

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

One of the world's leading
ship leasing companies

INTERIM
REPORT
2023



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Company Profile

Fleets Summary



As at 30 June 2023



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 Corporation Limited# (中國船舶集團有限公司) (“China Shipbuilding 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 2023, the vessel portfolio of the Group reached 155 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 has achieved excellent performance and bulk carriers and container vessels market maintained at a high level, while the oil tanker market rebounded strongly. Leveraging on unique operating strategies, the Group fully shared the revenue generated from the prosperous shipping market, thus the asset value continued to increase.



Under the new market trends, the Group enhanced the overall research and judgment on subdivided shipping markets, implemented cross-cycle investment strategies vigorously and focused on the deployment of green equipment and clean energy business, so as to maintain stable operations and sustainable high-quality development continuously.

The PRC is accelerating the establishment of a “dual circulation” development pattern 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.

We are —
a global leading ship
leasing company.

**ONE OF THE WORLD'S
LEADING SHIP LEASING
COMPANIES**

For identification purpose only

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

Company Information

Board of Directors

Executive Director

Mr. Zhong Jian (*Chairman*)

Non-Executive Directors

Mr. Zou Yuanjing (resigned on 24 February 2023)

Ms. Zhang Yi

Mr. Zhang Qipeng

Mr. Chi Benbin (appointed on 24 February 2023)

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

Ms. Zhang Yi

Mr. Zhang Qipeng

Remuneration Committee

Mr. Wang Dennis (*Chairperson*)

Mdm. Shing Mo Han Yvonne, *BBS, JP*

Mr. Li Hongji

Nomination Committee

Mr. Zhong Jian (*Chairperson*)

Mr. Chi Benbin

Mr. Wang Dennis

Mdm. Shing Mo Han Yvonne, *BBS, JP*

Mr. Li Hongji

Strategic and Investment Committee

Mr. Zhong Jian (*Chairman*)

Mr. Wang Dennis

Ms. Zhang Yi

Mr. Zhang Qipeng

Mr. Chi Benbin

ESG and Sustainable Development Committee

Mr. Zhong Jian (*Chairperson*)

Mr. Wang Dennis

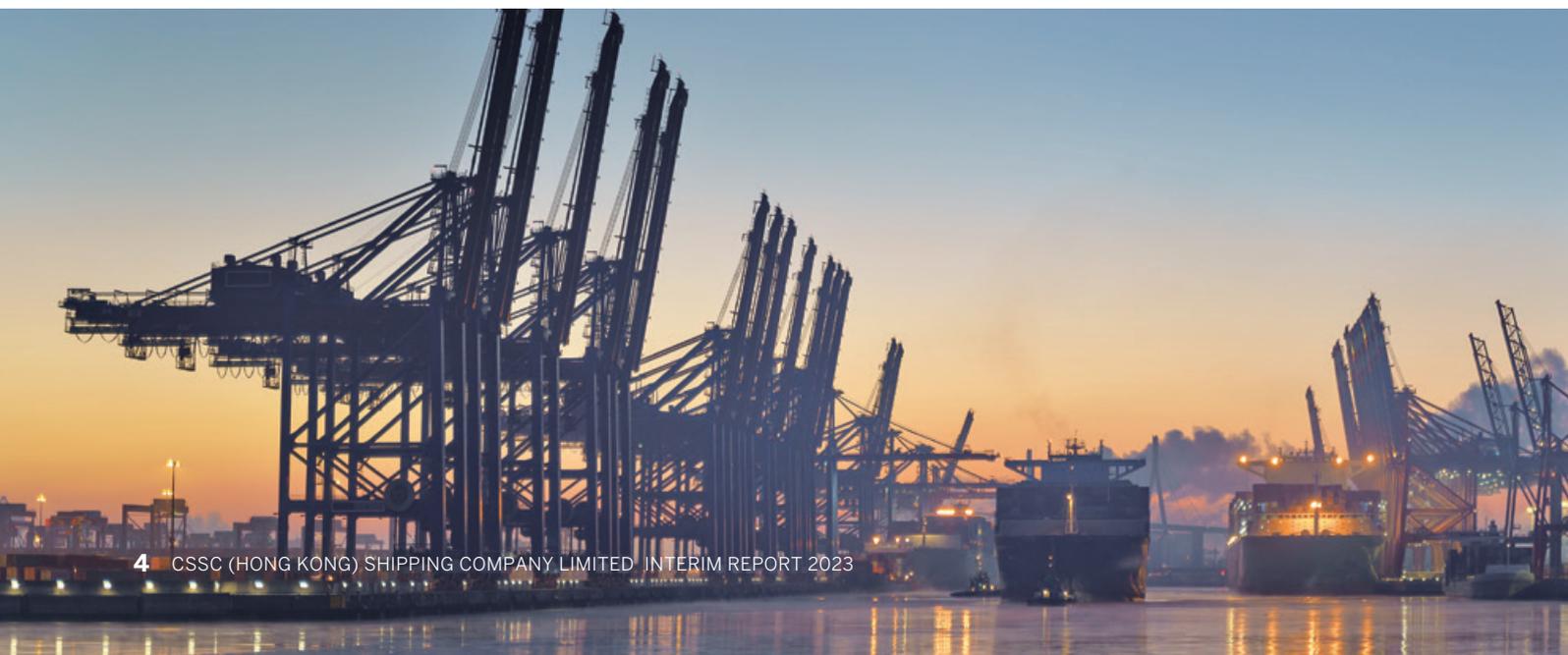
Mdm. Shing Mo Han Yvonne, *BBS, JP*

Company Secretary

Mr. Ding Weisong

Assistant Company Secretary

Ms. Ng Sau Mei (*FCG, HKFCG*)



Authorised Representatives

Mr. Zhong Jian
Ms. Ng Sau Mei

Registered Office

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

Hong Kong Legal Adviser

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

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
11th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong SAR

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

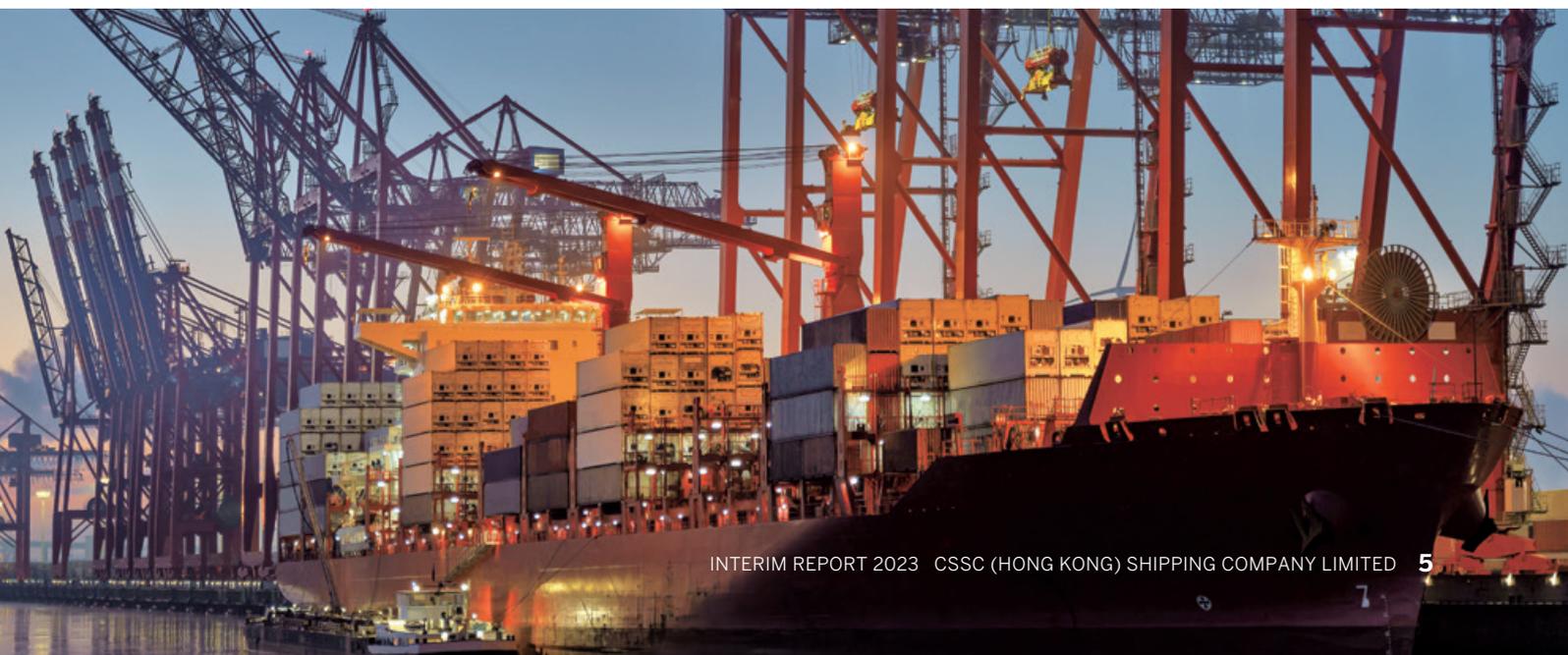
<http://www.csscshipping.com>

Stock Code

3877

Listing Date

17 June 2019



History

Our Group's history dates back to the year of 2012 when our Company was incorporated in Hong Kong to serve as the sole leasing company under China State Shipbuilding Industry Corporation Limited* (中國船舶工業集團有限公司) ("CSSC Group"), which is a leading state-owned shipbuilding conglomerate in the PRC. As the first shipyard-affiliated leasing company in Greater China, we leverage our unique insights into the marine industry and offer customised ship leasing solutions to customers.

In order to capture the business opportunities brought about by the increasing demand for ship leasing services in the PRC, CSSC Shanghai and CSSC Tianjin were established in the PRC in 2014. Kylin Offshore Engineering Pte Ltd. was also incorporated by our Company and a company incorporated in Singapore, which is an independent third party, in Singapore in 2014.

Over the years, we have continued to expand our scale of operations as well as our vessel portfolio. According to the F&S Report, in terms of revenue in 2018, we ranked fourth in the global ship leasing industry with a market share of 3.9% and first in the global non-bank ship leasing industry with a market share of 14.8%.

According to the F&S Report, in terms of revenue in 2018, we ranked first in the global non-bank ship leasing industry with a market share of **14.8%**



Vessel Portfolios

Marine clean energy equipment

35.7%



Container vessels

21.0%



Tankers

19.6%



Bulk carriers

13.8%



Special tonnage carriers

9.9%



Key Milestones



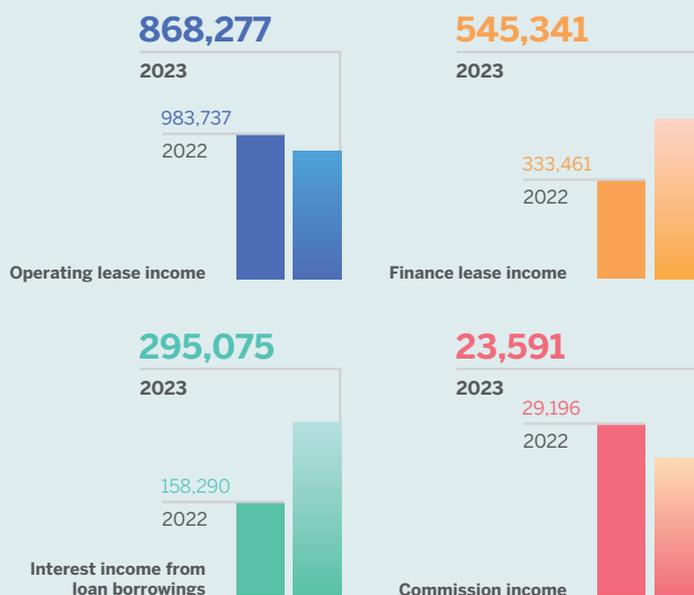
Financial Highlights

1. Summary of Condensed Consolidated Income Statement

	Six months ended 30 June		Change
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	
Revenue	1,732,284	1,504,684	15.1%
Total expenses	(882,255)	(768,783)	14.8%
Profit from operations	853,476	790,009	8.0%
Profit for the period	1,090,615	906,280	20.3%
Basic and diluted earnings per share (HK\$)	0.177	0.142	24.6%



Revenue
(HKD'000)



2. Summary of Condensed Consolidated Statements of Financial Position

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)	Change
Total assets	41,088,420	40,520,890	1.4%
Total liabilities	28,844,322	28,878,564	(0.1%)
Total equity	12,244,098	11,642,326	5.2%



Total Assets (HKD'000)

20,093,102

2023
20,610,300
2022

Loan and lease
receivables

16,823,329

2023
15,924,752
2022

Property, plant
and equipment

1,276,145

2023
1,389,193
2022

Cash and cash equivalents,
pledged time deposits and
time deposits with maturity
over three months

796,056

2023
781,204
2022

Financial assets
at fair value

2,099,788

2023
1,815,441
2022

Other assets



Total Liabilities (HKD'000)

15,799,840

2023
17,611,691
2022

Borrowings –
bank borrowings

11,260,763

2023
10,176,573
2022

Borrowings –
guaranteed bonds

1,783,719

2023
1,090,300
2022

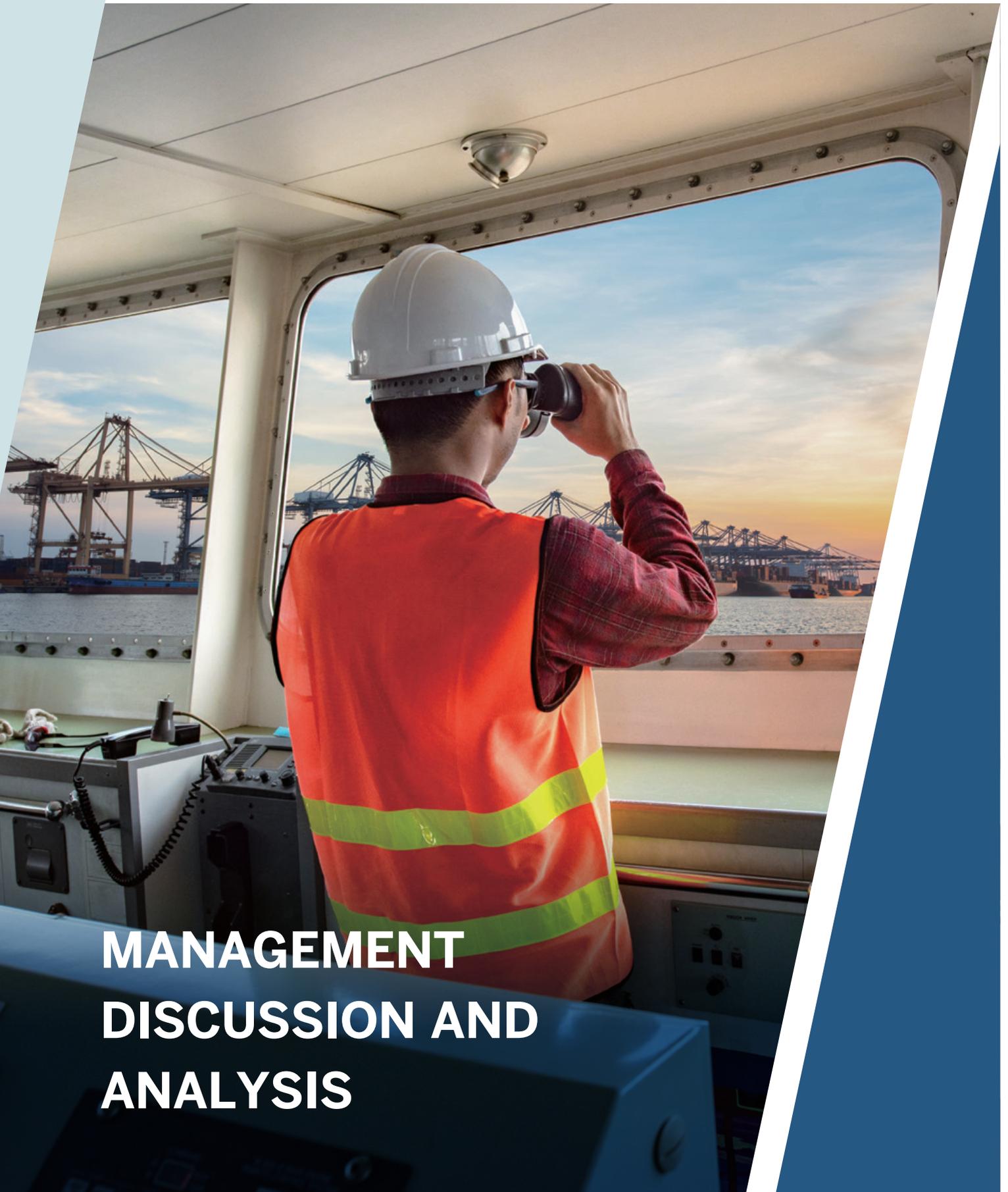
Other liabilities

3. Selected Financial Ratios

	Six months ended/ as at 30 June 2023	Year ended/ as at 31 December 2022
Profitability indicators		
Return on average assets ⁽¹⁾	5.4%	4.3%
Return on average net assets ⁽²⁾	18.4%	15.6%
Average cost of interest-bearing liabilities ⁽³⁾	3.4%	2.6%
Net profit margin ⁽⁴⁾	63.0%	54.1%
Liquidity indicators		
Asset-liability ratio ⁽⁵⁾	70.2%	71.3%
Risk asset-to-equity ratio ⁽⁶⁾	3.2 times	3.4 times
Gearing ratio ⁽⁷⁾	2.2 times	2.4 times
Net debt-to-equity ratio ⁽⁸⁾	2.1 times	2.3 times
Credit rating		
S&P Global Ratings	A-	A-
Fitch Ratings	A	A

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, time deposits with maturity over three months and pledged time deposits.
- (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**

Management Discussion and Analysis

1. Industry Environment

During the first half of 2023, further rate hikes led by US and EU central banks, limited economic growth in China, the general expectation over a weak global macroeconomic growth, and the continued impact from the Russo-Ukrainian conflict have contributed to insufficient growth in demands for maritime transport. As a result, the shipping market continued the trend of shock and weakness for 2022 that has put the Clarksea Index under pressure. The Clarksea Index closed at US\$21,539/day at the end of the first half of the year, and decreased by 14.6% from US\$25,232/day at the beginning of the year. During the first half of the year, the Clarksea Index was highest at US\$29,727/day and lowest at US\$20,152/day, with an average of US\$24,119/day, representing a year-on-year decline of 38.0%.

For oil tankers, we saw an overall weak volume from OPEC and Russia in the first half of the year, particularly the second quarter, despite the better-than-expected uplift in the oil shipping market in the first quarter. Demands for both crude oil tankers and refined oil tankers were also soft. During the first half of 2023, the average values of BDTI and BCTI were 1,284 and 828 points, respectively, The former rose by 15.6% year-on-year, with the growth rate narrowed, while the latter fell by 21.1% year-on-year.

For bulk carriers, supported by buoyant demands from the supply end and a healthy growth on the demand end, freight rates rose from its trough in the middle of the first quarter, bringing freight rates back to a high level. However, freight rates slid again from the middle of the second quarter due to strengthened control over the price of iron ores by China and a high level of coal inventories in Europe and India, as both contributed to weaken demands from importers. In July 2023, abundant iron ore shipment orders and a rising demand for coal by importers in Asia and Europe have brought freight rates slightly higher again. On average, BDI in the first half of 2023 was 1,157 points, representing a year-on-year decrease of 49.2%.



1. Industry Environment *(Continued)*

For container ships, further rate hikes led by US and major economies in Europe plus China's weakening exports have contributed to a continuous downtrend in trade volume with container ships. As new ships continued to be delivered, we saw an excessive shipping capacity and falling freight rates. According to statistics of Shanghai Shipping Exchange, in June 2023, CCFI and SCFI closed at 919 and 964 points, respectively, representing a year-on-year decrease of 71.5% and 77.2%, respectively, and representing a decrease of 2.8% and 7.4% comparing with the beginning of the year, respectively.

For gas carriers, the freight rate of liquefied natural gas carriers (LNGC) as a whole experienced a decrease in the first place followed by an increase. From the beginning of the year to the middle of the second quarter, the high level of finished goods in major importing countries in Europe and Asia made the demand side weak, and the freight rate fell under pressure. However, in June 2023, the high temperature in summer of the Asian market promoted the recovery of natural gas consumption demand to a certain extent, the freight rate rebounded slightly after the halt of decline. With regard to the average value in the first half of the year, the average spot rates of 145,000 cubic meters, 160,000 cubic meters, and 174,000 cubic meters LNG carriers were US\$38,769/day, US\$61,462/day, and US\$83,894/day, respectively, representing a year-on-year increase of 23.4%, 25.7%, and 16.4%, respectively. The rate of Very Large Liquefied Gas Carriers (VLGCs) experienced an overall increase thanks to the strong export of LPG products such as US propane and the growth of China's import demand in the first half of the year. The average one-year time charter rate for 84,000 cubic meters of VLGC in the first half of the year was US\$41,489/day, representing a year-on-year increase of 20.8%.



1. Industry Environment *(Continued)*

For pure car truck carriers (PCTCs), the global car maritime shipping trading as a whole was active in the first half of the year, especially the export of new energy vehicles in China was strong. At the same time, the market capacity has not increased significantly, and the situation was still tense, supporting the maintenance of high freight rates. The average rate of 6,500 CEU PCTC 1-year time charter in the first half of the year was US\$110,000/day, representing a year-on-year increase of 108.9%; the average rate of 5,000 CEU PCTC 1-year time charter in the first half of the year was US\$90,000/day, representing a year-on-year increase of 117.3%.

2. Outlook

In the past two years, the “exponential growth” in demands for several major ship offerings has provided relaying support to the uneven recovery of the global shipping market. However, since 2023, more often we saw “scattered growth” to a lesser extent in demands as a norm, which we expected to continue. In addition, with the release of the timeline to reach net zero emission and relevant requirements by the International Marine Organization (IMO) MEPC 80, the direction of market development may be further clarified.

In terms of capacity demand, unfavourable factors such as economic growth slowdown, increasing financial risks and the continued Russo-Ukrainian conflict will continue to dominate during the year, and the global maritime trade as a whole is hardly optimistic, but China’s economic recovery is expected to accelerate, the increase in shipping distance remains positive, and the demand side is expected to usher in a weak rebound in the process of digesting negative factors.

In terms of shipping capacity supply, due to the resumed pace of shipyard construction and the accelerating progress of completion and delivery, coupled with the overall improvement of port congestion, the global fleet capacity pattern is expected to be generally loose and partially excessive. Although there are low carbon and zero carbon requirements which will bring about slower sailing speed or local climate factors that disturb the fleet turnover, the impact on the supply side will be relatively limited, and it will be difficult to replicate the situation in the past two years.

From the perspective of segmented ship type, the increase is expected to be relatively limited despite the approaching peak season of oil tanker transportation, the increased shipping distance as a result of the new trading landscape, the tight market capacity supply and the upside potential of the freight rate, taking into account the negative factors including OPEC production cuts. The freight rate of bulk carriers in the traditional peak season or non-fundamental factors or other support may rise in stages, but under the influence of the lack of continuity in large volume dry bulk shipments and the gradual emergence of a loose supply of shipping capacity, freight rates will be under pressure. The shipping capacity of container vessels will continue to expand, but as the increase in demand from the United States and Europe is expected to be limited, it is difficult to overturn the market weakness and relevant freight rates may continue to run weak. Driven by seasonal replenishment demand, the freight rate of LNG carriers is expected to recover and rise, though in a limited manner, in the second half of the year. VLGC freight rates in the second half of the year will be supported by the peak season of combustion demand and strong demand in the chemical industry, but the increase in fleet capacity may become a disturbing factor, it is expected that the overall freight rate pivot will rise among the shock. As regards the pure car truck carriers (PCTCs) market, driven by China’s strong export demand, it is expected that the shortage of shipping capacity will continue in the short term, and freight rates will stay high, easy to rise and hard to fall.

2. Outlook *(Continued)*

In terms of technological development, the main direction of ship technology in 2024 will continue to be green and intelligent. In terms of greening, in July 2023, the 80th session of the IMO Marine Environmental Protection Committee adopted the “2023 IMO Vessel Greenhouse Gas (GHG) Emission Reduction Strategy”, proposing that by 2030, the total annual GHG emissions from international shipping should be reduced by at least 20% (ambitiously 30%) compared with 2008, and that by 2040, the total annual GHG emissions from international shipping should be reduced by at least 70% (ambitiously 80%) compared with 2008. The new strategy is expected to thoroughly achieve net zero emissions by 2050, which poses new requirements for the innovation and development of ship energy-saving and emission-reduction technologies. Currently, the mainstream carbon emission reduction method of the shipping industry is to employ LNG and methanol as the source of power. At the same time, the research on the application technology of zero-carbon fuels (ammonia, hydrogen, etc.), the development of power systems and the development of vessel types are also advancing rapidly. The industry also attaches great importance to the construction of infrastructure for the production, storage and transport of methanol, ammonia, hydrogen and other fuels. For instance, countries in Europe and the United States have commenced cooperation in the production of green ammonia to achieve a greater degree of carbon reduction. In addition, technologies related to carbon capture, storage and utilisation are also important directions for development.

In terms of smart vessels, a group of newly formed vessel digital solution companies have launched a number of smart vessel digital solutions, covering multiple directions such as situational awareness, autonomous navigation, auxiliary decision-making and vessel energy efficiency management. Currently, the development of smart vessels focuses on different aspects, aiming at catering for specific functional needs, some smart vessels may far surpass similar vessels in terms of intelligence in a certain type of function, such as the intelligent unmanned system research mother ship “ZHU HAI YUN (珠海云)”. It is worth noting that at the 107th session of the IMO Maritime Safety Committee (MSC 107) held on 31 May 2023, the working group revised the roadmap for the development of goal-based MASS rules, agreeing to keep the effective date of the mandatory MASS Rules at 1 January 2028, and to change the planned approval date for mandatory MASS rules from 2025 to 2026. IMO will finalise and approve the new non-mandatory MASS rules in the second half of 2024, and will commence the formulation of mandatory MASS rules based on the non-mandatory rules. With the further improvement of laws and regulations, as well as the further improvement of mass data information collection, analysis and processing capabilities, smart vessels will enjoy further accelerated technological innovation in aspects such as network security, autonomous navigation, vessel energy efficiency management, etc.

With the continuous advancement of low-carbon transformation and the continuous deepening of maritime resources development, the application scenarios of marine equipment continue to expand. In the face of complex and diverse application scenarios, traditional marine equipment can no longer meet the utilisation needs. In this context, new types of marine development equipment, such as polar transportation, polar oil and gas development, deep-sea mining, as well as deep-sea and far-reaching marine aquaculture, have been developing rapidly. The Arctic shipping route can greatly shorten the voyage with huge economic value, and polar-transport vessels have a promising development prospect. China’s future economic and social development will continue to increase oil and gas imports, and there is a significant demand for rich oil and gas resources in the Arctic. As traditional offshore oil and gas development equipment is difficult to cope with the complex polar environment, it is necessary to develop targeted equipment. Deep-sea mineral resources are abundant, including 4,000 to 5,500-metre seabed polymetallic nodule deposits, 1,500 to 3,500-metre hydrothermal sulfides, 800 to 3,500-metre deep-sea hillside cobalt-rich crusts, etc. At present, the development of deep-sea mineral resources in China is in the stage of advancing from engineering research to commercial development, and there is a large room and sufficient potential for future development.

3. Overall Operation of the Group

Performance Overview

According to Clarkson's research report, the price of the newly built vessels rose to a high level in the first half of 2023. As of the end of June 2023, the Newbuild Price Index reached 171, representing an increase of 5% as compared to the beginning of the year, hitting the highest level since January 2009. As affected by the decline in revenue from container ships and dry bulk carriers, the average Clarksea Index fell by 38% year-on-year to US\$24,119 per day. The shipbuilding and shipping market as a whole showed a state of "high vessel price with falling freight rate", which, coupled with the increasingly competitive vessel financing market and the continuous hike in US dollar interest rate, exerted relevantly high pressure on the operation of the Group. Confronting such challenges, the Group has consistently adhered to its core values of "professionalism, focus, innovation and efficiency", and has achieved a revenue higher than market expectations. In the first half of 2023, the Group recorded a profit of HK\$1,091 million and a revenue of HK\$1,732 million, representing an increase of 20.3% and 15.1% as compared to the corresponding period in 2022, respectively; our annualised return on net assets and return on total assets reached 18.4% and 5.4%, respectively, representing an increase of 2.8 percentage points and 1.1 percentage points as compared to the full-year levels in 2022 respectively. As at 30 June 2023, the Group's total assets and net assets amounted to HK\$41,088 million and HK\$12,244 million respectively, representing an increase of 1.4% and 5.2% as compared to that as at 31 December 2022, respectively, and the gearing ratio was 70.2%, representing a decrease of 1.1 percentage points as compared to that as at 31 December 2022.



3. Overall Operation of the Group *(Continued)*

Performance Overview *(Continued)*

Despite heavy pressure, the Group's performance was able to achieve relatively high growth at a high level, which was mainly due to the following three factors: firstly, the cross-cyclical strategy of "cross-cyclical investment and cyclical operation" and the structured income model of "fixed + flexible" formulated on the basis of such strategy. Our strategy to build a large number of vessels as part of our expansion at a time when the price was low has not only enabled us to secure healthy growth, we have also enjoyed an appreciation of assets and rising freight rates at a relative peak that followed; secondly, the high quality and balanced vessel assets. The Company has a young vessel fleet, low-cost structure, strong liquidity, a high proportion of technology-enabled LNG vessels and a balanced – mix of different types of vessels; and thirdly, the sound risk management system and effective cost control measures. The Company has established a complete and multi-dimensional risk mitigation and control system to deal with credit risk, liquidity risk, interest rate and exchange rate risk, and asset risk. At the same time, through cost engineering and lean management, the Group has been able to reduce costs and achieve greater operational efficiency.

In essence, the Company is a vessel-based asset management company. Firstly, it builds a stable income structure based on its strategy of vessel allocation and operation, then smooths out cyclical risks vertically, disperses vessel type risks and conducts risk hedging horizontally in order to achieve the maximum risk-adjusted return. Secondly, through its efficient operation and management and flexible chartering arrangements, the Company has been able to create excess returns above market benchmarks. The Company's performance in recent years was a testament to the success of this strategy.

As regards our future development, in addition to its cross-cycle strategy and business model, the Group also enjoys the following advantages: firstly, the Group has proactively capitalised on the low-carbon, digital and intelligent transformation of the shipping industry. Since its expansion into the LNG industry chain in 2015, the Group has accumulated profound first-mover advantages, including well-established industry reputation, extensive business connections, mature management practices and quality assets in the LNG transportation industry chain, which are the foundation on which the Group can rely for its subsequent business development. In terms of vessels types selection and design, the Group requires independent and joint investment in vessels to meet the overall low-carbon, digital and intelligent trend; in terms of asset management, the Group developed and launched a project lifecycle management system platform to improve management efficiency. Secondly, the Group has a high-quality asset-liability ratio and cash flow structure. Currently, the Group's asset-liability ratio is merely 70.2%, much lower than that of comparable leasing companies, which has reserved sufficient leverage space for the Group to vigorously develop "fixed income" business after the downturn of the shipping market in the future. Stable cash inflow and good market credit provide sufficient liquidity reserves, which will enable the Group to cope with the liquidity pressure that it might face under extreme conditions. Thirdly, the Group has an efficient and healthy corporate governance system and operational management mechanism. We will contribute to higher management efficiency for development, while defending the bottom line for the Group against major risks and compliance incidents.



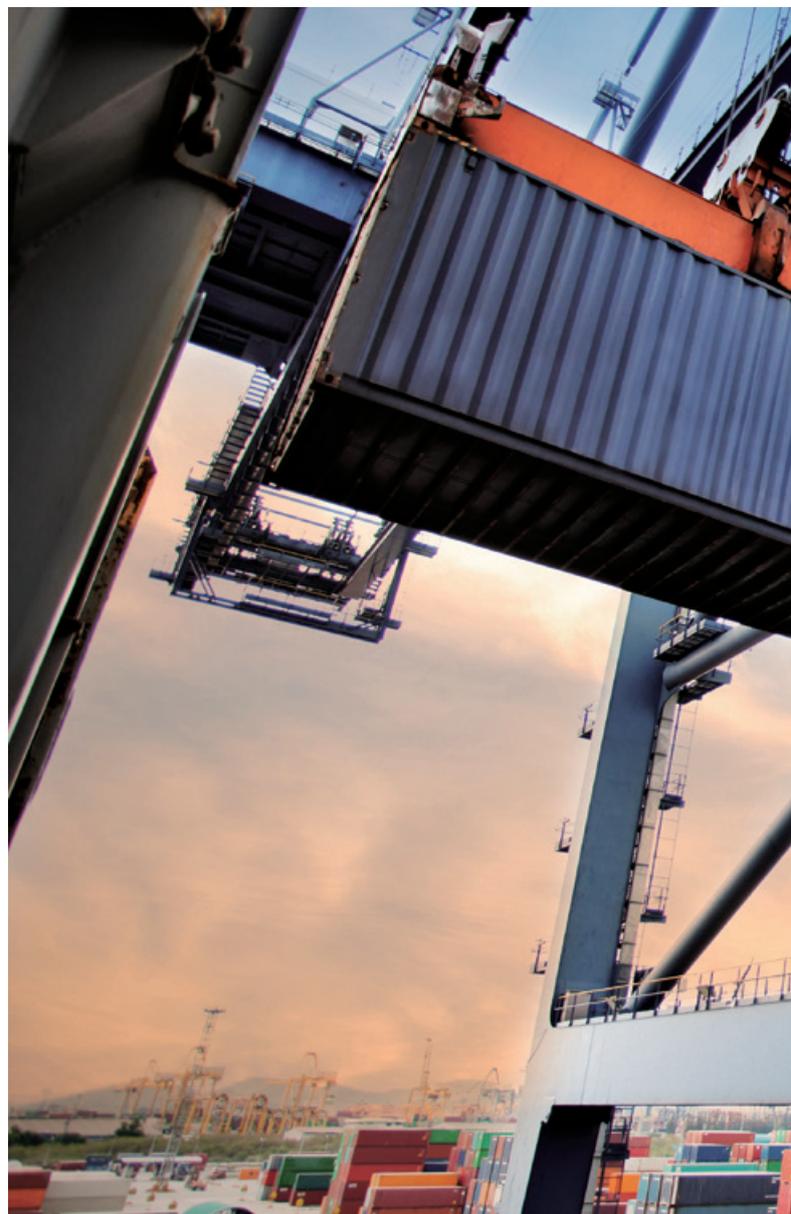
4. Performance Highlights

1. To formulate operating strategies in a scientific way so as to generate income exceeding the market benchmark for “flexible income” business

Given the negative impact of the global macro economy, the average value of the BCTI index dropped by 21.1% in the first half of 2023 compared with the same period in 2022, the charter hire rate of VLGCs (liquefied petroleum gas) registered a significant rise. However, with scientific operating arrangements and the effective operating expenditure control, the Group’s investment income from the fleet of joint venture oil tankers for short-term charter increased, of which eight 50,000-tonne refined oil/chemical tankers realized the investment income attributable to the Group of HK\$98 million, representing a year-on-year increase of 162.4%; six 75,000-tonne refined product oil tankers registered the profit attributable to the Group of approximately HK\$91 million, representing a year-on-year increase of 63.4%. The performance of four extra large LPG carriers was promising, realizing the investment income attributable to the Group of HK\$61 million, representing a year-on-year increase of 39.7%. With the eight self-operated bulk carriers (including six 64,000-tonne bulk carriers and two 82,000-tonne bulk carriers), making a net profit of HK\$34 million. In the first half of this year, 26 short-term and immediate-operated vessels generated a total profit of about HK\$280 million for the Group.

2. To actively respond to the intensified competition in the chartering market and maintain quality and balanced fleet assets by adopting an innovative approach for business expansion and implementation

In the first half of 2023, along with high vessel prices, tight supply of berthing areas and intensified competition in the vessel financing market, the new shipbuilding market was still booming. The Group leveraged its advantages in deep understanding of ships, shipowners and the market to tap into segmented markets with promising prospects, to bring about a new cooperation mode to the clean energy industry, to undertake high-quality second-hand vessel projects and to prudently expand into new projects where overall risks were under control. The Group deepened its communication with customers, actively responded to customer concerns, properly handled requests for early repurchase of vessels and maintained the overall stability of existing projects. From January to June 2023, the Group added eight new vessels to the fleet, delivered four ships for charter and early repurchased nine vessels.





4. Performance Highlights *(Continued)*

2. To actively respond to the intensified competition in the chartering market and maintain quality and balanced fleet assets by adopting an innovative approach for business expansion and implementation *(Continued)*

Capitalizing on opportunities arising from the rebound of the tourism industry in the post-epidemic period, the Group added two luxury roll-on/roll-off passenger vessels. In order to align with the marine development strategy of China, the Group added two 100,000-tonne smart deep sea fishery aquaculture vessels. Moreover, for the sake of serving the purpose of on board cultural tourism project for Hangzhou Asian Games, the Group added four green hybrid cruising vessels to enable a breakthrough for domestic Renminbi vessel charter projects, promoted the electrification of vessels and drove the transformation of scientific and technological achievements of institutes. In July 2023, the Group created a new approach for business development by working with shipping management companies and oil and gas operators (transportation demanders) to jointly invest in two 174,000 cubic meters LNG carriers, and built a tripartite win-win model of risks sharing and profits locking in; in August 2023, the Group also endeavoured to develop the energy transportation market and made use of the benefits of overseas policies to add one second-hand carrier finance leasing project of two VLCCs.

4. Performance Highlights *(Continued)*

2. To actively respond to the intensified competition in the chartering market and maintain quality and balanced fleet assets by adopting an innovative approach for business expansion and implementation *(Continued)*

As of 30 June 2023, the fleet size of the Group reached 155 vessels under the Group (including joint ventures and associates), of which 124 vessels were under lease and 31 vessels were under construction. The average age of vessels in operation was about 3.8 years. The average remaining term for leases over one year (i.e. excluding immediate operation projects and leases projects that expire within one year) was 6.8 years. In terms of contract value, in the Group's fleet portfolio, offshore clean energy equipment, container ships, liquid cargo ships, bulk carriers and special ships accounted for 41%, 7%, 18%, 19% and 15%, respectively.

Asset Structure of Vessels in Operation (as of 30 June 2023):

Project type	Vessel category	Vessel type	Number
Finance lease (financial service)	Bulk carrier		25
	Container ship		4
	Gas carrier		11
	Tanker		15
	Special ship		6
Subtotal			61
Operating lease (integrated shipping service)	Bulk carrier	Minicape	6
		Panamax	6
		Handysize	7
	Container ship	18,000TEU	3
	Gas carrier	174,000 cubic meters extra large	2
		LNG carrier	
	Tanker	Extra large LPG carrier	4
		MR	8
		LR1	6
		LR2	2
	Special ship	Heavy lift vessel	17
		Smart deep sea fishery aquaculture vessel	1
		Emergency response rescue vessel	1
Subtotal			63
Total			124

4. Performance Highlights *(Continued)*

2. To actively respond to the intensified competition in the chartering market and maintain quality and balanced fleet assets by adopting an innovative approach for business expansion and implementation *(Continued)*

Asset Structure of Vessels under Construction:

Project type	Vessel category	Vessel type	Number
Finance lease	Special ship	Wind turbine installation vessel	1
		Luxury roll-on/roll-off passenger vessel	1
		Onboard cruise vessel	4
		Subtotal	6
Operating lease	Container ship	16,000TEU/24,000TEU	8
		Feeder container vessel	8
	Gas carrier	174,000 cubic meters extra large LNG carrier	5
		Tanker	LR2
	Special ship	Smart deep sea fishery aquaculture vessel	2
Subtotal		25	
Total			31



4. Performance Highlights *(Continued)*

3. To continue to strengthen the control on costs and risks so as to maintain the increase in capital cost at a level below the market benchmark and to ensure the safety and stability of assets in operation

The Federal Reserve has started the rapid hike of interest rate since March 2022. On 27 July 2023, the Federal Reserve announced a rate hike of 25 basis points again, adjusted the target range of the Federal Fund Rate to 5.25%-5.5%, which was the highest level for 22 years. In response to the pressure arising from the surging capital costs, the Group further strengthened its management and control on cash flow and improved the efficiency of funds utilization; enabled cross-currency financing and made innovative financing channels; reduced the scale of interest-bearing liabilities and optimized the capital structure. We controlled the average cost of the Group's average interest-bearing liabilities for the first half of 2023 at the level of 3.4%, representing only an increase of 1 percentage point compared with the average level in the first half of 2022.

Taking the relative advantage in terms of RMB interest rate, the Company issued RMB1 billion of sustainability-linked panda bonds with a coupon rate of 3.3% in the PRC on 6 March 2023, which was the lowest issuance rate of AAA level in the same industry in the same period during the issuance period. Also, taking the advantage of Hong Kong dollar interest rate in the first half of 2023, certain US dollar short-term floating rate loans were converted to Hong Kong dollar short-term floating rate loans, thus saving finance costs of approximately HK\$16.89 million in the first half of the year. In order to control the interest rate risk, the Group seized the favorable opportunity of the low interest rate of the US dollar and carried out a series of interest rate swap transactions before the Federal Reserve's current interest rate hike, which saved the finance cost by HK\$66.86 million in total in the first half of the year.

The Group's vessels operating costs in the first half of 2023 were HK\$136.87 million through the strengthened efficiency of ship management and the cost reduction of crew travelling expenses, representing a decrease of HK\$9.16 million compared with the corresponding period of last year.

Thanks to the comprehensive risk management system and the efficient asset management of the Group, in the first half of 2023, the Group's utilization rate of asset of vessels and overall charter hire collection rate were both 100.0%. As of 30 June 2023, the Group's non-performing credit assets were US\$23.73 million, accounting for 0.93% of the total credit assets, and the provision coverage ratio was 297%.

4. To facilitate the full integration of ESG concepts into operation and management and to enhance the Company's capabilities in professional ESG governance

We have deeply practiced the ESG concepts and improved the corporate governance mechanism. The Company established the ESG and Sustainable Development Committee under the Board, set up an ESG leadership group and an expert research group and established a "two-tier with four-level" ESG management mechanism. The Company also conducted a systematic analysis on the prevailing status of ESG management, issued the "Analysis Report on Discrepancy in ESG Management" and worked out an improvement action plan for ESG governance based on the Company's important issues and the major non-financial risks identified. The Company was successfully invited to participate in the CSA assessment 2023 of S&P International for ESG rating. Being shortlisted in the 2023 ESG Influence List of Fortune China Magazine (Fortune), the Company was rated BBB in the WIND ESG Index. In view of the Company's good governance mechanism and reform achievements, the Company was once again awarded the highest level of "benchmark" in the special assessment of "double hundred enterprises" of central enterprises in 2022, and was also awarded "excellent" in the annual evaluation of the Board of member units of China State Shipbuilding Corporation Limited.

4. Performance Highlights *(Continued)*

4. To facilitate the full integration of ESG concepts into operation and management and to enhance the Company's capabilities in professional ESG governance *(Continued)*

The Company facilitated its “dual carbon” strategy with green finance and green shipping. We further promoted our clean energy industry strategy, closely tracked the implementation of EEXI and CII policies and the formulation of EU carbon tax policies, and started dual-fuel refitting for four VLGCs jointly invested by the Company according to the original schedule. The Company was also invited by NASDAQ to join its network for sustainable securities issuers and was awarded the NASDAQ 2023 ESG Disclosure Transparency Badge. An energy-saving technology, the Company jointly invested with Shanghai Merchant Ship Design Institute and such investment recorded a good development. It will lay out green products for vessels around four major areas: efficient promotion, green drag reduction, integrated control and low carbon and zero carbon, and is committed to the development of new green energy-saving technologies for vessels, so as to transform research results.

The Company took an active role to serve the society of Hong Kong. We made full use of its extensive connection in the vessel, shipping and financial industries to build a communications platform among Hong Kong companies and mainland companies, so as to facilitate in-depth cooperation between Guangdong and Hong Kong and to promote Hong Kong's integration into the overall development of China in an effective way. Meanwhile, the Company also had a sensible touch to the society of Hong Kong to serve the citizens of the territory. By sparing no effort in arranging volunteers and donating repair funds, the Company actively participated in the “Repair of 18 Districts with Love” and the “Community Caring Actions to Celebrate the 26th Anniversary of the Return to China” to provide charitable repair services for more than 260 grassroot families in Hong Kong and to distribute daily necessities, such as rice, noodles, and cooking oil, to 300 elderly or needy families.

In the second half of the year, the Group will continue to adhere to the core values of “professionalism, focus, innovation and high efficiency”, further improve the strategic layout of “one body with two wings” for ship leasing and investment operations, optimize the management mechanism of shipping assets as per the direction of marketization, specialization and internationalization, determine and formulate appropriate leasing arrangements and pricing strategies with reference to the market trend and further improve the operating efficiency of shipping assets. We will pay close attention to changes in the market and take opportunity to dispose of certain vessels with relatively older ages and better market prices, for the purpose of realizing the premium income. The delivery of new vessels this year is mainly concentrated in the second half of the year. It is expected to receive vessels with relatively high individual asset values, namely two 174,000 cubic meters LNG carriers, five extra large container ships, one LR2 oil tanker and one luxury roll-on/roll-off passenger vessel. The Group will closely follow up on the construction progress of vessels, be well prepared prior to the delivery of vessels to ensure that the delivery is on schedule, and make every effort to enable early chartering and operating. The Group will adhere to the “going global” strategy, actively respond to the intense competition in the ship financing market, increase the frequency of on-site visits to shipowners and customers to explore opportunities for new projects and strengthen the cooperative relationships. In addition, the Group will create brand new business models in light of the market condition, so as to achieve multi-success for all related parties. The Group will also further promote lean management, create new financing models, adjust financing strategies according to changes in the monetary market, control capital costs, improve the construction of a comprehensive risk prevention and control system and an internal control and compliance system to address existing risks as well as eliminate major risk events. In addition, the Group will further enhance its connection with the capital market, organize communication activities in various forms, facilitate the market to have a better understanding of the Group, as well as the development history and future prospects of the shipping industry in China.

5. Finance Review

5.1 Analysis on Condensed Consolidated Income Statement

5.1.1 Revenue

The Group's revenue comprises (i) integrated shipping service (including operating lease income and commission income) and (ii) financial service (including finance lease income and interest income from loan borrowings).

The Group's revenue increased by 15.1% from HK\$1,504.7 million for the six months ended 30 June 2022 to HK\$1,732.3 million for six months ended 30 June 2023.

The overall increase in revenue was primarily due to the increase in 3 months London Inter-bank Offered Rate ("3M-LIBOR") which led to the increase in finance lease income and interest income from loan borrowings when comparing to the corresponding period of last year. During the six months ended 30 June 2023, the Group had signed a new finance lease project for the special type of vessel (Luxury roll-on/roll-off passenger vessel) in Italy for countering the cyclical change in the market.

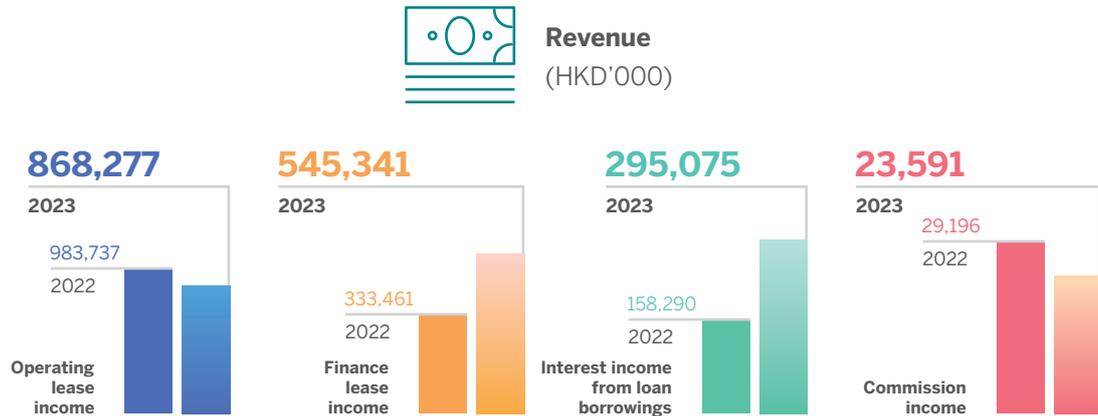
The following table sets out, for the periods indicated, a breakdown of the Group's revenue by business activity:

	Six months ended 30 June		Change
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	
Integrated shipping service			
– Operating lease income	868,277	983,737	(11.7%)
– Commission income	23,591	29,196	(19.2%)
	891,868	1,012,933	(12.0%)
Financial service			
– Finance lease income	545,341	333,461	63.5%
– Interest income from loan borrowings	295,075	158,290	86.4%
	840,416	491,751	70.9%
Total	1,732,284	1,504,684	15.1%

5. Finance Review *(Continued)*

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

5.1.1 Revenue *(Continued)*



Operating Lease Income

The Group's operating lease income decreased by 11.7% from HK\$983.7 million for the six months ended 30 June 2022 to HK\$868.3 million for the six months ended 30 June 2023 due to the declining performance in the bulker carrier market as the Baltic Dry Index (BDI) decreased by around 50% when comparing to the corresponding period of last year. However, the Group had sufficient ability to face the cyclical changes in the market with a diverse vessel portfolio under operating lease, such as LNG and multi-purpose heavy lift carries.

Finance Lease Income

The Group recognised finance lease income of HK\$545.3 million for the six months ended 30 June 2023, compared with HK\$333.5 million for the six months ended 30 June 2022, representing an increase of HK\$211.8 million or 63.5%, the main reason was that the Group's finance lease income was priced on a floating rate basis with reference to 3M-LIBOR, the continued tightening monetary and interest rate hike policies by the U.S. Federal Reserve led to the rise of 3M-LIBOR from 0.22% at the beginning of the last year to 5.55% at the end of the first half of 2023.

Interest Income from Loan Borrowings

The Group's interest income from loan borrowings increased by 86.4% from HK\$158.3 million for the six months ended 30 June 2022 to HK\$295.1 million for the six months ended 30 June 2023. The increase in interest income from loan borrowings was also in line with the increase in the 3M-LIBOR for the six months ended 30 June 2023 when comparing to the corresponding period of last year.

5. Finance Review *(Continued)*

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

5.1.1 Revenue *(Continued)*

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 was HK\$23.6 million and HK\$29.2 million for the six months ended 30 June 2023 and 2022, respectively.

5.1.2 Other Income and Other Gains, Net

The Group recorded net amount of other income and other gains of HK\$3.4 million and HK\$54.1 million for the six months ended 30 June 2023 and 2022, respectively, representing a net decrease of HK\$50.7 million.

The main reason for the decrease in other income and other gains, net was that the Group recorded a disposal gain on two vessels amounted to HK\$23.5 million for the six months ended 30 June 2022 but no vessel disposal in 2023.

5.1.3 Expenses

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

Expenses

	Six months ended 30 June		Change
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	
Finance costs and bank charges	461,641	354,374	30.3%
Depreciation	242,456	235,774	2.8%
Vessel operating costs	136,873	146,030	(6.3%)
Employee benefits expenses	24,613	34,726	(29.1%)
Other operating expenses	39,784	20,603	93.1%
Research and development and IT expenses	2,134	770	177.1%
Net amount of reversal of impairment of loan and lease receivables	(25,246)	(23,494)	7.5%
Total	882,255	768,783	14.8%

5. Finance Review *(Continued)*

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

5.1.3 Expenses *(Continued)*

Finance Costs and Bank Charges

With the pace of interest rate hikes by the U.S. Federal Reserve, 3M-LIBOR rose from 0.22% at the beginning of last year to 5.55% at the end of 30 June 2023, there was an increase of around 500 basis points compared with the corresponding period of last year. The Group's finance costs and bank charges increased by 30.3% from HK\$354.4 million for the six months ended 30 June 2022 to HK\$461.6 million for six months ended 30 June 2023. The Group's finance costs include (i) interest expenses on bank borrowings and (ii) interest expenses on bonds. The average cost of interest-bearing liabilities was 3.4% and 2.4% for the six months ended 30 June 2023 and for the six months ended 30 June 2022, respectively. The Group had hedged the interest rate risks and repaid several bank loans during the period in order to reduce the effects of the rising interest rate and minimise the interest expenses.

Depreciation

The Group's depreciation expenses increased by 2.8% from HK\$235.8 million for the six months ended 30 June 2022 to HK\$242.5 million for the six months ended 30 June 2023. In accordance with the Group's business plan, the Group's total shipping capacity continued to grow as the Group added 1 multi-purpose heavy lift carrier and 2 bulk carriers to its vessel portfolio under operating lease in the second half of 2022.

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.

Those operating costs which borne by the Group decreased in line with the declining performance in the bulker carriers market when comparing to the corresponding period of last year. The Group's vessel operating costs decreased to HK\$136.9 million for the six months ended 30 June 2023 mainly because of the decrease in crew travelling expenses, maintenance fees and crew expense.

5. Finance Review *(Continued)*

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

5.1.3 Expenses *(Continued)*

Employee Benefits Expenses

The Group's employee benefits expenses consist of (i) wages, salaries, other allowances, retirement benefit costs; (ii) share-based payment expenses and (iii) reversal of share-based payment expenses.

The Group's employee benefits expenses were HK\$24.6 million and HK\$34.7 million for the six months ended 30 June 2023 and 2022, respectively, in which the share-based payment expenses recognised amounted to HK\$5.5 million and HK\$7.1 million for the six months ended 30 June 2023 and 2022, respectively. Due to the employees turnover, there was a reversal of the provision for share-based payment expenses of HK\$7.9 million recognised for the six months ended 30 June 2023.

Net Amount of Reversal of Impairment of Loan and Lease Receivables

The net amount of reversal of impairment of loan and lease receivables of HK\$25.2 million for the six months ended 30 June 2023 was mainly due to the reversal of the completion of several finance lease projects which had made the provision for impairment in the previous years.

Research and Development and IT Expenses

The Group recognised the research and development and IT expenses of HK\$2.1 million and HK\$0.8 million for the six months ended 30 June 2023 and for the six months ended 30 June 2022, respectively. The Group continued to improve the internal IT systems in order to increase the efficiency for daily operation such as cloud-based accounting system, Robotic Process Automation (RPA), Enterprise Resources Planning (ERP) system and upgrading related computer software.

5.1.4 Share of Results of Joint Ventures

The Group's share of results of joint ventures significantly increased by 96.2% or HK\$128.7 million from HK\$133.7 million for the six months ended 30 June 2022 to HK\$262.4 million for the six months ended 30 June 2023.

The increase in the share of results of joint ventures was due to (i) the outstanding performance in the international transportation segment of refined product oil and chemical and (ii) the increase in shipping capacity of product oil vessel compared to the six months ended 30 June 2022 as the total number of operating days for the six months ended 30 June 2023 has increased accordingly.

The reasons behind were: (i) the structural changes in energy trading, the closure of a number of refineries in Europe and the United States, and the still ongoing shift in trade routes, which led to an increase in the average transportation distance of refined oil products and a corresponding continuous increase in transportation demand, and (ii) the Group's scientific operational arrangements and effective control of operating expenses, which have contributed to the enhancement of the level of revenue.

5. Finance Review *(Continued)*

5.2 Analysis on Condensed Consolidated Statement of Financial Position

Assets

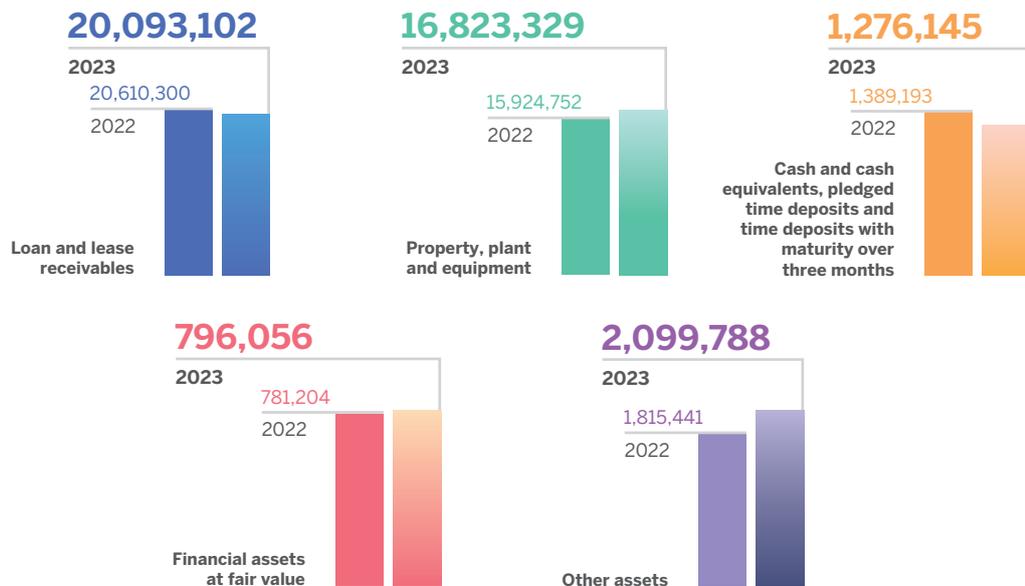
As at 30 June 2023, the total assets of the Group mainly comprised property, plant and equipment, loan and lease receivables, cash and bank deposits and financial assets at fair value which accounted for 94.9% of the Group's total assets.

Total Assets

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)	Change
Loan and lease receivables	20,093,102	20,610,300	(2.5%)
Property, plant and equipment	16,823,329	15,924,752	5.6%
Cash and cash equivalents, pledged time deposits and time deposits with maturity over three months	1,276,145	1,389,193	(8.1%)
Financial assets at fair value	796,056	781,204	1.9%
Other assets	2,099,788	1,815,441	15.7%
Total	41,088,420	40,520,890	1.4%



Total Assets
(HKD'000)



5. Finance Review *(Continued)*

5.2 Analysis on 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.

Loan and lease receivables

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)	Change
Lease receivables	12,024,152	12,291,021	(2.2%)
Loan borrowings	7,111,946	7,476,754	(4.9%)
Loans to joint ventures	957,004	842,525	13.6%
Total	20,093,102	20,610,300	(2.5%)

a) Lease Receivables

The Group's net lease receivables amounted to HK\$12,291.0 million and HK\$12,024.2 million as at 31 December 2022 and 30 June 2023, respectively. Such receivables decreased by 2.2% because some of finance lease projects were completed during the six months ended 30 June 2023.

As at 30 June 2023, the Group's finance lease receivables were secured and bore interest at rates ranging from 6.0% to 11.2%.

b) 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 3.6% to 9.5% per annum and repayable from 2023 to 2034 as at 30 June 2023.

The Group's loan borrowings decreased from HK\$7,476.8 million as at 31 December 2022 to HK\$7,111.9 million as at 30 June 2023. The decrease of 4.9% in loan borrowings was mainly because of the continuous repayment of principal amounts made by our customers during the period.

5. Finance Review *(Continued)*

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

5.2.1 Loan and Lease Receivables *(Continued)*

c) Loans to Joint Ventures

The Group's loans to joint ventures amounted to HK\$842.5 million and HK\$957.0 million as at 31 December 2022 and as at 30 June 2023, respectively.

Loans to joint ventures represent the unsecured loans to joint ventures which were repayable on demand and of which HK\$599.0 million bore interest at a rate of 8.6% per annum as at 30 June 2023.

During the six months ended 30 June 2023, there was no major default in the repayment of loan and lease receivables from the Group's customers and none of the Group's loan and lease receivables was written off.

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 2022 and 30 June 2023, the Group's property, plant and equipment amounted to HK\$15,924.8 million and HK\$16,823.3 million, respectively. The increase of 5.6% in the Group's property, plant and equipment as at 30 June 2023 was primarily because of the Group's ongoing payment to shipbuilders for continuing to increase the number of vessels for chartering business.

5.2.3 Financial Assets at Fair Value

Financial assets at fair value represent private and listed bonds and wealth management products held by the Group.

The total amount of financial assets at fair value increased by 1.9% from HK\$781.2 million as at 31 December 2022 to HK\$796.1 million as at 30 June 2023. During the first half of 2023, the Group disposed of the private bond when it was matured for HK\$217.8 million and the Group bought a listed bond for HK\$233.4 million. The Group will continue to optimise the allocation of financial assets for holding suitable investment portfolio of listed bonds and wealth management products in order to obtain stable returns.



5. Finance Review *(Continued)*

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

5.2.3 Financial Assets at Fair Value *(Continued)*

Liabilities

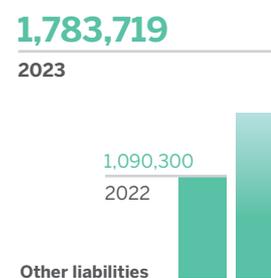
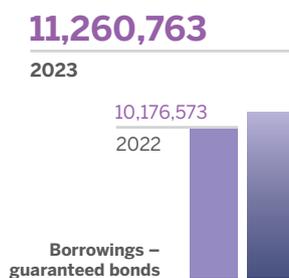
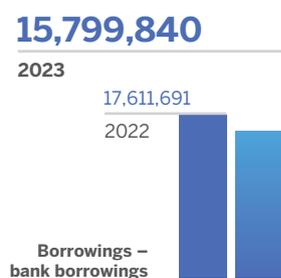
As at 30 June 2023, the total liabilities of the Group mainly represented borrowings, including bank borrowings and guaranteed bonds, which accounted for 93.8% of its total liabilities.

Total liabilities

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)	Change
Borrowings – bank borrowings	15,799,840	17,611,691	(10.3%)
Borrowings – guaranteed bonds	11,260,763	10,176,573	10.7%
Other liabilities	1,783,719	1,090,300	63.6%
Total	28,844,322	28,878,564	(0.1%)



Total Liabilities
(HKD'000)



5. Finance Review *(Continued)*

5.2 Analysis on Condensed Consolidated Statement of Financial Position

(Continued)

5.2.4 Borrowings – Bank Borrowings

The Group's bank borrowings decreased by 10.3% from HK\$17,611.7 million as at 31 December 2022 to HK\$15,799.8 million as at 30 June 2023, mainly due to the repayment during the six months ended 30 June 2023. The interest rates as at 31 December 2022 and 30 June 2023 ranged from 4.91% to 6.22% and 3.14% to 7.00% per annum, 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

As at 30 June 2023, the Group hold (i) two guaranteed bonds of US\$400 million (approximately HK\$3,112 million) due 2025 and US\$400 million (approximately HK\$3,112 million) due 2030 bearing interest at 2.5% and 3.0% per annum, respectively; and (ii) a green and blue dual-certified bond of US\$500 million (approximately HK\$3,890 million) due 2026 with a coupon rate of 2.10% per annum. In addition, in March 2023, the Group successfully issued the First Tranche of 2023 Medium-term Notes (Sustainability Linked and Bond Connect) publicly at the PRC inter-bank Bond Market with the issue size of RMB1,000 million (approximately HK\$1,120 million) for a term of three years at a coupon rate of 3.3% per annum. The Group and the First Tranche of 2023 Medium-term Notes received "AAA" rating from credit rating agency Dagong Global Credit Rating Co., Ltd. (大公國際資信評估有限公司). The issuance of the First Tranche of 2023 Medium-term Notes can lower the Group's finance costs from the increasing interest rate of bank borrowings.

The use of funds mainly for the development of the leasing business (including the green and blue vessel projects).

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 2022 and the six months ended 30 June 2023.



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	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Net cash generated from operating activities	1,715,236	1,029,943
Net cash used in investing activities	(1,226,198)	(485,679)
Net cash used in financing activities	(531,236)	(697,007)
Net decrease in cash and cash equivalents	(42,198)	(152,743)
Cash and cash equivalents at the beginning of the period	1,181,458	1,427,683
Effect of foreign exchange rate changes on cash and cash equivalents	(15,279)	(5,252)
Cash and cash equivalents at the end of the period	1,123,981	1,269,688

The net cash generated from operating activities amounted to HK\$1,715.2 million, which was mainly because the Group received the payment from the completed finance lease projects and generated a profit from operation during the six months ended 30 June 2023.

The net cash used in investing activities amounted to HK\$1,226.2 million, which was mainly due to the payments to shipbuilders during the six months ended 30 June 2023.

The net cash used in financing activities amounted to HK\$531.2 million, which was mainly because the Group repaid several bank loans during the six months ended 30 June 2023.

8. Fund Management

8.1 Bank Loans and Capital Structure

In 2023, with the positive 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. The Group kept abreast of the changes in macro situation, actively responded to the complicated financial environment at home and overseas and adjusted its financing strategies in a timely manner. The Group was able to continuously improve its debt structure and maintained an obvious advantage in finance costs compared to its peers given the fine selection of the funding currency of our financing products and proper arrangement of the financing term.

In 2023, high inflation rate is seen around the world. The influence of Federal Reserve's continuous rate hikes has led to sky-rocketed USD interest rates, with the 3M-LIBOR rate rising from 0.22% at the beginning of last year to 5.55% as of June 2023 and interest rate on new bank loans has seen an upward trend. The average cost of interest-bearing liabilities of the Group increased from 2.6% for the year ended 31 December 2022 to 3.4% for the six months ended 30 June 2023. The Group has taken effective measures to control the excessive increase in finance costs and has achieved better results, with the consolidated finance costs remaining at a lower level in the market.

In light of the surge in US dollar interest rates that stayed at a high level, the Group has been active in seeking to diversify its financing channels and took effective measures in a timely manner. In March this year, the Group issued the first tranche of sustainability-linked panda bond denominated in RMB for the first time at the PRC inter-bank Bond Market, raising RMB1 billion for a term of three years at a coupon rate of 3.3%, significantly lower than the US dollar financing rate. The sustainability-linked panda bond marked another milestone in the Group's sustainable development following the issuance of the first overseas green and blue dual-certified bond by the Group as a Chinese enterprise. It also represented another major achievement by the Group in proactively "embracing change" and innovating in response to changes in the macro environment and interest rate market. We have also completed cross-border financing that allowed domestic and foreign financing and effectively controlled the excessive growth of finance costs. The relevant proceeds were used to support qualified green shipping projects such as energy efficiency upgrades, pollution prevention and control, low-carbon and clean fuels, and sustainable transportation, helping China's shipping industry achieve green and sustainable development and supporting the high-quality development of China's economy.

The Group continued to deepen its partnership with core banks based on its existing financing channels in accordance with its strategic development needs, forming in-depth strategic partnerships with banks including the large banks and policy banks, as well as international commercial banks, and successively launching multiple products such as sustainability index-linked liquidity loan, sustainability index-linked project loan, vessel project loans and syndicated loans for vessel projects. As at 30 June 2023, the Group held loan facilities of approximately HK\$25.7 billion (approximately US\$3.3 billion), utilized loan facilities of approximately HK\$15.6 billion (approximately US\$2.0 billion) and unutilized bank loan facilities of approximately HK\$10.1 billion (approximately US\$1.3 billion).

8. Fund Management *(Continued)*

8.1 Bank Loans and Capital Structure *(Continued)*

In summary, the Group has increasingly diversified its financing instruments, continued to optimize its debt structure, further reduced its reliance on a single product and market, achieved diversification of financing products and geographical diversification of financing and continued to maintain a competitive cost advantage.

As at 30 June 2023, the Group's total assets and total liabilities were HK\$41,088.4 million and HK\$28,844.3 million, respectively, its equity attributable to owners was HK\$12,115.7 million and the gearing ratio was 2.2 times. By improving the existing fund operation, enhancing the utilisation efficiency of funds, strictly implementing funding plans and controlling the scale of interest-bearing indebtedness, the gearing ratio recorded a decrease and remained at a lower level in the industry, resulting in a healthier gearing position.

8.2 Interest Rate Risk

In terms of interest rate risk, the continuous uptrend in domestic inflation in the United States has led to significant rise in expectations for the Federal Reserve's interest rate hike, while the USD interest rate has continued to rise, the 3M-LIBOR increased sharply from 0.22% at the beginning of last year to 5.55% as of June 2023. In response to the drastic fluctuations and uncertainties in the USD interest rate market, the Group has adopted customary interest rate risk management and control measures by using financial instruments such as interest rate swaps to hedge its interest rate risk exposure. In terms of interest rate structure, the Group continued to maintain its original interest rate risk management strategy and proactively managed the matching of assets and liabilities in terms of interest rate structure. The Group continued to improve its operating lease assets through measures such as the issuance of fixed interest rate bonds, fixed interest rate loans and operating interest rate swaps, thereby effectively preventing interest rate risks, and the existing interest rate risk exposure is relatively low. The Group's financial leasing assets and bank loan liabilities are both subject to fluctuations in USD interest rate, which are offset by mutual hedging. Therefore, it is expected that the interest rate risk arising from the USD interest rate hike will have minimal effect on the Group.



8. Fund Management *(Continued)*

8.3 Exchange Rate Risk

Exchange rate risk refers to the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. 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. 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 Group has paid close attention to the recent fluctuation in RMB's exchange rate and will regularly analyze and evaluate the trend both internally and externally. In light of our existing RMB exchange rate risk exposure, the Group has effectively hedged the exchange rate risk exposure through financial instruments such as foreign exchange swaps and cross currency swaps. As of now, the Group's exchange rate risk has remained at a controllable level.

8.4 Liquidity Risk

During the period, the Group funded its operations and growth primarily through cash generated from operations, bank borrowings and issuance of bonds. When determining the allocation of its capital resources, the Group primarily considers its business strategies and development plans, future capital needs and projected cash flow.

During the period, the Group primarily relied on bank borrowings and issuance of bonds to finance its capital expenditure and its financial and liquidity needs derived from its growing business operation. There was no significant change in the Group's indebtedness and credit standing in the first half of 2023 and the credit ratings assigned to the Company by the credit rating agencies remained unchanged. In addition, the Company received "AAA" rating from independent credit rating agency Dagong Global Credit Rating Co., Ltd. (大公國際資信評估有限公司). The Group has sufficient cash flow, while the credit facilities granted by banks to the Company are sufficient to enable the Company to pay the principal in full in cash even if the convertible bonds are held to maturity by the investors.

Taking into account the historical and expected future cash flows from operations, unutilised available banking facilities of the Group and the bonds issued by the Company during the period, the Directors expected that the Group will have adequate resources to meet its liabilities and commitment as and when they fall due and will be able to continue its operational existence in the foreseeable future.

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 supports 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 2023, 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.





10. Human Resources

As at 30 June 2023, the Group had a total of 85 employees (as at 30 June 2022: 82), approximately 35% 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 2023, approximately 95% of the Group's employees had a bachelor's degree or above.

For the six months ended 30 June 2023 and 30 June 2022, the remuneration of the Group's employees amounted to approximately HK\$24.6 million and HK\$34.7 million, respectively. 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 packages and performance of its employees on an annual basis.

11. Pledge of Assets

As at 30 June 2023, the Group's lease receivables of approximately HK\$10,687.0 million (31 December 2022: HK\$10,461.5 million), floating charge on deposits of approximately HK\$336.0 million (31 December 2022: HK\$162.3 million), pledged deposits of approximately HK\$7.6 million (31 December 2022: HK\$7.6 million) and property, plant and equipment of approximately HK\$3,989.8 million (31 December 2022: HK\$4,068.6 million) were pledged to banks 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 enhance 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 “Stock Exchange”) (the “Listing Rules”) as its own code of corporate governance. During the six months ended 30 June 2023, the Company had complied with all applicable code provisions set out in the CG Code and adopted most of the recommended best practices.

Interim Dividend

The Board declared an interim dividend of the Company of HK\$0.03 per share of the Company (the “Share”) for the six months ended 30 June 2023 (interim dividend of the Company for the six months ended 30 June 2022: HK\$0.03 per Share). The aforesaid interim dividend will be paid on or before 27 October 2023. The dates of closure of the register of members of the Company regarding the entitlement of interim dividend will be announced in due course.

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 2023.

Changes of Information in relation to the Directors

On 24 February 2023, Mr. Zou Yuanjing resigned as a non-executive Director and Mr. Chi Benbin was appointed as a non-executive Director.

Since 27 June 2023, Mdm. Shing Mo Han Yvonne has been an independent non-executive director of Analogue Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1977).

Save as disclosed above, the Directors confirmed that there was no other 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 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Review of Interim Results

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 Ms. Zhang Yi and Mr. Zhang Qipeng. 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 consolidated interim results of the Group for the six months ended 30 June 2023 have been reviewed by the Audit Committee with the senior management and the external auditor of the Company.

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

As at 30 June 2023, 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

Notes:

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

Save as disclosed above, as at 30 June 2023, none of the Directors and chief executives of the Company had or was deemed to have interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (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.

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

As at 30 June 2023, 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 which were required to be disclosed to the Company pursuant to 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
China Shipbuilding Group	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, China Shipbuilding 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 2023, 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 which were required to be disclosed to the Company pursuant to 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.

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 (i) has granted share options under the Scheme on 30 April 2021 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; and (ii) has granted share options under the Scheme on 4 April 2022 to certain senior management and core technical employees of the Company which entitle the grantees to subscribe for up to an aggregate of 28,710,000 new Shares with exercise price of HK\$1.15 per Share in the share capital of the Company.

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 as at the date of approval of the Scheme at the EGM. 172,250,000 share options had been granted by the Company under the Scheme up to the date of this report. Therefore, the number of share options available for further grant at the beginning and the end of the six months ended 30 June 2023 is 441,356,623 and 441,356,623, respectively, and the number of Shares available for issue under the Scheme is 557,536,623 Shares, representing approximately 9.09% of the total number of issued Shares as at the date of this report.

Particulars and movements of share options granted under the Scheme during the six months ended 30 June 2023 are set out below:

Name or category of participant	Position(s) held with the Group	Number of share options						As of 30 June 2023	Date of grant	Exercise period of share options (both dates inclusive) (Note)	Exercise price of share options (HK\$)	Closing price of the Shares immediately before the date of grant (HK\$)
		As of 1 January 2023	Granted during the period	Exercised during the period	Lapsed during the period	Forfeited during the period						
Directors												
Mr. Zhong Jian	Chairman and executive Director	12,650,000	-	-	-	-	12,650,000	30 April 2021	30 April 2021 to 29 April 2031	1.32	1.32	
Sub-total		12,650,000	-	-	-	-	12,650,000					
Other employees of the Group												
Employees in aggregate		74,820,000	-	-	-	-	74,820,000	30 April 2021	30 April 2021 to 29 April 2031	1.32	1.32	
		28,710,000	-	-	-	-	28,710,000	4 April 2022	4 April 2022 to 3 April 2032	1.15	1.15	
Sub-total		103,530,000	-	-	-	-	103,530,000					
Total		116,180,000	-	-	-	-	116,180,000					

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.

Notes:

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 2023 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.

Disclosure Pursuant to Rule 13.21 of The Listing Rules

- (1) On 27 June 2022, Fortune Crete Shipping Limited and Fortune Santorini Shipping Limited, being the Company's wholly-owned subsidiaries, as two borrowers (the "Borrowers"), entered into two secured loan agreements (the "Loan Agreements") with a bank as lender (the "Lender") respectively, pursuant to which, the Lender has agreed to advance to the Borrowers two secured loan facilities of up to US\$316,736,100 for the purpose of re-financing the acquisition of two vessels. The loans shall be repaid in full in 120 months from the respective utilisation date under the Loan Agreements.

Pursuant to the Loan Agreements, the loans together with accrued interest, and all other amounts accrued or outstanding under the Loan Agreements will become immediately due and payable if the Borrowers cease to be directly or indirectly controlled by China Shipbuilding Group.

On 27 June 2022, the Company as borrower, entered into a facility agreement (the "Facility Agreement") with a bank as lender, pursuant to which the lender has agreed to make available to the Company a revolving loan facility up to US\$47,000,000 for the purpose of financing the working capital of the Company including but not limited to purchase of vessels and repayment of outstanding indebtedness due to the other banks. All amounts borrowed under the Facility Agreement, including interest accrued thereon, shall be repaid or reborrowed at the end of each interest period, being either one or three months depending on the Company's choice.

Pursuant to the Facility Agreement, the Company undertakes and procures that, throughout the life of the facility, China Shipbuilding Group shall (i) remain as the single largest shareholder of the Company (directly or indirectly); and (ii) remain wholly owned by the State owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China* (國務院國有資產監督管理委員會).

- (2) On 13 May 2022, Fortune VGAS Shipping III Pte. Ltd. and Fortune VGAS Shipping IV Pte. Ltd., being the Company's wholly-owned subsidiaries, as borrowers, entered into a facility agreement with a bank as lender, pursuant to which, the lender has agreed to make available to the borrowers a secured term loan facility of up to US\$103,600,000 for the purpose of re-financing the acquisition of vessels. The loan shall be repaid in full in 120 months from the utilisation date under such facility agreement.

Pursuant to such facility agreement, the facility will be cancelled and the loan and all such outstanding interest and other amounts will become immediately due and payable if CSSC Group ceases to ultimately own at least 50.1% of the issued share capital of the Company.

Save as disclosed above, as at 30 June 2023 and up to the date of this report, the Company did not have other disclosure obligations under Rule 13.21 of the Listing Rules.



FINANCIAL STATEMENTS

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 52 to 76 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 2023 and the related condensed consolidated income statement, condensed consolidated statement of 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

11th Floor, Lee Garden Two

28 Yun Ping Road

Causeway Bay

Hong Kong SAR

22 August 2023

Lam Yau Hing

Practising Certificate No.: P06622

Condensed Consolidated Income Statement

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue	6	1,732,284	1,504,684
Other income and other gains, net		3,447	54,108
Expenses			
Finance costs and bank charges	7	(461,641)	(354,374)
Net amount of reversal of impairment of loan and lease receivables		25,246	23,494
Depreciation		(242,456)	(235,774)
Employee benefits expenses		(24,613)	(34,726)
Vessel operating costs		(136,873)	(146,030)
Other operating expenses		(41,918)	(21,373)
Total Expenses		(882,255)	(768,783)
Profit from operations	8	853,476	790,009
Share of results of joint ventures		262,402	133,720
Share of results of associates		(14,495)	(9,713)
Profit before income tax		1,101,383	914,016
Income tax expense	9	(10,768)	(7,736)
Profit for the period		1,090,615	906,280
Profit for the period attributable to:			
Equity holder of the Company		1,085,740	873,357
Non-controlling interests		4,875	32,923
		1,090,615	906,280
Earnings per share (HK\$)			
Basic and diluted	10	0.177	0.142

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Profit for the period	1,090,615	906,280
Other comprehensive (expense)/income 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	(19,710)	(58,171)
– Share of other comprehensive income of joint ventures, net	(4,908)	47,208
– Fair value change of financial assets at fair value through other comprehensive income (debt instruments)	(4,998)	(7,766)
– Reclassification of fair value change on derivative financial instruments designated as cash flow hedge to profit or loss	–	13,462
– Fair value change of derivative financial instruments (cash flow hedges)	(21,525)	338,895
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
– Fair value change of financial assets at fair value through other comprehensive income (equity instruments)	–	1,071
Total other comprehensive (expense)/income for the period	(51,141)	334,699
Total comprehensive income for the period	1,039,474	1,240,979
Total comprehensive income for the period attributable to:		
Equity holders of the Company	1,034,599	1,208,303
Non-controlling interests	4,875	32,676
Total comprehensive income for the period	1,039,474	1,240,979

Condensed Consolidated Statement of Financial Position

As at 30 June 2023

	Notes	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Assets			
Property, plant and equipment	12	16,823,329	15,924,752
Right-of-use assets	12	21,532	28,240
Interest in joint ventures	13	1,378,541	1,093,817
Interest in associates		112,338	52,429
Loan and lease receivables	14	20,093,102	20,610,300
Derivative financial assets		492,311	511,817
Prepayment, deposits, and other receivables	15	34,983	40,459
Financial assets at fair value through profit or loss		473,176	686,726
Financial assets at fair value through other comprehensive income		322,880	94,478
Deferred tax assets		4,369	4,125
Amount due from associates		29,385	29,715
Amount due from fellow subsidiaries		126	2,047
Amount due from joint ventures		26,203	52,792
Time deposits with maturity over three months		144,552	200,107
Pledged time deposits		7,612	7,628
Cash and cash equivalents		1,123,981	1,181,458
Total assets		41,088,420	40,520,890
Liabilities			
Deferred tax liabilities		2,231	–
Income tax payables		42,935	33,422
Borrowings	16	27,060,603	27,788,264
Derivative financial liabilities		95,162	–
Amount due to a joint venture		304,493	207,172
Amount due to non-controlling interests		197,784	168,227
Other payables and accruals		1,117,142	651,517
Lease liabilities		23,972	29,962
Total liabilities		28,844,322	28,878,564
Net assets		12,244,098	11,642,326
Equity			
Share capital	17	6,614,466	6,614,466
Reserves		5,501,218	4,898,486
		12,115,684	11,512,952
Non-controlling interests		128,414	129,374
Total equity		12,244,098	11,642,326

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2023

	Attributable to equity holders of the Company									
	Share capital	Investment revaluation reserve	Hedging reserve	Other reserve	Share option 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 2023	6,614,466	(505)	402,406	83,957	25,998	(96,902)	4,483,532	11,512,952	129,374	11,642,326
Profit for the period	-	-	-	-	-	-	1,085,740	1,085,740	4,875	1,090,615
Other comprehensive expense for the period	-	(4,998)	(21,525)	(4,908)	-	(19,710)	-	(51,141)	-	(51,141)
Total comprehensive income for the period	-	(4,998)	(21,525)	(4,908)	-	(19,710)	1,085,740	1,034,599	4,875	1,039,474
Dividends (Note 11)	-	-	-	-	-	-	(429,525)	(429,525)	-	(429,525)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(5,835)	(5,835)
Equity settled share-based payments	-	-	-	-	5,548	-	-	5,548	-	5,548
Forfeiture of share options	-	-	-	-	(7,890)	-	-	(7,890)	-	(7,890)
	-	-	-	-	(2,342)	-	(429,525)	(431,867)	(5,835)	(437,702)
At 30 June 2023	6,614,466	(5,503)	380,881	79,049	23,656	(116,612)	5,139,747	12,115,684	128,414	12,244,098
At 1 January 2022	6,614,466	9,620	991	23,945	10,335	17,931	3,347,218	10,024,506	79,960	10,104,466
Profit for the period	-	-	-	-	-	-	873,357	873,357	32,923	906,280
Other comprehensive (expense)/income for the period	-	(6,695)	352,357	47,208	-	(57,924)	-	334,946	(247)	334,699
Total comprehensive income for the period	-	(6,695)	352,357	47,208	-	(57,924)	873,357	1,208,303	32,676	1,240,979
Dividends (Note 11)	-	-	-	-	-	-	(368,164)	(368,164)	-	(368,164)
Equity settled share-based payments	-	-	-	-	7,051	-	-	7,051	-	7,051
	-	-	-	-	7,051	-	(368,164)	(361,113)	-	(361,113)
At 30 June 2022	6,614,466	2,925	353,348	71,153	17,386	(39,993)	3,852,411	10,871,696	112,636	10,984,332

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Cash flows from operating activities		
Net cash generated from operations	2,205,928	1,299,364
Interest received	28,551	22,356
Interests paid	(522,014)	(275,232)
Income tax refunded/(paid)	2,771	(16,545)
<i>Net cash generated from operating activities</i>	1,715,236	1,029,943
Cash flows from investing activities		
Decrease/(Increase) in time deposits with maturity over three months	55,850	(63,462)
Decrease in structured bank deposits	–	60,352
Payment of purchase of property, plant and equipment	(1,075,551)	(748,745)
Payment of purchase of financial assets at fair value through other comprehensive income	(233,400)	–
Investment in associates	(78,105)	–
Investment in joint ventures	(27,230)	–
Dividend income received from financial assets at fair value through other comprehensive income	–	4,201
Decrease in amount due from fellow subsidiaries	1,921	1,330
Decrease in amount due from associates	174	229
Decrease in amount due from joint ventures	26,589	73,253
Increase in loan to joint ventures	(114,478)	(70,214)
Decrease in pledged bank deposits	16	–
Proceeds on disposal of financial assets at fair value through profit or loss	217,840	38,900
Proceeds from disposal of asset held for sales	–	217,381
Proceeds from disposal of property, plant and equipment	176	1,096
<i>Net cash used in investing activities</i>	(1,226,198)	(485,679)
Cash flows from financing activities		
Proceeds from bank borrowings	5,070,055	3,186,688
Proceeds from issuance of bonds	1,122,000	–
Repayment of bank borrowings	(6,836,581)	(3,859,952)
Payment of lease liabilities	(7,831)	(7,592)
Proceeds from non-controlling interests	29,635	–
Proceeds from/(Repayment to) joint venture	97,321	(16,182)
Proceeds from fellow subsidiaries	–	31
Dividends paid to non-controlling interests	(5,835)	–
<i>Net cash used in financing activities</i>	(531,236)	(697,007)
Net decrease in cash and cash equivalents	(42,198)	(152,743)
Cash and cash equivalents at the beginning of the period	1,181,458	1,427,683
Effect of foreign exchange rate changes on cash and cash equivalents	(15,279)	(5,252)
Cash and cash equivalents at the end of the period	1,123,981	1,269,688

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2023

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 22 August 2023.

The financial information relating to the year ended 31 December 2022 that is included in the interim financial information for the six months ended 30 June 2023 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 Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the 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 Companies Ordinance (Cap. 622).

2. Basis of Preparation

This interim financial information for the six months ended 30 June 2023 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 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

3. Adoption of New and Amended HKFRSs

The interim financial information for the six months ended 30 June 2023 have been prepared in accordance with the accounting policies adopted in the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following amended HKFRSs which are effective as of 1 January 2023.

HKFRS 17	Insurance Contracts with related amendments
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

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

Amendments to HKAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

The amendments clarify that the initial recognition exemption of deferred tax in HKAS 12 “Income Taxes” does not apply to transactions that give rise to equal taxable and deductible temporary differences, such as lease contracts that give rise to the recognition of a lease liability and the corresponding right-of-use assets and contracts that give rise to the recognition of decommissioning obligations and corresponding amounts recognised as assets. Instead, entities are required to recognise the related deferred tax asset and liability on initial recognition, with the recognition of any deferred tax asset being subject to the recoverability criteria in HKAS 12 “Income Taxes”.

The Group adopted the amendments from 1 January 2023 and was required to recognise the associated deferred tax assets and liabilities from leases that occurred on or after 1 January 2022 from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained profits at that date.

Prior to the application of the amendments, the Group had recognised the deferred tax assets and liabilities arising from leases on a net basis. Following the requirements of the amendments, the Group has recognised a separate deferred tax asset in relation to its lease liabilities and a deferred tax liability in relation to its right-of-use assets as at 1 January 2022. As the balances are qualified for offset under paragraph 74 of HKAS 12, there was no material impact on the opening retained profits as at 1 January 2022 as a result of the amendments. However, the amendments require additional disclosure of deferred tax assets and liabilities which may have impact on the annual consolidated financial statements.

3. Adoption of New and Amended HKFRSs *(Continued)*

Amendments to HKAS 12 “International Tax Reform – Pillar Two Model Rules”

The amendments provide temporary relief from accounting for deferred tax arising from the Organisation for Economic Co-operation and Development’s Pillar Two model rules (i.e. global minimum tax rules designed to ensure that large multinational business pay a minimum effective rate of tax of 15% on profits in all countries) (the “Pillar Two Model Rules”). Entities shall apply this temporary exception immediately and retrospectively upon issuance of the amendments and disclose the fact of the application.

Besides, the amendments also introduce additional disclosure requirements to help users of financial statements understand an entity’s exposure to income taxes arising from the Pillar Two Model Rules, which are effective for annual period beginning on or after 1 January 2023. However, as permitted by the amendments, entities are not required to disclose the required information in the interim report for any interim period ending on or before 31 December 2023. Therefore, the amendments had no impact on the condensed consolidated interim financial statements of the Group.

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).

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

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 2023 and 31 December 2022.

Fair value hierarchy

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 30 June 2023 (Unaudited)				
Financial assets				
Derivative financial assets	–	492,311	–	492,311
Financial assets at fair value through profit or loss	–	473,176	–	473,176
Financial assets at fair value through other comprehensive income	322,880	–	–	322,880
Total financial assets at fair values	322,880	965,487	–	1,288,367
Financial liabilities				
Derivative financial liabilities	–	95,162	–	95,162
As at 31 December 2022 (Audited)				
Financial assets				
Derivative financial assets	–	511,817	–	511,817
Financial assets at fair value through profit or loss	–	468,886	217,840	686,726
Financial assets at fair value through other comprehensive income	94,478	–	–	94,478
Total financial assets at fair values	94,478	980,703	217,840	1,293,021

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 the unlisted exchangeable note is determined using binomial option pricing model

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 as at 31 December 2022.

	Fair value HK\$'000 (Audited)	Unobservable Inputs	Range of inputs (Audited)	Relationship of inputs to fair value
Unlisted exchangeable note	217,840	Discount rate	14.21%	The higher the discount rate, the lower the fair value
		Expected volatility	27.97%	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:

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Unlisted exchangeable note		
At beginning of period	217,840	218,498
Redemption	(217,840)	–
Exchange differences	–	(658)
At end of period	–	217,840

4. Fair Value Estimation *(Continued)*

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

Valuation processes

The Group has engaged the professional valuer that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. This valuer reports directly to finance department. Discussions of valuation processes and results are held between the finance department and the valuation team at least annually.

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 finance department 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 2023.

The carrying value of the Group's financial assets and financial liabilities carried at amortised costs approximate their fair value due to their short-term maturities. 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. Signification 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 consolidated financial statements for the year ended 31 December 2022.

6. Segment Information and Revenue

The chief operating decision-maker (“CODM”) has been identified as the executive directors of the Company. The executive directors of the Company 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 services and (iii) shipbroking services.

The Group derives revenue from the following:

	Leasing services HK\$'000 (Unaudited)	Loan borrowings services HK\$'000 (Unaudited)	Shipbroking services HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
For the six months ended 30 June 2023				
Segment revenue and revenue from external customers	1,413,618	295,075	23,591	1,732,284
For the six months ended 30 June 2022				
Segment revenue and revenue from external customers	1,317,198	158,290	29,196	1,504,684

Commission income from charterer included in shipbroking services, are recognised over time method and commission income received from shipbuilder, including in shipbroking services segment, are recognised at point in time method during the period.

For the six months ended 30 June 2023, commission income included in shipbroking services are recognised at a point in time and over time amounting to HK\$882,000 and HK\$22,709,000 (2022: HK\$8,211,000 and HK\$20,985,000) respectively.

For the six months ended 30 June 2023, revenue from non-lease component included in leasing services amounting to HK\$123,646,000 (2022: HK\$137,755,000).

6. Segment Information and Revenue *(Continued)*

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	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Finance lease income	545,341	333,461
Operating lease income	868,277	983,737
Interest income from loan borrowings	295,075	158,290
Commission income	23,591	29,196
	1,732,284	1,504,684

Finance lease arrangements

The Group entered into lease arrangements to lease the vessels to different third parties. Lease payments for some contracts include variable lease payments that depend on a rate including London Inter-Bank Offered Rate ("LIBOR"), Secured Overnight Financing Rate ("SOFR") and Euro Interbank Offered Rate ("Euribor"). Where considered necessary to reduce credit risk, the Group may obtain guarantees from the charterer's group company and assignment over the charterer's earning accounts for the term of the lease.

Operating lease arrangements

The Group entered into lease arrangements to lease the vessels to different third parties. Lease payments for some contracts include variable lease payments that depend on an index, but there are no variable lease payments that do not depend on an index or rate. Where considered necessary to reduce credit risk, the Group may obtain guarantees from the charterer's group company and assignment over the charterer's earning accounts for the term of the lease.

7. Finance Costs and Bank Charges

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Interest and charges on borrowings	377,479	234,166
Bank charges	1,107	131
Interest on lease liabilities	500	566
Interest and charges on bonds	140,905	135,849
	519,991	370,712
Less: finance costs capitalised	(58,350)	(16,338)
	461,641	354,374

8. Profit From Operations

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

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Dividend income	–	4,201
Gain on disposal of asset held for sales	–	23,498
Interest income from financial assets at fair value through profit or loss	6,233	10,862
Interest income from financial assets at fair value through other comprehensive income	9,229	7,516
Loss on disposal of property, plant and equipment	–	(3)
Net gain/(loss) on changes in fair value of financial assets at fair value through profit or loss	4,290	(55,520)
Net gain on de-recognition of finance lease receivables	34,940	–

9. Income Tax Expenses

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Current income tax		
– Hong Kong profits tax	4,009	3,151
– Overseas taxation	4,691	4,665
	8,700	7,816
Overseas withholding tax	141	–
Deferred tax		
– Current period	1,927	(80)
Income tax expense	10,768	7,736

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profit in Hong Kong during the period.

PRC enterprise income tax has been calculated at the income tax rate of the PRC entities of 25% (2022: 25%) on the estimated assessable profit for the period.

Singapore corporate income tax is charged at the statutory rate of 17% (2022: 17%) of the estimated assessable income as determined with the relevant tax rules and regulations of Singapore.

Malta corporate income tax is charged at the effective rate of 5% of the estimated assessable income as determined with the relevant tax rules and regulations of Malta.

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	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Earnings		
Profit attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	1,085,740	873,357
	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

The calculation of the diluted earnings per share for the six months ended 30 June 2023 and 2022 has not taken into account the effect of the share options of the Company as they are considered as anti-dilutive.

11. Dividends

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Dividends approved and not yet paid during the period:		
Final dividend in respect of the year ended 31 December 2022 of HK7 cents (2021: HK6 cents) per ordinary share	429,525	368,164
Dividends proposed:		
Interim dividend of HK3 cents (2022: HK3 cents) per ordinary share	184,082	184,082

At the board of directors meeting held on 22 August 2023, the board of directors has declared an interim dividend of HK3 cents (2022: 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 2023.

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

During the six months ended 30 June 2023, additions to property, plant and equipment amounted to approximately HK\$1,133,901,000 (2022: HK\$765,083,000).

During the six months ended 30 June 2023, disposal of property, plant and equipment at net book value was approximately HK\$176,000 (2022: HK\$1,099,000).

As at 30 June 2023, the carrying amount of the Group's right-of-use assets in relation to the office amounted to HK\$21,532,000 (31 December 2022: HK\$28,240,000).

Addition to the right-of-use assets during six months ended 30 June 2023 amounted to HK\$1,330,000 (2022: HK\$ Nil).

Depreciation of the right-to-use assets during six months ended 30 June 2023 amounted to HK\$8,050,000 (2022: HK\$6,857,000).

13. Interests in Joint Ventures

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Interests in joint ventures	1,378,541	1,093,817

Details of the Group's joint ventures as at 30 June 2023 are as follows:

Name	Place of incorporation/ registration and operation	Principal activities	Percentage of equity attributable to the Company
Ocean Classic Limited	British Virgin Islands ("BVI")	Vessel owning and chartering	50%
Sino Singapore Maritime Pte. Ltd.	Singapore	Vessel owning and chartering	50%
Vista Shipping Pte. Limited	Singapore	Vessel owning and chartering	50%

14. Loan and Lease Receivables

	Notes	As at 30 June 2023		
		Gross amount HK\$'000 (Unaudited)	Allowance for impairment losses HK\$'000 (Unaudited)	Net carrying amount HK\$'000 (Unaudited)
Loan borrowings	(a)	7,155,006	(43,060)	7,111,946
Lease receivables	(b)	12,531,969	(507,817)	12,024,152
Loans to joint ventures	(c)	957,004	–	957,004
		20,643,979	(550,877)	20,093,102

	Notes	As at 31 December 2022		
		Gross amount HK\$'000 (Audited)	Allowance for impairment losses HK\$'000 (Audited)	Net carrying amount HK\$'000 (Audited)
Loan borrowings	(a)	7,617,997	(141,243)	7,476,754
Lease receivables	(b)	12,725,901	(434,880)	12,291,021
Loans to joint ventures	(c)	842,525	–	842,525
		21,186,423	(576,123)	20,610,300

14. Loan and Lease Receivables *(Continued)*

(a) Loan borrowings

As at 30 June 2023, loan borrowings were secured, interest bearing at rates ranging from 3.6% to 9.5% (31 December 2022: 3.6% to 8.7%) per annum and repayable from 2023 to 2034 (31 December 2022: 2023 to 2034). The loan borrowings are secured by the respective vessel and certain shares of 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 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Within 1 year	882,995	584,767
After 1 year but within 2 years	644,646	672,031
After 2 years but within 5 years	4,184,899	2,059,676
Over 5 years	1,399,406	4,160,280
	7,111,946	7,476,754

(b) Lease receivables

As at 30 June 2023, the Group's finance lease receivables were secured, interest bearing at rates ranging from 6.0% to 11.2% (31 December 2022: 6.0% to 10.4%) per annum. Details of the lease receivables as at the end of the reporting periods are as follows:

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Gross investment in finance leases	15,656,687	15,787,011
Less: unearned finance income	(3,131,945)	(3,071,128)
Net investments in finance leases	12,524,742	12,715,883
Operating lease receivables	7,227	10,018
Lease receivables	12,531,969	12,725,901
Less: accumulated allowance for impairment	(507,817)	(434,880)
Lease receivables – net	12,024,152	12,291,021

14. Loan and Lease Receivables *(Continued)***(b) Lease receivables** *(Continued)*

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.

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 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Gross investment in finance leases		
Within 1 year	2,770,807	2,225,972
After 1 year but within 2 years	1,753,800	2,377,096
After 2 years but within 3 years	1,600,902	1,571,867
After 3 years but within 4 years	2,030,574	2,056,576
After 4 years but within 5 years	1,255,933	1,515,150
Over 5 years	6,244,671	6,040,350
	15,656,687	15,787,011

(c) Loan to joint ventures

As at 30 June 2023, except for loans to joint ventures of HK\$598,968,000 (31 December 2022: HK\$484,490,000) which were unsecured, interest bearing at 8.6% (31 December 2022: 7.8%) per annum and repayable on demand, the remaining balances were unsecured, interest-free and repayable on demand.

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

15. Prepayments, Deposits and Other Receivables

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Prepayments	18,992	15,268
Interest receivables	3,865	9,711
Other receivables	12,126	15,480
	34,983	40,459

16. Borrowings

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Bank borrowings – (note a)	15,799,840	17,611,691
Bonds – (note b)	11,260,763	10,176,573
	27,060,603	27,788,264

16. Borrowings *(Continued)*

Notes:

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

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
On demand and within 1 year	6,467,987	7,457,427
After 1 year but within 2 years	1,118,303	1,105,387
After 2 years but within 5 years	4,416,651	5,003,120
Over 5 years	3,796,899	4,045,757
	15,799,840	17,611,691

As at 30 June 2023, the Group's secured bank borrowings of HK\$8,584,062,000 (31 December 2022: HK\$8,992,860,000) were secured by lease receivables of approximately HK\$10,687,013,000 (31 December 2022: HK\$10,461,470,000), shares of certain subsidiaries, deposits of approximately HK\$336,037,000 (31 December 2022: HK\$162,344,000), pledged deposits of approximately HK\$7,612,000 (31 December 2022: HK\$7,628,000), general assignments, bareboat charterer assignments, intra group loan assignments and property, plant and equipment of approximately HK\$3,989,835,000 (31 December 2022: HK\$4,068,613,000).

As at 30 June 2023, the Group's bank borrowings of HK\$7,215,778,000 (31 December 2022: HK\$8,618,831,000) were unsecured and guaranteed by the Company.

As at 30 June 2023, the Group's bank borrowings bear interest at interest rates range from 3.14% to 7.00% (31 December 2022: 4.91% to 6.22%) per annum.

As at 30 June 2023, the Group's bank borrowings bear variable interest rate were HK\$14,418,771,000 (31 December 2022: HK\$17,611,691,000).

For the six months ended 30 June 2023, the interest rates of some of these bank borrowings amounting to HK\$2,559,440,000 (2022: HK\$833,257,000) were replaced from LIBOR to SOFR plus fixed spread adjustment. Since the Group applied the practical expedient upon the modification of these bank borrowings provided that the "economically equivalent" criterion is met, there is no impact on the financial position and performance of the Group.

16. Borrowings (Continued)

Notes: (Continued)

- (b) In February 2020, the Group issued two guaranteed bonds of US\$400,000,000 (approximately HK\$3,112,000,000) due 2025 and US\$400,000,000 (approximately HK\$3,112,000,000) due 2030 bearing interest at 2.5% and 3.0% respectively. In July 2021, the Group issued guaranteed bonds of US\$500,000,000 (approximately HK\$3,890,000,000) due 2026 bearing interest at 2.1%. All the above guaranteed bonds were guaranteed by the Company and listed on The Stock Exchange of Hong Kong Limited.

In March 2023, the Company issued bond of RMB1,000,000,000 (approximately HK\$1,122,000,000) due 2026 bearing interest at 3.3%. This bond was listed on the Shanghai Stock Exchange.

The bonds were repayable as follows:

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Within 1 year	65,343	62,573
After 1 year but within 2 years	–	–
After 2 years but within 5 years	8,083,420	7,002,000
Over 5 years	3,112,000	3,112,000
	11,260,763	10,176,573

17. Share Capital

Ordinary shares, issued and fully paid:

	Numbers of shares (‘000)	Share capital HK\$'000
At 31 December 2022 (audited) and 30 June 2023 (unaudited)	6,136,066	6,614,466

18. Share-Based Employee Compensation

The Company has adopted 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 “First Grant Date”) and 4 April 2022 (the “Second Grant Date”), the Company granted 143,540,000 and 28,710,000 share options to certain of its directors and employees for nil consideration at an exercise price of HK\$1.32 and HK\$1.15 per share respectively. The exercise price represents the highest of (i) the closing price as stated in the daily quotations sheet issued by the Stock Exchange on the First Grant Date and Second Grant Date; and (ii) the average closing price as stated in the daily quotations sheet issued by the Stock Exchange for the five business days immediately preceding the First Grant Date and Second Grant Date. 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.

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

Details of movements in share options during the six months ended 30 June 2023 were as follows:

	2023		2022	
	Number '000	Weighted average exercise price HK\$	Number '000	Weighted average exercise price HK\$
Outstanding at 1 January	116,180	1.28	143,540	1.32
Granted	–	–	28,710	1.15
Forfeited	–	–	(12,650)	1.32
Outstanding at 30 June	116,180	1.28	159,600	1.29
Exercisable at 30 June	28,865	1.32	N/A	N/A

For the outstanding share options as at 30 June 2023, the weighted average remaining contractual life was 8.1 years (2022: 9.0 years) and the range of exercise price was from HK\$1.15 to HK\$1.32 (2022: from HK\$1.15 to HK\$1.32). None of the share options were exercised nor expired during six months ended 30 June 2023 (2022: Nil).

The fair values of options granted were determined by 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 respective grant date:

	The First Grant Date	The Second Grant Date
Share price at date of grant	HK\$1.32	HK\$1.15
Exercise price at date of grant	HK\$1.32	HK\$1.15
Expected volatility	44.20%	43.93%
Expected option life	10 years	10 years
Dividend yield	8.58%	7.50%
Risk-free interest rate	1.15%	2.24%
Post-vesting forfeiture rate	14.16% to 26.44%	12.81%
Fair value per share option at the grant date	HK\$0.277 to HK\$0.303	HK\$0.298
Fair value of share options granted to director, Mr. Zhong Jian	HK\$0.277	N/A
Fair value of share options granted to director, Mr. Hu Kai	HK\$0.277	N/A
Fair value of share options granted to other employees	HK\$0.303	HK\$0.298

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

For the six months ended 30 June 2023, the Company did not grant any share options (2022: 28,710,000 share options have been granted to its employees for nil consideration at an exercise price of HK\$1.15 per share). Details of the share options granted during the six months ended 30 June 2022 were as follows:

	Grant Date	Share options granted during the six months ended 30 June 2022	Estimated fair value per share option HK\$	Fair value as at the grant date HK\$'000
Other employees	4 April 2022	28,710,000	0.298	8,556

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\$5,548,000 (2022: HK\$7,051,000) and HK\$7,890,000 (2022: HK\$ Nil) of employee compensation expenses and forfeiture of share options has been recognised in profit or loss for the six months ended 30 June 2023 and the corresponding amount of which has been credited to "Share option reserve". No liabilities were recognised in connection with share-based payment transactions.

19. Capital Commitments

As at 30 June 2023, capital commitments outstanding contracted but not provided for are as follows:

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Contracted for in respect of construction of vessels	9,007,474	9,454,787

20. Provision and Contingencies

The financial guarantees issued by the Group as at 30 June 2023 are analysed as below:

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Guarantees provided in respect of joint ventures' bank loans	1,526,384	1,736,103
Guarantees provided in respect of joint ventures' other borrowings	933,500	737,544
	2,459,884	2,473,647

As at 30 June 2023, among the guarantees provided in respect of the joint ventures' bank loans, HK\$838,178,000 (31 December 2022: HK\$1,017,345,000) were jointly and severally guaranteed by the joint venture partners.

As at 30 June 2023, the Group has outstanding guarantees up to a maximum amount of US\$126,400,000 (approximately HK\$983,392,000) (31 December 2022: HK\$737,544,000) for the punctual performance of the joint ventures in respect of their respective obligations, duties and liabilities under or in connection with the charters. The guarantees will be released upon the end of the charter period.

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, a company incorporated in Hong Kong with limited liabilities as the immediate holding company, which owns approximately 75% of the Company's issued ordinary shares as at 30 June 2023. The ultimate parent company of the Group is China State Shipbuilding Corporation Limited* (中國船舶集團有限公司) ("China Shipbuilding Group"), a state-owned enterprise established in the PRC. China Shipbuilding Group itself is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC.

Related parties including China Shipbuilding 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 China Shipbuilding Group as well as their close family members.

For the six months ended 30 June 2023 and 2022, 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 the 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 2023.

21.1 Transaction with related parties

The Group entered into the following related party transactions during the six months ended 30 June 2023 and 2022:

Transactions with fellow subsidiaries:

	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Commission income	2,541	20,825
Purchase of vessels and offshore equipment	(1,069,310)	(942,131)
Rental and utilities expenses	(9,044)	(7,016)

* For identification purpose only.

21. Related Party Transactions *(Continued)*

21.1 Transaction with related parties *(Continued)*

Transactions with joint ventures:

	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Interest income	21,557	3,695

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

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:

	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Wages, salaries and bonuses	5,392	7,341
Retirement benefit costs	979	1,183
Share-based payments	3,373	2,447
	9,744	10,971

22. Change of Chinese Name of the Company

Pursuant to the special resolution passed at the annual general meeting on 26 June 2023, the Chinese name of the Company has been changed from 中國船舶(香港)航運租賃有限公司 to 中國船舶集團(香港)航運租賃有限公司 and effective from 10 August 2023.

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