

FINANCIAL REVIEW

With the outbreak of the COVID-19 Epidemic in early 2020, related prevention and control measures continued throughout the world, which had an impact on business and economic activities. As the domestic terminals business performance gradually recovered in the second half of 2020 and the Group completed its strategic planning projects during the year, COSCO SHIPPING Ports recorded a profit attributable to equity holders of the Company of US\$347,474,000 (2019: US\$308,017,000), a 12.8% increase compared with last year.

2020 strategic planning projects included the one-off after-tax disposal gain of US\$61,472,000 resulted from the disposal of the interests in Zhangjiagang Terminal and Yangzhou Yuanyang Terminal, and the one-off after-tax disposal gain of US\$7,074,000 and US\$9,896,000 resulted from the disposal of the interests in Jiangsu Yangtze Petrochemical Co., Ltd. ("Jiangsu Petrochemical") and Qinzhou International Terminal, respectively. The one-off profit and effect in 2019 included the after-tax gain of US\$27,411,000 resulted from the disposal of COSCO Ports (Nanjing) Limited ("CP (Nanjing)") and its 16.14% stakes in Nanjing Longtan Terminal, the after-tax gain of US\$4,544,000 on consolidation of Tianjin Container Terminal, and the one-off dilution effect on equity interests of US\$22,553,000 in QPI according to the strategic planning projects.

In 2020, profit from terminals in which the Group has controlling stakes amounted to US\$34,652,000 (2019: US\$49,830,000), a 30.5% decrease compared with last year; profit from non-controlling terminals was US\$274,841,000 (2019: US\$294,793,000), a 6.8% decrease compared with last year. The decline in the profit from terminals in which the Group has controlling stakes was attributed to the lower profit due to the influence of greenfield terminals under construction which had not commenced operations (including CSP Chancay Terminal and CSP Wuhan Terminal etc.), as well as the throughput and revenue of the terminals just commenced operation (including CSP Abu Dhabi Terminal and Nantong Tonghai Terminal), which were to be improved and not yet sufficient to cover the operating costs and hence recorded a loss in the early stage of terminal development. Excluding the share of losses of greenfield terminals, the profit from terminals in which the Group has controlling stakes was US\$58,751,000



(2019: US\$70,149,000), a 16.2% decrease compared with last year. Profit from terminals in which the Group has controlling stakes was mainly attributable to Piraeus Terminal, Guangzhou South China Oceangate Terminal and Xiamen Ocean Gate Terminal. Under the impact of the epidemic, throughput of Piraeus Terminal in 2020 decreased by 5.1% compared with last year. In addition, following the completion and commencement of operation of the second phase of the western part of Pier 3 in the second half of 2019, depreciation expense increased and the profit recorded by Piraeus Terminal in 2020 was US\$19,454,000 (2019: US\$28,652,000), a 32.1% decrease compared with last year. Throughput of Guangzhou South China Oceangate Terminal in 2020 increased by 2.3% compared with last year, while the average total loan amount decreased which led to a decrease in finance costs, its profit amounted to US\$19,065,000 for the year (2019: US\$15,811,000), a 20.6% increase compared with last year. After including the amortization of the fair value at the consolidation level, CSP Spain Related Companies recorded a loss amounted to US\$1,384,000 (2019: profit of US\$3,629,000) for the year, mainly due to the impact of the epidemic and a 4.6% decrease in throughput which led to a decrease in revenue.

In respect of non-controlling terminals, in late 2019, COSCO SHIPPING Ports increased its shareholdings



in Beibu Gulf Port which became an associate of the Group thereafter. Its share of profit in 2020 was calculated according to the equity method while in 2019, it was included in gains from changes in fair value and dividends income. Due to adjustment to tax rates and the decrease of throughput, share of loss of Euromax Terminal amounted to US\$3,089,000 (2019: profit of US\$4,902,000) for the year. The share of profit of Kumport Terminal amounted to US\$8,763,000 (2019: US\$16,459,000) in 2020, due to the decrease in throughput compared with last year. In addition, addition of terminal equipment in the second half of 2019 led to an increase in depreciation compared with last year, as well as a decrease in share of profits due to foreign exchange losses. Furthermore, share of profit of Sigma Enterprises Limited and Wattrus Limited and their subsidiaries (collectively "Sigma and Wattrus Related Companies") amounted to US\$48,070,000 (2019: US\$51,687,000) for the year, a 7.0% decrease compared with last year, which was mainly due to the fact that Yantian Terminal Phase III's tax concession as a national high-tech enterprise ended in late 2019, the tax rate has increased from 15% to 25% in 2020. On the other hand, with a gradual increase in its shareholding in QPI in 2019, there was an increase in share of profit of QPI accordingly. Share of profit of QPI amounted to US\$105,749,000 (2019: US\$94,512,000) in 2020, an 11.9% increase compared

with last year, which partially offset the decrease of profits of joint ventures and associates.

FINANCIAL ANALYSIS

REVENUES

Revenues of the Group in 2020 amounted to US\$1,000,629,000 (2019: US\$1,027,658,000), a 2.6% decrease compared with last year. The disposals of Zhangjiagang Terminal and Yangzhou Yuanyang Terminal were completed in early 2020 and COSCO SHIPPING Ports excluded their revenue in 2020, resulting in a decrease in revenue of US\$49,476,000 in aggregate. In addition, the business volume of the terminals decreased mainly due to the epidemic, which in turn resulted in a decrement of revenue as compared with last year. In 2020, CSP Spain Related Companies recorded a revenue of US\$268,783,000 (2019: US\$278,301,000), a 3.4% decrease compared with last year. On the other hand, CSP Abu Dhabi Terminal officially commenced operation in the fourth quarter of 2019. It only recorded revenue for the fourth quarter in 2019 and CSP Abu Dhabi Terminal recorded a revenue of US\$25,105,000 (2019: US\$5,601,000) in 2020. Guangzhou South China Oceangate Terminal recorded a revenue of US\$171,651,000 (2019: US\$162,909,000) for the year, a 5.4% increase compared with last year,

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and CSP Zeebrugge Terminal and Nantong Tonghai Terminal recorded revenue of US\$30,618,000 and US\$29,588,000 (2019: US\$19,735,000 and US\$21,463,000) respectively due to new business obtained, representing 55.1% and 37.9% increases respectively compared with last year which partially offset the decrease in revenue.

COST OF SALES

Cost of sales mainly comprised operating expenses of terminals in which the Group has controlling stakes. Cost of sales in 2020 was US\$767,987,000 (2019: US\$754,934,000), a 1.7% increase compared with last year. Although the disposal of Zhangjiagang Terminal and Yangzhou Yuanyang Terminal were completed in early 2020 and the costs of these terminals no longer included by COSCO SHIPPING Ports in 2020, leading to a decrease in expenses of US\$30,719,000, the operating expenses of some terminals increased compared with last year, which led to an increase in overall operating expenses. These include CSP Abu Dhabi Terminal officially commenced operation in the fourth quarter of 2019, and US\$37,708,000 (2019: US\$11,809,000) was included in its annual cost of sales in 2020; CSP Zeebrugge Terminal and Nantong Tonghai Terminal recorded costs of US\$27,952,000 and US\$24,382,000 (2019: US\$24,416,000 and US\$18,307,000) respectively due to new business obtained; throughput of Guangzhou South China Oceangate Terminal increased compared with last year, recorded a cost of US\$90,298,000 (2019: US\$85,522,000) in 2020, a 5.6% increase compared with last year; Piraeus Terminal recorded a cost of US\$202,476,000 (2019: US\$199,377,000) in 2020, a 1.6% increase compared with last year, due to the increase in depreciation of right-to-use assets and fixed assets.



ADMINISTRATIVE EXPENSES

Administrative expenses in 2020 were US\$120,182,000 (2019: US\$123,998,000). Among which, following the completion of the disposal of Zhangjiagang Terminal and Yangzhou Yuanyang Terminal, COSCO SHIPPING Ports ceased to include the administrative expenses of those terminals in 2020 (2019: US\$4,112,000). In addition, the administrative expenses in respect of epidemic prevention expenses recorded in 2020 amounted to US\$645,000 (2019: Nil) due to the epidemic.

OTHER OPERATING INCOME/(EXPENSES), NET

Net other operating income in 2020 was US\$123,357,000 (2019: US\$63,784,000). In 2020, the one-off pre-tax gains in respect of the disposal of the interests in Zhangjiagang Terminal and Yangzhou Yuanyang Terminal, Jiangsu Petrochemical and Qinzhou International Terminal according to the Company's strategic planning were US\$71,150,000, US\$9,951,000 and US\$9,896,000 respectively. In 2019, the one-off pre-tax gain of US\$28,299,000 in respect of the disposal of CP (Nanjing) and its 16.14% stakes in Nanjing Longtan Terminal according to the strategic planning and the pre-tax gain of US\$6,861,000 on consolidation of Tianjin Container Terminal were included. Gain from changes in fair value and dividend income of Beibu Gulf Port were not included in other operating income in 2020 (2019: US\$25,532,000) as it became an associate after increasing its shareholding in late 2019. Furthermore, there was a one-off dilution effect on equity interests of US\$22,553,000 in QPI in 2019.

FINANCE COSTS

The Group's finance costs in 2020 amounted to US\$114,650,000 (2019: US\$108,863,000), a 5.3%

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increase compared with last year. The average balance of bank loans for the year amounted to US\$2,853,105,000 (2019: US\$2,773,877,000), a 2.9% increase compared with last year. The increase in finance costs was due to the fact that the finance costs of certain greenfield terminals were no longer capitalised after they commenced operation. Taking into account the capitalised interest, the average cost of bank borrowings in 2020 (including the amortization of transaction costs over bank loans and notes) was 3.24% (2019: 3.77%).

SHARE OF PROFITS LESS LOSSES OF JOINT VENTURES AND ASSOCIATES

The Group's share of profits less losses of joint ventures and associates in 2020 totalled US\$272,720,000 (2019: US\$267,454,000), a 2.0% increase compared with last year. Among which, with a gradual increase in its shareholding in QPI in 2019, there was an increase in share of profit of QPI in line with its shareholding. The share of profit of QPI in 2020 amounted to US\$105,749,000 (2019: US\$94,512,000), an 11.9% increase compared with last year. Share of associate's profit of Beibu Gulf Port in 2020 was included based on the equity method, while gain from changes in its fair value and its dividends income were included in other operating income in 2019. As a result of adjustment to tax rates and the decline in throughput, share of loss of Euromax Terminal of US\$3,089,000 (2019: profit of US\$4,902,000) was recorded for the year. Share of profit of Kumport Terminal in 2020 decreased to US\$8,763,000 (2019: US\$16,459,000), mainly attributable to a decrease in throughput compared with last year, an increase in depreciation due to addition of terminal equipment in the second half of 2019, and exchange loss. Furthermore, share of profit of Sigma and Watrus Related Companies amounted to US\$48,070,000 (2019: US\$51,687,000), a 7.0% decrease compared with last year, which was mainly due to the fact that Yantian Terminal Phase III's tax concession as a national high-tech enterprise ended in late 2019, the tax rate has increased from 15% to 25% in 2020.

TAXATION

Taxation for the year amounted to US\$34,967,000 (2019: US\$33,566,000), a 4.2% increase compared with last year. Although tax expenses decreased resulting from a year-on-year drop in profit from

terminals in which the Group has controlling stakes and the taxation of Zhangjiagang Terminal (2019: US\$2,047,000) was excluded after its disposal, there were provisions for tax expenses of strategic planning projects in 2020 which resulted in an increase in tax expenses as compared with last year.

FINANCIAL POSITION

CASH FLOW

In 2020, the Group continued to receive steady cash flow income, its net cash generated from operating activities amounted to US\$326,240,000 (2019: US\$353,264,000) during the year. In 2020, the Group borrowed bank loans of US\$744,277,000 (2019: US\$771,075,000) and repaid loans of US\$740,932,000 (2019: US\$309,344,000).

During the year, US\$224,428,000 (2019: US\$242,462,000) was paid in cash by the Group for the expansion of berths and the purchase of property, plant and equipment. In addition, an amount of approximately US\$56,738,000 was used to acquire circulating foreign shares in QPI representing 1.33% equity interests during the year (2019: approximately US\$59,723,000 was used to acquire 1.34% equity interests). Approximately US\$59,276,000 was received from a subsidiary of QPI for the disposal of part of the equity interest in COSCO SHIPPING Ports (Abu Dhabi) Limited. US\$100,920,000 was received for the disposal of Zhangjiagang Terminal and Yangzhou Yuanyang Terminal, and the payables and entrusted loans due to the Company totalled approximately US\$150,313,000, and RMB129,000,000 (equivalent to approximately US\$18,207,000) of the disinvestment from Qingdao Qianwan Intelligent Container Terminal Co., Ltd was received. The acquisition of 26% equity interest of Beibu Gulf Terminal was made through injection of 40% equity interest in Qinzhou International Terminal into Beibu Gulf Terminal and a cash payment of RMB486,824,000 (equivalent to approximately US\$74,006,000). During 2019, the Group acquired 60% equity interests in CSP Chancay Terminal, a subsidiary of the Company, at a consideration of US\$225,000,000, of which US\$56,250,000 was paid, and increased its shareholdings in Beibu Gulf Port at a consideration of US\$129,212,000.

FINANCING AND CREDIT FACILITIES

As at 31 December 2020, the Group's total outstanding borrowings amounted to US\$3,047,741,000

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(31 December 2019: US\$2,916,450,000) and cash balance amounted to US\$1,341,513,000 (31 December 2019: US\$957,479,000). Banking facilities available but unused amounted to US\$813,455,000 (31 December 2019: US\$969,830,000).

ASSETS AND LIABILITIES

As at 31 December 2020, the Group's total assets and total liabilities were US\$11,224,345,000 (31 December 2019: US\$10,476,518,000) and US\$4,847,119,000 (31 December 2019: US\$4,711,313,000), respectively. Net assets were US\$6,377,226,000 (31 December 2019: US\$5,765,205,000). Net current assets as at 31 December 2020 amounted to US\$740,672,000 (31 December 2019: US\$299,931,000). As at 31 December

2020, net asset value per share of the Company was US\$1.92 (31 December 2019: US\$1.82).

As at 31 December 2020, the net debt-to-total-equity ratio (excluding lease liabilities) was 26.8% (31 December 2019: 34.0%) and the interest coverage was 4.6 times (2019: 4.5 times).

As at 31 December 2020, certain assets of the Group with an aggregate net book value of US\$340,672,000 (31 December 2019: US\$378,555,000), together with the Company's restricted bank deposits and interest in subsidiaries, were pledged to secure bank loans and a loan from other financial institution, totalling US\$1,052,879,000 (31 December 2019: US\$990,140,000).

DEBT ANALYSIS

	As at 31 December 2020		As at 31 December 2019	
	US\$	(%)	US\$	(%)
By repayment term				
Within the first year	299,449,000	9.8	508,786,000	17.5
Within the second year	658,312,000	21.6	265,941,000	9.1
Within the third year	430,725,000	14.1	411,968,000	14.1
Within the fourth year	799,512,000	26.3	707,903,000	24.3
Within the fifth year and after	859,743,000	28.2	1,021,852,000	35.0
	3,047,741,000*	100.0	2,916,450,000*	100.0
By category				
Secured borrowings	1,052,879,000	34.5	990,140,000	34.0
Unsecured borrowings	1,994,862,000	65.5	1,926,310,000	66.0
	3,047,741,000*	100.0	2,916,450,000*	100.0
By denominated currency				
US dollar borrowings	1,119,283,000	36.8	1,163,246,000	39.9
RMB borrowings	763,015,000	25.0	577,486,000	19.8
Euro borrowings	881,667,000	28.9	829,024,000	28.4
HK dollar borrowings	283,776,000	9.3	346,694,000	11.9
	3,047,741,000*	100.0	2,916,450,000*	100.0

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



FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2020 and 31 December 2019, the Company did not have any guarantee contract.

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 mainly either Euro or Renminbi, the same currency of its borrowings, revenues and expenses, so as to provide a natural hedge against the foreign exchange volatility.

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 2020, 30.7% (31 December 2019: 37.0%) 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

(a) Acquisition of 20% equity interests in Red Sea Gateway Terminal Company Limited

On 27 January 2021, Sound Joyce Enterprises Limited (a wholly-owned subsidiary of the Company) (as purchaser), Saudi Industrial Services Company, City Island Holdings Limited, Xenel Industries Limited and Saudi Trade and Export Development Company Limited (together as Sellers), and Red Sea Ports Development Company entered into a share purchase agreement pursuant to which, the sellers have

conditionally agreed to sell, and Sound Joyce Enterprises Limited has conditionally agreed to purchase shares which represent approximately 20.00% of the total issued share capital of Red Sea Gateway Terminal Company Limited ("RSGT") (the "RSGT Acquisition") at a consideration of US\$140,000,000 in cash.

After completion of the RSGT Acquisition, RSGT will become an associate of the Company. As at the date of this report, the RSGT Acquisition was not completed.

(b) Acquisition of 34.99% equity interests in Tianjin Container Terminal

On 26 February 2021, COSCO SHIPPING Ports (Tianjin) Limited (a wholly-owned subsidiary of the Company) (as purchaser), Tianjin Port Holdings Co., Ltd. (as seller) and the Company entered into an equity transfer agreement in relation to the acquisition of 34.99% equity interests in Tianjin Container Terminal (the "TCT Acquisition") at a consideration of RMB1,348,371,228.15 in cash. The final consideration for the TCT Acquisition shall be adjusted upon completion of the transaction.

Together with the 16.01% equity interests in Tianjin Container Terminal currently held by the Group, the Company will have 51% in Tianjin Container Terminal after completion of the TCT Acquisition and Tianjin Container Terminal will become a subsidiary of the Company. As at the date of this report, the TCT Acquisition was not completed.