FINANCIAL REVIEW

On 18 March 2016, the Company completed its acquisition of all the issued shares in China Shipping Ports Development Co., Limited ("CSPD") for a total consideration of US$1,164,077,000. CSPD therefore became a wholly-owned subsidiary of the Company after the completion of the acquisition. The Company's acquisition of CSPD is considered to be a business combination under common control as their respective ultimate holding companies are both under the common control of the State-owned Assets Supervision and Administration Commission of the State Council. As such, the consolidated financial statements for 2015 and the financial position as at 31 December 2015 disclosed in these consolidated financial statements have been restated as a result of the adoption of merger accounting as if the business combinations had occurred from the beginning of the earliest financial years presented. The adoption of merger accounting has resulted in changes to the presentation of certain comparative figures which have been restated to conform to the current year's presentation.

On 24 March 2016, the Company completed the disposal of all the issued shares in FCHL (representing the container leasing, management and sale, and related businesses of the Group) to COSCO SHIPPING Development (Hong Kong) Co., Limited (formerly known as China Shipping Container Lines (Hong Kong) Co., Limited ("CSDHK") for a total consideration of US$1,241,032,000. The FCHL's shareholder's loans in the aggregate sum of US$285,000,000 were transferred on the same day to CSDHK at a consideration of US$285,000,000. Upon completion of the disposal, FCHL ceased to be a subsidiary of the Company. The disposal gain and operation result of FCHL are disclosed as a discontinued operation, as container leasing, management and sale, and related businesses constitute a separate business of the Group. The gain on the disposal of FCHL during the year was US$59,021,000 (2015: not applicable). For the three months ended 31 March 2016, profit from FCHL attributable to equity holders of the Company was US$7,073,000 (full year of 2015: US$82,849,000).

Following the reorganisation, the Group has been transformed from the former businesses of managing and operating terminals, container leasing, management and sale to be a specialised terminal operator. Profit attributable to equity holders of the Company for 2016 was US$247,031,000 (2015: US$429,313,000), a 42.5% decrease compared with last year. Excluding the discontinued container leasing business and the write back of provision of US$79,152,000 recognised for the discontinued container manufacturing business in 2015, profit attributable to equity holders of the Company for 2016 was US$180,937,000 (2015: US$267,312,000), a 32.3% decrease compared with last year.

During the year, COSCO SHIPPING Ports' throughput of container terminals reached 95,071,922 TEU (2015: 90,485,975 TEU), and its throughput of bulk cargo was 80,821,924 tons (2015: 78,436,091 tons), 5.1% and 3.0% increases respectively, compared with last year. The equity throughput of containers was 29,473,573 TEU (2015: 28,065,774 TEU), a 5.0% increase compared with last year. The equity throughput of bulk cargo was 27,049,465 tons (2015: 26,968,358 tons), a 0.3% increase compared with last year. Profit from the terminals business for 2016 was US$242,898,000 (2015: US$286,584,000), a 15.2% decrease compared with last year. Of this, profit from terminal companies in which the Group has controlling stakes was US$59,048,000 (2015: US$55,136,000), a 7.1% increase compared with last year; profit from non-controlling terminals was US$183,851,000 (2015: US$231,448,000), a 20.6% decrease compared with last year. Profit from terminal companies for 2016 included the provision for impairment loss made for Qinhuangdao Port of US$19,800,000 (2015: Nil). Excluding the provision for impairment loss made for Qinhuangdao Port, profit from terminals business for 2016 was US$262,698,000 (2015: US$286,584,000), an 8.3% decrease compared with last year.

Profit from terminal companies in which the Group has controlling stakes was mainly attributable to Piraeus Terminal in Greece and Guangzhou South China Oceangate Terminal. Driven by the increased throughput, Piraeus Terminal recorded a profit of US$31,357,000 for 2016 (2015: US$28,845,000), an 8.7% increase compared with last year. During the year, the throughput of Guangzhou South China Oceangate Terminal grew by 6.6% compared with last year, with a rise in the proportion of loaded containers. For 2016, Guangzhou South China Oceangate Terminal recorded a profit of US$12,345,000 (2015: US$8,503,000), a 45.2% increase compared with last year. However, Yangzhou Yuanyang Terminal incurred a loss of US$2,911,000 (2015: a profit of US$48,000) for 2016 as a result of a drop of 5.8% in its container throughput compared with last year, and a drop of 16.2% in its throughput of bulk cargo compared with last year, partly offsetting the growth of controlling terminals.

In respect of non-controlling terminals, profit for 2016 was US$183,851,000 (2015: US$231,448,000), a 20.6% decrease compared with last year. The decrease in profit was mainly attributable to the provision for impairment loss of US$19,800,000 made for Qinhuangdao Port during the year (2015: Nil). Excluding the provision for impairment loss made for Qinhuangdao Port, profit from non-controlling terminals for 2016 was US$203,651,000 (2015: US$231,448,000), a 12% decrease compared with last year. The decrease was mainly attributable to Suez Canal Terminal, COSCO-HIT Terminal, Shanghai Mingdong Terminal, Ningbo Yuan Dong Terminal and Yantian Terminal. However, Qingdao Qianwan Terminal recorded better performance and both its throughput and profit increased compared with last year, partially offseting the decrease in profit from non-controlling terminals.

Financial Analysis

Revenues

Excluding the discontinued container leasing, management and sale businesses, revenues of the Group for 2016 amounted to US$556,377,000 (2015: US$550,217,000), a 1.1% increase compared with last year. Of this, Piraeus Terminal and Guangzhou South China Oceangate Terminal recorded significant growth in their revenues. However, the bulk cargo throughput of certain controlling terminals in 2016 decreased compared with last year, partially offsetting the increase. During the year, the throughput of Piraeus Terminal rose to 3,470,981 TEU (2015: 3,034,428 TEU), a 14.4% increase, generating a revenue of US$176,226,000 (2015: US$156,126,000), a 12.9% increase compared with last year. In 2016, the throughput of Guangzhou South China Oceangate Terminal was 4,781,665 TEU (2015: 4,486,627 TEU), a 6.6% increase compared with last year, with a rise in the proportion of loaded containers during the year. Guangzhou South China Oceangate Terminal recorded a revenue of US$151,629,000 (2015: US$144,796,000), a 4.7% increase compared with last year.

For other controlled terminals, Yangzhou Yuanyang Terminal recorded a decrease of 5.8% in container throughput and a drop of 16.2% in bulk cargo throughput in 2016 compared with last year, while its revenue decreased to US$24,327,000 (2015: US$32,942,000), a 26.2% decrease compared with last year. Quan Zhou Pacific Terminal recorded a bulk cargo throughput of 2,525,377 tons (2015: 2,762,499 tons), a decrease of 8.6% compared with last year, while its revenue decreased to US$45,089,000 (2015: US$50,626,000), a 10.9% decrease compared with last year. Lianyungang New Oriental Terminals recorded decreases in both container throughput and bulk cargo throughput in 2016 compared with last year, and its revenue decreased to US$44,971,000 (2015: US$48,015,000), a 6.3% decrease compared with last year. The bulk cargo throughput of Jinjiang Pacific Terminal for 2016 dropped to 2,034,441 tons (2015: 2,204,196 tons), a 7.7% decrease compared with last year. Its revenue decreased to US$17,013,000 (2015: US$19,736,000), a 13.8% decrease 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. Cost of sales for 2016 was US$357,294,000 (2015: US$351,128,000), a 1.8% increase compared with last year. The increase was mainly attributable to a rise in the related cost of sales resulting from an increase in business volume of terminals business for Piraeus Terminal and Guangzhou South China Oceangate Terminal. In 2016, cost of sales for Piraeus Terminal was US$117,772,000 (2015: US$106,465,000), a 10.6% increase compared with last year. In 2016, cost of sales for Guangzhou South China Oceangate Terminal was US$85,802,000 (2015: US$78,657,000), a 9.1% increase compared with last year. On the other hand, however, the decrease in the throughput of bulk cargo at certain terminals also offset the increase in operating costs.

Administrative expenses

Administrative expenses in 2016 were US$84,871,000 (2015: US$66,215,000), a 28.2% increase compared with last year. The increase was mainly attributable to a rise in the professional services fees for projects during the year.

Other operating (expenses)/income, net

Net other operating expenses during the year were US$19,572,000 (2015: net other operating income of US$11,568,000), which included the provision for impairment loss made for an available-for-sale financial asset – Qinhuangdao Port of US$19,800,000 in 2016 (2015: Nil). In addition, the gain on disposal of the shares in Xiamen International Port Co., Ltd. of US$3,326,000 and the gain on disposal of the equity interests in Lianyungang New Dongrun Port Co., Ltd. of US$482,000 were included in 2015, while there were no such gains in 2016. Dividends income from available-for-sale financial assets reduced to US$4,245,000 in 2016 (2015: US$7,071,000).

Finance costs

The Group's finance costs in 2016 were US$52,142,000 (2015: US$54,666,000), a 4.6% decrease compared with last year. Excluding the discontinued operation, the average balance of bank loans increased to US$1,528,991,000 (2015: US$1,220,019,000) during the year, a 25.3% increase compared with last year. The decrease in finance costs was mainly attributable to a decrease in the average cost of bank borrowings, as well as a decrease in interest expenses resulting from the reduced average balance of loans from a non-controlling shareholder of a subsidiary. Taking into account capitalised interest, the average cost of bank borrowings in 2016, including the amortisation of transaction costs over bank loans and notes, was 3.37% (2015: 3.92%).

Share of profits less losses of joint ventures and associates

The Group's share of profits less losses of joint ventures and associates for 2016 amounted to US$200,242,000 (2015: US$221,139,000), a 9.4% decrease compared with last year. The decrease in profit was primarily attributable to Suez Canal Terminal, COSCO-HIT Terminal, Shanghai Mingdong Terminal, Ningbo Yuan Dong Terminal and Yantian Terminal. Due to the sluggish shipping market and the policy adjustment by local ports, the throughput of Suez Canal Terminal in Egypt for 2016 decreased to 2,547,597 TEU (2015: 2,954,080 TEU), a 13.8% decrease compared with last year. In addition, one-off staff severance payments were also incurred during the year. As a result, the share of profit of Suez Canal Terminal for 2016 decreased significantly to US$1,873,000 (2015: US$8,743,000), a 78.6% decrease compared with last year. In 2016, the throughput of COSCO-HIT Terminal decreased by 14.7% compared with last year, and its depreciation increased during the year. The share for profit of COSCO-HIT Terminal for 2016 was US$9,888,000 (2015: US$16,376,000), a 39.6% decrease compared with last year. For Shanghai Mingdong Terminal, the tax incentive of "full exemption for five years and 50% exemption for five years" expired in 2015, and Shanghai Mingdong Terminal is required to pay tax in full beginning from 2016. The share of profit for Shanghai Mingdong Terminal for the year decreased to US$19,323,000 (2015: US$23,757,000), a 18.7% decrease compared with last year. At Ningbo Yuan Dong Terminal, since the number of its berths decreased to 3 from 5 last year, its throughput decreased by 16.6%, and the share of its profit recorded was US$7,459,000 (2015: US$10,094,000), a 26.1% decrease compared with last year. In 2016, the throughput of Yantian Terminal decreased by 3.9% compared with last year, and the share of profit for Yantian Terminal for 2016 was US$51,152,000 (2015: US$53,667,000), a 4.7% decrease compared with last year. On the other hand, Qingdao Qianwan Terminal recorded strong performance, and its throughput increased by 3.0% compared with last year. The share of profit for Qingdao Qianwan Terminal for 2016 increased to US$48,089,000 (2015: US$42,898,000), a 12.1% increase compared with last year, partially offseting the decrease in profit from non-controlling terminals.

Income tax expenses

During the year, income tax expenses amounted to US$48,170,000 (2015: US$42,439,000), a 13.5% increase compared with last year. This included a provision of approximately US$15,683,000 (2015: US$13,456,000) for withholding income tax in respect of the profit distribution made by certain investments of the Group in China, a 16.6% increase compared with last year. In addition, as a result of the increase in profit for Piraeus Terminal and Guangzhou South China Oceangate Terminal in 2016, the Group's income tax expenses for 2016 increased.

Financial Position

Cash flow

Cash inflow of the Group remained steady in 2016. During the year, net cash generated from operating activities amounted to US$300,759,000 (2015: US$447,194,000). The decrease was attributable to the fact that only cash inflow for FCHL from operating activities during the three months from January to March 2016 was included in 2016. In 2016, the Group drew bank loans of US$1,401,356,000 (2015: US$875,385,000) and repaid loans of US$1,147,394,000 (2015: US$666,703,000) during the year.

During the year, an amount of US$440,681,000 (2015: US$368,508,000) was paid in cash by the Group for the expansion of berths and the purchase of property, plant and equipment, of which US$277,447,000 (2015: US$263,031,000) was for the purchase of containers. In addition, the Company completed its acquisition of all the issued shares in CSPD and the consideration of US$1,161,963,000 was paid in 2016. Meanwhile, in 2016, the Company also completed the disposal of all the issued shares in FCHL and received a disposal consideration of US$1,508,725,000 during the year, including the consideration for the assignment of the FCHL shareholder's loans in the aggregate sum of US$285,000,000. Excluding the acquisition of the shares of CSPD and the disposal of FCHL, the Group had cash outflows from investing activities of US$147,349,000 in 2016, including investment in Euromax Terminal in the Netherlands of US$46,194,000, a shareholder's loan provided to Euromax Terminal of US$93,659,000 and investment in Qingdao Qianwan Intelligent Terminal of US$6,654,000. In 2015, the Group had cash outflows from investing activities of US$413,839,000, mainly comprising the investment in Kumport Terminal project in Turkey of US$376,056,000, the investment in Qinzhou International Terminal of US$24,130,000, and the investment in Qingdao Qianwan Intelligent Terminal of US$13,653,000.

Financing and credit facilities

As at 31 December 2016, the Group's total outstanding borrowings amounted to US$1,502,991,000 (31 December 2015: US$2,087,004,000) and cash balances amounted to US$837,100,000 (31 December 2015: US$924,191,000). Banking facilities available but unused amounted to US$266,874,000 (31 December 2015: US$927,288,000).

Assets and liabilities

As at 31 December 2016, the Group's total assets and total liabilities were US$6,786,456,000 (31 December 2015: US$8,860,645,000) and US$2,020,652,000 (31 December 2015: US$2,593,569,000) respectively. Net assets were US$4,765,804,000, a 24.0% decrease as compared with that of US$6,267,076,000 as at 31 December of 2015. The decrease was mainly due to the decrease in overall net assets as a result of the recognition of differences between consideration of acquisition of CSPD and its net asset value of US$1,164,077,000, reflected as a distribution during the year and the distribution of cash dividends (including a conditional special cash dividend) during the year. Net current assets at 31 December 2016 amounted to US$159,565,000 (31 December 2015: US$557,996,000). As at 31 December 2016, the net asset value per share of the Company was US$1.58 (31 December 2015: US$2.11).

As at 31 December 2016, the net debt-to-total-equity ratio was 14.0% (31 December 2015: 18.6%). Excluding the discontinued operation, the interest coverage was 5.9 times in 2016 (2015: 7.1 times).

As at 31 December 2016, certain other property, plant and equipment of the Group with an aggregate net book value of US$103,928,000 (31 December 2015: US$115,071,000) and the Company's interest in a subsidiary were pledged as securities against bank borrowings and a loan from the CS Finance with an aggregate amount of US$350,506,000 (31 December 2015: US$290,191,000).

Debt analysis

	As at 31 December 2016		As at 31 December 2015	
By repayment term	**US$**	**(%)**	**US$**	**(%)**
Within the first year	**431,585,000**	**28.7**	287,739,000	13.8
Within the second year	**37,565,000**	**2.5**	307,570,000	14.7
Within the third year	**46,272,000**	**3.1**	241,538,000	11.6
Within the fourth year	**220,309,000**	**14.7**	174,796,000	8.4
Within the fifth year and after	**767,260,000**	**51.0**	1,075,361,000	51.5
	1,502,991,000*	**100.0**	2,087,004,000*	100.0
By category				
Secured borrowings	**350,506,000**	**23.3**	290,191,000	13.9
Unsecured borrowings	**1,152,485,000**	**76.7**	1,796,813,000	86.1
	1,502,991,000*	**100.0**	2,087,004,000*	100.0
By denominated currency				
US dollar borrowings	**633,479,000**	**42.1**	1,388,455,000	66.5
RMB borrowings	**422,359,000**	**28.1**	448,783,000	21.5
Euro borrowings	**447,153,000**	**29.8**	249,766,000	12.0
	1,502,991,000*	**100.0**	2,087,004,000*	100.0

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

Financial guarantee contracts

As at 31 December 2016, China Shipping Terminal Development Co., Ltd., a wholly-owned subsidiary of the Group, provided guarantees on loan facilities granted to a joint venture of US$9,110,000 (31 December 2015: US$2,464,000).

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.

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 2016, 27.2% (31 December 2015: 22.9%) 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 balance sheet date

On 20 January 2017, SCSTD and QPI entered into an agreement, pursuant to which SCSTD has conditionally agreed to subscribe for 1,015,520,000 non-circulating domestic shares in QPI at a total consideration of RMB5,798,619,200 (equivalent to approximately US$835,897,000, being RMB5.71 per share), of which RMB3,198,650,840 (equivalent to approximately US$461,100,000) will be settled by the transfer of a 20% equity interest in Qingdao Qianwan Terminal to QPI and the remaining RMB2,599,968,360 (equivalent to approximately US$374,797,000) will be settled in cash. As at the date of this announcement, the subscription and disposal were not completed.