

# Financial Review

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In 2015, the terminals business of COSCO Pacific recorded steady development and stable profit performance. However, in respect of the container leasing business, lease rates and resale prices decreased due to the adverse market environment during the year, affecting the profit performance of the container leasing, management and sale businesses. Profit attributable to equity holders of COSCO Pacific for the year 2015 was US\$381,644,000 (2014: US\$292,759,000), a 30.4% increase compared with last year. Excluding the reversal of provision recognised for the discontinued container

manufacturing business for the year of US\$79,152,000 (2014: not applicable), profit attributable to equity holders of COSCO Pacific for 2015 amounted to US\$302,492,000 (2014: US\$292,759,000), a 3.3% increase compared with last year.

Profit from the terminals business for 2015 was US\$233,653,000 (2014: US\$220,978,000), a 5.7% increase compared with last year. The throughput of container terminals was 68,670,714 TEU (2014: 67,326,122 TEU), a 2.0% increase compared with last year. Equity throughput increased to 19,262,210 TEU (2014: 19,047,214 TEU), a 1.1% increase compared with last year. During the year, the performance of Xiamen Ocean Gate Terminal improved, with an increase in container throughput of 28.4% compared with last year as a result of an increase in the number of shipping routes. In 2015, Xiamen Ocean Gate Terminal was able to return to profitability, recording a profit of US\$137,000 (2014: loss of US\$6,858,000). Piraeus Terminal in Greece showed stable performance during the year, with

an increase of 1.6% in throughput as compared with last year, recording a profit of US\$28,845,000 (2014: US\$28,980,000), a slight 0.5% decrease compared with last year.

In respect of non-controlled terminals, profits from Yantian Terminal, Qingdao Qianwan Terminal and Antwerp Terminal attributable to COSCO Pacific all increased in 2015, driven by increased throughput. In 2015, the throughput of Yantian Terminal increased by 4.2% compared with last year, and the share of profit of Yantian Terminal was US\$53,667,000 (2014: US\$49,446,000), an 8.5% increase compared with last year; the throughput of Qingdao Qianwan Terminal increased by 5.5% compared with last year, and the share of profit of Qingdao Qianwan Terminal was US\$42,898,000 (2014: US\$39,034,000), a 9.9% increase compared with last year; the throughput of Antwerp Terminal increased by 16.7% compared with last year, and the share of profit of Antwerp Terminal was US\$5,529,000 (2014: US\$4,469,000), a 23.7% increase compared with last year.

The container leasing, management and sale businesses recorded a profit of US\$82,849,000 (2014: US\$95,757,000) in 2015, a 13.5% decrease compared with last year. As at 31 December 2015, the fleet size of the Group was 1,944,654 TEU (31 December 2014: 1,907,778 TEU), a 1.9% increase compared with last year.

## Financial Analysis

### Revenues

The Group revenue for 2015 amounted to US\$798,151,000 (2014: US\$870,091,000), an 8.3% decrease compared with last year. The revenue was primarily derived from the terminals business revenue of US\$486,772,000 (2014: US\$516,993,000) and the container leasing, management and sale businesses revenue of US\$315,675,000 (2014: US\$357,075,000).

Total revenue from the terminals business for 2015 decreased by 5.8% compared with last year, a decline mainly attributable to Piraeus Terminal in Greece. The throughput of Piraeus Terminal was 3,034,428 TEU (2014: 2,986,904 TEU) in 2015, contributing

a revenue of Euro140,573,000 (2014: Euro134,929,000) to the Group for the year, a 4.2% increase compared with last year. Due to the depreciation of the Euro, however, the revenue from Piraeus Terminal in 2015 was equivalent to US\$156,126,000 (2014: US\$178,466,000), a 12.5% decrease compared with last year. During the year, Xiamen Ocean Gate Terminal increased average revenue per TEU and the number of shipping routes, recording revenue for the year of US\$48,833,000 (2014: US\$39,199,000), a 24.6% increase compared with last year.

In respect of the container leasing, management and sale businesses, revenue generated in 2015 was US\$315,675,000 (2014: US\$357,075,000), an 11.6% decrease compared with last year, and primarily comprised of container leasing income and revenues from the disposal of returned containers. As at 31 December 2015, the fleet capacity of owned containers and sale-and-leaseback containers was 1,189,939 TEU and 286,568 TEU respectively (31 December 2014: 1,083,756 TEU and 286,568 TEU respectively). As a result of a decrease in leasing rates,

revenue from container leasing for 2015 was US\$285,511,000 (2014: US\$295,774,000), a decrease of 3.5% as compared with last year. In respect of the container sale business, the average resale price of returned containers during the year decreased by 15.2% as compared with last year, and the number of returned containers disposed of decreased by 55.3% to 22,747 TEU (2014: 50,860 TEU) compared with last year, as a result of which the revenue from the disposal of returned containers decreased by 62.1% as compared with last year to US\$18,116,000 (2014: US\$47,773,000).

### Cost of sales

Cost of sales mainly comprises the 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 2015 was US\$498,047,000 (2014: US\$546,234,000), an 8.8% decrease compared with last year. Of this, the cost of sales of the terminals business was US\$307,274,000 (2014: US\$337,344,000), an 8.9% decrease

compared with last year. The decrease was mainly attributable to Piraeus Terminal. In 2015, the cost of sales of Piraeus Terminal was US\$106,465,000 (2014: US\$126,223,000), a 15.7% decrease compared with last year that was mainly due to the depreciation of the Euro. The cost of sales for the container leasing, management and sale businesses was US\$190,798,000 (2014: US\$208,940,000), an 8.7% decrease compared with last year. During the year, sales of returned containers decreased by 55.3% compared with last year, causing the net carrying amount of returned containers to decrease to US\$16,001,000 (2014: US\$40,848,000), a 60.8% decrease compared with last year. In 2015, the depreciation charge for containers was US\$122,723,000 (2014: US\$124,329,000), a 1.3% decrease compared with last year.

### Administrative expenses

Administrative expenses in 2015 were US\$77,028,000 (2014: US\$93,201,000), a 17.4% decrease compared with last year. The decrease was mainly attributable to strict cost control by the Group during the year.

### Net other operating income/ (expenses)

Net other operating income for the year was US\$3,624,000 (2014: net other operating expenses of US\$3,231,000), which included a net exchange loss of US\$14,177,000 (2014: US\$7,600,000) for 2015.

### Finance costs

The Group's finance costs in 2015 were US\$64,253,000 (2014: US\$72,506,000), an 11.4% decrease compared with last year. The finance costs decreased mainly because the average balance of bank loans was reduced to US\$1,812,699,000 (2014: US\$1,984,945,000) for the year, an 8.7% decrease compared with last year. Taking into account capitalised interest, the average cost of bank borrowings in 2015, including the amortisation of transaction costs over bank loans and notes, was 3.52% (2014: 3.63%).

### Share of profit of joint ventures and associates

The profit contribution from joint ventures and associates for 2015 amounted to US\$181,140,000 (2014: US\$171,225,000), representing an

increase of 5.8% compared with last year. In 2015, the throughput of Yantian Terminal increased by 4.2% compared with last year, and share of profit of Yantian Terminal was US\$53,667,000 (2014: US\$49,446,000), a 8.5% increase compared with last year; the throughput of Qingdao Qianwan Terminal increased by 5.5% compared with last year, and share of profit of Qingdao Qianwan Terminal was US\$42,898,000 (2014: US\$39,034,000), a 9.9% increase compared with last year; the throughput of Antwerp Terminal increased by 16.7% compared with last year, and share of profit of Antwerp Terminal was US\$5,529,000 (2014: US\$4,469,000), a 23.7% increase compared with last year.

### Income tax expenses

During the year, income tax expenses amounted to US\$41,153,000 (2014: US\$38,995,000), representing an increase of 5.5% compared with last year. This included a provision of approximately US\$13,456,000 (2014: US\$13,525,000) for withholding income tax in respect of the profit distribution made by certain of the Group's domestic investments.

## Financial Position

### Cash flow

Cash inflow of the Group remained steady in 2015. During the year, net cash generated from operating activities amounted to US\$391,350,000 (2014: US\$464,952,000). In 2015, the Group borrowed bank loans of US\$861,292,000 (2014: US\$266,050,000) and repaid loans of US\$653,629,000 (2014: US\$419,114,000).

During the year, an amount of US\$365,309,000 (2014: US\$376,759,000) was paid in cash by the Group for the expansion of berths and the purchase of property, plant and equipment, of which US\$263,031,000 (2014: US\$280,348,000) was for the purchase of new containers. In addition, COSCO Pacific's cash outflows for investments amounted to US\$376,056,000 in 2015, representing the cash investment in Kumport Terminal in Turkey. 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 a capital injection into Ningbo Yuan Dong Terminal.

### Financing and credit facilities

As at 31 December 2015, the Group's total outstanding borrowings and cash balance amounted to US\$2,022,363,000 (31 December 2014: US\$1,860,193,000) and US\$909,287,000 (31 December 2014: US\$1,116,479,000) respectively. Banking facilities available but unused amounted to US\$927,288,000 (31 December 2014: US\$475,694,000).

### Assets and liabilities

As at 31 December 2015, the Group's total assets and total liabilities were US\$7,671,574,000 (31 December 2014: US\$7,616,710,000) and US\$2,498,714,000 (31 December

2014: US\$2,558,048,000) respectively. Net assets were US\$5,172,860,000, representing an increase of 2.3% as compared with US\$5,058,662,000 as at 31 December of 2014. Net current assets at 31 December 2015 amounted to US\$548,336,000 (31 December 2014: US\$426,433,000). As at 31 December 2015, the net asset value per share of the Company was US\$1.74 (31 December 2014: US\$1.72).

As at 31 December 2015, the net debt-to-total-equity ratio was 21.5% (31 December 2014: 14.7%), and interest coverage was 7.9 times (2014: 5.9 times). As at 31 December 2015, certain other property, plant and equipment of the Group with an aggregate net book value of US\$47,327,000 (31 December 2014: US\$55,119,000) and the Company's interest in a subsidiary were pledged as securities against bank borrowings of US\$249,766,000 (31 December 2014: US\$241,967,000) granted to the subsidiary.

Debt analysis				
	As at 31 December 2015		As at 31 December 2014	
By repayment term	US\$	(%)	US\$	(%)
Within the first year	260,981,000	12.9	429,762,000	23.1
Within the second year	304,259,000	15.0	142,804,000	7.7
Within the third year	237,596,000	11.7	371,953,000	20.0
Within the fourth year	170,546,000	8.4	159,648,000	8.6
Within the fifth year and after	1,048,981,000	52.0	756,026,000	40.6
	<b>2,022,363,000*</b>	<b>100.0</b>	<b>1,860,193,000*</b>	<b>100.0</b>
By category				
Secured borrowings	249,766,000	12.4	241,967,000	13.0
Unsecured borrowings	1,772,597,000	87.6	1,618,226,000	87.0
	<b>2,022,363,000*</b>	<b>100.0</b>	<b>1,860,193,000*</b>	<b>100.0</b>
By denominated currency				
US dollar borrowings	1,388,455,000	68.6	1,266,764,000	68.1
RMB borrowings	384,142,000	19.0	351,462,000	18.9
Euro borrowings	249,766,000	12.4	241,967,000	13.0
	<b>2,022,363,000*</b>	<b>100.0</b>	<b>1,860,193,000*</b>	<b>100.0</b>

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

## Financial guarantee contracts

As at 31 December 2015, no external guarantee was provided by the Group. As at 31 December 2014, the Group provided guarantees on a loan facility granted to an associate of US\$13,613,000.

in Greece alleging non-payment of fees for design services and project management services. The plaintiff had claimed approximately Euro 5,800,000 (equivalent to approximately US\$6,300,000) in total. The Company and Piraeus Terminal defended all material claims at the trial hearing held on 30 November 2010.

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\$33,000) 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.

## 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

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

The Athens Court of Appeals has issued and pronounced judgment on ADK's appeal and has dismissed the aforementioned appeal in its entirety and has upheld fully the judgment of the Court of First Instance. In addition,

the Court of Appeals has awarded to the Company and Piraeus Terminal part of the legal expenses with respect to the appellate proceedings in the amount of Euro 600 (equivalent to approximately US\$700) against the appellant (ADK). The aforesaid Court of Appeal's judgment was final and was subject only to an appeal before the Supreme Court, which had to be exclusively based on legal grounds. The time limit for the filing of such an appeal before the Supreme Court by the losing party (ADK) was 30 days from the date that an official copy of the aforesaid decision, legalised by the Court itself, was served on the ADK by a bailiff of the Court. Such a copy of the judgement was served on ADK on 31 August 2015 and hence, the deadline for ADK to file an appeal was 30 September 2015. After confirming with its Greek legal counsel, the Group understands that ADK did not file an appeal during the aforementioned period. Therefore, the Court of Appeal's judgment was final and irrevocable. The Company and Piraeus Terminal have won the case and the ADK lawsuit is officially closed.

### 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. The functional currency of the terminals business is either the Euro or Renminbi,

which are the same currencies as its borrowings, revenue and expenses, so as to provide a natural hedge against the foreign exchange volatility. Borrowings for the container leasing business are mainly denominated in US dollars, 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 joint ventures and associates were denominated in their respective functional currencies so as to minimise foreign exchange exposure in investments.

As at 31 December 2015, 14.8% (31 December 2014: 16.1%) of the Group's total borrowings were at fixed rates. In light of market conditions, the Group continues to monitor and regulate its fixed and floating rate debt portfolio from time to time, with a view to minimising its potential interest rate exposure.

### Event after the balance sheet date

On 18 March 2016, the Company completed its acquisition of all the shares in CSPD. The acquisition was for a total consideration of approximately US\$1,163,770,000 (subject to completion accounts adjustments). The Company acquired 51% and 49% of the shares in CSPD from CSHK and CSCL, respectively. CSPD therefore became a wholly

owned subsidiary of the Company subsequent to the end of the financial year ended 31 December 2015.

On 24 March 2016, the Company completed the disposal of Florens to CSCLHK for a total consideration of approximately US\$1,223,725,000 (subject to completion accounts adjustments). The results arising from the disposal depending on the net asset value and the exchange reserves to be released, with the references to the completion accounts. The completion audit was not finished at the report date. The Florens's shareholder's loans in the aggregate sum of US\$285,000,000 were transferred on the same day to CSCLHK at the consideration of US\$285,000,000. Upon completion of the disposal, Florens ceased to be the subsidiaries of the Company.

Upon completion of the above transactions, a special cash dividend of HK80 cents per share is committed to be distributed.