Investor relations

Frequently asked questions

Strategy

Q: What will be the major growth drivers for COSCO Pacific going forward? What is your strategy in the next year?

Ans: Of our three-pillar strategy, the container terminal and container leasing businesses are our main growth drivers, while logistics has the potential for high growth in coming years. Following the acquisitions of three container terminals and the commencement of operation of one other container terminal in 2003, and the identified projects in 2004, our container terminals division is expected to become the most prominent earnings growth driver, while container leasing will remain a stable contributor to earnings. While logistics is currently a smaller part of our business, it has immense potential in the coming years. Given the established strength of COSCO Logistics Co., Ltd. ("COSCO LOGISTICS"), in which the Company has a 49% interest, is in the high growth market in China mainland.

Corporate governance

Q: What improvements have you made in corporate governance and investor relations in the last year?

Ans: We have had several notable achievements in our on-going commitment to the highest standards of investor relations and corporate governance. Details of it were mentioned in the later section of investor relations in this annual report. We continue to communicate proactively with our stakeholders through one-on-one meetings, group discussions, roadshows and the media. The number of people we meet with in these areas increases each year. In 2003 we met with 1,287 stakeholders. Starting from 2003 we began releasing quarterly operational updates and the monthly throughput of our ports portfolio to further improve our operational transparency. Moreover, we formed five Board Committees in 2003. This move goes well beyond Hong Kong regulatory requirements and is aimed at improving the Board's efficiency and oversight of management in terms of transparency, accountability, responsibility and fairness. This has surpassed the relevant regulatory requirements in Hong Kong. The new committees are the Investment and Strategic Planning Committee, the Corporate Governance Committee, the Risk Management Committee, the

Nomination Committee and the Remuneration and Assessment Committee. An Audit Committee was already in place for many years. Our board of directors has also committed to meet four times a year going forward.

Q: How do you balance conflicts of interest between the COSCO Group and minority shareholders?

Ans: The Company has a strong and balanced Board of Directors, comprising 25 members, four of which are independent non-executive directors, exceeding the Hong Kong regulatory requirement of two. Furthermore, we continually assess the performance of the Board based on the business performance of the Company and the accomplishment of long-term strategic objectives. Our six committees also ensure a system of internal checks and balances that protect the interests of all stakeholders.

Financial

Q: What are COSCO Pacific's capital expenditure and financial strategy for the coming year?

Ans: Our focus is on improving return on equity. Since the Asian financial crisis in 1997, we have adopted a prudent financial policy and maintained a relatively low gearing by paying down debt with operating cash flow. This has allowed us to take advantage of business opportunities lying ahead of us, but has diminished our ability to increase return on equity. Looking ahead, the positive outlook of China's economic growth will provide excellent opportunities for COSCO Pacific further expanding its businesses scope and market share. Going forward, our financial strategy will be to maximise our balance sheet strength through debt financing for our capital expenditures. We target an optimal gearing ratio of 55-60%, a move that should enhance return on equity.

Container terminal business

Q: What is your strategy for investment in container terminals in the coming years?

Ans: Our strategy is to strengthen our position as the leading terminal gateway to China. We look at our container terminal investments as a portfolio and our aim is to build the most effective portfolio of ports to provide comprehensive services for our customers.

We have a strong presence in China's key regions such as Bohai Rim, the Yangtze River Delta and the Pearl River Delta. We will increasingly turn our attention to the high-growth areas of the Yangtze River Delta and Bohai Rim regions while maintaining a strong focus on the Pearl River Delta area. In addition, COSCO Pacific will also explore container terminal opportunities in major overseas ports with attractive potential so as to capitalise on the robust development of the global container transportation industry.

Furthermore, being the sole flagship of container terminal business within COSCO Group, our port investments in China are strongly supported by our parent which is the largest shipping company in China. Our professional management with extensive shipping experience and expertise and strong support from COSCO Group, a global tier-one shipping liner, provided us immense advantages with increasing competitiveness as a global terminal operator.

Q: Do you think we will see the decline of Hong Kong as the world's premier port over the next few years?

Ans: For the past 12 years, with the exception of 1998, Hong Kong has maintained its number one position as the busiest port in the world. Certainly, other ports in China mainland have experienced faster growth. However, Hong Kong still has a number of key advantages including flexibility and efficiency. Recently there has been speculation that higher port charges in Hong Kong will decrease its competitiveness. This point of view cannot reflect the market perception. We believe that the higher port charges in Hong Kong are a reflection of shipping companies' willingness to pay a premium for its well-established liner services and port's efficiency in handling containers.

Q: What is your outlook for the container terminal industry in China? Is there an oversupply of container terminal capacity in China?

Ans: We believe the container terminal industry will grow at about 20% per annum over the next few years. Demand for terminal services will continue to increase.

Container leasing business

Q: In 2003, you achieved about 95% container leasing utilisation rate. Can you further improve upon this rate?

Ans: We believe that 95% utilisation rate is optimal because it gives us the room to manage master lease contracts efficiently. The 95% rate is an overall utilisation rate for our long-term and master lease services. In our portfolio, long-term contracts were at 100% utilisation, while master lease contracts were at about 77%. We were able to achieve such a high blended utilisation rate because we have quite a substantial portfolio of long-term contracts.

Q: How do you balance your customer portfolio?

Ans: We have a good balance of customers comprising COSCON and other top-tier international customers, which allows us to diversify our risk effectively. Currently, 54.6% of revenue comes from COSCON and 45.4% from our client base of over 200 international customers. The top 20 largest international customers contribute about 76.6% of revenue from international clients in 2003.

Q: Given the steel price increases in 2003, have you planned or do you plan to hedge against such movements?

Ans: Steel price increases are self-hedging, since an increase in the cost of steel has a two-fold effect. First, container leasing companies need to pay higher container box prices and container manufacturers may be unable to meet orders due to shortages of raw material. However, the higher box prices induce higher leasing rates, which are beneficial to the Company in the long run. Furthermore, the Company has strategically placed more than 10,000 TEUs advanced orders in late 2003 that will help to reduce the cost of purchasing new containers in 2004.

Q: What is the outlook for container leasing rates? Can low financing costs keep leasing rates from rising further? Are high leasing rates in 2004 sustainable?

Ans: The leasing rates in the near future depend on the movement of container cost, which will in turn be linked to the fluctuation of price of raw materials and the demand and supply of containers. This year we expect container leasing rates to increase based on higher container cost. Given the further improvement in the global economic environment that will drive strong demand of containers, we believe higher leasing rates will be sustainable in 2004.

Logistics business

Q: What is the business development plan for COSCO LOGISTICS in the coming years?

Ans: In January 2004, COSCO Pacific completed the acquisition of a 49% stake in COSCO LOGISTICS. The strategic objective of COSCO LOGISTICS is to be the best logistics service provider and shipping agent in China. To achieve that goal it will focus on developing inventory management capability and value-added services based on freight management and inland haulage. They will also solidify their current competitive advantage in household appliance and project logistics services and improve services targeted at the growing automobile and IT industries in China.

COSCO LOGISTICS is a leading services provider of shipping agency, freight forwarding and third-party logistics services in China mainland. It has a competitive regional service network, with offices in Dalian, Beijing, Qingdao, Shanghai, Ningbo, Xiamen, Guangzhou and Wuhan, and representative offices in Hong Kong, Japan, South Korea, Singapore and Greece. They also have over 200 branches in 29 Chinese provinces. COSCO LOGISTICS has signed long-term cooperative contracts with more than 40 overseas shipping agencies, establishing a multi-functional service network in North and South America, Europe, Africa, Japan, Southeast Asia and Australia. Their customers include leading global companies in the household appliance, automobile, manufacturing and steel industries.

Q: What is your outlook for COSCO LOGISTICS this year?

Ans: This acquisition completes our three-pillar strategy. We are now a global leader in container leasing, a regional leader in container terminal operation and will become a leading logistics service provider in China mainland. The acquisition does not only give COSCO Pacific access to the fast-growing logistics industry in China. It will also provide significant synergies between our container leasing, terminals and logistics operations.

The significant performance of China economic and trade growth, in particular subsequent to the country's admission into the World Trade Organisation, will further enhance the transportation and logistics market. Although third party logistics is a relatively new business in China, the booming economy will provide excellent opportunities for the development of logistics industry. Meanwhile, the sophisticated information technology and flexible trading pattern provide comprehensive software network for the operation of logistics businesses. Furthermore, foreign direct investments in China are expected to increase in the coming years. More and more foreign companies will move to doing businesses in China. These foreign companies, and local Chinese enterprises as well, will need to enhance their competitiveness by outsourcing the logistics works so as to reduce their operational cost. According to Mercer Management in 2002, China's overall logistics services are growing by about 7.5% annually and outsourced logistics services are growing at 25% per annum, leading both North America and the rest of the world. COSCO LOGISTICS is among the earliest companies entering the third-party logistics market with a clear market orientation and development strategy. We expect it to become a high growth contributor to the Company in the coming years.

Other

Q: What is your dividend policy?

Ans: We have been maintaining a steady dividend policy based on payout ratio. This policy endorses our commitment to enhancing shareholder's return.