Briefing of SITC 2024 Interim Results Investor Conference

Date：22 August 2024

Time： 9:00am (HKT)

Method: Tencent Video Conference

Senior management present:

Chairman and Executive Director Yang Xianxiang

CEO and Executive Director Xue Mingyuan

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 half of year of 2024 (Refer to PPT as attached). And then a Q&A section was entered.

Q1: ( Han Jun, CITIC Securities) Thank you to all the management. The mid-term performance is still as good as ever. I have two questions. First, the company opened up the market in eastern India last year. As you can see, the freight rates in the Indian market are also very good. Of course, it may have fallen a bit recently, so I would like to ask how our Indian market is performing. Second, on the cost side, after we increased the proportion of our owned vessels and replaced some high-rate chartered vessels, the cost per TEU has been greatly reduced. My question is whether there is any reducing room of this cost in the future. Thank you.

A (CEO Xue) We started to enter the eastern Indian market last year, and the first port we entered was Chennai Port. We are currently expanding in the eastern Indian market. We have invested in a self-operated route, 5 vessels, and expanded the ports to basically cover all the ports in eastern India. Another point worth reporting to everyone is that SITC is the company with the most comprehensive coverage of ports in the eastern Indian market from domestic direct routes. It is very popular with customers and the competition advantage is relatively large. I believe that our routes in the Bay of Bengal have already established a firm foothold.

A (Chairman): There is still a lot of room for development of Indian routes in the future. There will also be many routes planned from the Far East and Southeast Asia to India, and India will account for an increasingly larger share of our business in the future.

Q (Han Jun, CITIC Securities) Will there be any routes between the western of India in the future?

A (Chairman) Certainly in the future, but not for now.

A (CEO Xue) In terms of unit cost, our vessel investment is very successful, which is the main aspect that makes us superior to our competitors. On the other hand, the efficiency of our later operations will make our unit cost continue to improve. There may not be large-scale improvements, but we will continue to improve our operating costs, especially our empty container transportation costs. Third, our fuel costs are decreasing every year. Through our fleet optimization and management improvement, cost control can make progress every year. Other costs mainly rely on the improvement of our loading efficiency and cargo matching efficiency, and we will continue to improve this part.

Q (Han Jun, CITIC Securities) Thank you management. I have one more small question. The Funan Canal is planned to be excavated recently. Will this have any impact on our future?

A (CEO Xue): If the Funan Canal is well developed, it will be a clear benefit to us. We have a relatively high market share in Sihanoukville. In Sihanoukville, whether it is from mainland China or from Japan and South Korea, SITC should have the highest share. Currently, most of Cambodia's agricultural products are transported to Ho Chi Minh City via the Mekong River for export. If the canal is opened, some goods may choose to be transported to Sihanoukville through this canal, so that our Sihanoukville export loading rate will be further improved.

Q2: (Liu Gangxian, CICC) First of all, congratulations to the company for its outstanding performance as always. I have two questions. One is about freight rates. Last year's freight rates were relatively high. This year's increase in market freight rates has not been fully reflected in our freight rates. Are there any structural reasons for this, such as which markets have different route performances? The second question is about the long-term contract and the current market price. What is the approximate level? Thank you

A (CEO Xue): Last year's freight rates were in a process of correction from the high point, while this year's is a process of gradual increase. Overall, there is still a big gap between the first quarter of this year and last year. In the second quarter, freight rates and revenue grew faster, better than last year. In terms of markets, the Japanese market is relatively stable, the Southeast Asian market is relatively volatile, and the East India and Bangladesh markets are more volatile. In terms of long-term contracts, overall in the first half of the year, the price of long-term contracts is lower than last year. A structural change is that last year's long-term contract price was higher than the market average return, while this year's long-term contract price is lower than the average return.

Q: (Liu Gangxian, CICC) OK, thank you Mr. Xue. I would like to ask about our fleet plan. We have seen some supplementary orders this year. Ocean Shipping Company has many new vessel orders this year, and the delivery dates are in 2028, 2029 or even later. I would like to ask if the urgency of environmental protection requirements for our fleet is not that high. Can we say that at a certain point in time, we will also start to concentrate on building large-scale vessels with alternative energy sources? I would like to ask how the management considers this issue from a longer-term perspective? Thank you

A (Chairman): Fleet planning is very important. It has been four years since 2020. We have seen that all shipping companies are trying to find alternative energy sources. At first, it was LNG, then methanol, then ammonia power, and then hydrogen power. Recently, some people are preparing to develop nuclear power. So far, no one has found a practical alternative. As a company, because we operate small boats, it will be more difficult to replace small boats with new energy. Therefore, before there is a definite direction, we still want to maintain the existing energy structure. However, we will reduce carbon emissions and fuel costs from two aspects: ship design and operation. As for the large-scale manufacturing of new energy vessels, we do not have a definite direction yet.

Q3: (Lin Shan, Huatai Securities) Thank you, management. First of all, congratulations to the company for such good performance. Then I might like to ask about the market demand in the second half of the year. First of all, I would like to ask the management about the loading rate and demand of the entire company since July and August. Secondly, because everyone is waiting for the implementation of the US election and some new trade terms, are our major customers also preparing for the 25-year trade terms? Thank you.

A (CEO Xue) The overall cargo volume this year is still significantly better than last year. The utilization in July and August is still much higher than last year. There may be some factors of delayed shipment in July, but the growth rate of cargo volume in August is still higher than last year, reaching double digits. July and August are generally the slowest seasons for Asian routes, and the lowest freight rates. There was a decline in July and August this year, but it is still relatively high. Starting from September and the fourth quarter, it is the peak season for the Asian market, and the cargo volume is expected to be relatively optimistic.

Q 4 : (Frank Yip, Daiwa Securities ) First of all, congratulations to the company for its excellent performance. I would like to ask two questions. First, we see that the company has also ordered new vessels this year. I understand that the company generally orders new vessels when the market is at a low point. So what is the logic behind our decision? Because we see that prices in the shipbuilding market are still rising, and this cycle is also relatively prosperous. The second issue, which is also a question that everyone is more concerned about, is the dividend issue. What is the level of our subsequent capital expenditure? The overall profitability this year is also very good. Is it possible to distribute a special dividend? Thank you

A (Chairman) Thank you, Frank . As for the ordering of new vessels, as we all know, the prices are not the best, and certainly not the highest. Many companies did not order new vessels from the second half of last year to the beginning of this year. Recently, some companies have started to order some new vessels, but most of them are large vessels with more than 10,000 TEUs. Almost no one orders small vessels, especially small vessels with less than 3,000 TEUs. We have recently signed an ordering agreement with the shipyard for this new vessel, and we still plan to order small vessels. Because we have an ordering agreement with the shipyard, and there is an agreement to continue to increase orders. This time our order is actually a continuation of the original contract. The main reason for the increase is to consider the replacement of ships, but we did not order many ships. This time we ordered four new vessels. The impact on the company's capital expenditure is very small. The four new vessels cost more than 100 million US dollars, and it will take two to three years, so it will not affect capital expenditure and our dividends.

Q: (Frank Yip, Daiwa Securities) I would like to add a question. If we look at this year, given the current profit situation, will you consider a special dividend?

A (Chairman) Looking at the situation this year, the situation is developing relatively well, and the probability of distributing a special dividend is getting higher and higher. We will have a board meeting after the end of the third quarter, and we will discuss the special dividend at that time.

Q 5: (Gao Ming, UBS Securities) In our costs, the cost of containers is still relatively high, and the proportion of leasing is also relatively large. I would like to ask if there are any plans to purchase containers in the future? We also want to know the current cost of purchasing containers and future plans in this regard. It seems that this will continue to affect the cost ratio and cost optimization.

A (CEO Xue) The leasing ratio of our containers is still relatively large, and it should be above 80% now. The reason for the high leasing ratio is that the company is developing rapidly, and it is convenient to rent containers, so we can provide new containers to customers in a timely manner. We are currently providing customers with more supply chain services, and customers have higher requirements for containers, so the leasing ratio of our containers should remain at a relatively high level. We also have specific plans for container manufacturing. In the first half of this year, we manufactured 10,000 small containers at a very low price, which is the lowest point in the market. In the future, we may invest in both large and small containers, but the proportion of orders will not be too large.

A (Board Secretary Xue) Ms. Gao, let me explain that the cost of our container equipment is mainly the cost of loading and discharging. The cost of the container itself accounts for 6% to 7% of the total cost.

Q6: (Han Jun, CITIC Securities) Management, I would like to ask, what is our return utilization? That is, the utilization from Southeast Asia and Japan back to mainland China. Because I remember that there was a period of time when the balance of our return cargo flow was significantly improved. I would like to ask, have you felt that the utilization of this return cargo flow has been constantly improving in the past two years?

A (CEO Xue): Actually, this year, the country's import growth is still greater than that of imports. But in general, the situation in different markets is different. For example, the growth of cargo going to the Japanese market this year is relatively obvious. Most of the return routes in Southeast Asia still maintain a high loading rate. The places with relatively poor return loading rates are the Bay of Bengal and India. However, on the Bangladesh route, we have renovated the route, and the data is generally improving.

Q7 : ( Jiang Ming , EAS East Asia Qianhai ) First of all, congratulations to the company for achieving good results in the first half of this year. I have three small questions. First, I would like to ask Mr. Yang , if we consider the development of the entire SITC from the perspective of three years, in terms of our future shipping capacity or our market development, where do you think the top two fastest growing regions are? This is a macro question. Second, among the cargo volumes within the region, what is the approximate proportion of some feeder cargo related to the trunk line, that is, the cargo that helps the trunk line to do the feeder? Third, in the third and fourth quarters of this year, the utilization of large vessels has increased. Now there are some large liner companies that want to lock in a long-term contract with customers at a price 30% to 40% lower than the current European line to ensure next year's profitability. I want to know if the company faces this situation, what is our strategy in the future when we sign contracts, quarterly contracts, or annual contracts? Thank you.

A (Chairman) If we look at the next one to three years, for SITC, the opportunities should be greater than the challenges, and no one knows what will happen. Because the biggest factor affecting the industry market now is the Red Sea crisis. Whether the Red Sea crisis can continue or not will have a huge impact on the industry. If it can continue, although there will be a large capacity delivery, I believe that it will still be in a balanced state overall. If it cannot continue, then there will definitely be an overcapacity. Of course, the overcapacity is mainly due to the overcapacity of large vessels of large shipping companies. For small vessels, the supply has been relatively small in recent years, so the impact may be slightly worse. If there is a large oversupply, then the charter market may be cheaper. In recent years, we have mainly been vigorously developing our own vessels. Therefore, if there is an opportunity in the charter market in the future, we may open up new markets through chartering in large quantities. I think there should be certain opportunities in the future. But if the entire market is in a balanced state, and the rental market is still at a relatively high point like it is now, our intention to develop through chartering may be postponed. So overall, I think we are cautiously optimistic in the next three years. But we still have great opportunities for development.

Regarding the issue of feeder vessels, since we do not operate feeder lines, the proportion of these products in our own transportation business volume is negligible, almost non-existent. We only carry our own customers and provide services to our own supply chain customers.

A (CEO Xue) The price you mentioned earlier is 40% lower than the current market price. From our perspective, it is acceptable to sign an agreement with customers for next year, because this price is also very high. Generally speaking, the contract price is lower than the spot price. First, the contract price can guarantee a good profit. Second, no matter whether everyone is optimistic about the future market or not, everyone still hopes for a stable supply of goods. Our future contracting strategy should be similar. It cannot be said to be lower by tens of percents, but it should be lower than the spot price. However, it will also be much higher than last year's contract price.

Q 8: (Zhou Yijing, Foresight Fund) I have a long-term question. Our fleet has grown very fast in recent years. I calculated it myself. From the perspective of capacity and volume, I feel that our market share in Asia last year may be 7 to 8 points, a high single-digit level. I would like to ask the management, in the long term, for example, 5 to 10 years, what level of market share will we achieve in the Asian region? When asking this question, I am thinking that the high frequency and high density we insist on serving the better customers who are willing to pay a premium is a good business model, but is there an upper limit in Asia for the customers who are willing to pay a premium, such as 15 or 20 points. Secondly, when expanding some markets, such as some customers in Southeast Asia, is it possible that the degree to which they pay a premium is not as good as the Japanese-related customers when we started earlier?

A (Chairman): This is a very good question. Frankly speaking, we did not expect to have more than 100 vessels in Asia ten years ago. We did not expect this. Many things cannot be planned, but the market forces us to do this, and customer demand forces us to do this. Why do we have to do this? Because we want to provide the best service to customers and become their first choice. In Asia, there are more and more customers, the market is becoming more and more developed, and the shipping volume between Asian regions is also increasing significantly, pushing us forward. The key to the next 5 to 10 years depends on global geopolitics. The direction of globalization has changed. International trade has changed from one-to-many in China to many-to-many. In this case, the demand for international trade and transportation will increase significantly. If we still want to be the first choice of customers in Asia, the requirements for us may be quite high. We may need to invest more shipping capacity in Asia. As for the customer base, whether we have used up the customer base or this resource, I don’t believe it. I feel that there are constantly good customers emerging. In the past, our customers may mainly be Japanese and Korean customers, and later we developed some multinational company customers. Recently, more and more customers in Asia and China are in Asia, especially in Southeast Asia, and their demand for services is increasing. In other words, with the development of regionalization and supply chain, more and more high-end customers are being created. Thank you.

Q9: (Dong Yingying, Polen Capital) I would like to ask about the pricing and the Red Sea issue mentioned earlier. I don’t really understand whether the ships that should have detoured have already detoured in the current situation. If the Red Sea crisis continues and new vessels continue to be put into the market, will the premium actually decline further? Or can you tell us the relationship between the continuation of the crisis and freight rates? Thank you.

A (Chairman): After the Red Sea crisis, a large number of shipping companies, especially ocean-going vessels, chose to detour. But because we do not sail to the Mediterranean and Europe, we did not join the army of detours. To answer this question, we are not experts, but I analyze this issue from my own perspective. When the Red Sea crisis occurred and detours occurred, the shipping capacity was insufficient, so the voyage route was incomplete. Over the past six months, new vessels have been continuously delivered, and shipping companies may also continue to optimize routes. For example, when the Panama Canal was congested, it may have occupied a lot of resources. Now that the congestion of the Panama Canal has also improved, the resource occupation of vessels will be reduced, and gradually a new balance should be achieved. In other words, by detouring, services can be guaranteed, which is a balance. What will happen to freight rates in this case? Freight rates may not fluctuate as much as before. In this balanced state, they should be relatively stable. This depends on future market demand. If future market demand continues to increase, then the market demand supports freight rates that may fluctuate at a relatively high point. But if future market demand declines, this weak balance will lead to a drop in freight rates. So the key is to look at the future market demand. But there is another point here, that is, because of the detour, because large shipping companies and large vessels need to re -plan their routes, there will be an increase in the demand for transit at some major hub ports. What will this transit demand lead to? First, it will lead to an increase in the demand for the total number of vessels. Second, the increased pressure on ports will lead to port congestion, and port congestion will lead to a waste of shipping capacity. So if demand increases in the future, port congestion will still affect market supply. If the Red Sea crisis continues, the market will not be that bad. This is my own analysis and judgment, which may not be completely consistent with other experts. After all, we did not go to Europe and the Mediterranean. Thank you.

Q: (Dong Yingying, Polen Capital) Yes, I understand. I understand that the pricing in Asia is also pushed up by the overall lack of shipping capacity. So the overall freight rate situation next year may weaken further as the crisis continues. I see that there may be more than 20% of shipping capacity to be released in the next two years. If the demand cannot keep up with this 20% in the next two years, the price will fall further. Is my understanding correct? Thank you.

A (Chairman) Absolutely right.