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Overall analysis of results

As the impact of the financial crisis on the global economy further extended in 2009, the Group's terminal and container leasing operations, our two main businesses, were badly hit. The profit attributable to equity holders of the Company for the year of 2009 was US$172,526,000, a 37.2% decrease compared to US$274,725,000 recorded last year. Return on equity holders of the Company was 6.5% (2008: 10.4%).

The shrinking global trade resulted in a slowdown of the global ports and shipping industry, which put the container terminal business under pressure in 2009. In addition, the certification and commencement of operations of berths in new terminals led to an increase in depreciation and finance costs, affecting the profitability of the container terminal business. The Group's total container terminal throughput was 43,549,810 TEUs during the year (2008: 45,878,875 TEUs), representing a 5.1% decrease from last year. Profit from the container terminal business dropped 30.7% to US$83,554,000 (2008: US$120,557,000).

In 2009, shipping companies laid up capacity and hence reduced leasing of containers, causing a fall in demand for the container leasing business. During the year, the profit contribution from the container leasing, management and sale businesses amounted to US$71,375,000 (2008: US$114,975,000), a 37.9% decrease as compared with last year. As at 31st December 2009, the total container fleet of the leasing business was 1,582,614 TEUs (31st December 2008: 1,621,222 TEUs), among which 742,388 TEUs (31st December 2008: 747,202 TEUs) were owned containers, 118,094 TEUs (31st December 2008: 118,094 TEUs) were sale-and-leaseback containers and 722,132 TEUs (31st December 2008: 755,926 TEUs) were managed containers.

The drop in the demand for containers also put the Group's container manufacturing business under pressure. Profit from the container manufacturing business decreased by 21.5% to US$30,876,000 in 2009 (2008: US$39,316,000), including a profit of US$25,360,000 (2008: US$39,080,000) attributable to CIMC and profit of US$5,516,000 generated from the disposal of a 20% equity interest in Shanghai CIMC Reefer during the year.

For the logistics business, the Group entered into an equity transfer agreement with China COSCO on 27th August 2009 in relation to the transfer of 49% equity interest in COSCO Logistics at a consideration of RMB2,000,000,000 (equivalent to approximately US$292,900,000). The transaction was approved at a special general meeting of the Company held on 8th October 2009. Pursuant to the agreement, the Group was entitled to share the profit of COSCO Logistics for the first nine months of 2009. Therefore, profit from logistics business for the year ended 31st December 2009 was US$25,627,000 (2008: US$25,006,000).

Financial analysis

Revenue

Revenue of the Group in 2009 was US$349,424,000, a 3.4% increase from US$337,973,000 of 2008. The revenue was derived from container leasing, management and sale businesses and container terminal businesses with US$229,831,000 (2008: US$252,620,000) and US$119,593,000 (2008: US$85,353,000) respectively. Revenue from container leasing, management and sale businesses 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 decreased to 860,482 TEUs by the end of 2009 (2008: 865,296 TEUs), income also decreased to US$198,069,000 for the year (2008: US$202,437,000), representing a decrease of 2.2% from last year. On the other hand, the number of returned containers sold during the year decreased to 22,863 TEUs (2008: 34,043 TEUs), causing revenue from disposal of returned containers during the year decreased to US$22,844,000 (2008: US$39,352,000), a drop of 41.9% as compared with last year. Revenue from container management was US$6,470,000, a 23.6% decrease from US$8,465,000 of last year. Revenue from leasing of reefer-container generator sets was US$2,213,000, an 8.5% increase from US$2,039,000 recorded last year.

For the container terminal operations and related businesses with controlling stakes, revenue from container terminal operations and related businesses amounted to US$119,593,000 in 2009 (2008: US$85,353,000), an increase of 40.1% as compared with last year. The increase was mainly contributed by Piraeus Terminal, Quan Zhou Pacific Terminal and Jinjiang Pacific Terminal. Piraeus Terminal was taken over by the Group on 1st October 2009 and achieved a throughput of 166,062 TEUs in 2009, contributing a revenue of US$23,159,000 to the Group in 2009. The throughput of Quan Zhou Pacific Terminal during 2009 was 936,136 TEUs and 1,473,156 tons of break-bulk cargo (2008: 910,058 TEUs and 828,298 tons of break-bulk cargo). The significant increase in break-bulk cargo throughput resulted in a rise in total revenue of Quan Zhou Pacific Terminal to US$37,203,000 (2008: US$31,286,000), representing an increase of 18.9%. Besides, having been consolidated into the Group in April 2008, Jinjiang Pacific Terminal's business contributed a full year revenue in 2009, achieving a throughput of 274,390 TEUs and 1,287,413 tons of break-bulk cargo (2008: 193,779 TEUs and 944,859 tons of break-bulk cargo) and recording a 59.3% growth in total revenue to US$15,178,000 for 2009 (2008: US$9,529,000). Zhangjiagang Win Hanverky Terminal recorded a throughput of 715,413 TEUs (2008: 710,831 TEUs) and an 8.6% drop in revenue from last year to US$17,092,000 (2008: US$18,690,000). Throughput of Yangzhou Yuanyang Terminal in 2009 amounted to 221,046 TEUs and 14,212,852 tons of break-bulk cargo (2008: 267,970 TEUs and 11,882,066 tons of break-bulk cargo) with a total revenue of US$22,303,000 (2008: US$19,173,000), an increase of 16.3% over last year.

Cost of sales

Cost of sales mainly comprised depreciation charge on owned containers, carrying amounts of returned containers disposed, container rental expense and operating expenses of the terminal companies. Cost of sales in 2009 was US$200,174,000 (2008: US$165,454,000), an increase of 21.0% over last year. The sale-and-leaseback containers sold by the Group in July 2008 to CBA USD Investments Pty Limited ("CBA USD Investments"), a wholly owned subsidiary of the Commonwealth Bank of Australia, gave rise to a container rental expense in 2009 of US$11,185,000 (2008: US$8,747,000), an increase of 27.9% over last year. In addition, depreciation charge for containers increased to US$77,241,000 during the year (2008: US$76,063,000). The number of returned containers sold in 2009 decreased to 22,863 TEUs (2008: 34,043 TEUs), and the carrying amount of disposed returned containers was therefore reduced to US$19,734,000 (2008: US$31,344,000), representing a drop of 37.0%. On the other hand, the takeover of Piraeus Terminal in Greece by the Group on 1st October 2009 and the consolidation of Jinjiang Pacific Terminal's business into the Group in April 2008 led to a rise in the total operating expenses of the container terminal businesses to US$84,155,000 in 2009 (2008: US$46,609,000).

Investment income

Investment income, comprising mainly dividend income from available-for-sale financial assets, was US$22,339,000 (2008: US$22,493,000), a drop of 0.7% from last year. Yantian International Container Terminals Co., Ltd., Tianjin Five Continents Terminal and Dalian Port Container declared dividends of US$18,727,000, US$2,034,000 and US$1,493,000 respectively (2008: US$18,661,000, US$2,267,000 and US$1,380,000 respectively).

Administrative expenses

Administrative expenses in 2009 were US$62,949,000 (2008: US$50,142,000), an increase of 25.5% over last year. During the year, the increase was mainly due to the professional expenses arising from the Group's investment project on Piraeus Terminal in Greece. In addition, the pre-operating expenses of Xiamen Ocean Gate Container Terminal Co., Ltd. and Piraeus Terminal, and the full year administrative expenses of Jinjiang Pacific Terminal in 2009, which were consolidated to the Group since April 2008, causing an increase in the total administrative expenses.

Other operating income/expenses (net)

Other operating income/expense (net) in 2009 was an expense of US$8,722,000 (2008: an income of US$21,091,000). The change was mainly attributable to the significant decrease in the amount incurred from the Group's other operating income items during 2009 over last year. As a result of the increase in repair and maintenance expense and decrease in insurance income, net container repair insurance income decreased to US$345,000 (2008: US$4,915,000); the profits on disposal of equity interest in China Shipping Container Lines Company Limited amounted to US$85,000 during the year (2008: US$1,959,000); the profit of US$236,000 incurred by the disposal of equity interest in Tianjin CIMC North Ocean Container Co., Ltd. was recognised in 2008 while such profit was not recorded in 2009; in addition, profit before tax of US$302,000 and a related one-off management

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income of US$1,111,000 were generated from the disposal of 13,509 TEUs of containers (the Group had provided after sale management service thereafter) which was recognised in 2008, while such profit was not recorded in 2009; and the Group also completed the Equipment Procurement Agreement and the Lease Agreement which had been entered into with CBA USD Investments in 2008, resulting in a profit of US$3,928,000 while such profit was not recorded in 2009. On the other hand, the Group's other operating expense items also increased in 2009 over last year, mainly representing provision items. Due to the drop in the price of resaleable containers, in particular the price of reefer containers, provision for inventories amounted to US$7,028,000 in 2009 (2008: write back of US$21,000). In addition, in accordance with the requirement under HKFRSs, the Group assessed the impairment on containers. Provision for impairment of containers of US$3,607,000 (2008: US$45,000) was recognised in 2009. In addition, the Group carried out a comprehensive assessment of customers' credit risks as of the year end date. The net provision for impairment of trade receivables of US$3,791,000 was recognised in 2009 (2008: write back of US$1,472,000). These factors resulted in a substantial drop of the overall net operating income in 2009.

Finance costs

The Group's finance costs in 2009 were US$39,805,000 (2008: US$52,738,000), a decrease of 24.5% from last year. Finance costs included interest expenses, and the amortisation of transaction costs over bank loans and notes. The average balance of borrowings in 2009 amounted to US$1,485,567,000 (2008: US$1,208,065,000), an increase of 23.0% as compared with last year. However, the increase was more than offset by the decrease in London Interbank Offer Rate ("LIBOR") and the reduction of the benchmark interest rate for RMB loans in the PRC. Average cost of borrowing in 2009, including the amortisation of transaction costs over bank loans and notes, was an average 6-month LIBOR plus 137 basis points (2008: an average 6-month LIBOR plus 115 basis points).

Share of profits less losses of jointly controlled entities and associates

In 2009, net profit contribution from jointly controlled entities amounted to US$59,183,000, a decrease of 21.4% from US$75,267,000 in 2008. In respect of the container terminal and related business, profit from terminals was affected by the recession in the global economy. During the year, throughput of COSCO-HIT Terminal was 1,360,945 TEUs (2008: 1,752,251 TEUs) and its profit decreased to US$17,080,000 (2008: US$25,793,000), representing a drop of 33.8% over last year. Throughput of Shanghai Pudong Terminal was 2,291,281 TEUs (2008: 2,779,109 TEUs) and a profit of US$20,118,000 was recorded during the year (2008: US$25,688,000), representing a drop of 21.7% from last year. The throughput of COSCO-PSA Terminal experienced a drop of 27.5% to 904,829 TEUs (2008: 1,247,283 TEUs) during the year, and recorded a loss of US$1,516,000 (2008: a profit of US$2,201,000) in 2009. Qingdao Qianwan Terminal recorded a slight growth of 2.8% in its throughput to 8,961,785 TEUs (2008: 8,715,098 TEUs) in 2009. However, due to the initial loss recorded in Qingdao New Qianwan Terminal, which was consolidated into the performance of Qingdao Qianwan Terminal during the year, the overall profit decreased to US$26,649,000 (2008: US$27,325,000), representing a 2.5% fall over last year.

During the year, share of net profits from associates amounted to US$32,890,000 (2008: US$54,815,000), a decrease of 40.0% from last year. Throughput of Antwerp Terminal dropped substantially by 41.4% to 639,957 TEUs during the year (2008: 1,091,657 TEUs) with a loss of US$3,850,000 (2008: a profit of US$745,000). Due to certain shipping route adjustments at Antwerp Terminal in the first quarter of the year, a significant drop of its throughput resulted during the year and a loss was recorded. During 2009, the throughput of Suez Canal Terminal amounted to 2,659,584 TEUs (2008: 2,392,516 TEUs), an increase of 11.2%. Following the capital injection of Suez Canal Terminal in 2008, it repaid a portion of its bank loans during 2009, and interest expenses reduced. Suez Canal Terminal recorded a profit of US$9,557,000 in 2009 (2008: US$7,430,000), representing a rise of 28.6%. On the other hand, certain dry cargo containers plants of CIMC suspended production since the fourth quarter of 2008, which had not entirely resumed production so far, while profits were generated from the disposal of its shares in China Merchants Bank in the year, offseting the operational loss of CIMC. Profits of CIMC dropped to US$25,360,000 (2008: US$39,080,000), representing a decrease of 35.1%.

Profit on disposal of a jointly controlled entity

In order to concentrate on the development of our core business such as terminal business and container leasing business, the Group completed the disposal of its 20% equity interest in Shanghai CIMC Reefer in 2009, which generated a profit of US$5,516,000.

Income tax expenses/credit

During the year, income tax expense amounted to US$13,286,000 (2008: income tax credit of US$4,585,000). The rise of income tax expense in 2009 was mainly due to a write back of the over provision of income tax made in prior years totaling US$12,612,000 in 2008, while there was no such write back in 2009. In addition, among the income tax expense, US$11,317,000 (2008: US$6,542,000) was a provision for withholding income tax that applied to certain PRC investments of the Group under the tax reform in Mainland China.

Profit from discontinuing operation

Profit from discontinuing operation represents the profit generated from COSCO Logistics of US$25,627,000 in 2009 (2008: US$25,006,000). On 27th August 2009, CP Logistics, a wholly owned subsidiary of the Company, entered into an equity transfer agreement with China COSCO, pursuant to which CP Logistics conditionally agreed to sell and China COSCO conditionally agreed to purchase CP Logistics' entire 49% equity interest in COSCO Logistics, a jointly controlled entity of the Group, at a cash consideration of RMB2,000,000,000 (equivalent to approximately US$292,900,000). Apart from the aforesaid cash consideration, CP Logistics is entitled to receive a special distribution of an additional cash amount equivalent to 273/365 (representing the first nine months of year 2009) of 49% of 90% of the audited consolidated net profit after tax and minority interest of COSCO Logistics for the year ended 31st December 2009 as shown in the audited consolidated financial statements of COSCO Logistics for the year ended 31st December 2009 prepared in accordance with the accounting standards generally accepted in the PRC. In October 2009, the disposal was approved by the independent shareholders of the Company. Accordingly, this investment was reclassified as an asset held for sale under discontinuing operation.

In March 2010, the disposal of COSCO Logistics was completed and resulted in a gain (net of tax and direct expenses) of approximately US$85,000,000. The gain will be recognised in 2010.

Financial position

Cash flow

Cash inflow of the Group remained steady in 2009. During the year, net cash from operating activities amounted to US$174,896,000 (2008: US$266,394,000). The Group drew bank loans of US$285,783,000 (2008: US$590,544,000) and repaid US$100,749,000 (2008: US$144,738,000) in 2009. The total cash outflow for investments of the Group amounted to US$39,027,000, comprising US$13,560,000 being used in Nanjing Longtan Terminal, US$18,727,000 in Yantian Terminal Phase III by reinvestment of dividend and US$6,740,000 in Antwerp Terminal. In 2008, the total cash outflow for investments of the Group amounted to US$363,616,000, mainly comprising US$259,360,000 being used to purchase an additional 5.26% equity interest in CIMC, US$14,220,000 in Dalian Port Terminal, US$23,767,000 in Guangzhou South China Oceangate Terminal, US$23,375,000 in Suez Canal Terminal, US$18,661,000 in Yantian Terminal Phase III by reinvestment of dividend, US$6,868,000 in Dalian Automobile Terminal Co., Ltd., US$1,739,000 in Antwerp Terminal and US$15,600,000 in Qingdao Qianwan Terminal by reinvestment of dividend. During 2009, an amount of US$364,716,000 (2008: US$522,468,000) was paid in cash for the expansion of terminal operation and purchase of property, plant and equipment, of which US$47,222,000 (2008: US$409,191,000) was for the purchase of new containers.

Financing and credit facilities

During 2009, the Group completed the signing of a project loan agreement with China Development Bank. The loan agreement was for a term of 21 years and the amount was Euro 215,000,000, together with a performance guarantee of Euro 124,400,000, for a total of Euro 339,400,000.

As at 31st December 2009, cash balances was US$405,754,000 (2008: US$429,041,000) and banking facilities available but unused amounted to US$673,000,000 (2008: US$40,236,000).

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Assets and liabilities

As at 31st December 2009, the Group's total assets amounted to US$4,635,312,000 (2008: US$4,213,208,000) and total liabilities amounted to US$1,776,961,000 (2008: US$1,566,905,000). Net assets were US$2,858,351,000 in 2009 (2008: US$2,646,303,000). Net asset value per share was US$1.26 (2008: US$1.18), representing a 6.8% increase from last year.

The cash balances of the Group amounted to US$405,754,000 as at 31st December 2009 (2008: US$429,041,000). Total outstanding borrowings amounted to US$1,604,285,000 (2008: US$1,424,335,000). The net debt-to-equity ratio increased from 37.6% last year to 41.9%, and the interest coverage was 5.8 times, as compared to 6.2 times last year. As at 31st December 2009, the Group did not have loan pledged by assets (2008: Nil).

Debt analysis

	As at 31st December 2009		As at 31st December 2008	
	US$	(%)	US$	(%)
By repayment term				
Within the first year	193,614,000	12.1	67,380,000	4.7
Within the second year	143,053,000	8.9	89,595,000	6.3
Within the third year	290,219,000	18.1	142,688,000	10.0
Within the fourth year	662,174,000	41.3	285,758,000	20.1
Within the fifth year and after	315,225,000	19.6	838,914,000	58.9
	1,604,285,000*	100.0	1,424,335,000*	100.0
By category				
Secured borrowings	-	-	-	-
Unsecured borrowings	1,604,285,000	100.0	1,424,335,000	100.0
	1,604,285,000*	100.0	1,424,335,000*	100.0
By denominated currency				
US dollar borrowings	1,226,587,000	76.5	1,248,685,000	87.7
RMB borrowings	377,698,000	23.5	175,650,000	12.3
	1,604,285,000*	100.0	1,424,335,000*	100.0

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

Financial guarantee contracts

As at 31st December 2009, the Group had provided guarantees on a loan facility granted to an associate of US$31,788,000 (2008: US$37,057,000).

Contingent liabilities

A statement of claim was issued on 19th October 2009 by Aronis-Drettas-Karlaftis Consultant Engineers S.A. against the Company and Piraeus Terminal, a wholly owned subsidiary of the Company, in a civil claim at the Court of First Instance 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$7,900,000) in total.

The Directors and management of the Company, having taken legal advice, are of the view that the Company and Piraeus Terminal have good defences to all material claims. The Company will therefore contest the claims vigorously. However, at this stage, it is not possible to predict the outcome of this litigation with certainty. Hence, 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 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 2009, outstanding interest rates swap contracts comprised notional principal amounting to US$200,000,000 (31st December 2008: 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 (2008: 105 basis points to 116 basis points) above 6-month LIBOR in return for receiving interests from the banks at a fixed interest rate of 5.875% (2008: 5.875%) per annum.

As at 31st December 2009, after adjustment of the fixed rate borrowings for the interest rates swap contracts, 6.2% (31st December 2008: 7.0%) 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.

Event after the balance sheet date

In March 2010, the disposal of COSCO Logistics was completed and resulted in a gain (net of tax and direct expenses) of approximately US$85,000,000 for the year ending 31st December 2010.