US$20,198,000 used for capital injection in Ningbo Yuan Dong Terminal.

Financing and credit facilities

As at 31 December 2014, the Group's total outstanding bank borrowings and cash balance amounted to US$1,860,193,000 (31 December 2013: US$2,046,210,000) and US$1,116,479,000 (31 December 2013: US$1,237,551,000) respectively. Banking facilities available but unused amounted to US$475,694,000 (31 December 2013: US$504,575,000).

Assets and liabilities

As at 31 December 2014, the Group's total assets and total liabilities were US$7,616,710,000 (31 December 2013: US$7,551,304,000) and US$2,558,048,000 (31 December 2013: US$2,707,810,000) respectively. Net assets were US$5,058,662,000, representing an increase of 4.4% as compared with the US$4,843,494,000 at the end of 2013. Net current assets at the end of 2014 amounted to US$426,433,000 (31 December 2013: US$650,796,000). As at 31 December 2014, the Company's net asset value per share was US$1.72 (31 December 2013: US$1.66).

As at 31 December 2014, the net debt-to-total equity ratio was 14.7% (31 December 2013: 16.7%). The interest coverage was 5.9 times in 2014 (compared with 9.9 times in 2013 after taking into account the discontinued operation). As at 31 December 2014, certain of the Group's property, plant and equipment with an aggregate net book value of US$55,119,000 (31 December 2013: US$65,473,000) were pledged as securities against bank borrowings of US$241,967,000 (31 December 2013: US$275,277,000).

Debt analysis

	As at 31 December 2014		As at 31 December 2013	
By repayment term	**US$**	**(%)**	**US$**	**(%)**
Within the first year	**429,762,000**	**23.1**	275,785,000	13.5
Within the second year	**142,804,000**	**7.7**	567,710,000	27.7
Within the third year	**371,953,000**	**20.0**	144,492,000	7.1
Within the fourth year	**159,648,000**	**8.6**	270,678,000	13.2
Within the fifth year and after	**756,026,000**	**40.6**	787,545,000	38.5
	1,860,193,000*	**100.0**	2,046,210,000*	100.0
By borrowing category				
Secured borrowings	**241,967,000**	**13.0**	275,277,000	13.5
Unsecured borrowings	**1,618,226,000**	**87.0**	1,770,933,000	86.5
	1,860,193,000*	**100.0**	2,046,210,000*	100.0
By borrowing denominated currency				
US dollar borrowings	**1,266,764,000**	**68.1**	1,375,387,000	67.2
RMB borrowings	**351,462,000**	**18.9**	395,546,000	19.3
Euro borrowings	**241,967,000**	**13.0**	275,277,000	13.5
	1,860,193,000*	**100.0**	2,046,210,000*	100.0

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

Financial guarantee contracts

As at 31 December 2014, the Group provided guarantees on a loan facility granted to an associate of US$13,613,000 (31 December 2013: US$21,094,000).

Contingent liabilities

A Statement of claim was issued on 19 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$7,000,000 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$36,000) 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. The hearing was further adjourned by the Court of Appeals of Athens to 21 October 2014 at the request of ADK. Subsequently, the appeal was held on 21 October 2014 before the Court of Appeal in Greece. There were no verbal pleadings during the hearing before the Court of Appeals, and the Company is awaiting the verdict. 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 the container leasing business are mainly denominated in US dollars, which is the same currency as the majority of its revenues and expense so as to minimise potential foreign exchange exposure.

The financing activities of joint ventures and associates are denominated in their respective functional currencies so as to minimise foreign exchange exposure in investments.

As at 31 December 2014, 16.1% of the Group's total borrowings were at a fixed rate while 14.7% of the Group's total borrowings were at a fixed rate as at 31 December 2013. The Group will continue 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.