

Briefing of SITC 2019 Annual Results Investor Conference

Date: 13 March 2020 (Friday)

Time: 4:00pm (HKT)

Method: conference call

Senior management present:

Vice Chairman, Executive Director and Chief Executive Officer Yang Xianxiang

Executive Director and General Manager of Liu Kecheng
Finance Center and Investment Center

Executive Director, Directorate Secretary and General Manager Xue Peng
of Operation Management Center

Senior management made a review on company development, operation results and financial metrics for the year of 2019 (Refer to PPT as attached). And then a Q&A section was entered .

Q1 I have two questions. The first is that the impact of the epidemic of Covid-19 on SITC operations in the first and two quarters, especially on Japanese routes. The second is: the recent decline in oil prices is relatively large, is it a relatively big advantage for SITC's fuel cost this year?
(Lisa, Lin Huatai Securities)

A Because of the epidemic of Covid-19, the operation in the first quarter of this year is can be divided into three stages: the first month's cargo volume is normal; after the arrival of the Spring Festival, the epidemic situation also comes at the same time, and the whole February's cargo volume drops greatly. Compared with last year, the Spring Festival holiday last year has an impact of two weeks, the Spring Festival holiday this year has an impact of four weeks, and the whole February of this year is in the Spring Festival holiday. After entering March, the volume has begun to recover. So far, the overall volume has returned to the same level of last year. There may be some factors to replenish inventory in the future. We think the volume should be good. As for what will happen after the replenishment is over, we are not sure yet. However, we believe that due to the impact of the European and American outbreaks, there may be a correction in the volume of goods. The situation in the first quarter has been relatively clear, but in the second quarter, we feel that there will still be some fluctuations. The second question is about fuel prices. Fuel prices also fell sharply due to the impact of the epidemic, which fell more than we thought. This is a major benefit for SITC's normal operations and cost reduction. This cost reduction will

reflect in the first and second quarters.

Q2 I have two questions. The first question is also about the volume. The epidemic situation has a great impact on the volume of this year. Is there a specific calculation? For example, in February this year or during the Spring Festival this year, how much less than the same period last year? In addition, what is the utilisation situation of SITC vessels? Can the management introduce the demand trend of the second quarter to us? For example, what about Southeast Asia and Northeast Asia? The second problem is the low sulfur oil surcharge. Is this surcharge adjusted quarterly? From the current point of view, the company charged low sulfur oil surcharges, can cover the rising cost of fuel oil prices? Recently, the price of low sulfur oil has dropped a lot, but the past two days, I saw the announcement of SITC adjusting the low sulfur oil surcharge. I compared the announcement of last November, and felt that starting from April, the low sulfur oil surcharge in Southeast Asia would be increased. I wonder if my understanding is correct? What kind of consideration is this based on?

A We did not separate the volume during the Spring Festival, and this year's Spring Festival is not in the same week as last year's Spring Festival, and cannot be compared week by week. But what we can tell you is that from January 1 this year to last week, the impact of the overall volume in the first 10 weeks is about 10%. Since this week, the volume has exceeded the level of previous years, and now it has been fully restored. But in terms of Southeast Asia and Northeast Asia, they are still different. Northeast Asia mainly looks at Japan. Due to the impact of the epidemic, Japan has announced that schools should be closed 10 days ago, and half of the company's employees can go to work and half don't, which has some impact on Japan's consumption and various businesses. The volume of Northeast Asia represented by Japan has not yet recovered to 100%, and it is now recovering more than 80% and less than 90%. But the volume of Southeast Asia has now fully recovered. The overall volume has reached the level of previous years. We believe that the problem of the volume of goods in the future for a long period of time should be small, but by April and May, there will be a recurrence, we find it difficult to predict. The second question is about the surcharge of low-sulfur oil. We adjust the sulphur surcharge on a quarterly basis. Starting on April 1st of this year, the surcharge for

low-sulfur oil will start to increase. The first adjustment we made was at the end of December last year. The adjustment in December was actually the calculation of the surcharge adjustment amount in November last year. Next, adjust the low-sulfur oil surcharge in the second quarter of this year. The adjustment amount was calculated in February this year. At that time, the price of fuel oil had not plummeted, so what you see is right. All shipping companies operate in this way.

Q3 Can you give a brief introduction to the cooperation business in South Africa mentioned in the PPT explanation?

A This project is a joint venture between us and Hisense Group in South Africa. We are a controlling shareholder. Hisense is the NO.1 e-commerce company in South Africa. In the early stage of this project, we helped Hisense to provide warehousing and logistics services. In the future, we hope to become a company that provides public logistics services in South Africa. Of course, in the initial stage, Hisense's business was the main. Hisense is also a large customer of SITC. We currently provide Hisense with transportation and logistics services from China to Japan and Southeast Asia.

Q4 The first question is that SITC's main business has always been in Asia. Why did you go to South Africa to do e-commerce related logistics projects? What was your original intention? What is the amount of investment involved in SITC, and what are the ideas and measures behind it? Is it a try, or does it mean that there will be big decisions in the future? The second question, can the expansion of the gross profit margin of 1.8 in 2019 be further explained? Is there any impact on the changes in accounting standards? Does this accounting standard affect the increase of only \$ 5 million in financing costs? Is it reflected in the report mainly in this aspect, are there any other aspects? The third question is about the utilization rate of vessels. Just now Mr. Yang mentioned that the volume of goods in the first 10 weeks dropped by about 10% year-on-year. Can you analyze the impact on profit or profit margin? What cost items are listed in the PPT, which cost items are not affected by the actual loading amount. As long as the vessel is sailing, the cost will occur?

A The cooperation between SITC and Hisense in South Africa is not meant to enter a new e-commerce field. What we do in South Africa is still our existing business, and Hisense is our

existing customer. Just in terms of location, we have never been involved in South Africa before. In the early days, we mainly did warehousing business in South Africa, including warehousing management, customs declaration, trucking, and freight forwarding. These are SITC's existing main businesses. Hisense is an important customer that we have cooperated for many years, and we may have the opportunity to continue to cooperate in other markets in the future. No new route plans are involved in South Africa at this time, but only business development in logistics. Our initial investment is not very large. The total investment of the project is about 2 million US dollars. The logistics facilities are all leased. The second question is about the impact of lease accounting standards. In addition to the increase in assets and liabilities on the balance sheet, which will have some impact on the asset-liability ratio, the impact on the income statement will be an increase in interest costs of approximately more than \$ 5 million, and an impact on the reduction of container operating costs by more than \$ 2 million. After offsetting, the overall result was a reduction in net profit of \$ 2 to \$ 3 million. The new accounting standards have nothing to do with the expansion of gross margin 1.8. The expansion of gross profit margin 1.8 was mainly due to the increase in our freight rates, the increase in operating efficiency, and the impact of the decline in operating costs on our newly delivered vessels. The overall load factor in 2019 is basically similar to that in 2018, with a slight decrease. In the first 10 weeks, the volume of goods decreased by about 10% year-on-year, which will have an impact on profits, But how much will it affect, because the February statement has not yet come out, it is difficult to give an accurate amount.

A We provide integrated logistics services at sea and on land. There are two ways to provide integrated logistics services, one is platform logistics and the other is project logistics. As our main product, we use sea and land networks to provide customers with integrated sea and land container services, which belongs to platform logistics. This is more like the Alibaba platform, and everyone is doing business on this platform. In addition, our South Africa project is equivalent to project logistics. In fact, we have been doing project logistics in the past, but we haven't done it through this way of setting up a separate company. To provide a special service to a fixed customer, we used to. But this time in South Africa, we are optimistic about the development of Africa, especially Hisense. In fact, Hisense is NO. 1 in South Africa. The market occupancy rate is very high. The future market development prospect is very broad. In the next step, there is an

opportunity to make a platform-based logistics based on Hisense business in Africa. Regarding the impact of the decline in the volume of goods on the profit rate during the epidemic, it is still difficult to answer this question, and our financial data for February has not yet come out. One of the main reasons why it is difficult to judge at present is that the epidemic period was an abnormal operating state, and many vessels were in a suspended state, not in normal operation. Under normal operating conditions, costs can be estimated, and volume and revenue can also be estimated. Under abnormal operating conditions, various costs are uneven and it is difficult to estimate, so we have to wait for our February financial data to get the answer. However, we should not lose money.

Q4 How many people have been sent to the South Africa project? How many people do you plan to send in the future?

A Three people have been sent.

Q5 The first question, just mentioned, the current surcharge for low-sulfur oil is relatively high. So far, how about the freight rate of SITC in the first quarter? Surcharges are relatively high. In terms of freight rates, do customers have some demands for us to reduce prices? What is the actual freight rate compared to the same period last year so far in the first quarter? The second question is, does our company have a more specific outlook for the annual volume of 2020? The third question is, does our company have any further plans for new shipbuilding or second-hand vessel?

A Low sulphur oil surcharge, all shipping companies are now publicly announced at a uniform time, and have communicated with customers. So far, there has been no problem with the surcharge of low-sulfur oil surcharges. The next quarter should also be adjusted again based on new fuel prices. The impact on freight rates is not great. On the whole, the freight rates in January and February this year have increased slightly compared to previous years, but the future situation is unpredictable. It is also difficult to predict whether the decline in fuel prices will lead to a decline in freight rates. If the price of fuel continues to be so cheap, or even more cheaper, it may cause the freight rate to fall. However, it is uncertain whether the gross profit margin will decrease. Because gross margin is not only related to fuel costs, but also other factors such as charter costs. For the full year 2020 cargo outlook. Although so far, affected by the epidemic, the

overall volume has been affected by about 10%, but as of today, the demand for replenishment in the market is still very high. If the global epidemic can be controlled in the first half of the year, we believe that the overall volume in 2020 will not be less than in 2019. So far, the overall volume in 2020 still has the opportunity to exceed last year. Questions about new and second-hand vessels. It now appears that all commercial activities are not very active due to the impact of the epidemic. In terms of new vessels, some large shipping companies in the market have invested in 23,000TEU ships, but small vessels, 1000TEU, 2000TEU, 3000TEU vessels, almost no shipping company has deals in this area. Of course, we have also been closely watching and researching new vessels that can be applied to our routes. If there is a good opportunity and the price is appropriate, we will still order new vessels. Second-hand vessels are also, if the price is very cheap, and our own vessels are not enough to meet operational needs, we may also buy second-hand vessels. This depends mainly on market conditions and price changes.

A Add another point. For our previous orders, we plan to deliver 6 new ships this year. One has been delivered on March 10.

Q6 The first question is, can the company provide the proportion of all the company's traffic on each route in 2019? For example, the China-Japan route, China-Southeast Asia route, and Southeast Asia, the approximate proportion. The second question, with regard to low-sulfur oil, is that there is a problem in the port emission control zone. The sulfur content of the fuel should be less than 0.1%. What is the proportion of fuel consumption of this part of the company's total fuel consumption? Where does the company's ships refuel? Is it mainly at Shanghai Port? In different places where the company refuels, how much is the price difference between low-sulfur fuel and ordinary fuel?

A The proportion of our cargo in different regions, the general situation in 2019 is: China-Southeast Asia's volume accounts for 39%, which is about 3% higher than last year's volume, and China-Japan's volume accounts for 34%, In 2018, the share fell by about 1%. Japan-Southeast Asia, and South Korea-Southeast Asia accounted for nearly 15%, and China-South Korea accounted for less than 4%. The volume of goods between Southeast Asia and Southeast Asia accounts for about 10%.

A Regarding the problem of 0.1% low-sulfur oil, it should not exist in our company, because

all of us currently use 0.5% low-sulfur oil, and 0.1% of low-sulfur oil is used in inland navigation. Our vessels are all at sea sailing. Regarding the price difference between low sulfur oil and high sulfur oil, the fluctuations are quite large. In the second half of last year, we started to partially replace low-sulfur oil. At that time, the price difference between low-sulfur oil and high-sulfur oil was about 150 US dollars, and then gradually fell to about 110 US dollars. When the comprehensive use of low-sulfur oils began on January 1, 2020, the spread between low-oil and high-sulfur oils expanded, and the spread widened to about US \$ 280 at the highest time, and then the spread began to narrow, especially after the epidemic. In the future, after the sharp fall in fuel prices, this spread narrowed even faster. So far, the price difference between low sulfur oil and high sulfur oil is around \$ 100. This is the change in the price difference between low-sulfur oil and high-sulfur oil in the past more than half a year.

Q7 Regarding the impact of fuel prices, as mentioned earlier, when the fuel prices are high, more old vessels will be scrapped, and our fleet is younger. Compared with other shipping companies, the competitive advantage is more obvious. With the sharp drop in fuel prices now, will our competitive advantage be relatively weakened? Especially when the overall volume is not particularly good, will it have a bad impact on us?

A We have not studied whether there is a positive correlation between the number of scrapping vessels and fluctuations in fuel prices. However, we think so. If the fuel price is particularly high and the old vessels with high fuel consumption, there is definitely no advantage, but whether they will be scrapped is not necessarily. If there is insufficient supply of vessels in the market, it may not be dismantled because the vessel charter will rise. If there is a surplus of vessels in the market, they may be scrapped. On the other hand, if the price of fuel drops, do old vessels no longer need to be scrapped? This is not necessarily the case. For example, fuel prices were low in 2016, but a large number of vessels were still being scrapped. This is because the decline in fuel prices and the economic contraction will also reduce the market demand for vessels. At this time, old vessels are difficult to rent out, and they also need to be maintained and repaired, and may be sent for scrapping. Looking at the future of old vessels, we are not sure yet. Judging from our situation, we hope that more and more old vessels will be sent for scrapping, because our vessels are relatively young and do not have this problem. Regarding our

competitiveness, whether the fuel price is rising or falling, because our vessels are relatively optimal in terms of energy consumption, and our unit fuel consumption is always relatively small. Our competitive advantage still exists.

Q7 How about the competition we have seen in the past few months when the volume of goods has declined?

A I'm not sure yet, because during this time, I feel that everyone is in a quiet period. However, there are two situations for different companies. Some companies are reducing capacity, and some companies are increasing capacity. For example, the capacity of Sealand Asia in the Asian region began to decrease at the end of last year, and the capacity of APL and CNC in Asia is also shrinking. We generally feel that the capacity of these large liner companies in the Asian region has decreased. However, the liner companies in the Asian region, because they are in the Asian region, also have some companies to increase their capacity. For example, SITC, as always, is advancing the development of new routes in accordance with the original plan.

Q8 I heard earlier that due to the impact of the epidemic, China, including Japan and South Korea, now has a shortage of labor in shipyards, and the manufacture and delivery of ships will be affected somewhat. How are the delivery times of the 5 ships we plan to deliver this year? In this case, have we communicated with the shipyard again? Will the delivery time change?

A The outbreak did affect the delivery of new vessels at shipyards. All six vessels of our company will be affected this year. But the impact is not significant. Although the delivery time was delayed compared with the expected delivery time at the end of last year, it didn't exceed the delivery time agreed in our contract with the shipyard. Just about 10 days or half a month later. We delivered one vessel on March 10, and the next one is in late March. Now, for vessels entering the shipyard for maintenance, the problem of time delay may be more serious. Many of these ships entering the shipyard for maintenance need to be equipped with Scrubber, so they may not be able to come out of the shipyard according to the original estimated time. From the current situation, the impact of the epidemic on new shipbuilding is not significant.