Briefing of SITC 2024 Results Investor Conference

Date：10 March 2025

Time： 4:30pm (HKT)

Method: Live Meeting & 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

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

Q1: (CICC, Liu Gangxian) First of all, congratulations to the company for a very good performance in 2024. I have two questions. The first one is to ask the management for their views and opinions on the overall market in 2025. It seems that there are many uncertainties and unexpected factors in 2025. What are the company's business strategies and priorities based on overall judgment. The second question is about the 301 investigation of the United States. Although it is not directly related to the company, will it also have some impact, such as adjusting the proportion of shipbuilding costs, such as disposing of old ships, and fleet development? Thank you.

A: (Chairman) Thank you. Regarding the first question, overall, I think 2025 is cautiously optimistic. Firstly, regarding optimistic, since the second half of last year until now, the shipping market has been recovering and cargo volume has been increasing. Due to the impact of US tariffs, some regions may experience early shipments. Except for the impact of holidays, the overall situation in the Asian region should be relatively stable for most of the time. Overall, the Asian region is in an upward trend, especially in the future when the United States increases tariffs on Mexico and Canada, or even globally, which may be a small positive for the Asian region. Considering the above factors, I don't think there will be too many problems in 2025. In terms of cost, the main issue is the supply of ships. If the Red Sea crisis cannot be resolved by 2025, the supply of small vessels should remain tight throughout the year. After Spring Festival this year, the charter rate for small vessels has been increasing. There are several main reasons for the increase in rent: firstly, demand is on the rise, and there are several factors contributing to the increase in demand. Secondly, the demand for ships is still growing in the near ocean, including other regions. Secondly, the Gemini Alliance has drawn 38 small ships from around the world to provide supporting services for their Hub-spoke model. These ships were previously on their respective routes, but after being diverted, there was a shortage of ships on the original routes, resulting in a tight supply of small vessels. Secondly, in the past few years, there have been relatively few orders for small vessels. Large scale orders were placed in 2021, and these ships have already been delivered. The delivery volume of small vessels this year is not very high, so the supply side is also tight. Therefore, I feel relatively optimistic. Secondly, in terms of caution, it is still in the policy of the United States. If the United States continues to raise interest rates, it will lead to an increase in the cost of all goods. In the case of unchanged purchasing power, or if the increase in purchasing power is not as fast as the increase in cost, then sales volume will decrease. Economic problems will arise globally, which may also be a blow to the entire industry. So this uncertainty factor leads us to be more cautious.

So in this situation, SITC needs to take the following measures: firstly, we will continue to focus on the Asian region, mainly developing in Southeast Asia and South Asia in addition to Northeast Asia. In Southeast Asia, we also need to increase transportation capacity. We have just announced adjustments to our routes, with increased capacity on the Philippines and Indonesia routes, as well as capacity adjustments and partial increases in North Southeast Asia. We also plan to increase some transportation capacity on the India route. In summary, we still have a positive outlook on the shipping market in Asia, which is our view and action for 2025.

The second question is about the 301 investigation. I think the impact of the 301 investigation in the United States varies among different industries. The impact on shipping companies is relatively less significant, but it may have a greater impact on the shipbuilding industry. The main reasons are: firstly, if the United States really implements taxation on Chinese made ships, shipping companies can adjust it. For example, placing non Chinese made ships on the US route and Chinese made ships on other global routes. Moreover, the US market share is not the largest. Secondly, there are Canadian ports in the north and Mexican ports in the south of the United States, and the port conditions are also good. Some ships can increase their berthing in Mexico and Canada and reduce their berthing in the United States, which is also a solution. Another way is to exchange routes. One goes to the United States, and another goes to Europe, they switch sides. This method is widely used by airlines and can also solve this problem. So the impact on shipping companies will not be so significant. Of course, it is still uncertain whether the final investigation will result in the imposition of berthing fees. But for shipyards, new orders from shipping companies may consider not being as concentrated as before, which is a possibility.

Q2: (Huatai Securities, Lin Shan) First of all, congratulations to the company for achieving excellent performance. I would like to inquire about long-term contract. Compared to the increase in 2024, the proportion of signed contracts, the situation of semi annual contracts and annual contracts, thank you.

A (CEO Xue Mingyuan) The signing ratio of has not changed significantly. The signing is now in the final stage, and by the end of March, it will be almost completed. Some may also sign contracts in July. Quarterly and monthly appointments vary according to market conditions. The signing price this year is still better than last year, with a total revenue increase of about 10%. The situation in the first quarter of last year was not very good, but relatively speaking, the signing intention of large customers this year is better than last year. The number of signed contracts has also increased compared to last year.

Q3: (DBS Bank, Wang Qi) Hello everyone, I have two questions. The first is about the company's capital expenditures and usage in 2025 and 2026. Will the company still buy new ships or dispose of some second-hand ships. The second is that the company's dividend payout for 2024 has also increased, and the management's outlook for 2025 is cautiously optimistic. In this situation, can we expect a special dividend payout for 2025? Thank you.

A :(CFO, Liu Kecheng) The capital expenditures for both the 2025 and 2026 were not significant, at around 150-200 million US dollars. Of course, there may also be some plans for new shipbuilding, but even if confirmed, the delivery date will be two years later, so overall the amount for these two years is not significant. In terms of expenditure structure, about half of it is used for investment in ships. In addition, the price of containers is decreasing, and there may be opportunities to increase some containers, as well as our land logistics project.

Regarding special dividends, we usually have an interim dividend and a final dividend equal to 70% of net profit. If the profits in the 2025 and 2026 exceed expectations, there is also a chance for special dividends, but it still depends on the final profitability.

A: (Chairman) We are not stingy with distributing special dividends.

A:(Board Secretary, Mr. Xue Peng) Old ship will also continue to be sold.

Q4: (Huatai Securities, Lin Shan) I have a follow-up question about the long-term contract. As mentioned earlier, this year's major clients have a higher willingness to sign contracts and have a larger volume of goods. What are the main reasons for this? Does the company feel that clients are shipping more before customs taxes? What is the reason why the customer's needs are better than before?

A: (CEO Xue Mingyuan) There is mainly a game between customers and shipping companies. The signing price in 2023 is relatively high, but the spot price is low, so the signing willingness of customers in 2024 has decreased. The signing price in 2024 has a significant decline compared to 2023, but in fact, the spot price in 2024 has more than doubled year-on-year, so the signing willingness of customers in 2025 has increased. In addition, we have seen that many customers expect their cargo volume to increase in the next 2025.

Q5: (HSBC, Bruce Zhu) Hello everyone, management. Considering that the company has only two ships to deliver in 2025, I would like to inquire about the company's expectations for the overall growth of transportation volume in 2025, as well as the deployment of transportation capacity? Thank you

A: (Chairman) The overall outlook for 2025 is still cautiously optimistic. Therefore, our transportation capacity for 2025 will increase, but it is difficult to increase because the market's transportation capacity supply is limited and the prices are very high. On the one hand, we have new ship deliveries, and on the other hand, since we have over one hundred ships, we can improve efficiency by adjusting the path planning. At the same time, it is also appropriate to charter fewer ships for deployment. Overall it is supposed to have thousands of slots increasing per week. But we expect to have a 5% increase in volume, but double-digit growth is definitely not possible this year. However, we believe there is still hope for a growth of no less than 5%, mainly through tapping potential and adjusting. Thank you.

Q6: (CICC, Feng Qibin) From the perspective of 2024, the price of this domestic trade ship in China is very good, but overall the volume has decreased significantly. The entire domestic trade market is actually shrinking. From the perspective of the industry's financial landscape, some of Chinese domestic shipping companies, like Zhonggu, Pan Asia, Antong are also considering the future strategic transformation. In the medium to long term, how to predict and reference their impact and pattern on our market.

A: (CEO Xue Mingyuan) These domestic shipping companies have actually tried foreign trade several times, and enter and leave the market several times. Recently, some companies have also entered the foreign trade industry, but the impact is actually very small. The main reason is, firstly, our market positioning. Firstly, there is a significant difference between SITC's market positioning and theirs. Our positioning is mainly for supply chain customers, that is, mid to high end customers. The market they enter must only be the low-end market. So it won't have a direct impact on our direct market. Secondly, the current hire rate for ships is relatively high, and domestic trading companies will definitely earn more income from chartering ships than operating. I think this interest will also drive them not to enter the foreign trade market on a large scale.

A: (Chairman) First, from the overall competitive landscape, the competitiveness of China's domestic trade shipping companies is not on the same level as that of Maersk, Wan Hai, and Evergreen. Our competitors over the past decades have been these global giants. If a few smaller competitors are added, I believe the impact on the market will not be significant. Moreover, the ships these companies possess, which are capable of operating in foreign trade, are most likely already deployed in foreign trade or rented out. For example, the 4,000-ton ships built by Zhonggu, which were originally intended for domestic coal transportation, are now rented out at over USD 30,000 per day, which is much better than operating them themselves. As for Antong, it has actually merged with Sinotrans. Apart from the ships that are chartered out, the rest may be used by Sinotrans. In terms of the competitive landscape, besides these few domestic trade companies in China, Pan Asia has always been involved in foreign trade, and there are other foreign trade companies such as Jinjiang and Taicang Shipping. We are not short of competitors. It doesn't matter if there are one or two more or fewer.

Q7: (Daiwa Capital, Frank Yip) Hello management, I would like to ask about the company's gross margin, which was very good in the second half of last year. How do we assess the gross margin situation this year? With contract prices rising year-on-year, I would also like to understand how much room there is for optimizing cost per TEU.

A: (Chairman) The gross margin mainly depends on pricing. In long-term price per TEU is definitely better than last year. However, it is hard to predict how the spot market will perform in the future, but I believe it should not be too bad. In terms of costs this year, there is still room for optimization. I remember last year, during this meeting in last March, an analyst asked me if there was still room for improvement after last year's good performance. I said there was. Last year, revenue increased by 26%, while costs only rose by 6%, and cargo volume increased by 10%. So, there was nearly a 7-8% reduction in costs. There is no lowest; only lower.

Looking at 2025, we will optimize efficiency, which will reduce cost per TEU. Additionally, fuel costs are likely to be lower this year compared to last year, which is a significant part. We have also optimized port calls, and there is room to reduce port call costs. Therefore, I believe it is highly probable that costs will be reduced in 2025.

Q8: (Daiwa Capital - Frank Yip) What was the utilization last year?

A: ((Board Secretary, Mr. Xue Peng) The utilization for both inbound and outbound trips did not change significantly and remained around 70%. Of course, during last year's peak season, such as in December, the utilization increased significantly, but on average, it still remained around 70%

Q9: (Ridge Capital, Liang Li) Hello Mr. Yang, Mr. Xue, and other leaders. As Mr. Yang mentioned earlier, the US Section 301 investigation may lead to restrictions on Chinese ships. Could this cause disruptions in the supply chain, thereby affecting supply? For example, if Chinese ships face higher costs to enter the US, and if shipping companies have a higher proportion of Chinese ships, they may face greater costs. Could this lead to a contraction in shipping capacity? Additionally, could restrictions on Chinese shipping companies also affect future shipbuilding, leading to even lower supply in the future? Thank you.

A: (Chairman) We can only assume that the Section 301 investigation will not change the overall global shipping capacity supply. However, it may lead to port congestion, as everyone may shift to Canadian and Mexican ports, which could become congested. This might result in a reduction in actual shipping capacity, but the overall capacity and number of ships should not decrease. I still believe that for major shipping companies providing global services, the choice of shipbuilding countries may be affected in the future. For example, some orders that were originally placed in China might be shifted to other countries. This impact is likely to occur.

Q10: (Ridge Capital, Liang Li) Following up on the Red Sea resumption of voyages, you mentioned that it is assumed that resumption may not happen this year. What is the basis for this judgment? Do you think the probability of resumption this year is relatively low?

A: (Chairman) We do not operate ships in the Red Sea, and I am not aware of the specific situation. Most shipping companies may be unwilling to resume voyages because their route plans have already been set, and resuming would require complex re-planning. Additionally, some companies may want to resume voyages to reduce costs, but if customers are unwilling to resume, the final outcome will still be no resumption. There are many issues involved. For example, passing through the Red Sea would require the collection of high insurance premiums, and customers would also have to pay high insurance fees. This is a complex game of interests. It is currently difficult to judge.

Moreover, the real situation is that the Israel-Palestine conflict has not substantially ended; it has only paused. Even the pause is not peaceful, and the future direction is uncertain. Looking at the past, the impact of the Houthi forces in the Red Sea on ships, including damage to warships, has been very significant. A destroyer, for example, was completely depleted of its missiles within minutes under the attack of a few drones. This is very dangerous. So, do not underestimate this issue; no one wants to take risks.

Q11: (SWS Research, Yan Hai) I think the previous discussion on Section 301 was very objective. I would like to ask about the recent changes in cross-border e-commerce cargo volumes on routes such as the Taiwan Strait and China-Korea routes. These routes have seen relatively fast growth in cargo volumes. Their demand patterns and pricing models may differ from those of our traditional customers. Could the management share their views on the recent changes in these routes and the impact on our profitability?

A: (CEO Xue Mingyuan) The distance between China and Korea is very short, and the current operating model should be able to meet customer needs. The e-commerce industry is not only growing rapidly between China and Korea but also in Southeast Asia and even the US. The most obvious difference we have observed is the higher requirement for timeliness. Customers have relatively high demands for delivery speed, which we welcome. Our route design and operational model are inclined towards timeliness and density. On our routes, customers' acceptance of our services is relatively high. Additionally, these customers are less sensitive to freight rates. Overall, we are quite fond of this type of cargo. There has been no fundamental change in demand. We are also paying attention to meeting their needs. For example, in Southeast Asia, we have launched some e-commerce express services. First, both terminals can support more punctual operations. Second, we may introduce some faster services on different routes to shorten transit times to meet the needs of these customers.

Q12: (Ruiyuan Fund, Zhou Yijing) I would like to ask about the impact of the current cycle, compounded by the pandemic and the Red Sea situation. Looking ahead to the next decade, this cycle may be very different from the past. Since shipping companies have made a lot of money and are mostly in a strong net cash position, I would like to ask the management how they see this affecting the next ten years, including the amplitude and duration of the cycle. Will this cycle be more moderate or more intense? And how will this correspondingly affect our cyclical strategies in buying, selling, and leasing ships?

A: (Chairman) You are thinking ahead, which is similar to our perspective. It is really hard to predict the next ten years, but I can share some insights. First, from the demand side, looking back over the past ten to twenty years, there has been growth overall. Even in the last three to five years, there has been growth. Overall, there has been an increase, except in 2023 when the pandemic ended and cargo volumes slightly declined before starting to grow again. In general, I believe growth is still the trend. Where will this growth come from? Many people think there is a trend of deglobalization, but in fact, globalization is not reversing; it is just changing its structure. Some new products and goods are developing rapidly. Moreover, so-called deglobalization policies have actually stimulated global manufacturing. What was once "Made in China" is now becoming "Made Globally," which is actually a positive for the global shipping industry. If this trend continues, we can expect an increase in global cargo volumes over the next ten years. I believe new products and new demands will drive overall future demand.

On the supply side, the main focus is on ships. Over the past few years, most shipbuilding has been concentrated on large vessels, specifically those above 10,000 TEUs. There has not been much construction of medium and small-sized ships. Another very important point is that in the past five years, there has been no significant reduction in the fleet, meaning no substantial scrapping of old ships. For example, about 30% of the currently operating 2,000-ton ships are over 20 years old, and some are even over 25 years old. If there is a downturn and these ships are scrapped, supply will quickly diminish. Therefore, a large number of ships will reach the end of their operational life and be scrapped over the next ten years. If there is a temporary change in demand, supply will immediately adjust. So, although there will be fluctuations, their impact will not be as significant as in the past.

Additionally, looking further upstream in the supply chain, at shipbuilding, if there is a shortage of ships, can the shipyards keep up with the supply? This is very different from the economic crisis before 2007 and 2008. At that time, China's shipyards had about twice the current capacity, and even Vietnam had some shipbuilding activity. Now, things have not recovered to that level. Japan also had a large shipbuilding capacity at that time, but it has almost disappeared now. So, from the perspective of shipyard supply capacity, it will not increase quickly. Of course, India is also preparing to enter shipbuilding, but without ten to twenty years of accumulation, it is impossible to achieve a significant increase in capacity. Overall, looking ahead, the shipping industry, especially for container shipping, should be relatively optimistic over the next ten years. However, cyclicality will still exist, and I believe that to operate in this industry, one must remain cautious. After all, those who are eliminated in this industry are usually those who have taken on too much leverage. In the stock market, if you take on too much leverage during a bull market, the risk of a margin call is much higher.

Q13: (Ruiyuan Fund, Zhou Yijing) I would like to follow up on that. Looking at the last cycle, companies entered the cycle with relatively higher leverage. But now, everyone is entering with a lot of net cash. What do you think the impact of this will be on the cycle?

A: (Chairman) If everyone has ample cash, the market will become more of a tug-of-war. But what is the difference between this cycle and the last one? In the last cycle, there were about 20 competitors, while in this cycle, there may be only ten. With fewer players, fewer will be eliminated. In a situation with many players, more will be eliminated. With fewer players, there will be fewer eliminations. In this case, there may be a push for cooperation.