



Hutchison Port Holdings Trust is a business trust constituted on 25 February 2011 under the laws of the Republic of Singapore and managed by Hutchison Port Holdings Management Pte. Limited.

## **RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON ANNUAL REPORT 2022**

Hutchison Port Holdings Management Pte. Limited, as trustee-manager (the “**Trustee-Manager**”) of Hutchison Port Holdings Trust (“**HPH Trust**” or the “**Trust**”), would like to thank the Securities Investors Association (Singapore) (“**SIAS**”) for submitting its questions in relation to HPH Trust’s annual report for the financial year ended 31 December 2022 (“**Annual Report**”) in advance of the Annual General Meeting of HPH Trust which will be held at Suntec Singapore International Convention & Exhibition Centre, Nicoll 2 and 3 Meeting Rooms, Level 3, 1 Raffles Boulevard, Suntec City, Singapore 039593 on Tuesday, 25 April 2023 at 11:00 a.m. (Singapore time).

HPH Trust believes it would be in the interest of the unitholders of HPH Trust (“**Unitholders**”) for it to respond to certain pertinent questions from SIAS as follows. To clarify, the Trustee-Manager will not be commenting on the observations made by SIAS since they merely set out the context of the questions raised.

### **Question 1(i)**

**This question focused on the status of the closed loop arrangements at Yantian International Container Terminals (“YANTIAN”), and whether there are any outstanding operational bottlenecks and constraints that are affecting port operations and efficiency.**

#### *The Trustee-Manager’s Response:*

The Chinese Government relaxed its COVID-19 controls in late 2022. HPH Trust discontinued the closed loop arrangements at YANTIAN during the first quarter of 2023, which is expected to allow HPH Trust to save operating costs. In the first quarter of 2023, HPH Trust incurred approximately HK\$18 million in COVID-19 precaution costs but as restrictions lift, these costs will be significantly reduced going forward.

HPH Trust is committed to operating its ports efficiently and currently there are no major constraints that affect port operations and efficiency.

### **Question 1(ii)**

**SIAS asked whether the strategic value of HPH Trust’s ports as a transshipment hub has been impacted by onshoring or other structural changes in the global supply chain.**

#### *The Trustee-Manager’s Response:*

As a key port player in the Greater Bay Area, the ports of HPH Trust continue to maintain their edge, with the Hong Kong operations of HPH Trust in the Kwai Tsing Terminals (“**Kwai Tsing**”) being a major transshipment hub and YANTIAN as a major export hub for the United States and European markets.

With the ever-changing industry environment and the challenges in the global supply chain in recent years such as erratic shipping schedules and port congestions, shippers have been even more focused on port efficiency. Recent trends and changes in the global supply chain have relatively lesser impact on HPH Trust,

as throughput handled by HPH Trust in the Southern China region is typically of a fast-moving consumer nature and is less affected by geopolitical tensions.

HPH Trust continues to focus on operational efficiency and capability enhancement to ensure smooth and reliable operations at its ports.

### **Question 1(iii)**

**Regarding Hong Kong Seaport Alliance (“HKSPA”) formed in 2019, SIAS sought examples of efficiency gains achieved at Kwai Tsing since the establishment of HKSPA.**

#### *The Trustee-Manager’s Response:*

HKSPA aims to increase the overall competitiveness of the Hong Kong port. HKSPA will continue to improve operational efficiencies, enable better utilisation of the existing capacity of the berths of HPH Trust by increasing the flexibility in overall berth and yard planning among the 23 berths in the Kwai Tsing port and drive additional operational cost savings.

The original objectives of HKSPA have been achieved with major efficiency improvements including:-

- The 23 berths in 8 terminals operated by HKSPA members are now divided into three terminal zones. Such arrangement reduced inter-terminal trucking at the port to enhance services and improved efficiency for shipping alliances and individual carriers.
- HKSPA introduced a standardised operations policy across its barge facilities. With a single berth arrangement by zone and a favourable dockage scheme, barge turnaround time was improved. This encouraged barge operators to expand the scale of their operations in the Kwai Tsing port, leading to an increase in volume brought by barges to HPH Trust.
- HKSPA rolled out the Enhanced Common Barge Platform 3.0 in 2021, which can automatically process berthing requests and scheduling for barge operators operating at HKSPA facilities. This simplified the traditional barge reporting procedures and further improved planning of barge berthing time and sequence. It also shortened the turnaround time of barges when they call at Hong Kong.
- The Operations Coordination Team of HKSPA coordinated to launch the Electronic Release Order system (eRO) in 2021 and the Electronic Booking Confirmation Note system (eBCN) in 2022, which allowed both the inbound and outbound gate process to go fully paperless.
- The overall planning of yard space and reefer stacking facilities allowed HKSPA members to meet the sudden business surge for yard space and reefer stacking facilities especially during the pandemic in the past 3 years.
- With 23 berths operating as one port, it provides more flexibility for planning of ship berthing schedules, which in turn reduces vessel waiting time at sea. It also allows for more flexibility in deployment of labour and sharing of best practices in operations between HKSPA members to strive for further improvement in operational efficiency.

Despite these achievements, the last few years of pandemic restrictions have impacted Hong Kong port, especially the border closure. These impacts have resulted in increasingly challenging market conditions for Hong Kong port. HPH Trust is actively exploring with HKSPA members all strategic alternatives and possibilities for the future of HKSPA.

#### **Question 1(iv)**

**SIAS asked whether the Board would consider adding the throughput trend of HPH Trust (which was provided in HPH Trust's results presentation) into its annual report.**

#### **The Trustee-Manager's Response:**

The Board of Directors of the Trustee-Manager ("Board") will take into consideration the request from SIAS for future annual reports.

#### **Question 1(v)**

**SIAS enquired as to the capital expenditure of East Port Phase I and the expected timeline of when it will become operational.**

#### **The Trustee-Manager's Response:**

In June 2021, HPH Trust, through its indirect subsidiary, Hutchison Ports Yantian Limited ("HPYL"), entered into a joint venture agreement with Shenzhen Port Group Company Limited (formerly known as "Shenzhen Yantian Port Group Company Limited") to establish a 50/50 joint venture to construct, develop, operate and manage phase I of a container terminal with an approximate size of 120 hectares located in the eastern side of YANTIAN ("East Port Phase I"). HPH Trust holds 79.45% of the effective interest in HPYL.

Total project cost of East Port Phase I is estimated to be approximately RMB10.9 billion, of which RMB2.7 billion shall be financed by capital contribution. Capital contribution by HPH Trust is approximately RMB1.1 billion. This is the only capital contribution committed to-date by HPH Trust and was fully injected into the joint venture company of East Port Phase I by October 2022. The share capital injection by HPH Trust was financed by internal cash. The first berth of East Port Phase I is expected to start operating in 2025. HPH Trust will provide further updates where appropriate in accordance with the Listing Manual.

#### **Question 2**

**The second question from SIAS focused on the treasury and capital management of HPH Trust. SIAS would like to understand the interest cost management and cost of debt of HPH Trust, HPH Trust's strategy on hedging of interest rate and foreign currency exposure, and when will the current interest rate swaps expire.**

#### **The Trustee-Manager's Response:**

The Trustee-Manager aims to maintain a healthy financial position. In relation to treasury and debt management, HPH Trust has maintained disciplined financial management, and embarked on a debt repayment programme since 2017. This programme improved HPH Trust's gearing ratio and enhanced its financial position by lowering total borrowings from HK\$34 billion in 2016 to HK\$27 billion in 2022. Net attributable debt of HPH Trust was reduced from HK\$27 billion in 2016 to HK\$20 billion in 2022. Cost of debt for the year ended 31 December 2022, being finance cost to average total borrowings in 2022, was approximately 2.4%. In 2023, the Trust expects to continue reducing its debts by at least HK\$1 billion to manage its debt and interest rate exposure.

In respect of interest cost management, HPH Trust focuses on reducing its overall cost of debt and exposure to changes in interest rates, and manages its interest rate exposure through the aforementioned debt repayment arrangement. It will review the mix of debt instruments regularly. By 31 December 2022, approximately 70% of the Trust's debt has a fixed interest rate. This helps to reduce HPH Trust's exposure especially under the rising interest rate environment.

Derivative financial instruments are utilised by HPH Trust in the management of its foreign currency and interest rate exposures. HPH Trust entered into cross currency interest rate swap contracts and interest rate swap contracts to achieve an appropriate mix of fixed and floating rate exposure consistent with its policy and entered into cross currency interest rate swap contracts to hedge its foreign currency exposure in respect of bank borrowings denominated in United States dollars with principal amount equivalent to Hong Kong dollar borrowings. HPH Trust's policy is not to utilise derivative financial instruments for trading or speculative purposes. The outstanding interest rate swaps as at 31 December 2022 will expire in 2025.

Going forward, under the rising interest rates environment, HPH Trust will continue to closely monitor the debt profile and interest rate trend, as well as explore options to mitigate interest risks, including swaps, where appropriate.

### **Question 3**

**The last question from SIAS related to the search and nomination process for directors that the Nominating Committee of the Trustee-Manager (the "Nominating Committee") has in place.**

#### **The Trustee-Manager's Response:**

Below is the search and nomination process as disclosed on pages 106-107 of the Annual Report:-

*"From time to time, new Directors may be identified by the Nominating Committee for appointment by the Board. Under the Board Diversity Policy<sup>1</sup>, Board candidates are selected based on merit and the contribution such candidate can bring to the Board to complement and expand the competencies, experience and perspectives of the Board as a whole, taking into account the corporate strategy of the Group and the benefits of various aspects of diversity, including gender, age, culture, ethnicity, educational background, professional experience and other factors that the Nominating Committee may consider relevant from time to time towards achieving a diversified Board. In determining suitability of a candidate, the Board will have due regard to the benefits of various aspects of diversity in accordance with the Board Diversity Policy. If the Nominating Committee determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, management, advisors of the Trustee-Manager, unitholders of HPH Trust and external executive search firms.*

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<sup>1</sup> For details regarding the Board Diversity Policy and the Director Nomination Policy of HPH Trust, please refer to [https://www.hphtrust.com/corporate\\_governance.html](https://www.hphtrust.com/corporate_governance.html).

*The nomination process will be conducted in accordance with the Director Nomination Policy<sup>1</sup> and the Board Diversity Policy, which are available on the website of HPH Trust. The Board will from time to time review these policies and monitor their implementation to ensure continued effectiveness and compliance with regulatory requirements and good corporate governance practices.*

*Pursuant to the Director Nomination Policy, the Nominating Committee, in determining the suitability of a candidate, will consider the potential contributions a candidate can bring to the Board including the attributes complementary to the Board, the commitment, motivation and integrity of the candidate, having due consideration of the benefits of a diversified Board.”*

The Trustee-Manager applied the search and nomination process as outlined above which culminated in the appointment of Professor Tony Fan-Cheong Chan and Ms. Seah Bee Eng (alias Jennifer Loh) as the Independent Non-Executive Directors of the Trustee-Manager with effect from 26 April 2023.

The Trustee-Manager wishes to clarify that pursuant to Practice Note 4.2 of the Listing Manual, the tenure limit of nine years for independent directors under the Listing Manual does not apply to business trusts so long as the business trust continues to comply with the statutory stipulations, as the Business Trusts Act and the regulations substantively address the corporate governance requirements of the relevant listing rules of the SGX (i.e. Rules 210(5)(d)(iv), 210(5)(e) and 720(5)) for composition of the Board and board committees as well as the independence criteria of an independent director of the Trustee-Manager. The Trustee-Manager always strives to attain and maintain high standards of corporate governance, and it believes that the board renewal principle is beneficial to ensure a diverse board that is relevant to the current plans and future strategy of HPH Trust. The Board is considering its succession planning in phases in view of, among others, the nine-year recommended maximum tenure for the Independent Non-Executive Directors.

**By Order of the Board**

Hutchison Port Holdings Management Pte. Limited  
(Incorporated in the Republic of Singapore with limited liability)  
(as trustee-manager of Hutchison Port Holdings Trust)  
(Company Registration No. 201100749W)

**WONG YOEN HAR**

Company Secretary  
Singapore, 21 April 2023

## **ABOUT HPH TRUST**

HPH Trust is a container port business trust listed in Singapore.

HPH Trust owns interests in world class deep-water container port assets located in two of the world's busiest container port cities by throughput – Hong Kong and Shenzhen, the People's Republic of China ("**PRC**"). Other assets in the HPH Trust portfolio include the port in Huizhou, PRC, as well as certain port ancillary services and the economic benefits of river ports complementary to the deep-water container ports operated by HPH Trust.

The investment mandate of HPH Trust is principally to invest in, develop, operate and manage deep-water container ports in the Guangdong Province, Hong Kong and Macau, one of the world's largest trading hubs by throughput.