

Briefing of SITC 2020 Annual Results Investor Conference

Date: 8 March 2021 (Monday)

Time: 4:30pm (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

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 2020 (Refer to PPT as attached). And then a Q&A section was entered .

Q1 I have three questions. The first question is about the dividend policy. This year's dividend is 81%, which is much higher than 70% in previous years. What will be the dividend policy in the future? (Kelvin LAU Daiwa)

A (CEO) This year we have increased the dividend by 10%. The main consideration is that the company's book cash balance is particularly large and the company has sufficient cash. So this time the board of directors decided to increase the dividend slightly. But we have not changed our dividend policy. Our current dividend policy is still 70% of net profit, and then we will consider additional special dividends.

Q2 The second question, I would like to ask the management about the recent freight rates. I heard that the shipping market capacity was still very tight in the first quarter. I would like to ask the management to share whether there has been any easing of capacity constraints recently. (Kelvin LAU Daiwa)

A (CEO) Recently, I feel that the capacity is very tight, mainly manifested in the ship rental. Ship rents were already high before the Spring Festival, but they are still rising after the Spring Festival. In recent days, the rent of ships has also been rising. Regarding freight rates, recently, we are mainly negotiating and signing long-term contracts with customers. In the long-term contracts that have been signed, basically all the customer contract prices have been increased over the

same period last year. This year's long-term contract signing has performed well. In terms of market prices, they are still at a high level, but there is a slight correction from the peak. Because it will take some time for the volume to recover after the Spring Festival. However, the volume of goods recovered after the Spring Festival this year was much faster than in previous years, and the actual load rate was much higher than in previous years. It is believed that starting from March, the freight rate should stabilize and rise. This is the situation we currently have.

Q3 One last question, I would like to ask if there are any new IMO guidelines for emission reduction in the shipping industry recently. (Kelvin LAU Daiwa)

A (CEO) The IMO rules that I have mastered have not been updated a bit now. The IMO has issued a policy to reduce carbon emissions by 40% by 2030 compared to 2008. Others have not heard of the latest ones.

Q4 It is estimated that there will be no new policies like last year in the short term, right? (Kelvin LAU Daiwa)

A (CEO) I don't think it is anymore. The policies issued by the Chinese central government are new enough. President Xi said that carbon emissions are striving to reach a peak before 2030 and to achieve carbon neutrality by 2060. This is already the latest.

Q5 I would like to ask the management to give us some guidance on the volume and price of 2021. In addition, cost plays a very important role in the improvement of the company's gross profit margin in 2020, including oil price, ship efficiency and other factors. Can the management help to break down which ones are sustainable or more enhanced after the delivery of new ships in the future, and which ones may rise this year with the change of cost. (Liu Gangxian CICC)

A (CEO) I believe that the volume and price outlook for 2021 will certainly be much better than 2020. In the first half of 2020, due to the epidemic situation, it is actually a downward trend, and the second half of the year begins to recover, with only half year growth. But this year, strong growth began at the beginning of the year, continuing strong growth at the end of 2020. According to the data released yesterday, the data of China's import and export has increased by about 30%. Our company's volume growth is not much less than this, basically consistent. From

the perspective of the volume, I think there will be a big increase in the whole year. The growth in the first half of the year is estimated to be large because of the low base. In the second half of this year, we judge that the growth will continue. On the one hand, I think the market will continue. On the other hand, our company's capacity will increase compared with last year. By March, we will increase the capacity of 6-7 ships. The freight rate will certainly be much better than last year. Because the first half of last year was not good, the improvement in the second half of the year actually started in October, and the real high freight rate was only about 2 months last year. But freight rates have been at high levels since the beginning of this year and continue to continue, especially for long term contracts. Of course, many shipping companies defaulted on the long-term contract price last year and provided it to customers according to the market price. However, our company insisted on our long-term contract price throughout last year and did not adjust it. When the contract expired this year, we also adjusted it according to the market situation. After the adjustment, the freight rate will rise quite well. As mentioned just now, the most important aspect of the revenue in 2020 is the reduction of costs. It's true. Especially in the first half of the year, the oil price was very low, so we enjoyed the low oil price. At the same time, the ship rent was also very low. The rent and oil price were two very important costs for us. The first half of the year mainly benefited from the decrease of oil price and ship rent. The second half of the year mainly benefited from the growth of cargo volume and the rise of freight rate. This year, the factor of low oil price no longer exists. Although the oil price is not very high now, it is not low either. As the economy improves this year, oil prices may gradually rise. Oil prices are likely to be a significant cost increase this year. We don't worry about the rent. With the economic crisis in 2008, especially the 10 years after our company went public, we have been ordering new ships at low prices. So far, with the ships of our non listed group, the proportion of our own ships has exceeded 80%. And there are more than 20 new ship orders will be delivered. After these new ships are delivered, our ship rental cost will have a great advantage compared with other competitors. Because rents are rising too fast, this is good for SITC. Of course, rising oil prices are bad news for all companies. However, compared with other shipping companies, it is good news for SITC. Because in terms of fuel management and the design of new shipbuilding, our company's fuel consumption is much better than that of old ships and other competitors.

Q6 Please update the delivery plan of new shipbuilding in 2021 and 2022 and the corresponding capital expenditure. In addition, with the increase of delivery of new shipbuilding, will the proportion of the company's charter ships be reduced accordingly? (Lisa, Lin Huatai Securities)

A (CEO) It is estimated that there will be no major changes in the situation of chartering this year. Last year, the company delivered some new ships, and the proportion of Charterers dropped slightly. This year, four to five new routes have been opened and seven new vessels have been added, so the proportion of chartering has not decreased significantly. However, there will be a significant drop next year, because about 20 new ships are expected to be delivered between the end of this year and next year. Mr. Liu, please tell us about the delivery schedule of the new ship and the capital expenditure.

A (Mr. Liu) The company will deliver 27 new ships in the future. There will be one at the end of 2021. One ship has been delivered at the beginning of this year. This one is a newbuilding order from the previous year. 19 ships will be delivered in 2022 and 7 ships in 2023. In terms of capital expenditure, the overall capital expenditure in 2021 will be about 200 million U.S. dollars, of which about 160 million U.S. dollars will be invested in ships. There are also some logistics projects and property investments. In 2022, the total capital expenditure is expected to be approximately US\$430 million, of which approximately US\$400 million is invested in ships. In other words, the investment of 27 ships will be mainly concentrated in 2022. The capital expenditure in 2023 is about 140 to 160 million US dollars, of which the ship investment is 110 to 120 million US dollars

Q7 One more question. Now I see a lot of news about IMO's requirements for future carbon emissions. I would like to ask how the company considers the existing 27 newbuildings in terms of ship engines and ship design, including future energy consumption. We are going to build a new ship at this point in time. Have we considered the uncertainty of ship requirements in terms of environmental protection in the next 20 years? (Lisa, Lin Huatai Securities)

A (CEO) There is no definite direction for the use of ship main engines, and we still use diesel engines. Some companies use LNG, including diesel engines and LNG dual main engines. It seems

that Maersk announced last month that it wanted to build a ship that uses alcohol as fuel. There is no uniform and clear guideline on what kind of main engine the ship will use in the future. This brings great uncertainty to the future building of new ships. In recent years, the lack of enthusiasm for new shipbuilding is also related to this aspect. In addition to market conditions and funding reasons, this is also a very important reason. The way we solve this problem is to redesign. We started to design a bow-type ship in 2015, which was the first in the world to use the bow-type to build a container ship, greatly reducing ship fuel consumption. In addition, in terms of the length of the ship, the same load capacity has shortened the length of the ship. We have also made some improvements in the propeller. We have done so much in terms of technology to reduce emissions per unit in order to meet IMO regulations. Achieving carbon neutrality will have to wait until 2060, and there are still 40 years to go. In these 40 years, diesel engines will certainly be no problem, but fuel as an energy source may gradually withdraw. However, I believe that this year's shipbuilding should be no problem within 20 years. What we have done is to do everything possible to reduce the unit energy consumption, so the new ships we are delivering now have very low unit energy consumption.

Q8 The first question, ask about the market outlook, mainly in the supply side of the Asian region, especially Southeast Asia. Is there still a shortage of containers? How long is it estimated to last? (Maggie Wang BOCOM International)

A (CEO) Regarding the market outlook, global demand is still present and growing, including Southeast Asia. After the Spring Festival this year, the recovery is much better than in previous years. I believe that one of the most important reasons is that many people do not go home during the Spring Festival. Of course, I believe it is also a market reason. Because I have not only seen China's exports recover quickly, but also Vietnam and Thailand's exports. Vietnam and Thailand certainly do not have the problem of not going home during the Spring Festival and celebrating the New Year on the spot, so I believe this is driven by market demand. The future market demand should still be good. Regarding the issue of the shortage of containers, in fact the shortage of containers itself is a false proposition. I don't think it is caused by the shortage of containers, but by the demand pull. The real shortage of containers is due to the fact that there were few containers made in the past few years, and the closure of the container factory. So

many boxes could not be produced at once. This is a superficial factor. The real influencing factors are that the first is demand-driven, and the second is caused by the long-term underinvestment of the wharf in the past, which caused the wharf to be blocked once the cargo volume increased. The current terminal blockage is quite serious. For example, in the United States, each ship has to wait for more than ten days, and Shanghai also takes two or three days. There are almost no non-blocked terminals. which has caused what appears to be a shortage of containers.

Q9 Will the supply of capacity in the Southeast Asian market continue to be tight in the first half of the year? (Maggie Wang BOCOM International)

A (CEO) I believe it should continue to be tight, especially starting in March. If the market returns to normal cargo levels, terminal congestion will still be very serious, resulting in container turnover. Of course, the capacity has also increased. For example, our company has added a capacity of 7 ships.

Q10 The second question is about long-term contracts. Is it convenient to provide the approximate percentage of the total volume of long-term contracts in 2020? There is also the absolute value of the contract rate last year, which distinguishes Southeast Asia and Northeast Asia. Is it convenient to provide? It's just mentioned that the new rate that has been locked in the long-term contract has increased a lot from last year. Is it convenient to provide an approximate level of increase? (Maggie Wang BOCOM International)

A (CEO) There is no obvious change in the contract ratio. There can be no obvious changes in this, and we don't hope to change too much. The contract price has been greatly increased. But the specific price is not easy to say, because there are too many contracts, each customer, each route is different, so I can't tell you the specific contract price, it's not that I don't want to tell you. As far as I know, if calculated by TEU, the increase in the rate per TEU is at least tens of dollars, and the high is several hundred dollars.

Q11 Is it convenient for the company to disclose the net profit of the fourth quarter of 2020 separately? The second question, just mentioned that the proportion of transportation cost of equipment and goods to total cost is 54%. In contrast, the current cost of land-based trailer and

empty box transportation is rising. How much impact is caused by the driving of cost end in the whole increase of freight rate? How much will the cost of the freight be affected in the future if all of these costs are reduced? The third question is that we are doing the bulk market very well at present. What is the strategy for the development of the bulk business in the medium and long term? Will you continue to maintain or sell this segment of the business when the market is particularly good in the future? Finally, is there any other reserve measures in the company's future strategy for carbon emissions policy? (Huan Jun China Securities)

A (CEO) The first question, the net profit in the fourth quarter, please wait for Mr. Liu to talk about it. The second question about cost. As far as I know, last year there was a significant increase in cost. Only container rents increased significantly, as well as ship rents. Of course, fuel prices were also rising by the end of the year. But I don't know if the cost of trailers has risen. The cost of trailers is very small for our company, almost zero. In terms of business, even if the trailer is arranged by us, the cost is borne by the customer. Because of this, we don't pay much attention to changes in trailer costs. Changes in the cost of trailers have no impact on our profits. The third question is about dry bulk business. The dry bulk business has never been our main business. Owning 6 dry bulk carriers is a historical reason. If the market is really good, we will sell these six dry bulk carriers and concentrate on operating our container business. Regarding the carbon emission strategy, some people have asked before, and I have talked a lot. In terms of technology, we really can't master it. What we can do is to continuously reduce energy consumption. In addition to reducing the cost in design and technology, we also reduce the cost in terms of operation by adjusting the route, adjusting the speed of the ship, reducing the operation time of the ship in the port, etc. We all take the initiative to find ways to reduce the cost, but we can't passively adopt other people's mature technology.

A (Mr. Liu) Let me add the results of the fourth quarter last year. We do not announce quarterly results. It is difficult to provide an accurate fourth quarter profit data, because there are many data, such as bonuses that need to be accrued at the end of the year based on the situation throughout the year. As CEO Yang said earlier, the freight rates were particularly good in November and December, and the overall profit contribution in the fourth quarter was between one-third and 40%.

Q12 As mentioned earlier, this time it was driven by demand, and there was also a shortage of supply caused by terminal investment problems. How long do you think it will take for the tight supply caused by this factor to ease? (Leon Shen CongRong All Weather Fund)

A (CEO) If there are no major problems in demand and no economic crisis, similar to the black swan incident, I think this tight supply cannot be resolved in two to three years. Because the demand is there, the supply is insufficient. In terms of insufficient supply, in addition to insufficient supply of terminals, there is also an insufficient supply of ships. In the past two years, there have been almost no orders for container ships. Especially the real shipowner did not place an order. It may take two years for the supply of ships to be alleviated, but in terms of docks, new docks may not be built in two years, so these problems cannot be solved in a short time.

Q13 Our shipbuilding decision should be related to our judgment of this relatively good industry cycle. Do we plan to further expand our capacity in the future? (Leon Shen CongRong All Weather Fund)

A (CEO) Today's performance is actually the result of hard work over the past 5 years. The future expansion, including the addition of 4 or 5 new routes after the Spring Festival this year, has been planned in the past. Every year in the future, we will continue to have new points and new lines to increase our capacity and production capacity.

Q14 Does the new shipbuilding end temporarily after the existing orders are completed? Or is it that we see such a good market in the future, and will add more shipbuilding? (Leon Shen CongRong All Weather Fund)

A (CEO) There is no end to this. Ten years ago, we didn't expect to form a fleet of 90 ships today. It all depends on the market. Today's situation should be a good decision made two or three years ago. Now we have to predict the next two or three years. We still have a demand for the routes and ships. We have a new route layout. However, shipbuilding is no longer cheap, and the delivery cycle has been very long. So if we make the decision of shipbuilding now, I don't think it's our style. Shipbuilding is similar to buying stocks. It's not about how much to buy every month. It's about buying when it's cheap, but not when it's expensive. At present, we have 27 orders for new ships. I think the next two or three years will be enough.

Q14 On the demand side, how does our company look at the growth of volume demand in Asia in the next two or three years? What is the growth range? What are the driving forces of growth?

(Ken Liang Shanghai Wideview Asset Management)

A (CEO) I think the growth in the future is certain, and it is obvious. The growth of the Asian region and the global growth should be linked, not separated. But the difference between Asia and the world is that there are more countries in Asia, more points, more complexity between points and between countries, and more demand for transportation. In addition, in terms of demand in the next few years, I think the main driving force of this demand change is the third industrial revolution. The main performance of the third industrial revolution is informatization. What does informatization bring? The first is new products. Now a lot of household appliances at home are new products. If there is no intelligence, information, these things will not appear. These are new products, and they will continue. Another is new technology. For example, the new energy solar energy, due to the cost reduction brought by new technology, also brought the energy revolution. This demand will not stop in the next 20 or 30 years. Another demand is the indirect factor that promotes demand - the change of purchase mode. The mobile Internet has made it easy for us to buy, for example, the SARS virus on 2003 made China's Alibaba a great success. In 2020, COVID-19 made the rise of online shopping in Europe and the United States. The change of this kind of purchase way will bring new demand increment continuously. Shopping in the store is not as convenient as online shopping. I think this demand is a revolutionary demand, not a one-day or two-day demand. It's uncertain how much new volume can be generated, so we can only take one step at a time.

Q15 What do you think of the impact on trade demand if the supply chain of all places recovers after the epidemic is relieved? (Ken Liang Shanghai Wideview Asset Management)

A (CEO)The question is whether there is still demand after the epidemic factors are solved. First, does online shopping still exist? I don't think online shopping will stop because the epidemic is over. In addition, consumption. Will consumption decline because of the absence of the epidemic? I'm sure not. After the epidemic is solved, the consumption of traveling and eating out will increase. Will these consumption replace other consumption? Maybe. Some emotional

consumption will be replaced by tourism consumption. But will it bring new container transportation? There should be. So I don't think that after the epidemic, the volume of goods in the market will suddenly drop sharply. Maybe it will increase by a large margin.

Q15 In terms of the supply of new ships and the elimination of old ships in Asia, what is the expected state in the next two or three years? (Ken Liang Shanghai Wideview Asset Management)

A (CEO) This is a very complicated problem. IMO has a ship ballast water regulation in 2022. Many old ships must be eliminated before that. Because it is not suitable for investment, it may cost hundreds of thousands of dollars to install a ballast water treatment system, and millions of dollars for a large ship. Our company's ships are small and can be solved by hundreds of thousands of dollars. But because this wave of market brings about the increase of rent, if the current rent level lasts for one or two years, most ships will not be willing to be eliminated. They would rather install ballast water treatment system, but also keep the ship in operation. This part of the supply may be retained. However, orders for new shipbuilding in the past few years are indeed very few, and supply is relatively difficult to completely solve in one or two years. Everything is cyclical. I believe that the market should gradually have its own solution.

Q16 From the perspective of supply and demand, how long do you think the current relatively high market boom will last? (Ken Liang Shanghai Wideview Asset Management)

A (CEO) I don't think it's a big problem to last two years.

Q17 I have two questions to ask. The first one is about the company's profit margin. In the past few years, the company's profit margin has risen to a higher level every few years. I would like to ask about the persistence of this situation. Profit margins continue to increase. What is the internal logic and business support? The second is on the issue of industry cyclicity. What is the difference between the long-distance markets in Asia and Europe and the United States? What is the difference between our company and other companies? (Huang Tianxiao Orient Securities Asset Management)

A (CEO) As for the profit margin, we are very satisfied with the current profit. Continuously

improving the profit margin is our eternal goal. Constantly reduce costs, mainly unit costs, and constantly improve efficiency. Our profit model and our focus on the Asian regional market provide a good opportunity for us to continuously improve our operational efficiency. We continue to improve efficiency, continue to reduce costs is the key to our profits. In addition, there is an important factor, about customers. Our customers are basically high-end supply chain customers. Customers are highly dependent on our services and relatively insensitive to freight rates, so our profit margin can be maintained. Regarding periodicity, I think everything has its periodicity, but the cycle is very different, this time may be a big cycle. As I just said, it may be the cycle brought about by the third industrial revolution. Everyone has overlooked this matter. This cycle time may be a little longer. The past cycle is generally six months or one year. About the difference between our company and other companies. There is no big difference, it's all made up of people. The difference is the different profit model. Our business model is different. In addition, our difference is that we treat the company as our own company. Our staff is relatively stable, and the annual turnover rate of the company's top 100 executives is less than 1%. The staff is stable, and the services provided to customers will be stable. The other difference is that our company is very efficient, which is different from other companies. Our decision-making, to provide services to customers, these aspects of efficiency may be unmatched by other companies.

Q18 In your judgment of the cycle, do you think that ocean routes will also be in a two-year latitude cycle? (Huang Tianxiao Orient Securities Asset Management)

A (CEO) Our company doesn't do ocean business, but I think the problem of ocean business is the same as the problem we are facing. Maybe the ocean business is facing more problems than ours. For example, the ocean shipping industry tends to use large ships in recent years. If there is a problem with a route or a ship, the whole supply chain will be more vulnerable than before. In addition, the use of large ships also led to the mismatch between the wharf and the ship. The docks built ten or twenty years ago were built for small ships, not for big ships. Now that the size and capacity of ships have doubled, they are still operating on the backward docks built ten or twenty years ago, which do not match. This kind of mismatch, if market demand comes together, will block up the wharf immediately.