Briefing of SITC 2022 Annual Results Investor Conference

Date：7 March 2023 (Tuesday)

Time： 4:30pm (HKT)

Method: Live Meeting & Tencent Video Conference

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

Board 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 2022 (Refer to PPT as attached). And then a Q&A section was entered .

Q1 （CICC Liu Gangxian）First of all, congratulations on the company's brilliant performance. I have two questions to ask. The first is about the competitive situation of the industry. In the past two years, many changes have taken place in the shipping industry. Of course, from the perspective of supply and demand, there may be more changes in ocean routes. However, everyone is more concerned about the future development of the market. If the price competition of some large shipping companies is relatively fierce, what will be the impact on our company. In this respect, I would like to ask Mr. Yang to give us another analysis of how our company will respond. Second, I see some changes in the company's operation in 2022. Our company has entered India market. Several years ago, when our company talked about the Indian market, it said that it had been observing, but last year the company made substantial progress. I would like to ask the management to share with us the reasons for entering the Indian market at this time point and some of our future plans or objectives.

A （CEO）Let me answer your two questions. The first is about the competition pattern of the industry. In fact, the competition pattern has not changed much, but some new situations have emerged. Especially in the past two years, the shipping market has been relatively good. A number of new companies, including some freight forwarders, including some new shipping companies, have flooded into this industry. They are not only entering the offshore route, but also entering the ocean route market. This is a situation. Another case is that several domestic trade shipping companies have also started to operate ocean routes and foreign trade. These are some changes in the industry pattern in the past two years. Since last September, the situation has changed and turned. On the one hand, these new entrants are gradually quitting. Of course, some have already closed down. So far, most of the routes have already quit. Not only do they withdraw from ocean routes, but also offshore routes are decreasing and withdrawing. In addition, the participants originally transferred from domestic trade are also gradually withdrawing. After the Spring Festival, this withdrawal situation is quite obvious, including some companies operating ocean routes, and some of their capacity invested in the ocean routes, which are also gradually withdrawing recently. I think it may be related to the expiration of the ship charter. If the lease does not expire, it may be withdrawn from the ocean route and put into the offshore route. If the lease expires, it will be withdrawn from the offshore route and the lease will be cancelled, and some routes will disappear. In addition, in the past two years, a large number of domestic trade ships have turned to foreign trade routes, and recently there has been a return flow. From the foreign trade market to the domestic trade market. Just as, after the party is over, it's time to go home. The competition pattern is basically the same as before. Second, about India, the Indian market has been very popular in the past two years, but in fact, the volume of goods in the Indian market has not changed as much as the increase in the Southeast Asian market. However, India is a big market, and we also want to try it. At the end of last year, we began to make an attempt to gradually find the development model of the Indian market, find our customers, and then gradually enter this market. It is still uncertain and is in the experimental stage.

Q2（Huatai Securities Lin Shan）First of all, congratulations on the company's very good performance and dividends. We see that since the Spring Festival, the freight rates of the entire European and American routes have continued to decline, but the freight rates of the Southeast Asian routes have some signs of bottoming out. I would like to ask the management to analyze the reasons for the recent rise of freight rates in the whole Asian region and how we will see the changes in freight rates in the second quarter. Secondly, I want to ask about the overall freight rate and demand of SITC since this year.

A （CEO）This question has a lot of information. Indeed, as you said, the ocean routes is different from the offshore routes. Although the ocean routes freight rates did not fall sharply, it was still falling slowly. There have been some different trends in offshore routes. In general, since the Spring Festival, the freight rates of offshore routes have been gradually and slightly recovered, but not all have recovered. Because there are many ports on offshore routes and the size of countries is different, the time for resumption of work and production after the Spring Festival is also different. However,the freight rates of most routes are recovering, and only a few other places are still at a low point. So what is the reason? First of all, from the demand side, I think there should be some demand for replenishing inventory, and replenishing inventory after the Spring Festival. In fact, before the Spring Festival, everyone was pessimistic. However, there was still a demand for replenishment of inventory after festivals. Another reason is that the exchange rate and interest rate have been relatively stable in recent years. Although we all think that there is still room for the US dollar to raise interest rates recently, some time ago, we may all think that the US dollar may cut interest rates, but recently we may think that the rate reduction is not so fast. Although everyone thinks there are still uncertainties, it is relatively stable compared with the second half of last year. For example, the exchange rate of the yen against the US dollar in the second half of last year was as low as 140 or 150, then 130, and recently dropped to around 135. Relatively speaking, the stability of the currency exchange rate has also laid a foundation for replenishing inventories. The buyer may also be taking this opportunity to replenish the inventory. On the other hand, from the perspective of ship supply, due to the suspension of shipping during the Spring Festival and the cancellation of some routes by some shipping companies after the festival, some transport capacity has declined, especially in North Southeast Asia, so the freight rate in North Southeast Asia has recovered relatively quickly. In general, there is new demand on the demand side, and the supply of ships on the supply side has declined, which has led to a rebound in the freight rates of offshore routes. What is expected to happen in the next two quarters? In general, I think the offshore routes will recover slightly in the second quarter, but I don't expect a great recovery. At present, the market is still very fragile. The number of ships is still very large. New ships are coming out constantly. What is more serious is that the ship charter is still relatively high and not cheap. Before the epidemic, the charter price of all ships under 7000 TEU is the same, which is about 7000 US dollars. At present, the rent is still quite expensive. The ship of 7000TEU is about 30000 to 40000 US dollars, the ship of 2000TEU is between 15000 and 20000 US dollars, and the ship of 1000TEU is also more than 10000 US dollars. This price is very profitable for the ship owners. If the ship owners are very profitable, they will not dismantle their ships. Although you may see that there are some ships dismantled in the market, such as 10 ships dismantled by Wan Hai, and some ships dismantled by other companies. Most of these ships are very old ships, and they are the ships of shipping companies, not the ship owners. In fact, a large number of ships are still in the charter and have not expired, so there is no incentive to dismantle them. If the charter price of the expired ship is the same, if I am ship owner, I will not dismantle my ships. So I think that from the supply side, the overall pressure on the supply of ships will still be great in the future. On the demand side, the US interest rate rise this time may be different from the previous economic crisis. I think the rate is a bit like that of 1964 to 1984. If this is the case, the high interest rate may continue for a long time, so the pressure on the demand side will be increasing. I am still cautious about the judgment of the future industry.

Q3（TAO INVESTMENT Mark）I would like to ask, how is the company's current operation in Russian ports? Are there any opportunities for some risks, such as political risks.

A （CEO） Last year, we added some capacity to the Russian route. At the beginning, this route was actually good because many competitors withdrew. But then, in the second half of the year, there was serious congestion on the Russian route. A ship may have to wait for 20 or 30 days to arrive in Russia. It is said that the longest waiting time is 80 days, which makes it difficult for the Russian route to make money. But in general, the Russian route is still profitable. Recently, the situation has also changed. It may be that many competitors of the Russian route have opened new routes, and new routes have been opened in the Black Sea and other places, which may reduce the pressure in the Far East, so the congestion in the Russian port has eased recently. The easing of congestion is actually a challenge for shipping companies. The cargo volume of the voyage may be reduced and the freight rate will decline. In general, the Russian route is OK at present, but how it will develop in the future is uncertain. There should still be risks. The United States and Europe have not imposed sanctions on Russian container ships. Without sanctions, it should be said that there is no risk. If there are sanctions, they may also tell the shipping company in advance, for example, two months earlier, or three months earlier, or one month earlier. Shipping companies should have time to deal with this risk.

Q4（CITI Investment Liu Qiang）Congratulations on the company's performance reaching a new high. I have a question about long-term contracts. Because the freight rate this year has basically returned to the level before the epidemic, the long-term contract price last year was negotiated when the freight rate went up, and the contract price should be good. In this situation this year, the pressure on the spot market may be relatively high. I don't know how the new price of the company's long-term contract is being negotiated, and whether the proportion of long-term contracts is going up or down? About how much has changed?

A （CEO）The proportion of long-term contracts in our company has changed little. However, as the market competition pattern has changed, we have changed the position of our customers, and now the number of long-term contracts has decreased slightly. Because customers think that the freight rate may be cheaper in the future, their motivation to sign long-term contracts is not as strong as before. But this group of customers are also basically some bulk cargo customers, such as solar energy, which has a large transportation volume, and its transportation time demand is not so strict. Other customers in the supply chain have signed long-term contracts with us as always. The price of long-term contracts this year is still much higher than the market spot rate. On the whole, we are satisfied with the contract price.

Q5（Huatai Securities Lin Shan）Let me add another question. Our understanding of SITC has always been a very characteristic logistics supply chain company in Asia. In the past two years, the whole industry may have been too good, which interfered with our understanding of the company itself. Mr. Yang just mentioned that we are relatively cautious about the future industry. I would like to ask you, first of all, under such a prudent industry background, how do we consider the whole business or strategy of our company? Secondly, I would like to ask whether Mr. Yang has any new ideas and discussions on some new business models of the company's unique integration of land and sea. The main thing is to know what the company is doing when the industry is not very good in the next two years.。

A （CEO）

A (CEO) When winter comes, it will be very painful if there is no preparation in advance. We are actually preparing for winter and making some reserves. For example, we have placed many new ship orders in the past two years, and these new ship orders look very good now. Last year, we delivered 20 new ships. These 20 new ships replaced our charter ships and replaced our old ships, which was very successful. There are 14 new ships to be delivered this year, and these 14 new ships will also replace our charters and old ships. As I said just now, our current charter price is still very high, which is a very, very important cornerstone for this year and even for the next five or ten years. This is one aspect. On the other hand, we also focus on logistics. I just went to Southeast Asia after the Spring Festival. Since we haven't been to Southeast Asia for three years, although our business in Southeast Asia continues to develop and the land facilities continue to develop, it still feels different whether we go or not. After we went there, we made a lot of decisions and talked a lot with customers this month. In Thailand, we have the opportunity to add 20000 square meters of warehouse, and the contract has been signed. In addition, there are more than 100000 square meters of storage yards. There are about 130000 square meters of storage yards and warehouses in North Vietnam, and 60000 square meters in South Vietnam. This is some of the opportunities we found after going to Southeast Asia in the past month.

In addition, we are also making some forward-looking plans for new technologies. We have set up two companies, one called HTuring, which specializes in the software of logistics equipment, and the other called SITC Intelligent Technology, which specializes in the hardware of logistics equipment. These two companies can bring great help to our company in terms of efficiency improvement and technological transformation in the future. For example, the full-automatic gate and full-automatic lead sealing machine in our yards have greatly reduced costs and improved efficiency. In addition, we are preparing to build the world's first AI unmanned intelligent solar indoor storage yard in Qingdao, which will start construction this year. This may change the operation mode of this industry in the future. Anyway, I think the future market may be tough, but SITC is ready.

Q6（NTF Huang Qian）The dividend payout rate of the company this year is lower than that of the previous two years. What is the reason?

A （CEO） Our dividend is basically based on the standard of no less than 70% of net profit. In fact, this year's dividend distribution has been enough. The company still has a lot of cash balance. This year may have an opportunity to pay more dividends. In addition, due to the bad market this year, some assets may be cheaper. When the assets are very cheap, we may buy some cheap assets, such as containers. It is estimated that the ship will not be purchased in a large amount within one or two years, but the container may have a great opportunity. The price of containers is more than $4000/TEU last year, but now it is about $2000, so there is a great opportunity in container this year.

Q7（Huatai Securities Lin Shan）I would like to ask Mr. Liu to tell us about the amount of capital expenditure we have now determined in 2023 and 2024, as well as the total capital expenditure of our company's AI Logistics Park in Qingdao just mentioned by Mr. Yang. In addition, in which aspect will this AI logistics park reflect our overall cost savings or efficiency improvement in the future.

A （Mr. Liu）The capital expenditure determined in 2023 is about US $350 million, of which we will have nearly 20 new ships delivered in the future. The capital expenditure of these signed ships will be about US $240 million in 2023 and US $140 million in 2024. In addition, as mentioned just now, there may be plans to purchase containers of tens of millions of dollars this year. Of course, this also depends on the trend of container prices, including plans to purchase containers of tens of millions of dollars in 2024.

In addition, in terms of the Qingdao Logistics Park project, we have completed the purchase and delivery of land in 2022, with a land area of about 160 mu and an expenditure of more than 20 million yuan. This price is very cheap because our company has a large amount of tax in Qingdao. Based on the amount of tax paid by our company, we completed the purchase of the site at a very favorable price. The investment and construction of this project will be completed this year and next year. The investment in this project is about 20 to 30 million US dollars. The above is the budget for capital expenditure.The advantages of the project are mainly reflected in efficiency. The price of land is becoming more and more expensive, especially the price of land around the dock. Sometimes it is not possible to buy it with money. This automated storage yard is basically unmanned, and its capital expenditure may be slightly higher, but there will be almost no operating costs in the next 20 to 30 years. It is completely automatic without manual work, including the generation of electricity through solar energy, or the up-and-down movement of equipment to generate electricity in the process of movement. Therefore, its operation efficiency will be very high. Considering the land and operation efficiency, the project has a relatively good return on investment.

Q8（CICC Liu Gangxian）I have a question from an investor. I askinstead of him, because he may be on the high-speed railway. In the process of studying SITC, we found that the cost advantage of the company is a relatively important point. In addition, we have some services in remote ports. In this respect, our company has a price difference with its competitors. This is also important for investors. But in this respect, our investors are lack of data, so we want to ask the management to analyze for us, for example, according to some routes or regions, such as in the big ports that are covered by all shipping companies and some remote ports that are unique to SITC, how big is the price difference between our prices and competitors, and what is the change trend of this price difference in the past years?

A （CEO）It seems that this investor knows SITC well. Indeed, SITC has cost advantages. This cost advantage is established in several aspects. The first aspect is the original cost, which is the cost of our assets. The cost of all SITC assets is relatively low when they are purchased. This is just like buying stocks at a cheaper time, which leads to our cost. Unlike other companies, they basically buy ships and containers at a higher point. The second aspect is our efficiency. Our efficiency is extremely high, which exceeds the efficiency of the industry. After dilution, the unit cost will be lower. The third aspect is our equipment, including ships. In fact, we develop our own equipment and have intellectual property rights. In terms of fuel consumption and various costs, it is very low. The SITC Shandong ship developed by our company and delivered in 2014 was selected as the "2014 important ship" by the Royal Institution of Naval Architects (RINA). Because it is used by ourselve, it may not be known in the market. The second question is about remote ports and freight rates. In fact, in the Asian region, there are many remote ports within the scope of our services, and the services of our remote ports are relatively not little. In fact, our real advantage is still in the big basic port. For example, in Nagoya Port, our business share has been ranked first in the world for many years. In Osaka, HAKATA, Manila and Vietnam, our business volume is also very large. Otherwise, with a business volume of more than 3 million TEU a year, it is impossible for us to operate only in remote ports in Asia. In fact, we are highly competitive in both remote ports and basic ports. Of course, we haven't broken it down. The volume of remote ports or the volume of basic ports, because the definition of remote ports and basic ports is a problem. I think it is a basic port, but you may think it is a remote port. Because each company has different definitions of ports, we haven't separated them. But in general, from the perspective of freight rates, generally speaking, if we set a price of $100, our competitors may be at least $20 lower than us, which is about this logic. These items are the secrets of all companies. It is not easy to seek principles.

Q8（Wideview Asset Liang li）Mr. Yang just mentioned the market situation in the next two quarters. I would like to ask Mr. Yang to look forward to the future for a longer time. For example, the dimension of two or three years, and what kind of judgment our overall freight rate in Asia will be. We can also see that the export to ASEAN in recent months is still relatively strong. I don't know what the demand and supply in the whole region will be in the future.

A （CEO）Looking a little longer, I think the next two or three years are actually not optimistic. I have analyzed the total demand and supply, and I think it is very pessmistic. However, compared with Southeast Asia, it may be slightly better, because Southeast Asian countries have several characteristics. First, it accepts a part of orders from China, or factories, or productivity, which is a special part of it, so Southeast Asia's foreign trade import and export may be better than other places. Second, the overall GDP growth rate of Southeast Asian countries in recent years is still quite high. For example, Vietnam's growth rate last year was almost the highest in the world. Of course, the world's highest country last year was also the Southeast Asian country - Malaysia, which also had a high growth rate. Why? Because these countries in Southeast Asia either have resources, such as Malaysia and Indonesia, they have resources. The price of resources is still quite high, so these countries are relatively rich; Either there is labor force or demographic dividend. For example, Vietnam, Cambodia, Philippine, Bangladesh and even Myanmar have demographic dividend, so they have comparative advantages in this respect. Therefore, in the next two or three years, it will be relatively better in Southeast Asia. But I feel great pressure on the whole world. This is my view on the next two or three years.

Q10（Wideview Asset Liang li）If only look at the Asian region, you just mentioned that the demand might be better than the global demand. But from the perspective of supply, what will the supply in Asia be like?

A （CEO） There is no difference in supply to the world. Because the global supply will be adjusted in different regions, there is no barrier anywhere. Ships can sail from the Atlantic to the Pacific and from the Pacific to the Indian Ocean.

Q11（Wideview Asset Liang li）One last question I want to ask. With the continuous delivery of our own ships, is it possible that our costs will be lower than before the epidemic period?

A （CEO）That's for sure.

Q12（Morgan Stanley Investment Jerry Peng）As for the cost just now, I want to ask whether our company has a general guideline for profit margin. Our company just mentioned that our gross profit rate has increased rapidly in the past two years. I believe that part of the reason is that the freight rate has been very high in the past two years, which has helped us increase the gross profit margin. Now the situation is reversed. If the freight rate falls, how do we look at the level of gross profit rate in the next one or two years. Will it return to the level before 2020, for example? Or do we have room to control the cost so that the gross profit margin can be maintained at a higher level than before the epidemic? Or do you think there will be some sticky pressure on the cost side, resulting in greater pressure on the gross profit margin?

A （CEO）About the future profit rate, the probability is down. There is no doubt that the market has changed substantially. But will it return to the level before the epidemic? We are ready to prepare for the return of profit margin to the level before the epidemic. However, this decline did not come down at once, because this time the situation is different from that in 20018, and the cycle of each time is different. In 2008, it was a kind of diving and panic. This time, it was a blunt knife to cut meat. The difference is that here, it needs a step, step by step, and gradually return to the situationt before epidemic. This is the judgment of our own company, but as for each company, it must be different. As for SITC, we have prepared at the cost side, and our unit cost is significantly lower than before, including fuel consumption, depreciation, capital cost and other costs. In addition, in terms of efficiency, with the expansion of the company's scale, efficiency is constantly improving. In the market downturn, we strive to maintain our profitability, which is stronger than other companies. I believe that although the market is not very good in the next few years, we can still be a little better than other companies in the industry.