Briefing on 2018 Annual Results Analyst Presentation

Time: 4:00 p.m.-5:00 p.m.
Venu: Marina Room I, 2/F, The Excelsior Hong Kong, 281 Gloucester Road, Hong Kong
Senior management present:

Vice Chairman, Executive Director and Chief Executive Officer	Yang Xianxiang
Executive Director and General Manager of Finance Center and Investment Center	Liu Kecheng
Executive Director, Directorate Secretary and General Manager of Operation Management Center	Xue Peng

Senior management made a review on company development, operation results and financial metrics for the year of 2018 (Refer to PPT as attached). And then a Q&A section was entered.

Q1 Please share the delivery plan for new built vessels and capital expenditure guideline
A: For 1000teu type, five pieces have been delivered to us, three in 4Q last year and two in 2019, with an extra ship to be delivered in April. For 2400Teu, the delivery of two is scheduled for second half of this year and another four in 2020. The delivery of 2700teu, three pieces in total, will be split between 2020 and 2021, with one at least or two at most in 2020.
Capital expenditure will be no more than USD130 million each year for 2019 and 2020.

Q2 What's the outlook on market and margin in 2019？
A: We feel relatively positive for 2019. The market downwards in last year was largely due to US-China trade disputes, surging cost and Fed rates combined.
The level of major cost components in 2018 dwarfed those over past few years. For both bunker and charter, around 20%-30% up has been seen in 2018. Yet downturns have been experienced over the first few months in 2019 albeit some bounce back of bunker price lately. It is reasonable to arrive at the conclusion that bunker price and charter rate will run, on average through 2019, lower than the level of last year.
Looming trade war created widespread panic through 2018, while tension has been eased gradually by constantly approaching and increasingly likely to strike an agreement by both countries.
During last year, US Feds has raised rates of US dollar several times which led to depreciation of its counterparts- especially those Asian ones- against US dollar. Currency devaluation eroded buying power of individual countries and hence FDI declined. Yet Feds recently implied no more rates raise in the rest of 2019. Therefore, impact of strong dollar on such countries will be fading away with their currencies to rebound, which of course may take some time.
The demand in Q1 may not be that strong, marked by slower post-festival recovery, mainly due to piling inventory which shot up late last year and carryover effect of panic in last year.
All the three driving factors are making turnaround which explains our confidence about 2019.

Q3 What's measures the company is taking to deal with IMO2020? To equip scrubber or go for

low sulfur fuel? Any impact from domestic policies on revenues of container depot business.
A: Different strategic directions for different companies. We will meet changes with constancy. Firstly, our ships are so small that limited space make it difficult for equipment of scrubber. Secondly, the distance our ships sail between ports is relatively short; say, a trade route calling ports of Shanghai, Ningbo, Xiamen, Hong Kong and then Ho Chi Minh, sailing between any two of which in sequence only takes time from a few hours at least to one or two days at most. Starting as early as last October, all ships should consume low sulfur fuel once entering China's territorial waters, especially Yangzi River Delta. So we have already been using low sulfur fuel to some extent as it would be so tricky keeping shifting back and forth between low and high sulfur fuels due to our highly frequent port callings. One more point is our perception that none of the current scrubbers has been proven reliable, with absence of authoritative certification body. Purchase of scrubber costs much and a large quantity of raw materials are needed to feed it. Furthermore, additional staff may be assigned to cope with the wastes produced by scrubber and its maintenance. So we suppose it makes more sense to consume low sulfur fuel produced and supplied by oil refinery than equip scrubber to each ship. Rather, scrubber instalment, much like placing a chemical plant on ship, is not a cost-effective solution. Based on above judgement, we have not made any equipment installment to our ships till now. Yet we are doing alternative innovation testings, along with specialists and vendors, on some of our ships, and it may take a while to testify their effectiveness.
A: The profits from container depots declined due to impact of domestic fees reduction policy though, it only contributes YoY 10% declining for Share of Profits of Association and Joint Ventures on 2018 P&L. We regard it is not long lasting impact and won't constitute much adverse influence on earnings in 2019 as their business continue to grow constantly, in both volumes from existing depots and overseas expansions. Thanks to business transformation offering brand new services, some depots have earned more profits this year compared to the same period of last year. We believe we could heal such wound.

Q4 What's the reason behind that ASP performed so well in 2018? Based on the performance in first three months in 2019, what is ASP outlook in this year?
A: The main reason was the combination of surging bunker price and charter rates which brought more pressure on our operation. We use cost-plus method to price our product. So the ASP was raised to compensate the surging cost last year. The momentum of rising price has been maintained during Q1 this year. Almost all the clients are aware of the low sulfur fuel matter and calculating the incremental cost. We have been in close touch with clients discussing the extent by which charges could be increased.

Q5 What's your guideline on operation in next few years？
A: There are so many uncertainties encompassing trade wars, low sulfur fuel and foreign exchanges etc. . But for SITC, some are certain. For cost side, bunker cost, vessel cost and terminal handling charges are major ones. Handling charges are basically constant with few fluctuation though being vulnerable to FX changes. We could even enjoy more discount along with growing volumes. Without control over bunker price, we might adjust the freights to reflect its rise and fall, albeit sometimes lag being observed. So vessel cost is the key area where we could actively manage. We have been prepared well for next two to three years. Over past ten

years, we spent a raft of resources-time, spirits and fund-building us container ships, a total of around 60 since our IPO. All of these ships are of high quality with high fuel efficiency. If bunker price increases, we run our own ships on less fuel consumption than our competitors. And if charter rates and vessel price increases, we enjoy lower depreciation cost. We have edge in terms of cost.

As for ASP, service quality is the key as clients seek quality service. Our service, featured by high frequency and high density, integrating transportation and logistics, differentiates us from our peers, places us at the top end and enjoys high customer loyalty-cooperation with 80%-90% of our clients being as long as more than 10 years. So we manage to maintain relatively stable and decent price. We expect our edge to be broadened with our newly-builts to launch, IT systems and quality service. And our profitability will be improving as we are good at cost control and enjoy decent price.

Global economy runs well. Although a pile of problems-panic mood, stock plunges etc.in last year, we did not see the collapse of prices of major international commodities, particularly coal, iron ore, crude oil, copper and zinc, which serves evidence of good demand and stable macro economy.

Q6 Last year, Chinese exporters was in a rush to push product overseas to get ahead of any possible interference, which brought forward some share of 2019 trade. Due to such outcome, China recorded weak exports in this January and February. How about your volumes in Q1 and 2019 outlook? With rising ASP in Q1 as the management just introduced and relatively lower level of oil price, is it fair to say your margins have been improving?

A：Exports of China, Japan and U.S. did not perform well in this January and February, neither did Europe we suppose. Such weakness may be related to large stockpiles in last year. However, the data of this January and February is misleading by comparability. Different timings of Chinese new year, middle of last February v.s. Beginning of this February, distort the data: trade volume was quite well in the first half of last February but performed poorly in the second half and even March, while the first half or even the whole month of this February has been doing poorly. To eliminate such distortion, we need to compare volumes in the first quarters of this year and last year respectively. In view of the relatively slower recovery since Chinese new year, it is likely to record less volumes in the first quarter of this year. Nevertheless, our volumes continue to grow along with rising ASP.