FINANCIAL REVIEW

Following the acquisition of 51% equity interests in the CSP Spain Group, the acquisition of additional equity interests in Zeebrugge Terminal in Belgium, which became a subsidiary of the Company and the subscription for the non-circulating domestic shares in QPI in 2017, COSCO SHIPPING Ports has seen significant growth in throughput and revenue from its terminals business. Meanwhile, through various efforts, the OCEAN Alliance and THE Alliance have also been calling at certain terminals of the Company since April 2017, resulting in increased terminals operations and further increase in profit from the terminals business. Excluding the profit from One-off Exceptional Items in 2017 (see note 1 on page 10 of this Annual Report), COSCO SHIPPING Ports recorded a profit attributable to equity holders of the Company of US$324,583,000 in 2018 (2017: US$227,062,000), representing a significant increase of 42.9% compared with last year; or 36.7% lower taking into account the profit from One-off Exceptional Items for 2017.

Excluding One-off Exceptional Items for 2017, the Group recorded a profit from the terminals business of US$363,958,000 in 2018 (2017: US$299,866,000), an increase of 21.4% compared with last year. Of this, profit from terminal companies in which the Group has controlling stakes amounted to US$65,701,000 (2017: US$58,037,000), an increase of 13.2% compared with last year; profit from non-controlling terminals was US$298,257,000 (2017: US$241,829,000), an increase of 23.3% compared with last year.

Profit from terminal companies in which the Group has controlling stakes was mainly attributable to Piraeus Terminal in Greece, Guangzhou South China Oceangate Terminal and Xiamen Ocean Gate Terminal. In 2018, throughput of Piraeus Terminal increased by 19.4% compared with last year. In addition, due to the appreciation of the Euro, profit recorded by Piraeus Terminal in 2018 increased to US$23,829,000 (2017: US$20,000,000), representing a 19.1% increase compared with last year. Throughput of Guangzhou South China Oceangate Terminal for 2018 had a mild increase of 2.1% compared with last year. However, as the 50% corporate income tax exemption for Guangzhou South China Oceangate Terminal expired at the end of 2017, its corporate income tax has been increased to 25% from 2018 onwards (2017: 12.5%). As a result, its profit for the year dropped to US$14,228,000 (2017: US$15,210,000), a 6.5% lower compared with last year. Since the OCEAN Alliance started calling at Xiamen Ocean Gate Terminal in April 2017, throughput of Xiamen Ocean Gate Terminal in 2018 increased by 31.2% compared with last year, while its bulk cargo throughput also increased by 24.7% compared with last year. Xiamen Ocean Gate Terminal recorded a profit of US$12,047,000 for 2018 (2017: US$4,214,000), increased by 185.9% when compared with last year. In 2018, the CSP Spain Group (acquired in the fourth quarter of 2017) and Zeebrugge Terminal in Belgium (equity interests increased in the fourth quarter of 2017) recorded a profit of US$10,333,000 (2017: US$753,000) and a loss of US$14,787,000 (2017: a loss of US$822,000), respectively.

In respect of non-controlling terminals, profit from non-controlling terminals for 2018 was US$298,257,000 (2017: US$241,829,000), a 23.3% increase compared with last year. In May 2017, COSCO SHIPPING Ports completed the subscription for shares in QPI and started to account for its share of profit of QPI using the equity method. In 2018, COSCO SHIPPING Ports' share of profit of QPI for the year amounted to US$95,747,000, while it only shared QPI's profit from May to December for the 2017, which amounted to US$53,524,000. Excluding that of QPI, profit from non-controlling terminals business for 2018 was US$202,510,000 (2017: US$188,305,000), an increase of 7.5% compared with last year. The increase was mainly attributable to the fair value gain from Euromax Terminal in the Netherlands, Kumport Terminal in Turkey, and Beibu Gulf Port Co., Ltd. ("Beibu Gulf Port"). Due to the increase in throughput of Euromax Terminal in the Netherlands, the share of profit of Euromax Terminal for 2018 increased to US$9,034,000 (2017: US$2,752,000). With new shipping lines started to call at Kumport Terminal, throughput for 2018 recorded a significant growth of 18.3%. Meanwhile, benefited from the investment incentive policy newly introduced in Turkey, the share of profit of Kumport Terminal during the year further increased to US$18,594,000 (2017: US$12,673,000), an increase of 46.7% compared with last year. In December 2018, COSCO SHIPPING Ports acquired Beibu Gulf Port, and such investment was accounted for as financial assets at FVPL. The fair value gain of Beibu Gulf Port for 2018 amounted to US$4,283,000 (2017: N/A).

FINANCIAL ANALYSIS

Revenues

Revenues of the Group for 2018 amounted to US$1,000,350,000 (2017: US$634,710,000), a 57.6% increase compared with last year. As the Group completed the acquisition of the CSP Spain Group and increased its equity interests in Zeebrugge Terminal in the fourth quarter of 2017, revenues of the CSP Spain Group and Zeebrugge Terminal have been consolidated into the Group's revenues since November and December 2017, respectively. In 2018, the CSP Spain Group recorded revenue of US$292,148,000 (2017: US$44,596,000), while the revenue of Zeebrugge Terminal amounted to US$17,576,000 (2017: US$1,283,000). On the other hand, Piraeus Terminal also saw an increase in its throughput as compared with last year. As a result, Piraeus Terminal recorded revenue of US$230,767,000 during the year (2017: US$183,219,000), a 26.0% increase compared with last year. Benefiting from the calling of the OCEAN Alliance, Xiamen Ocean Gate Terminal recorded strong performance during the year, with a 31.2% growth in throughput and a 24.7% increase in bulk cargo throughput; its revenue increased by 41.8% to US$90,046,000 compared with last year (2017: US$63,490,000).

Cost of sales

Cost of sales mainly comprised the operating expenses of terminal companies in which the Group has controlling stakes. Cost of sales for 2018 was US$706,659,000 (2017: US$425,435,000), a 66.1% increase compared with last year. The increase was mainly attributable to the cost of sales of the CSP Spain Group and Zeebrugge Terminal newly added in 2017, which increased by US$198,248,000 and US$19,592,000 respectively, as well as that from Piraeus Terminal and Xiamen Ocean Gate Terminal. Due to higher overall operational costs at Piraeus Terminal, which resulted from a 19.4% increase in throughput, raised concession rates, as well as higher fuel prices and labour costs, the cost of sales of Piraeus Terminal for the year increased to US$182,065,000 (2017: US$140,784,000), a 29.3% increase compared with last year. Growths in container and bulk cargo throughputs also drove the increase in the cost of sales of Xiamen Ocean Gate Terminal to US$54,816,000 (2017: US$43,357,000), a 26.4% increase compared with last year.

Administrative expenses

Administrative expenses in 2018 were US$110,871,000 (2017: US$114,290,000), a 3.0% decrease compared with last year. The inclusion of the provisions for professional service fees resulting from the acquisition of equity interests in the CSP Spain Group, the increase in equity interests in Zeebrugge Terminal, the completion of the establishment of Abu Dhabi Terminal, the acquisition of the equity interests in Nantong Tonghai Terminal and Wuhan Terminal in 2017 contributed to lower administrative expenses compared with last year. Similar professional service fees decreased in 2018, and such differences were partially offset by the higher administrative expenses of newly added terminal companies during the year.

Other operating income/(expenses), net

Net other operating income in 2018 was US$30,374,000 (2017: US$35,218,000), of which the fair value gain before taxation of Beibu Gulf Port for 2018 amounted to US$4,283,000 (2017: N/A). Net other operating income in 2017 included the integrated profit before taxation of Dalian Container Terminal of US$7,301,000 and the profit before taxation of the increased equity interest in Zeebrugge Terminal of US$30,000. There was no such profit in 2018.

Finance costs

The Group's finance costs for 2018 amounted to US$78,022,000 (2017: US$55,976,000), a 39.4% increase compared with last year. The average balance of bank

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loans for the year increased to US$2,370,355,000 (2017: US$1,691,875,000), representing a 40.1% increase compared with last year. The increase in finance costs was mainly attributable to bank loan interests of the terminals newly added by the Group in the second half of 2017. Taking into account the capitalised interest, the average cost of bank borrowings in 2018 (including the amortisation of transaction costs over bank loans and notes) was 3.58% (2017: 3.22%).

Share of profits less losses of joint ventures and associates

The Group's share of profits less losses of joint ventures and associates for 2018 totalled US$292,452,000 (2017: US$236,568,000), a 23.6% increase compared with last year. This included the share of QPI's profit in 2018 of US$95,747,000, while the Group only shared QPI's profit of US$53,524,000 from May to December during 2017. Excluding the profit of QPI, the Group's share of profits less losses of joint ventures and associates for 2018 amounted to an aggregate of US$196,705,000 (2017: US$183,044,000), a 7.5% increase compared with last year. The increase was mainly attributable to Euromax Terminal in the Netherlands and Kumport Terminal in Turkey.

Income tax expenses

Income tax expenses for the year amounted to US$66,042,000 (2017: US$94,709,000), a 30.3% decrease compared with last year. Of this, income tax expenses for 2017 included taxation related to exceptional items, including income tax provision of US$39,365,000 in respect of the disposal of Qingdao Qianwan Terminal, deferred income tax of US$9,608,000 arising from the remeasurement gain of previously held interests of QPI at fair value upon further acquisition of equity interests to become an associate, as well as the reversal of dividend withholding income tax provision in the amount of US$11,970,000 made in prior years in respect of the profit retained by Qingdao Qianwan Terminal. Net taxation related to exceptional items totalled US$37,003,000 in 2017. Excluding taxation related to exceptional items, income tax expenses for 2018 amounted to US$66,042,000 (2017: US$57,706,000), a 14.4% increase compared with last year. Such increase was mainly contributed to the addition in income tax expenses by the CSP Spain Group during the year, and the expiry of the 50% corporate income tax exemption for both Xiamen Ocean Gate Terminal and Guangzhou South China Oceangate Terminal at the end of 2017, which resulted in the increase in their corporate income tax to 25% from 2018 onwards (2017: 12.5%).

FINANCIAL POSITION

Cash flow

In 2018, the Group continued to receive steady cash flow income. The Group's net cash generated from operating activities amounted to US$265,809,000 for the year (2017: US$252,900,000). In 2018, the Group borrowed loans of US$721,073,000 (2017: US$763,520,000) and repaid loans of US$514,222,000 (2017: US$449,635,000). During the year, an amount of US$312,824,000 (2017: US$198,483,000) was paid in cash by the Group for the expansion of berths and the purchase of property, machines and equipment. In addition, an amount of US$59,761,000 was paid to subscribe for the preference shares of COSCO-PSA Terminal during the year. Moreover, the Group subscribed for 70,943,455 shares in Beibu Gulf Port at a consideration of RMB6.64 per share, representing 4.34% equity interests, with a net investment cash outflow of US$68,632,000. On the other hand, the Group completed the disposal of 15% equity interests in Zeebrugge Terminal for a consideration of US$8,780,000 in 2018.

The subscription for 1,015,520,000 non-circulating domestic shares in QPI at a total consideration of RMB5,798,619,200 (equivalent to approximately US$843,858,000, being RMB5.71 per share) was completed in 2017, of which RMB3,198,650,840 (equivalent to approximately US$465,491,000) was settled by the transfer of 20% equity interests in Qingdao Qianwan Terminal to QPI, and the remaining RMB2,599,968,360 (equivalent to approximately US$378,367,000) was settled in cash. Moreover, in 2017, the Group completed the acquisition of 51% equity interests in the CSP Spain Group with a net investment amount of US$218,035,000 in cash, the increase of equity interests in Zeebrugge Terminal and provision of shareholder's loan totalling US$40,212,000, and the acquisition of Wuhan Terminal with a net investment amount of US$45,521,000 in cash. Furthermore, the acquisition of 40% equity interests in

Vado Reefer Terminal was completed in 2017, in connection with which an amount of US$7,465,000 was invested and an additional shareholders' loan of US$37,061,000 was provided to Vado Reefer Terminal. Additionally, the Group increased its investment in Qingdao Port Dongjiakou Ore Terminal Co., Ltd. for an amount of US$22,601,000 in 2017.

Financing and credit facilities

As at 31 December 2018, the Group's total outstanding borrowings amounted to US$2,479,903,000 (31 December 2017: US$2,334,349,000) and cash balance amounted to US$606,689,000 (31 December 2017: US$566,400,000). Banking facilities available but unused amounted to US$764,138,000 (31 December 2017: US$976,365,000).

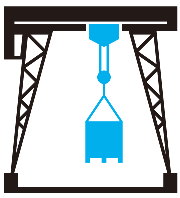
Assets and liabilities

As at 31 December 2018, the Group's total assets and total liabilities were US$9,045,452,000 (31 December 2017: US$8,954,080,000) and US$3,225,802,000 (31 December 2017: US$3,108,706,000), respectively. Net assets were US$5,819,650,000 (31 December 2017: US$5,845,374,000).

Net current assets as at 31 December 2018 amounted to US$75,552,000 (31 December 2017: net current liabilities of US$179,637,000). As at 31 December 2018, the net asset value per share of the Company was US$1.87 (31 December 2017: US$1.91).

As at 31 December 2018, the net debt-to-total-equity ratio was 32.2% (31 December 2017: 30.2%) and the interest coverage was 6.6 times (2017: 12.5 times).

As at 31 December 2018, certain non-current assets of the Group with an aggregate net book value of US$167,178,000 (31 December 2017: US$157,298,000) and the Company's restricted bank deposits and interest in subsidiaries were pledged to secure bank loans and a loan from CS Finance totalling US$1,017,631,000 (31 December 2017: US$816,026,000).



Debt analysis

	As at 31 December 2018		As at 31 December 2017	
	US$	**(%)**	**US$**	**(%)**
By repayment term				
Within the first year	**196,374,000**	**7.9**	510,579,000	21.9
Within the second year	**233,126,000**	**9.4**	76,324,000	3.3
Within the third year	**258,830,000**	**10.5**	215,863,000	9.2
Within the fourth year	**379,635,000**	**15.3**	231,351,000	9.9
Within the fifth year and after	**1,411,938,000**	**56.9**	1,300,232,000	55.7
	2,479,903,000*	**100.0**	2,334,349,000*	100.0
By category				
Secured borrowings	**1,017,631,000**	**41.0**	816,026,000	35.0
Unsecured borrowings	**1,462,272,000**	**59.0**	1,518,323,000	65.0
	2,479,903,000*	**100.0**	2,334,349,000*	100.0
By denominated currency				
US dollar borrowings	**721,698,000**	**29.1**	1,011,840,000	43.4
RMB borrowings	**560,147,000**	**22.6**	449,093,000	19.2
Euro borrowings	**853,360,000**	**34.4**	873,416,000	37.4
HK dollar borrowings	**344,698,000**	**13.9**	–	–
	2,479,903,000*	**100.0**	2,334,349,000*	100.0

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

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Financial guarantee contracts

As at 31 December 2018, China Shipping Terminal Development Co., Ltd., a wholly-owned subsidiary of the Company, released the guarantees on loan facilities granted to a joint venture (31 December 2017: US$9,226,000).

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 much as possible. The functional currency of the Group's terminals business is either the Euro or Renminbi, the same currency of its borrowings, revenues and expenses, so as to provide a natural hedge against the foreign exchange volatility.

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

Interest rate swap contracts with financial institutions are used to achieve the optimum ratio between fixed and floating rates and to manage the related interest rate exposure. As at 31 December 2018, 41.1% (31 December 2017: 29.2%) of the Group's borrowings were at fixed rates. In light of market conditions, the Group will continue to monitor and regulate its fixed and floating-rate debt portfolio, with a view to minimising its potential interest rate exposure.

Events after balance sheet date

On 21 January 2019, QPI completed its A share offering and listed on the Shanghai Stock Exchange. As a result, the Group's 18.41% equity interests in QPI was diluted to 17.12%. As the share of contribution from the A share offer is less than the cost of deemed disposal, the Group recognised a loss of approximately US$23,000,000 on deemed disposal of partial interest in QPI.

On 23 January 2019, the Company, COSCO SHIPPING Ports (Chancay) Limited ("CSP (Chancay)", a wholly-owned subsidiary of the Company), Volcan Compañia Minera S.A.A. ("Volcan") and Chancay Terminal entered into a subscription and investment agreement pursuant to which Chancay Terminal has conditionally agreed to issue, and CSP (Chancay) has conditionally agreed to subscribe for, shares representing 60% of the shares of Chancay Terminal at a subscription price of US$225,000,000, and Chancay Terminal will become a subsidiary of the Company. As at the date of this Annual Report, the subscription was not completed.