Frequently asked questions

Strategy

Q: What is COSCO Pacific's strategy for achieving accelerated growth over the next few years and why?

A: In the next few years, we expect the operating environment to be highly favourable, with a generally buoyant world economy, robust development of the global shipping market and continuous strong economic growth in China.

China will remain our base and our businesses will grow organically, but we will also consider further acquisitions and will leverage our experience to expand into the vast international market through strategic alliances and partnerships with global shipping liners.

We plan to increase capacity and market share in all our core businesses – container leasing, terminals, logistics, and our new focus area, container manufacturing.

Q: What are the keys to achieving faster growth?

A: A stable to steadily improving macroeconomic environment is important for accelerating business expansion through both organic growth and acquisitions.

In addition, we are strong believers in the value of business partnerships. We will continue to leverage our long-standing relationships with the world's first-tier shipping liners as part of our growth strategy.

In the container leasing business, these relationships have given us the ability to anticipate customer needs and to better meet their ever-changing requirements. Our partnerships have also earned us the continuing trust of customers based on a proven track record of performance. So we are well positioned to further benefit from the shipping industry's overall growth.

In the terminal business, we pro-actively manage the terminals we owned, in many cases in partnership with shipping liners as co-investors. Our relationships with the world's premier shipping liners have given us a deeper understanding of trends in the industry and of local conditions in overseas markets, which allows us to be very agile in adjusting our business plans to stay ahead of the curve and to capitalise on market opportunities.

Q: Will faster growth occur at the expense of earnings?

A: No. Our principle is to balance the effectiveness, returns and risks in business expansion. Whenever we consider any new investments or acquisition plans, we will be cautious in selecting investment or acquisition targets and ensure that they will bear good returns and that synergies are created to provide integrated service to customers. We are confident that we will improve earnings growth on the back of strong overall growth of the shipping industry and because of the unrivalled advantage we derive from our strategic partnerships with the world's major liners.

Q: The Company's objective is to become a "global corporation". What do you mean by this and how will you know when you have achieved this objective?

A: To us, being a global corporation means having partnerships with the top tier players in the global shipping industry, a foothold in major ports around the world, and meeting or setting global best practice in management and customer service in our core business segments. We have already met some of these objectives and will continue to build a global brand by improving our network, team and customer base.

Container leasing business

Q: How will the Group strengthen the customer base of the container leasing business to remain competitive and ensure a stable revenue stream?

A: Our proven reliability and high standards of customer service have won us the loyalty of our key customers. Last year, our container utilisation rate of 97% was the highest in the industry. In a competitive environment, however, we must improve continually if we are to continue to gain market share.

We value continual close dialogue with our key customers so that we can anticipate their needs and meet their ever-changing requirements.

We demonstrate our commitment to customers in concrete ways. The best illustration may be our long term commitment to our key customers, which includes a promise to meet their container needs in future years. This commitment will be particularly important over the next five years when new addition of vessel capacity is expected to increase more than 9% per year on average.

Q: How important is COSCON in your overall revenue mix?

A: Our objective is to be a preferred supplier to the leading shipping liners around the world. Hence, we are pleased to count among our key customers our sister company, COSCON, particularly at a time when it is pursuing an aggressive expansion of its fleet.

Terminal business

Q: Will the Group's terminal business continue to focus on China?

A: China is a critical market for any shipping-related business, and it will continue to be the Company's base and home market. To achieve accelerated growth and to become a global corporation, however, we must expand both in China and overseas.

In the foreseeable future, China's container terminal industry will continue to experience sustainable high growth and remain as the world's largest container terminal throughput country. In addition, we see an increasing trend of foreign direct investment into the sector in China through partnerships with local players. We are well-positioned to benefit from new opportunities created – firstly because we are the flagship terminal operator of COSCO, the country's largest shipping conglomerate, and secondly because of our existing strong partnerships with foreign shipping liners seeking to enter China's container terminal market.

Internationally, an important strategy is to bring our experience and business relationships to bear in actively managing terminals. Using this model, we expanded our terminal business to the port of Singapore in 2003 and to Antwerp in Belgium last year. We actively participate in the daily management of these terminals, working in partnership with shipping liners and other co-investors.

Logistics business

Q: What are the achievements of COSCO Logistics in 2004?

A: In 2004, leveraging our proven track record in the past two years, we further expanded our operations in the targeted business segments, with significant results. We are proud to be ranked No.1 in the "Top 100 China Logistics Companies" survey conducted by eight industry associations including China Communications & Transportation Association and China Railways Society in November 2004. In December, COSCO Logistics was again ranked No.1 in the "2004 The 20 Most Competitive Logistics Companies" study announced by China Logistics and Sourcing Association.

Q: What is the future development strategy of COSCO Logistics?

A: Logistics, shipping agency and freight forwarding operations will remain the core focuses of COSCO Logistics. We will take a step-by-step approach to aggressively expand our logistics business through organic growth and by entering selectively into alliances. At the same time, we aim to strengthen our leading position in the shipping agency and freight forwarding markets.

Container manufacturing business

Q: Why did the Group invest in the container manufacturing business – CIMC?

A: Container manufacturing offers synergies with our rapidly growing container leasing business. On its own, this business offers good profit margins given the strong growth forecast for the global shipping industry. We expect that the business will not only contribute sustainable earnings, but will add to our competitive advantage by allowing us to provide a more comprehensive and vertically integrated service to our key shipping liner customers. Having our own container manufacturing capability is fully in line with our strategy and commitment to deliver the highest-quality products and services to our customers.

Financial

Q: What are your earnings drivers going forward?

A: Container leasing business was the major earnings driver in 2004. We remain optimistic that the robust demand in the market will continue to fuel earnings.

In 2004, earnings growth of the container leasing business was the strongest it had been since 1997. Even between 1997 and 2003, when operating conditions were challenging, our container leasing business increased its market share. With the positive industry outlook going forward, we are confident that the container leasing business will continue to do well for us.

In our terminal business, our strategy of selective acquisition has helped us to achieve faster earnings growth. We plan to continue to increase capacity, market share and earnings.

An important part of our growth strategy in the terminal business is to focus on forming strategic partnerships with first tier shipping liners. We take a very active approach to managing our joint ventures, which puts us very close to the sources of cash flow generation. By working with our partners, we are able to monitor early and real-time changes in the frequency of calls, the structures of shipping fleets, and other key trends. We believe that this allows us to have a direct impact on earnings quality and cash flow in the joint ventures.

Q: What are your plans for funding the Company's expansion?

A: We will focus on debt to achieve an optimal capital structure.

Our capital structure remains healthy, and our borrowing capacity is strong. In 2004, our net gearing ratio was 37.5% with interest coverage at 12.6 times. The return on total assets and the return on shareholders' equity increased to 10.0% and 14.8% respectively. We will remain comfortable with our gearing as long as we maintain interest coverage greater than 5 times.

Q: Will a higher net debt-to-equity ratio affect the dividend policy of the Company?

A: We are committed to a stable dividend payout ratio. A stable dividend payout is a sign of good corporate governance, allowing better and more transparent use of the Company's cash flow. It is also beneficial for budgeting for future funds. Our loan repayment for the next three years are modest at US$140,833,000. The Company has no plans to change its present consistent dividend policy.

As our cash revenues keep on increasing year after year, we continue to maintain a stable dividend payout. In 2004, COSCO Pacific recorded an EBITDA of US$364,700,000 and an interest coverage of 12.6 times, while the net gearing ratio was 37.5%. As at the end of 2004, our average debt maturity period was about 6 years.