

CSSC (Hong Kong) Shipping Company Limited 中國船舶(香港)航運租賃有限公司

(Incorporated in Hong Kong with limited liability)

Stock Code: 3877

Interim Report
2021



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Company Profile

Established in June 2012, CSSC (Hong Kong) Shipping Company Limited (the “Company” or “CSSC”, together with its subsidiaries, the “Group”), as the only red-chip listed company under China State Shipbuilding Industry Corporation Limited# (中國船舶工業集團有限公司) (“CSSC Group”), is the first shipyard-affiliated leasing company in Greater China* and one of the world’s leading ship leasing companies which offers customised and flexible ship leasing solutions to global ship operators, shippers and traders.

Leveraging its robust expertise and strong industrial background in the marine business, the Group focuses on developing ship and marine equipment leasing business. As at 30 June 2021, the vessel portfolio of the Group reached 163 vessels, enabling us to become a global leader in the ship leasing industry in terms of asset size and number of vessels. Since its inception, the Group has maintained high growth in business and efficiency. While marine business remains in the doldrums, the Group continues to implement counter-cyclical investment management measures so as to provide leasing services to leading partners in various market segments of the marine industry, thereby establishing long-term strategic cooperative relations. In the first half of the year, the global shipping market stabilized and rebounded, and the rental prices of bulk carriers and container vessels reached historical high levels, thus the asset value of the Group continued to increase. Under the new market trends, the Company implemented cross-cycle investment strategies vigorously, focused on the deployment of clean energy business and effectively responded to the severe impact of the outbreak of COVID-19, so as to continue to maintain a healthy and sustainable business.

As the People’s Republic of China (the “PRC”) is speeding up the establishment of a new development spectrum which is to “form mega domestic economy loop as backbone and inter-propelled by the twin domestic and international economy loops”, striving to achieve its goal of developing into “oceanic superpower”, fully implementing national strategies such as “Carbon peaking and carbon neutrality” and the construction of the Guangdong, Hong Kong and Macao Greater Bay Area, together with the signing of the Regional Comprehensive Economic Partnership Agreement, marine business and ship leasing business will witness various significant new strategic development opportunities. The Group’s advantages of being professional in ship leasing, having leading market position with well-established and innovative business model and high-quality vessels assets are conducive for us to seize new opportunities, meet new challenges and achieve new development.

The Company is headquartered in Hong Kong. In order to develop its ship leasing and marine equipment leasing business in the Asia-Pacific region, the Company has established subsidiaries in Singapore, Shanghai, Tianjin and Guangzhou.

* For the purpose of this report, includes the PRC, Hong Kong, Macau and Taiwan

For identification purpose only

Company Information

Board of Directors

Executive Directors

Mr. Zhong Jian (*Chairman*)
Mr. Hu Kai

Non-Executive Directors

Mr. Li Wei
Mr. Zou Yuanjing

Independent Non-Executive Directors

Mr. Wang Dennis
Mdm. Shing Mo Han Yvonne, *BBS, JP*
Mr. Li Hongji

Audit Committee

Mdm. Shing Mo Han Yvonne, *BBS, JP (Chairperson)*
Mr. Wang Dennis
Mr. Li Hongji
Mr. Li Wei
Mr. Zou Yuanjing

Remuneration Committee

Mr. Wang Dennis (*Chairperson*)
Mdm. Shing Mo Han Yvonne, *BBS, JP*
Mr. Li Hongji

Nomination Committee

Mr. Zhong Jian (*Chairperson*)
Mr. Wang Dennis
Mdm. Shing Mo Han Yvonne, *BBS, JP*
Mr. Li Hongji

Company Secretary

Mr. Ding Weisong

Assistant Company Secretary

Ms. Wong Sau Ping (*FCG, FCS*)

Authorised Representatives

Mr. Hu Kai
Ms. Wong Sau Ping

Hong Kong Legal Adviser

King & Wood Mallesons
13/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

Registered Office

1801, 18/F, World-wide House
19 Des Voeux Road Central
Hong Kong

Company Information

Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17/F, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Auditor

Grant Thornton Hong Kong Limited
Certified Public Accountants
12/F, 28 Hennessy Road
Wan Chai
Hong Kong

Principal Banks

Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
China Development Bank
The Export-Import Bank of China
Bank of Communications

Company's Website

<http://www.csscshipping.cn>

Stock Code

3877

Listing Date

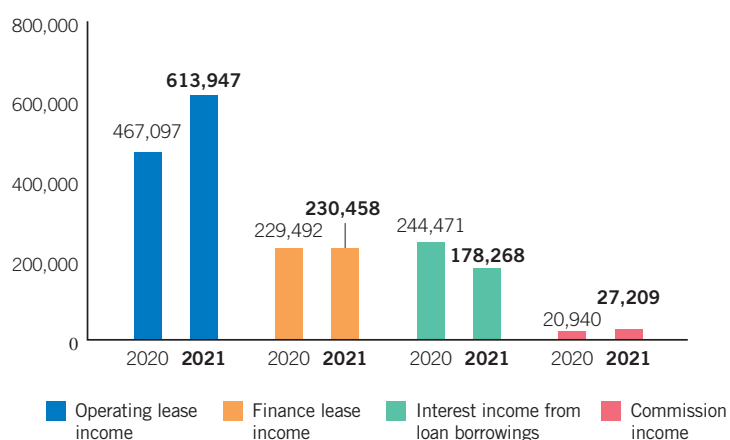
17 June 2019

Financial Highlights

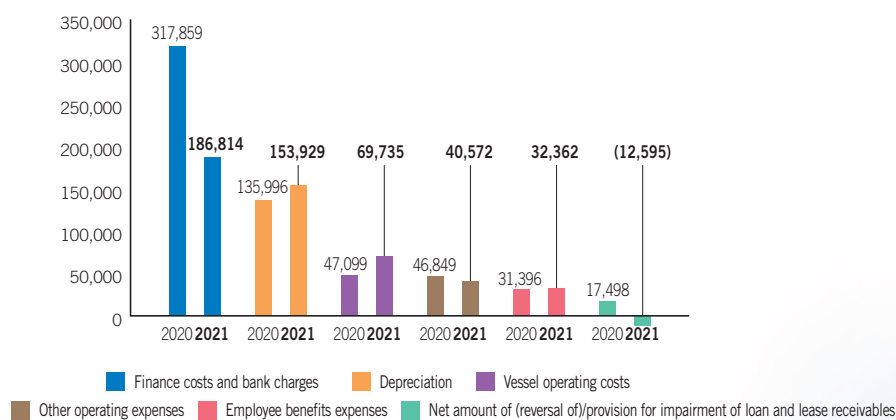
1. Summary of Condensed Consolidated Income Statement

	Six months ended 30 June		Change
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	
Revenue	1,049,882	962,000	9.1%
Total expenses	(470,817)	(596,697)	(21.1%)
Profit from operations	636,910	430,513	47.9%
Profit for the period	662,196	498,436	32.9%
Basic and diluted earnings per share (HK\$)	0.105	0.082	28.0%

Revenue
(HKD'000)



Expenses
(HKD'000)

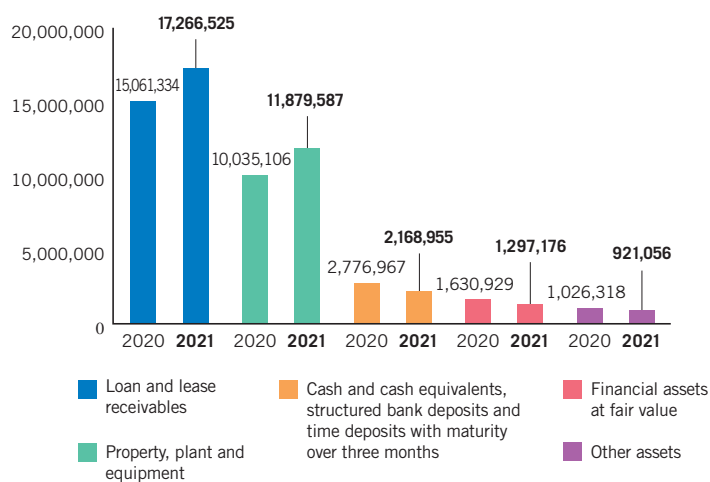


Financial Highlights

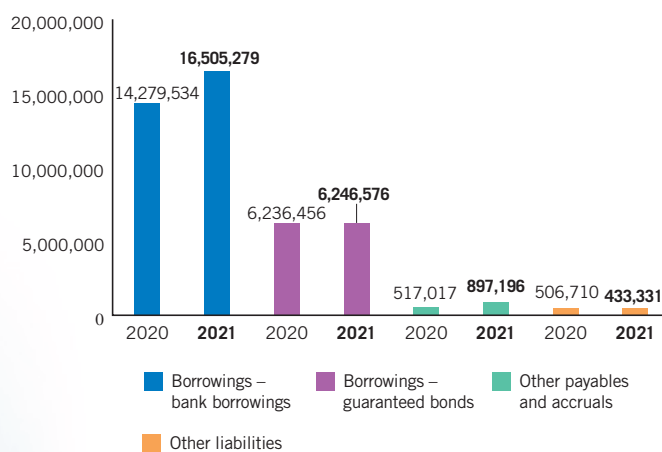
2. Summary of Condensed Consolidated Statements of Financial Position

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)	Change
Total assets	33,533,299	30,530,654	9.8%
Total liabilities	24,082,382	21,539,717	11.8%
Total equity	9,450,917	8,990,937	5.1%

Total Assets
(HKD'000)



Total Liabilities
(HKD'000)



Financial Highlights

3. Selected Financial Ratios

	Six months ended/ As at 30 June 2021	Year ended/ As at 31 December 2020
Profitability indicators		
Return on average assets ⁽¹⁾	4.1%	3.8%
Return on average net assets ⁽²⁾	14.1%	12.8%
Average cost of interest-bearing liabilities ⁽³⁾	1.7%	3.0%
Net profit margin ⁽⁴⁾	63.1%	59.8%
Liquidity indicators		
Asset-liability ratio ⁽⁵⁾	71.8%	70.6%
Risk asset-to-equity ratio ⁽⁶⁾	3.3 times	3.1 times
Gearing ratio ⁽⁷⁾	2.4 times	2.3 times
Net debt-to-equity ratio ⁽⁸⁾	2.2 times	2.0 times

Notes:

- (1) Calculated by dividing annualised net profit for the period/year by the average balance of total assets at the beginning and the end of the period/year.
- (2) Calculated by dividing annualised net profit attributable to the equity holders of the Company for the period/year by the average balance of net assets attributable to the equity holders of the Company at the beginning and the end of the period/year.
- (3) Calculated by dividing annualised finance costs and bank charges for the period/year by the average balance of borrowings at the beginning and the end of the period/year.
- (4) Calculated by dividing annualised net profit for the period/year by total revenue for the period/year.
- (5) Calculated by dividing total liabilities by total assets.
- (6) Calculated by dividing risk assets by total equity. Risk assets are total assets minus cash and cash equivalents and time deposits with maturity over three months.
- (7) Calculated by dividing total borrowings by total equity.
- (8) Calculated by dividing net debts by total equity. Net debts are borrowings minus cash and cash equivalents.

Management Discussion and Analysis

1. Industry Environment

Since 2021, the world economy has shown a momentum of recovery, the global industrial chain and supply chain have shown structural recovery, and with the steady rebound of demand for marine transport, the international shipping market has continued to improve, especially the container shipping market and dry bulk shipping market which have once again return to prosperous. During the first half of the year, the ClarkSea Index continued its raising momentum, and reached US\$28,484/day at the end of June 2021, representing an increase of 87% as compared to the beginning of the year, with an average of US\$20,717/day in the first half of the year, which was a new high since the 2008 financial crisis. The recovery of the shipping market stimulated shipping companies to invest in new shipping capacity, coupled with the re-launch of the newbuild projects which were suspended due to the COVID-19 pandemic (the “Pandemic” or “COVID-19”), the international new shipbuilding market was quite active with the trading volume of newbuild vessels exceeded expectations. According to Clarkson’s statistics, in the first half of 2021, a total of 829 newbuild orders (65.11 million DWT in total) were completed globally, representing a year-on-year increase of 162%, a record high in the past five years. Under the combined effect of rebounding orders and increasing cost, the newbuild prices also increased to a certain extent. At the end of June 2021, Clarkson’s newbuild price index closed at 138.51 points, representing an increase of 11.40 points as compared with the beginning of the year and a year-on-year increase of 11.58 points.

The bulk carrier market was volatile yet improving during the first half of 2021. The BDI index continued to rise, closing at 3,177 points at the end of June 2021, with an average of 2,206 points in the first half of the year, representing a year-on-year increase of 228.9%. With countries around the globe strove to accelerate their respective vaccination programs, as well as the stimulative fiscal policies rolled out by different governments, we saw an increase in both the price and volume of bulk commodities, and strong recovery momentum within the international dry bulk market. Meanwhile, the newbuild orders on hand for bulk carriers worldwide to existing fleet size reached the lowest of the past decades. Driven by the “China Factors”, the demand for transporting iron ore, coal and South America grains remained strong. In terms of rental income by vessel types, the average daily rental income of Capesize, Panamax and Handysize during the first half of the year were US\$19,635/day, US\$22,040/day and US\$16,943/day, respectively, representing a year-on-year increase of 300.1%, 172.6% and 119.5%, respectively. The improved supply-demand dynamics of shipping capacity has facilitated the further recovery of the market.

The container market continued to prosper in the first half of 2021. Affected by severe Pandemic situation overseas, Suez Canal blockage and other alike non-fundamental factors, we could see the occurrence of many unconventional phenomena, such as international trade imbalances in supply and demand, severe shortage of containers and large-scale port congestion. The bulk shipping market continued its energetic momentum since the second half of 2020, the CCFI has repeatedly broken its record high and fluctuated between 1,600 and 2,600 points, with an average of 2,051 points, representing a year-on-year increase of 132.1%. In respect of major routes, the average freight index of European routes, North American routes and South American routes in the first half of the year was 3,273 points, 1,405 points and 1,840 points, respectively, representing a year-on-year increase of 169.4%, 36.2% and 121.5%, respectively. At the same time, the continuous recovery of the supply chain market has brought positive sentiment to the container shipping market, which in turn drove the new container vessel construction market.

Affected by the resurgence of the Pandemic in some major countries, the implementation of carbon emission reduction policies and high shock of oil prices, coupled with the continued weak demand for oil, the oil tanker market performed poorly in the first half of 2021. The average value of BDTI in the first half of the year was 605 points, representing a year-on-year decrease of 39.9%.

Management Discussion and Analysis

1. Industry Environment *(Continued)*

The offshore clean energy market is still in a stage of strong expansion. In June 2021, Clarkson's global maritime trade index of Liquefied Natural Gas (LNG) reached record high at 156.6 points, representing a year-on-year increase of 9.4%. It is expected that the annual maritime trading volume of LNG will further increase by 6% to 859 million tonnes. At the same time, with the large number of LNG projects around the world having commenced operation and the increasingly strong demand for natural gas from Asian countries, the capacity of LNG vessel fleet has expanded steadily. From 2020 to 2021, the LNG shipping market had performed positively in general. Although the development of the global LNG industry was slowed down due to the outbreak of the Pandemic, the industry remained confident that with the new production projects in Russia, East Africa and other places being finalized, the investment in new vessels is expected to remain at historical high level.

2. Overall Operation of the Group

In the first half of 2021, the chartered fleet of the Group grew steadily and rapidly, and actively expanded into the new energy offshore equipment market. With our innovative green financial model and outstanding performance of our self-operated bulk carrier fleet, we have achieved remarkable operating results. For the six months ended 30 June 2021, the Group recorded a revenue of HK\$1,049.9 million. The Group's operating profit for the first half of 2021 was HK\$636.9 million, representing a year-on-year increase of 47.9%. The consolidated profit attributable to equity holders of the Group for the six months ended 30 June 2021 increased by approximately 28.0% as compared to the corresponding period in 2020. The number of vessels in operation increased from 84 as at 30 June 2020 to 114 as at 30 June 2021, representing an increase of 35.7%. For the six months ended 30 June 2021, the Group's return on average net assets and return on average assets was 14.1% and 4.1%, respectively.

The Group's finance costs decreased significantly, in particular, the Group's average cost of interest-bearing liabilities decreased from 3.3% for the six months ended 30 June 2020 to approximately 1.7% for the corresponding period in 2021.

3. Performance Highlights of the Group

3.1 The principal business of ship leasing achieved remarkable development efficiency and the fleet size grew rapidly

As at 30 June 2021, the size of the Group's (including its joint ventures and associates) vessel portfolio reached 163 vessels, of which the number of vessels in operation increased from 90 as at 31 December 2020 to 114 as at 30 June 2021, representing an increase of 26.7%, 49 vessels were under construction, with an average age of 3.8 years.

In the first half of this year, the Group (including its joint ventures and associates) entered into 28 ship leasing contracts and completed 4 ship leasing contracts. All ship assets are under leasing. The Group (including its joint ventures and associates) is implementing 114 ship leasing contracts, including 58 finance lease contracts and 56 operating lease contracts. Among these 114 lease contracts in progress, 91 lease contracts were entered into for a term of more than one year with an average remaining lease term of approximately 7.71 years. The long-term leased assets will provide the Group with stable revenue and profits.

Management Discussion and Analysis

3. Performance Highlights of the Group *(Continued)*

3.2 The self-operated bulk carrier fleet performed well and promoted the steady growth of the Group's business

As of 30 June 2021, the Group had 6 self-operated bulk carrier fleet chartered on a spot market basis, with approximately 380,000 DWT. The revenue of self-operate bulk carrier fleet increased by 219% from HK\$55.6 million for the six months ended 30 June 2020 to HK\$177.2 million for the six months ended 30 June 2021. It is expected that by the end of this year, the Group's self-operated bulk carrier fleet chartered on a spot market basis will include 7 vessels, with approximately 460,000 DWT.

3.3 Adhering to green and sustainable development and commitment to the development of offshore clean energy equipment

The Group is one of the first leasing companies that had largest investment and most extensive involvement in the field of clean energy and green shipbuilding. As at 30 June 2021, the Group (including its joint ventures and associates) had a total of 19 offshore clean energy equipment vessels in its asset portfolio, the construction contract value of such assets contract accounted for 34% of the total asset contract portfolio of the Group's vessels, which mainly included floating liquefied natural gas plants (FLNG), floating storage re-gasification unit (FSRU) and very large gas carrier (VLGC), with a total asset contract value of approximately HK\$17.7 billion.

In June 2021, the Group obtained a 10-year vessel secured term loan in an aggregate amount of US\$96 million for green financing of 4 dual fuel power container vessels. This loan adopted the green sustainable development indicator-linked structure for the first time, which was the first attempt of the Group in the field of sustainable shipping finance loans, and also demonstrated recognition of the value of the Group's clean energy business by the capital market.

3.4 Maintaining high credit rating and finance costs continue to decrease

For the two consecutive years in 2019 and 2020, the Group received "A-"/Stable rating from S&P Global Ratings and "A"/Stable rating from Fitch Ratings for its primary credit rating. At the same time, it maintained close cooperation and established good credit relations with 24 banks to further optimize the debt structure and external financing conditions. Focusing on the development of a green finance model, the Group is committed to fulfilling its social responsibility and commitment to the sustainable development in the shipping industry. As at 30 June 2021, the average cost of interest-bearing liabilities of the Group was 1.7%, representing a year-on-year decrease of 1.6 percentage points, resulting in a significant reduction in finance costs and a steady improvement in profitability.

At the beginning of this year, the Group was included in the MSCI China Small Cap Index by virtue of its good operating results and market recognition of its development potential, indicating the market's recognition and confidence in the Group, and also demonstrated the Group's influence in the international capital market and its reputation among domestic and foreign investors.

Management Discussion and Analysis

3. Performance Highlights of the Group *(Continued)*

3.5 Strengthening business risk management and control to ensure stable operation of assets

The Group used the EMS information management system to cover the entire life cycle of projects, enhance its ability to respond to and resolve high-risk and non-performing projects and improve its risk management capabilities. We maintained a high level of asset quality with no new non-performing projects were added in the first half of 2021. As at 30 June 2021, the Group's assets were in good operating condition, with a utilization rate of vessel assets of 100.0% and an overall recovery rate of charter hire of 100.0%. The Group firmly enhanced its digital operation capability, and commenced the construction of the internal control information system this year to further improve operational efficiency.

4. Outlook

In the first half of 2021, the global economy recovered rapidly, the global seaborne trade volume continued to recover, the supply of shipping capacity was effectively controlled, and the confidence in the global shipping market was boosted. In the short term, the shipping fundamentals are expected to improve, the operating conditions of shipping companies will continue to improve, and the investment intention and capability will be steadily enhanced.

Looking forward to the second half of the year and to the medium to long term, green, low-carbon, energy-saving and environmental protection will be the main themes of the global shipping industry. Accelerating the green transformation of traditional products has become an inevitable choice for the high-quality development of shipping enterprises. With the signing of the "Poseidon Principle", international ship financing enterprises will also comply with the environmental protection requirements and focus on environmentally friendly ocean-going vessels when granting new loans.

At the International Maritime Organization's (IMO) Maritime Environmental Protection Committee meeting held in June 2021, the IMO Greenhouse Gas Emission Reduction Strategy Roadmap was approved, which introduces the Energy Efficiency Existing Ship Index (EEXI) and Carbon Intensity Index (CII), aiming to improve the energy efficiency of existing vessels and reduce the carbon intensity level from both technical and operational aspects. Vessels that fail to meet the requirements of EEXI or have a low CII rating will face operational difficulties after the rule comes into effect. According to the statistics of IMO and Clarkson, in terms of DWT, only 26% of the world's fleet is currently environmental-friendly and 21% of the fleet is equipped with desulphurization equipment. If EEXI comes into effect in 2023, more than 20,000 vessels in the world will face the dilemma of reducing the speed by more than 10% in order to meet the emission reduction target, accelerating the pace of elimination and transformation of high-consumption and inefficient vessels.

Management Discussion and Analysis

4. Outlook *(Continued)*

The marine clean energy and energy-saving technology industry has a broad development prospect. With the increasingly stringent emission reduction policies, the accelerated replacement of old vessels and the acceleration of “stratification” of market rentals by vessel type, the Group’s strategic investment in energy-saving and environmentally-friendly vessels and offshore clean energy equipment will usher in a long harvest period. The Group has secured an early-mover advantage in the offshore clean energy equipment leasing market. At present, the Group is studying the feasibility of investment in new types of clean energy equipment such as LNG power generation vessels. The Group will continue to vigorously develop the offshore clean energy equipment market and integrate it into the national clean energy development strategy, and form a relatively complete clean energy industry chain with the existing and upcoming LNG vessels, floating liquefied natural gas plants (FLNG) and floating storage and regasification units (FSRU).

Facing the major trend of carbon emission reduction in the shipping industry, the Group is actively exploring joint ventures and cooperation with domestic advanced technology development companies to make preliminary preparations for the research and development of marine energy-saving devices and carbon capture technology, so as to form a new economic growth point, and apply advanced energy-saving and emission reduction technologies to the existing fleet and subsequent new shipbuilding orders in due course, and prioritize the transformation and enhancement of the environmental protection level and technical added value of the Group’s fleet through “technology empowerment”.

In conclusion, the Group will continue to leverage on its professional advantages of the shipyard-affiliated leasing company, maintain continuous investment in new ship leasing assets, and continue to increase the allocation of self-owned vessels. At the same time, it will prioritize in strengthening green shipping financial investment, leading the innovation of energy conservation and emission reduction technology, expanding the advantages of clean energy products, continuously optimizing the business and fleet portfolio, transforming “passive response to emission reduction challenges”, “actively grasp the opportunities of reform”, continuously improve the “technical content” of professional finance, and leading the shipping leasing industry “beyond the cycle”.

Management Discussion and Analysis

5. Analysis on Condensed Consolidated Financial Statements

5.1 Analysis on Condensed Consolidated Income Statements

5.1.1 Revenue

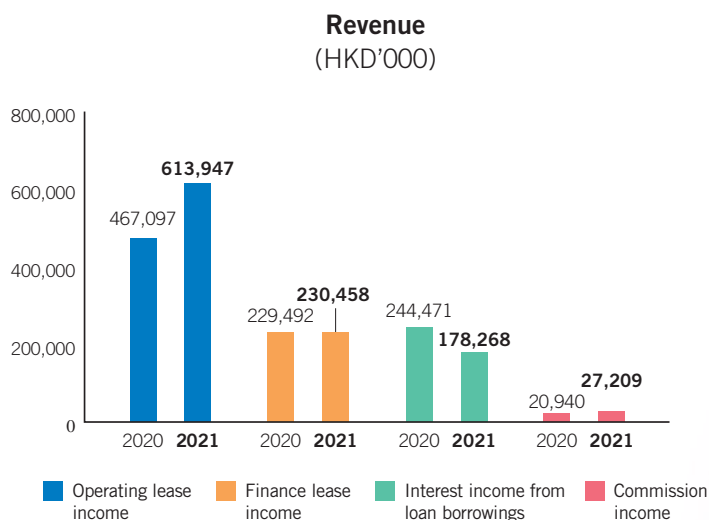
The Group's revenue comprises (i) operating lease income; (ii) finance lease income; (iii) interest income from loan borrowings; and (iv) commission income.

The Group's revenue increased by 9.1% from HK\$962.0 million for the six months ended 30 June 2020 to HK\$1,049.9 million for the six months ended 30 June 2021, primarily due to the increase in operating lease income and finance lease income.

The following table sets out, for the periods indicated, a breakdown of the Group's revenue by business activity:

Revenue

	Six months ended 30 June		Change
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	
Operating lease income	613,947	467,097	31.4%
Finance lease income	230,458	229,492	0.4%
Interest income from loan borrowings	178,268	244,471	(27.1%)
Commission income	27,209	20,940	29.9%
	1,049,882	962,000	9.1%



Management Discussion and Analysis

5. Analysis on Condensed Consolidated Financial Statements *(Continued)*

5.1 Analysis on Condensed Consolidated Income Statements *(Continued)*

5.1.1 Revenue *(Continued)*

Operating Lease Income

The Group's operating lease income increased by 31.4% from HK\$467.1 million for the six months ended 30 June 2020 to HK\$613.9 million for the six months ended 30 June 2021. Such increase in operating lease income was due to the continued growth in the number of operating lease vessels; and the well performance in the self-operated bulker carrier market.

Finance Lease Income

The Group's recognised finance lease income was HK\$230.5 million for the six months ended 30 June 2021, compared with HK\$229.5 million for the corresponding period of the last year, representing an increase of HK\$1.0 million or 0.4%. Although the Group's finance lease income is priced on a floating rate basis with reference to LIBOR which currently stays at a lower rate, the slight increase in finance lease income was mainly because the Group had engaged more new finance lease contracts during the first half of 2021 when comparing to the corresponding period in 2020. The average balance of finance lease receivables increased by 16.0% from HK\$6,847.8 million for the year ended 31 December 2020 to HK\$7,941.8 million for the six months ended 30 June 2021.

Interest Income from Loan Borrowings

The Group's interest income from loan borrowings decreased by 27.1% from HK\$244.5 million for the six months ended 30 June 2020 to HK\$178.3 million for the six months ended 30 June 2021. The decrease in interest income from loan borrowings was mainly because the LIBOR continued to maintain at a low level. The average 3-month LIBOR decreased from 1.1% for the six months ended 30 June 2020 to 0.2% for the six months ended 30 June 2021.

Commission Income

The Group's commission income is generated by providing shipbroking services when the Group successfully facilitates shipbuilding transactions. The Group's commission income increased by 30.1% from HK\$20.9 million for the six months ended 30 June 2020 to HK\$27.2 million for the six months ended 30 June 2021. Such increase was mainly because a number of vessel sales was concluded in the current period as compared to 2020.

5.1.2 Other Income and Other Gains, Net

During the first half of 2021, the Group's other income and other gains, net decreased by 11.3% or HK\$7.4 million from HK\$65.2 million for the corresponding period last year to HK\$57.8 million for the six months ended 30 June 2021.

The major reason of the decline in other income and other gains, net was due to the dividend income from listed preference shares and the interest income derived from listed bonds, with a total decrease of 34.6% or HK\$9.2 million from HK\$26.6 million for the corresponding period last year to HK\$17.4 million for the six months ended 30 June 2021 as the Group restructured the investment portfolio since early 2021. Our management will continue to review the investment portfolio and seek the best options to improve the investment return.

On the other hand, the Group recorded the interest income from private bonds of HK\$10.8 million for the six months ended 30 June 2021, as compared to HK\$8.6 million for the corresponding period last year. The increase of HK\$2.2 million was because the interest income from private bonds had a longer calculation period in the first half of 2021 as compared to the corresponding period last year.

Management Discussion and Analysis

5. Analysis on Condensed Consolidated Financial Statements *(Continued)*

5.1 Analysis on Condensed Consolidated Income Statements *(Continued)*

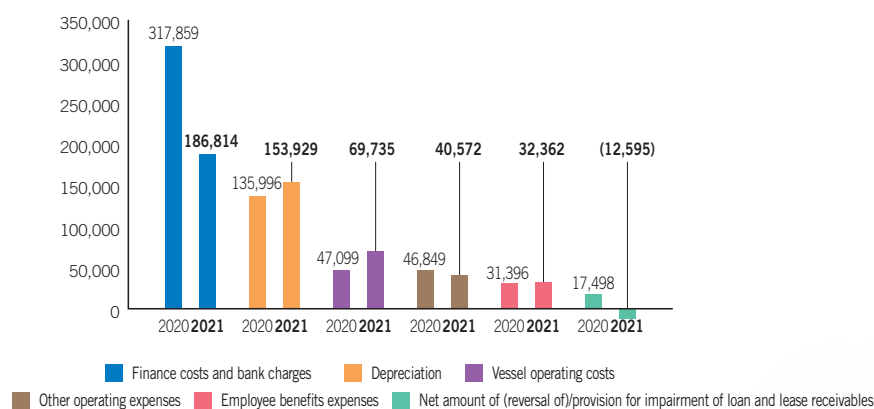
5.1.3 Expenses

The Group's expenses mainly comprise (i) finance costs and bank charges; (ii) net amount of (reversal of)/provision for impairment of loan and lease receivables; (iii) depreciation; (iv) vessel operating costs; (v) employee benefits expenses; and (vi) other operating expenses.

Expenses

	Six months ended 30 June		Change
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	
Finance costs and bank charges	186,814	317,859	(41.2%)
Depreciation	153,929	135,996	13.2%
Vessel operating costs	69,735	47,099	48.1%
Other operating expenses	40,572	46,849	(13.4%)
Employee benefits expenses	32,362	31,396	3.1%
Net amount of (reversal of)/provision for impairment of loan and lease receivables	(12,595)	17,498	(172.0%)
	470,817	596,697	(21.1%)

Expenses
(HKD'000)



Management Discussion and Analysis

5. Analysis on Condensed Consolidated Financial Statements *(Continued)*

5.1 Analysis on Condensed Consolidated Income Statements *(Continued)*

5.1.3 Expenses *(Continued)*

(a) *Finance Costs and Bank Charges*

The Group's finance costs and bank charges during the period consisted of interests and charges on bank borrowings. The Group's finance costs and bank charges decreased by 41.2% from HK\$317.9 million for the six months ended 30 June 2020 to HK\$186.8 million for the six months ended 30 June 2021, primarily because (i) Fitch Rating and S&P Global Rating continued to assign corporate credit rating of "A"/stable and "A-"/stable to the Group and the Group continued to maintain a good financing viability, which helped the Group obtain lower interest rates from various banks and (ii) the floating rates with reference to LIBOR decreased dramatically. The average cost of interest-bearing liabilities was 3.0% and 1.7% for the year ended 31 December 2020 and the six months ended 30 June 2021, respectively.

(b) *Net Amount of (Reversal of)/Provision for Impairment of Loan and Lease Receivables*

The reversal of impairment of loan and lease receivables was mainly due to the recovery of bulk carrier and containership market. Although the tanker market was under pressure, there was no default on the repayment from our customers. The credit rating would be adjusted accordingly based on the market condition during the six months ended 30 June 2021.

(c) *Depreciation*

The Group's depreciation expenses increased by 13.2% from HK\$136.0 million for the six months ended 30 June 2020 to HK\$153.9 million for the six months ended 30 June 2021. The increase was mainly attributable to vessels delivered during late 2020 and the first half of 2021. The net book value of vessels increased by 22.1% from HK\$7,633.0 million as at 31 December 2020 to HK\$9,318.1 million as at 30 June 2021.

(d) *Vessel Operating Costs*

The Group's vessel operating costs represent the expenses incurred in operating vessels under operating lease arrangements, including crew expenses, vessel repair and maintenance fees, ship management fees and vessel insurances. As more vessels were delivered in late 2020 and the first half of 2021, and due to the impact of COVID-19, the crew expenses and crew travelling expenses increased significantly in the first half of 2021 when comparing to the first half of 2020. The Group's vessel operating costs increased significantly by 48.1% to HK\$69.7 million for the six months ended 30 June 2021.

Management Discussion and Analysis

5. Analysis on Condensed Consolidated Financial Statements *(Continued)*

5.1 Analysis on Condensed Consolidated Income Statements *(Continued)*

5.1.4 Share of Results of Joint Ventures

The Group's share of results of joint ventures decreased significantly by 61.1% or HK\$49.0 million from HK\$80.2 million for the six months ended 30 June 2020 to HK\$31.2 million for the six months ended 30 June 2021. The Group's joint ventures are engaged in the international transportation segments of LPG, product oil and chemicals.

Firstly, due to the impact of COVID-19, the global product oil demand has still not yet recovered. The average Baltic Exchange Clean Tanker Index (BCTI) of the first half of 2021 dropped dramatically by 53.4% when compared to that of 2020, thus the product oil market continued to suffer losses in the unstable market environment.

Secondly, the market of VLGC also experienced the similar story, comparing to the first half of 2020, the index for the average time chartering rate per day of the first half of 2021 decreased by 19.0% which was in line with the decrease in revenue.

Management Discussion and Analysis

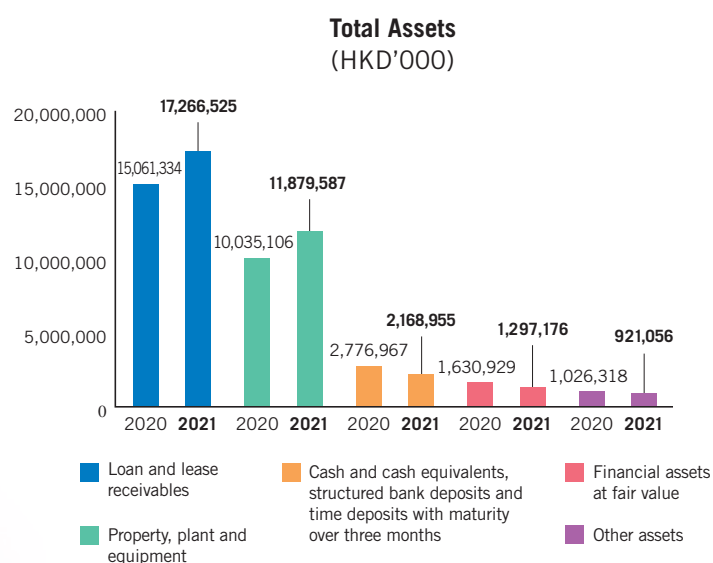
5. Analysis on Condensed Consolidated Financial Statements *(Continued)*

5.2 Analysis on the Condensed Consolidated Statement of Financial Position

As at 30 June 2021, the total assets of the Group mainly comprised property, plant and equipment, loan and lease receivables, cash and bank deposits and financial assets at fair value, which accounted for 97.3% of the Group's total assets.

Total assets

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)	Change
Loan and lease receivables	17,266,525	15,061,334	14.6%
Property, plant and equipment	11,879,587	10,035,106	18.4%
Cash and cash equivalents, structured bank deposits and time deposits with maturity over three months	2,168,955	2,776,967	(21.9%)
Financial assets at fair value	1,297,176	1,630,929	(20.5%)
Other assets	921,056	1,026,318	(10.3%)
	33,533,299	30,530,654	9.8%



Management Discussion and Analysis

5. Analysis on Condensed Consolidated Financial Statements *(Continued)*

5.2 Analysis on the Condensed Consolidated Statement of Financial Position *(Continued)*

5.2.1 Loan and Lease Receivables

The Group's loan and lease receivables comprise (i) loan borrowings; (ii) lease receivables; and (iii) loans to joint ventures.

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)	Change
Loan borrowings	7,531,403	7,458,786	1.0%
Lease receivables	9,001,982	6,881,529	30.8%
Loans to joint ventures	733,140	721,019	1.7%
Net carrying amount	17,266,525	15,061,334	14.6%

(a) Loan Borrowings

Loan borrowings mainly refer to receivables from the secured loan provided by us. The Group's loan borrowings were secured and bore interest at rates ranging from 3.5% to 8.0% per annum and repayable from 2021 to 2031 as at 30 June 2021.

The Group's loan borrowings increased from HK\$7,458.8 million as at 31 December 2020 to HK\$7,531.4 million as at 30 June 2021. The increase in loan borrowings was mainly because the Group had new lending to customers during the period.

(b) Lease Receivables

The Group's net lease receivables amounted to HK\$6,881.5 million and HK\$9,002.0 million as at 31 December 2020 and 30 June 2021, respectively. Such receivables significantly increased because the Group entered into several new finance lease contracts in the second quarter of 2021.

Finance lease receivables were secured and repayable within 15 years and bore interest at rates ranging from 3.5% to 7.0% as at 30 June 2021.

Management Discussion and Analysis

5. Analysis on Condensed Consolidated Financial Statements *(Continued)*

5.2 Analysis on the Condensed Consolidated Statement of Financial Position *(Continued)*

5.2.1 Loan and Lease Receivables *(Continued)*

(c) *Loans to Joint Ventures*

Loans to joint ventures represent the unsecured loans to joint ventures which were repayable on demand, of which HK\$340.4 million bore interest at rates ranging from 3.1% to 3.3% per annum as at 30 June 2021.

The Group's loans to joint ventures remained at a stable level of HK\$721.0 million and HK\$733.1 million as at 31 December 2020 and 30 June 2021, respectively. The slight increase of HK\$12.1 million in loans to joint ventures was mainly due to the further injection of funding to joint ventures for vessels under construction which was in accordance with the Group's business plan.

5.2.2 Property, Plant and Equipment

The Group's property, plant and equipment comprise constructions in progress, vessels held for operating leases, leasehold improvements, office equipment and motor vehicles held for business purposes. As at 31 December 2020 and 30 June 2021, the Group's property, plant and equipment amounted to HK\$10,035.1 million and HK\$11,879.6 million, respectively. The increase of 18.4% in the Group's property, plant and equipment during the period was primarily because the Group continued to increase the number of vessels under operating lease arrangements.

Management Discussion and Analysis

5. Analysis on Condensed Consolidated Financial Statements *(Continued)*

5.2 Analysis on the Condensed Consolidated Statement of Financial Position *(Continued)*

5.2.3 Financial Assets At Fair Value

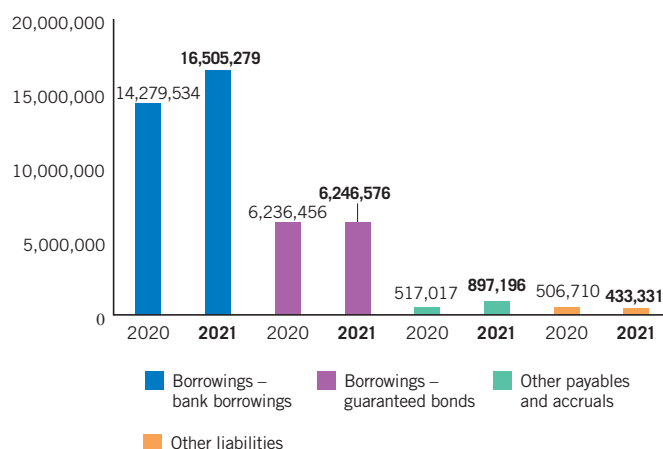
Financial assets at fair value represent private and listed bonds, listed preference shares and wealth management products held by the Group. During the first half of 2021, the Group seized market opportunities and sold the listed preference shares in the market, the total amount of financial assets at fair value decreased by 20.5% from HK\$1,630.9 million as at 31 December 2020 to HK\$1,297.2 million as at 30 June 2021. The Group will continue to maintain the suitable investment portfolio of the private and listed bonds and wealth management products in order to receive stable return.

As at 30 June 2021, the total liabilities of the Group mainly represented by borrowings, including bank borrowings and guaranteed bonds, which accounted for 94.5% of its total liabilities. Other payables and accruals accounted for 3.7% of the Group's total liabilities.

Total liabilities

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)	Change
Borrowings – bank borrowings	16,505,279	14,279,534	15.6%
Borrowings – guaranteed bonds	6,246,576	6,236,456	0.2%
Other payables and accruals	897,196	517,017	73.5%
Other liabilities	433,331	506,710	(14.5%)
	24,082,382	21,539,717	11.8%

Total Liabilities
(HKD'000)



Management Discussion and Analysis

5. Analysis on Condensed Consolidated Financial Statements *(Continued)*

5.2 Analysis on the Condensed Consolidated Statement of Financial Position *(Continued)*

5.2.4 Borrowings – Bank Borrowings

The Group's bank borrowings increased by 15.6% from HK\$14,279.5 million as at 31 December 2020 to HK\$16,505.3 million as at 30 June 2021, mainly due to the drawdown of borrowings during the first half of 2021. The weighted average interest rates for the year ended 31 December 2020 and six months ended 30 June 2021 ranged from 1.12% to 3.62% and 0.99% to 2.43%, respectively. There was no delay in the repayment of or default in any of our bank borrowings during the period.

5.2.5 Borrowings – Guaranteed Bonds

In February 2020, the Group issued two guaranteed bonds of US\$400,000,000 (approximately HK\$3,104,880,000) due 2025 and US\$400,000,000 (approximately HK\$3,104,880,000) due 2030 bearing interest at 2.5% and 3.0%, respectively. The guaranteed bonds were listed on The Stock Exchange of Hong Kong Limited. As at 31 December 2020 and 30 June 2021, the balance including accrued interest were HK\$6,236.5 million and HK\$6,246.6 million, respectively.

In order to improve the Group's liability duration structure and effectively reduce the Group's average financing costs, the Group has successfully issued US\$500 million green and blue dual-certified bonds after the reporting period in July 2021. The green and blue dual-certified bonds of US\$500 million will mature in 5 years (i.e. due 2026) with a coupon rate of 2.10% per annum. The use of funds includes development of the leasing business (including the green and blue vessel projects), repayment of existing debts and general corporate purposes.

6. Asset Quality

The Group writes off loan and lease receivables, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the cessation of enforcement activities. The Group may write off loan and lease receivables that are still subject to enforcement activities.

The Group did not write off any loan and lease receivables during the year ended 31 December 2020 and the six months ended 30 June 2021.

Management Discussion and Analysis

7. Analysis of Condensed Consolidated Statement of Cash Flows

The following table sets out, for the periods indicated, a summary of the Group's condensed consolidated statement of cash flows:

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Net cash used in operating activities	(1,115,067)	(80,106)
Net cash used in investing activities	(1,599,606)	(1,417,303)
Net cash generated from financing activities	2,154,407	1,000,490
Net decrease in cash and cash equivalents	(560,266)	(496,919)
Cash and cash equivalents at the beginning of the period	2,180,280	1,895,182
Effect of foreign exchange rate changes on cash and cash equivalents	20,202	4,166
Cash and cash equivalents at the end of the period	1,640,216	1,402,429

The net cash used in operating activities amounted to HK\$1,115.1 million, which was mainly because the Group has signed several new finance lease contracts, those contracts were approved and the loans were released during the six months ended 30 June 2021.

The net cash used in investing activities amounted to HK\$1,599.6 million, which was mainly due to the payment to shipbuilders during the six months ended 30 June 2021.

Management Discussion and Analysis

8. Fund Management

8.1 Bank Loans and Capital Structure

In the first half of 2021, with the continuous development of its main business, the Group's operating performance steadily improved. Benefiting from excellent international ratings and good market reputation, the Group's liquidity was solid, and its financing capabilities continued to increase and financing methods were increasingly diversified while financing costs continued to decrease. The Group kept abreast of the changes in macro situation and adjusted its financing strategies in a timely manner. The Group also rationally selected USD dollar-denominated financing products and properly arranged the term structure to further optimize its debt structure. As at the end of June 2021, the average cost of the Group's interest bearing liabilities decreased from 3.0% at the beginning of 2021 to 1.7%, the results showed a significant decrease in the Group's finance cost.

The Group continued to accelerate business cooperation with domestic and foreign banks and other financial institutions to fully ensure the financial support required for business development. As at 30 June 2020, the Group established a solid business relationship with more than 20 banks, and obtained banking facilities of HK\$21,500 million, of which HK\$16,400 million had been utilized and HK\$5,100 million was unutilised as at 30 June 2021. In addition, the Group successfully issued US\$500 million green and blue dual-certified bonds in July 2021, with a term of 5 years and a coupon rate of 2.10%. The use of funds includes development of the leasing business (including the green and blue vessel projects), repayment of existing debts and general corporate purposes. Apart from providing sufficient financial support to subsequent delivery of vessels, the successful issuance of the relevant bonds will further improve the liability duration structure of the Group and effectively reduce average financing costs, thereby providing a strong guarantee for robust business growth.

As of the end of June 2021, the Group's total assets and total liabilities were HK\$33,533 million and HK\$24,082 million, respectively, and its equity attributable to owners was HK\$9,391 million. The gearing ratio was 2.4 times, which was due to the increase in debt scale of the Group as compared to the beginning of the year as a result of the continuous growth in its leasing business. Despite the slight increase, its gearing ratio still maintained at a relatively low level in the industry.

8.2 Interest Rate Risk

In terms of interest rate risk, the Group's interest spread may be narrowed due to fluctuations in market interest rate. In 2021, under the continuous influence of COVID-19, the volatile fluctuations in US dollar interest rate market exerted greater pressure on the control of the Group's interest rate risk. In terms of interest rate structure, the Group continued to uphold its original interest rate risk management strategies and proactively managed the matching of assets and liabilities in the interest rate structure.

Management Discussion and Analysis

8. Fund Management *(Continued)*

8.2 Interest Rate Risk *(Continued)*

The Group has established relevant guidelines and procedures to identify, manage and mitigate our interest rate risk. We managed interest rate risk mainly by controlling the interest rate of leased assets and the corresponding liabilities. Most of the Group's financial lease business charges charter hire at floating interest rates. As the charter hire is calculated based on USD LIBOR and the corresponding bank loans also carry interest at floating interest rates linked to LIBOR, there is no interest rate risk. As some of the Group's operating lease business charges charter hire at fixed interest rates, while the corresponding bank loans carry interest at floating interest rates, the Group is exposed to interest rate risk. We utilise interest rate sensitivity analysis to assess the impact of interest rate fluctuations on our business. Through the sensitivity analysis, we are able to measure the interest sensitivity gap and seek to control the gap by adjusting our asset and liability structure. The Group controls interest rate risk through fixed-rate bank loans, issuance of fixed-rate bonds and interest rate derivatives such as interest rate swaps. As of 30 June 2021, the Group had interest rate swap contracts with a principal amount of US\$699.3 million.

Regarding the possible withdrawal of LIBOR interest rate from the market in the future, the Group has conducted some internal researches, it plans to introduce a backup mechanism for both existing and new debts or adopt other interest rate models during the transition period. In the future, the Group plans to use SOFR (risk-free rate) to replace LIBOR which has been relied on.

8.3 Exchange Rate Risk

In terms of exchange rate structure, the Group continued to uphold its original exchange rate risk management strategies and maintained the basic matching of assets and liabilities in currency. The vessels under finance lease and operating lease are purchased in USD, and the corresponding finance lease receivables and fixed assets are denominated in USD, while the main source of funding is bank loans denominated in USD. There is therefore no significant risk exposure in exchange rate. The Group holds some of its monetary funds in Hong Kong dollars, Renminbi and Euros, but the overall proportion is relatively small.

8.4 Liquidity Risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from mismatch in the amount or duration with regard to the maturity of financial assets and liabilities. We are responsible for our own cash management, including the short-term investment of cash surplus and the raising of loans to meet its expected cash needs. The Group adopts prudent strategies to manage its balance sheet including continuously monitor liquidity risk and capital budget, utilises a number of liquidity ratios to measure and track liquidity risk, and duly optimises the asset and liability structures. The Group monitors the maturity profile of liabilities, analyses the maturity matching of assets and liabilities, estimates and forecasts cash inflows and outflows. The Group also obtains financing through debt and equity financing to ensure adequate funding for purchase of assets and repayment of borrowings, and conducting liquidity stress tests for different stress scenarios from time to time, whereby it appropriately adjusts liquidity reserves and makes necessary funding and financing arrangements.

As of 30 June 2021, the Group's balance of interest-bearing liabilities was HK\$22,752 million, of which the balance of interest-bearing liabilities due within one year was HK\$10,074 million, balance of interest-bearing liabilities due in one to five years was HK\$6,844 million, and balance of interest-bearing liabilities due over five years was HK\$5,834 million.

Management Discussion and Analysis

9. Risk Management

The Group is exposed to various risks in its ordinary course of business, including credit risk, market risk, liquidity risk, asset risk, information technology risk and reputation risk. The Group carries out risk management with the strategic objectives of sustainable development of business and enhancement of the Group's value, and has established a comprehensive risk management system. The Group has unleashed its potential in resources to improve the responsiveness in risk management for safeguarding its business interests.

At present, the Group has adopted a stable strategy in relation to risk appetite. With regard to the selection of industries, the Group prefers industries and fields with mature business models, economies of scale and excellent asset quality. In terms of customer selection, the Group prefers large enterprises, leading enterprises in the industry or high-quality listed companies. In terms of leased assets operation, the Group will conduct scientific classification, value analysis and professional management, and accelerate the transfer of leased assets by combining operation strategies, market environment and the features of leased properties. While realizing the steady growth of the business, the Group achieves a return on its earnings that matches the risks, and controls its risks within an acceptable range.

Based on the characteristics of the leasing industry, its own risk tolerance and risk appetite, the Group has established an effective risk identification, evaluation, monitor, control and reporting mechanism, and supported the effective implementation of the Company's risk management policies through a sound management information system to actively strengthen risk assessment and management system. Meanwhile, it will strengthen the proactive response management of risks; reduce the overall business risks by carrying out asset risk management in different countries, regions and industries; strive to maximize the risk return by actively adjusting the business strategy of the industry, establishing the customer credit quantitative assessment model and debt assessment model, strengthening the customer access standards, and improving the risk assessment system; and realize the value creation of risk management by improving the business quality and resource allocation efficiency of the Group.

In the first half of 2021, the Group continued to strengthen the establishment of a comprehensive risk management system and promoted the improvement of corporate risk governance structure; comprehensively assessed the Company's risk management strategy system, formulated a comprehensive risk management optimization plan for the Group's main risk categories and business segments, and established a comprehensive risk management structure that matches the business development strategies, business objectives, financial conditions and compliance management objectives.

Management Discussion and Analysis

10. Human Resources

As at 30 June 2021, the Group had a total of 80 employees, approximately 38.7% of whom were located in Hong Kong. The Group has a team of high-quality talents with a bachelor's degree or above. As at 30 June 2021, approximately 95.0% of the Group's employees had a bachelor's degree or above. In the first half of 2020 and 2021, the remuneration of the Group's employees amounted to approximately HK\$31.4 million and HK\$32.4 million, respectively.

The Group attaches great importance to talent, regards human resources as valuable capital for the development of the Company, and strives to enhance its human resources management systems in all aspects including human resources organization system, remuneration incentives, performance appraisal, and talent introduction and development. The Group strives to develop a result-oriented performance appraisal system and a remuneration and welfare incentive system which is fair internally and competitive externally, to continuously improve incentive measures, to innovate positive incentive methods, and to encourage employees to be responsible and results-driven. The Group strives to continuously optimize vocational promotion and development path of employees, and spares no efforts in improving its talent introduction system and training system, diversifying talent introduction channels, strengthening talent introduction and seeking for more training resources.

The Group endeavors to create a competitive and fair system for remuneration and welfare. The remuneration package of the Group's employees includes basic salary and performance-related bonus. The Group reviews the remuneration package and performance of its employees annually.

11. Pledge of Assets

As at 30 June 2021, the Group's property, plant and equipment for operating lease of HK\$3,082.3 million (31 December 2020: HK\$2,545.1 million), loan and lease receivables of HK\$8,937.0 million (31 December 2020: HK\$9,594.4 million) and bank deposits of HK\$125.0 million (31 December 2020: HK\$158.6 million) were pledged to bank to acquire bank loans.

Corporate Governance/Other Information

Corporate Governance Practices

The Group is committed to maintaining high standards of corporate governance in order to safeguard the interests of the shareholders of the Company (the “Shareholders”) and strengthen its corporate value and accountability. The Company has adopted the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code of corporate governance.

During the six months ended 30 June 2021, the Company had complied with all applicable code provisions under the CG Code and adopted most of the recommended best practices.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities by the directors of the Company (the “Directors”). Having made specific enquiry with the Directors, all Directors confirmed that they had complied with the standards set out in the Model Code during the six months ended 30 June 2021.

Interim Dividend

The Board declared an interim dividend of HK\$0.03 per share for the six months ended 30 June 2021. The aforesaid interim dividend will be paid on 30 September 2021 to Shareholders whose names appear on the register of members of the Company on 16 September 2021.

Audit Committee and Review of the Interim Report

The Board has established an audit committee (the “Audit Committee”) which currently comprises three independent non-executive Directors, namely Mdm. Shing Mo Han Yvonne (chairperson), Mr. Wang Dennis and Mr. Li Hongji, and two non-executive Directors, namely Mr. Li Wei and Mr. Zou Yuanjing. The primary duties of the Audit Committee are to review the financial information of the Group and monitor the financial reporting system, risk management and internal control system of the Group.

The unaudited condensed interim results of the Group for the six months ended 30 June 2021 have been reviewed by the Audit Committee together with the senior management and the external auditor of the Company.

Corporate Governance/Other Information

Changes of Information in relation to the Directors

The Directors confirmed that there was no information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Purchase, Sale or Redemption of Listed Securities of the Company

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2021, based on the information available to the Company, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name	Capacity/Nature of interests	Number of shares	Long/Short position	Approximate percentage of shareholding in the share capital of the Company (%)
Zhong Jian ⁽¹⁾	Beneficial owner	12,650,000	Long position	0.21
Hu Kai ⁽²⁾	Beneficial owner	12,650,000	Long position	0.21

Notes:

(1) Mr. Zhong Jian is interested in the 12,650,000 share options granted by the Company pursuant to the share option scheme.

(2) Mr. Hu Kai is interested in the 12,650,000 share options granted by the Company pursuant to the share option scheme.

Save as disclosed above, as at 30 June 2021, none of the Directors and chief executives of the Company had interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company, or which were required to be otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Corporate Governance/Other Information

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2021, as far as the Directors are aware, the following persons (other than the Directors and chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Name	Capacity/Nature of interests	Number of shares	Long/Short position	Approximate percentage of shareholding in the share capital of the Company (%)
State-owned Assets Supervision and Administration Commission	Interest in controlled corporation ⁽¹⁾	4,602,046,234	Long position	75.00
CSSC Group	Interest in controlled corporation ⁽¹⁾	4,602,046,234	Long position	75.00
CSSC International Holding Company Limited ("CSSC International")	Beneficial owner ⁽¹⁾	4,602,046,234	Long position	75.00
Central Huijin Investment Ltd.	Interest in controlled corporation ⁽²⁾	522,490,000	Long position	8.52
China Re Asset Management (Hong Kong) Company Limited	Investment manager ⁽²⁾	522,490,000	Long position	8.52
China Reinsurance (Group) Corporation (中國再保險(集團)股份有限公司) ("China Reinsurance")	Beneficial owner ⁽²⁾	522,490,000	Long position	8.52

Notes:

- (1) CSSC International is a wholly-owned subsidiary of CSSC Group, which is wholly owned by the State-owned Assets Supervision and Administration Commission. As such, by virtue of the SFO, CSSC Group and the State-owned Assets Supervision and Administration Commission are deemed to be interested in the 4,602,046,234 shares held by CSSC International.
- (2) Central Huijin Investment Ltd. holds 71.56% of the equity interest in China Reinsurance. As such, by virtue of the SFO, Central Huijin Investment Ltd. is deemed to be interested in the 522,490,000 shares held by China Reinsurance. The shares held by China Re Asset Management (Hong Kong) Company Limited are the same batch as those held by China Reinsurance.

Save as disclosed above, as at 30 June 2021, as far as the Directors are aware, no other persons (other than the Directors and chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

Corporate Governance/Other Information

Share Option Scheme

At the extraordinary general meeting of the Company held on 30 April 2021 (the “EGM”), the Shareholders approved the adoption of a share option scheme (the “Scheme”). The Scheme will be effective for a term of 10 years commencing from the date on which the Scheme is approved by the Shareholders at the EGM, unless terminated in advance by the Shareholders at a general meeting. The Company has granted share options under the Scheme on 30 April 2021 (the “Date of Grant”) to certain Directors and employees of the Group which entitle the grantees to subscribe for up to an aggregate of 143,540,000 new shares with exercise price of HK\$1.32 per share in the share capital of the Company.

Particulars and movements of share options granted under the Scheme during the six months ended 30 June 2021 are set out below:

Name or category of participant	Position(s) held with the Group	Number of share options					As of 30 June 2021	Date of grant	Exercise period (both dates inclusive) (Note)	Exercise price (HK\$)	Closing price of the shares of the Company immediately before the Date of Grant (HK\$)
		As of 1 January 2021	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period					
Directors											
Mr. Zhong Jian	Chairman and Executive Director	-	12,650,000	-	-	-	12,650,000	30/4/2021	30/4/2021 – 29/4/2031	1.32	1.30
Mr. Hu Kai	Executive Director	-	12,650,000	-	-	-	12,650,000	30/4/2021	30/4/2021 – 29/4/2031	1.32	1.30
Sub-total			25,300,000	-	-	-	25,300,000				
Other employees of the Group											
Employees in aggregate		-	118,240,000	-	-	-	118,240,000	30/4/2021	30/4/2021 – 29/4/2031	1.32	1.30
Sub-total		-	118,240,000	-	-	-	118,240,000				
Total		-	143,540,000	-	-	-	143,540,000				

Details of the movements in the share options under the Scheme are also set out in note 18 to the condensed consolidated interim financial information.

Corporate Governance/Other Information

Note:

Subject to the satisfaction of the vesting conditions as provided under the Scheme, the share options shall be vested to the grantees during the period and in the respective proportions as follows:

- (i) The first batch (being 33% of the share options granted) will be vested on the first trading day after 24 months from the Date of Grant;
- (ii) The second batch (being 33% of the share options granted) will be vested on the first trading day after 36 months from the Date of Grant; and
- (iii) The third batch (being 34% of the share options granted) will be vested on the first trading day after 48 months from the Date of Grant.

Directors' Rights to Acquire Shares or Debentures

Save as otherwise disclosed in this report, at no time during the six months ended 30 June 2021 was the Company or its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or exercised any such right.

Independent Review Report



To the board of directors of CSSC (Hong Kong) Shipping Company Limited
(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 34 to 60 which comprises the condensed consolidated statement of financial position of CSSC (Hong Kong) Shipping Company Limited (the “Company”) and its subsidiaries (together, the “Group”) as of 30 June 2021 and the related condensed consolidated income statement, condensed consolidated statement comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on the interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

23 August 2021

Lam Yau Hing

Practising Certificate No.: P06622

Condensed Consolidated Income Statement

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	6	1,049,882	962,000
Other income and other gains, net		57,845	65,210
Expenses			
Finance cost and bank charges	7	(186,814)	(317,859)
Reversal of/(provision for) impairment of loan and lease receivables, net		12,595	(17,498)
Depreciation		(153,929)	(135,996)
Employee benefits expenses		(32,362)	(31,396)
Vessel operating costs		(69,735)	(47,099)
Other operating expenses		(40,572)	(46,849)
Total expenses		(470,817)	(596,697)
Profit from operations	8	636,910	430,513
Share results of joint ventures		31,194	80,234
Share results of associates		(600)	(5,903)
Profit before income tax		667,504	504,844
Income tax expenses	9	(5,308)	(6,408)
Profit for the period		662,196	498,436
Attributable to:			
Equity holders of the Company		645,671	504,301
Non-controlling interests		16,525	(5,865)
		662,196	498,436
Earnings per share (HK\$)			
Basic and diluted	10	0.105	0.082

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Profit for the period	662,196	498,436
Other comprehensive income/(expense) for the period		
<i>Items that have been reclassified or may be reclassified subsequently to profit or loss:</i>		
– Exchange differences on translation of investments in subsidiaries, associates and joint ventures	18,628	(14,953)
– Fair value change of financial assets at fair value through other comprehensive income (debt instruments)	2,340	8,491
– Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	3,168	–
– Fair value change of derivative financial instruments (cash flow hedges)	134,837	(177,431)
<i>Items that will not be reclassified to profit or loss:</i>		
– Fair value change of financial assets at fair value through other comprehensive income (equity instruments)	4,389	4,302
Total other comprehensive income/(expense) for the period	163,362	(179,591)
Total comprehensive income for the period	825,558	318,845
Total comprehensive income for the period attributable to:		
Equity holders of the Company	808,922	324,853
Non-controlling interests	16,636	(6,008)
	825,558	318,845

Condensed Consolidated Statement of Financial Position

As at 30 June 2021

	Notes	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Assets			
Property, plant and equipment	12	11,879,587	10,035,106
Right-of-use assets	12	28,376	32,964
Interests in associates		67,981	49,784
Interests in joint ventures	13	586,704	483,480
Loan and lease receivables	14	17,266,525	15,061,334
Derivative financial assets		81,736	10,306
Prepayments, deposits and other receivables	15	102,986	394,569
Financial assets at fair value through profit or loss		919,379	904,671
Financial assets at fair value through other comprehensive income		377,797	726,258
Amounts due from associates		24,601	25,320
Amounts due from fellow subsidiaries		1,769	3,024
Amounts due from joint ventures		26,903	26,871
Structured bank deposits		–	467,443
Time deposits with maturity over three months		528,739	129,244
Cash and cash equivalents		1,640,216	2,180,280
Total assets		33,533,299	30,530,654
Liabilities			
Income tax payables		33,739	32,386
Borrowings	16	22,751,855	20,515,990
Derivative financial liabilities		169,705	263,958
Amounts due to a non-controlling interest		87,600	87,497
Amounts due to a joint venture		95,932	71,732
Amounts due to fellow subsidiaries		17,489	17,490
Lease liabilities		28,866	33,647
Other payables and accruals		897,196	517,017
Total liabilities		24,082,382	21,539,717
Net assets		9,450,917	8,990,937
Equity			
Share capital	17	6,614,466	6,614,466
Reserves		2,776,220	2,332,876
		9,390,686	8,947,342
Non-controlling interests		60,231	43,595
Total equity		9,450,917	8,990,937

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

	Attributable to equity holders of the Company									
	Share capital	Investment revaluation reserve	Hedging reserve	Share option reserve	Other reserve	Exchange reserve	Retained profits	Sub-total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2021	6,614,466	24,424	(169,868)	-	11,051	(64,338)	2,531,607	8,947,342	43,595	8,990,937
Profit for the period	-	-	-	-	-	-	645,671	645,671	16,525	662,196
Other comprehensive income for the period	-	6,729	138,005	-	-	18,517	-	163,251	111	163,362
Total comprehensive income for the period	-	6,729	138,005	-	-	18,517	645,671	808,922	16,636	825,558
Transaction with equity holders:										
Dividends (Note 11)	-	-	-	-	-	-	(368,164)	(368,164)	-	(368,164)
Equity settled share-based payments	-	-	-	2,586	-	-	-	2,586	-	2,586
	-	-	-	2,586	-	-	(368,164)	(365,578)	-	(365,578)
Transfer of gain on disposal of equity investments at fair value through other comprehensive income to retained profits	-	(17,306)	-	-	-	-	17,306	-	-	-
At 30 June 2021	6,614,466	13,847	(31,863)	2,586	11,051	(45,821)	2,826,420	9,390,686	60,231	9,450,917
At 1 January 2020	6,614,466	10,218	(67,055)	-	11,051	(71,896)	1,913,974	8,410,758	38,486	8,449,244
Profit for the period	-	-	-	-	-	-	504,301	504,301	(5,865)	498,436
Other comprehensive income for the period	-	12,793	(177,431)	-	-	(14,810)	-	(179,448)	(143)	(179,591)
Total comprehensive income for the period	-	12,793	(177,431)	-	-	(14,810)	504,301	324,853	(6,008)	318,845
Transaction with equity holders:										
Dividends (Note 11)	-	-	-	-	-	-	(306,803)	(306,803)	-	(306,803)
At 30 June 2020	6,614,466	23,011	(244,486)	-	11,051	(86,706)	2,111,472	8,428,808	32,478	8,461,286

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Cash flows from operating activities		
Net cash (used in)/generated from operations	(985,503)	252,890
Interest received	29,249	23,151
Interests paid	(154,952)	(354,771)
Income tax paid	(3,861)	(1,376)
<i>Net cash used in operating activities</i>	(1,115,067)	(80,106)
Cash flows from investing activities		
(Increase)/decrease in time deposits with maturity over three months	(399,194)	29,948
Decrease/(increase) in structured bank deposits	467,443	(151,807)
Payment of purchase of vessels and property, plant and equipment	(1,957,452)	(735,560)
Investment in associates	(18,011)	–
Investment in joint ventures	(72,260)	–
Dividend income received from financial assets at fair value through other comprehensive income	9,945	11,974
Decrease in amount due from fellow subsidiaries	1,258	–
Decrease in amount due from associates	748	–
Increase in loans to joint ventures	12,017	–
Purchase of financial assets at fair value through other comprehensive income	–	(162,234)
Purchase of financial assets at fair value through profit and loss	–	(527,755)
Proceeds from disposal of financial assets at fair value through other comprehensive income	355,900	48,262
Proceeds from disposal of asset held for sales	–	69,869
<i>Net cash used in investing activities</i>	(1,599,606)	(1,417,303)
Cash flows from financing activities		
Proceeds from issuance of guaranteed bonds	–	6,160,395
Proceeds from bank borrowings	4,349,231	3,128,409
Repayment of bank borrowings	(2,214,057)	(7,977,868)
Payment of lease liabilities	(4,852)	(3,643)
Proceeds from joint venture	24,107	–
Dividends paid	–	(306,803)
Repayment to fellow subsidiaries	(22)	–
<i>Net cash generated from financing activities</i>	2,154,407	1,000,490
Net decrease in cash and cash equivalents	(560,266)	(496,919)
Cash and cash equivalents at the beginning of the period	2,180,280	1,895,182
Effect of foreign exchange rate changes on cash and cash equivalents	20,202	4,166
Cash and cash equivalents at the end of the period	1,640,216	1,402,429

Notes to the Condensed Consolidated Interim Financial Information

1. General Information

CSSC (Hong Kong) Shipping Company Limited (the “Company”) is a limited liability company incorporated in Hong Kong. The Company and its subsidiaries (the “Group”) are principally engaged in provision of leasing business, ship brokerage services and financing business. The registered office is located at Room 1801, 18th Floor, Worldwide House, No. 19 Des Voeux Road Central, Central, Hong Kong.

This interim financial information is presented in Hong Kong dollars, unless otherwise stated and has been approved for issue by the Board of Directors of the Company on 23 August 2021.

The financial information relating to the year ended 31 December 2020 that is included in the interim financial information for the six months ended 30 June 2021 as comparative information does not constitute the Company’s statutory annual financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

2. Basis of Preparation

This interim financial information for the six months ended 30 June 2021 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The interim financial information is unaudited, but has been reviewed by Grant Thornton Hong Kong Limited in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

This interim financial information should be read in conjunction with the consolidated financial statements for the year ended 31 December 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

Notes to the Condensed Consolidated Interim Financial Information

3. Adoption of New and Amended HKFRSs

The accounting policies adopted for the current period are consistent with those of the previous consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following amended HKFRSs which are effective for the Group's financial statement for the annual period beginning from 1 January 2021.

Amendments to HKFRS 16	<i>COVID-19-Related Rent Concessions</i>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>

Except for those mentioned below, the adoption of these amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 “Interest Rate Benchmark Reform – Phase 2”

The amendments focus on accounting reliefs once a new benchmark interest rate is in place. The reliefs have the effect that changing the basis for determining contractual cash flows for financial assets, financial liabilities and lease liabilities, that are as a direct consequence of the Inter-Bank Offered Rate (“IBOR”) reform and are economically equivalent, will not result in an immediate gain or loss in the profit or loss. The amendments also provide reliefs to allow hedge accounting to continue when the hedging relationships are directly affected by IBOR reform. The amendments do not have an impact on this interim financial information as the Group has not moved any existing contracts to new benchmark interest rates. In addition, the Group considers that uncertainty remains over the timing and/or amounts of future cash flows indexed to benchmark interest rates and thus the Group continues to apply the existing accounting policies.

The Group has not applied any new standards, interpretations or amendments to standards and interpretations that is not yet effective for the current accounting period.

4. Fair Value Estimation

The different levels of financial instruments carried at fair value have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2), and not using significant unobservable inputs
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Notes to the Condensed Consolidated Interim Financial Information

4. Fair Value Estimation *(Continued)*

The following table presents the Group's financial assets and financial liabilities that are measured at fair value as at 30 June 2021.

Fair value hierarchy

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 30 June 2021 (Unaudited)				
Financial assets				
Derivative financial assets	–	81,736	–	81,736
Financial assets at fair value through profit or loss	–	702,037	217,342	919,379
Financial assets at fair value through other comprehensive income	377,797	–	–	377,797
Total financial assets at fair values	377,797	783,773	217,342	1,378,912
Financial liabilities				
Derivative financial liabilities	–	169,705	–	169,705
As at 31 December 2020 (Audited)				
Financial assets				
Derivative financial assets	–	10,306	–	10,306
Financial assets at fair value through profit or loss	–	687,584	217,087	904,671
Financial assets at fair value through other comprehensive income	726,258	–	–	726,258
Structured bank deposits	–	467,443	–	467,443
Total financial assets at fair values	726,258	1,165,333	217,087	2,108,678
Financial liabilities				
Derivative financial liabilities	–	263,958	–	263,958

Notes to the Condensed Consolidated Interim Financial Information

4. Fair Value Estimation *(Continued)*

Fair value hierarchy *(Continued)*

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and listed equity and debt instruments) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves
- the fair value of foreign exchange contracts is determined using forward exchange rates at the reporting date
- the fair value of the unlisted exchangeable note is determined using binomial option pricing model
- the fair value of the remaining financial instruments is determined using the discounted cash flow analysis

Notes to the Condensed Consolidated Interim Financial Information

4. Fair Value Estimation (Continued)

Fair value measurements using significant unobservable inputs (level 3)

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

	Fair value at		Unobservable inputs	Range of inputs		Relationship of unobservable inputs to fair value
	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)		30 June 2021 (Unaudited)	31 December 2020 (Audited)	
Unlisted exchangeable note	217,342	217,087	Discount rate	12.52%	11.47%	The higher the discount rate, the lower the fair value
			Expected volatility	41.91%	39.82%	The lower the expected volatility, the lower the fair value.

The reconciliation of the carrying amounts of the Group's financial instruments classified as Level 3 of the fair value hierarchy is as follows:

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Unlisted exchangeable note		
At beginning of period/year	217,087	–
Acquisition of financial instrument	–	217,171
Exchange differences	255	(84)
At end of period/year	217,342	217,087

Valuation processes

The finance department of the Group includes a team that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer ("CFO"). Discussions of valuation processes and results are held between the CFO and the valuation team at least annually.

Notes to the Condensed Consolidated Interim Financial Information

4. Fair Value Estimation *(Continued)*

Fair value measurements using significant unobservable inputs (level 3) *(Continued)*

Valuation processes *(Continued)*

The main level 3 inputs used by the Group are derived and evaluated as follows:

- Discount rates for financial assets are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.
- Risk adjustments specific to the counterparties (including assumptions about credit default rates) are derived from credit risk grading determined by internal credit risk management of Group.

Changes in level 2 and 3 fair values are analysed at the end of each reporting periods during the half yearly valuation discussion between the CFO and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

There was no transfer among level 1, 2 and 3 during six months ended 30 June 2021.

The carrying value of the Group's financial assets and financial liabilities carried at amortised costs approximate their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments, unless the discounting effect is insignificant.

5. Significant Accounting Estimates and Judgements

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to in the preparation of the consolidation financial statements for the year ended 31 December 2020.

Notes to the Condensed Consolidated Interim Financial Information

6. Segment Information and Revenue

The chief operating decision-maker (“CODM”) has been identified as the executive directors of the Company. The executive directors review the Group’s internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports and analysed from a business perspective: (i) leasing services, (ii) loan borrowings and (iii) shipbroking services.

The Group derives revenue from the following:

	Leasing services HK\$'000 (Unaudited)	Loan borrowings HK\$'000 (Unaudited)	Shipbroking services HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
For the six months ended 30 June 2021				
Segment revenue and revenue from external customers	844,405	178,268	27,209	1,049,882
For the six months ended 30 June 2020				
Segment revenue and revenue from external customers	696,589	244,471	20,940	962,000

Commission income, included in shipbroking services segment, are recognised at point in time method during the six months ended 30 June 2021 and 2020.

Segment assets and liabilities

No assets and liabilities are included in the Group’s segment reporting that are submitted to and reviewed by CODM internally. Accordingly, no segment assets and liabilities are presented.

Revenue by business activities	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Finance lease income	230,458	229,492
Operating lease income	613,947	467,097
Interest income from loan borrowings	178,268	244,471
Commission income	27,209	20,940
	1,049,882	962,000

Notes to the Condensed Consolidated Interim Financial Information

7. Finance Cost and Bank Charges

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Interest and charges on borrowings	121,380	278,721
Bank charges	133	687
Interest on lease liabilities	1,204	361
Interest and charges on bonds	88,151	66,337
	210,868	346,106
Less: finance costs capitalised	(24,054)	(28,247)
	186,814	317,859

8. Profit From Operations

Profit from operations is stated after crediting/(charging) the followings:

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Dividend income	9,945	14,773
Gain on disposal of asset held for sales	–	21,230
Interest income from financial assets at fair value through profit or loss	10,774	8,633
Interest income from financial assets at fair value through other comprehensive income	7,496	11,866
Net realised (loss)/gain from derivative financial instruments	(20,074)	1,319
Net realised gain from financial assets at fair value through other comprehensive income	–	3,508
Net gain/(loss) on changes in fair value of derivative financial instrument	16,443	(41,521)
Net gain on changes in fair value of financial assets at fair value through profit or loss	13,641	5,388
Net gain on de-recognition of finance lease receivables	12,900	3,911

Notes to the Condensed Consolidated Interim Financial Information

9. Income Tax Expenses

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Current income tax		
– Hong Kong Profits Tax	4,831	3,658
– People's Republic of China ("PRC") enterprise income tax	477	2,750
	5,308	6,408

Hong Kong Profits Tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profit for the period.

PRC enterprise income tax has been calculated on the estimated assessable profit for the period at the income tax rate of the PRC entities of 25% (2020: 25%) on the estimated assessable profit for the period.

10. Earnings Per Share

The calculation of basic and diluted earnings per share attributable to equity holders of the Company is based on the following data:

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Earnings		
Profit attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	645,671	504,301
	Number '000	Number '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	6,136,066	6,136,066
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	–	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	6,136,066	6,136,066
Basic and diluted earnings per share (in HK\$)	0.105	0.082

Notes to the Condensed Consolidated Interim Financial Information

10. Earnings Per Share *(Continued)*

The calculation of the diluted earnings per share for the six months ended 30 June 2021 has not taken into account of the effect of the share options of the Company as they are considered as anti-dilutive.

Diluted earnings per share for the six months ended 30 June 2020 is the same amount as the basic earnings per share as there was no potentially dilutive ordinary shares outstanding as at 30 June 2020.

11. Dividend

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Dividends approved and paid during the period:		
Final dividend in respect of the year ended 31 December 2019 of HK5 cents per ordinary share	–	306,803
Dividends approved and not yet paid during the period:		
Final dividend in respect of the year ended 31 December 2020 of HK6 cents per ordinary share	368,164	–
Dividends proposed:		
Interim dividend of HK3 cents (2020: HK3 cents) per ordinary share	184,082	184,082

At the board meeting held on 23 August 2021, the board has declared an interim dividend of HK3 cents (2020: HK3 cents) per share, and the interim dividend is declared after the reporting period, such dividend has not been recognised as liability as at 30 June 2021.

Notes to the Condensed Consolidated Interim Financial Information

12. Property, Plant and Equipment and Right-Of-Use Assets

	Construction in progress HK\$'000	Vessels HK\$'000	Motor vehicles HK\$'000	Office equipment HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
At 31 December 2020, audited						
Cost	2,398,736	8,538,067	2,385	6,526	2,197	10,947,911
Accumulated depreciation	–	(905,063)	(2,055)	(4,748)	(939)	(912,805)
Net book values	2,398,736	7,633,004	330	1,778	1,258	10,035,106
Opening net book values	2,398,736	7,633,004	330	1,778	1,258	10,035,106
Additions	1,970,509	–	–	1,550	9,447	1,981,506
Depreciation	–	(148,446)	(47)	(398)	(449)	(149,340)
Transfer	(1,823,922)	1,823,922	–	–	–	–
Exchange differences	2,870	9,585	(173)	13	20	12,315
Closing net book values	2,548,193	9,318,065	110	2,943	10,276	11,879,587
At 30 June 2021, unaudited						
Cost	2,548,193	10,372,692	2,167	7,596	11,872	12,942,520
Accumulated depreciation	–	(1,054,627)	(2,057)	(4,653)	(1,596)	(1,062,933)
Net book values	2,548,193	9,318,065	110	2,943	10,276	11,879,587

As at 30 June 2021, the carrying amount of the Group's right-of-use assets in relation to the office amounted to HK\$28,376,000 (31 December 2020: HK\$32,964,000).

There were no addition to the right-of-use assets during six months ended 30 June 2021 and 30 June 2020.

Depreciation of the right-to-use assets during six months ended 30 June 2021 amounted to HK\$4,589,000 (six months ended 30 June 2020: HK\$3,424,000).

Notes to the Condensed Consolidated Interim Financial Information

13. Interests in Joint Ventures

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Interests in joint ventures	586,704	483,480

Details of the Group's joint ventures as at 30 June 2021 are as follows:

Name	Place of incorporation and operation	Principal activities	Percentage of equity attributable to the Company
Ocean Classic Limited	British Virgin Islands	Vessel owning and chartering	50%
Sino-sin Shipping Company Limited	British Virgin Islands	Vessel owning	50%
Vista Shipping PTE. LTD.	Singapore	Vessel owning and chartering	50%
Zhendui Industrial Intelligent Technology Co., Ltd.	The PRC	Marine technology	18%

Notes to the Condensed Consolidated Interim Financial Information

14. Loan and Lease Receivables

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Loan borrowings (note a)	7,548,525	7,486,207
Lease receivables (note b)	9,475,830	7,357,569
Loans to joint ventures (note c)	733,140	721,123
	17,757,495	15,564,899
Less: Accumulated allowance for impairment	(490,970)	(503,565)
Net carrying amount	17,266,525	15,061,334

(a) Loan borrowings

As at 30 June 2021, loan borrowings were secured, interest bearing at rates ranging from 3.5% to 8.0% (31 December 2020: 3.6% to 8.0%) per annum and repayable from 2021 to 2031 (31 December 2020: 2021 to 2031). The loan borrowings were secured by the respective vessels and certain shares of the borrowers, which owned the vessel.

A maturity profile of the loan borrowings as at the end of the reporting periods, based on the maturity date, net of provision, is as follows:

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Within 1 year	886,465	1,101,435
After 1 year but within 2 years	617,817	565,272
After 2 years but within 5 years	1,883,783	1,719,965
Over 5 years	4,143,338	4,072,114
	7,531,403	7,458,786

Notes to the Condensed Consolidated Interim Financial Information

14. Loan and Lease Receivables *(Continued)*

(b) Lease receivables

Details of the lease receivables as at the end of the reporting periods are as follows:

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Gross investment in finance leases	11,341,894	8,619,829
Less: unearned finance income	(1,977,392)	(1,316,054)
Operating lease receivables	9,364,502 111,328	7,303,775 53,794
Lease receivables	9,475,830	7,357,569
Less: accumulated allowance for impairment	(473,848)	(476,040)
Lease receivables – net	9,001,982	6,881,529

Based on the due date, the ageing analysis of the operating lease receivables, net of ECL allowance, were within 0 to 90 days past due.

As at 30 June 2021, the Group's finance lease receivables were secured, interest bearing at rates ranging from 3.5% to 7.0% (31 December 2020: 3.5% to 9.0%) per annum.

Notes to the Condensed Consolidated Interim Financial Information

14. Loan and Lease Receivables *(Continued)*

(b) Lease receivables *(Continued)*

The table below analyses the Group's gross investment in finance leases by relevant maturity groupings at the end of the reporting periods:

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Gross investment in finance leases		
Within 1 year	1,430,635	2,302,605
After 1 year but within 2 years	1,518,028	790,037
After 2 years but within 5 years	4,152,168	2,435,181
Over 5 years	4,241,063	3,092,006
	11,341,894	8,619,829

The carrying amounts of the Group's loan and lease receivables approximate their fair values and are mainly denominated in Renminbi ("RMB") and US dollar ("USD").

(c) Loans to joint ventures

As at 30 June 2021, except for loans to joint ventures of HK\$340,372,000 (31 December 2020: HK\$352,446,000) which were unsecured, interest bearing at rates ranging from 3.1% to 3.3% (31 December 2020: 3.0% to 5.1%) per annum and repayable on demand. The remaining balances were unsecured, interest-free and repayable on demand.

15. Prepayments, Deposits and Other Receivables

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Prepayments	72,845	364,059
Interest receivables	22,684	23,340
Other receivables	7,457	7,170
	102,986	394,569

As at 30 June 2021, included in prepayments of HK\$50,578,000 (2020: HK\$325,312,000) represents an amount of prepayment to fellow subsidiaries for acquisition of vessels for finance lease purposes.

Notes to the Condensed Consolidated Interim Financial Information

16. Borrowings

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Bank borrowings (note a)	16,505,279	14,279,534
Guaranteed bonds (note b)	6,246,576	6,236,456
	22,751,855	20,515,990

(a) Bank borrowings

The Group's bank borrowings repayable based on the scheduled repayment terms set out in the loan agreements were as follows:

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Within 1 year	10,037,445	8,374,024
After 1 year but within 2 years	918,955	854,066
After 2 years but within 5 years	2,820,369	2,625,900
Over 5 years	2,728,510	2,425,544
	16,505,279	14,279,534

Notes to the Condensed Consolidated Interim Financial Information

16. Borrowings (Continued)

(a) Bank borrowings (Continued)

As at 30 June 2021, the Group's secured bank borrowings of HK\$7,487,025,000 (31 December 2020: HK\$7,569,637,000) were secured by loan and lease receivables of approximately HK\$8,936,964,000 (31 December 2020: HK\$9,594,395,000), certain of shares of the subsidiaries, deposits of approximately HK\$124,950,000 (31 December 2020: HK\$158,568,000), general assignments, bareboat charterer assignments, intra group loan assignments and property, plant and equipment of approximately HK\$3,082,303,000 (31 December 2020: HK\$2,545,058,000). Among which, HK\$1,081,462,000 (31 December 2020: \$1,922,949,000) were guaranteed by corporate guarantee from the ultimate holding company.

As at 30 June 2021, the Group's bank borrowings of HK\$9,018,254,000 (31 December 2020: HK\$6,709,897,000) were unsecured and guaranteed by the Company.

As at 30 June 2021, the Group's bank borrowings bear interest at weighted average interest rates range from 0.99% to 2.43% (31 December 2020: 1.12% to 3.62%) per annum.

(b) Guaranteed bonds

In February 2020, the Group issued two guaranteed bonds of US\$400,000,000 (approximately HK\$3,104,880,000) due 2025 and US\$400,000,000 (approximately HK\$3,104,880,000) due 2030 bearing interest at 2.5% and 3.0% respectively listed on The Stock Exchange of Hong Kong Limited. The guaranteed bonds were repayable as follows:

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Within 1 year	36,816	33,976
After 1 year but within 2 years	–	–
After 2 years but within 5 years	3,104,880	3,101,240
Over 5 years	3,104,880	3,101,240
	6,246,576	6,236,456

Notes to the Condensed Consolidated Interim Financial Information

17. Share Capital

Ordinary shares, issued and fully paid:

	Numbers of shares (‘000)	Share capital HK\$‘000
At 31 December 2020 (audited) and 30 June 2021 (unaudited)	6,136,066	6,614,466

18. Share-Based Employee Compensation

The Company has adopted a share option scheme (the “Scheme”), which was approved by the shareholders on the extraordinary general meeting held on 30 April 2021.

Pursuant to which, the maximum number of shares to be issued upon the exercise of the share options shall not in aggregate exceed 613,606,623 shares, representing approximately 10% of the total number of issued shares of the Company as at the date of approval of the Scheme at the extraordinary general meeting.

Participants of the Scheme shall be employees of the Company and include executive directors and senior management members (the “Grantees”) of the Company, as well as core technical personnel and backbone management whom the board of directors considers will have a direct impact on the Company’s overall operating performance and sustainable development.

On 30 April 2021 (the “Grant Date”), the Company granted 143,540,000 share options to certain of its directors and employees for nil consideration at an exercise price of HK\$1.32 per share. The options shall be vested to the Grantees during the period and in the respective proportions as follows:

- (i) The first batch (being 33% of the share options granted) will be vested on the first trading day after 24 months from the Grant Date;
- (ii) The second batch (being 33% of the share options granted) will be vested on the first trading day after 36 months from the Grant Date; and
- (iii) The third batch (being 34% of the Share Options granted) will be vested on the first trading day after 48 months from the Grant Date.

The options are exercisable within a period of ten years from the Grant Date. Each option gives the holder the right to subscribe for one ordinary share in the Company. Details of the Scheme are as set out in the Company’s circular dated 13 April 2021.

All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company’s ordinary shares.

Notes to the Condensed Consolidated Interim Financial Information

18. Share-Based Employee Compensation *(Continued)*

Share options and weighted average exercise price are as follows for the reporting periods presented:

	2021	
	Number	Weighted average exercise price
	('000)	HK\$
Outstanding at 1 January	–	–
Granted	143,540	1.32
Outstanding at 30 June	143,540	1.32

As at 30 June 2021, the outstanding share options had a weighted average remaining contractual life of 10 years. None of the share options were exercisable as at 30 June 2021.

The fair values of options granted were determined using the Binomial Option Pricing Model that takes into account of factors specific to the share incentive plans. The following principal assumptions were used in the valuation at the Grant Date:

Share price at date of grant	HK\$1.32
Exercise price at date of grant	HK\$1.32
Expected volatility	44.20%
Expected option life	10 years
Dividend yield	8.58%
Risk-free interest rate	1.15%
Post-vesting forfeiture rate	14.15% to 25.44%
Fair value at the grant date	HK\$0.277 to HK\$0.303

The underlying expected volatility was determined by reference to historical data, calculated based on expected life of share options. Expectations of early exercise were incorporated into the Binomial Option Pricing Model. No special features pertinent to the options granted were incorporated into measurement of fair value.

In total, HK\$2,586,000 of employee compensation expenses has been recognised in profit or loss for the six months ended 30 June 2021 and the corresponding amount of which has been credited to “Share option reserve”. No liabilities were recognised in connection with share-based payment transactions.

Notes to the Condensed Consolidated Interim Financial Information

19. Capital Commitments

As at 30 June 2021, capital commitments outstanding contracted but not provided for are as follows:

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Contracted for construction of vessels	12,138,354	2,834,735

20. Provision and Contingencies

The financial guarantees issued by the Group as at 30 June 2021 are analysed as below:

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Guarantees provided in respect of bank loans of: – Bank guarantees to joint ventures	3,036,589	1,940,100

The Group has assessed the fair value of the above guarantees and does not consider them to be material. They have therefore not been recognised in the condensed consolidated statement of financial position.

21. Related Party Transactions

The directors of the Company regard CSSC International Holding Company Limited as the immediate holding company, which owns 75% of the Company's issued ordinary shares as at 30 June 2021. The parent company of the Group is China State Shipbuilding Corporation Limited* (中國船舶工業集團有限公司) ("CSSC Group"), a state-owned enterprise established in the PRC. CSSC Group itself is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC.

Related parties including CSSC Group and its subsidiaries (other than the Group), other government-related entities and their subsidiaries, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and CSSC Group as well as their close family members.

* For identification purpose only

Notes to the Condensed Consolidated Interim Financial Information

21. Related Party Transactions *(Continued)*

For the six months ended 30 June 2021 and 2020, the Group's significant transactions with entities that are controlled, jointly controlled or significantly influenced by the PRC government, mainly include most of its bank deposits and the corresponding interest income, bank borrowings and corresponding interest expenses and part of sales and purchases of goods and services. The price and other terms of such transactions are set out in the underlying agreements, based on market prices or as mutually agreed.

Apart from the above-mentioned transactions with the government-related entities and the related party information shown elsewhere in these interim financial information, the following is a summary of the significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the six months ended 30 June 2021.

21.1 Transaction with related parties

The Group entered into the following related party transactions during the six months ended 30 June 2021 and 2020:

Transactions with fellow subsidiaries:

	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Commission income	9,121	2,778
Purchase of vessels and offshore equipment	(2,663,121)	(618,032)
Rental and utilities expenses	(6,704)	(7,443)

Transactions with joint ventures:

	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Interest income	2,485	5,213

These transactions with related parties are carried out on pricing and settlement terms agreed with counter parties in the ordinary course of business.

Notes to the Condensed Consolidated Interim Financial Information

21. Related Party Transactions *(Continued)*

21.2 Key management personnel compensations

Key management includes executive directors and senior management. The compensations paid or payable to key management for employee services are shown below:

	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Wages, salaries and bonuses	5,295	5,699
Retirement benefit costs	1,139	596
Share-based payments	421	–
	6,855	6,295

22. Events After the Reporting Period

In July 2021, CSSC Capital 2015 Limited, a wholly owned subsidiary of the Group, issued guaranteed bonds of US\$500,000,000 carrying fixed interest rate at 2.10% per annum. The bonds will mature in 5 years (i.e. 2026) from the issuance date and are guaranteed by the Company.

CSSC (Hong Kong) Shipping Company Limited
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