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

(Incorporated in Hong Kong with limited liability)

(Stock code: 3877)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board of directors (the "**Board**") 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 2020, together with comparative figures for the same period of 2019 or as at 31 December 2019, which shall be read in conjunction with the management discussion and analysis, as follows.

FINANCIAL HIGHLIGHTS

1. Summary of Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June		
	2020	2019	**Change**
	HK$'000	*HK$'000*	
	(Unaudited)	(Unaudited)	
Total revenue and other income	**1,027,210**	1,135,110	(9.5)%
Total expenses	**(596,697)**	(645,086)	(7.5)%
Profit from operations	**430,513**	490,024	(12.1)%
Profit for the period	**498,436**	452,401	10.2%
Earnings per share (basic and diluted HK$) *(Note)*	**0.082**	0.096	

Note: Earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the period.

2. Summary of Condensed Consolidated Statements of Financial Position

	As at 30 June 2020 *HK$'000* **(Unaudited)**	As at 31 December 2019 *HK$'000*	**Change**
Total assets	**29,141,527**	27,696,412	5.2%
Total liabilities	**20,680,241**	19,247,168	7.4%
Total equity	**8,461,286**	8,449,244	0.1%

3. Selected Financial Ratios

	Six months ended/ As at 30 June 2020	Year ended/ As at 31 December 2019
Profitability indicators		
Return on average assets[(1)]	**3.5%**	3.1%
Return on average net assets[(2)]	**12.0%**	12.5%
Average cost of interest-bearing liabilities[(3)]	**3.3%**	4.1%
Net profit margin[(4)]	**51.8%**	38.9%
Liquidity indicators		
Asset-liability ratio[(5)]	**71.0%**	69.5%
Risk asset-to-equity ratio[(6)]	**3.3 times**	3.0 times
Gearing ratio[(7)]	**2.3 times**	2.2 times
Net debt-to-equity ratio[(8)]	**2.2 times**	1.9 times

Notes:

(1) Calculated by dividing annualised net profit for the period/year by the average balance of total assets at the beginning and the end of the period/year.

(2) Calculated by dividing annualised net profit attributable to the equity holders of the Company for the period/year by the average balance of net assets attributable to the equity holders of the Company at the beginning and the end of the period/year.

(3) Calculated by dividing annualised finance costs and bank charges for the period/year by the average balance of borrowings at the beginning and the end of the period/year.

(4) Calculated by dividing annualised net profit for the period/year by total revenue for the period/year.

(5) Calculated by dividing total liabilities by total assets.

(6) Calculated by dividing risk assets by total equity. Risk assets are total assets minus cash and cash equivalents and time deposits with maturity over three months.

(7) Calculated by dividing total borrowings by total equity.

(8) Calculated by dividing net debts by total equity. Net debts are borrowings minus cash and cash equivalents.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Industry Conditions

Since 2020, the global economy has faced the impact of many uncertainties. The combination of the global spread of the COVID-19 epidemic, the extreme volatility of oil prices, and the Sino-US trade frictions have significantly affected the volume of global seaborne trade. According to the forecast of Clarkson, a maritime research institute, as affected by the COVID-19 epidemic, the volume of seaborne trade will decline by 5.24% in 2020. The industry has once again fallen into a severe situation since the 2008 global financial crisis, and the global shipping industry is facing challenges. As the global shipping industry is under pressure, the market of newly built ships has also seen a significant decline. According to Clarkson's statistics, in the first half of 2020, a total of 269 new orders were signed globally, with a total of 17.57 million deadweight tonnage and 5.75 million revised gross tonnage, representing a year-on-year decrease of 43.9%. The International Maritime Organization (IMO) has implemented regulations to limit sulfur emissions. Meanwhile, it has also set stricter carbon emission targets for new ships. The new environmental protection requirements will have a profound impact on the international shipping industry. Under the impact of the COVID-19 epidemic in the first half of 2020, the international shipping industry declined at first but rebounded subsequently. The recovery was better than expected, and the performance of tanker and other markets was even better than the corresponding period of last year. The market downturn has restricted the supply of new shipbuilding capacity, the new environmental protection measures have accelerated the withdrawal of old capacity from the market, and the economic stimulus policies implemented by governments in response to the COVID-19 epidemic were conducive to the gradual recovery of the international shipping industry.

For dry bulk market, in the first half of this year, due to the impact of the COVID-19 epidemic and multiple unfavorable factors such as the extension of the rainy season in Brazil, the dry bulk market continued to fluctuate at a low level, and the Business Confidence Index (BCI) remained in the negative range for nearly two months. Recently, due to the full resumption of work and production in the People's Republic of China, downstream demand rose substantially. Brazilian shipments have also improved significantly, and the charter hire for dry bulk carrier has quickly recovered. On 17 June 2020, the Baltic Dry Bulk Index (BDI) closed at 1,246 points, and the Capesize vessel rent rose to US$19,036 per day, both hitting record annual highs. The positive factors for the dry bulk market continued in the second quarter of the year. Factors such as the resumption of work and production globally, the rebound of seasonal demand for iron ore transportation, the significant increase in the amount of Brazilian iron ore procured by China, and the release of bauxite production capacity in Africa have strongly boosted the recovery of the dry bulk market.

For tanker market, in the first quarter of 2020, oil prices plunged, and the demand for ship chartering and oil storage for major routes increased, resulting in a shortage of tanker capacity. In March 2020, the freight rate of crude oil vessels surged in a single day, and the daily chartering rate hit a record high. Following the rebound of oil price and the impact of the spread of the COVID-19 epidemic on economic activities, the oil tanker market has gradually declined, and the performance in the first half of the year was better than that of the same period last year.

For container market, according to Clarkson's statistics, the global container trade volume, as calculated in TEU-nautical miles, will decrease by 8.5% in 2020, representing the largest drop in history. Uncertainties in the development direction of the COVID-19 epidemic brought severe challenges to the supply and demand of the container shipping market. Nonetheless, liner companies and shipbuilding companies joined forces to overcome the difficulties brought by the reduction of cargo volume due to the COVID-19 epidemic, and successfully maintained a stable overall shipping rate. Liner companies have actively adopted measures such as suspension of shipment and reduction of speed to cope with industry fluctuations. As at early June 2020, the global idle container capacity reached 2.6121 million TEU, accounting for 11.2% of the total global capacity. In the first half of the year, the global new container ship delivery volume was 0.3082 million TEU, which was a record low in the past five years. With China's phased victory in the fight against the COVID-19 epidemic, market recovery has begun in the second half of the year. As of 26 June 2020, the average China Containerized Freight Index was 841.83 points, representing a year-on-year increase of 3.0%, which was a new high in the same period in the past three years.

For offshore clean energy, according to Clarkson's statistics, the global demand for liquefied natural gas (LNG) in 2019 increased by 12.5% to a record high of 359 million tons, reflecting the increasingly important role of LNG in the transition to a low-carbon energy system. Although the COVID-19 epidemic in the first quarter of 2020 adversely affected LNG trade and LNG spot prices, resulting in a drastic decrease in China's LNG imports at the beginning of the year, LNG consumption rebounded in March and April 2020 as the impact of the COVID-19 epidemic weakened. The short-term market turbulence has not changed the long-term positive trend of the market.

2. Results Review

1) Leasing business remaining stable and joint venture ship projects achieving high efficiency

In the first half of 2020, the Group continued to focus on ship leasing services and actively explored leasing projects for newly built ships and operating ships. Joint investment projects have achieved outstanding investment income, and the Group's results achieved steady and rapid growth in the first half of 2020. For the six months ended 30 June 2020, the Group's business achieved a revenue of HK$962.0 million, representing a year-on-year decrease of 19.6%. The Group's operating profit for the first half of 2020 was HK$430.5 million, representing a decrease of 12.1% as compared with the same period in 2019. Benefiting from the share of results of joint ventures of HK$80.2 million, the interim profit amounted to HK$498.4 million, representing a year-on-year increase of 10.2%. For the six months ended 30 June 2020, the Group's return on average net assets and return on average assets were 12.0% and 3.5%, respectively. In the first half of 2020, the Group commenced six leasing contracts, completed three leasing contracts, and had a total of 84 leasing contracts, including 41 operating lease contracts and 43 financial lease contracts. Among these 84 ongoing leasing contracts, 66 were leasing contracts with a term of over one year, which were of an average remaining lease term of approximately 7.94 years and an aggregate contract value of HK$34.0 billion. As at 30 June 2020, the size of the Group's vessel portfolio reached 130, of which 84 were operating and 46 were under construction, and the average age was 2.50 years. Among which, the Group had 19 vessels under the joint venture, of which eight were operating and 11 were under construction, and the average age was 1.63 years.

2) Significant decrease in financing costs

Following the assignment of "A-" rating and "A" rating by S&P Global Ratings and Fitch Ratings, respectively, the Group successfully issued USD bonds in the aggregate amount of US$800 million, comprising the 5-year bonds of US$400 million with a coupon rate of 2.5% per annum, and 10-year bonds of US$400 million with a coupon rate of 3.0% per annum. The issuance rates of the two bonds were low in the market, highlighting the company's continuous improvement in financing capabilities. At the same time, the company implemented diversified financing measures, further optimized the debt structure and external financing conditions, and achieved a substantial reduction in finance cost. The comprehensive interest rate of the Group's interest-bearing liabilities was 3.3% per annum in the first half of 2020 as compared to 3.9% per annum in the corresponding period in 2019.

3) *Taking advantages of the low market position to invest in and acquire ship assets against the trend*

In the first half of 2020, as impacted by the COVID-19 epidemic and the Sino-US trade frictions, the global shipping market faced unprecedented challenges. However, the global industrial trend of clean energy transformation and the upgrade to environmentally friendly ships remained unchanged, and the leasing industry continued to undergo professional development. The Group has laid a solid foundation for market competition, which will allow the Group to fully utilize its professional advantages as a shipyard-affiliated leasing company. Leveraging the good cooperative relationship between the shipyard and the ship research institute under China State Shipbuilding Corporation Limited, the Group has implemented counter-cyclical investment management measures during market downturn, and has increased its efforts to invest in high-quality ships in market segments such as clean energy equipment, dual-fuel gas carriers, new medium-range chemical tankers, environmentally friendly feeder tankers, and smart fishery large-scale aquaculture ships, thereby continuously optimizing its asset allocation.

4) *Strengthening risk management and maintaining a high level of asset quality*

The Group attaches great importance to risk management capabilities. It has maintained a high level of asset quality, and has increased its ability to respond to and resolve high-risk and non-performing projects. By enhancing its risk management capabilities, the Group maintained a high-level asset quality. As at 30 June 2020, the Group's asset operation was in good condition. The utilization rate of ship assets was 100%, and the overall recovery rate of charter hire was 96%.

3. Outlook

In the first half of 2020, the spread of the COVID-19 epidemic, the tensions in the Sino-US trade relations, and the significant fluctuations in energy prices have plunged the global economy into turmoil. Major western economies have experienced a sharp decline due to the impact of the COVID-19 epidemic, and emerging economies have been affected, causing the global economy to record a negative growth, which posed huge challenges to the maritime industry.

Currently, major economies including the United States, Europe, Japan, and China have adopted strong economic stimulus policies, and maritime businesses that serve international commodity transportation and international trade will benefit from such policies. The continuous downturn in the market has led to the prolonged lower supply of transportation capacity than the historical average. Moreover, the increasingly stricter environmental protection and energy saving requirements on vessels have restricted the outmoded transportation capacity. As a result, the supply and demand of the international maritime industry are gradually returning to a balanced level.

As the Group provides customers with ship leasing services with low capital burden and high flexibility, during the time when the maritime industry is challenged, it is more conducive for the Group to leverage the advantages derived from its industrial background and to expand the scale of its leasing business. At the same time, the Group will continue to develop its leasing business based on ships and offshore clean energy equipment, appropriately expand strategic partnerships with market-leading shipping companies as well as upstream and downstream industries, and take advantage of low market positions to increase its investment in operating assets.

The Group was firmly optimistic about the demand for global clean energy structural transformation. As the first leasing company to fully deploy the offshore clean energy industry chain, the Group's early investment in clean energy equipment has reaped expected returns. In the future, the Group will continue to be optimistic about the long-term opportunities of clean energy transition, and will continue to lead the investment in and financing of offshore clean energy equipment such as LNG and offshore hydrogen energy.

In view of the good prospects for the development of the seaborne economy, the Group will continue to utilize its profound industrial resources to strengthen the linkage between research and design institutes and manufacturers, so as to expand seaborne economy-related businesses such as marine fisheries and offshore clean energy.

4. Analysis on Condensed Consolidated Income Statements

4.1 Overview of Consolidated Income Statements

For the six months ended 30 June 2020, the Group's fleet size in operation increased from 81 to 84 vessels. The Group recorded a revenue of HK$962.0 million for the six months ended 30 June 2020, representing a decrease of HK$234.9 million or 19.6% as compared with that of the corresponding period last year. The Group's profit for the six months ended 30 June 2020 amounted to HK$498.4 million, representing an increase of HK$46.0 million or 10.2% as compared with that of the corresponding period last year. The increase in profit was mainly due to the increase in the share of results of joint ventures as a result of continued expansion of the joint venture ship projects.

4.2 Revenue

For the six months ended 30 June 2020, the Group's revenue amounted to HK$962.0 million compared with HK$1,196.9 million for the corresponding period last year, representing a decrease of HK$234.9 million or 19.6%. The decrease was mainly due to the decrease in finance lease income and interest income from loan borrowings, and partially offset by the increase in operating lease income and commission income.

Revenue by Business Activity

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

	Six months ended 30 June		
	2020	2019	**Change**
	HK$'000	*HK$'000*	
	(Unaudited)	(Unaudited)	
Finance lease income	**229,492**	363,432	(36.9)%
Operating lease income	**467,097**	389,749	19.8%
Interest income from loan borrowings	**244,471**	429,414	(43.1)%
Commission income	**20,940**	14,258	46.9%
	962,000	1,196,853	

The Group's lease income from finance lease and operating lease for the six months ended 30 June 2020 amounted to a total of HK$696.6 million, compared with HK$753.2 million for the six months ended 30 June 2019. The significant decrease in finance lease income was mainly because (i) the fleet size under finance lease arrangement decreased from 48 as at 30 June 2019 to 43 as at 30 June 2020, which resulted in a decrease of HK$67.7 million in finance lease income; and (ii) finance lease income is generally priced on a floating rate basis and with reference to LIBOR and the average 3-month LIBOR decreased from 2.60% for the six months ended 30 June 2019 to 1.06% for the six months ended 30 June 2020, which resulted in a decrease of HK$107.9 million in finance lease income. The growth in operating lease income was attributable to the increase in the number of vessels under operating lease from 33 as at 30 June 2019 to 41 vessels as at 30 June 2020.

The Group recognised interest income from loan borrowings of HK$244.5 million for the six months ended 30 June 2020, compared with HK$429.4 million for the six months ended 30 June 2019, representing a decrease of HK$184.9 million or 43.1%. Such decrease was due to the significant decrease in LIBOR as the Group charges its customers based on a floating rate with reference to LIBOR.

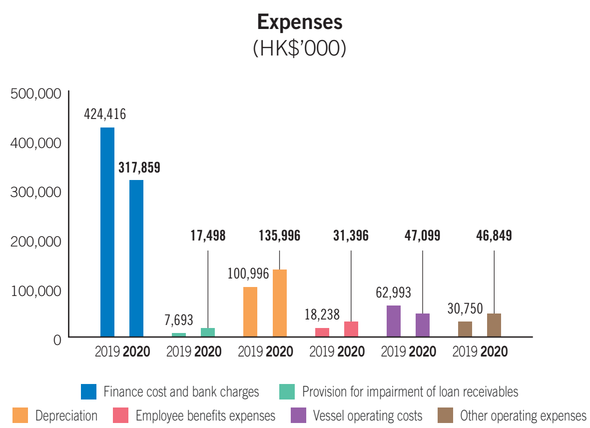
4.3 *Other Income and Other Gains/(Losses), Net*

For the first half of 2020, the Group recorded other income and other gains of HK$65.2 million, as compared to a loss of HK$61.7 million for the corresponding period in 2019. The loss recorded for the six months ended 30 June 2019 was attributed to an expenditure of HK$103.1 million, which was classified as prepayment in previous years because of the completion of finance lease contracts in respect of seven vessels due to the exercise of early purchase options by lessees, and no such expenditure was incurred for the six months ended 30 June 2020. In addition, the Group recorded an exchange gain of HK$14.5 million for the six months ended 30 June 2020, as compared to a loss of HK$22.1 million for the six months ended 30 June 2019, due to the appreciation of Hong Kong dollars and Euros.

Other income mainly included dividend income, fair value gain of financial instruments and interest income from bank deposits. Other income decreased from HK$59.7 million for the six months ended 30 June 2019 to HK$51.8 million for the six months ended 30 June 2020, which was mainly due to the decrease in interest income from bank deposits as the average balance of time deposits with maturity over three months and LIBOR decreased significantly.

4.4 *Expenses*

Our expenses mainly comprise (i) finance costs and bank charges; (ii) provision for impairment loss on loan receivables; (iii) depreciation; (iv) employee benefits expenses; (v) vessel operating costs; and (vi) other operating expenses.



(a) Finance Costs and Bank Charges

For the six months ended 30 June 2020, finance costs and bank charges incurred by the Group amounted to HK$317.9 million compared with HK$424.4 million for the corresponding period last year, representing a decrease of HK$106.5 million or 25.1%. Such decrease was mainly due to the decrease in average balance of interest-bearing borrowings and the decrease in average cost of interest-bearing liabilities.

(b) Depreciation

Depreciation on the Group's property, plant and equipment for the six months ended 30 June 2020 was HK$136.0 million compared with HK$101.0 million for the corresponding period last year, representing an increase of HK$35.0 million or 34.7%. The increase was mainly attributable to the increase in the number of vessels under operating lease from 33 as at 30 June 2019 to 41 as at 30 June 2020.

(c) Vessel Operating Costs

The Group's vessel operating costs mainly represent the expenses incurred for operating the vessels under operating lease arrangements, including crew expenses, fuel expenses, vessel management fees and vessel insurance. The Group's vessel operating costs for the six months ended 30 June 2020 was HK$47.1 million compared with HK$63.0 million for the six months ended 30 June 2019, representing a decrease of HK$15.9 million or 25.2%. The higher vessel operating costs for the six months ended 30 June 2019 was mainly due to the one-off supervision fee and system maintenance fee amounting to HK$10.5 million, which were not incurred for the six months ended 30 June 2020.

4.5 Share of Results of Joint Ventures

The Group's share of results of joint ventures increased from a loss of HK$34.1 million for the six months ended 30 June 2019 to a profit of HK$80.2 million for the six months ended 30 June 2020 was due to the continued expansion of business of joint ventures. As at 30 June 2020, our joint venture projects operated eight vessels (four as at 30 June 2019), and 11 vessels were under construction. The revenue generated by joint venture companies increased from HK$167.8 million for the six months ended 30 June 2019 to HK$398.1 million for the six months ended 30 June 2020.

5. Analysis on Condensed Consolidated Statements of Financial Position

5.1 Total Assets

The principal components of the Group's assets were property, plant and equipment, loan receivables and cash and cash equivalents, collectively representing 89.0% of the Group's total assets as at 30 June 2020. As at 30 June 2020, the Group's total assets amounted to HK$29,141.5 million, representing an increase of 5.2% as compared with HK$27,696.4 million as at 31 December 2019, primarily due to the increase in property, plant and equipment and prepayments, deposits and other receivables, which was partially offset by the decrease in cash and cash equivalents.

(a) Property, Plant and Equipment

As at 30 June 2020, the Group's property, plant and equipment amounted to HK$9,471.6 million, representing an increase of 6.2% as compared with HK$8,915.9 million as at 31 December 2019, primarily due to the expansion of the scale of the Group's vessel fleet.

(b) Loan Receivables

The following table sets out, as at the dates indicated, the components of the Group's loan receivables:

	As at 30 June 2020 ***HK$'000*** **(Unaudited)**	As at 31 December 2019 *HK$'000* (Audited)	**Change**
Finance lease receivables	**6,561,343**	6,814,012	(3.7)%
Loan borrowings	**7,897,589**	7,632,584	3.5%
Loans to joint ventures	**602,973**	598,206	0.8%
	15,061,905	15,044,802	0.1%

During the year ended 31 December 2019 and the six months ended 30 June 2020, none of the Group's loan receivables was written off.

(c) *Finance Lease Receivables*

The Group's net finance lease receivables represent the present value of minimum lease payment receivables from vessels classified as finance lease and their residual value. There was a decrease in finance lease receivables as at 30 June 2020 as compared to 31 December 2019, mainly due to the repayments of principal amounts by the lessees.

(d) *Loan Borrowings*

The Group's loan borrowings mainly include receivables from secured loans. The increase in loan borrowings as at 30 June 2020 as compared to 31 December 2019 was mainly due to the lending of new principal amounts to customers during the period.

(e) *Loans to Joint Ventures*

Loans to joint ventures as at 30 June 2020 remained stable as compared to 31 December 2019.

5.2 Total Liabilities

As at 30 June 2020, the Group's total liabilities amounted to HK$20,680.2 million compared with HK$19,247.2 million as at 31 December 2019, representing an increase of HK$1,433.1 million or 7.4%, which was mainly due to the fact that the Group completed the issuance of US$800 million bonds in the first half of 2020 and the increase in the balance of borrowings.

6. Asset Quality

The Group writes off loan 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 receivables that are still subject to enforcement activities.

The Group did not write off any loan receivables during the year ended 31 December 2019 and the six months ended 30 June 2020.

6.1 Working Capital

During the six months ended 30 June 2020, the Group recorded a relatively high gearing ratio, primarily due to its reliance on borrowings to finance its capital expenditure and its financial and liquidity needs derived from its growing business operation. The Group requires substantial working capital for its daily operations due to the balance sheet-driven nature of its business. The directors of the Company (the "**Directors**") are of the view that the Group's high gearing ratio should not be used as the sole indication that we are subject to unmanageable liquidity risk.

7. Analysis of Condensed Consolidated Statements of Cash Flow

The following table sets out, for the periods indicated, a summary of the Group's consolidated statements of cash flow:

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash (used in)/generated from operating activities	**(80,106)**	2,917,153
Net cash used in investing activities	**(1,417,303)**	(1,052,689)
Net cash generated from/(used in) financing activities	**1,000,490**	(72,088)
Net (decrease)/increase in cash and cash equivalents	**(496,919)**	1,792,376
Cash and cash equivalents at the beginning of the period	**1,895,182**	924,060
Effect of foreign exchange rate changes on cash and cash equivalents	**4,166**	(4,496)
Cash and cash equivalents at the end of the period	**1,402,429**	2,711,940

8. Dividend

At the meeting of the Board held on 17 August 2020, the Board declared an interim dividend of HK$0.03 (2019: HK$0.03) per share. Based on the number of shares of the Company in issue as at the date of this announcement, the aggregate amount of dividend payable is estimated to be HK$184,081,987.02 (2019: HK$184,081,987.02).

9. Fund Management

9.1 Liquidity

In the first half of 2020, with the continuous development of its main business, the Group's operating performance steadily improved. Benefiting from excellent international ratings and good market reputation, the Group's liquidity was solid, and its financing capabilities continued to increase and financing methods were increasingly diversified while financing costs continued to decrease. The issuance of US$800 million bonds was successfully completed in February 2020. The issue price was 5-year T5+110 basis points at a coupon rate of 2.5% per annum and 10-year T10+137.5 basis points at a coupon rate of 3.0% per annum, representing a significant decrease of 35 basis points and 37.5 basis points as compared with the respective initial prices, which reflected the market and investors' recognition of the Group's sustainable operation and development in the long run.

The Group continued to accelerate business cooperation with domestic and foreign banks and other financial institutions to fully ensure the financial support required for business development. As at 30 June 2020, the Group established a solid business relationship with more than 20 banks, and obtained banking facilities of HK$19,759.5 million, of which HK$6,325.3 million was unutilised. As at 30 June 2020, the balance of the Group's cash and cash equivalents and deposit was approximately HK$2,031.3 million in total including structured deposits and time deposits. The sources of funds mainly include project charter hire income and the proceeds from bonds.

9.2 Bank Loans and Capital Structure

As at 30 June 2020, the balance of the Group's bank loans was HK$13,434.2 million, representing a decrease of HK$4,963.8 million as compared with the balance at the beginning of the year, comprising balance of project loans of HK$6,887.4 million and balance of current loans of HK$6,546.8 million. The Group's bank loans have a minimum term of less than one year and a maximum term of 12 years. Current loans are mainly used for daily operational cash flows, while project loans are mainly used for the purchase of vessels for leasing business. The Group strictly performs its obligations under bank loans and repays the principal and interests on a timely basis. In addition, the Group issued USD bonds earlier this year, comprising 5-year bonds with a coupon rate of 2.5% per annum and 10-year bonds with a coupon rate of 3% per annum and raising a total of US$800 million (equivalent to HK$6,224.4 million). The proceeds were mainly used for the payment of new shipbuilding orders and the repayment of bank loans.

As at 30 June 2020, the Group's total assets and total liabilities were HK$29,141.5 million and HK$20,680.2 million, respectively, and its equity attributable to owners was HK$8,428.8 million. The Group's gearing ratio was 2.3 times, representing an increase of approximately 0.1 times from the beginning of the year, which was mainly due to the issuance of bonds by the Group and the growth of its scale of liabilities.

9.3 Financing Costs and Structure

In 2020, in the context of complex and volatile macro-financial environment at home and abroad, the continuous spread of the COVID-19 epidemic and the mounting uncertainties in international relations, although the Federal Reserve continued to cut interest rates sharply, due to the liquidity of USD, the USD LIBOR interest rate stayed elevated for a short period of time and the fluctuation magnified. The Group kept abreast of the changes in macro situation and adjusted its financing strategies in a timely manner. The Group also rationally selected USD dollar-denominated financing products and properly arranged the term structure to further optimize its debt structure. As at 30 June 2020, the average cost of the Group's interest bearing liabilities was decreased from 4.1% at the beginning of the year to 3.3%, the results show an significant decrease in the Group's finance cost. The Group effectively controlled its capital costs through various measures, mainly including lowering the interest rate of existing bank loans, exercising strict control over the interest rate of new loans and adjusting its loan structure. The relevant economic benefits will become increasingly prominent. In terms of interest rate structure, the Group continued to uphold its original interest rate risk management strategies and proactively managed the matching of assets and liabilities in the interest rate structure. 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.

9.4 Interest Rate Risk

In terms of interest rate risk, the Group's interest spread may be narrowed due to fluctuations in market interest rate. Therefore, the Group manages interest rate risk mainly by controlling the interest rate of its leased assets and the corresponding liabilities. As some of the Group's operating lease business charges charter hire at fixed interest rates, while the corresponding bank loans carry interest at floating interest rates, the Group is exposed to interest rate risk. The Group switched floating interest rates into fixed interest rates through derivatives, such as interest rate swap contracts, to effectively match the future fixed lease income and fix the interest spread. The interest rate swap contracts were settled at maturity. As at 30 June 2020, the Group had interest rate swap contracts with a principal amount of US$720.0 million and cross-currency interest rate swap contracts with a principal amount of US$140.0 million.

9.5 Exchange Rate Risk

In terms of exchange rate risk, 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 interest-bearing liabilities 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. Due to the different levels of appreciation of Hong Kong dollars and Euros against USD, the Group's exchange gain was approximately HK$14.5 million during the six months ended 30 June 2020.

9.6 Liquidity Risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from mismatch in the amount or duration with regard to the maturity of financial assets and liabilities. The Group is responsible for its own cash management, including short-term investment of cash surplus and financing to meet its expected cash needs. The Group regularly monitors its existing and expected future liquidity requirements to ensure that it maintains sufficient cash reserves and obtains sufficient financing commitments from major financial institutions to meet its short-term and long-term liquidity needs. As at 30 June 2020, the Group's balance of interest-bearing liabilities was HK$19,658.5 million, of which the balance of interest-bearing liabilities due within one year was HK$4,369.9 million. The balance of interest-bearing liabilities over one year was HK$15,288.6 million.

10. Human Resources

As at 30 June 2020, the Group had a total of 75 employees (30 June 2019: 67 employees), approximately 40.0% of whom were based in Hong Kong. The Group has a team of high-quality talents with a bachelor's degree or above. As at 30 June 2020, approximately 96.0% of the Group's employees had a bachelor's degree or above. In the first half of 2020 and 2019, the remuneration of the Group's employees amounted to approximately HK$31.4 million and HK$18.2 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 package and performance of its employees annually.

11. Pledge of Assets

As at 30 June 2020, the Group's loan receivables of approximately HK$10,804 million; certain of shares of the subsidiaries; deposits of approximately HK$42 million; general assignments, bareboat charterer assignments and intragroup loan assignments and certain listed securities measured at fair value through other comprehensive income approximately of HK$274 million were pledged to banks to acquire bank loans.

12. Use of Proceeds of the Listing

The shares of the Company were successfully listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 17 June 2019 (the "**Listing**"), and 1,534,020,000 shares were issued under the global offering at an offer price of HK$1.34 per share.

The Company's net proceeds from the Listing were approximately HK1,974.5 million, after deduction of underwriting fees and related expenses. The Company's plans to use the proceeds from the Listing are set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 28 May 2019 (the "**Prospectus**"). As at 30 June 2020, the Company had utilised approximately HK$1,168.5 million to strengthen the capital base of the Group's ship leasing business, approximately HK$604.5 million to establish the capital base of the sale-and-leaseback projects in respect of marine clean energy equipment (including marine LNG/LPG units), and approximately HK$201.5 million as working capital and for general corporate purposes.

The Company does not have any intention to change the purposes of the proceeds from the Listing, and will gradually utilise the residual amount of the proceeds from the Listing in accordance with the intended purposes as disclosed in the Prospectus.

FINANCIAL STATEMENTS AND MATERIAL NOTES

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2020

	Note	Six months ended 30 June **2020** ***HK$'000*** **(Unaudited)**	 2019 *HK$'000* (Unaudited)
Revenue	*3*	**962,000**	1,196,853
Other income and other gains/(losses) net		**65,210**	(61,743)
Total revenue and other income		**1,027,210**	1,135,110
Expenses			
Finance cost and bank charges	*4*	**(317,859)**	(424,416)
Provision for impairment of loan receivables, net		**(17,498)**	(7,693)
Depreciation		**(135,996)**	(100,996)
Employee benefits expenses		**(31,396)**	(18,238)
Vessel operating costs		**(47,099)**	(62,993)
Other operating expenses		**(46,849)**	(30,750)
Total expenses		**(596,697)**	(645,086)
Profit from operations	*5*	**430,513**	490,024
Share of results of:			
– Joint ventures		**80,234**	(34,104)
– Associates		**(5,903)**	1,243
Profit before income tax		**504,844**	457,163
Income tax expenses	*6*	**(6,408)**	(4,762)
Profit for the period		**498,436**	452,401
Attributable to:			
Equity holders of the Company		**504,301**	451,461
Non-controlling interests		**(5,865)**	940
		498,436	452,401
Earnings per share *(HK$)*			
Basic and diluted	*7*	**0.082**	0.096

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period	**498,436**	452,401
Other comprehensive (loss)/income for the period		
Items that have been reclassified or may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of investments in subsidiaries, associates, and joint ventures	**(14,953)**	(17,571)
– Fair value change of financial assets at fair value through other comprehensive income (debts instruments)	**8,491**	11,451
– Release upon settlement of debt instruments at fair value through other comprehensive income	**–**	5,000
– Fair value change of derivative financial instruments (cash flow hedges)	**(177,431)**	(60,439)
Items that will not be reclassified to profit or loss:		
– Fair value change of financial assets at fair value through other comprehensive income (equity instruments)	**4,302**	43,964
Total other comprehensive loss for the period	**(179,591)**	(17,595)
Total comprehensive income for the period	**318,845**	434,806
Total comprehensive income for the period attributable to:		
Equity holders of the Company	**324,853**	434,169
Non-controlling interests	**(6,008)**	637
	318,845	434,806

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	**As at 30 June 2020** *HK$'000* **(Unaudited)**	As at 31 December 2019 *HK$'000* (Audited)
ASSETS			
Property, plant and equipment		**9,471,639**	8,915,910
Right-of-use assets		**20,712**	23,685
Interests in associates		**29,298**	35,618
Interests in joint ventures		**290,258**	211,304
Prepayments, deposits and other receivables		**594,686**	164,695
Loan receivables	*9*	**15,061,905**	15,044,802
Derivative financial assets		**–**	3,881
Financial assets at fair value through profit or loss		**571,656**	39,460
Financial assets at fair value through other comprehensive income		**902,958**	777,224
Amounts due from associates		**24,544**	23,968
Amounts due from fellow subsidiaries		**2,686**	220
Amounts due from joint ventures		**139,849**	4,776
Structured bank deposits		**487,460**	335,653
Time deposits with maturity over three months		**141,447**	171,395
Cash and cash equivalents		**1,402,429**	1,895,182
Asset held for sale		**–**	48,639
Total assets		**29,141,527**	27,696,412

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2020

	Note	**As at 30 June 2020** ***HK$'000*** **(Unaudited)**	As at 31 December 2019 *HK$'000* (Audited)
LIABILITIES			
Income tax payables		**27,170**	22,138
Borrowings		**19,658,549**	18,397,969
Derivative financial liabilities		**321,045**	105,966
Amounts due to fellow subsidiaries		**17,444**	20,179
Amount due to a joint venture		**92,665**	96,118
Amount due to a non-controlling interest		**87,466**	87,922
Lease liabilities		**20,905**	23,654
Other payables and accruals		**454,997**	493,222
Total liabilities		**20,680,241**	19,247,168
Net assets		**8,461,286**	8,449,244
EQUITY			
Share capital	*10*	**6,614,466**	6,614,466
Reserves		**1,814,342**	1,796,292
		8,428,808	8,410,758
Non-controlling interests		**32,478**	38,486
Total equity		**8,461,286**	8,449,244

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

1. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2020 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 condensed consolidated 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 condensed consolidated interim financial information should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2019, 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 2019 that is included in the condensed consolidated interim financial information for the six months ended 30 June 2020 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

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

2. Adoption of new and amended HKFRSs

The accounting policies adopted for the current period are consistent with those of the previous consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following amendments to the HKFRSs (the "**amended HKFRSs**") issued by the HKICPA which are effective for the Group's financial year beginning from 1 January 2020.

Amendments to HKAS 1 and HKAS 8	*Definition of Material*
Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*

The adoption of the amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

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

3. Segment information and revenue

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

The Group derives revenue from the transfer of services in the following:

	Leasing services	**Loan borrowings**	**Shipbroking services**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
For the period ended 30 June 2020				
Segment revenue	**696,589**	**244,471**	**20,940**	**962,000**
Inter-segment revenue	**–**	**–**	**–**	**–**
Revenue from external customers	**696,589**	**244,471**	**20,940**	**962,000**
For the period ended 30 June 2019				
Segment revenue	753,181	429,414	14,258	1,196,853
Inter-segment revenue	–	–	–	–
Revenue from external customers	753,181	429,414	14,258	1,196,853

Commission income, included in shipbroking services segment, are recognised at point in time method during the six months ended 30 June 2020 and 2019.

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**	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Finance lease income	**229,492**	363,432
Operating lease income	**467,097**	389,749
Interest income from loan borrowings	**244,471**	429,414
Commission income	**20,940**	14,258
	962,000	1,196,853

4. Finance cost and bank charges

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest and charges on borrowings	**278,721**	489,333
Less: finance costs capitalised	**(28,247)**	(65,981)
Bank charges	**687**	1,009
Interest on lease liabilities	**361**	55
Interest and charges on bonds	**66,337**	–
	317,859	424,416

5. Profit from operations

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

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Dividend income	**14,773**	14,779
Gain on disposal of asset held for sale	**21,230**	–
Interest income from financial assets at fair value through profit or loss	**8,633**	–
Interest income from financial assets at fair value through other comprehensive income	**11,866**	16,723
Net realised gain from derivative financial instruments	**1,319**	11,271
Net realised gain from financial assets at fair value through other comprehensive income	**3,508**	–
Net loss on changes in fair value of derivative financial instrument	**(41,521)**	(56,505)
Net gain on changes in fair value of financial assets at fair value through profit or loss	**5,388**	31,497
Net gain/(loss) on de-recognition of finance lease receivables	**3,911**	(103,112)
Listing expenses	**–**	(14,918)

6. Income tax expenses

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current income tax		
– Hong Kong Profits Tax	**3,658**	–
– People's Republic of China ("**PRC**") enterprise income tax	**2,750**	4,762
	6,408	4,762

Hong Kong Profits Tax has been provided at the rate of 16.5% (2019: Nil) on the estimated assessable profit for the period.

PRC enterprise income tax has been calculated on the estimated assessable profit for the period at the income tax rate applicable to PRC entities of 25% (2019: 25%).

7. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company *(in HK$'000)*	**504,301**	451,461
Weighted average number of ordinary shares in issue *('000)*	**6,136,066**	4,720,700
Basic earnings per share *(in HK$)*	**0.082**	0.096

Diluted

Diluted earnings per share is of the same amount as the basic earnings per share as there were no potentially dilutive ordinary shares outstanding as at 30 June 2020 and 2019.

8. Dividend

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Dividends approved and paid during the period:		
Final dividend in respect of the year ended 31 December 2019 of HK5 cents per ordinary share	**306,803**	–
Interim dividend:		
Interim dividend of HK3 cents (2019: HK3 cents) per ordinary share	**184,082**	184,082

At the board meeting held on 17 August 2020, the board has declared an interim dividend of HK3 cents (2019: HK3 cents) per share, as the interim dividend is declared after reporting period, such dividend has not been recognised as liability as at 30 June 2020.

9. Loan receivables

	As at 30 June 2020	As at 31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Loan borrowings *(note a)*	**7,972,116**	7,847,210
Loans to joint ventures *(note b)*	**602,973**	598,326
Finance lease receivables *(note c)*	**7,031,416**	7,126,488
	15,606,505	15,572,024
Less: accumulated allowance for impairment	**(544,600)**	(527,222)
Net carrying amount	**15,061,905**	15,044,802

(a) 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 2020	As at 31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 1 year	**899,116**	987,993
More than 1 year but less than 2 years	**656,639**	932,942
Between 2 to 5 years	**1,900,251**	3,023,641
Over 5 years	**4,441,583**	2,688,008
	7,897,589	7,632,584

(b) Loans to joint ventures are repayable on demand.

(c) Details of the finance lease receivables as at the end of the reporting periods are as follows:

	As at 30 June 2020	As at 31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Gross investment in leases	**8,252,476**	8,351,121
Less: unearned finance income	**(1,221,060)**	(1,224,633)
Net investments in leases	**7,031,416**	7,126,488
Less: accumulated allowance for impairment	**(470,073)**	(312,476)
Finance lease receivables – net	**6,561,343**	6,814,012

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 2020 *HK$'000* **(Unaudited)**	As at 31 December 2019 *HK$'000* (Audited)
Gross investment in finance leases		
– Within 1 year	**2,070,845**	1,525,107
– More than 1 year but less than 2 years	**889,704**	1,922,039
– Between 2 to 5 years	**2,732,283**	2,593,238
– Over 5 years	**2,559,644**	2,310,737
	8,252,476	8,351,121

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

10. Share capital

Ordinary shares, issued and fully paid:

	Numbers of shares *('000)*	**Share capital** *HK$'000*
At 31 December 2019 and 30 June 2020, unaudited	6,136,066	6,614,466

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 (the "**Listing Rules**") as its own code of corporate governance.

During the six months ended 30 June 2020, 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 2020. The aforesaid interim dividend will be paid on 30 September 2020 to the Shareholders whose names appear on the register of members of the Company on 23 September 2020.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from 21 September 2020 to 23 September 2020 (both dates inclusive), during which no transfer of shares will be registered. All transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on 18 September 2020.

EVENTS AFTER THE END OF THE REPORTING PERIOD

There had been no significant events affecting the Group since 30 June 2020 and up to the date of this announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS

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. 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 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2020, 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), Dr. Wong Yau Kar David and Mr. Li Hongji, and two non-executive Directors, namely Mr. Li Wei and Mr. Zou Yuanjing. The primary duties of the Audit Committee are to review the financial information of the Company and assist the Board in providing an independent view of the financial reporting, risk management and internal control system of the Company.

The unaudited condensed interim results of the Group for the six months ended 30 June 2020 have been reviewed by the Audit Committee with the senior management and the external auditor of the Company.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2020 will be dispatched to the Shareholders and will be published on the websites of the Company (www.csscshipping.net) and the Stock Exchange (www.hkexnews.hk) in due course.

By order of the Board
CSSC (Hong Kong) Shipping Company Limited
Zhong Jian
Chairman

Hong Kong, 17 August 2020

As at the date of this announcement, the Board comprises Mr. Zhong Jian and Mr. Hu Kai as executive Directors, Mr. Li Wei and Mr. Zou Yuanjing as non-executive Directors, and Dr. Wong Yau Kar David, Mdm. Shing Mo Han Yvonne and Mr. Li Hongji as independent non-executive Directors.