



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 2019

Hutchison Port Holdings Management Pte. Limited, as trustee-manager (the “Trustee-Manager”) of Hutchison Port Holdings Trust (“HPH Trust” or the “Trust”), refers to the queries raised by the Securities Investors Association (Singapore) (“SIAS”) relating to HPH Trust’s Annual Report for the financial year ended 31 December 2019 (the “Annual Report”). HPH Trust believes it would be in the interest of the unitholders of HPH Trust (“Unitholders”) 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

The first question from SIAS focuses on the declining trend of the distribution and unit price of HPH Trust. SIAS would like to understand HPH Trust’s assessment of the long-term performance of the Trust from the viewpoint of a long-term Unitholder, and how the board of directors of the Trustee-Manager (the “Board”) balances between long-term value creation and sustainable distributions to Unitholders (i.e. unitholders return).

The Trustee-Manager’s Response:

HPH Trust’s distribution policy is to distribute 100% of its distributable income to its Unitholders, being the cash received by the Trust net of expenses which include without limitation, operation expenses, repayment of principal amounts under any debt of HPH Trust and payment of interest or any other financing expense. HPH Trust has not changed its distribution policy since its listing in 2011.

HPH Trust’s distribution is a reflection of the available cash flow from its operations. The Board has put in place a prudent financial policy to manage debt level and finance costs and has since 2017 embarked on a debt repayment program to repay HK\$1 billion per annum. The Board will continue to assess and review this debt repayment program.

In the financial year ended 31 December 2019 and in the past few months of 2020, HPH Trust faced extremely challenging global and macroeconomic events such as the US-China trade conflict, the outbreak of the coronavirus disease 2019 (“COVID-19”) and geopolitical turmoil, as well as events affecting the local economy including the civil unrest in Hong Kong. Faced with the current uncertainties in HPH Trust’s business due mainly to the ongoing COVID-19 pandemic and the US-China trade tension, the Trustee-Manager has taken a more prudent approach and has to-date in 2020 repaid HK\$250 million of HPH Trust’s existing indebtedness, and this has resulted in a decrease in the distribution per unit in HPH Trust.

HPH Trust will continue to focus on operational efficiency and cost management to increase the competitiveness of its ports and generate value for its Unitholders. One of the key initiatives was the formation of the Hong Kong Seaport Alliance (the “HKSPA”) with, among others, Modern Terminals Limited (“MTL”), a key terminal operator in Hong Kong. Taking into account the changing dynamics of the shipping industry, in particular with the formation of strategic alliances among shipping lines and the growing use by lines of larger vessels, the Trustee-Manager is of the view that the HKSPA will enable better utilisation of the existing capacity of HPH Trust’s berths by increasing the flexibility in the overall berth and yard planning among the 23 berths in the Kwai Tsing ports to better accommodate the need of the

shipping alliances. This will improve the service standard for customers, thereby increasing the overall competitiveness of the berths.

Question 2

Regarding the HKSPA formed with MTL in January 2019, SIAS asked the Trustee Manager to elaborate on how the HKSPA would improve the operations and financials of HPH Trust, and how the revenue costs and investment decisions are allocated and discussed among the parties to the HKSPA.

The Trustee-Manager's Response:

As mentioned in the Trustee-Manager's response to the previous question, the Trustee-Manager is of the view that the HKSPA will enable better utilisation of the existing capacity of its berths by increasing the flexibility in the overall berth and yard planning among the 23 berths in the Kwai Tsing ports. With the 23 berths operating under the HKSPA as one port, this could improve operational efficiencies and increase the handling capabilities of the berths, which would result in additional operational cost savings. In this regard, the Kwai Tsing ports has achieved savings of HK\$50 million from the HKSPA in the nine months ended 31 December 2019.

From an operational perspective, the implementation of the HKSPA has since April 2019 commenced progressively in phases as follows:-

- In April 2019, the HKSPA finalised berth and yard planning strategies, and the 23 berths run by the HKSPA members are now divided into three terminal zones. The new arrangement is to reduce inter-terminal trucking at the port to enhance services and improve efficiency for shipping alliances and individual carriers.
- Since September 2019, the HKSPA has also introduced a standardised operations policy across its barge facilities, a single berth arrangement by zone, and a favourable dockage scheme. These changes have increased efficiency and flexibility at the port, thus improving barge turnaround times. This will in turn encourage barge operators to expand the scale of their operations, ultimately securing economies of scale.
- With 23 berths operating as one port, there is more flexibility in the planning of the ship berthing schedule, which in turn reduces vessel waiting time at sea. It also allows for more flexibility in the deployment of labour and the sharing of best practices in operations between the parties to the HKSPA to strive for operational efficiency.

The formation of the HKSPA does not involve setting up a single entity nor any asset swaps. EBITDA from the HKSPA is shared among the parties to the HKSPA according to a pre-agreed ratio which has been derived based on the parties' respective capacity. Each party to the HKSPA is responsible for investment decisions such as the upgrading of facilities. On a regular basis, the parties evaluate and discuss the need for any capital expenditure replacements or upgrades at meetings of the relevant committees of the HKSPA.

Question 3

In respect of the remuneration of key management personnel, SIAS enquired about the policy and procedures for determining executive remuneration, the key performance indicators used, and how the remuneration packages are linked to sustained performance, value creation and interest of Unitholders.

The Trustee-Manager's Response:

Below is the remuneration policy of HPH Trust as disclosed on pages 70-72 of the Annual Report:-

"The remuneration of key management personnel is determined with reference to their expertise and experience in the industry, the performance and profitability of HPH Trust as well as remuneration benchmarks from other local and international companies and prevailing market conditions.

The level and structure of remuneration of key management personnel also have regard to the long-term interests and risk policies of HPH Trust and comprise both fixed and variable components.

The key management personnel participate in bonus arrangements which are determined in accordance with the performance of HPH Trust and the individual's performance.

The remuneration package of key management personnel comprised base salaries, variable bonus, long-term incentive award and benefits. Base salaries were determined based on the responsibilities of the job function and the market pay level of similar positions. The variable bonus and long-term incentive award were determined based on the performance of HPH Trust, the individual's overall work performance and achievement of the agreed performance targets. Long-term incentive awards are vested into cash if certain benchmarks were met over the vesting period of 3 years. Benefits mainly refer to the provisions of retirement and medical benefits which are in line with general market practice."

In line with the remuneration policy disclosed in the Annual Report, remuneration packages of key management personnel are reviewed and determined based on their performance at the end of each year. As a whole, evaluation is conducted in accordance with the performance of HPH Trust taking into consideration the global business environment, industry sentiments and its market position in the year, as well as the individual's performance. Key performance indicators include various management or functional initiatives determined at the beginning of each year, operational efficiency and cost saving targets, and/or financial results of the respective business units.

Such remuneration package with a balance between the base salary and variable bonuses is intended to continually drive and motivate each key management personnel. The variable bonus incentive which is linked to the performance of HPH Trust under that year's business environment and individual performance is also essential to motivate each key management personnel to explore ways to generate both short-term and long-term values for HPH Trust.

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)

Ms Kim Yi Hwa
Company Secretary
7 June 2020

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.