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CSSC (Hong Kong) Shipping Company Limited

中國船舶集團(香港)航運租賃有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 3877)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2024

The board (the “**Board**”) of directors (the “**Directors**”) of CSSC (Hong Kong) Shipping Company Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2024, together with comparative figures for the same period of 2023 or as at 31 December 2023, which shall be read in conjunction with the management discussion and analysis, as follows.

FINANCIAL HIGHLIGHTS

1. Summary of Condensed Consolidated Income Statement

	Six months ended 30 June		Change
	2024	2023	
	<i>HK\$’000</i>	<i>HK\$’000</i>	
	(Unaudited)	(Unaudited)	
Revenue	1,965,771	1,732,284	13.5%
Total expenses	(1,095,844)	(882,255)	24.2%
Profit from operations	1,105,081	853,476	29.5%
Profit for the period	1,339,860	1,090,615	22.9%
Earnings per share (HK\$):			
– Basic	0.216	0.177	22.0%
– Diluted	0.216	0.177	22.0%

2. Summary of Condensed Consolidated Statement of Financial Position

	As at 30 June 2024 <i>HK\$'000</i> (Unaudited)	As at 31 December 2023 <i>HK\$'000</i> (Audited)	Change
Total assets	43,787,885	45,143,559	(3.0%)
Total liabilities	30,121,138	32,313,648	(6.8%)
Total equity	13,666,747	12,829,911	6.5%

3. Selected Financial Ratios

	Six months ended/ as at 30 June 2024	Year ended/ as at 31 December 2023
Profitability indicators		
Return on average assets (“ROA”) ⁽¹⁾	6.0%	4.5%
Return on average net assets (“ROE”) ⁽²⁾	20.2%	15.7%
Average cost of interest-bearing liabilities ⁽³⁾	3.5%	3.7%
Net profit margin ⁽⁴⁾	68.2%	52.7%
Liquidity indicators		
Asset-liability ratio ⁽⁵⁾	68.8%	71.6%
Risk asset-to-equity ratio ⁽⁶⁾	3.1 times	3.4 times
Gearing ratio ⁽⁷⁾	2.1 times	2.4 times
Net debt-to-equity ratio ⁽⁸⁾	2.0 times	2.4 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 and time deposits with maturity over three months.
- (7) Calculated by dividing total borrowings by total equity.
- (8) Calculated by dividing net debts by total equity. Net debts are borrowings minus cash and cash equivalents.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Industry Environment

In the first half of 2024, vessels detoured to avoid the disruption in the Red Sea was one of the most important factors affecting the shipping industry, which, coupled with the favorable impetus such as inventory replenishment in Europe and the United States, led to an overall increase in the global shipping market freight rate pivot. The Clarksea Index closed at USD 28,324/day as at 30 June 2024, up by 15.9% from USD 24,428/day at the beginning of the year; the average value for the first half of the year was USD 25,498/day, which was the new second highest level for the same period since 2009.

The oil tank transportation market was strong, while weaknesses still existed. Crude oil shipping rates remained strong in general, supported by higher demand from countries such as China and India, and the increased oil exports from non-OPEC countries such as the United States, which lengthened transportation distance, while refined oil shipping rates generally remained high due to the eastward shift of refineries which lengthened transportation distance. In the first half of 2024, daily averages for the BDTI and the BCTI were 1,232 points and 1,003 points respectively. The former declined by 4.0% year-on-year due to China's crude oil imports exceeding expectations in the same period last year, while the latter increased by 21.1% year-on-year; both were 38.7% and 46.0% higher than the daily averages of the past decade. It is worth noting that both the BDTI and the BCTI had lost all of their year-on-year gains by the end of June 2024 and were below their values as at the beginning of the year due to OPEC+ production cuts and weaker demand for gasoline and diesel.

The dry bulk shipping market was in a state of turbulence. In the middle of the first quarter of 2024, high shipments on the supply side and steady expansion on the demand side provided strong support for the rapid rise in freight rates. However, in the second quarter of 2024, iron ore inventory pressure continued to rise, global shipping volumes of coal and grain was volatile, and freight prices fluctuated. The average BDI value in the first half of 2024 was 1,836 points, representing a year-on-year increase of 58.7%, which was significantly higher than the average value for the same period from 2011 to 2020.

The market for containerized freight rose significantly. At the beginning of the first quarter of 2024, the Red Sea conflict caused most vessels in the region to detour, and the shortage of capacity supply drove up freight rates. In the second quarter of 2024, the economies of Europe and the United States warmed up, and the demand for inventory replenishment increased, which, coupled with several surcharge increases by liner shipping companies, led to a continuous upward trend in freight rates. According to the data of Shanghai Shipping Exchange, the average values of CCFI and SCFI in the first half of 2024 were 1,365 points and 2,319 points respectively, representing a year-on-year increase of 35.2% and 137.5% respectively, which exceeded the highest level in history for the same period before the COVID-19 pandemic.

The liquefied natural gas carrier (LNGC) shipping market started with a downturn and then rose. From the beginning of 2024 to the first half of the second quarter of 2024, Europe's higher natural gas stocks and weak industrial and heating demand inhibited imports to a certain extent, while the delayed return of freeport LNG company of the United States triggered the contraction of production, the overall market fundamentals were weak and freight rates fell under pressure; and then, the rise of procurement activities of Asian countries such as India, Japan, etc., and the resumption of production of freeport LNG company of the United States supported the demand for LNG transportation. In terms of the average value in the first half of 2024, the average spot freight rates for 145,000 cubic meters, 160,000 cubic meters and 174,000 cubic meters LNGC were US\$29,740/day, US\$43,846/day and US\$55,971/day respectively, representing year-on-year decreases of 23.3%, 28.7% and 33.3% respectively.

The very large liquefied gas carrier (VLGC) shipping market fell back from its high level. In the first half of 2024, the sharp shrinkage of propane arbitrage space from the United States to the Far East caused market freight rates to fall from high levels, but the decline in transportation efficiency caused by the drought in the Panama Canal and the Red Sea conflict supported the freight rate pivot to a certain extent. The average 1-year term rate per a 84,000 cubic meters VLGC in the first half of 2024 was US\$54,267/day, representing a year-on-year increase of 30.8%.

The pure car carrier (PCC) shipping market was operating at a high level. Strong exports from Japan and South Korea to the United States, as well as that from China to Russia and Asia, Africa and Latin America regions supported the high market freight rates in the first half of 2024. The average 1-year term rate for 6,500 CEU PCTC in the first half of 2024 was US\$110,833/day, representing a year-on-year increase of 0.8%; the average 1-year term rate for 5,000 CEU PCTC in the first half of 2024 was US\$90,000/day, which remained stable year-on-year.

2. Outlook

Most authoritative organizations, including the International Monetary Fund (IMF) and the World Bank, are generally optimistic about the growth of the world economy and trade in 2024. Meanwhile, the market freight rate pivot would continue to benefit from the impact of emergencies such as the Red Sea conflict during 2024. It is expected that the fundamentals of maritime demand will be stable in the second half of 2024, and that the maritime trade volume and shipping turnover may increase by 2.3% and 5.0% respectively in 2024, which is higher than the global fleet capacity growth rate of 3.3%. It is expected that the market as a whole will remain tightly balanced, with the freight rate pivot remaining at a high level.

In terms of market segment by ship types, as regards oil tankers, the seasonal demand for refined oil products in the third quarter of 2024 and the expected flexible adjustment of OPEC+ production reduction policy in the fourth quarter may support the oil tank transportation market in a rotational basis, and it is expected that the overall freight rate pivot will continue to be at a relatively high level. In terms of bulk carriers, new iron ore shipment destinations such as Guinea are expected to lengthen the transportation distance, food safety concerns continue to push up transportation demand, and the global economic rebound is favorable to the small dry bulk trading; it is expected that the overall market tends to be tightly balanced, the BDI pivot is expected to go up in the third quarter of 2024, and fluctuation trend may be seen in the fourth quarter of 2024. As regards container vessels, short-term impact of the Red Sea detour is difficult to dissipate, the annual seaborne trade turnover growth rate may well be over 13%, which would largely absorb the adverse impact of the record-breaking delivery of new ship capacity on freight rates. It is expected that freight rates will still have some room for increase in the second half of 2024, and the market trend at the end of 2024 will depend on changes in the geopolitical situation; as regards LNGC, in the context of sufficient supply in the global natural gas market and the continuous delivery of large amounts of shipping capacity, the situation of soaring freight rates caused by Europe's "gas rush" after the Russo-Ukrainian conflict would be hard to recur, it is expected that the global LNG seaborne trade turnover will grow by 8.5% in 2024, which is less than the 10% growth rate of the LNGC fleet; freight rates in the second half of 2024 may mainly be driven by favorable seasonal demand. It is expected that the overall increase of freight rate would be higher than that before the COVID-19 epidemic, but not as high as that in the past three years. As regards VLGC, optimistic expectations for deep processing and energy demand in Asian countries such as China and India will support the increase in seaborne exports from the United States and the Middle East. It is expected that the growth rate of LPG ton-mile trade in 2024 may be 7%-8%, higher than the growth rate of fleet capacity of 5%-6%, the freight rate pivot is expected to rise slightly in the second half of 2024; as regards PCC, Chinese car companies are increasing overseas models and exploring new markets, along with the good sales prospects of Japanese and Korean cars in Europe, the United States and other places, the global car shipping trade turnover growth rate may be driven to exceed 13% in 2024, which is higher than the 6% growth rate of fleet capacity. It is expected that the freight rate will remain high in the second half of 2024, but the continuous launch of new vessels will exert pressure on the shipping market to a certain extent.

In 2024, the development of ship type technology will continue to advance in the directions of greening and becoming more intelligent, mainly in the two dimensions of rules and regulations and technology industry development. As regards greening, from the perspective of rules and regulations, the 2023 version of the greenhouse gas emission reduction strategy has become increasingly clear. After the 80th meeting of IMO Marine Environment Protection Committee passed the “2023 IMO Ship Greenhouse Gas (GHG) Emission Reduction Strategy” in July 2023, the 81st meeting of IMO Marine Environment Protection Committee considered and approved the “2024 Guidelines on the Full Life Cycle of Marine Fuels and Greenhouse Gas Intensity” in March 2024. At the same time, the draft “IMO Net Zero Framework” was developed, which contains relevant elements of the current mid-term measures proposal, such as greenhouse gas fuel intensity (GFI) targets, flexible implementation mechanisms, pricing mechanisms, and a revenue sharing management system. Such framework will serve as the basis for the next medium-term measures and specific proposals for amendments to the text of Annex VI of the MARPOL Convention. It can be said that this conference further refined the work related to the 2023 version of the greenhouse gas emission reduction strategy, and the “net zero” goal became increasingly clear. In terms of industrial development, LNG power is still the mainstream choice in the market due to its mature technology and low cost. In 2023, the market demand for methanol power is obvious, and the situation of batch order placement has been formed. Compared with LNG power, methanol-powered vessels will develop towards low cost in 2024. The above two types of fuels will be the focus of green ship development in 2024, and in the face of medium to long-term emission reduction requirements, as well as net-zero carbon emissions, the technological research and development of ammonia-hydrogen fuels and infrastructural facilities will also be further deepened in 2024. In terms of smart vessels, the effective date of the mandatory document is already on the agenda from the perspective of rules and specifications. On 31 May 2023, the 107th session of the IMO Maritime Safety Committee (MSC 107) was convened, the working group revised the roadmap for the development of the targeted MASS rules, and the working group agreed to keep the effective date of the mandatory MASS rules as 1 January 2028 and change the planned approval date of the mandatory MASS rules from 2025 to 2026. From the perspective of industrial development, various countries around the world have launched different types of digital solutions for smart vessels, and some of the solutions have achieved batch order placement and continued to be optimized for real vessel applications, with an aim of formulating a comprehensive digital solution by enriching their digital functions and continuously adding functional modules. In addition, with the development of digital solutions and data platforms, the security of massive data information has also been emphasized by various countries, which would also become the focus of the development of smart vessels in 2024.

3. Overall Operation of the Group

In the first half of 2024, the situation in the Red Sea remained tense, and many ports in Asia experienced congestion and were under pressure. All these contributed to the soar of the freight rates of major international container routes, as well as the improvement in the freight rates of feeder containers. The freight rates of refined oil products increased slightly compared with the same period last year, while the freight rates of bulk carriers performed well in the first quarter of the traditional off-season, but the freight rates of gas carrier returned to normal from high levels. The new ship building market was still prosperous, new orders received by major domestic shipyards were now scheduled for more than four years, and the new ship price index continuing to rise slightly at a high level. Faced with increasingly fierce market competition and high interest rates, our ship chartering business in China has to adapt to the market situation and committed to the cross-cyclical strategy of “cross-cyclical investment and cyclical operation” to further improve the operating efficiency of the shipping business, actively invest on new ships, and further optimize our fleet structure.

In the first half of 2024, the Group’s revenue was HK\$1.966 billion, up by 13.5% year over year (“YOY”); of which revenue from integrated shipping services (including operating lease services and shipbroking services) amounted to HK\$1,069 million, up by 19.9% YOY, revenue from financing services (including finance lease services and loan borrowing services) amounted to HK\$896 million, up by 6.7% YOY. net profit was HK\$1.340 billion, up by 22.9% YoY; annualized ROA was 6.0%, up by 1.5 percentage points YOY; annualized ROE was 20.2%, up by 4.5 percentage points YOY.

4. Performance Highlights

I. Further strengthening ship investment and operation capabilities and generating higher cycle returns

In the first half of 2024, the Group newly commissioned two 1,100TEU and three 1,600TEU feeder container vessels and put them into short-term market operation; we sold two 64,000-ton short-term time charter bulk carriers and converted two 82,000-ton bulk carriers from bareboat charter to time charter upon the expiry of the existing charter. As of 30 June 2024, a total of 30 self-operated and jointly operated ships were operating in the short-term and spot markets, covering the four mainstream vessels types, i.e. oil tankers, bulk carriers, container ships and gas carriers, which has further enhanced the one body and two wings strategic layout of “ship leasing” and “investment operation” of the Company.

We formulated designated strategies for each business segment, and paid attention to the stability of income while pursuing “flexible income”. In terms of refined oil tankers, the Group closely tracked the operation status of the refined oil tankers commercial pool of the eight 50,000-ton MR refined oil tankers (the Company holds 50% equity)¹ and the six 75,000-ton LR1 refined oil tankers (50% equity) to strengthen cost control, as well as to actively communicate with the managing party of the commercial pool about the distribution of income generated from vessels and the adjustment of commercial pool points, so as to fully protect the Company’s interests. The profit attributable to the Group generated by the eight 50,000-ton MR refined oil tankers was HK\$130 million; the net profit attributable to the Group generated by the six 75,000-ton LR1 refined oil tankers was HK\$127 million; the investment income attributable to the Group generated by the 14 refined oil tankers in the first half of 2024 was HK\$257 million, up 36.0% YOY. In terms of bulk carriers, we seized the market high and secured one-year time charters for two 82,000-ton bulk carriers (100% equity) and one 64,000-ton bulk carrier (75% equity), and have linked the rents of two other 82,000-ton bulk carriers (100% equity) and two 64,000-ton bulk carriers (75% equity) to the index to maintain market flexibility. Bulk carriers operating on a short-term or spot basis generated an operating profit of HK\$54 million, up 55.9% YOY compared with the first half of 2023. In terms of the 4 VLGCs (50% equity), 2 of them have already secured the rent for the coming five years, while the rental of the remaining 2 vessels were charged on voyage or were linked to index. As 2 VLGCs have completed the revamp of the dual-combustion power trains in the first half of 2024, the investment income contributed by the above 4 VLGCs in the first half of 2024 was HK\$14 million, down 77.0% YOY. The 5 feeder container vessels (60% equity) contributed an operating profit of HK\$2 million in the first half of 2024 due to the short performance period of the high-profit leases in the first half of the year. In the first half of 2024, profit from vessels operating on a short-term or spot basis amounted to HK\$327 million (excluding income from asset disposal).

The Group further disposed of two 64,000-ton bulk carriers aged over 8 years in the first half of this year, contributing an asset disposal gain of HK\$56 million.

¹ For simplicity, the following all represent the equity attributable to the Company.

II. Stabilizing overall fleet size and further enhancing fleet operating attributes and high value-added characteristics

In the first half of 2024, the price of newly built vessels continued to rise slowly at a high level, the backbone shipyards continued to extend the life of the orders on hand, and the competition in the ship leasing market became more intense. In the face of the contradiction between risk aggregation at high asset value and shortage of asset resources, the Group carefully considered the project risks and effectively utilized its advantages to compete with bank-based leasing companies in a staggered manner to maintain the overall stability of the scale of operating assets and to promote the development of the fleet structure towards green, quality and high added value.

Tightly grasping the mainstream trend of low-carbon transformation in the shipping industry, the Group took “clean energy industry” as its main focus and commenced the construction of two 175,000 cubic meters LNG carriers, bringing the number of large-scale joint venture LNG carriers under construction to seven. We deepened the business model of joint venture booking of vessels with a ship management company by jointly investing in four MR-type refined oil tankers, acquiring early slots for delivery in early 2026, and setting up a flexible operation model and benefit-sharing mechanism in advance. We expanded new customer base by entering into new ship building finance lease agreements for 2 LR2 product tankers with renowned shipowners in Southeast Asia, together with two river cruise vessels under leasing program, in the first half of 2024, ten new vessels were contracted (lease in effect).

As for the operating fleet, in the first half of 2024, the Group took delivery of a total of 10 new vessels, including two 16,000TEU container vessels, two 1,600TEU container vessels, three 1,100TEU container vessels, as well as one 93,000 cubic meters VLGC, one LR2 refined oil tanker and one river cruise vessel. The charter termination program has terminated 11 vessels (including 2 LNG FSRUs). As of 30 June 2024, the Group’s fleet size was 148 vessels, including 125 vessels in operation and 23 vessels under construction. The average age of the vessels in operation was approximately 3.73 years. The average remaining life of the bareboat and long-term chartered projects (i.e. projects other than the 30 short-term and immediate operating projects) was 8.79 years. Based on the initial investment amount, the Group’s operating fleet portfolio comprised approximately 36%, 24%, 10%, 15% and 14% of offshore clean energy equipment, container vessels, liquid cargo vessels, bulk carriers and specialized vessels, respectively. Through active and passive adjustments to the fleet size, our fleet stock has become more valuable and younger, and our fleet structure has been further optimized.

Asset Structure of Vessels in Operation (as of 30 June 2024):

Project type	Vessel category	Vessel type	Number
Finance lease	Bulk carrier		22
	Container ship		11
	Gas carrier		7
	Tanker		6
	Special ship		<u>10</u>
Subtotal			<u>56</u>
Operating lease	Bulk carrier	Minicape	6
		Panamax	6
		Handysize	4
	Container ship	18,000TEU	3
		1,100TEU/1,600TEU	5
	Gas carrier	174,000 cubic meters	4
		extra large LNG carrier	
		Extra large LPG carrier	4
	Tanker	MR	8
		LR1	6
		LR2	4
	Special ship	Heavy lift vessel	17
		Smart deep sea fishery aquaculture vessel	1
		Emergency response rescue vessel	<u>1</u>
Subtotal			<u>69</u>
Total			<u><u>125</u></u>

Asset Structure of Vessels under Construction (as of 30 June 2024):

Project type	Vessel category	Vessel type	Number
Finance lease	Special ship	Wind turbine installation vessel	1
		River cruise ship	1
	Gas carrier	Extra large LPG carrier	2
	Tanker	16,000TEU	1
	Refined oil tanker	LR2	<u>2</u>
	Subtotal		<u>7</u>
Operating lease	Bulk carrier	1,100TEU/1,600TEU	3
	Gas carrier	174,000 cubic meters/ 175,000 cubic meters extra large LNG carrier	7
	Tanker	MR	4
	Special ship	Smart deep sea fishery aquaculture vessel	2
	Subtotal		<u>16</u>
Total			<u><u>23</u></u>

III. Further strengthening capital management to maintain good cost of funds and balance sheet structure

The interest rate of US dollar remained high in the first half of 2024. To prevent excessive growth in financing costs and finance charges, the Group, on the premise of controlling the exchange rate risk, further enriched the cross-currency financing channels and increased the proportion of non-US dollar liabilities. At the same time, we strictly controlled the scale of our interest-bearing liabilities, rationalized the pace of fund withdrawal and strictly complied with the requirement of “no withdrawal unless necessary”.

As at 30 June 2024, the Group’s asset-liability ratio was 68.8%, representing a decrease of 2.8 percentage points from the end of last year. Interest-bearing liabilities amounted to approximately HK\$28 billion. The notional principal amount of USD interest rate swaps on hand was US\$470 million, with an average swap rate of 1.47%. The average finance cost of interest-bearing liabilities in the first half of 2024 was 3.5%, representing a decrease of 0.2 percentage points compared with the full year of last year.

In fulfillment of the requirements of the State-owned Assets Supervision and Administration Commission of the State Council, the Group participated in the construction of the treasury system of China State Shipbuilding Corporation Limited, which covers 11 areas, including bank account management, capital budget management, debt financing management, guarantee business management, and financial derivatives business management, etc. At present, the core modules of the treasury, such as bank account linking, capital revenue and expenditure budgeting, capital settlement, debt financing and guarantee, financial derivatives, receivables and payables, etc., have all met the requirements and passed the preliminary acceptance, and the next step will be to continue to optimize the applicability and reliability of the functions of each module, so as to realize the all-round integrated application of various functions.

IV. Taking lean management as the guide to solidly promote the enhancement of quality and efficiency of the enterprise

To further improve the comprehensive risk management system, we conducted an overall assessment of the Group's risk management situation in four dimensions, including risk management strategies and objectives, risk management processes, basic factors of risk management and the overall risk management environment. We reorganized, refined and expanded the first, second and third types of risks, and formulated optimization plans for the weak areas. We commenced the subsequent development and application of the quantitative risk assessment model and studied the expansion of its scope of application to support the stable operation of diversified leasing projects. We also deeply promoted compliance control by including all contract documents of consolidated management joint ventures and contract documents of non-consolidated management joint ventures involving material reservations in the scope of legal review.

We practiced ESG concepts in an in-depth manner. For the second consecutive year, the Group was ranked on the Fortune China ESG Impact List and was the only leasing company to be included in the list, which fully demonstrated that the Group's ESG governance had been effective and recognized by the public. We disclosed our Climate Risk Related Financial Information Report (TCFD Report) for the first time, laid a solid foundation for actively complying with the new Part D of the Environmental, Social and Governance Reporting Guide under the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). In combination with the key concerns of the international capital market and the actual development of the Company, we were selected to conduct research on ESG and sustainable development by the State-owned Assets Supervision and Administration Commission of the State Council with two topics of "The Impact of the ISSB on the ESG of Chinese Enterprises and Countermeasures" and "ESG Branding and Reputation Management".

V. Visions for the second half of the year

In the second half of 2024, the market expects the Federal Reserve to start a cycle of interest rate cuts, and the persistently high capital pressure is expected to ease gradually. The Group will pay close attention to the international political and economic situation and the industrial trend, be vigilant to the risk of cyclical fluctuations, continue to improve asset management and risk control, and cautiously launch new projects to maintain the overall stability of asset size. In the second half of 2024, we will focus on the following tasks:

1. Grasp the benefits and cost control of operating assets. Seizing the market opportunities of container vessels and refined oil tankers, the Group will set up operation strategies and pricing plans in a scientific manner, strictly control the operation costs within the budget and strive to obtain excess market revenue. We will strengthen the supervision of ship management companies and joint venture pools to safeguard the interests of the Company. We will also improve the ship operation management system of the joint venture company and formulate the management rules for ship operation of the joint venture company, so as to perfect the one body and two wings business development pattern of “ship leasing” and “investment and operation”.
2. Take the initiative to launch new vessels by leveraging on our strengths. Focusing on the clean energy sector, we will continue to develop the ship types and equipment in the LNG transportation industry chain, and actively arrange the launch of new energy-powered ship types. We will also deepen the business development model of “equity cooperation + long-term charter”.
3. Actively optimize asset structure of vessels. The Group will comprehensively analyze the market trend, technical status of vessels and overall project returns, etc., actively formulate asset optimization plans, and promote the further shift of fleet structure to the direction of green, young and high added value.
4. Continue to strengthen capital cost control. The Group will closely track the trend of interest rates and study the issuance plan of medium-term US dollar bills, and further develop multi-currency and diversified financing channels on the premise of effectively controlling the exchange rate risks.

5. Finance Review

5.1 Analysis on Condensed Consolidated Income Statement

5.1.1 Revenue

The Group's revenue comprises (i) integrated shipping services (including operating lease services and shipbroking services); and (ii) financing services (including finance lease services and loan borrowing services).

The Group's revenue increased by 13.5% or HK\$233.5 million from HK\$1,732.3 million for the six months ended 30 June 2023 to HK\$1,965.8 million for the six months ended 30 June 2024, primarily due to the increase from finance lease services and operating lease services.

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
	2024 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	
Integrated shipping services			
– Operating lease services	1,047,123	868,277	20.6%
– Shipbroking services	22,342	23,591	(5.3%)
	1,069,465	891,868	19.9%
Financing services			
– Finance lease services	619,906	545,341	13.7%
– Loan borrowing services	276,400	295,075	(6.3%)
	896,306	840,416	6.7%
Total	1,965,771	1,732,284	13.5%

Integrated Shipping Services

The revenue generated from integrated shipping services increased by 19.9% or HK\$177.6 million from HK\$891.9 million for the six months ended 30 June 2023 to HK\$1,069.5 million for the six months ended 30 June 2024. The main reason was that the Group's income from operating lease services increased by 20.6% from HK\$868.3 million for the six months ended 30 June 2023 to HK\$1,047.1 million for the six months ended 30 June 2024 because (i) the Group had added 2 liquefied natural gas (LNG) green energy vessels since the second half of 2023 and generated income; and (ii) the bulker carrier market performed well as the Baltic Dry Index (BDI) increased when comparing to the corresponding period of last year. Moreover, the Group added 5 container ships in the first half of 2024, showing that the Group had sufficient ability to face the cyclical changes in the market with a diverse vessel portfolio under operating lease.

Financing Services

The revenue generated from financing services increased by 6.7% from HK\$840.4 million for the six months ended 30 June 2023 to HK\$896.3 million for the six months ended 30 June 2024. The main reason was that the Group's income from finance lease services increased by 13.7% from HK\$545.3 million for the six months ended 30 June 2023 to HK\$619.9 million for the six months ended 30 June 2024 as the Group engaged several new finance lease contracts during the period from the second half of 2023 to the first half of 2024.

5.1.2 Other Income and Other Gains, Net

The net amount of other income and other gains was HK\$235.2 million for the six months ended 30 June 2024, of which the gain on early repayment of finance lease projects was HK\$150.7 million and the gain on disposal of vessels was HK\$56.4 million.

5.1.3 Expenses

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

Expenses

	Six months ended 30 June		Change
	2024 <i>HK\$'000</i> (Unaudited)	2023 <i>HK\$'000</i> (Unaudited)	
Finance costs and bank charges	515,642	461,641	11.7%
Depreciation	280,936	242,456	15.9%
Vessel operating costs	136,582	136,873	(0.2%)
Employee benefits expenses	31,022	24,613	26.0%
Other operating expenses	25,998	41,918	(38.0%)
Net amount of provision for/(reversal of) impairment of loan and lease receivables	105,664	(25,246)	518.5%
Total	<u>1,095,844</u>	<u>882,255</u>	24.2%

Finance Costs and Bank Charges

The Group's finance costs and bank charges was HK\$515.6 million for the six months ended 30 June 2024, with an increase of 11.7% mainly due to the increased borrowings scale when compared to the corresponding period of last year. The Group's finance costs mainly include interest and charge on (i) bonds, (ii) bank borrowings; and (iii) other borrowings. The average cost of interest-bearing liabilities was 3.5% and 3.7% for the six months ended 30 June 2024 and for the year ended 31 December 2023, respectively. During the period, the Secured Overnight Financing Rate (SOFR) still remained at a high level, the Group has effectively suppressing the growth of financing costs by adopting different methods, for examples (i) adopting cross-currency financing methods, such as U.S. Dollar, Hong Kong Dollar and Renminbi; (ii) repaying in advance for those high-interested U.S. Dollar banks loans which borrowed in prior years; and (iii) hedging interest rate risk through financial derivatives.

Depreciation

The Group's depreciation expenses increased by 15.9% or HK\$38.4 million from HK\$242.5 million for the six months ended 30 June 2023 to HK\$280.9 million for the six months ended 30 June 2024. In accordance with the Group's business plan, the Group's total shipping capacity continued to grow as the Group added 2 LNG green vessels in the second half of 2023 and 5 container ships in the first half of 2024 to its vessel portfolio under operating lease.

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.

Compared to the six months ended 30 June 2023, the Group's vessel operating costs decreased by HK\$0.3 million to HK\$136.6 million for the six months ended 30 June 2024.

Employee Benefits Expenses

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

The Group's employee benefits expenses increased from HK\$24.6 million for the six months ended 30 June 2023 to HK\$31.0 million for the six months ended 30 June 2024, in which the share-based payment expenses recognised amounted to HK\$1.9 million, whereas there was a reversal of HK\$7.9 million in the corresponding period of last year.

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

For the six months ended 30 June 2024, the Group's net amount of provision for impairment of loan and lease receivables was HK\$105.7 million, the increase in provision for impairment was because the Group adjusted credit ratings of some leasing projects according to the then market conditions as of 30 June 2024.

5.1.4 Share of Results of Joint Ventures

The Group's share of results of joint ventures increased by HK\$1.4 million from HK\$262.4 million for six months ended 30 June 2023 to HK\$263.8 million for six months ended 30 June 2024. The increase in share of results of joint ventures was mainly attributable to: (i) the increased daily charter rates as the freight rate of refined product oil and chemicals remained at a high level; and (ii) the increase in shipping capacity of refined product oil LR2 vessels.

5.2 Analysis on Condensed Consolidated Statement of Financial Position

Assets

As at 30 June 2024, 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 92.7% of the Group's total assets.

Total Assets

	As at 30 June 2024 <i>HK\$'000</i> (Unaudited)	As at 31 December 2023 <i>HK\$'000</i> (Audited)	Change
Loan and lease receivables	21,195,600	23,734,332	(10.7%)
Property, plant and equipment	16,311,482	16,227,335	0.5%
Cash and cash equivalents, pledged time deposits and time deposits with maturity over three months	1,460,538	1,142,064	27.9%
Financial assets at fair value	1,634,903	723,925	125.8%
Other assets	3,185,362	3,315,903	(3.9%)
Total	43,787,885	45,143,559	(3.0%)

5.2.1 Loan and Lease Receivables

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

Loan and lease receivables

	As at 30 June 2024 HK\$'000 (Unaudited)	As at 31 December 2023 HK\$'000 (Audited)	Change
Lease receivables	14,823,053	16,526,516	(10.3%)
Loan borrowings	6,109,981	6,462,750	(5.5%)
Loans to joint ventures	262,566	745,066	(64.8%)
Total	<u>21,195,600</u>	<u>23,734,332</u>	(10.7%)

a) Lease Receivables

The Group's net lease receivables amounted to HK\$16,526.5 million and HK\$14,823.1 million as at 31 December 2023 and 30 June 2024, respectively. Such receivables decreased by 10.3% because some of the finance lease projects were completed during the six months ended 30 June 2024.

As at 30 June 2024, the Group's finance lease receivables were secured and bore interest at rates ranging from 5.0% to 11.3%.

b) Loan Borrowings

Loan borrowings mainly refer to receivables from the secured loan provided by us. The Group's loan borrowings as at 30 June 2024 were secured and bore interest at rates ranging from 6.8% to 9.7% per annum and repayable from 2024 to 2033.

The Group's loan borrowings decreased from HK\$6,462.8 million as at 31 December 2023 to HK\$6,110.0 million as at 30 June 2024. The decrease of 5.5% in loan borrowings was mainly because of the continuous repayment of principal amounts made by our customers during the period.

c) Loans to Joint Ventures

The Group received repayment from joint ventures during the period. As at 30 June 2024, the Group's loan to a joint venture amounted to HK\$262.6 million was unsecured, bore interest rate at 8.4% per annum and repayable on demand.

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 2023 and 30 June 2024, the Group's property, plant and equipment amounted to HK\$16,227.3 million and HK\$16,311.5 million, respectively. The increase of 0.5% in the Group's property, plant and equipment as at 30 June 2024 was primarily because of the Group's ongoing payments to shipbuilders for the continued increase in the number of vessels intended for the 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 125.8% from HK\$723.9 million as at 31 December 2023 to HK\$1,634.9 million as at 30 June 2024. The Group further increased its investment portfolio with different listed bonds and wealth management products to diversify the risk of its investment portfolio. The Group will continue to optimise the allocation of financial assets for holding suitable investment portfolio of listed bonds and wealth management products to obtain stable returns.

Liabilities

As at 30 June 2024, the total liabilities of the Group mainly represented by borrowings, including bank borrowings, bonds and other borrowings, which accounted for 94.4% of its total liabilities.

Total liabilities

	As at 30 June 2024 HK\$'000 (Unaudited)	As at 31 December 2023 HK\$'000 (Audited)	Change
Borrowings			
– bank borrowings	14,852,885	18,436,045	(19.4%)
Borrowings – bonds	12,630,069	12,625,506	–
Borrowings – others	963,219	271,876	254.3%
Other liabilities	1,674,965	980,221	70.9%
Total	<u>30,121,138</u>	<u>32,313,648</u>	(6.8%)

5.2.4 Borrowings – Bank Borrowings

The Group's bank borrowings decreased by 19.4% from HK\$18,436.0 million as at 31 December 2023 to HK\$14,852.9 million as at 30 June 2024, mainly because the Group carried out cross-currency bank borrowings based on business development and needs, and repaid those high-interest U.S. Dollar borrowing balances. The interest rates as at 30 June 2024 ranged from 2.6% to 7.15%. There was no delay in the repayment of or default in any of our bank borrowings during the period.

5.2.5 Borrowings – Bonds

As at 30 June 2024, the Group held (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 2.1% per annum.

In addition, in March and September 2023, the Group successfully issued the First and the Second Tranche of 2023 Medium-term Notes (Sustainability Linked and Bond Connect) publicly at the PRC interbank Bond Market with the issue size of RMB1,000 million (approximately HK\$1,106 million) and RMB1,200 million (approximately HK\$1,283 million), respectively for a term of three years at a coupon rate of 3.3% and 3.1% per annum, respectively. The Group and the First and the Second Tranche of 2023 Medium-term Notes received an "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 use of funds includes 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 2023 and the six months ended 30 June 2024.

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	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	4,273,137	1,715,236
Net cash used in investing activities	(997,327)	(1,226,198)
Net cash used in financing activities	(2,812,250)	(531,236)
Net increase/(decrease) in cash and cash equivalents	463,560	(42,198)
Cash and cash equivalents at the beginning of the period	938,005	1,181,458
Effect of foreign exchange rate changes on cash and cash equivalents	(392)	(15,279)
Cash and cash equivalents at the end of the period	<u>1,401,173</u>	<u>1,123,981</u>

The net cash generated from operating activities amounted to HK\$4,273.1 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 2024.

The net cash used in investing activities amounted to HK\$997.3 million, which was mainly due to the Group's payment to shipbuilders for operating lease and self-investment projects during the six months ended 30 June 2024.

The net cash used in financing activities amounted to HK\$2,812.3 million, which was mainly because the Group repaid several bank loans during the six months ended 30 June 2024.

8. Fund Management

8.1 Bank Loans and Capital Structure

In 2024, 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 macroeconomic conditions, actively responded to the complicated financial environment at home and abroad, proactively grasped the market trend and adjusted its financing strategies in a timely manner to further optimise its debt structure and balance its finance costs. In order to effectively control finance costs and reduce financial expenses, the Group continued to increase its efforts in RMB financing due to the increase in the interest rate differential between China and the United States, which enabled the Group to maintain an obvious advantage in finance costs compared to its peers.

In 2024, the Federal Reserve maintained a relatively high interest rate for a long period of time, with the U.S. Dollar benchmark interest rate at a historical high of 5.25% to 5.50%. The Group mainly financed by U.S. Dollar in the previous years, in order to cope with the rise in U.S. Dollar financing costs and strengthen the Group's cost control, the Group actively sought diversified financing channels and took timely and effective measures to deal with the situation. The Group made comprehensive use of multi-currency financing, such as RMB, Euro and Hong Kong Dollars, for daily operations such as vessel leasing, which effectively reduced the negative impact of high U.S. Dollar interest rates.

RMB interest rates maintained their cost advantage over the U.S. Dollar, with the 1-year LPR further reduced to 3.35% and the 5-year or above LPR further reduced to 3.85%; therefore, the cost advantage of RMB financing continued. During the year, the Group has adopted “cross-currency” financing approach to effectively control the excessive increase in finance costs and has achieved better results. Even though the U.S. Federal Funds Rate remained unchanged, the Group’s consolidated finance costs remained at a lower level in the market, and the average cost of interest-bearing liabilities decreased from 3.7% as at 31 December 2023 to 3.5% as at 30 June 2024.

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. As at 30 June 2024, the Group had bank loan facilities of approximately HK\$28.88 billion (approximately US\$3.71 billion), utilised bank loan facilities of approximately HK\$14.85 billion (approximately US\$1.91 billion) and unutilised bank loan facilities of approximately HK\$14.03 billion (approximately US\$1.80 billion), and the credit balance was sufficient.

As at 30 June 2024, the Group’s total assets and total liabilities were HK\$43,787.9 million and HK\$30,121.1 million, respectively, its equity attributable to owners was HK\$13,536.1 million and the gearing ratio was 2.1 times. By increasing the existing fund operation, enhancing the utilization efficiency of funds, strictly implementing funding plans and controlling the scale of interest-bearing indebtedness, the Group has been able to keep its interest-bearing liabilities at a relatively low level in the industry and maintain a healthy gearing position.

8.2 Interest Rate Risk

Interest rate risk is the risk that the future cash flows of financial instruments will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other financing, as well as finance lease receivables and other loans. During the period, in response to domestic inflation in the United States, the Federal Reserve maintained high interest rates, with the U.S. Federal Funds Rate being maintained at a target range of 5.25% to 5.50% for several consecutive times. In order to cope with the persistently high interest rates in the U.S. Dollar interest rate market, the Group has maintained its usual interest rate risk control measures by using financial instruments such as interest rate swaps to hedge its interest rate risk exposure. As at 30 June 2024, the notional principal amount of the Group's existing interest rate swap products was approximately HK\$3,693.6 million, and the locked-in U.S. Dollar average long-term fixed interest rate was approximately 1.47%, which effectively hedged the negative impact of the high interest rate of the U.S. Dollar.

In terms of interest rate structure, the Group continued to maintain its original interest rate risk management strategies and proactively managed the matching of assets and liabilities in terms of interest rate structure. For the Group's operating lease assets, the Group continued to improve the interest rate matching between assets and liabilities 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. During the period, the Group added a number of fixed-rate RMB bonds and loans, which further increased the matching with the operator's leased assets and further reduced the exposure to interest rate risk. Meanwhile, the Group's finance lease assets and bank loan liabilities were both primarily at floating rates, so the effects of fluctuations in U.S. Dollar interest rates can be offset by mutual hedging.

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 U.S. Dollars, and the corresponding finance lease receivables and fixed assets are denominated in U.S. Dollar, while the main source of funding is bank loans denominated in U.S. Dollar. There is therefore no significant exposure to exchange rate risk. 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 adopted a prudent foreign exchange risk management strategy and established a foreign exchange rate risk tracking system to monitor the trend of major currencies around the world in a timely manner. During the period, the exchange rate of Renminbi fluctuated considerably and the Group paid close attention to it. In view of the existing and new Renminbi exchange rate risk exposure, the Group has effectively hedged its foreign exchange risk exposure by carrying out financial businesses such as foreign exchange swaps and cross-currency swaps, etc. During the period, the Group's exchange rate risk remained at a controllable level.

8.4 Liquidity Risk

The Group funds its operations and growth primarily through cash generated from operating activities, bank borrowings and issuance of bonds. In 2024, the Group continued to maintain a stable risk appetite for liquidity management. The goal of the Group's liquidity risk management is to maintain moderate liquidity reserves and assets and sufficient funding resources to adequately meet the repayment needs of matured liabilities and the funding needs of business development. When determining the allocation of its capital resources, the Group primarily considers its business strategies and development plans, future capital needs and projected cash flows, in order to achieve a higher interest rate margins level and control the liquidity management costs on the premise of controllable liquidity risks.

The Group managed liquidity risk and struck a balance between interest rate spread and liquidity risk through the following measures: (i) establishing a comprehensive capital operation and management system, developing, repeatedly calculating and upgrading the business and financial information system, closely monitoring, dynamically tracking, and conducting rolling calculations and analyses of the working capital, and providing timely advance warnings of funding shortfalls; (ii) proactively managing the maturity portfolio of assets and liabilities and controlling cash flow mismatch gap to reduce structural liquidity risk; (iii) establishing a diversified source of funds through the reserve of sufficient credit, and improving the Group's financing and daily liquidity management capabilities to obtain sufficient funds to meet debt repayment and business development needs; and (iv) continuously monitoring the market situation and understanding the latest cash products in order to enhance the return on capital while safeguarding the liquidity needs.

During the period, the Group had sufficient cash flow, while the credit facilities granted by the banks to the Group were sufficient, there was no significant change in the indebtedness and credit standing, and the credit ratings and future outlooks assigned to the Group by the credit rating agencies remained unchanged. The Group maintained an "A" (international) and an "A-" (international) ratings by Fitch and S&P, respectively and an "AAA" corporate rating by Dagong Global Credit Rating Co., Ltd. (大公國際資信評估有限公司) in China. 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 Group during the period, the Directors expected that the Group would have adequate resources to meet its liabilities and commitment as and when they fall due and be able to continue its operation 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, the Group 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 2024, 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 2024, the Group had a total of 84 employees (as at 30 June 2023: 85), approximately 31% 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 2024, approximately 98% of the Group's employees had a bachelor's degree or above.

For the six months ended 30 June 2024 and 30 June 2023, the remuneration of the Group's employees amounted to approximately HK\$31.0 million and HK\$24.6 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 2024, the Group's loan and lease receivables of approximately HK\$7,111.5 million (31 December 2023: HK\$7,431.5 million), floating charge on deposits of approximately HK\$88.8 million (31 December 2023: HK\$88.9 million), pledged deposits of nil (31 December 2023: HK\$5.1 million) and property, plant and equipment of approximately HK\$3,390.1 million (31 December 2023: HK\$3,616.3 million) were pledged to banks to acquire bank loans.

FINANCIAL STATEMENTS AND MATERIAL NOTES

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
	<i>Notes</i>	2024	2023
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	<i>3</i>	<u>1,965,771</u>	<u>1,732,284</u>
Other income and other gains, net		<u>235,154</u>	<u>3,447</u>
Expenses			
Finance costs and bank charges	<i>4</i>	(515,642)	(461,641)
(Provision for)/Reversal of impairment of loan and lease receivables, net		(105,664)	25,246
Depreciation		(280,936)	(242,456)
Employee benefits expenses		(31,022)	(24,613)
Vessel operating costs		(136,582)	(136,873)
Other operating expenses		(25,998)	(41,918)
Total expenses		<u>(1,095,844)</u>	<u>(882,255)</u>
Profit from operations	<i>5</i>	1,105,081	853,476
Share of results of joint ventures		263,789	262,402
Share of results of associates		(8,849)	(14,495)
Profit before income tax		1,360,021	1,101,383
Income tax expense	<i>6</i>	(20,161)	(10,768)
Profit for the period		<u>1,339,860</u>	<u>1,090,615</u>
Profit for the period attributable to:			
Equity holders of the Company		1,327,318	1,085,740
Non-controlling interests		12,542	4,875
		<u>1,339,860</u>	<u>1,090,615</u>
Earnings per share (HK\$)	<i>7</i>		
Basic		<u>0.216</u>	<u>0.177</u>
Diluted		<u>0.216</u>	<u>0.177</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period	<u>1,339,860</u>	<u>1,090,615</u>
Other comprehensive income/(expense) for the period		
<i>Items that will be reclassified subsequently to profit or loss:</i>		
– Exchange differences on translation of financial statements of foreign operations	470	(19,710)
– Share of other comprehensive income of joint ventures, net	3,680	(4,908)
– Fair value change of financial assets at fair value through other comprehensive income (debt instruments)	5,979	(4,998)
– Fair value change of derivative financial instruments (cash flow hedges)	90,439	27,968
– Reclassification adjustment from hedging reserve to profit or loss	<u>(72,356)</u>	<u>(49,493)</u>
Total other comprehensive income/(expense) for the period	<u>28,212</u>	<u>(51,141)</u>
Total comprehensive income for the period	<u>1,368,072</u>	<u>1,039,474</u>
Total comprehensive income for the period attributable to:		
Equity holders of the Company	1,355,421	1,034,599
Non-controlling interests	<u>12,651</u>	<u>4,875</u>
	<u>1,368,072</u>	<u>1,039,474</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2024	As at 31 December 2023
	<i>Note</i>	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Assets			
Property, plant and equipment		16,311,482	16,227,335
Right-of-use assets		20,236	22,888
Interest in joint ventures		1,736,804	1,469,330
Interest in associates		87,431	97,372
Loan and lease receivables	9	21,195,600	23,734,332
Derivative financial assets		453,077	424,226
Prepayment and other receivables		705,610	1,161,296
Financial assets at fair value through profit or loss		442,606	296,157
Financial assets at fair value through other comprehensive income		1,192,297	427,768
Deferred tax assets		2,356	3,668
Amount due from associates		26,686	24,740
Amount due from joint ventures		151,740	109,197
Amounts due from fellow subsidiaries		1,422	3,186
Time deposits with maturity over three months		59,365	198,915
Pledged time deposits		–	5,144
Cash and cash equivalents		1,401,173	938,005
Total assets		43,787,885	45,143,559

**CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION (CONTINUED)**

		As at 30 June 2024 <i>HK\$'000</i> (Unaudited)	As at 31 December 2023 <i>HK\$'000</i> (Audited)
	<i>Note</i>		
Liabilities			
Income tax payables		54,422	53,485
Borrowings		28,446,173	31,333,427
Derivative financial liabilities		142,235	98,291
Deferred tax liabilities		399	1,008
Amount due to a joint venture		–	207,794
Amount due to non-controlling interests		147,444	162,383
Other payables and accruals		962,137	433,304
Lease liabilities		368,328	23,956
		<u>30,121,138</u>	<u>32,313,648</u>
Total liabilities		<u>30,121,138</u>	<u>32,313,648</u>
Net assets		<u>13,666,747</u>	<u>12,829,911</u>
Equity			
Share capital	10	6,641,358	6,615,789
Reserves		6,894,699	6,096,083
		<u>13,536,057</u>	12,711,872
Non-controlling interests		130,690	118,039
		<u>13,666,747</u>	<u>12,829,911</u>
Total equity		<u>13,666,747</u>	<u>12,829,911</u>

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation

This interim financial information for the six months ended 30 June 2024 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 2023, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA.

The financial information relating to the year ended 31 December 2023 that is included in the interim financial information for the six months ended 30 June 2024 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 2023 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. Adoption of amended HKFRSs

The interim financial information for the six months ended 30 June 2024 have been prepared in accordance with the accounting policies adopted in the Group's annual consolidated financial statements for the year ended 31 December 2023, except for the adoption of the following amended HKFRSs which are effective as of 1 January 2024.

Amendments to HKAS 1	Presentation of financial statements: Classification of liabilities as current or non-current and related amendments to Hong Kong Interpretation 5 (“ 2020 amendments ”)
Amendments to HKAS 1	Presentation of financial statements: Non-current liabilities with covenants (“ 2022 amendments ”)
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

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 HKFRS 16, “Lease Liability in a Sale and Leaseback”

In September 2022, the HKICPA finalised narrow-scope amendments to the requirements for sale and leaseback transactions in HKFRS 16 Leases which explain how an entity accounts for a sale and leaseback after the date of the transaction.

The amendments specify that, in measuring the lease liability subsequent to the sale and leaseback, the seller-lessee determines lease payments and revised lease payments in a way that does not result in the seller-lessee recognising any amount of the gain or loss that relates to the right of use that it retains. This could particularly impact sale and leaseback transactions where the lease payments include variable payments that do not depend on an index or a rate.

This new policy did not result in a change in the Group's accounting policy for its sale and leaseback transactions since the transfer of assets does not meet the requirements for a sale in HKFRS 15 Revenue from Contracts with Customers, there is no sale and the transaction is accounted for as a financing arrangement under HKFRS 9 Financial Instruments.

3. Segment information and revenue

The chief operating decision maker (“CODM”) has been identified as the executive director of the Company. The executive director reviews the Group’s internal reporting in order to assess performance and allocate resources.

During the period, the Group changed its identification of reportable segments. The Group combined income from operating lease services and shipbroking services to the integrated shipping services segment; and combined income from finance lease services and loan borrowing services to the financing services segment. In the opinion of the director, the revised basis of segment identification provides a more appropriate presentation of segment information and reflects the changes in CODM’s review on the Group’s internal reporting of performance assessment and resources allocation. Prior period segment information has been restated for comparative purposes.

Management has determined the operating segments based on these reports and analysed from a business perspective: (i) integrated shipping services and (ii) financing services.

Integrated shipping services

Integrated shipping services include operating lease services to the Group’s customers and shipbroking services to shipbuilders and charterers. Operating lease refers to a leasing model whereby the lessor grants the right to use an asset to the lessee for a specified period and in return for periodic lease payments. Shipbroking services to shipbuilders includes recommending shipbuilders to interested purchasers and advising interested purchasers on vessel types, specifications and capabilities. Shipbroking services to charterers includes advising interested charterers to lease the vessels in form of finance lease and operating lease and advising interested charterers on vessel types, specifications and capabilities.

Financing services

Financing services include finance lease services and loan borrowing services to the Group’s customers. Finance lease refers to a leasing model whereby the lessor purchases an asset according to the lessee’s specific requirements and choice of supplier or the lessor purchases an asset from the lessee, and then leases it to the lessee for periodic lease payments. Loan borrowings mainly include pre-delivery loans and secured loans. Pre-delivery loan services are offered as part of leasing services and to customers who require funding to satisfy their pre-delivery payment obligations under their shipbuilding agreements. Secured loan services are offered to customers to satisfy their funding needs and are generally secured by customers’ vessels or assets.

The segment information provided to the executive director for the six months ended 30 June 2024 and 2023 are follows:

The Group derives revenue from the following:

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Restated)
Integrated shipping services		
– Operating lease services	1,047,123	868,277
– Shipbroking services	22,342	23,591
	<u>1,069,465</u>	<u>891,868</u>
Financing services		
– Finance lease services	619,906	545,341
– Loan borrowing services	276,400	295,075
	<u>896,306</u>	<u>840,416</u>
	<u>1,965,771</u>	<u>1,732,284</u>

Commission income from charterer included in shipbroking services, is recognised over time and commission income from shipbuilder, included in shipbroking services, is recognised at point in time during the period.

For the six months ended 30 June 2024, commission income included in shipbroking services are recognised overtime and at a point in time amounting to HK\$15,508,000 and HK\$6,834,000 (2023: HK\$22,709,000 and HK\$882,000) respectively.

For the six months ended 30 June 2024, revenue from non-lease component included in leasing services amounting to HK\$120,844,000 (2023: HK\$123,646,000).

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.

4. Finance costs and bank charges

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest and charges on bonds	167,770	140,905
Interest and charges on bank borrowings	345,114	377,479
Interest and charges on other borrowings	17,833	–
Interest on lease liabilities	519	500
Bank charges	1,224	1,107
	<u>532,460</u>	<u>519,991</u>
<i>Less: finance costs capitalised</i>	<u>(16,818)</u>	<u>(58,350)</u>
	<u><u>515,642</u></u>	<u><u>461,641</u></u>

5. Profit from operations

Profit from operations is stated after crediting the followings:

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income from financial assets at fair value through profit or loss	–	6,233
Interest income from financial assets at fair value through other comprehensive income	9,491	9,229
Net gain on disposal of property, plant and equipment	56,405	–
Net unrealised gain on changes in fair value of financial assets at fair value through profit or loss	14,189	4,290
Net gain on de-recognition of finance lease receivables	<u>150,719</u>	<u>34,940</u>

6. Income tax expenses

	Six months ended 30 June	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Current taxation		
– Hong Kong profits tax	5,238	4,009
– Overseas taxation	15,147	4,691
Under/(over) provision in respect of prior years		
– Hong Kong profits tax	163	–
– Overseas taxation	(1,081)	–
	19,467	8,700
Overseas withholding tax	–	141
Deferred tax		
– Origination and reversal of temporary differences	694	1,927
Income tax expense	20,161	10,768

Hong Kong profits tax is provided at the rate of 16.5% (2023: 16.5%) based on the estimated assessable profits arising from Hong Kong during the period.

PRC corporate income tax is charged at the statutory rate of 25% (2023: 25%) based on the estimated assessable income as determined with the relevant tax rules and regulations of the PRC.

Singapore corporate income tax is charged at the statutory rate of 17% (2023: 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 statutory rate of 35% (2023: 35%) of the estimated assessable income as determined with the relevant tax rules and regulations of Malta. Normally, 6/7 of the tax paid would be deducted, taking the effective tax rate to be 5%.

7. 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	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to equity holders of the Company		
for the purposes of basic and diluted earnings per share	1,327,318	1,085,740
	Number	Number
	'000	'000
Number of shares		
Weighted average number of ordinary shares for		
the purpose of basic earnings per share	6,142,907	6,136,066
Effect of dilutive potential ordinary shares		
Share options issued by the Company	11,153	–
Weighted average number of ordinary shares for the purpose of		
diluted earnings per share	6,154,060	6,136,066
	HK\$	HK\$
Earnings per share		
Basic	0.216	0.177
Diluted	0.216	0.177

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

8. Dividends

	Six months ended 30 June	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Dividend approved and not yet paid during the period		
Final dividend in respect of the year ended 31 December 2023 of HK9 cents (2022: HK7 cents) per ordinary share	<u>553,778</u>	<u>429,525</u>
Dividend proposed		
Interim dividend of HK3 cents (2023: HK3 cents) per ordinary share	<u>184,593</u>	<u>184,082</u>

At the board meeting held on 28 August 2024, the board has declared an interim dividend of HK3 cents (2023: 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 2024.

9. Loan and lease receivables

		As at 30 June 2024		
		Gross amount	Allowance for impairment losses	Net carrying amount
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)	(Unaudited)
Loan borrowings	(a)	6,174,820	(64,839)	6,109,981
Lease receivables	(b)	15,531,168	(708,115)	14,823,053
Loans to joint ventures	(c)	262,566	–	262,566
		<u>21,968,554</u>	<u>(772,954)</u>	<u>21,195,600</u>

As at 31 December 2023				
Allowance for				
		Gross amount	impairment losses	Net carrying amount
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Audited)	(Audited)	(Audited)
Loan borrowings	<i>(a)</i>	6,553,344	(90,594)	6,462,750
Lease receivables	<i>(b)</i>	17,103,212	(576,696)	16,526,516
Loans to joint ventures	<i>(c)</i>	745,066	–	745,066
		<u>24,401,622</u>	<u>(667,290)</u>	<u>23,734,332</u>

(a) Loan borrowings

As at 30 June 2024, loan borrowings were secured, interest bearing at rates ranging from 6.8% to 9.7% (31 December 2023: 6.8% to 9.3%) per annum and repayable from 2024 to 2033 (31 December 2023: 2024 to 2033). The loan receivables 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 dates, net of impairment losses, is as follows:

	As at 30 June 2024 <i>HK\$'000</i> (Unaudited)	As at 31 December 2023 <i>HK\$'000</i> (Audited)
Within 1 year	530,565	584,672
After 1 year but within 2 years	649,054	650,230
After 2 years but within 5 years	3,778,149	4,028,080
Over 5 years	<u>1,152,213</u>	<u>1,199,768</u>
	<u>6,109,981</u>	<u>6,462,750</u>

(b) **Lease receivables**

As at 30 June 2024, the Group's finance lease receivables were secured, interest bearing at rates ranging from 5.0% to 11.3% (31 December 2023: 5.0% to 11.3%) per annum. Details of the lease receivables as at the end of the reporting periods are as follows:

	As at 30 June 2024 <i>HK\$'000</i> (Unaudited)	As at 31 December 2023 <i>HK\$'000</i> (Audited)
Gross investment in finance leases	22,159,868	23,766,703
<i>Less: unearned finance income</i>	<u>(6,630,083)</u>	<u>(6,664,899)</u>
Net investments in finance leases	15,529,785	17,101,804
Operating lease receivables	<u>1,383</u>	<u>1,408</u>
Gross lease receivables	15,531,168	17,103,212
<i>Less: accumulated allowance for impairment</i>	<u>(708,115)</u>	<u>(576,696)</u>
Net lease receivables	<u>14,823,053</u>	<u>16,526,516</u>

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 2024 <i>HK\$'000</i> (Unaudited)	As at 31 December 2023 <i>HK\$'000</i> (Audited)
Gross investment in finance leases		
Within 1 year	2,808,482	3,112,583
After 1 year but within 2 years	2,160,556	2,193,153
After 2 years but within 3 years	2,019,202	2,275,526
After 3 years but within 4 years	1,715,257	2,036,069
After 4 years but within 5 years	1,511,689	1,673,765
Over 5 years	<u>11,944,682</u>	<u>12,475,607</u>
	<u>22,159,868</u>	<u>23,766,703</u>

(c) **Loan to joint ventures**

As at 30 June 2024, the amounts was unsecured, interest bearing at 8.4% per annum and repayable on demand.

As at 31 December 2023, except for the loan to a to joint venture of HK\$359,178,000 which was unsecured, interest bearing at 8.4% per annum and repayable on demand, the remaining balances was 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"), United States dollars ("US\$") and Euro.

10. Share capital

	Number of shares '000	Share capital HK\$'000
Ordinary shares, issued and fully paid		
At 31 December 2023 (audited)	6,136,878	6,615,789
Issuance of shares under share option scheme (<i>Note</i>)	<u>16,206</u>	<u>25,569</u>
At 30 June 2024 (unaudited)	<u><u>6,153,084</u></u>	<u><u>6,641,358</u></u>

Note:

During the six months ended 30 June 2024, the issued number of ordinary shares of the Company has been increased by 11,719,785 and 4,485,750 upon the exercise of share options at the exercise price of HK\$1.32 and HK\$1.15 per share respectively. The total consideration received of approximately HK\$20,629,000 was credited to the share capital with the amount of approximately HK\$4,940,000 has been transferred from the share option reserve to the share capital.

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 C1 to the Listing Rules as its own code of corporate governance. During the six months ended 30 June 2024, 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 HK\$0.03 per share for the six months ended 30 June 2024. The aforesaid interim dividend will be paid on or before 30 October 2024 (interim dividend for the six months ended 30 June 2023: HK\$0.03 per share). 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 C3 to the Listing Rules as its own code of conduct for dealing in securities by 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 2024.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2024, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities (including sale of treasury shares, if any).

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 oversee 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 2024 have been reviewed by the Audit Committee with the senior management and the external auditor of the Company.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period up to the date of this announcement.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2024 will be dispatched to the Shareholders and will be published on the websites of the Company (www.csscshipping.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) in due course.

By order of the Board

CSSC (Hong Kong) Shipping Company Limited

Li Hongtao

Chairman

Hong Kong, 28 August 2024

As at the date of this announcement, the Board comprises Mr. Li Hongtao as executive Director, Ms. Zhang Yi, Mr. Zhang Qipeng and Mr. Chi Benbin as non-executive Directors, and Mdm. Shing Mo Han Yvonne, Mr. Li Hongji and Mr. Wang Dennis as independent non-executive Directors.