

FINANCIAL REVIEW – FINANCIAL ANALYSIS

REVENUE

Driven by an increase in the number of on-hired containers and expansion in container terminal business, revenue of the Group in 2008 was US\$337,973,000, a 13.1% increase from US\$298,948,000 of last year. The revenue was mainly attributable to container leasing, management and sale businesses, totalling US\$252,620,000 (2007: US\$247,853,000), which primarily included container leasing income and revenue from disposal of returned containers. For container leasing income, as the fleet capacity of owned containers and sale-and-leaseback containers increased to 865,296 TEUs by the end of 2008 (2007: 757,053 TEUs), income also increased to US\$202,437,000 for the year (2007: US\$181,334,000), representing an increase of 11.6% over last year. On the other hand, revenue from disposal of returned containers during the year was US\$39,352,000 (2007: US\$57,038,000), a drop of 31.0% as compared with last year. Decrease was mainly attributable to a decrease in the number of returned containers sold during the year. The number of returned containers sold was 34,043 TEUs (2007: 56,759 TEUs). Revenue from container management was US\$8,465,000, a 15.5% increase from US\$7,327,000 of last year. Revenue from leasing of reefer-container generator sets was US\$2,039,000, a 14.9% increase from US\$1,775,000 of last year.

Revenue from container terminal operations and related businesses with controlling stakes showed a stable growth. In 2008, revenue from container terminal operations with controlling stakes achieved a US\$85,353,000, an increase of 67.0% as compared with US\$51,095,000 of last year. Quan Zhou Pacific Terminal recorded throughput of 910,058 TEUs (2007: 856,784 TEUs) and revenue of US\$31,286,000 (2007: US\$24,089,000), an increase of 6.2% and 29.9% respectively. Zhangjiagang Win Hanverky Terminal achieved an 18.1% growth in throughput to 710,831 TEUs (2007: 601,801 TEUs) and a 5.2% growth in revenue to US\$18,690,000 (2007: US\$17,763,000). Since the reclassification of Yangzhou Yuanyang Terminal from a jointly controlled entity to a subsidiary in December 2007, the whole-year revenue of Yangzhou Yuanyang Terminal was reflected in the total revenue of the Group, and the revenue for 2008 was US\$19,173,000 (December 2007: US\$1,532,000). In addition, the Group invested in Jinjiang Pacific Terminal in March 2008 and the revenue for the year was US\$9,529,000.

COST OF SALES

Cost of sales mainly comprised depreciation charge of owned containers, carrying amount of returned containers disposed, container rental expense and operating expenses of terminal companies. Cost of sales in 2008 was US\$165,454,000 (2007: US\$152,513,000), an increase of 8.5% over last year. In July 2008, the Group leased back the containers which had been sold to CBA USD Investments, and therefore incurred a container rental expense of US\$8,747,000. In addition, due to an increase in the number of owned containers, depreciation charge for containers increased to US\$76,063,000 in 2008 (2007: US\$74,667,000). The number of returned containers sold during the year decreased to 34,043 TEUs (2007: 56,759 TEUs) and the carrying amount of disposed returned containers was US\$31,344,000 (2007: US\$49,049,000), representing a drop of 36.1%. On the other hand, operating expense rose due to an increase in the throughput of Quan Zhou Pacific Terminal and Zhangjiagang Win Hanverky Terminal. Investment in Jinjiang Pacific Terminal during the year and the reclassification of Yangzhou Yuanyang Terminal to a subsidiary in December 2007 also contributed to an increase in the relevant operating expense in 2008 after consolidation.

INVESTMENT INCOME

Investment income, comprising mainly dividends, was US\$22,493,000 (2007: US\$21,874,000), an increase of 2.8% over last year. Among that, Yantian Terminals, Tianjin Five Continents Terminal and Dalian Port Container Co., Ltd. declared dividends of US\$18,661,000, US\$2,267,000 and US\$1,380,000 respectively (2007: US\$18,610,000, US\$1,475,000 and US\$1,099,000 respectively).

ADMINISTRATIVE EXPENSES

Administrative expenses in 2008 was US\$50,142,000 (2007: US\$55,582,000), a drop of 9.8% over last year. The decrease was mainly due to the expense of employee's share-based compensation amounting to US\$11,190,000 for 2007. No such expense was incurred in 2008. On the other hand, investment in Jinjiang Pacific Terminal and the reclassification of Yangzhou Yuanyang Terminal to a subsidiary since December 2007 increased the administrative expenses.

NET OTHER OPERATING INCOME

Net other operating income in 2008 was US\$21,091,000 (2007: US\$44,348,000), a drop of 52.4% over last year. It was mainly attributable to the disposal of 135,956 TEUs of containers in 2007 (the Group has provided after sale management service thereafter), which generated a profit before tax of US\$25,975,000, whereas the number of relevant disposed containers in 2008 decreased to 13,509 TEUs, which generated a profit before tax of US\$302,000. On the other hand, the Group completed the Equipment Procurement Agreement and the Lease Agreement which had been entered into with CBA USD Investments by selling 118,094 TEUs of containers with a consideration of US\$250,000,000 in 2008. After deducting direct costs of sales, a profit of US\$3,928,000 was resulted. Moreover, the Group recognised container repair insurance income of US\$4,915,000 in 2008.

INITIAL RECOGNITION AND SUBSEQUENT FAIR VALUE GAIN ON PUT OPTIONS

In 2006, the Company issued 424,106,507 put options to shareholders of the CIMC Tradeable A-shares. As none of the holders exercised the put options upon the maturity date, being 23rd November 2007, an amount of US\$55,181,000 remained at 2006 year end was fully written back in 2007.

FINANCE COSTS

Finance costs for the year was US\$52,738,000 (2007: US\$49,878,000), an increase of 5.7% over last year. Finance costs include interest expenses, the amortisation of transaction costs over bank loans and notes. The increase in finance costs was mainly attributable to the increase in average balance of borrowings in 2008 to US\$1,208,065,000 (2007: US\$761,478,000), an increase of 58.6% as compared with last year. Average cost of borrowing, including the amortisation of transaction costs over bank loans and notes, was an average 6-month London Interbank Offer Rate ("LIBOR") plus 115 basis points as compared to the average 6-month LIBOR plus 99 basis points in 2007.

SHARE OF PROFITS LESS LOSSES OF JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

In 2008, net profit contribution from jointly controlled entities amounted to US\$100,273,000, a decrease of 6.2% from US\$106,933,000 in 2007. In respect of container terminal and related businesses, Shanghai Pudong Terminal remained stable in performance with a throughput of 2,779,109 TEUs (2007: 2,723,722 TEUs). Together with an increase in tariff, it recorded a profit contribution of US\$25,688,000 (2007: US\$22,594,000), an increase of 13.7% over last year. Upon the commencement of operation in Ningbo Yuan Dong Terminal in early 2007, it made a turnaround in the second half of 2007. The terminal equipment of berth no. 7 of Ningbo Yuan Dong Terminal is in operation during 2008. Accordingly, its annual capacity increased substantially. It recorded a throughput of 903,865 TEUs (2007: 331,361 TEUs) in 2008 and the profit contribution was significantly increased by nearly 8.5 times. COSCO-HIT Terminal experienced a steady business with a throughput of 1,752,251 TEUs (2007: 1,846,559 TEUs). Due to the significant decrease in finance costs of COSCO-HIT Terminal during 2008, profit contribution rose slightly by 2.7% to US\$25,793,000 (2007: US\$25,125,000). Driven by the growth momentum, Nanjing Longtan Terminal also recorded a throughput of 1,160,261 TEUs (2007: 950,289 TEUs) and achieved a 50.3% growth in profit contribution for the year.

On the other hand, in 2008, Qingdao Qianwan Terminal recorded a growth of 5.8% in its throughput to 8,715,098 TEUs (2007: 8,237,501 TEUs), while the overall profit contribution dropped 13.0% to US\$27,325,000 (2007: US\$31,409,000). The drop mainly resulted from an increase in depreciation and amortisation arising from the newly-built terminal berths during the year, and the commencement of income tax charge for Qingdao Qianwan Terminal in 2008, which was charged at a 50% reduced rate. COSCO-PSA Terminal also exhibited a rapid growth in its throughput. As an additional berth in COSCO-PSA Terminal commenced operation in early 2008, its throughput substantially increased by 49.6% to 1,247,283 TEUs in 2008 (2007: 833,892 TEUs). Nevertheless, the overall profit contribution from COSCO-PSA Terminal in 2008 dropped as compared with 2007, since there was an increase in depreciation, amortisation and finance costs during the year arising from the newly-built terminal berths. Guangzhou South China Oceangate Terminal and Tianjin Euroasia Terminal are in initial stage of operation and under construction period respectively. Their attributable losses during the year were US\$7,965,000 (2007: US\$4,270,000) and US\$768,000 (2007: Nil) respectively.

FINANCIAL REVIEW – FINANCIAL ANALYSIS

Yangzhou Yuanyang Terminal was reclassified from a jointly controlled entity to a subsidiary in December 2007. Accordingly, the Group's share of profits of jointly controlled entities for the year did not include Yangzhou Yuanyang Terminal. In 2007, profit contributed by Yangzhou Yuanyang Terminal to the share of profits of jointly controlled entities was US\$1,943,000.

COSCO Logistics maintained a steady pace of growth during the year. Its profit contribution was US\$25,006,000 (2007: US\$19,663,000), an increase of 27.2% over last year.

During the year, share of net profits from associates amounted to US\$54,815,000 (2007: US\$80,326,000), a decrease of 31.8% over last year. The decrease resulted from a drop in profit contribution from CIMC. Notwithstanding this, the container terminal business has continuously sustained a steady growth in profit. Suez Canal Terminal, which was acquired by the end of 2007, recorded a profit contribution of US\$7,430,000 and achieved a throughput of 2,392,516 TEUs in 2008. Antwerp Terminal also grew rapidly. With its throughput increasing by 37.8% to 1,091,657 TEUs in 2008 (2007: 792,459 TEUs), Antwerp Terminal made a turnaround and achieved a profit of US\$745,000 (2007: a loss of US\$922,000). Dalian Port Terminal acquired Berths No. 13 and 14 in June 2008. In 2008, its throughput increased by 94.9% and reached 1,656,968 TEUs (2007: 850,359 TEUs), while its profit contribution substantially increased by nearly four times to US\$1,960,000 from US\$395,000 of last year. The throughput and profit contribution of Shanghai Terminal in 2008 were 3,681,785 TEUs (2007: 3,446,135 TEUs) and US\$6,469,000 (2007: US\$6,392,000) respectively. On the other hand, the equity

interest in CIMC held by the Group increased from 16.54% in late 2007 to 21.8% in 2008. However, due to a significant margin erosion led by the price rise of raw materials amid the global financial tsunami, as well as a provision for impairment of inventory due to the suspension in production in certain dry cargo containers plants of CIMC during the fourth quarter, the profit contribution during the year decreased significantly by 41.8% to US\$39,080,000 (2007: US\$67,168,000).

Since the Group disposed of its equity interest in Chong Hing Bank in 2007, no such profit was recorded in 2008. Profit contribution from Chong Hing Bank was US\$7,628,000 for last year.

PROFIT ON DISPOSAL OF AN ASSOCIATE

In order to concentrate on the development of our core businesses such as terminal and container leasing businesses, the Group completed the disposal of the 20% equity interest in Chong Hing Bank in 2007, which generated a profit of US\$90,742,000. No such profit was recorded in 2008.

INCOME TAX CREDIT/EXPENSES

During the year, income tax credit amounted to US\$4,585,000 (2007: income tax expense of US\$17,796,000), among which US\$6,542,000 (2007: US\$6,517,000) was a provision for withholding income tax that applied to certain PRC investments of the Group under the tax reform in Mainland China. In addition, the total write back of income tax during the year was US\$12,612,000 (2007: US\$29,000), as a result of a write back of the over provision of income tax made in prior years.