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

Annual Report 2019

Contents

Company Profile

Established in June 2012, CSSC (Hong Kong) Shipping Company Limited (the "**Company**", together with its subsidiaries, the "**Group**") is the first shipyard-affiliated leasing company in Greater China* and one of the world's leading ship leasing companies which offers customised and flexible ship leasing solutions to global ship operators and traders.

The shares of the Company (the "**Shares**") were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing**") on 17 June 2019 (the "**Listing Date**"). Upon Listing, China State Shipbuilding Corporation Limited*（中國船舶工業集團有限公司）("**CSSC Group**") indirectly holds 75% equity interests in the Company, and public investors hold 25% equity interests in the Company. CSSC Group is the world's leading shipbuilding group encompassing the whole industry chain and with competitive advantages in terms of research and development, design and manufacturing of advanced vessels and marine equipment, which provides a solid industrial foundation for the Company's future business development.

Leveraging its robust expertise and strong industrial background in the marine business, the Group focuses on developing ship and marine equipment leasing business, and has maintained close cooperation with customers in 13 countries and regions around the world. While its marine business remains in the doldrums, the Company continues to implement counter-cyclical investment management measures so as to provide leasing services to leading partners in various market segments of the marine industry, thereby establishing long-term strategic cooperative relations.

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

* For the purpose of this report, includes the People's Republic of China (the "**PRC**"), Hong Kong, Macau and Taiwan.

Company Information

Board of Directors

Executive Directors

Mr. Yang Li *(Chairman)*
Mr. Hu Kai

Non-Executive Directors

Mr. Li Wei (appointed on 5 July 2019)
Mr. Zhong Jian (appointed on 25 September 2019)
Mr. Zou Yuanjing (appointed on 25 September 2019)

Independent Non-Executive Directors

Dr. Wong Yau Kar David, *GBS, JP*
Mdm. Shing Mo Han Yvonne, *BBS, JP*
Mr. Li Hongji

Audit Committee

Mdm. Shing Mo Han Yvonne, *BBS, JP (Chairperson)*
Dr. Wong Yau Kar David, *GBS, JP*
Mr. Li Hongji
Mr. Li Wei (appointed on 5 July 2019)
Mr. Zou Yuanjing (appointed on 25 September 2019)

Remuneration Committee

Dr. Wong Yau Kar David, *GBS, JP (Chairperson)*
Mdm. Shing Mo Han Yvonne, *BBS, JP*
Mr. Li Hongji

Nomination Committee

Mr. Yang Li *(Chairperson)*
Dr. Wong Yau Kar David, *GBS, JP*
Mdm. Shing Mo Han Yvonne, *BBS, JP*
Mr. Li Hongji
Mr. Zhong Jian (appointed on 25 September 2019)

Company Secretary

Mr. Ding Weisong

Assistant Company Secretary

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

Authorised Representatives

Mr. Hu Kai
Ms. Wong Sau Ping

Hong Kong Legal Adviser

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

Compliance Adviser

Red Solar Capital Limited
11/F, Kwong Fat Hong Building
1 Rumsey Street
Sheung Wan
Hong Kong

Company Information

Registered Office

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

Hong Kong Share Registrar

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

Auditor

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, Prince's Building
Central
Hong Kong

Principal Banks

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

Company's Website

http://www.csscshipping.cn

Stock Code

3877

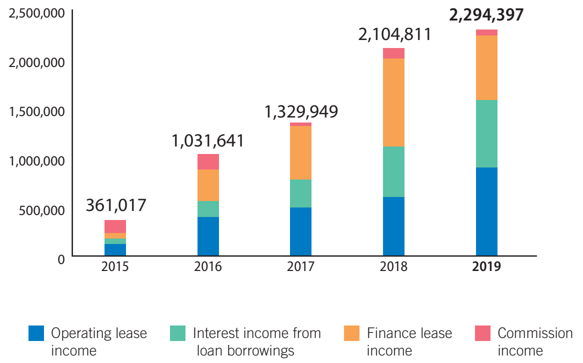
Listing Date

17 June 2019

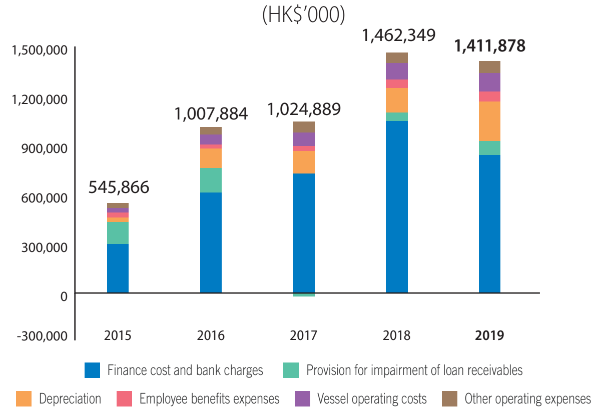
Financial Highlights and Five-year Financial Summary

Five-year Summary of Consolidated Income Statement

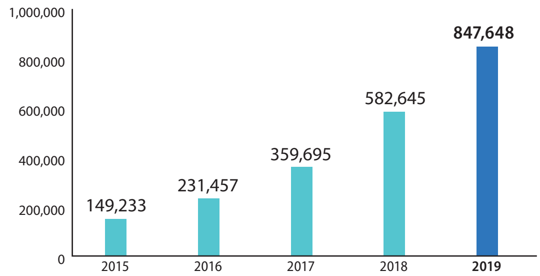
Reuenue
(HK$'000)



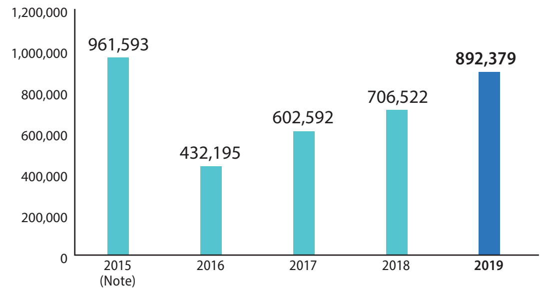
Total expense
(HK$'000)



Profit from operation
(HK$'000)



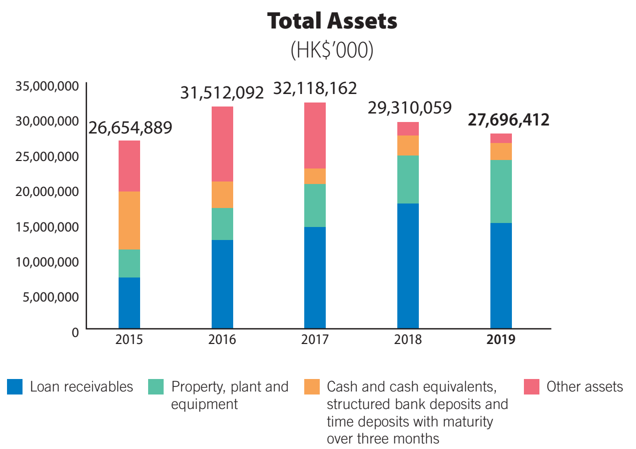
Profit for the year
(HK$'000)

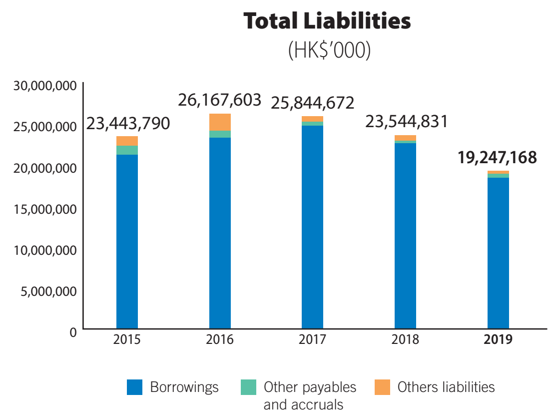


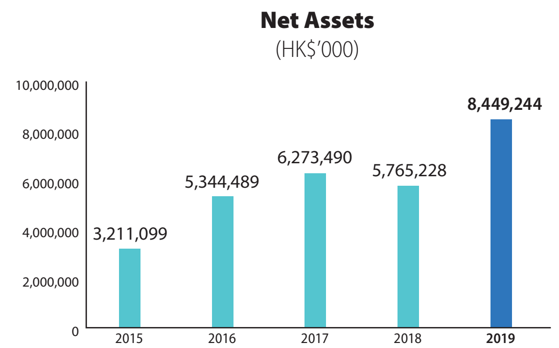
Note: The higher profit for the year ended 31 December 2015 was primarily due to the recognition of a one-off gain on the deemed disposal of partial interest in an associate in 2015. The deemed disposal of partial interest in an associate was due to the issuance of shares by the associate in 2015, which caused the effective shareholding of the Group in such associate decreased by 9.1%. The net gain from such deemed disposal amounted to HK$817.4 million.

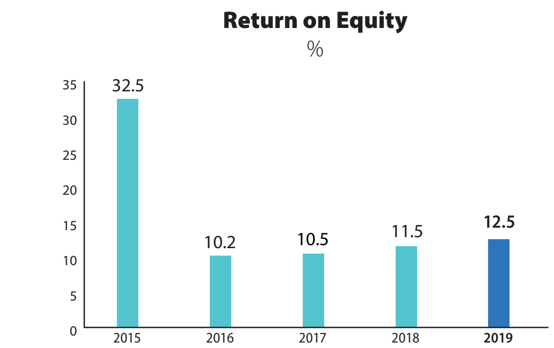
Financial Highlights and Five-year Financial Summary

Five-year Summary of Consolidated Statement of Financial Position









Financial Highlights and Five-year Financial Summary

Selected Financial Ratios

	For the year ended 31 December/ As at 31 December	
	2019	2018
Return on average assets[(1)]	**3.1%**	2.3%
Return on average net assets[(2)]	**12.5%**	11.5%
Average cost of interest-bearing liabilities[(3)]	**4.1%**	4.4%
Net profit margin[(4)]	**38.9%**	33.6%
Asset-liability ratio[(5)]	**69.5%**	80.3%
Risk asset-to-equity ratio[(6)]	**3.0 times**	4.6 times
Gearing ratio[(7)]	**2.2 times**	3.9 times
Net debt-to-equity ratio[(8)]	**1.9 times**	3.8 times
Credit ratings		
S&P Global Ratings	**A-**	N/A
Fitch Ratings	**A**	N/A

Notes:

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

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

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

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

Chairman's Statement

Dear Shareholders,

2019 was a landmark year for the development of ship leasing in China. On its seventh anniversary, the Company was successfully listed on the Main Board of the Stock Exchange, whereby its development entered a new stage. All of our employees spared no efforts in innovating and pursuing excellence for the past year, which led to a high-quality growth of the Company's results with promising progress in terms of building a "world-class ship leasing company". On behalf of the board of directors (the "**Directors**" and each a "**Director**") of the Company (the "**Board**") and all the employees of the Company, I would like to express my sincere gratitude to all shareholders of the Company (the "**Shareholders**") for their trust and support!

In 2019, the turbulent trade relations between China and the US, the sluggish recovery of the European economy and the imbalance in the development of the global economy have clearly slowed down the recovery of the global economy and maritime industry. Despite the adverse external conditions, the Company has always been adhering to the development strategy integrating industry and finance to fully assume its professional advantages as a ship leasing company. Through pushing forward its innovative business model, in 2019, the Company achieved excellent operating results with a revenue of HK$2,294.4 million, representing a year-on-year growth of 9.0%, and a net profit of HK$892.4 million, representing a year-on-year growth of 26.3%. The Company continued to optimize its debt financing structure, the asset-liability ratio decreased from 80.3% in 2018 to 69.5% in 2019, and the funding costs of its interest-bearing liabilities decreased from 4.4% in 2018 to 4.1% in 2019. In 2019, the Company's assets were in good operating condition, the utilisation rate of vessel assets was 100%, and the overall rental rate was 99%.

The Company adhered to the concept of counter-cyclical investment, obtained high-quality assets at a relatively low market price, and particularly focused on the deployment of high-end vessels and marine equipment in order to strive to create a balanced asset portfolio. In 2019, the Company entered into 28 ship leasing orders with an aggregated contract value of HK$9.893 billion, representing a year-on-year increase of 163%. At the end of 2019, the Company's clean energy equipment assets accounted for 42.2% of the total contract value, its bulk carrier, container, tanker assets accounted for 44.2% of the total contract value, and its special tonnage carrier assets accounted for 13.2% of the total contract value.

The Company took the opportunities arising from the Listing to improve its corporate governance structure and continue to ramp up its governance level. In 2019, the Company appointed three individuals with outstanding professional ability and social prestige as its independent non-executive Directors. The Company also appointed three additional non-executive Directors with extensive management experience according to its needs in terms of corporate governance after the Listing. The diversified professional skills, industry experience, age and qualification background of the Board members were beneficial to the good governance of the Company, thereby protecting the interests of all Shareholders.

In 2019, the Company put efforts in obtaining international credit rating for the first time, and obtained "A" rating and "A-" rating from Fitch Ratings and S&P Global Ratings, respectively, which fully reflected the recognition of the Company's creditworthiness and prospects from global mainstream credit rating agencies. Such ratings also laid a solid foundation for the Company to further reduce its financing costs and optimise its debt structure in the future.

Chairman's Statement

In 2019, as a state-owned pilot enterprise under the "double hundred action" reform, the Company proactively explored and improved its corporate governance structure, established a professional management system, and implemented equity incentives. The objectives of such reform are to further stimulate the entrepreneurial vitality and enthusiasm of all management and officers, so as to achieve a high degree of unity between Shareholders' interests and the personal interests of the Company's management. I believe that with the support of all Shareholders, a gratifying achievement in respect of the Company's reform will surely be made, thereby taking the Company to greater heights.

At the beginning of 2020, the outbreak of COVID-19 caused turbulence in the global market, and the pressure on the global economy significantly increased. Additionally, under the impact of factors such as the plunge of international oil prices, natural disasters and geopolitical instability, the downward pressure on the global economy was magnified. As a result, the development of the marine industry was greatly challenged. However, we are pleased to see that the epidemic in China is under control. Moreover, the recent statement issued by China and the Group of 77 on the COVID-19 epidemic showed that under the strategic concept of building a community with a shared future for mankind, international cooperation regarding epidemic prevention and control is gradually strengthening, and the effectiveness of economic stimulus policies in various countries are gradually emerging. We believe and sincerely expect that, with these efforts, China and the global economy will eventually come out of the doldrums. At the same time, we believe that China's economy will continue to be positive. As the epidemic is gradually stabilized and controlled, it is expected that the Sino-US phased economic and trade agreement will be implemented and the maritime industry will achieve cyclical stabilisation and recovery. The demand for economic and environmental-friendly vessels and clean energy equipment of the marine industry is still active; marine fisheries, marine energy and marine mineral development offer promising prospects, and opportunities in market segments of the marine industry continue to emerge.

As the ship leasing industry will further mature, the comprehensive competitiveness, such as risk control, professional capabilities, reform effectiveness, and management efficiency, of leasing companies will determine the Company's development momentum and its position in the industry. The Company will continue to strengthen the research and forecast of various market segments in the marine industry, carry out in-depth implementation of the industry-finance integration strategy and counter-cyclical investment, as well as facilitate innovative development and stringent risk control, to provide customers with more excellent and precise leasing services, and further improve the full lifecycle management of its leasing business, thereby enhancing the professional division of labor and internal cooperation. Moreover, the Company will apply information technology flexibly to establish an integrated management system integrating business, risk management, finance and asset management, and further enhance the level of corporate governance and management incentives to drive the high-quality development of the Company. We strive to build the Company as one of the top ship leasing companies in the world and create better value for the Shareholders.

CSSC (Hong Kong) Shipping Company Limited
Yang Li
Chairman

Management Discussion and Analysis

1. Industry Conditions

In 2019, the global economy was still in a slow recovery period, whereas the economic growth of major economies and emerging markets was limited. In particular, the Sino-US trade friction continued, and the recovery of the maritime industry faced challenges as a result. However, the supply capacities were significantly reduced as the marine industry had been running on low, which restored the balance of supply-demand in the market. The commencement and implementation of new environmental protection regulations for the marine industry accelerated the elimination of old vessels and increased demand for energy saving and environmental friendly vessels. The international community's measures to cope with global climate change and new energy structural transition have brought new opportunities for the development of logistics chain equipment on offshore gas and chemical gas.

The dry bulk market achieved steady recovery in 2019. The Baltic Dry Bulk Freight Index (BDI) set a new high in 9 years at 2,518 points in September 2019. As the International Maritime Organization's environmental protection regulations on limiting sulfur-containing gas emissions from vessels became effective in early 2020, certain capacity was withdrawn from the market in the second half of 2019 for the installation of environmental protection devices, thereby reducing supply capacities. The seaborne trade volume for goods such as iron ore, coal and food continued to grow, which has gradually restored market capacity and the supply-demand balance, and the overall market performance was positive.

In 2019, the overall tanker market performance was positive. Since certain capacity was withdrawn from the market due to non-market factors, the market capacity supply was limited. Moreover, the low price of cruel oil stimulated the trade demand for crude oil and refined oil products. The supply-demand relationship of the market continued to improve, and the overall market performance in 2019 was better than 2018.

The container vessel market fluctuated under the impact of factors such as the Sino-US trade relation and Brexit in 2019. Most of the liner companies adopted conservative operating strategies to maintain freight rates, and the charter hire of medium to large container vessels performed well.

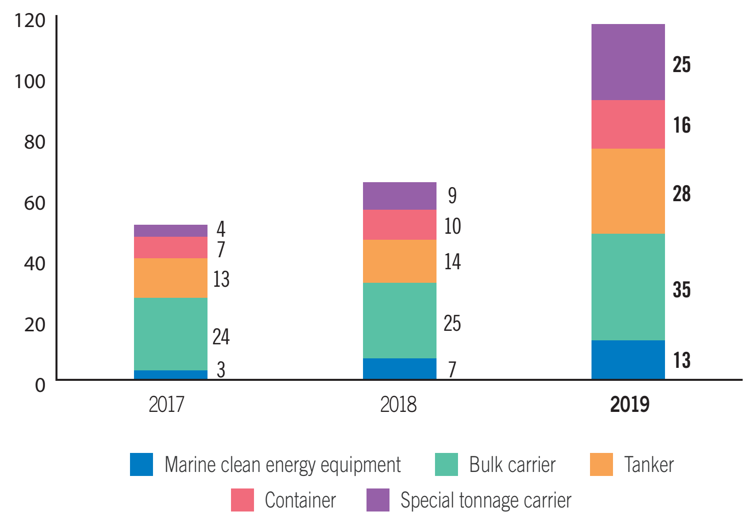
The offshore clean energy equipment market has been actively improving. The global natural gas consumption, especially in the Asia-Pacific region, continued to grow. The global trade volume of liquefied natural gas ("**LNG**") increased rapidly as compared to that of 2018, which further stimulated the development of the offshore clean energy industry. The demand for LNG production, transportation and re-gasification unit remained strong in 2019.

2. Business Review

Rapid development of leasing business and rapid growth in results of operations

The Company focused on the provision of ship leasing services, continuously pushed forward its innovative business model, strengthened cooperative relationships with customers, financiers, shipbuilding companies and other business partners, proactively developed incremental projects as well as optimized its management of existing projects, which led to the stable and rapid development of the Company's results in 2019. For the year ended 31 December 2019, the Group's business maintained a rapid growth and achieved a revenue of HK$2,294.4 million, representing a year-on-year increase of 9.0%. The Group's profit from operations was HK$847.6 million, representing an increase of 45.5% as compared to 2018. The growth in profit from operations reflected the strong development of the Group's leasing business. The Group recorded a profit of HK$892.4 million for the year ended 31 December 2019, representing a year-on-year increase of 26.3%. As at 31 December 2019, the Group's return on average net assets and return on average assets was 12.5% and 3.1%, respectively. In 2019, the Group commenced 29 leasing contracts, completed 13 leasing contracts and had 81 on-going leasing contracts, of which 41 were operating lease contracts and 40 were finance lease contracts. Among those 81 on-going leasing contracts, 64 were leasing contracts with a term of more than one year, which were of an average outstanding lease term of approximately 7.7 years and with a contract value of HK$33.6 billion. As at 31 December 2019, the Group's vessel portfolio reached 117, of which 81 were operating and 36 were under construction. The average age of the Group's vessel portfolio was 2.4 years. Furthermore, in 2019, the Company was assigned corporate credit ratings of A- and A by S&P Global Ratings and Fitch Ratings, respectively, which facilitated the Company's use of diversified financing methods in order to optimize debt structure and reduce financing costs. The Company's comprehensive interest rate in respect of its interest-bearing liabilities was 4.1% in 2019 compared to 4.4% in 2018.

Our Vessel Portfolio



2. Business Review *(Continued)*

Adoption of counter-cyclical investment strategy and increase in investment in high-quality vessels

In 2019, the Company fully assumed the professional advantages of a shipyard-affiliated leasing company. In particular, the Group kept up with the market demand, adopted a counter-cyclical investment strategy, increased investment in clean energy equipment and high-quality vessels of various market segments such as gas carriers, dual-fuel tankers, multi-purpose heavy lift carriers and class bulk carriers, and continued to optimize its assets allocation. The marine industry had the characteristics of highly cyclical fluctuations. The Company relied on the extensive industry experience of its management team and the advantages of its comprehensive and mature business network, and leveraged the unique advantages of shipyard-affiliated leasing companies to purchase high-quality assets at a relatively low market price, which significantly mitigated the risk of asset value fluctuations, while operating assets would also benefit from the value profit arising from market rebound.

Improvement in risk management capabilities and maintenance of high-level asset quality

The Company attached great importance to its sound risk management system and enhanced its ability to deal with and resolve high risk and undesirable projects. The Company has established a 24-hour monitoring information system for its vessel assets which tracks the position of vessels, their routes and operating status in real time, understands abnormal events of assets, evaluates asset value on a regular basis and dynamically tracks projects, provides early warning of project risks. It strives to improve the Company's risk management and control capability and maintain high-level asset quality.

As at 31 December 2019, the Company's assets were in good operating condition, the utilization rate of vessel assets was 100%, and the overall recovery rate of charter hire was 99%.

Outlook

In early 2020, the world economy experienced massive hit due to COVID-19 outbreak and the great plunge in crude oil prices, which caused severe fluctuations in the global market and brought unprecedented challenges to the global economy and marine industry. The US and Europe have taken measures such as reducing interest rates to stimulate the economy. Moreover, the economic stimulus policy may offset the negative effects to a certain extent and present new opportunities to the marine industry. As the ship leasing industry has the advantages of high flexibility, when the maritime industry faces challenges, the Group is expected to be in a favorable position to exert its professional advantages. Providing flexible and competitive leasing solutions to vessel operators also allows the Group to have better access to low-cost and high-quality assets. Meanwhile, as the global base interest rate is in decline, the Company's cost of debt is expected to further decrease.

The Group's unique industrial background makes it easier for it to grasp cyclical opportunities in the marine industry. Leveraging its strong expertise in the marine industry and good synergy with ship design houses and shipyards, the Group will capitalize on the market development trend, focus on its maritime business and marine economy to optimize its asset portfolios, strictly control risk exposures and operate prudently, and continue to push forward reform measures, such as equity incentives, to motive entrepreneurial vitality of the team and achieve high-quality development of the Company. The Company will fully leverage its first-mover advantage as a leading shipyard-affiliated leasing company, implement sustainable development based on its market-oriented and professional development direction, and strive to create greater value for its Shareholders and society.

3. Financial Review

3.1 Analysis on Consolidated Income Statement

	For the year ended 31 December		
(HKD in thousands)	**2019**	2018	Change
Total revenue	**2,294,397**	2,104,811	9.0%
Total expenses	**(1,411,878)**	(1,462,349)	(3.5%)
Profit from operations	**847,648**	582,645	45.5%
Profit for the year	**892,379**	706,522	26.3%
Earnings per share (HK$)	**0.163**	0.150	8.7%

3.1.1 Overview of Consolidated Income Statement

Revenue

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

3. Financial Review *(Continued)*

3.1 Analysis on Consolidated Income Statement *(Continued)*

3.1.1 Overview of Consolidated Income Statement *(Continued)*

Revenue (Continued)

Revenue by Business Activity

The following table sets out, for the years indicated, a breakdown of our revenue by business activity:

	Year ended 31 December			
	2019		2018	
	HK$'000	**%**	HK$'000	%
Operating lease income	**898,211**	**39.1**	601,182	28.6
Interest income from loan borrowings	**681,073**	**29.7**	508,723	24.1
Finance lease income	**658,781**	**28.7**	892,080	42.4
Commission income	**56,332**	**2.5**	102,826	4.9
Total	**2,294,397**	**100.0**	2,104,811	100.0

Revenue by types of assets

	2019		2018	
	HK$'000	**%**	HK$'000	%
Marine clean energy equipment	**644,213**	**28.1%**	455,615	21.6%
Bulk carrier	**343,215**	**15.0%**	606,778	28.8%
Tanker	**183,084**	**8.0%**	239,908	11.4%
Container	**387,242**	**16.9%**	375,150	17.8%
Special tonnage carrier	**495,721**	**21.6%**	239,095	11.4%
Other	**240,922**	**10.4%**	188,265	9.0%
Total	**2,294,397**	**100.0%**	2,104,811	100.0%

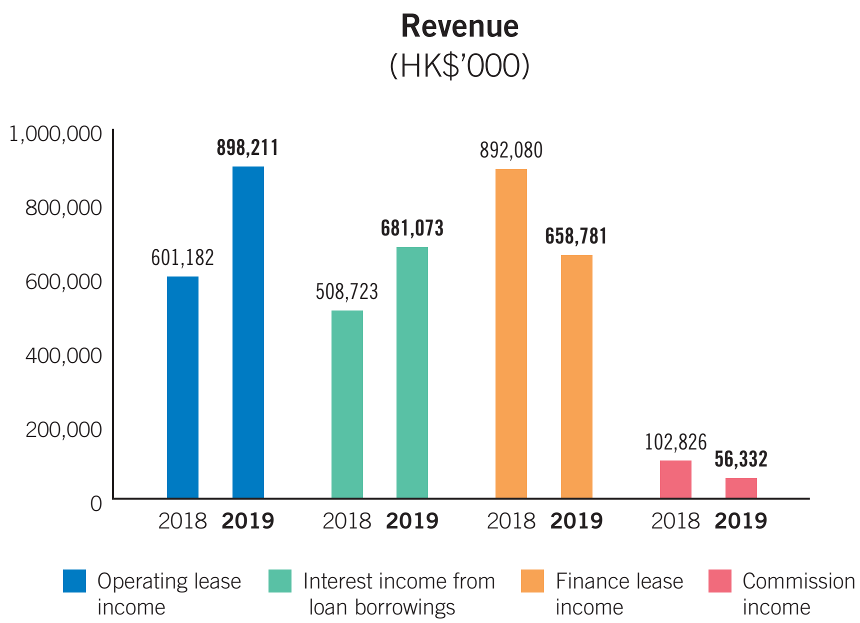
3. Financial Review *(Continued)*

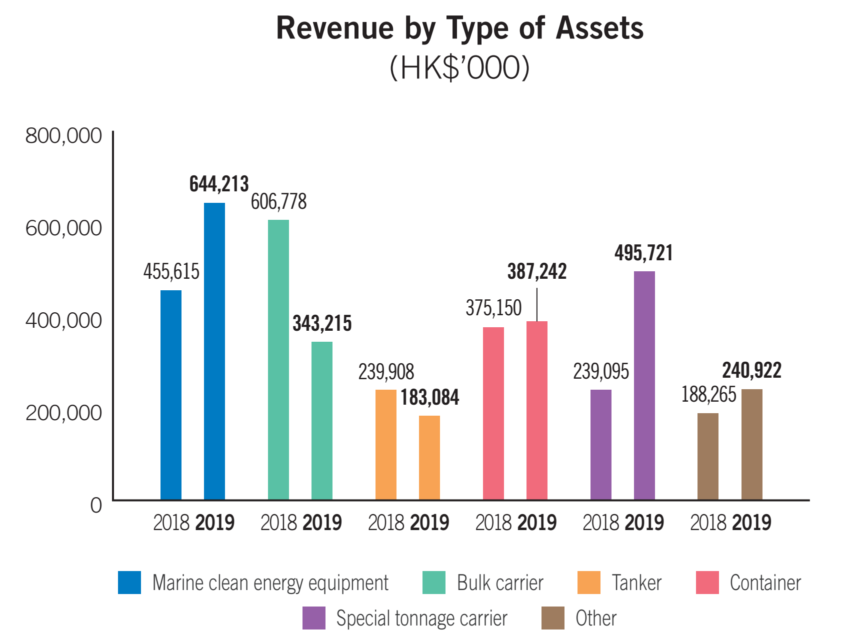
3.1 Analysis on Consolidated Income Statement *(Continued)*

3.1.1 Overview of Consolidated Income Statement (Continued)

Revenue (Continued)

Revenue by Business Activity *(Continued)*





3. Financial Review *(Continued)*

3.1 Analysis on Consolidated Income Statement *(Continued)*

3.1.1 Overview of Consolidated Income Statement *(Continued)*

Revenue (Continued)

Revenue by Business Activity *(Continued)*

Year Ended 31 December 2019 Compared to Year Ended 31 December 2018

Our revenue increased by 9.0% from HK$2,104.8 million for the year ended 31 December 2018 to HK$2,294.4 million for the year ended 31 December 2019, primarily due to the increase in operating lease income and interest income from loan borrowings.

Our revenue includes following types:

Operating Lease Income

Our operating lease income increased by 49.4% from HK$601.2 million for the year ended 31 December 2018 to HK$898.2 million for the year ended 31 December 2019. Such growth in operating lease income was attributable to the increase in the number of vessels under operating lease from 22 as at 31 December 2018 to 41 as at 31 December 2019.

Interest Income from Loan Borrowings

Our interest income from loan borrowings increased by 33.9% from HK$508.7 million for the year ended 31 December 2018 to HK$681.1 million for the year ended 31 December 2019, primarily due to the increase in average balance of loan borrowings. The average balance of loan borrowings increased from HK$6,317.6 million as at 31 December 2018 to HK$7,718.4 million as at 31 December 2019.

Finance Lease Income

Our finance lease income decreased by 26.2% from HK$892.1 million for the year ended 31 December 2018 to HK$658.8 million for the year ended 31 December 2019. Such decrease was mainly due to the completion of finance lease contracts in respect of 13 vessels due to the exercise of early repurchase options by lessees during 2019. During 2019, we also commenced 10 new finance lease contracts, and our vessel portfolio under finance lease decreased from 43 as at 31 December 2018 to 40 as at 31 December 2019.

Commission Income

Our commission income decreased by 45.2% from HK$102.8 million for the year ended 31 December 2018 to HK$56.3 million for the year ended 31 December 2019. Such decrease was mainly due to the lower number of vessel sales concluded in 2019 as compared to 2018 since we focused more on our main leasing services business.

3. Financial Review *(Continued)*

3.1 Analysis on Consolidated Income Statement *(Continued)*

3.1.1 Overview of Consolidated Income Statement *(Continued)*

Other Income and Other Losses, Net

The following table sets out, for the years indicated, a breakdown of our other income and other losses, net:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Dividend income	**29,342**	47,545
Interest income from		
– Financial assets at fair value through profit or loss	**3,495**	4,940
– Financial assets at fair value through other comprehensive income	**25,499**	29,888
– Bank deposits	**46,045**	85,130
– Amounts due from fellow subsidiaries	**–**	20,796
Other losses	**(139,252)**	(248,116)
Total	**(34,871)**	(59,817)

3. Financial Review *(Continued)*

3.1 Analysis on Consolidated Income Statement *(Continued)*

3.1.1 Overview of Consolidated Income Statement *(Continued)*

Other Income and Other Losses, Net (Continued)

Our other income and other losses mainly include income from dividend income received from listed preference shares and interest income from public bonds and bank deposits, foreign exchange losses and changes in fair value of derivative financial instruments.

Our other income and other losses, net decreased by 41.7% from HK$59.8 million for the year ended 31 December 2018 to HK$34.9 million for the year ended 31 December 2019. While we recorded a decrease in dividend and interest income from listed preference shares, public bonds and bank deposit, we also recorded an expense amounting to HK$100.0 million which was classified as prepayment in previous years because of the completion of finance lease contracts in respect of 13 vessels due to the exercise of early repurchase options by lessees, the above was offset by the decrease in foreign exchange loss.

Our interest income from financial assets at fair value through profit or loss amounted to HK$4.9 million and HK$3.5 million for the years ended 31 December 2018 and 2019, respectively. Such decrease was mainly due to the disposal of wealth management products in 2019.

Our interest income from financial assets at fair value through other comprehensive income amounted to HK$29.9 million and HK$25.5 million for the years ended 31 December 2018 and 2019, respectively. Such decrease was due to the disposal of financial assets at fair value through other comprehensive income which amounted to HK$368.5 million during 2019.

We recorded net foreign exchange loss of HK$297.4 million and HK$27.8 million for the years ended 31 December 2018 and 2019, respectively. The net loss from foreign exchange arose from the translation difference of our cash and cash equivalents in relation to our EUR-denominated bank deposit. The significant decrease in exchange loss was attributable to the the decrease in our assets denominated in EUR during the year.

3. Financial Review *(Continued)*

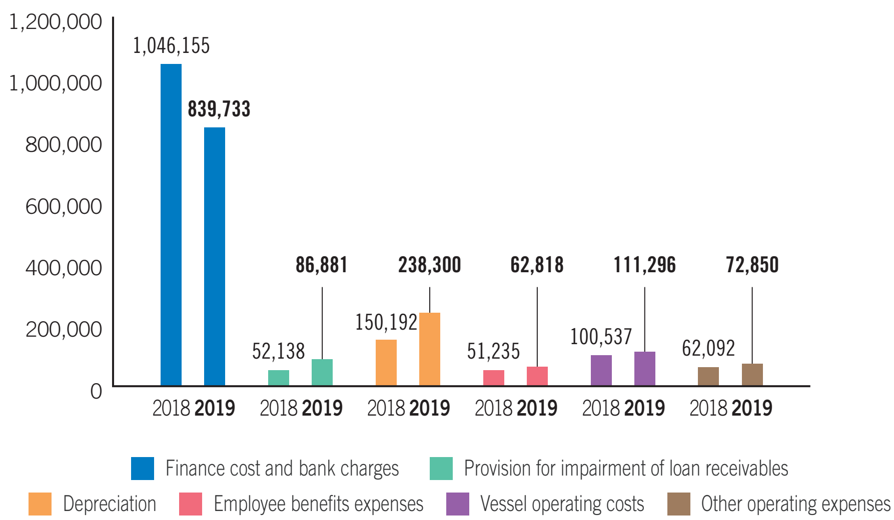
3.1 Analysis on Consolidated Income Statement *(Continued)*

3.1.1 Overview of Consolidated Income Statement (Continued)

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.

Expenses
(HK$'000)



3. Financial Review *(Continued)*

3.1 Analysis on Consolidated Income Statement *(Continued)*

3.1.1 Overview of Consolidated Income Statement *(Continued)*

Finance Costs and Bank Charges

The following table sets out, for the years indicated, a breakdown of our finance costs and bank charges:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Interest and charges on borrowings	**917,757**	1,129,161
Interest and charges on bonds	**–**	19,499
Interest on lease liabilities	**107**	–
Bank charges	**1,537**	1,660
	919,401	1,150,320
Less: finance costs capitalised	**(79,668)**	(104,165)
Total	**839,733**	1,046,155

Our finance costs and bank charges consist of interest and charges on bank borrowings during the year.

Our finance costs and bank charges decreased by 19.7% from HK$1,046.2 million for the year ended 31 December 2018 to HK$839.7 million for the year ended 31 December 2019, primarily due to the decrease in the amount of our average bank borrowings which decreased from HK$23,653.8 million as at 31 December 2018 to HK$20,482.7 million as at 31 December 2019, as the Company raised HK$2,055.6 million by way of initial public offering during the year and the decrease in interest rates as a result of the improvement in the Company's credit rating and financing ability.

Provision for Impairment Loss on Loan Receivables

We review our loan receivables and other receivables portfolio on a regular basis, evaluate any indicators of impairment, and assess our impairment loss in the case of impairment under specific circumstances.

The increase in net provision of impairment loss on loan receivables was primarily due to the Company assessed the expected loss on loan receivables in a prudent manner.

3. Financial Review *(Continued)*

3.1 Analysis on Consolidated Income Statement *(Continued)*

3.1.1 Overview of Consolidated Income Statement (Continued)

Depreciation

Our depreciation expenses represent depreciation charges on property, plant and equipment and right-of-use assets. The following table sets out, for the years indicated, a breakdown of our depreciation expenses:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Vessels	**233,567**	149,062
Office equipment	**583**	680
Motor vehicles	**387**	390
Leasehold improvements	**297**	60
Right-of-use assets	**3,466**	–
Total	**238,300**	150,192

Our depreciation expenses increased by 58.7% from HK$150.2 million for the year ended 31 December 2018 to HK$238.3 million for the year ended 31 December 2019. Such increase was mainly due to the increase in the number of vessels under operating lease arrangement in 2019. The net book value of our vessels under operating lease arrangements increased from HK$5,096.9 million as at 31 December 2018 to HK$7,303.9 million as at 31 December 2019 and the number of vessels under operating lease increased from 22 as at 31 December 2018 to 41 as at 31 December 2019.

Employee Benefits Expenses

Our employee benefits expenses include wages and salaries and other welfare benefits paid to our employees.

The following table sets out, for the years indicated, a breakdown of our employee benefits expenses:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Wages, salaries, and other allowances (including directors' emoluments)	**53,101**	45,824
Retirement benefit costs	**9,717**	5,411
Total	**62,818**	51,235

3. Financial Review *(Continued)*

3.1 Analysis on Consolidated Income Statement *(Continued)*

3.1.1 Overview of Consolidated Income Statement *(Continued)*

Employee Benefits Expenses (Continued)

Our employee benefits expenses increased by 22.6% from HK$51.2 million for the year ended 31 December 2018 to HK$62.8 million for the year ended 31 December 2019, primarily due to the increase in the number of employees and the average wages, salaries and other allowances of our employees in 2019. The number of employees increased from 67 as at 31 December 2018 to 71 as at 31 December 2019.

Vessel Operating Costs

Our vessel operating costs mainly represent the expenses we incurred in operating our vessels under operating lease arrangements, including crew expenses, fuel expenses, ship management fees and vessel insurance.

The following table sets out, for the years indicated, a breakdown of our vessel operating costs.

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Ship management fees with bunkers	**19,381**	19,499
Crew expenses	**51,387**	47,039
Commission	**12,328**	12,055
Insurance	**7,408**	6,125
Services and suppliers	**9,687**	6,444
Repairs and maintenance	**5,563**	3,694
Port charges	**2,122**	2,343
Others	**3,420**	3,338
	111,296	100,537

Our vessel operating costs amounted to HK$100.5 million and HK$111.3 million for the years ended 31 December 2018 and 2019, respectively.

Our vessel operating costs increased which mainly due to the increase in the number of vessels under operating lease arrangements and the increase in crew expenses and ship management fees as our operating leasing business expanded. The number of vessels under operating lease increased from 22 as at 31 December 2018 to 41 as at 31 December 2019.

Other Operating Expenses

Our other operating expenses mainly represent rental and utilities, legal and professional fees, selling and distribution expenses and other expenses such as transportation expenses, office supplies and Listing expenses.

3. Financial Review *(Continued)*

3.1 Analysis on Consolidated Income Statement *(Continued)*

3.1.1 Overview of Consolidated Income Statement *(Continued)*

Other Operating Expenses (Continued)

Our other operating expenses increased by 17.3% from HK$62.1 million for the year ended 31 December 2018 to HK$72.9 million for the year ended 31 December 2019. Such increase was mainly due to the increase in Listing expenses and professional services expenses. Our Listing expenses and relevant legal and professional fee amounted to HK$41.1 million for the year ended 31 December 2019, as compared to HK$25.0 million for the year ended 31 December 2018.

Shares of Results of Joint Ventures

Our shares of results of joint ventures amounted to nil and HK$53.5 million for the years ended 31 December 2018 and 2019, respectively. The increase was primarily due to the increase in profit of our joint ventures as the core business of our joint ventures has commenced in late 2018.

Share of Results of Associates

Our share of results of associates amounted to HK$81.0 million and HK$3.0 million for the years ended 31 December 2018 and 2019, respectively. The decrease in share of results of associates was primarily due to the disposal of investments in two associates, namely CSSC Offshore & Marine Engineering, (Group) Company Limited and Bank of Tianjin Co. Ltd in September 2018.

Income Tax (Expenses)/Credit

Our income tax expenses represent the amount of income tax paid by us in respect of profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate. During the year, our main operating subsidiaries in the PRC and Hong Kong were subject to corporate income tax at a rate of 25% and 16.5% on assessable income, respectively. Our core business is the provision of leasing services which include finance lease and operating lease. Consistent with the industry practice, we structure and operate our ship leasing business through different special purpose vehicles ("**SPVs**"), which are established or incorporated mainly in the Marshall Islands, the BVI, Hong Kong and the PRC, depending on the commercial arrangements of each transaction. During the year, our revenue was mainly generated from these SPVs.

Our relatively low effective tax rate was mainly because the finance lease income and operating lease income generated from our overseas SPVs were not subject to Hong Kong income tax.

Profit for the Year

Our profit for the year increased by HK$185.9 million or 26.3% from HK$706.5 million for the year ended 31 December 2018 to HK$892.4 million for the year ended 31 December 2019. Our net profit margin increased from 33.6% for the year ended 31 December 2018 to 38.9% for the year ended 31 December 2019. The increase in profit was in line with our business expansion. The increase in net profit margin was primarily due to our higher operating efficiency and our improvement in cost control.

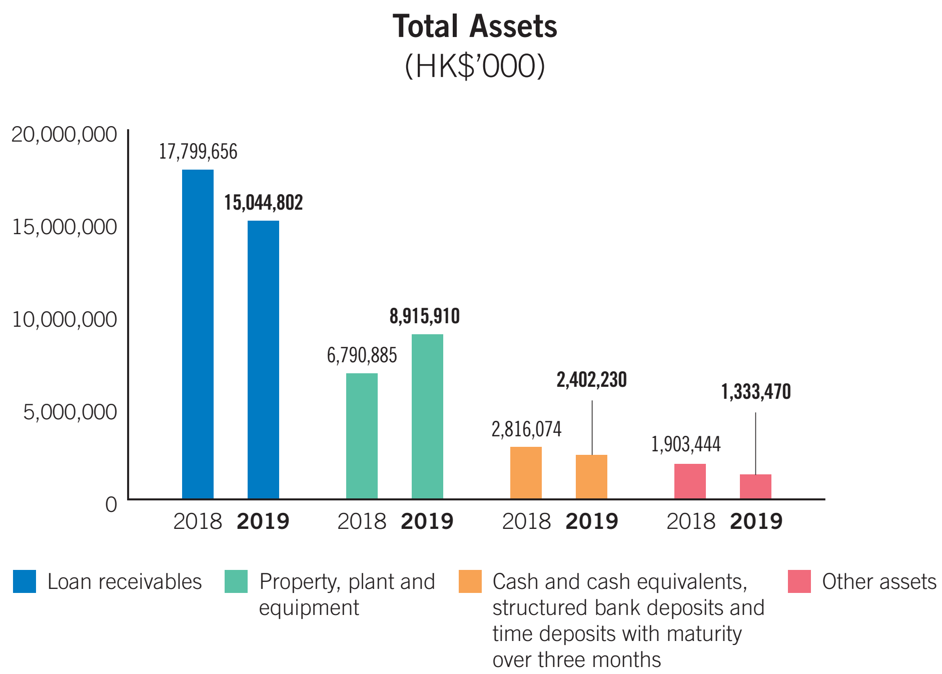
3. Financial Review *(Continued)*

3.2 Analysis on the Consolidated Statement of Financial Position

(HKD in thousands)	For the year ended 31 December 2019	2018	Change
Total assets	**27,696,412**	29,310,059	(5.5%)
Total liabilities	**19,247,168**	23,544,831	(18.3%)
Net assets	**8,449,244**	5,765,228	46.6%

Assets

Our total assets decreased by 5.5% from HK$29,310.1 million as at 31 December 2018 to HK$27,696.4 million as at 31 December 2019.



3. Financial Review *(Continued)*

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

Assets *(Continued)*

Loan Receivables

Our loan receivables comprise (i) loan borrowings; (ii) finance lease receivables; and (iii) loans to joint ventures.

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

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Loan borrowings	**7,632,584**	7,804,116
Finance lease receivables	**6,814,012**	9,489,933
Loans to joint ventures	**598,206**	505,607
Total	**15,044,802**	17,799,656

During the year ended 31 December 2019, there was no major default in the repayment of loan receivables from our customers and none of our loan receivables was written off.

Loan Borrowings

The following table sets out, as at the dates indicated, a breakdown of our loan borrowings:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Secured loan services	**7,847,210**	7,892,193
Impairment loss	**(214,626)**	(88,077)
Net carrying amount	**7,632,584**	7,804,116

3. Financial Review *(Continued)*

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

Assets *(Continued)*

Loan Borrowings (Continued)

The following table sets out, as at the dates indicated, a maturity profile of our loan borrowings, based on the maturity date, net of provision:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Within 1 year	**987,993**	1,010,119
More than 1 year but less than 2 years	**932,942**	630,629
Between 2 to 5 years	**3,023,641**	1,611,565
Over 5 years	**2,688,008**	4,501,803
Total	**7,632,584**	7,804,116

Our loan borrowings decreased from HK$7,804.1 million as at 31 December 2018 to HK$7,632.6 million as at 31 December 2019. The decrease in loan borrowings was mainly due to the continuous repayment of principal amounts made by customers during the year.

Finance Lease receivables

Net finance lease receivables are the gross investment in leases less unearned finance income and accumulated allowance for impairment loss.

The following table sets out, as at the dates indicated, a breakdown of our finance lease receivables:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Finance lease receivables	**5,461,527**	8,137,386
Guaranteed residual values	**2,889,594**	3,966,033
Gross investment in leases	**8,351,121**	12,103,419
Less: Unearned finance income	**(1,224,633)**	(2,261,222)
Net investments in leases	**7,126,488**	9,842,197
Less: accumulated allowance for impairment loss	**(312,476)**	(352,264)
Finance lease receivables – net	**6,814,012**	9,489,933

3. Financial Review *(Continued)*

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

Assets *(Continued)*

Loan Receivables

The following table sets out, as at the dates indicated, a breakdown of our gross investment in finance leases by maturity date:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Gross investment in finance leases		
– Within 1 year	**1,525,107**	1,872,853
– More than 1 year but less than 2 years	**1,922,039**	1,341,362
– Between 2 to 5 years	**2,593,238**	3,720,179
– Over 5 years	**2,310,737**	5,169,025
Total	**8,351,121**	12,103,419

Our net finance lease receivables amounted to HK$9,489.9 million and HK$6,814.0 million as at 31 December 2018 and 31 December 2019, respectively. Such decrease was mainly because of the completion of finance lease contracts in respect of 13 vessels due to the exercise of early repurchase options by lessees during 2019.

During the year, there was no finance lease receivable that was past due but not impaired.

Loans to joint ventures

Loans to joint ventures were unsecured, interest bearing at rates ranging from 4.89% to 5.63% per annum as at 31 December 2019, and repayable on demand.

Property, Plant and Equipment

Our property, plant and equipment comprise construction in progress, vessels held for operating lease, leasehold improvements, office equipment and motor vehicles held for business purposes. As at 31 December 2018 and 31 December 2019, our property, plant and equipment amounted to HK$6,790.9 million and HK$8,915.9 million, respectively.

The increase in our property, plant and equipment during the year was primarily due to the increase in the number of vessels under operating lease arrangements as we entered into new lease agreements with our customers. The number of vessels under operating lease increased from 22 as at 31 December 2018 to 41 as at 31 December 2019.

3. Financial Review *(Continued)*

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

Assets *(Continued)*

Interests in Associates

As at 31 December 2018 and 31 December 2019, our interests in associates amounted to HK$15.9 million and HK$35.6 million, respectively.

The following table sets out, as at the dates indicated, the particulars of our material associates:

Name	Place of incorporation/ registration and operation	Percentage of equity attributable to our Group 31 December 2019	2018	Principal activities
Nor Solan I Pte Ltd	Singapore	**28%**	28%	Chartering services
Nor Solan II Pte Ltd	Singapore	**28%**	28%	Chartering services
Guoxin CSSC (Qingdao) Marine Technology Company Limited (國信中船（青島）海洋科技有限公司)	The PRC	**25%**	–	Marine technology

The increase in our interests in associates from HK$15.9 million as at 31 December 2018 to HK$35.6 million as at 31 December 2019 was mainly due to capital injection to a new associate amounting to HK$16.7 million and the share of profits of our associates during the year.

Interests in Joint Ventures

Interests in joint ventures represent the capital contributed by our Group in joint ventures incorporated in 2016, and the share of results of joint ventures during the year, as at 31 December 2019.

3. Financial Review *(Continued)*

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

Assets *(Continued)*

Prepayments, Deposits, Other Receivables and Other Assets

Our prepayments, deposits and other receivables mainly include prepayments for construction of vessels under finance lease arrangements, vessel operating costs and interest receivables. Our other assets mainly include time deposits with maturity over three months and structured bank deposits.

The following table sets out, as at the dates indicated, a breakdown of our prepayments, deposits, other receivables and other assets:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Prepayments for finance leasing	**–**	34,087
Prepayments for ship managers	**15,567**	16,972
Prepayments for upfront fee	**–**	146,710
Interest receivables	**71,021**	54,088
Structured bank deposits	**335,653**	312,156
Time deposits with maturity over three months	**171,395**	1,579,858
Other receivables	**78,107**	12,246
Total	**671,743**	2,156,117

Our prepayments, deposits, other receivables and other assets decreased by 68.8% from HK$2,156.1 million as at 31 December 2018 to HK$671.7 million as at 31 December 2019, primarily due to the decrease in our time deposits with maturity over three months. Our prepayments decreased from HK$197.8 million as at 31 December 2018 to HK$15.6 million as at 31 December 2019 as our customers' lease payment obligations commenced and the relevant prepayments were transferred to finance lease receivables.

Amounts due from Associates, Fellow Subsidiaries and Joint Ventures

Our amounts due from associates, fellow subsidiaries and joint ventures amounted to HK$138.9 million and HK$29.0 million as at 31 December 2018 and 31 December 2019, respectively.

3. Financial Review *(Continued)*

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

Assets *(Continued)*

Amounts due from Associates, Fellow Subsidiaries and Joint Ventures (Continued)

The following table sets out, as at the dates indicated, a breakdown of our amounts due from associates, fellow subsidiaries and joint ventures:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Amounts due from fellow subsidiaries	**220**	114,098
Amounts due from associates	**23,968**	24,841
Amounts due from joint ventures	**4,776**	–
Total	**28,964**	138,939

Investments

Our investments mainly consist of preferred shares, bonds and wealth management products issued by the PRC banks or corporate issuers which provide fixed income and with a relatively low risk profile.

3. Financial Review *(Continued)*

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

Assets *(Continued)*

Investments (Continued)

Our finance department and accounting and treasury department are primarily responsible for overseeing our investment activities, and we have standard policies and procedures for the approval and carrying out of financial transactions. We generally invest in products that provide moderate and stable returns and avoid high-risk products, and we generally hold our bonds till maturity. Before making any investment decisions, we consider, among others, our investment objective, the risk, return and liquidity of the investments as well as the reputation of the issuers. We maintain strict risk controls and periodically review the performance of our investments.

The following table sets out, as at the dates indicated, a breakdown of our investments by category:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Financial assets at fair value through profit or loss	**39,460**	385,659
Financial assets at fair value through other comprehensive income	**777,224**	1,071,174
Total	**816,684**	1,456,833

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss represent investments in fixed income wealth management products which mainly consisted of listed securities and bonds, that were acquired principally for the purpose of selling in the short term.

3. Financial Review *(Continued)*

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

Assets *(Continued)*

Investments (Continued)

Financial Assets at Fair Value through Profit or Loss *(Continued)*

We seek to have a diversified investment portfolio. Our financial assets at fair value through profit or loss decreased from HK$385.7 million as at 31 December 2018 to HK$39.5 million as at 31 December 2019 since we disposed an investment portfolio in an aggregate principal amount of HK$407.0 million during the year ended 31 December 2019.

Financial Assets at Fair Value through Other Comprehensive Income

Our financial assets at fair value through other comprehensive income mainly represent the preferred shares and fixed income bonds and investments in fixed income wealth management products.

The following table sets out, as at the dates indicated, a breakdown of our financial assets at fair value through other comprehensive income:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Equity instrument		
– Listed perpetual securities	**574,198**	520,614
Debt instrument		
– Listed debts	**203,026**	393,934
– Unlisted debt	**–**	156,626
Total	**777,224**	1,071,174

Our financial assets at fair value through other comprehensive income of HK$777.2 million as at 31 December 2019 mainly represented our investments in listed perpetual securities and debt instruments in the aggregate principal amount of HK$574.2 million and 203.0 million, respectively. The decrease was mainly due to the disposal of debt instruments amounting to HK$368.5 million during the year.

3. Financial Review *(Continued)*

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

Assets *(Continued)*

Derivative Financial Instruments

We enter into derivative financial instruments to manage exchange rate and interest rate risks and for cash management purposes. Our derivative financial instruments mainly represented interest rate swap and cross currency swap.

The following table sets out, as at the dates indicated, a breakdown of our derivative financial instruments:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Interest rate swap	**(95,602)**	–
Cross currency swap	**(6,483)**	27,623
Total	**(102,085)**	27,623

We recorded derivative financial liabilities of HK$102.1 million for our interest rate swap and cross currency swap contracts as at 31 December 2019, which was due to the decrease in mark-to-market value of such derivative financial instruments as at 31 December 2019.

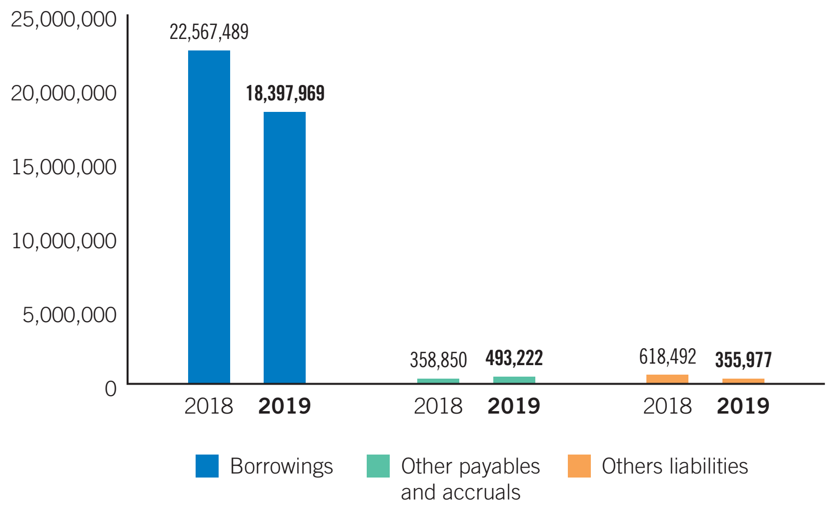
3. Financial Review *(Continued)*

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

Liabilities

Our total liabilities decreased by 18.2% from HK$23,544.8 million as at 31 December 2018 to HK$19,247.2 million as at 31 December 2019.

Total Liabilities
(HK$'000)



Borrowings

Our borrowings represent bank borrowings. Our borrowings decreased by 18.5% from HK$22,567.5 million as at 31 December 2018 to HK$18,398.0 million as at 31 December 2019, mainly due to the repayment of borrowings in 2019.

The following table sets out, as at the dates indicated, a breakdown of our bank borrowings by maturity date:

	As at 31 December	
	2019 HK$'000	2018 HK$'000
On demand and within 1 year	**5,621,747**	7,159,770
More than 1 year but less than 2 years	**1,711,312**	1,566,560
Between 2 to 5 years	**6,017,514**	1,177,954
After 5 years	**5,047,396**	12,663,205
Total	**18,397,969**	22,567,489

3. Financial Review *(Continued)*

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

***Liabilities** (Continued)*

Borrowings (Continued)

Our bank borrowings were secured by certain of our vessels. As at 31 December 2018 and 31 December 2019, our bank borrowings were secured by our vessels with net carrying amount of HK$2,745.7 million and 2,514.7 million, respectively. The weighted average interest rates for the years ended 31 December 2018 and 2019 ranged from 2.87% to 4.98%, and 2.69% to 4.60%.

The Directors confirm that there was no delay in the repayment of or default in any of our bank borrowings during the year, and we did not experience any difficulty in obtaining banking facilities with commercially acceptable terms during the year.

Amounts due to Related Companies, Fellow Subsidiaries, a Joint Venture and a Non-Controlling Interest

Our amounts due to related companies, fellow subsidiaries, a joint venture and a non-controlling interest amounted to HK$597.8 million and 204.2 million as at 31 December 2018 and 31 December 2019, respectively.

The following table sets out, as at the dates indicated, a breakdown of our amounts due to fellow subsidiaries, a joint venture, a non-controlling interest and related companies:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Amounts due to related companies	**–**	70,433
Amounts due to fellow subsidiaries	**20,179**	439,013
Amount due to a joint venture	**96,118**	–
Amount due to a non-controlling interest	**87,922**	88,397
Total	**204,219**	597,843

The amounts due to related companies and a joint venture are unsecured, interest free, repayable on demand and denominated in HK$ and US$, which are non-trade nature.

The amounts due to fellow subsidiaries are unsecured, interest bearing at rates ranging from nil to 0.01% and mainly denominated in US$. As at 31 December 2018, except for the amounts in aggregate of HK$346,550,000, which were repayable within one year, and which were non-trade nature, the remaining balance was not repayable within one year from the end of each reporting periods. All the remainings were trade nature.

The amount due to a non-controlling interest is unsecured, interest free, repayable on demand and denominated in US$, which are non-trade nature.

3. Financial Review *(Continued)*

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

Liabilities *(Continued)*

Other Payables and Accruals

Our other payables and accruals mainly comprise accrued expenses, deposits received, loan interest payable and Listing expenses.

Our deposits received represent the amount paid by our customers to secure their obligations and liabilities under the lease agreements. Our loan interest payable represents interest on bank borrowings.

As at 31 December 2018 and 31 December 2019, our other payables and accruals amounted to HK$358.9 million and HK$493.2 million, respectively.

The following table sets out, as at the dates indicated, a breakdown of our other payables and accruals:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Accruals	**17,825**	15,660
Deposits received	**438,732**	262,168
Other payables	**36,665**	81,022
Total	**493,222**	358,850

Our deposits received amounted to HK$262.2 million and HK$438.7 million as at 31 December 2018 and 31 December 2019, respectively. We generally require deposits from our customers before completion of the construction of vessels. When vessels are delivered to our customers, the deposits will be used to offset their lease payments. Our deposits increased as more vessels are under construction as at 31 December 2019, compared to 31 December 2018.

3. Financial Review *(Continued)*

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

Liabilities *(Continued)*

Net Assets

Our net assets increased by 46.6% from HK$5,765.2 million as at 31 December 2018 to HK$8,449.2 million as at 31 December 2019, mainly due to the increase in our retained profits and share capital.

Asset Quality

We adopt the three-stage model for impairment loss based on changes in the credit quality of our loan receivables since initial recognition. Financial instrument that is not credit-impaired on initial recognition is classified in "stage 1". The expected credit loss is measured on a 12-month basis. If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to "stage 2". Financial instrument that is classified as stage 2 is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis. If the financial instrument is credit-impaired, the financial instrument is then transferred to "stage 3". The expected credit loss is measured on lifetime basis. In stages 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial asset subsequently becomes credit-impaired (stage 3), we are required to calculate the interest income by applying the effective interest method in subsequent reporting periods to the amortised cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

The provision for impairment loss recognised in the period is impacted by a variety of factors, including the transfers between stage 1 and stage 2 or stage 3 due to loan receivables experiencing a significant increase (or decrease) of credit risk in the period, and the subsequent "step up" (or "step down") between 12-month and lifetime expected credit loss, the additional provisions for new financial instruments recognised, as well as releases for loan receivables derecognised in the period, and loan receivables derecognised and write-offs of provisions related to assets that were written off during the period.

3. Financial Review *(Continued)*

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

Asset Quality *(Continued)*

The following tables explain the provision for impairment of loan receivables in each stage at the end of the year:

	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Provision for impairment of loan receivables as of 31 December 2019	**37,121**	**228,389**	**261,712**	**527,222**
Loan receivables as of 31 December 2019	**11,872,063**	**2,822,695**	**877,266** (Note)	**15,572,024**

Note: HK$325,138,000 of which were overdued more than 90 days.

As at 31 December 2019, we made provision for impairment loss on loan receivables of HK$527.2 million, which comprised 12-month expected credit loss of HK$37.1 million for assets under stage 1 and lifetime expected credit loss of HK$228.4 million and HK$261.7 million for assets under stage 2 and stage 3, respectively.

Write-offs

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

We did not write off any loan receivables during the year.

3. Financial Review *(Continued)*

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

Liquidity and Working Capital

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

During the year, the Group primarily relied on bank borrowings to finance its capital expenditure and its financial and liquidity needs derived from its growing business operation. Since the Group is principally engaged in the provision of leasing and loan services, which are capital intensive in nature, the Group requires substantial working capital for its daily operations.

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

Cash Flow

The following table sets out, for the years indicated, a summary of our consolidated statement of cash flow:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Operating profit before changes in working capital	**2,030,418**	1,695,430
Net cash generated/(used in) from operating activities	**3,376,861**	(1,415,265)
Net cash (used in)/generated from investing activities	**(464,239)**	4,580,329
Net cash used in financing activities	**(1,910,545)**	(3,203,392)
Net increase/(decrease) in cash and cash equivalents	**1,002,077**	(38,328)
Cash and cash equivalents at the beginning of the year	**924,060**	1,018,922
Effect of foreign exchange rate changes on cash and cash equivalents	**(30,955)**	(56,534)
Cash and cash equivalents at the end of the year	**1,895,182**	924,060

3. Financial Review *(Continued)*

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

Liquidity and Working Capital *(Continued)*

Net Cash Generated from Operating Activities

Our cash generated from operating activities mainly represents lease income from our customers, whereas our cash used in operating activities mainly represents cash used in the payment of interests and expenses. Net cash flow from operating activities reflects profit before tax adjusted for non-cash and non-operating items.

For the year ended 31 December 2019, our net cash generated from operating activities amounted to HK$3,376.9 million. Our profit before income tax was HK$904.2 million, operating profit before changes in working capital was HK$2,030.4 million and net cash generated from operations was HK$4,198.6 million. The positive adjustment for movements in working capital of HK$2,168.2 million was primarily attributable to proceeds on de-recognition of finance lease receivables of HK$2,546.7 million, which was partially offset by the increase in amounts due from fellow subsidiaries of HK$308.2 million.

Net Cash used in Investing Activities

During the year, our cash flow generated from investing activities was primarily attributable to the proceeds from the disposal of associates, convertible bonds receivables and other financial assets and dividend income received from financial assets, whereas our cash flow used in investing activities was mainly attributable to the payment for the purchase of vessels and property, plant and equipment.

For the year ended 31 December 2019, our net cash used in investing activities amounted to HK$464.2 million, primarily attributable to the payment of purchase of vessels and property, plant and equipment of HK$2,439.0 million, which was partially offset by increase in the deposits with maturity over three months of HK$1,408.5 million.

Net Cash used in Financing Activities

During the year, our cash flow used in financing activities was primarily attributable to the proceeds from bank borrowings and issue of shares, whereas our cash used in financing activities was primarily attributable to the payment of interests on bank loans and bank charges and the repayment of bank borrowings.

For the year ended 31 December 2019, our net cash used in financing activities amounted to HK$1,910.5 million, primarily attributable to the repayment of bank borrowings of HK$11,859.8 million and the payment of interim dividends of HK$184.1 million, which was partially offset by the proceeds from new bank borrowings of HK$8,111.5 million and net proceeds from issuance of ordinary share under public offering of HK$2,055.6 million. We obtained new bank borrowings as we entered into new leasing projects.

4. Risk Management

4.1 Interest Rate Risk

The Group's exposure to interest rate risk arises primarily from its bank borrowings with floating interest rate which expose the Group to cash flow interest rate risk. The Board approves strategy to manage and control the interest rate risk, the Group's CFO oversees the overall interest rate risk exposure, and takes effective measures to ensure the risk exposure is duly controlled. The Group hedges the cash flow volatility risk as the result of the interest rate fluctuation through derivatives such as interest rate swap contracts. The Group switches the floating rate into fixed rate through interest rate swap contract to effectively match the future fixed lease income, and fix the interest spread. The interest rate swap is settled upon maturity. The Group will settle the difference between the fixed and floating interest rate on a net basis. The Group's hedge relationship between interest rate swaps and the designated hedged items were highly effective. In 2019, the Group has traded several interest rate swap contracts with banks to manage and control the interest rate risk.

Interest rate profile

The following table details the interest rate profile of the Group's net borrowing at the end of years indicated:

	2019 **HK$'000**	2018 HK$'000
Variable rate balances		
Bank borrowings	**15,333,159**	19,980,241

Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's finance costs by HK$128,032,000 (2018: HK$166,835,000). Other components of equity would not be affected by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for both years.

4. Risk Management *(Continued)*

4.2 Currency Risk

The Group has foreign currency sales, purchases and fund remittances, which expose the Group to foreign currency risk. Since the fluctuation of US$ and HK$ is minimal under the Linked Exchanged Rate System, the Directors consider the Group mainly exposes to the currency risk of Euro ("**EUR**"), Renminbi ("**RMB**") and Singapore dollars ("**SGD**"). The Board approves strategy to manage and control the foreign exchange risk, the Group's CFO oversees the overall foreign exchange exposure, and takes effective measures to ensure the risk exposure is duly controlled. The Group manages the foreign exchange risks by performing regular reviews of the Group's net foreign exchange exposure.

The carrying amounts of the Group's significant foreign currency denominated monetary assets and liabilities as at 31 December 2019 and 2018, are as follows:

	As at 31 December 2019			As at 31 December 2018		
	EUR HK$'000	**SGD HK$'000**	**RMB HK$'000**	EUR HK$'000	SGD HK$'000	RMB HK$'000
Prepayments, deposits and other receivables	**–**	**–**	**12,388**	–	1,585	13,789
Amounts due from fellow subsidiaries	**–**	**–**	**–**	369	–	–
Amounts due from associates	**–**	**23,968**	**–**	–	24,841	–
Structured bank deposits	**–**	**–**	**335,653**	–	–	312,156
Time deposits with maturity over three months	**–**	**–**	**–**	1,381,624	–	–
Cash and cash equivalents	**1,351,998**	**482**	**123,889**	250,633	2,399	54,041
Other payables and accruals	**–**	**–**	**(4,577)**	–	–	(9,938)
Amounts due to fellow subsidiaries	**–**	**–**	**–**	–	–	(15,666)
Net exposure	**1,351,998**	**24,450**	**467,353**	1,632,626	28,825	354,382

The following table details the Group's sensitivity to a 5% increase in the relevant functional currencies against HK$ as at 31 December 2019. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation for 5% change in foreign currency rates during the year. A positive/negative number indicates an increase/a decrease in profit for the year where respective functional currencies strengthening 5% as at 31 December 2019. During the year, for a 5% weakening of respective functional currencies against HK$, there would be an equal but opposite impact on the profit for the year.

	2019 HK$'000	2018 HK$'000
EUR	**56,446**	68,162
SGD	**1,021**	1,203
RMB	**19,512**	14,795

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Yang Li（楊力）, aged 51, is the chairman of the Board, and was appointed as a Director in September 2013 and re-designated as an executive Director in September 2018. Mr. Yang is primarily responsible for overseeing our general management, strategic development, investment, human resources, project assessment and compliance.

Mr. Yang has over 25 years' experience in the marine industry. From July 1991 to February 1995, he served in Guangzhou Shipyard Company Limited*（廣州造船廠有限公司）, where his last position was section officer. From February 1995 to May 2013, he served in various positions in Guangzhou Shipyard International Company Limited (now known as CSSC Offshore & Marine Engineering (Group) Company Limited ("**CSSC Offshore & Marine Engineering**")), a company dually listed on the Main Board of the Stock Exchange (stock code: 317) and the Shanghai Stock Exchange (stock code: 600685), where his last position was deputy general manager. From May 2013 to September 2013, he served in CSSC Group as the deputy chief officer of the accounting and finance department. From June 2013 to September 2018, he also served as a director of CSSC Offshore & Marine Engineering.

Mr. Yang graduated from Harbin Shipbuilding Engineering College*（哈爾濱船舶工程學院）(now known as Harbin Engineering University（哈爾濱工程大學）) in the PRC in July 1991 and obtained a master's degree in business administration from Wright State University in the United States in June 2006.

Mr. Hu Kai（胡凱）, aged 51, was appointed as a Director in August 2017 and re-designated as an executive Director in September 2018. He is also the general manager of the Company. Mr. Hu is primarily responsible for assisting the chairman of the Board in the overall management of our general administration, internal control and audit, information technology and publicity.

Mr. Hu has over 25 years' experience in the marine industry. From August 1992 to November 2000, he worked in Jiangnan Shipbuilding (Group) Company Limited*（江南造船（集團）有限公司）, where he last served in the business department. From November 2000 to November 2011, he served in various positions in China Shipbuilding Trading Company*（中國船舶工業貿易公司）, where his last position was assistant general manager. From December 2011 to August 2017, he was the deputy general manager of China Shipbuilding Trading Co., International Ltd.*（中船國際貿易有限公司）.

Mr. Hu graduated from Huazhong Polytechnic University*（華中理工大學）(now known as the Huazhong University of Science and Technology（華中科技大學）) in the PRC in June 1992 and obtained a master's degree in business administration from the China Europe International Business School（中歐國際工商學院）in the PRC in September 2010.

Non-Executive Directors

Mr. Li Wei（李巍）, aged 49, is a non-executive Director appointed in July 2019.

Mr. Li is currently serving as a deputy general manager of China Re Asset Management Company Ltd.,（中再資產管理股份有限公司）and the chairman of China Re Asset Management (Hong Kong) Company Limited（中再資產管理（香港）有限公司）. He is also the general manager of the strategic customer department of China Reinsurance (Group) Corporation（中國再保險（集團）股份有限公司）, a company listed on the Main Board of the Stock Exchange (stock code: 1508), and a group leader of the preparatory team of China Reinsurance Overseas (Holdings) Corporation（中國再保險海外（控股）有限公司）.

Mr. Li was the deputy general manager of the sales management department of Huatai Property Insurance Co., Ltd.（華泰財產保險股份有限公司）, the chief business officer of Sun Life Everbright Life Insurance Co., Ltd.（光大永明人壽保險有限公司）, the deputy general manager of Sun Life Everbright Asset Management Co., Ltd.（光大永明資產管理股份有限公司）, the deputy general manager of China Continent Property & Casualty Insurance Company（中國大地財產保險股份有限公司）and the supervisor of the strategic customer department of China Reinsurance (Group) Corporation（中國再保險（集團）股份有限公司）.

Mr. Li obtained a master's degree in industrial economics from Harbin Engineering University in March 2003 and an executive master of business administration from Peking University in July 2009.

Mr. Zhong Jian（鍾堅）, aged 57, is a non-executive Director appointed in September 2019.

Mr. Zhong is currently serving as an employee representative director and the director of the operating management department of CSSC Group, and a supervisor of China CSSC Holdings Ltd.（中國船舶工業股份有限公司）, which is a subsidiary of CSSC Group.

Mr. Zhong previously served as the deputy general manager of Guangzhou Shipyard International Co., Ltd.*（廣州廣船國際股份有限公司）, the deputy general manager of CSSC Properties Ltd.*（中船置業有限公司）, the deputy general manager of CSSC Investment Development Co., Ltd.（中船投資發展有限公司）, and the chairman of CSSC Guangzhou Huangpu Shipbuilding Co., Ltd.*（廣州中船黃埔造船有限公司）.

Mr. Zhong obtained a master's degree in business administration from the China Europe International Business School（中歐國際工商學院）in the PRC in 1994.

Mr. Zou Yuanjing（鄒元晶）, aged 58, is a non-executive Director appointed in September 2019.

Mr. Zou is currently serving as a director of Shanghai Waigaoqiao Shipbuilding Co., Ltd.*（上海外高橋造船有限公司）, which is a subsidiary of CSSC Group.

Mr. Zou previously served as an assistant to general manager and the deputy general manager of Jiangnan Shipyard (Group) Co., Ltd.（江南造船（集團）有限責任公司）, the general manager of Shanghai Lupu Bridge Investment Development Co., Ltd.（上海盧浦大橋投資發展有限公司）, and the deputy general manager of Shanghai Jiangnan Changxing Heavy Industry Co., Ltd.*（上海江南長興重工有限責任公司）.

Mr. Zou obtained a bachelor's degree in naval architecture and ocean engineering from Harbin Engineering University（哈爾濱工程大學）in the PRC in 1984.

Independent Non-Executive Directors

Dr. Wong Yau Kar David（黃友嘉）, ***GBS, JP***, aged 62, is an independent non-executive Director appointed in May 2019. Dr. Wong is primarily responsible for overseeing the management of our Group independently.

Owing to his past and current engagements and social commitments, Dr. Wong is experienced in corporate management and administration, corporate finance as well as public policy and research on monetary and economic aspects. He has been serving as an independent non-executive director of a number of listed companies, including Huayi Tencent Entertainment Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 419), since December 2000, Shenzhen Investment Limited, a company listed on the Main Board of the Stock Exchange (stock code: 604), since June 2013, Sinopec Kantons Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 934), since March 2014, Redco Properties Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1622), since January 2014, and Guangnan (Holdings) Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1203), since November 2017.

Dr. Wong was an independent non-executive director of Concord New Energy Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 182), from December 2006 to June 2018. He was also an independent non-executive director of Yunfeng Financial Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 376), from December 2012 to November 2017. Apart from his directorships in listed companies, Dr. Wong was a director of United Oversea Enterprises Limited, a company principally engaging in the distribution of industrial machinery and equipment, from 1996 to 2007.

Dr. Wong has been a Hong Kong deputy of the National People's Congress since 2013. He has served in a number of positions in various sectors of the Hong Kong government, including chairman of the Mandatory Provident Fund Schemes Authority since March 2015, member of the Chief Executive's Council of Advisers on Innovation and Strategic Development since March 2018, member of the Financial Leaders Forum since August 2017, and member of the Exchange Fund Advisory Committee since November 2011. His current appointments in social organisations include permanent honorary president of The Chinese Manufacturers' Association of Hong Kong, deputy chairman of the Hong Kong Institute of Directors, and vice chairman of the Hong Kong Professionals and Senior Executives Association.

Dr. Wong was appointed as a Justice of the Peace in 2010 and was awarded the Gold Bauhinia Star in 2017.

Dr. Wong was awarded a doctoral degree in economics by the University of Chicago in the United States in August 1987. He was also awarded honorary fellowships by Lingnan University in Hong Kong in October 2012, by the Vocational Training Council of Hong Kong in December 2013, and by Baptist University in Hong Kong in January 2018.

Directors and Senior Management

Mdm. Shing Mo Han Yvonne（盛慕嫻）, ***BBS, JP***, aged 64, is an independent non-executive Director appointed in May 2019. Mdm. Shing is primarily responsible for overseeing the management of our Group independently.

Mdm. Shing is currently serving as an independent non-executive director of China Resources Pharmaceutical Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3320). She was a senior adviser of Deloitte Touche Tohmatsu in Hong Kong until March 2019.

Mdm. Shing is a member of the 10th, 11th and 12th Jiangsu Provincial Committee of the Chinese People's Political Consultative Conference. She is a founding member of the Association of Women Accountants (Hong Kong) Limited. She is currently the vice chair-lady of the Taxation Committee of the Hong Kong General Chamber of Commerce and a member of the Chinese General Chamber of Commerce, Hong Kong.

Mdm. Shing's current public appointments include treasurer of the Council of the Hong Kong Academy for Performing Arts, member of the Corruption Prevention Advisory Committee of the Independent Commission Against Corruption, member of the Antiquities Advisory Board, member of the Communications Authority, member of the Advisory Committee on Built Heritage Conservation, and court member of the Hong Kong Polytechnic University.

Mdm. Shing was appointed as a Justice of the Peace in 2013 and was awarded the Bronze Bauhinia Star in 2017. She was named as one of the China's National Hundred Outstanding Women Entrepreneurs by China Association of Women Entrepreneurs*（中國女企業家協會）in October 2006.

Mdm. Shing graduated from the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) and obtained a higher diploma in accountancy. She is a 2016/2017 university fellow of the Hong Kong Polytechnic University. She is also a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Secretaries and Administrators.

Mr. Li Hongji (李洪積), aged 63, is an independent non-executive Director appointed in May 2019. Mr. Li is primarily responsible for overseeing the management of our Group independently.

Mr. Li has been serving as a partner and practicing lawyer in Commerce & Finance Law Offices (通商律師事務所) since 2006.

Mr. Li is a registered arbitrator in a number of arbitration centres, including China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會), Arbitration Center Across The Straits (海峽兩岸仲裁中心), China Maritime Arbitration Commission (中國海事仲裁委員會), Beijing Arbitration Commission (北京仲裁委員會), Shanghai International Arbitration Center (上海國際仲裁中心) and Qingdao Arbitration Commission (青島仲裁委員會). He is currently serving as a part-time lecturer of the master's degree programme in Peking University Law School (北京大學法學院).

Mr. Li obtained a bachelor's degree in law from Peking University (北京大學) in the PRC in July 1982 and a master's degree in law from China University of Political Science and Law (中國政法大學) in the PRC in July 1987. He became a qualified lawyer of the PRC in 1997 and was admitted to practise as an attorney and counsellor at law in the courts of record of New York in the United States in 1994.

SENIOR MANAGEMENT

Mr. Hu Kai (胡凱) is an Executive Director and the general manager of the Company. For the biography of Mr. Hu, see "Directors – Executive Directors" in this section.

Mr. Bao Weidong (鮑偉東), aged 58, is the deputy general manager of the Company. Mr. Bao is primarily responsible for overseeing our asset management activities.

Mr. Bao has over 30 years' experience in the marine industry. From August 1982 to May 2003, he served in various positions in Hudong-Zhonghua Shipbuilding (Group) Company Limited* (滬東中華造船(集團)有限公司), where his last position was assistant general manager. He then served as the deputy general manager and later as the general manager of Marinequip China Company Limited (泛華設備有限公司) from May 2003 to May 2013, and as the deputy general manager of the European branch office of CSSC Group from March 2004 to May 2005. He joined China United Shipbuilding Company Limited in December 2009, where he served as an assistant to general manager until May 2013. He has been the deputy general manager of China United Shipbuilding Company Limited since May 2013. He joined our Group in November 2013.

Mr. Bao obtained a bachelor's degree in ship engineering from Shanghai Jiao Tong University (上海交通大學) in the PRC in July 1982 and a bachelor's degree in industrial management engineering from Zhenjiang Shipbuilding College (鎮江船舶學院) (now known as Jiangsu University of Science and Technology (江蘇科技大學)) in the PRC in July 1987.

Ms. Li Jun（李峻）, aged 47, is the chief accountant of the Company as well as the general manager of our finance department. Ms. Li is primarily responsible for assisting our general manager in the overall management of our accounting matters, financing and capital operations.

Ms. Li served in the business department of Guangzhou Shipyard Company Limited*（廣州造船廠有限公司）as a sales representative from July 1994 to March 1995. From March 1995 to July 2011, she served in various positions, including supervisor, assistant to executive and deputy chief officer of the finance department, in CSSC Offshore & Marine Engineering. She joined CSSC Chengxi Voyage Ship (Guangzhou) Company Limited*（中船澄西遠航船舶（廣州）有限公司）(now known as CSSC Chengxi Ship (Guangzhou) Company Limited*（中船澄西船舶（廣州）有限公司）) as the vice general accountant in July 2011, and has been serving as the general accountant since May 2013. Since June 2018, she has been serving as a non-executive director of Bank of Tianjin Co., Ltd（天津銀行股份有限公司）, a company listed on the Main Board of the Stock Exchange (stock code: 1578). She joined our Group in February 2017.

Ms. Li obtained a bachelor's degree in economics from the Beijing Institute of Commerce（北京商學院）(now known as Beijing Technology and Business University（北京工商大學）) in July 1994 and a master's degree in engineering from Huazhong University of Science and Technology（華中科技大學）in December 2010. In December 2002, she obtained the Certificate for Passing all the Required Subjects of the National Uniform CPA Examination.

Mr. Chen Hui（陳慧）, aged 44, is the deputy general manager of the Company and the general manager of our human resources and administration department. Mr. Chen is primarily responsible for assisting in managing our human resources, administration, planning and information technology.

Mr. Chen joined Jiangnan Shipbuilding (Group) Company Limited*（江南造船（集團）有限公 司）in July 1998, where he last served as the deputy executive of the general office until August 2007. He served in CSSC Group from February 2000 to August 2007, where his last position was the head of the legal division of the general office. In August 2007, he joined CSSC Jiangnan Heavy Industry Company Limited*（中船江南重工股份有限公司）(now known as CSSC Science & Technology Company Limited*（中船科技股份有限公司）), a company listed on the Shanghai Stock Exchange (stock code: 600072), where he served as the assistant general manager and the secretary of the board of directors until October 2011 and as the secretary of the board of directors and the chairman of the labour union from October 2011 to December 2017. He joined our Group in December 2017.

Mr. Chen obtained a bachelor's degree in law from Xiamen University（廈門大學）in the PRC in July 1998 and a master's degree in law from the Graduate School of Chinese Academy of Social Sciences（中國社會科學院研究生院）in the PRC in June 2009. He was awarded the Certificate of Legal Professional Qualification（法律職業資格證書）of the PRC in February 2000.

* *For identification purpose only*

Director's Report

The Board is pleased to present the report and the audited consolidated financial statements of the Group for the year ended 31 December 2019 (the "**Reporting Period**").

Global Offering

The Company was incorporated in Hong Kong on 25 June 2012 as a limited liability company. The Shares were listed on the Stock Exchange on the Listing Date.

Principal Activities

The Company's principal activities are the provision of leasing services, which include finance lease and operating lease. Such leasing services primarily focus on ship leasing. An analysis of the Group's business by business segment for the year ended 31 December 2019 is set out in note 5 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2019 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 83 and 84 of this annual report, respectively.

Final Dividend

To share the fruitful results of the Group among all Shareholders, the Board recommends the payment of a final dividend of HK$0.05 per Share out of the distributable reserve of the Company in respect of the year ended 31 December 2019. The date of closure of the register of members of the Company regarding the entitlement of final dividend will be published in due course. The proposed final dividend is expected to be paid on or before 30 June 2020 following approval at the Company's forthcoming annual general meeting.

Business Review

A fair review of the Group's business is provided in the section headed "Management Discussion and Analysis" of this annual report.

Financial Overview

A summary of the Group's results and its assets and liabilities for the past five financial years is set out on pages 5 to 7 of this annual report. This summary does not form part of the audited consolidated financial statements.

Use of proceeds from the Listing

The Shares of the Company were successfully listed on the Stock Exchange on the Listing Date, and 1,534,020,000 Shares were issued under the global offering at the price of HK$1.34 per issued 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 31 December 2019, the Company had utilised approximately HK$1,061.4 million to strengthen the capital base of the Group's ship leasing business, approximately HK$274.6 million to establish the capital base of marine clean energy equipment (including marine LNG/LPG units), and approximately HK$197.5 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.

Major Customers and Suppliers

Major Customers

For the year ended 31 December 2019, the transaction amounts of the top five customers of the Group accounted for 63.1% of the Group's total revenue (2018: 66.9%), while the transaction amounts of the single largest customer of the Group accounted for 26.0% of the Group's total revenue (2018: 31.7%).

Major Suppliers

Because of the nature of our business, we have no major suppliers.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 13 to the consolidated financial statements.

Share Capital

Details of movements in the Company's share capital during the Reporting Period are set out in note 26 to the consolidated financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the Reporting Period are set out in the consolidated statement of changes in equity on pages 87 and 180 of this annual report, respectively.

Reserves Available for Distribution

As at 31 December 2019, the Company's reserves available for distribution calculated under Part 6 of the Companies Ordinance (Cap. 622, Laws of Hong Kong) (the "**Companies Ordinance**") amounted to approximately HK$1,913,974,000 (2018: HK$1,218,828,000).

Bank Borrowings

Particulars of bank borrowings of the Group as at 31 December 2019 are set out in note 24 to the consolidated financial statements.

Disclosure Pursuant to Rule 13.21 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")

On 20 August 2019, the Company as borrower, confirmed the acceptance of the facility letter issued by a bank as lender in respect of the general banking facilities in an aggregate amount of US$600,000,000, comprising (i) a term loan facility of an amount up to US$400,000,000, which shall be repaid in full in three years from the date of the facility letter; and (ii) a revolving loan facility of an amount up to US$200,000,000, which shall be repaid or reborrowed at the end of each interest period. Pursuant to the facility letter, CSSC Group shall remain as the single largest Shareholder and shall be wholly owned by the State-owned Assets Supervision and Administration Commission. A breach of any of the aforesaid conditions will constitute an event of default and all amounts due by the Company to the lender pursuant to the facility letter shall become immediately due and payable and the lender shall not be required to make any further advances.

Disclosure Pursuant to Rule 13.21 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") *(Continued)*

On 6 November 2019, the Company, as borrower, entered into two loan agreements with a bank as lender, pursuant to which the lender agreed to grant to the Company general banking facilities in an aggregate amount of US$41,440,000, which shall be repaid in full in 10 years from the respective dates of the loan agreements. Pursuant to the loan agreements, except with the prior written consent of the lender, any change in the legal or beneficial ownership or control of the Company will constitute an event of default and all amounts accrued or outstanding under the loan agreements shall become immediately due and payable.

On 13 December 2019, the Company, as borrower, confirmed the acceptance of a facility letter issued by a bank as lender in respect of general banking facilities in an aggregate amount of US$200,000,000, which shall be repaid in full within 36 months from the first utilization date. Pursuant to the facility letter, if CSSC Group fails to remain its status as the single largest Shareholder, the facility will be immediately cancelled and the Company shall prepay the outstanding loan in accordance with the standard terms for banking facilities of the lender.

Directors

The Directors during the Reporting Period and up to the date of this annual report are as follows:

Executive Directors:

Mr. Yang Li *(Chairman)*
Mr. Hu Kai

Non-executive Directors:

Mr. Li Wei (appointed on 5 July 2019)
Mr. Zhong Jian (appointed on 25 September 2019)
Mr. Zou Yuanjing (appointed on 25 September 2019)

Independent Non-executive Directors:

Dr. Wong Yau Kar David, *GBS, JP* (appointed on 7 May 2019)
Mdm. Shing Mo Han Yvonne, *BBS, JP* (appointed on 7 May 2019)
Mr. Li Hongji (appointed on 7 May 2019)

Pursuant to article 98(2) of the Articles of Association of the Company (the "**Articles of Association**"), the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company (the "**AGM**") and shall then be eligible for re-election at that meeting, provided that any Director who so retires shall not be taken into account in determining the number of Directors who are to retire by rotation at the AGM.

Therefore, Mr. Yang Li, Mr. Hu Kai, Mr. Li Wei, Mr. Zhong Jian, Mr. Zou Yuanjing, Dr. Wong Yau Kar David, Mdm. Shing Mo Han Yvonne and Mr. Li Hongji shall retire by rotation, and being eligible, offer themselves for re-election at the AGM.

The particulars of Directors who are subject to re-election at the AGM are set out in the circular to be dispatched to the Shareholders.

Directors and Senior Management

Biographical details of the Directors and senior management of the Company are set out on pages 43 to 48 of this annual report.

Confirmation of Independence from the Independent Non-executive Directors

The Company has received from each of the independent non-executive Directors a confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all of the independent non-executive Directors as independent persons during the period from the Listing Date and up to the date of this annual report.

Directors' Service Contracts and Letters of Appointment

The Company entered into a service contract with each of the executive Directors and a letter of appointment with each of the independent non-executive Directors on 6 May 2019. Each of the service contracts and the letters of appointment is for an initial term of three years commencing from the Listing Date.

With regard to the appointment of non-executive Directors, Mr. Li Wei signed a letter of appointment with the Company for a period of three years from 5 July 2019, and each of Mr. Zhong Jian and Mr. Zou Yuanjing signed a letter of appointment with the Company for a period of three years from 25 September 2019.

All appointments of the Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Association and the Listing Rules.

Save as disclosed above, none of the Directors has entered into or intended to enter into any service contract with any member of the Group, the period unexpired of which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Transactions, Arrangements or Contracts of Significance

During the year ended 31 December 2019 and up to the date of this annual report, none of the Directors had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, any of its subsidiaries or fellow subsidiaries was a party.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019 and up to the date of this annual report.

Employee and Emolument Policy

As at 31 December 2019, the Group had a total of 72 employees, approximately 44% 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 31 December 2019, approximately 96% of the Group's employees had a bachelor's degree or above. As at 31 December 2019 and 31 December 2018, the remuneration of the Group's employees amounted to approximately HK$62.8 million and HK$51.2 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 packages and performance of its employees on an annual basis.

The Company's remuneration committee (the "**Remuneration Committee**") is responsible for reviewing the Group's emolument policy and structure of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management as well as comparable market practices.

Details of the emoluments of the five highest paid individuals and the Directors during the Reporting Period are set out in note 10 and note 11 to the consolidated financial statements, respectively.

Retirement and Employee Benefits Scheme

Details of the retirement and employee benefits scheme of the Group are set out in note 10 to the consolidated financial statements.

Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 31 December 2019, based on the information available to the Company, no Directors or chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

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

As at 31 December 2019, as far as the Directors are aware, the following persons (other than the Directors and chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

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

Notes:

(1) CSSC International is a wholly-owned subsidiary of CSSC Group, which is wholly owned by the State-owned Assets Supervision and Administration Commission. As such, by virtue of the SFO, CSSC Group and the State-owned Assets Supervision and Administration Commission are deemed to be interested in the 4,602,046,234 Shares held by CSSC International.

(2) Central Huijin Investment Ltd. holds 71.56% of the equity interest in China Reinsurance. As such, by virtue of the SFO, Central Huijin Investment Ltd. is deemed to be interested in the 522,490,000 Shares held by China Reinsurance. The Shares held by China Re Asset Management (Hong Kong) Company Limited are the same batch as those held by China Reinsurance.

Save as disclosed above, as at 31 December 2019, as far as the Directors are aware, no other persons (other than the Directors and chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

Directors' Rights to Acquire Shares or Debentures

Save as otherwise disclosed in this annual report, at no time during the period from the Listing Date to 31 December 2019 was the Company or its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or exercised any such right.

Equity-linked Agreement

Save as otherwise disclosed in this annual report, there was no equity-linked agreement entered into by the Company or any of its subsidiaries during the Reporting Period.

Purchase, Redemption or Sales of the Listed Securities

During the period from the Listing Date to the date of this annual report, none of the Company or any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Deed of Non-competition

To safeguard our Group from any potential competition, CSSC Group and CSSC International, being the controlling Shareholders, have entered into a deed of non-competition in favor of the Company on 6 May 2019, pursuant to which each of them has unconditionally and irrevocably undertaken to the Company (for itself and on behalf of other members of the Group) that it would not, and would procure that their respective close associates (other than members of the Group) not to, during the restricted period set out in the Prospectus, and whether directly or indirectly participate in any activity, business or investment as described in the Prospectus that constitutes or may constitute direct or indirect competition.

For details of the deed of non-competition, please see the section headed "Relationship with Controlling Shareholders – Deed of Non-competition" in the Prospectus.

Based on the information and confirmation provided by the Controlling Shareholders, the independent non-executive Directors have reviewed the implementation of the deed of non-competition during the Reporting Period, and confirmed that the Controlling Shareholders have complied with the deed of non-competition.

Directors' Interest in Competing Business

During the period from the Listing Date to 31 December 2019, none of the Directors or their associates had any interest in any business which directly or indirectly competes or may compete with the businesses of the Group.

Connected Transactions and Continuing Connected Transactions

Non-exempt connected transactions

Joint venture agreement entered into with CSSC Shanghai, CSSC Research Institute, CITIC International and Shenzhen Baize

On 6 September 2019, CSSC Financial Leasing (Shanghai) Company Limited ("**CSSC Shanghai**"), CSSC Shipbuilding Industry Systems Engineering Research Institute ("**CSSC Research Institute**"), CITIC International Trading Center Co., Ltd ("**CITIC International**") and Shenzhen Baize Investment Limited Partnership (Limited Partnership) ("**Shenzhen Baize**") entered into the joint venture agreement (the "**Joint Venture Agreement**"), pursuant to which a joint venture will be established to principally engage in the research and development of industrial intelligent technology for ships and marine equipment, as well as the design, manufacturing or operation of intelligent ship systems. Pursuant to the Joint Venture Agreement, the registered capital of the joint venture shall be RMB100 million. CSSC Shanghai will contribute RMB18 million in cash towards the registered capital of the joint venture and will hold 18% of the equity interest in the joint venture. CSSC Research Institute is a subsidiary of CSSC Group, which is a controlling Shareholder. Accordingly, CSSC Research Institute is a connected person of the Company, and the transaction contemplated under the Joint Venture Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

For further details, please refer to the announcement of the Company on 9 September 2019.

Non-exempt continuing connected transactions

During the year ended 31 December 2019, the Group had entered into the following continuing connected transactions:

Continuing connected transactions	Related parties involved	Nature	Annual cap permitted under the Listing Rules (HK$ million)	Transaction amounts in 2019 (HK$ million)
Framework property leasing agreement (Note 1)	CSSC Group and/or its associates	Leasing of properties	15.0	6.9
Framework shipbuilding agreement (Note 2)	CSSC Group and/or its associates	Purchase of vessels	4,564	2,434.4
Framework shipbroking agreement (Note 3)	CSSC Group and/or its associates	Shipbroking services	85.0	7.7

Notes:

1. The Company entered into a framework property leasing agreement with CSSC Group on 6 May 2019, pursuant to which CSSC Group and/or its associates agree to lease certain properties to the Company for a term commencing on the Listing Date to 31 December 2021.

2. The Company entered into a framework shipbuilding agreement with CSSC Group on 6 May 2019, pursuant to which the Company agrees to purchase vessels from CSSC Group and/or its associates for a term commencing on the Listing Date to 31 December 2021.

3. The Company entered into a framework shipbroking agreement with CSSC Group, pursuant to which the Company agrees to provide shipbroking services to CSSC Group and/or its associates for a term commencing on the Listing Date to 31 December 2021.

For details of the above continuing connected transactions, please refer to the section headed "Connected Transactions" in the Prospectus.

Connected Transactions and Continuing Connected Transactions *(Continued)*

Non-exempt continuing connected transactions *(Continued)*

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the above continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The auditor of the Company has performed certain agreed-upon audit procedures for the above continuing connected transactions entered into by the Group in the year ended 31 December 2019, and concluded that such transactions:

(1) have been approved by the Board;

(2) have followed the pricing policies of the Group in all material aspects, if they involve the goods or services provided by the Group;

(3) were conducted in accordance with the relevant agreements for such transactions in all material aspects; and

(4) have an aggregate amount not exceeding the relevant cap disclosed in the Prospectus.

During the Reporting Period, the independent non-executive Directors have reviewed the above non-exempt continuing connected transactions and have confirmed that such transactions were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal or better commercial terms; or the terms are no less favorable than those available to or provided by independent third parties; and

(iii) in accordance with the agreements for such transactions, the terms of which are fair and reasonable, and are in the interest of the Shareholders as a whole.

The related party transactions mentioned in note 28 to the consolidated financial statements did not constitute the connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, and are in compliance with the disclosure requirements in Chapter 14A of the Listing Rules.

Save as disclosed in this annual report, there were no connected transactions or continuing connected transactions which are required to be disclosed by the Company during the Reporting Period in accordance with the provisions concerning the disclosure of connected transactions under Chapter 14A of the Listing Rules.

Charity Donation

The charity donation of the Group and other donation aggregately amounted to HK$1,000,000 during the Reporting Period.

Material Legal Proceedings

During the Reporting Period, the Company was not involved in any material legal proceedings or arbitrations. To the best knowledge of the Directors, there is no material legal proceeding or claim which is pending or threatening against the Company.

Permitted Indemnity Provisions

During the Reporting Period and up to the date of this annual report, there were no permitted indemnity provisions which were or are currently in force, and are beneficial to the Directors (whether they were entered into by the Company or others) or any directors of the Company's connected companies (if they were entered into by the Company). The Company has purchased appropriate directors' and officers' liability insurance for its Directors and senior staff.

Material Acquisitions and Disposals

During the Reporting Period, save as disclosed in the Prospectus and in this annual report, there was no acquisition and disposal of associates and joint ventures of the Company.

Events after the Reporting Period

Details of significant events after the Reporting Period are set out in note 35 to the consolidated financial statements.

Audit Committee

The audit committee of the Company (the "**Audit Committee**") has, together with the senior management of the Group, reviewed the accounting principles and practices adopted by the Group as well as the audited consolidated financial statements for the year ended 31 December 2019.

* *For identification purpose only*

Director's Report

Corporate Governance Practices

The Company is committed to maintaining high level of corporate governance practices. Information about the corporate governance practices adopted by the Company are set out in the corporate governance report on pages 61 to 75 in this annual report.

Public Float

Based on the information publicly available to the Company and to the best knowledge, information and belief of the Directors, the Company has maintained sufficient public float as required by the Stock Exchange and under the Listing Rules for the entire period from the Listing Date to the date of this annual report.

Auditor

PricewaterhouseCoopers was appointed as the Company's auditor for the year ended 31 December 2019. PricewaterhouseCoopers has audited the accompanying consolidated financial statements which were prepared in accordance with the HKFRSs.

By order of the Board
CSSC (Hong Kong) Shipping Company Limited
Yang Li
Chairman

Hong Kong, 27 March 2020

Corporate Governance Report

The Board is pleased to present this corporate governance report of the Company for the period from the Listing Date to 31 December 2019 (the "**Relevant Period**").

Corporate Governance Practices

The Group is committed to maintaining a high standard of corporate governance to safeguard the interests of its shareholders and enhance its value and accountability. The Company has adopted the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules as its corporate governance code from the Listing Date.

During the Relevant Period, the Company had complied with all the applicable code provisions under the Corporate Governance Code, and had adopted most of the recommended best practices.

The Board

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees, including the Audit Committee, the Remuneration Committee and the nomination committee (the "**Nomination Committee**") (collectively, the "**Board Committees**"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out their duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders at all times.

The Company has arranged appropriate insurance coverage in respect of liability arising from legal action against the Directors and senior management, and will conduct annual review on such insurance coverage.

Board Composition

As at the date of this annual report, the Board comprised two executive Directors, three non-executive Directors and three independent non-executive Directors as set out below:

Executive Directors:

Mr. Yang Li *(Chairman)*
Mr. Hu Kai

Non-executive Directors:

Mr. Li Wei (appointed on 5 July 2019)
Mr. Zhong Jian (appointed on 25 September 2019)
Mr. Zou Yuanjing (appointed on 25 September 2019)

Independent Non-executive Directors:

Dr. Wong Yau Kar David
Mdm. Shing Mo Han Yvonne
Mr. Li Hongji

The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

During the Relevant Period, the Board had met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules, which relates to the appointment of independent non-executive directors representing at least one-third of the Board.

Board Composition *(Continued)*

The Company recognises the importance of the diversity of members of the Board to the effectiveness of corporate governance and the Board. In order to enhance the effective operation of the Board and maintain a high standard of corporate governance, the Nomination Committee has formulated diversity policy of the Board to ensure the appropriate balance in the aspects of diversity, including skills, experience and perspectives of the members of the Board. The nomination and appointment of members of the Board will continue to follow the principle of meritocracy based on the demand of daily business and consideration of the benefits of Board diversity. The principal responsibilities of the Nomination Committee are to identify persons qualified for being Directors and give sufficient consideration to the policy of Board diversity throughout the selection process. The Nomination Committee will formulate measurable objectives for the selection of Directors. The selection of Director candidates will be based on a series of diversified aspects and references made to the business model and specific demand of the Company (including, but not limited to, sex, age, race, language, cultural background, education background, industrial experience and professional experience). The Nomination Committee is responsible for reviewing the diversity policy of the Board to ensure the implementation of such policy, reviewing the measurable objectives and supervising the implementation progress of the measurable objectives. To ensure sustainable effectiveness of the Board, the Nomination Committee reviews the policy and measurable objectives at least once a year.

Each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

Save as disclosed in the biographies of the Directors as set out in the section headed "Directors and Senior Management" of this annual report, none of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship) with any other Directors or any chief executives.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and expertise to the Board for its efficient and effective functioning. The independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the code provision under the Corporate Governance Code requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved to the issuer, the Directors have agreed to disclose their commitments to the Company in a timely manner.

Induction and Continuous Professional Development

All newly appointed Directors would be provided with necessary induction and information to ensure that they have a proper understanding of the Company's operations and businesses as well as their responsibilities under relevant statutes, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and the Directors to discharge their duties.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. From time to time, the company secretary of the Company will update and provide the Directors with written training materials in relation to their roles, functions and duties.

A summary of training received by the Directors for the period from the Listing Date to 31 December 2019 according to the records provided by the Directors is as follows:

Name of Director	Nature of Continuous Professional Development
Mr. Yang Li	C/D
Mr. Hu Kai	C/D
Mr. Li Wei[(1)]	C/D
Mr. Zhong Jian[(2)]	C/D
Mr. Zou Yuanjing[(3)]	C/D
Dr. Wong Yau Kar David	C/D
Mdm. Shing Mo Han Yvonne	C/D
Mr. Li Hongji	C/D

Notes:

A: attending seminars, conferences, forums and/or briefings

B: giving talks at seminars, conferences and/or forums

C: participating in trainings provided by law firms which relate to the business of the Company

D: reading materials on various topics, including corporate governance matters, directors' responsibilities, Listing Rules and other relevant laws

(1) Mr. Li Wei was appointed as a non-executive Director on 5 July 2019.

(2) Mr. Zhong Jian was appointed as a non-executive Director on 25 September 2019.

(3) Mr. Zou Yuanjing was appointed as a non-executive Director on 25 September 2019.

Chairman and Chief Executive Officer

Pursuant to code provision A.2.1 of the Corporate Governance Code, the roles of chairman of the Board and chief executive should be separated and should not be performed by the same individual.

Mr. Yang Li, the chairman of the Board, is responsible for coordinating the affairs of the Board and providing strategic advice on the business development and management of the Group. Mr. Hu Kai, the general manager of the Company, performs the duties of chief executive officer. He is responsible for formulating development strategies and annual and investment plans for the Group, reviewing financial budgets and overall policies, as well as supervising its capital operations.

Code provision A.2.7 of the Corporate Governance Code stipulates that the chairman should hold a meeting with independent non-executive directors at least once a year without the presence of other directors. During the Relevant Period, the chairman had held meetings with the independent non-executive Directors to understand their concerns and discuss related issues.

Appointment and Re-election of Directors

The Company entered into a service contract with each of the executive Directors and a letter of appointment with each of the independent non-executive Directors on 6 May 2019. Each of the service contracts and the letters of appointment is for an initial term of three years commencing from the Listing Date.

With regard to the appointment of the non-executive Directors, Mr. Li Wei signed a letter of appointment with the Company for a period of three years from 5 July 2019, and each of Mr. Zhong Jian and Mr. Zou Yuanjing signed a letter of appointment with the Company for a period of three years from 25 September 2019. All appointments of the Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Association and the Listing Rules.

Save as disclosed above, none of the Directors has entered into or intended to enter into any service contract with any member of the Group, the period unexpired of which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

According to the Articles of Association, at each AGM, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, the number nearest to but not less than one-third) or such higher number of Directors to be determined by the Board, or a number determined by such other manner of rotation as may be required by the Listing Rules or other codes, rules and regulations as may be prescribed by the applicable regulatory authority from time to time shall retire from office. Subject to the provisions in relation to rotation and retirement of directors under the Listing Rules, each Director shall retire by rotation every three years at the AGM. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, and for making recommendations to the Board on the appointment, re-election and succession planning of Directors.

Board Meetings

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of no less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board meetings and Board Committee meetings, reasonable notices are generally given by the Company. The agenda and accompanying Board papers are dispatched to the Directors or committee members at least three days before the Board meetings or Board Committee meetings to ensure that the Directors have sufficient time to review the papers and are adequately prepared for the Board meetings or Board Committee meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of the meetings shall be kept by the company secretary with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient details on the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. The minutes of the Board meetings are open for inspection by all Directors.

During the Relevant Period, 12 Board meetings were held and no general meeting was held. The attendance of the individual Directors at the Board meetings is set out in the table below:

Directors	**Number of meetings attended/ eligible to attend**
Mr. Yang Li	12/12
Mr. Hu Kai	12/12
Mr. Li Wei[1]	8/8
Mr. Zhong Jian[2]	3/4
Mr. Zou Yuanjing[3]	3/4
Dr. Wong Yau Kar David	9/9
Mdm. Shing Mo Han Yvonne	9/9
Mr. Li Hongji	8/9

Notes:

(1) Mr. Li Wei was appointed as a non-executive Director on 5 July 2019.

(2) Mr. Zhong Jian was appointed as a non-executive Director on 25 September 2019.

(3) Mr. Zou Yuanjing was appointed as a non-executive Director on 25 September 2019.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made to all the Directors and each of the Directors has confirmed that he/she had complied with the required standards as set out in the Model Code during the Relevant Period.

Delegation by the Board

The Board reserves for its decision on all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors may seek independent professional advice in performing their duties at the Company's expense. Directors are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board confirms that corporate governance should be a joint responsibility of the Directors and their corporate governance functions include:

(a) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors;

(d) to develop and review the Company's policies and practices on corporate governance, and to recommend their opinions and report related affairs to the Board;

(e) to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report; and

(f) to review and monitor the Company's compliance with the Company's reporting policies.

Risk Management and Internal Control

The Company attaches great importance to risk management and internal control, and seeks to establish a risk management and internal control system that corresponds to the Group's strategic objectives. The Board assumes ultimate responsibility for risk management, and is mainly responsible for approving the Group's risk management objectives and strategies, overseeing the implementation and effectiveness of risk management policies as well as assessing the Group's overall risk exposure. The Audit Committee also assists the Board in performing certain risk management functions, including monitoring the implementation of internal control procedures and overseeing the internal audit functions. In addition, the Group has established a risk management department as its core risk management functional department, which is primarily responsible for, among others, implementing comprehensive risk management procedures and establishing business risk control and compliance management systems as well as analysing and evaluating the major risk points of specific projects and proposing risk prevention measures. While the Group recognizes the importance of establishing and maintaining a risk management and internal control system that is in line with its actual needs, such a system is designed to manage rather than eliminate the risk of failure to achieve its business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. For further details of the Group's risk management structure, please refer to the Company's Environmental, Social and Governance Report.

During the Reporting Period, the Group implemented the Comprehensive Management Measures for Risk (Trial) to accurately identify, prudently evaluate, dynamically monitor, timely respond to, and extensively manage the risks faced by the Group during its business operation.

The Group's risk management and internal control systems are reviewed by the Audit Committee annually. The Audit Committee has conducted a review of the effectiveness of the Group's internal control system for the year ended 31 December 2019, and considers it effective and adequate. The Group has an internal audit function.

Board Committees

Audit Committee

The current members of the Audit Committee include 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 main duties and responsibilities of the Audit Committee are as follows:

(a) To be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(b) To review the financial statements and reports and consider any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or the auditor before submission to the Board;

(c) To review the adequacy of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, and the adequacy of training programmes received by employees and the related budgets.

Board Committees *(Continued)*

Audit Committee *(Continued)*

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

The Audit Committee held two meetings during the year ended 31 December 2019 to discuss and consider the following:

- Review of the interim results of the Company and its subsidiaries for the six months ended 30 June 2019; and

- Review of the financial reporting systems, compliance procedures, internal controls (including the adequacy of the resources, qualifications, training courses and budget for the employees of the accounting and financial reporting department of the Company), risk management systems and procedures, and re-appointment of external auditor. The Board did not deviate from any recommendation made by the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

The attendance of members of the Audit Committee at the meetings is set out in the following table:

Directors	**Number of meetings attended/ eligible to attend**
Mdm. Shing Mo Han Yvonne	2/2
Dr. Wong Yau Kar David	2/2
Mr Li Hongji	1/2
Mr. Li Wei(1)	2/2
Mr. Zou Yuanjing(2)	1/2

Notes:

(1) Mr. Li Wei was appointed as a non-executive Director on 5 July 2019.

(2) Mr. Zou Yuanjing was appointed as a non-executive Director on 25 September 2019.

Nomination Committee

The current members of the Nomination Committee include one executive Director, namely Mr. Yang Li (chairperson), one non-executive Director, namely Mr. Zhong Jian, and three independent non-executive Directors, namely Dr. Wong Yau Kar David, Mdm. Shing Mo Han Yvonne and Mr. Li Hongji.

Nomination Committee *(Continued)*

The main duties and responsibilities of the Nomination Committee are as follows:

(a) To review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) To assess the independence of independent non-executive Directors;

(d) To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive; and

(e) To review the Board diversity policy.

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

The Nomination Committee held two meetings during the year ended 31 December 2019 to discuss and consider the following:

- Review of the proposal regarding the nomination of Mr. Li Wei as a non-executive Director; and
- Review of the proposal regarding the nomination of Mr. Zhong Jian and Mr. Zou Yuanjing as non-executive Directors.

The attendance of members of the Nomination Committee at the meetings is set out in the following table:

Directors	**Number of meetings attended/ eligible to attend**
Mr. Yang Li	2/2
Dr. Wong Yau Kar David	2/2
Mdm. Shing Mo Han Yvonne	2/2
Mr. Li Hongji	2/2
Mr. Zhong Jian[(1)]	0/0

Note:

(1) Mr. Zhong Jian was appointed as a non-executive Director on 25 September 2019.

Remuneration Committee

The current members of the Remuneration Committee include three independent non-executive Directors, namely Dr. Wong Yau Kar David (chairperson), Mdm. Shing Mo Han Yvonne and Mr. Li Hongji.

The main duties and responsibilities of the Remuneration Committee are as follows:

(a) To make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) To make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(d) To make recommendations to the Board on the remuneration of non-executive Directors;

(e) To consider salaries paid by comparable companies, time commitment, responsibility and employment conditions elsewhere in the Group;

(f) To review and approve the compensation payable to the executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and reasonable and not excessive for the Company;

(g) To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(h) To ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

The Remuneration Committee held two meetings during the year ended 31 December 2019 to discuss and consider the review of the proposal regarding the recommendation on the remuneration level of the newly appointed non-executive Directors.

Remuneration Committee *(Continued)*

The attendance of members of the Remuneration Committee at the meetings is set out in the following table:

Directors	Number of meetings attended/ eligible to attend
Dr. Wong Yau Kar David	2/2
Mdm. Shing Mo Han Yvonne	2/2
Mr Li Hongji	2/2

Remuneration of Directors and Senior Management

Details of the remuneration of the members of the Board and the senior management of the Company for the year ended 31 December 2019 are set out on pages 43 to 48 of this annual report and below:

Remuneration band	Number of individuals
Nil to HK$1,000,000	6
HK$2,000,001 to HK$2,500,000	1
HK$2,500,001 to HK$3,000,000	2
HK$3,500,001 to HK$4,000,000	2

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2019 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on the Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditors regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 76 to 82 of this annual report.

Auditor's Remuneration

The approximate auditor's remuneration in respect of the audit and non-audit services provided to the Company and the Group during the year ended 31 December 2019 is as follows:

Type of services	Amount (HK$'000)
Audit services	5,300
Non-audit services	2,049
Total	7,349

Company Secretaries

Mr. Ding Weisong ("**Mr. Ding**"), the company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures, and applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. Wong Sau Ping ("**Ms. Wong**") of TMF Hong Kong Limited, a company secretarial service provider, as our assistant company secretary, to assist Mr. Ding with the duties of the Company's company secretary. Mr. Ding is the primary contact person of Ms. Wong in the Company.

During the Reporting Period, each of Mr. Ding and Ms. Wong had undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Communication with Shareholders and Investor Relationship Enquiries to the Board

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information on the Company for the Shareholders and investors to make informed investment decisions.

The AGM provides opportunities for Shareholders to communicate directly with the Directors. The chairman of the Company and the chairmen of each of the Board Committees will attend the AGM to answer Shareholders' questions. The auditor will also attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor's independence.

To promote effective communication and to build an inter-relationship and communication channel between the Company and the Shareholders, the Company adopts a shareholders' communication policy and maintains a website at http://www.csscshipping.cn, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

Shareholders' Rights

To safeguard the Shareholders' interests and rights, a separate resolution is proposed for each issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

Dividend Policy

The Company may distribute dividends in the form of cash or by other means that it considers appropriate. Any proposed distribution of dividends shall be formulated by the Board and will be subject to the Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including the Company's results of operations, cash flows, financial condition, capital adequacy ratio, cash dividends paid by the subsidiaries to the Company, business prospects, statutory, regulatory and contractual restrictions on the Company's declaration and payment of dividends, and other factors that the Board may consider important. The Company intends to distribute no less than 30% of the annual distributable profits as dividends for each year upon Listing. However, the Company cannot assure Shareholders that we will declare or pay such or any amount of dividends for each or any year.

Convening a General Meeting

Pursuant to article 54 of the Articles of Association and section 566 of the Companies Ordinance, Shareholders may request the Board to convene a general meeting of the Company. Where the Company receives Shareholders' request for convening a general meeting and the voting rights held by such Shareholders account for not less than 5% of the total voting rights of all Shareholders entitled to vote at the general meeting, the Board must convene a general meeting. The request must state the general nature of the business to be handled at the meeting, and may contain the text of a resolution that may be properly proposed and intended to be proposed at the meeting. The request can be sent to the Company in hard copy or electronic form and must be authenticated by the person(s) making it.

Pursuant to article 55 of the Articles of Association and section 567 of the Companies Ordinance, the Board shall convene a general meeting within 21 days after the date on which it becomes subject to under this requirement. The meeting must be held within 28 days after the date of the notice convening the general meeting. If the Board fails to convene a meeting in accordance with the requirements, the Shareholders who request for the convening of the general meeting or members who account for over half of the total voting rights of all Shareholders may convene a general meeting on their own. The general meeting shall be held within three months after the date on which the Directors become subject to the requirement to convene a meeting. Pursuant to article 56 of the Articles of Association and section 568 of the Companies Ordinance, if the Shareholders who request for the convening of the general meeting have any reasonable expenses incurred by reason of the failure of the Board to properly convene the general meeting, such expenses are repayable by the Company.

Propose Resolutions at the Agm

Pursuant to section 615 of the Companies Ordinance, (a) at least 2.5% of the total voting rights of all Shareholders entitled to vote on the resolution at the AGM to which the requests relate; or (b) at least 50 Shareholders entitled to vote on the resolution at the AGM to which the requests relate may make written requests for the purpose of circulating the resolutions of the AGM. The written request must: (a) be sent to the Company in hard copy or electronic form; (b) indicate the resolution to which the pending notice relates; (c) be authenticated by the person(s) making the request; and (d) be delivered to the Company no later than six weeks before the AGM to which the request relates; or, should it be delivered to the Company after the above time, the time at which the notice of the AGM is issued. For further details, please refer to sections 580 and 615 of the Companies Ordinance.

Making Inquiries to the Board

Shareholders may make inquiries to the headquarters of the Company through e-mail if they wish to make inquiries to the Board in relation to information of the Company. The e-mail address is bdo@csscshipping.com.

Amendments to Constitutional Documents

The Company has adopted the Articles of Association effective from the Listing Date on 6 May 2019. During the Relevant Period, there were no changes to the Articles of Association.

Independent Auditor's Report

pwc

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of CSSC (Hong Kong) Shipping Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 83 to 180, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Lease arrangements; and
- Impairment of loan receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
Lease arrangements	

Refer to notes 2.14 and 4(i) to the consolidated financial statements.
 	
In accordance with Hong Kong Financial Reporting Standard 16: "Leases", management assessed the classification of leases.
 	
The Group has entered into certain agreements whereby the Group has determined that it has transferred substantially all the risks and rewards incidental to ownership of the leased vessels to the lessees/borrowers, as the present values of the minimum lease payments of the lease amounts to at least substantially all of the fair value of the leased assets at the inception of the leases. Accordingly, the Group has excluded the vessels from its consolidated statements of financial position and has instead, recognised finance lease receivables. Otherwise the Group includes the vessels under operating lease in property, plant and equipment.
	We performed the following procedures to assess management's classification of leases:
	
	• examined the lease agreements and discussed with management the key terms in order to identify any inconsistency from our understanding;
	
	• performed the following for the appropriateness of the judgments made by management in the determination of classification of the leases:
	
	  • assessed the impact of the agreed terms in the lease agreements on the classification;
	
	  • tested the mathematical accuracy of the present value of minimum lease payment calculation and the verified relevant input data (i.e. lease terms, lease payments and lease period) to the agreements;

Key Audit Matter	How our audit addressed the Key Audit Matter

Lease arrangements *(Continued)*

The determination of whether the Group has transferred substantially all the risks and rewards incidental to ownership depends on an assessment of the relevant arrangements relating to the lease and this has involved critical judgments by management. In particular, management assessed the lease term, the present value of minimum lease payments, the nature of leased assets, and that there were no ownership transfers and no purchase options at the end of the lease terms. The key judgments are in respect of the economic lives and fair values of the leased assets, the incremental borrowing rate in the calculation of the present value of minimum lease payments and whether the purchase option will be exercised.

Due to the significance of management's judgments and estimates applied in assessing the classification of leases, we considered this as a key audit matter.

- assessed the reasonableness of the incremental borrowing rate of the respective lease arrangement with reference to bank quotation;
- evaluated the appropriateness of the economic lives and the fair value of leased assets with reference to similar types of assets in the market; and
- Assessed the existence of the purchase option under the lease arrangement by checking to the lease agreement and possibility of lessees/borrowers to exercise such option by comparing the rate to exercise to the current market rate.

Based on the procedures performed, we considered the management's judgment and estimates adopted in the assessment were supported by the evidence we gathered.

Impairment of loan receivables

Refer to notes 2.8, 3(a)(i), 4(ii) and 16 to the consolidated financial statements.

As at 31 December 2019, the net carrying amounts of the Group's loan receivables were HK$15,045 million, in which provision for impairment loss of HK$527 million were recorded.

We performed the following procedures to assess the impairment of loan receivables prepared by management:

- We evaluated and tested the relevant controls, including those over the timely identification of impairment indicators and the calculation of provision for impairment on loan receivables.
- We selected samples, in consideration of the financial information and non-financial information of the lessees/borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's identification of receivables with significant increase in credit risk since initial recognition and credit-impaired loan receivables.

Key Audit Matter	How our audit addressed the Key Audit Matter

Impairment of loan receivables *(Continued)*

The balances of provision for impairment on loan receivables represent the management's best estimates at the balance sheet date of expected credit losses ("ECL") under Hong Kong Financial Reporting Standard 9: Financial Instruments.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period, and the ECL was calculated and provided based on the "three-stages" model by referring to the changes in credit quality since initial recognition. For loan receivables classified into stage 1, the ECL is measured on a 12-month basis. For loan receivables classified into stages 2 and 3, the ECL is measured on a lifetime basis.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default corrections between counterparties. The Group measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD").

- We reviewed the methodologies for ECL for impairment assessment and assessed the reasonableness of significant judgments and assumptions including, inputs, assumptions and estimation techniques. We tested whether or not the measurement methods reflect the methodologies documented by the management.

- We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness.

- For loan receivables in stages 2 and 3, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of the lessees/borrowers and other available information together with discount rates in supporting the computation of the provision for impairment.

Key Audit Matter	How our audit addressed the Key Audit Matter

Impairment of loan receivables *(Continued)*

The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting periods, primarily including the following:

(1) Consideration on whether the loan receivables have experienced a significant increase in credit risk

(2) Identification of default and credit-impaired assets

(3) Inputs, assumptions and estimation techniques in measuring ECL (i.e. PD, EAD, LGD)

(4) Forward-looking information incorporated in the ECL (i.e. forecasted economic growth rates which reflect the general economic conditions of the industry in which the lessees/borrowers operate)

Due to the significance of management's judgment and estimates applied in assessing the amount of ECL at the reporting date, we considered this as a key audit matter.

- We reviewed the management's analysis for forward-looking information using forecasted economic growth rate, assessed the reasonableness and performed sensitivity analysis on possible scenarios.

Based on the procedures performed, we considered the management's judgment and estimates adopted in the impairment assessment were supported by the evidence we gathered.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Liao Weining.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2020

Consolidated Income Statement

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	5	**2,294,397**	2,104,811
Other income	6	**104,381**	188,299
Other losses, net		**(139,252)**	(248,116)
Expenses			
Finance costs and bank charges	7	**(839,733)**	(1,046,155)
Provision for impairment of loan receivables, net	16	**(86,881)**	(52,138)
Depreciation		**(238,300)**	(150,192)
Employee benefits expenses	10	**(62,818)**	(51,235)
Vessel operating costs		**(111,296)**	(100,537)
Other operating expenses		**(72,850)**	(62,092)
Total expenses		**(1,411,878)**	(1,462,349)
Profit from operations	8	**847,648**	582,645
Share of results of joint ventures	14	**53,547**	–
Share of results of associates	15	**3,021**	81,004
Gain on disposal of associates		**–**	40,766
Profit before income tax		**904,216**	704,415
Income tax (expense)/credit	9	**(11,837)**	2,107
Profit for the year		**892,379**	706,522
Profit for the year attributable to:			
Equity holders of the Company		**883,089**	690,089
Non-controlling interests		**9,290**	16,433
		892,379	706,522
Earnings per share (HK$)	12		
Basic and diluted		**0.163**	0.150

The notes on pages 90 to 180 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Profit for the year	**892,379**	706,522
Other comprehensive loss for the year		
Items that may be reclassified to profit or loss:		
– Exchange differences on translation of investments in subsidiaries, associates and joint ventures	**(37,369)**	50,183
– Fair value change of financial assets at fair value through other comprehensive income (debt instruments)	**17,528**	(23,177)
– Recycle of investment revaluation reserve upon disposal of debt instruments at fair value through other comprehensive income	**(3,384)**	–
– Fair value change of derivative financial instruments (cash flow hedges)	**(67,055)**	–
Items that will not be reclassified to profit or loss:		
– Share of other comprehensive income of associates, net	**–**	22,389
– Fair value change of financial assets at fair value through other comprehensive income (equity instruments)	**53,584**	(55,190)
Total other comprehensive loss for the year	**(36,696)**	(5,795)
Total comprehensive income for the year	**855,683**	700,727
Total comprehensive income for the year attributable to:		
Equity holders of the Company	**846,398**	684,294
Non-controlling interests	**9,285**	16,433
Total comprehensive income for the year	**855,683**	700,727

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
ASSETS			
Property, plant and equipment	13	**8,915,910**	6,790,885
Right-of-use assets	13(b)	**23,685**	–
Interests in joint ventures	14	**211,304**	8
Interests in associates	15	**35,618**	15,938
Loan receivables	16	**15,044,802**	17,799,656
Derivative financial assets	17	**3,881**	27,623
Prepayments, deposits and other receivables	18	**164,695**	264,103
Financial assets at fair value through profit or loss	19	**39,460**	385,659
Financial assets at fair value through other comprehensive income	20	**777,224**	1,071,174
Amounts due from associates	21	**23,968**	24,841
Amounts due from fellow subsidiaries	21	**220**	114,098
Amounts due from joint ventures	21	**4,776**	–
Structured bank deposits	22	**335,653**	312,156
Time deposits with maturity over three months	22	**171,395**	1,579,858
Cash and cash equivalents	22	**1,895,182**	924,060
Asset held for sale	23	**48,639**	–
Total assets		**27,696,412**	29,310,059
LIABILITIES			
Income tax payables		**22,138**	20,649
Borrowings	24	**18,397,969**	22,567,489
Derivative financial liabilities	17	**105,966**	–
Amounts due to related companies	21	**–**	70,433
Amounts due to fellow subsidiaries	21	**20,179**	439,013
Amount due to a joint venture	21	**96,118**	–
Amount due to a non-controlling interest	21	**87,922**	88,397
Lease liabilities	13(b)	**23,654**	–
Other payables and accruals	25	**493,222**	358,850
Total liabilities		**19,247,168**	23,544,831
Net assets		**8,449,244**	5,765,228

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	**2019** **HK$'000**	2018 HK$'000
EQUITY			
Share capital	26	**6,614,466**	4,602,046
Reserves		**1,796,292**	1,133,981
		8,410,758	5,736,027
Non-controlling interests		**38,486**	29,201
Total equity		**8,449,244**	5,765,228

The consolidated financial statements on pages 83 to 89 were approved by the Board of Directors on 27 March 2020 and were signed on its behalf.

YANG LI
Director

HU KAI
Director

The notes on pages 90 to 180 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to equityholders of the Company								
	Share capital HK$'000	Investment revaluation reserve HK$'000	Hedging reserve HK$'000	Other reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 January 2019	**4,602,046**	**(57,510)**	**–**	**7,195**	**(34,532)**	**1,218,828**	**5,736,027**	**29,201**	**5,765,228**
Adjustment on adoption of HKFRS 16, net of tax	**–**	**–**	**–**	**–**	**–**	**(5)**	**(5)**	**–**	**(5)**
At 1 January 2019, as restated	**4,602,046**	**(57,510)**	**–**	**7,195**	**(34,532)**	**1,218,823**	**5,736,022**	**29,201**	**5,765,223**
Profit and total comprehensive income for the year	**–**	**67,728**	**(67,055)**	**–**	**(37,364)**	**883,089**	**846,398**	**9,285**	**855,683**
Appropriations to statutory surplus reserve	**–**	**–**	**–**	**3,856**	**–**	**(3,856)**	**–**	**–**	**–**
Transactions with equity holders:									
– Issues of new shares by public offering, net of expenses (note 26)	**2,012,420**	**–**	**–**	**–**	**–**	**–**	**2,012,420**	**–**	**2,012,420**
– Dividends (note 34)	**–**	**–**	**–**	**–**	**–**	**(184,082)**	**(184,082)**	**–**	**(184,082)**
At 31 December 2019	**6,614,466**	**10,218**	**(67,055)**	**11,051**	**(71,896)**	**1,913,974**	**8,410,758**	**38,486**	**8,449,244**
At 1 January 2018	4,602,046	(26,719)	–	3,700	(84,715)	1,671,671	6,165,983	12,768	6,178,751
Profit and total comprehensive income for the year	–	(55,978)	–	–	50,183	690,089	684,294	16,433	700,727
Share of other reserves of associates	–	–	–	352,750	–	–	352,750	–	352,750
Appropriations to statutory surplus reserve	–	–	–	4,849	–	(4,849)	–	–	–
Recycle to retained profits upon disposal of associates	–	25,187	–	(354,104)	–	328,917	–	–	–
Transactions with equity holders:									
– Dividends (note 34)	–	–	–	–	–	(1,467,000)	(1,467,000)	–	(1,467,000)
At 31 December 2018	4,602,046	(57,510)	–	7,195	(34,532)	1,218,828	5,736,027	29,201	5,765,228

The notes on pages 90 to 180 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Net cash generated from/(used in) operations	29(a)	**4,198,568**	(459,454)
Interest received		**98,535**	140,754
Interest paid		**(909,894)**	(1,096,604)
Income tax (paid)/refunded		**(10,348)**	39
Net cash generated from/(used in) operating activities		**3,376,861**	(1,415,265)
Cash flows from investing activities			
Investment in joint ventures		**(157,689)**	–
Investment in an associate		**(16,742)**	–
Repayment from an associate		**–**	12,616
(Decrease)/increase in time deposits with maturity over three months		**1,408,463**	(718,877)
(Increase)/decrease in structured bank deposits		**(23,497)**	23,210
Payment of purchase of vessels and property, plant and equipment		**(2,438,976)**	(1,289,907)
Increase in portfolio investment at fair value through profit or loss/ fair value through other comprehensive income		**(40,639)**	(595,111)
Dividend received from associates		**–**	74,027
Dividend received from financial assets at fair value through other comprehensive income		**29,342**	40,815
Proceeds on disposal of financial assets at fair value through profit or loss		**407,005**	82,789
Proceeds on disposal of financial assets at fair value through other comprehensive income		**368,494**	77,594
Proceeds on disposal of derivative financial instruments		**–**	454,279
Proceeds on disposal of associates		**–**	6,418,894
Net cash (used in)/generated from investing activities		**(464,239)**	4,580,329

The notes on pages 90 to 180 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Cash flows from financing activities			
Proceeds of bank borrowings	29(b)	**8,111,516**	7,210,509
Repayment of bank borrowings	29(b)	**(11,859,777)**	(4,253,708)
Repayment of bonds	29(b)	**–**	(4,762,315)
Payment of lease liabilities	29(b)	**(3,609)**	–
Advance from a non-controlling interest	29(b)	**–**	647
Advance from holding company		**–**	68,475
Dividend paid		**(184,082)**	(1,467,000)
Net proceeds from issuance of ordinary shares under public offering		**2,055,587**	–
Professional expenses paid in connection with public offering		**(30,180)**	–
Net cash used in financing activities		**(1,910,545)**	(3,203,392)
Net increase/(decrease) in cash and cash equivalents		**1,002,077**	(38,328)
Cash and cash equivalents at 1 January		**924,060**	1,018,922
Effect of foreign exchange rate changes on cash and cash equivalents		**(30,955)**	(56,534)
Cash and cash equivalents at 31 December	22	**1,895,182**	924,060

The notes on pages 90 to 180 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General information

CSSC (Hong Kong) Shipping Company Limited (the "Company") is a limited liability company incorporated in Hong Kong. The registered office is located at Room 1801, 18th Floor, Worldwide House, No. 19 Des Voeux Road Central, Central, Hong Kong.

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in provision of leasing business, ship brokerage services and financing business acts.

The Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong limited on 17 June 2019.

These consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2020.

2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(i) The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and requirements of the Hong Kong Companies Ordinance Cap. 622. Save as specified in the principal accounting policies as set out in Note 2, the consolidated financial statements have been prepared on a historical cost basis.

The preparation of consolidated financial statements in conformity with HKFRSs require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(ii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

HKFRS 16	Leases
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
Annual Improvements Project	Annual Improvements 2015-2017 Cycle
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HK(IFRC)-Int 23	Uncertainty over Income Tax Treatments

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in note 2.2. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
HKFRS 17	Insurance Contracts	1 January 2023
HKAS 1 and HKAS 8	Definition of Material	1 January 2020
HKFRS 3 (Amendments)	Definition of Business	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020

These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 Summary of significant accounting policies *(Continued)*

2.2 Change in accounting policies

The accounting policies adopted are consistent with those of the previous consolidated financial statements for the year ended 31 December 2018, except the adoption of hedge accounting and the adoption of new and amended standard and amendments to standards and accounting policy not yet applied which are relevant to the operations of the Group and mandatory for annual periods beginning 1 January 2019. Please refer to note 2.11 for the details of accounting policy of hedge accounting adopted during the year.

(a) Effect of the adoption of HKFRS 16 Leases

The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. For a transfer of asset that does not satisfy the requirements of HKFRS 15 to be accounted for as a sale of asset, the Group as a buyer-lessor does not recognise the transferred asset and recognises a loan receivable equal to the transfer proceeds within the scope of HKFRS 9. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

As a lessee, the Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 2.14.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3%.

2 Summary of significant accounting policies *(Continued)*

2.2 Change in accounting policies *(Continued)*

(a) Effect of the adoption of HKFRS 16 Leases *(Continued)*

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of HKFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2 Summary of significant accounting policies *(Continued)*

2.2 Change in accounting policies *(Continued)*

(a) Effect of the adoption of HKFRS 16 Leases *(Continued)*

(i) Practical expedients applied (Continued)

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(ii) Adjustments recognised in the consolidated statement of financial position on 1 January 2019

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

	As at 31 December 2018 As originally presented	**Effect of the adoption of HKFRS 16**	**As at 1 January 2019 Restated**
	HK$'000	HK$'000	HK$'000
Assets			
Right-of-use assets	–	3,572	3,572
Liabilities			
Lease liabilities	–	3,577	3,577
Equity			
Retained profits	1,218,828	(5)	1,218,823

(iii) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

2 Summary of significant accounting policies *(Continued)*

2.3 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of financial position and statement of changes in equity.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iv) below), after initially being recognised at cost.

(iii) Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Joint ventures

Interests in joint ventures are accounted for using the equity method of accounting (see (iv) below), after initially being recognised at cost in the consolidated statement of financial position.

2 Summary of significant accounting policies *(Continued)*

2.3 Principles of consolidation and equity accounting *(Continued)*

(iv) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.8.

2.4 Separate financial statements

On the Company's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 Summary of significant accounting policies *(Continued)*

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The board of directors has appointed executive directors of the Group as the chief operating decision maker ("CODM") to assess the financial performance and position of the Group, make strategic decisions and corporate planning.

2.6 Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates (the "functional currency"). United States dollars ("US$") is the functional currency of the Group. The financial statements are presented in Hong Kong dollars ("HK$"), which is the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in profit or loss, within finance costs. All other foreign exchange gains and losses are presented in profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets and financial assets at fair value through other comprehensive income are recognised in other comprehensive income.

2 Summary of significant accounting policies *(Continued)*

2.6 Foreign currency translation *(Continued)*

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each reporting date presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.7 Property, plant and equipment

(i) Construction in progress

Construction in progress represents vessel under construction which is carried at cost less any accumulated impairment losses. Construction in progress includes construction expenditure incurred, borrowing costs and other direct costs attributable to the construction. On completion, the construction in progress is transferred to vessel. No depreciation is provided for construction in progress.

(ii) Other property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

2 Summary of significant accounting policies *(Continued)*

2.7 Property, plant and equipment *(Continued)*

(ii) Other property, plant and equipment *(Continued)*

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss.

Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from the property, plant and equipment revaluation surplus to retained earnings.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

• Leasehold improvements	Over the lease term
• Motor vehicle	5 years
• Vessels	30 years
• Office equipment	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is the Group's policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

2 Summary of significant accounting policies *(Continued)*

2.8 Impairment of non-financial assets

Goodwill that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or Groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.9 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2 Summary of significant accounting policies *(Continued)*

2.9 Investments and other financial assets *(Continued)*

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

The Group derecognises a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

(iv) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), net, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in profit or loss.

2 Summary of significant accounting policies *(Continued)*

2.9 Investments and other financial assets *(Continued)*

(iv) Debt instruments *(Continued)*

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through statement of other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in statement of other comprehensive income is reclassified from equity to profit or loss.

- Fair value at profit or loss ("FVTPL"): Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses), net in the period in which it arises.

(v) Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in statement of other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses), net in the consolidated statements of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(vi) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For loan receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 16 for further details.

2 Summary of significant accounting policies *(Continued)*

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.11 Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives:

- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or

At the inception of the hedging, The Group documents the economic, relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedges items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in note 17. Movements in the hedging reserve in shareholders' equity are shown in consolidated statement of changes in equity.

2 Summary of significant accounting policies *(Continued)*

2.11 Derivatives and hedging activities *(Continued)*

(i) Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other income, gains or losses.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedging no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income, other gains or losses.

2.12 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash at bank and on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2 Summary of significant accounting policies *(Continued)*

2.13 Recognition of revenue and income

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the contract of services transferred to customer, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Finance lease income – refer to note 2.14(i).

Operating lease income – refer to note 2.14(ii).

Interest income – recognised using the effective interest method.

Dividends – recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

Commission income – recognised in the accounting period in which the actual shipbroking services provided to. The Group considers the revenue will be highly probable that will not be subsequently reversed, which normally when the Group successfully facilitates the conclusion of shipbuilding transaction and when it is highly probable that there will be no default in the transaction.

2.14 Leases

As a lessee

Until 31 December 2018, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

2 Summary of significant accounting policies *(Continued)*

2.14 Leases *(Continued)*

As a lessee *(Continued)*

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

2 Summary of significant accounting policies *(Continued)*

2.14 Leases *(Continued)*

As a lessee *(Continued)*

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

As a lessor

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the consolidated statements of financial position based on their nature.

(i) *Finance lease*

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. At the commencement of the lease term, the Group recognises the minimum lease payments receivable by the Group as a finance lease receivable and records the unguaranteed residual value as an asset within the same category. The difference between (a) the aggregate of the minimum lease payments and the unguaranteed residual value and (b) their present value (presented in the balance sheet as finance lease receivables-net) is recognised as unearned finance income. Minimum lease payments are the payments over the lease term that the lessee is or can be required to make plus any residual value guaranteed to the lessor by the lessee, or a party unrelated to the lessor.

2 Summary of significant accounting policies *(Continued)*

2.14 Leases *(Continued)*

As a lessor *(Continued)*

(i) Finance lease (Continued)

Unearned finance income is allocated to each period during the lease term using the effective interest method that allocates each rental between finance income and repayment of capital in each accounting period in such a way that finance income is recognised as a constant periodic rate of return (implicit effective interest rate) on the lessor's net investment in the lease. Lease agreements for which the base rent is based on floating interest rates are included in minimum lease payments based on the floating interest rate existing at the commencement of the lease; any increase or decrease in lease payments that result from subsequent changes on floating interest rate is recorded as an increase or a decrease in finance lease income in the period of the interest rate change.

Initial direct costs, such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease, are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

(ii) Operating lease

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in property, plant and equipment, and rentals receivable under the operating leases are credited to the consolidated statements of comprehensive income on the straight-line basis over the lease terms.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2 Summary of significant accounting policies *(Continued)*

2.17 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the consolidated statements of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

2 Summary of significant accounting policies *(Continued)*

2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.20 Current and deferred income tax

The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred income tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 Summary of significant accounting policies *(Continued)*

2.20 Current and deferred income tax *(Continued)*

Deferred income tax *(Continued)*

Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Investment allowances and similar tax incentives

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred income tax asset is recognised for unclaimed tax credits that are carried forward as deferred income tax assets.

2.21 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as other payables in the consolidated statements of financial positions.

2 Summary of significant accounting policies *(Continued)*

2.21 Employee benefits *(Continued)*

(ii) Pension obligations

The Group joined the Mandatory Provident Fund Scheme (the "MPF Scheme") under App1A33(4)
the Hong Kong Mandatory Provident Fund Schemes Ordinance for those qualifying employees (a),(b)
employed under the jurisdiction of the Hong Kong Employment Ordinance, and who are eligible to
participate in the MPF Scheme.

The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds. The Group has no further payment obligations once the contribution has been paid. The Group's contributions to the scheme are recognised as employee benefit expenses when they are due. When employees leave the scheme prior to the full vesting of the employer's voluntary contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

The Group in the PRC participates in defined contribution retirement benefit plans organised by relevant government authorities for its employees in the PRC and contributes to these plans based on a certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities.

The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

(iii) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2 Summary of significant accounting policies *(Continued)*

2.22 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.23 Dividend income

Dividends are received from financial assets measured at FVTPL and at FVOCI. Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in other comprehensive income if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

2.24 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

2 Summary of significant accounting policies *(Continued)*

2.25 Interest income

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see note 6 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.26 Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under HKFRS 9 *Financial Instruments*; and

- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 *Revenue from Contracts with Customers*.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

2.27 Asset held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the asset is recognised at the date of derecognition.

Asset are not depreciated or amortised while they are classified as held for sale. Assets classified as held for sale are presented separately from the other assets in the consolidated balance sheet.

3 Financial risk management

(a) Financial risk factors

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to risks and the financial risk management policies and practises used by the Group to manage these risks are described below.

(i) Credit risk

The Group's credit risk are primarily attributable to financial instruments, loan receivables, deposits and other receivables, amounts due from the holding company, fellow subsidiaries, associates and related companies, time deposits, structured bank deposits, financial assets at FVOCI – debt instruments, and cash and cash equivalents. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. In this respect, management considers the credit risk is significantly reduced.

The amounts due from the holding company, fellow subsidiaries, joint ventures, associates and related companies are considered by management to be fully recoverable.

The credit risk on cash and cash equivalents, structured bank deposits and time deposits are placed in reputable financial institutions with sound credit ratings assigned by international credit rating agencies.

For deposits, other receivables and financial assets at FVOCI, management makes periodic collective assessments as well as individual assessment on the recoverability with no significant credit risk identified.

The Group also issued financial guarantees to banks for borrowings of its joint ventures. These guarantees are subject to the impairment requirement of HKFRS 9. The Group assessed those joint ventures have strong financial capacity to meet the contractual cash flow obligation in the near future and hence, does not expect significant credit losses arising from these guarantees.

3 Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(i) Credit risk *(Continued)*

Impairment allowance policies for loan receivables

The Group applies ECL model for impairment assessment and considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. No significant credit risk is conscious for the reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information, especially the following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counter party's ability to meet its obligations
- actual or expected significant changes in the operating results of the counter party
- significant increases in credit risk on other financial instruments of the same counter party
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the counter party, including changes in the payment status of borrower in the Group and changes in the operating results of the counter party

To manage risk arising from loan receivables, standardised credit management procedures are performed. For pre-approval investigation, the Group optimises the review process by using big data technology through its platform and system, including credit analysis, assessment of collectability of borrowers, monitoring the cash flow status, possibility of misconduct and fraudulent activities. In terms of credit examining management, specific policies and procedures are established to assess loans offering. For subsequent monitoring, the Group monitors the cash flow and operation status of each borrowers. Once the loan was issued, all borrowers would be assessed by fraud examination model to prevent fraudulent behaviours.

3 Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(i) ***Credit risk*** *(Continued)*

Impairment allowance policies for loan receivables (Continued)

In post-loan supervision, the Group establishes risk monitoring alert system through periodical monitoring. The estimation of credit exposure for risk management purposes is complex and requires use of models as the exposure varies with changes in market conditions, expected cash flows and passage of time.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring of the associated loss ratios and of default corrections between counterparties. The Group measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"). This is consistent with the general approach used for the purposes of measuring ECL under HKFRS 9.

ECL model for loan receivables, as summarised below:

- The ECL was calculated and provided based on the "three-stages" model by referring to the changes in credit quality since initial recognition.

- The loan receivables that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis.

- If a significant increase in credit risk (as defined below) since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis.

- If the financial instrument is credit-impaired (as defined below), the financial instrument is then moved to "Stage 3". The expected credit loss is measured on lifetime basis.

- In Stages 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial asset subsequently becomes credit-impaired (Stage 3), the Group is required to calculate the interest income by applying the effective interest method in subsequent reporting periods to the amortised cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

3 Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(i) Credit risk *(Continued)*

Impairment allowance policies for loan receivables (Continued)

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

(1) Consideration on whether the loan receivables to have experienced a significant increase in credit risk

The Group considers whether the loan receivables to have experienced a significant increase in credit risk when backstop criteria have been met. A backstop is applied and the loan receivables considered to have experienced a significant increase in credit risk if the borrower is past due on its contractual payments.

(2) Identification of default and credit-impaired assets

The Group identifies a financial instrument as in default, when the borrower is more than 90 days past due on its contractual payments. This has been applied to all loan receivables held by the Group.

(3) Inputs, assumptions and estimation techniques in measuring ECL

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. The ECL are the discounted product of the PD, EAD, and LGD.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each portfolio. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summarised. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

(4) Forward-looking information incorporated in the ECL models

The calculation of ECL incorporate forward-looking information. The Group has performed historical analysis and identified the per capita disposable income of urban residents as the key economic variables impacting credit risk and expected credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

3 Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(i) Credit risk *(Continued)*

Provision for impairment

The provision for impairment recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stage 2 or 3 due to loan receivables experiencing significant increases (or decreases) of credit risk in the period, and the subsequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional provisions for new financial instruments recognised, as well as releases for loan receivables derecognised in the period;
- Loan receivables derecognised and write-offs of provisions related to assets that were written off during the period.

The following tables explain the changes in the provision for impairment of loan receivables between the beginning and the end of the year:

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Provision for impairment of loan receivables as of 1 January 2019	**32,723**	**222,084**	**185,534**	**440,341**
Transfer from stage 1 to stage 2	**(71)**	**13,550**	**–**	**13,479**
Loan receivables originated/(derecognised) during the year	**4,469**	**(7,245)**	**76,178**	**73,402**
Provision for impairment of loan receivables as of 31 December 2019	**37,121**	**228,389**	**261,712**	**527,222**

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Provision for impairment of loan receivables as of 1 January 2018	25,496	175,622	187,085	388,203
Transfer from stage 1 to stage 2	(1,462)	82,516	–	81,054
Loan receivables originated/(derecognised) during the year	8,689	(12,090)	(30,924)	(34,325)
Provision for impairment of loan receivables as of 31 December 2018	32,723	246,048	156,161	434,932

3 Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(i) Credit risk *(Continued)*

Provision for impairment (Continued)

The gross carrying amounts of the loan receivables explain their significance to the changes in the provision above:

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Loan receivables as of 1 January 2019	**14,194,672**	**2,952,229**	**1,093,096**	**18,239,997**
Transfer from stage 1 to stage 2	**(17,224)**	**17,224**	**–**	**–**
Loan receivables (derecognised)/originated during the year other than write-off	**(2,305,385)**	**(146,758)**	**(215,830)**	**(2,667,973)**
Loan receivables as of 31 December 2019	**11,872,063**	**2,822,695**	**877,266**	**15,572,024**

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Loan receivables as of 1 January 2018	11,652,460	2,542,243	619,583	14,814,286
Transfer from stage 1 to stage 2	(1,031,200)	1,031,200	–	–
Transfer from stage 2 to stage 3	–	(214,250)	214,250	–
Loan receivables originated/(derecognised) during the year other than write-off	3,573,412	(406,964)	259,263	3,425,711
Loan receivables as of 31 December 2018	14,194,672	2,952,229	1,093,096	18,239,997

Write-off policy

The Group writes off loan receivables, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity.

The Group may write-off loan receivables that are still subject to enforcement activity.

3 Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(i) Credit risk *(Continued)*

Modification

The Group rarely modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery. The Group considers the impact from such modification is not significant.

(ii) Liquidity risk

The Group is responsible for its own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the board of directors when borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The tables below analyse the Group's financial assets and liabilities into relevant maturity groupings based on their contractual maturities for:

(a) all non-derivative financial assets and liabilities, and

(b) net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

The amounts disclosed in the tables are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

3 Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) ***Liquidity risk*** *(Continued)*

Financial assets

	As at 31 December 2019					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	After 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amounts HK$'000
Derivative financial instruments	3,881	–	–	–	3,881	3,881
Financial assets at fair value through profit or loss and other comprehensive income	816,684	–	–	–	816,684	816,684
Loan receivables	3,111,426	2,854,981	5,616,879	4,998,745	16,582,031	15,044,802
Other receivables (excluding prepayments)	149,128	–	–	–	149,128	149,128
Amounts due from associates, joint ventures and fellow subsidiaries	28,964	–	–	–	28,964	28,964
Cash and cash equivalents and time deposits with maturity over three months	2,066,577	–	–	–	2,066,577	2,066,577
Structured bank deposits	335,653	–	–	–	335,653	335,653
	6,512,313	2,854,981	5,616,879	4,998,745	19,982,918	18,445,689

	As at 31 December 2018					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	After 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amounts HK$'000
Derivative financial instruments	27,623	–	–	–	27,623	27,623
Financial assets at fair value through profit or loss and other comprehensive income	1,456,833	–	–	–	1,456,833	1,456,833
Loan receivables	3,682,543	2,230,199	6,105,591	10,314,592	22,332,925	17,799,656
Other receivables (excluding prepayments)	66,334	–	–	–	66,334	66,334
Amounts due from associates, related companies, joint ventures and fellow subsidiaries	138,939	–	–	–	138,939	138,939
Cash and cash equivalents and time deposits with maturity over three months	2,503,918	–	–	–	2,503,918	2,503,918
Structured bank deposits	312,156	–	–	–	312,156	312,156
	8,188,346	2,230,199	6,105,591	10,314,592	26,838,728	22,305,459

3 Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) ***Liquidity risk*** *(Continued)*

Financial liabilities

	As at 31 December 2019					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	After 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amounts HK$'000
Other payables and accruals (excluding deposits received)	54,490	–	–	–	54,490	54,490
Amounts due to a non-controlling interest, a joint venture and fellow subsidiaries	204,219	–	–	–	204,219	204,219
Bank borrowings	5,824,607	1,836,652	6,941,059	6,243,223	20,845,541	18,397,969
Derivative financial instruments	105,966	–	–	–	105,966	105,966
Lease liabilities	4,920	4,920	14,350	–	24,190	23,654
	6,194,202	1,841,572	6,955,409	6,243,223	21,234,406	18,786,298

	As at 31 December 2018					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	After 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amounts HK$'000
Other payables and accruals (excluding deposits received)	96,682	–	–	–	96,682	96,682
Amounts due to a non-controlling interest, related companies and fellow subsidiaries	505,380	73,110	15,666	3,687	597,843	597,843
Bank borrowings	7,365,170	1,662,407	1,298,462	19,740,874	30,066,913	22,567,489
	7,967,232	1,735,517	1,314,128	19,744,561	30,761,438	23,262,014

3 Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(iii) Cash flow and fair value interest rate risk

The Group's exposure to interest rate risk arises primarily from its bank borrowings with floating interest rate which expose the Group to cash flow interest rate risk. The Group hedges the cash flow volatility risk as the result of the interest rate fluctuation through derivatives such as interest rate swap contracts. The Group switches the floating rate into fixed rate through interest rate swap contract to effectively match the future fixed lease income, and fix the interest spread. The interest rate swap settle at maturity. The Group will settle the difference between the fixed and floating interest rate on a net basis. The Group's hedge relationship between interest rate swaps and the designated hedged items were highly effective.

Interest rate profile

The following table details the interest rate profile of the Group's net borrowing at the end of the each of the reporting period:

	2019 **HK$'000**	2018 HK$'000
Variable rate balances		
Bank borrowings	**15,333,159**	19,980,241

3 Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(iii) Cash flow and fair value interest rate risk *(Continued)*

Instruments used by the Group

Swaps currently in place cover approximately 14% (2018:nil) of the variable loan principal outstanding. The effects of the interest rate swaps on the Group's consolidated financial position and performance are as follows:

	2019 **HK$'000**
Interest rate swaps	
Carrying amount	**(91,392)**
Notional amount	**2,201,340**
Maturity date	**2029**
Change in fair value of outstanding hedging instruments since 1 January	**(74,957)**

Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after taxation and retained profits by HK$128,032,000 (2018: HK$166,835,000). Other components of equity would not be affected by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for both years.

3 Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(iv) Foreign currency risk

The Group has foreign currency sales, purchases and fund remittances, which expose the Group to foreign currency risk. Since the fluctuation of US$ and HK$ is minimal under the Linked Exchanged Rate System, the directors of the Company consider the Group mainly exposes to Euro ("EUR"), Swiss Franc ("CHF"), Singapore dollars ("SGD") and Renminbi ("RMB"). The Group manages the foreign exchange risks by performing regular reviews of the Group's net foreign exchange exposure.

The carrying amounts of the Group's significant foreign currency denominated monetary assets and liabilities as at 31 December 2019 and 2018, are as follows:

	As at 31 December 2019			As at 31 December 2018		
	EUR HK$'000	**SGD HK$'000**	**RMB HK$'000**	EUR HK$'000	SGD HK$'000	RMB HK$'000
Prepayments, deposits and other receivables	**–**	**–**	**12,388**	–	1,585	13,789
Amounts due from fellow subsidiaries	**–**	**–**	**–**	369	–	–
Amounts due from associates	**–**	**23,968**	**–**	–	24,841	–
Structured bank deposits	**–**	**–**	**335,653**	–	–	312,156
Time deposits with maturity over three months	**–**	**–**	**–**	1,381,624	–	–
Cash and cash equivalents	**1,351,998**	**482**	**123,889**	250,633	2,399	54,041
Other payables and accruals	**–**	**–**	**(4,577)**	–	–	(9,938)
Amounts due to fellow subsidiaries	**–**	**–**	**–**	–	–	(15,666)
Net exposure	**1,351,998**	**24,450**	**467,353**	1,632,626	28,825	354,382

3 Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(iv) Foreign currency risk *(Continued)*

The following table details the Group's sensitivity to a 5% increase in the relevant functional currencies against HK$ as at 31 December 2019. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation for 5% change in foreign currency rates during the year. A positive/negative number indicates an increase/a decrease in profit for the year where respective functional currencies strengthening 5% as at 31 December 2019. During the year, for a 5% weakening of respective functional currencies against HK$, there would be an equal but opposite impact on the profit for the year.

	2019 **HK$'000**	2018 HK$'000
EUR	**56,446**	68,162
SGD	**1,021**	1,203
RMB	**19,512**	14,795

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders, issue new shares or sell assets to reduce debt.

The Group monitors its capital on the basis of the gearing ratio. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings and lease liabilities (including "bank borrowings" and "bonds payable" as shown in the consolidated statement of financial position) less cash and bank balances. Total capital is calculated as "equity" shown in the consolidated statement of financial position plus net debt.

3 Financial risk management *(Continued)*

(b) Capital risk management *(Continued)*

The gearing ratios as at 31 December 2019 and 2018 were as follows:

	2019 HK$'000	2018 HK$'000
Borrowings	**18,397,969**	22,567,489
Lease liabilities	**23,654**	–
Less: cash and cash equivalents	**(1,895,182)**	(924,060)
Net debt	**16,526,441**	21,643,429
Total equity	**8,449,244**	5,765,228
Total capital	**24,975,685**	27,408,657
Gearing ratio	**66%**	79%

Loan covenants

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants:

- the debt to equity ratio must be not more than 85%, and
- the ratio of net finance cost to earnings before interest, tax, depreciation and amortisation ("EBITDA") must be not more than 66%.

The Group has complied with these covenants throughout the reporting period. As at 31 December 2019, the ratio of net finance cost to EBITDA was 44% (2018: 57%).

3 Financial risk management *(Continued)*

(c) Fair value estimation

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

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

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

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

The following table presents the Group's financial assets and financial liabilities that are measured at fair value as at:

3 Financial risk management *(Continued)*

(c) Fair value estimation *(Continued)*

Fair value hierarchy

	Notes	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2019					
Financial assets					
Derivative financial assets	17	**–**	**3,881**	**–**	**3,881**
Financial assets at fair value through profit or loss	19	**–**	**–**	**39,460**	**39,460**
Financial assets at fair value through other comprehensive income	20	**777,224**	**–**	**–**	**777,224**
Structured bank deposits	22	**–**	**335,653**	**–**	**335,653**
Total financial assets at fair value		**777,224**	**339,534**	**39,460**	**1,156,218**
Financial liabilities					
Derivative financial liabilities	17	–	105,966	–	105,966
At 31 December 2018					
Financial assets					
Derivative financial assets	17	–	27,623	–	27,623
Financial assets at fair value through profit or loss	19	197,704	–	187,955	385,659
Financial assets at fair value through other comprehensive income	20	914,548	–	156,626	1,071,174
Structured bank deposits	22	–	312,156	–	312,156
Total financial assets at fair value		1,112,252	339,779	344,581	1,796,612

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

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

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

3 Financial risk management *(Continued)*

(c) Fair value estimation *(Continued)*

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

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

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

Description	Fair value at 31 December 2019 HK$'000	Fair value at 31 December 2018 HK$'000	Unobservable inputs	Range of inputs 2019	Range of inputs 2018	Relationship of unobservable inputs to fair value
Investments in wealth management portfolio	39,460	187,955	Expected rate of return	5%-6%	5%-6%	The higher the expected rate of return the higher the fair value
			Expected volatility	20%	20%	
Debt instruments-unlisted debts	–	156,626	Discount rate for lack of marketability	N/A	15%-20%	The higher the discount rate for lack of marketability, the lower the fair value

There were no significant inter-relationships between unobservable inputs that materially affect fair values.

It is estimated that on the assumption of a movement of 5% increase/decrease of (i) the expected volatility; and/or (ii) the expected rate of return, where applicable, with all other variables held constant, the profit before income tax for the year ended 31 December 2019 would have been increased/decreased by approximately HK$1,089,000 (2018: HK$887,000) and the Group's equity would have been increased/decreased by approximately HK$3,460,000 (2018: HK$3,005,000), which are not significant to the financial performance and financial position of the Group.

3 Financial risk management *(Continued)*

(c) Fair value estimation *(Continued)*

Valuation processes

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

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

- Discount rates for financial assets and financial liabilities are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.

- Risk adjustments specific to the counterparties (including assumptions about credit default rates) are derived from credit risk grading determined by internal credit risk management of Group.

- Earnings growth factor for unlisted equity securities are estimated based on market information for similar types of companies.

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

There was no transfer among level 1, 2 and 3 during the year.

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

(d) Offsetting financial assets and financial liabilities

There is no material offsetting, enforceable master netting arrangement and similar agreements as at 31 December 2019 and 2018.

4 Significant accounting judgments and estimates

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

In the process of applying the Group's accounting policies, management has made the following judgments and estimates, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(i) Classification of leases

The Group has entered into certain agreements whereby the Group has determined that it has transferred substantially all the risks and rewards incidental to ownership of the leased vessels to the lessees/borrowers, as the present values of the minimum lease payments of the lease amounts to at least substantially all of the fair value of the leased assets at the inception of the leases. Accordingly, the Group has excluded the vessels from its consolidated statements of financial position and has instead, recognised finance lease receivables. Otherwise the Group includes the vessels under operating lease in property, plant and equipment.

The determination of whether the Group has transferred substantially all the risks and rewards incidental to ownership depends on an assessment of the relevant arrangements relating to the lease and this has involved critical judgments by management. In particular, management assessed the lease term, the present value of minimum lease payments, the nature of leased assets, and that there were no ownership transfers and no purchase options at the end of the lease terms. The key judgments are in respect of the economic lives and fair values of the leased assets and the incremental borrowing rate in the calculation of the present value of minimum lease payments, and whether the purchases option will be exercised.

4 Significant accounting judgments and estimates *(Continued)*

(ii) Impairment loss for loan receivables

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period, and the ECL was calculated and provided based on "three-stages" model by referring to the changes in credit quality since initial recognition. For loan receivables classified into stages 1, the ECL is measured on 12-month basis. For loan receivables classified into stages 2 and 3, the ECL is measured on lifetime basis.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default corrections between counterparties. The Group measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD").

The Group uses judgments in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting periods, primarily including the following:

(1) Consideration on whether the loan receivables to have experienced a significant increase in credit risk

(2) Identification of default and credit-impaired assets

(3) Inputs, assumptions and estimation techniques in measuring ECL

(4) Forward-looking information incorporated in the ECL models

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 3(a)(i) to the consolidated financial statements.

(iii) Useful lives and residual value of property, plant and equipment

The Group estimates residual values of its vessels by reference to the lightweight tonnes of the vessels and the average demolition steel price of similar vessels in the market.

The Group estimates the useful life of its vessels with reference to the average historical useful life of similar vessels, their expected usage, expected repair and maintenance programme, and technical or commercial obsolescence arising from changes or improvements in the shipping market.

4 Significant accounting judgments and estimates *(Continued)*

(iv) Impairment of property, plant and equipment

The Group regularly reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of property, plant and equipment is lower than its recoverable amount which is the greater of its net selling price or its value in use. In determining the value in use, the Group assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgments are applied in determining these future cash flows and the discount rate. The Group estimates the future cash flows based on certain assumptions, such as market competition and development and the expected growth in business.

(v) Income taxes

Significant management judgments on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are made accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

(vi) Estimation of the fair values of financial assets

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these financial assets.

(vii) Lease term and discount rate determination

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

In determining the discount rate, the Group is required to exercise considerable judgment in relation to determining the discount rate taking into account the nature of the underlying asset and the terms and conditions of the leases, at both the commencement date and the effective date of the modification.

5 Segment information and revenue

The chief operating decision-maker ("CODM") has been identified as the executive directors of the Group. 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) shipbroking services and (iii) loan borrowings.

The segment information provided to the executive directors for the years ended 31 December 2019 and 2018 are as follows:

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

	Leasing services HK$'000	**Shipbroking services** HK$'000	**Loan borrowings** HK$'000	**Total** HK$'000
For the year ended 31 December 2019				
Segment revenue	**1,556,992**	**56,332**	**681,073**	**2,294,397**
Inter-segment revenue	**–**	**–**	**–**	**–**
Revenue from external customers	**1,556,992**	**56,332**	**681,073**	**2,294,397**
For the year ended 31 December 2018				
Segment revenue	1,493,262	102,826	508,723	2,104,811
Inter-segment revenue	–	–	–	–
Revenue from external customers	1,493,262	102,826	508,723	2,104,811

Commission income, including in shipbroking services segment, are recognised at point in time method during the year.

5 Segment information and revenue *(Continued)*

Segment assets and liabilities

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

Geographic information

During the year, the Group provided a majority of leasing services and financing and other services to customers mainly located in PRC, Asia, United States and Europe.

The Group's assets, consisted of its property, plant and equipment, right-of-use assets, joint ventures, associates, financial instruments and others. The vessels (included in property, plant and equipment) are primarily utilised across geographical markets throughout the world. Accordingly, it is impractical to present the locations of the vessels by geographical areas and thus presented as unallocated assets.

Revenue by business activities

	2019 HK$'000	2018 HK$'000
Finance lease income	**658,781**	892,080
Operating lease income	**898,211**	601,182
Interest income from loan borrowings	**681,073**	508,723
Commission income	**56,332**	102,826
	2,294,397	2,104,811

6 Other income

Other income recognised during the year are as follows:

	2019 HK$'000	2018 HK$'000
Dividend income	**29,342**	47,545
Interest income from		
– financial assets at fair value through profit or loss	**3,495**	4,940
– financial assets at fair value through other comprehensive income	**25,499**	29,888
– bank deposits	**46,045**	85,130
– amounts due from fellow subsidiaries	**–**	20,796
	104,381	188,299

7 Finance costs and bank charges

	2019 HK$'000	2018 HK$'000
Interest and charges on bonds	**–**	19,499
Interest and charges on borrowings	**917,757**	1,129,161
Interest on lease liabilities	**107**	–
Bank charges	**1,537**	1,660
	919,401	1,150,320
Less: finance costs capitalised	**(79,668)**	(104,165)
	839,733	1,046,155

Note: Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings during the year, in this case 4.52% (2018: 4.60%).

8 Profit from operations

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

	2019 HK$'000	2018 HK$'000
Depreciation on		
– Property, plant and equipment	**(234,834)**	(150,192)
– Right-of-use assets	**(3,466)**	–
Foreign exchange loss, net	**(27,827)**	(297,399)
Employee benefit expenses (note 10)	**(62,818)**	(51,235)
Net unrealised (loss)/gain on changes in fair value of derivative financial instruments	**(38,587)**	45,750
Net realised loss from derivative financial instruments	**(9,784)**	–
Net realised gain on disposal of debt instruments at fair value through other comprehensive income	**5,219**	–
Net realised gain from financial assets at fair value through profit or loss	**21,346**	–
Net unrealised loss on changes in fair value of financial assets at fair value through profit or loss	**(441)**	(6,849)
Net loss on de-recognition of finance lease receivables	**(99,990)**	–
Auditor remuneration		
– Audit services	**5,300**	3,792
– Non-audit services	**2,049**	355

9 Income tax (expense)/credit

The Group mainly operates in Hong Kong, PRC, British Virgin Islands and Marshall Islands.

Hong Kong profits tax is provided at 16.5% (2018: 16.5%) based on assessable profits arising in Hong Kong during the year ended 31 December 2019.

For the year ended 31 December 2019, the PRC corporate income tax is charged at the statutory rate of 25% (2018: 25%) of the assessable income as determined with the relevant tax rules and regulations of the PRC.

Income tax (expense)/credit in the consolidated statement of comprehensive income represents:

	2019 **HK$'000**	2018 HK$'000
PRC corporate income tax		
– current year	**(11,837)**	(9,376)
– over-provision in prior years	**–**	44
	(11,837)	(9,332)
Deferred tax	**–**	11,439
Income tax (expense)/credit	**(11,837)**	2,107

9 Income tax (expense)/credit *(Continued)*

Reconciliation between income tax (expense)/credit and profit before income tax at the applicable tax rate:

	2019 **HK$'000**	2018 HK$'000
Profit before income tax	**904,216**	704,415
Less:		
Share of results of associates	**(3,021)**	(81,004)
Share of results of joint ventures	**(53,547)**	–
	847,648	623,411
Calculated at tax rate of 16.5%	**(139,861)**	(102,863)
Effect of different tax rates in other countries	**433,074**	151,041
Income not subject to tax	**70,187**	82,497
Expenses not deductible for tax purpose	**(78,067)**	(141,446)
Tax effect of tax loss not recognised	**(297,170)**	(1,320)
Utilisation of previously unrecognised tax loss	**–**	2,715
Withholding tax for associates' undistributed earnings	**–**	11,439
Over-provision in prior years	**–**	44
Income tax (expense)/credit	**(11,837)**	2,107

At 31 December 2019, the Group has not recognised deferred income tax assets in respect of tax losses of approximately HK$18,324,000 (2018: HK$8,134,000). Deferred income tax assets have not been recognised in respect of these losses due to the unpredictability of future profit streams. The Group had no other significant deferred taxation not provided for during the year ended 31 December 2019. Deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in PRC. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such unremitted earnings in the unforeseeable future.

At 31 December 2019, the Group's tax losses will expire:

	2019 **HK$'000**	2018 HK$'000
No expiry date	**111,054**	49,297

10 Employee benefits expenses

	2019 HK$'000	2018 HK$'000
Wages, salaries, and other allowances (including directors' emoluments)	**53,101**	45,824
Retirement benefit costs	**9,717**	5,411
	62,818	51,235

(a) Five highest paid individuals

The five individuals whose remuneration were the highest in the Group include 2 directors (2018: 2 directors) for the year ended 31 December 2019, whose remuneration are reflected in the analysis presented in note 11.

The remuneration paid to the remaining 3 individuals are as follows:

	2019 HK$'000	2018 HK$'000
Wages, salaries, and other allowances	**6,506**	4,710
Retirement benefit costs	**599**	514
	7,105	5,224

The number of non-director highest paid employees whose remuneration fell within the following band is as follows:

	2019 HK$'000	2018 HK$'000
HK$1,500,001 to HK$2,000,000	**–**	3
HK$2,000,001 to HK$2,500,000	**3**	–

No incentive payment for joining the Group or compensation for loss of office was paid or payable to any of the five highest paid individuals during the year ended 31 December 2019 (2018: nil).

11 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)

(a) Directors' emoluments

The remuneration represents remuneration received from the Group by these directors in their capacity as employees to the Company and no directors waived any emolument during the year ended 31 December 2019.

The remuneration of every director are set out below:

2019 Name of Directors	Fees HK$'000	Salary and allowances HK$'000	Discretionary bonuses HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000	2018 Total HK$'000
Chairman and Executive Directors						
YANG LI[2]	–	1,280	2,370	262	3,912	1,797
Executive Director						
HU KAI[2]	–	968	2,032	293	3,293	1,346
Non-Executive Directors						
LI WEI[2]	–	–	–	–	–	–
ZHONG JIAN[2]	–	–	–	–	–	–
ZOU YUANJING[2]	–	–	–	–	–	–
Independent Non-Executive Directors						
WONG YAU KAR	150	–	–	–	150	–
SHING MO HAN	150	–	–	–	150	–
LI HONG JI	150	–	–	–	150	–
Total	450	2,248	4,402	555	7,655	–
2018	1,728	980	40	395	–	3,143

11 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) *(Continued)*

(a) Directors' emoluments *(Continued)*

Note:

1. The bonus is determined with reference to the operating results individual performance and comparable market statistics during both years.

2. Director fee for the year had been waived by respective directors (2018: nil).

3. During 2019, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2018: Nil). No consideration was provided to or receivable by third parties for making available directors' services (2018: Nil). There are no loans, quasiloans or other dealings in favour of the directors, their controlled body corporate and connected entities (2018: Nil). No incentive payment for joining the Group or compensation for loss of office was paid or payable to any of the Directors during the year ended 31 December 2019 (2018: Nil).

4. Mr. Yang Li and Mr. Hu Kai were re-designated as the Company's executive directors on 28 September 2018. Mr. Dr. Wong Yau Kai David, Mdm. Shing Ho Han Yvnonne, and Mr. Li Hongj were appointed as the Company's independent non-executive directors on 6 May 2019.

12 Earnings per share

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to equity holders of the Company divided by the weighted average number of ordinary shares in issue during the year.

The basic and diluted earnings per share are the same since there are no potential dilutive shares.

	2019	2018
Profit attributable to equity holders of the Company (in HK$'000)	**883,089**	690,089
Weighted average number of ordinary shares in issue ('000) (note)	**5,434,200**	4,602,046
Earnings per share (in HK$)	**0.163**	0.150

Note: The weighted average of 786,986,301 ordinary shares used in the calculation of basic earnings per share for the year ended 31 December 2019 comprising: (i) 4,602,046,000 ordinary shares of the Company in issue as at 31 December 2018; and (ii) 1,534,020,000 ordinary shares offered to the public issued on 17 June 2019.

13 Property, plant and equipment

	Construction in progress HK$'000	Vessels HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost						
At 1 January 2019	1,691,194	5,780,764	2,287	4,810	297	7,479,352
Additions	2,047,109	393,896	–	329	1,535	2,442,869
Transfer	(2,120,525)	2,120,525	–	–	–	–
Transfer to asset held for sale (note 23)	–	(49,592)	–	–	–	(49,592)
Exchange differences	(9,053)	(28,621)	(38)	175	(24)	(37,561)
At 31 December 2019	1,608,725	8,216,972	2,249	5,314	1,808	9,835,068
Accumulated depreciation						
At 1 January 2019	–	683,878	1,404	3,007	178	688,467
Charge for the year	–	233,567	387	583	297	234,834
Transfer to asset held for sale (note 23)	–	(953)	–	–	–	(953)
Exchange differences	–	(3,451)	(28)	296	(7)	(3,190)
At 31 December 2019	–	913,041	1,763	3,886	468	919,158
Net carrying amount						
At 31 December 2019	1,608,725	7,303,931	486	1,428	1,340	8,915,910
At 1 January 2018	1,988,497	4,614,267	2,201	3,890	297	6,609,152
Additions	868,684	–	–	920	–	869,604
Transfer	(1,166,049)	1,166,049	–	–	–	–
Exchange differences	62	448	86	–	–	596
At 31 December 2018	1,691,194	5,780,764	2,287	4,810	297	7,479,352
Accumulated depreciation						
At 1 January 2018	–	536,078	1,014	2,327	118	539,537
Charge for the year	–	149,062	390	680	60	150,192
Exchange differences	–	(1,262)	–	–	–	(1,262)
At 31 December 2018	–	683,878	1,404	3,007	178	688,467
Net carrying amount						
At 31 December 2018	1,691,194	5,096,886	883	1,803	119	6,790,885

13 Property, plant and equipment *(Continued)*

At 31 December 2019, certain items of the Group's property, plant and equipment with aggregate net carrying amounts of HK$2,514,736,000 (2018: HK$2,745,739,000), were pledged to secure general banking facilities granted to the Group.

No property, plant and equipment were written off during the year (2018: none).

13(b) Leases

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	2019 HK$'000	**1 January 2019*** HK$'000
Right-of-use assets		
Office	23,685	3,572
Lease liabilities	23,654	3,577

Additions to the right-of-use assets during the year were HK$23,578,914.

(ii) Amounts recognised in the consolidated income statement

The consolidated income statement shows the following amounts relating to leases:

	2019 **HK$'000**	2018 HK$'000
Depreciation charge of right-of-use assets		
Office	**(3,466)**	–
Interest expense (included in finance cost)	**(107)**	–

The total cash outflow for leases in 2019 was HK$3,609,000.

13(b) Leases *(Continued)*

(iii) The Group's leasing activities and how these are accounted for

The Group leases various offices. Rental contracts are typically made for fixed periods of 2 years to 5 years without any extension options.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

14 Interests in joint ventures

	2019 **HK$'000**	2018 HK$'000
At the beginning of the year	**8**	8
Capital Injection	**157,689**	–
Share of results of joint ventures	**53,547**	–
Exchange differences	**60**	–
At the end of the year	**211,304**	8

Particulars of the Group's joint ventures as at 31 December 2019 are as follows:

Name	**Place of incorporation/ registration and operation**	**Percentage of equity attributable to the Company at 31 December** **2019**	2018	**Principal activities**
Ocean Classic Limited (note i)	British Virgin Islands ("BVI")	**50%**	50%	Chartering services
Sino-sin Shipping Company Limited	Bermuda	**50%**	50%	Vessel owning
Vista Shipping Limited	Marshall Islands	**50%**	50%	Vessel owning and chartering
Zhendui Industrial Intelligent Technology Co., Ltd.	The PRC	**18%**	–	Marine technology

14 Interests in joint ventures *(Continued)*

(i) Summarised financial information for a material joint venture

The tables below provide summarised financial information for a joint venture that is material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant joint venture and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	Ocean Classic Limited	
	2019	2018
	HK$'000	HK$'000
Assets	**2,369,706**	16
Liabilities	**(2,200,607)**	–
Revenue	**404,125**	–
Profit after income tax	**169,099**	–

Reconciliation of summarised financial information

	Ocean Classic Limited	
	2019	2018
	HK$'000	HK$'000
Opening net assets 1 January	**16**	16
Profit for the year	**169,099**	–
Currency translation differences	**120**	–
Closing net assets as at 31 December	**169,235**	16
Interest in joint venture	**50%**	50%
Share of net assets	**84,618**	8
Carrying value	**84,618**	8

14 Interests in joint ventures *(Continued)*

(ii) The aggregate amount of the Group's share of results of its joint ventures and associates which are individually immaterial are as follows:

	2019 **HK$'000**	2018 HK$'000
Loss and total comprehensive loss for the year	**215**	–

(iii) Commitments and contingent liabilities of joint ventures attributable to the Group

	As at 31 December 2019 **HK$'000**	As at 31 December 2018 HK$'000
Capital commitment:		
Construction of vessels	**629,542**	847,588

15 Interests in associates

	2019 **HK$'000**	2018 HK$'000
At the beginning of the year	**15,938**	5,881,965
Share of impact of adoption of HKFRS 9	**–**	(47,602)
Share of results of associates	**3,021**	81,004
Share of other comprehensive income	**–**	22,389
Capital injection	**16,742**	–
Share of other reserves	**–**	352,750
Dividends	**–**	(67,297)
Disposals	**–**	(6,378,128)
Exchange differences	**(83)**	170,857
At the end of the year	**35,618**	15,938

15 Interests in associates *(Continued)*

Particulars of the Group's associates as at 31 December 2019 and 2018 are as follows:

Name	Place of incorporation/ registration and operation	Percentage of equity attributable to the Company at 31 December 2019	2018	Principal activities
Nor Solan I Pte Ltd	Singapore	**28%**	28%	Chartering services
Nor Solan II Pte Ltd	Singapore	**28%**	28%	Chartering services
Guoxin CSSC (Qing dao) Marine Technology Company Limited* 國信中船(青島)海洋科技	The PRC	**25%**	–	Marine technology

There were no contingent liabilities relating to the Group's interests in the associates and no significant contingent liabilities in relation to the associates themselves as at 31 December 2019 (2018: none).

* The English name of the associate represents the best effort by the management of the Group in translating their Chinese names as they do not have an official English name.

16 Loan receivables

	As at 31 December 2019 Gross amount HK$'000	Impairment loss HK$'000	Net carrying amount HK$'000
Loan borrowings (note a)	**7,847,210**	**(214,626)**	**7,632,584**
Finance lease receivables (note b)	**7,126,488**	**(312,476)**	**6,814,012**
Loans to joint ventures (note c)	**598,326**	**(120)**	**598,206**
	15,572,024	**(527,222)**	**15,044,802**

	As at 31 December 2018 Gross amount HK$'000	Impairment loss HK$'000	Net carrying amount HK$'000
Loan borrowings (note a)	7,892,193	(88,077)	7,804,116
Finance lease receivables (note b)	9,842,197	(352,264)	9,489,933
Loans to joint ventures (note c)	505,607	–	505,607
	18,239,997	(440,341)	17,799,656

16 Loan receivables *(Continued)*

(a) Loan borrowings

As at 31 December 2019, loan borrowings were secured, interest bearing at rates ranging from 4.7% to 15.0% (2018: 4.9% to 15.0%) per annum and repayable in 2020 to 2026.

As at 31 December 2019 and 2018, none of the loan borrowings had been written off.

A maturity profile of the loan borrowings based on the maturity date, net of provisions, is as follows:

	2019 **HK$'000**	2018 HK$'000
Within 1 year	**987,993**	1,010,119
More than 1 year but less than 2 years	**932,942**	630,629
Between 2 to 5 years	**3,023,641**	1,661,565
Over 5 years	**2,688,008**	4,501,803
	7,632,584	7,804,116

(b) Finance lease receivables

During the year, the amounts are secured and interest bearing at rates ranging as below:

	2019	2018
Finance lease receivables	**5,461,527**	8,137,386
Guaranteed residual value	**2,889,594**	3,966,033
Gross investment in leases	**8,351,121**	12,103,419
Less: unearned finance income	**(1,224,633)**	(2,261,222)
Net investments in leases	**7,126,488**	9,842,197
Less: accumulated allowance for impairment	**(312,476)**	(352,264)
Finance lease receivables – net	**6,814,012**	9,489,933
Finance lease receivables	**4% – 10%**	4% – 10%

16 Loan receivables *(Continued)*

(b) Finance lease receivables *(Continued)*

Reconciliation between the gross investment in finance leases at the end of each reporting periods and the present value of minimum lease payments receivable under such leases are set out below.

	2019 HK$'000	2018 HK$'000
Gross investment in finance leases	**8,351,121**	12,103,419
Less: unguaranteed residual values	**–**	–
Minimum lease payments receivable	**8,351,121**	12,103,419
Less: unearned finance income related to minimum lease payments receivable	**(1,224,633)**	(2,261,222)
Present value of minimum lease payments receivable	**7,126,488**	9,842,197

The table below analyses the Group's gross investment in finance leases by relevant maturity groupings.

	2019 HK$'000	2018 HK$'000
Gross investment in finance leases		
– Within 1 year	**1,525,107**	1,872,853
– More than 1 year but less than 2 years	**1,922,039**	1,341,362
– Between 2 to 5 years	**2,593,238**	3,720,179
– Over 5 years	**2,310,737**	5,169,025
	8,351,121	12,103,419

As at 31 December 2019 and 2018, none of the finance lease receivables had been written off.

16 Loan receivables *(Continued)*

(c) Loans to joint ventures

Loans to joint ventures were unsecured, interest bearing at rates ranging from 4.89% to 5.63% (2018: 4.69% to 5.30%) per annum for the year ended 31 December 2019, and repayable on demand.

Movement of the provision of impairment loss of the Group are as follows:

	HK$'000
At 1 January 2018	388,203
Provision for during the year	65,948
Reversal of during the year	(13,810)
At 31 December 2018 and 1 January 2019	440,341
Provision for during the year	188,248
Reversal of during the year	(101,367)
At 31 December 2019	527,222

As at 31 December 2019 and 2018, there was no loan receivables past due but not impaired.

Following the Coronavirus Disease 2019 ("COVID-19 outbreak") outbreak, the Group expects a longer loan receivables turnover time and some may become overdue, which led to an increase in the expected credit loss ratios on loan receivables. Up to the date on which this set of financial statements were authorised for issue, the impacts of the COVID-19 outbreak on the Group's customers' financial positions and the macro-economic conditions as a whole are still uncertain. The Group will pay close attention to the development of the COVID-19 outbreak, perform further assessment of its impact and take relevant measures.

17 Derivative financial instruments

	2019 HK$'000	2018 HK$'000
Assets		
Interest rate swap – held for trading	**299**	–
Interest rate swap – cash flow hedges	**3,582**	–
Cross currency swap	**–**	27,623
	3,881	27,623
Liabilities		
Interest rate swap – held for trading	**(4,509)**	–
Interest rate swap – cash flow hedges	**(94,974)**	–
Cross currency swap	**(6,483)**	–
	(105,966)	–

Interest rate swap

As at 31 December 2019, the notional principal amounts of the outstanding interest rate swap for the Group were US$433,236,000, approximately equivalent to HK$3,375,212,000 (2018: US$665,760,000, approximately equivalent to HK$5,186,736,000).

Cross currency swap

As at 31 December 2019, the Group has entered cross currency swap contracts with total notional principal amounts of US$140,000,000, approximately equivalent to HK$1,090,698,000 (2018: US$500,000,000, approximately equivalent to HK$3,895,350,000).

(i) Fair value measurement

For information about the methods and assumptions used in determining the fair value of derivatives, please refer to note 3(c).

17 Derivative financial instruments *(Continued)*

Cross currency swap *(Continued)*

(ii) Hedging reserves

The Group's hedging reserves disclosed in consolidated statement of changes in equity relate to the following hedging instruments:

	Interest rate swaps HK$'000	**Hedging reserves** HK$'000
Opening balance at 1 January 2019	–	–
Add: Change in fair value of hedging instrument recognised in other comprehensive income	(67,055)	(67,055)
Closing balance at 31 December 2019	(67,055)	(67,055)

(iii) Amounts recognised in consolidated income statement

In addition to the amounts disclosed in the reconciliation of hedging reserves above, the following amounts were recognised in consolidated income statement in relation to derivatives:

	2019 **HK$'000**	2018 HK$'000
Net (loss)/gain on interest rate swap not qualifying as hedges included in other (losses)/gain	**(38,587)**	45,750

17 Derivative financial instruments *(Continued)*

Cross currency swap *(Continued)*

(iv) Amounts recognised in profit or loss

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, there is an economic relationship.

Hedge ineffectiveness for interest rate swaps is assessed by using hypothetical derivative which has terms that mirror those of the hedged item. It may occur due to:

- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and

- differences in critical terms between the interest rate swaps and loans.

18 Prepayments, deposits and other receivables

	2019	2018
	HK$'000	HK$'000
Prepayments	**15,567**	197,769
Interest receivables	**71,021**	54,088
Other receivables	**78,107**	12,246
	164,695	264,103

The carrying amounts of these receivables of the Group approximate their fair values.

19 Financial assets at fair value through profit or loss

	2019 HK$'000	2018 HK$'000
Investments in wealth management portfolio	**39,460**	385,659

The movements of financial assets at fair value through profit or loss are as follows:

	2019 HK$'000	2018 HK$'000
At 1 January	**385,659**	277,593
Addition during the year	**39,901**	197,704
Disposal during the year	**(407,005)**	(82,789)
Net change in fair value	**20,905**	(6,849)
At 31 December	**39,460**	385,659

20 Financial assets at fair value through other comprehensive income

	2019 HK$'000	2018 HK$'000
Equity instrument		
– Listed perpetual securities	**574,198**	520,614
Debt instrument		
– Listed debts	**203,026**	393,934
– Unlisted debt	**–**	156,626
	777,224	1,071,174

20 Financial assets at fair value through other comprehensive income *(Continued)*

The movements of financial assets at fair value through other comprehensive income are as follows:

	Equity instruments HK$'000	**Debt instruments HK$'000**	**Total HK$'000**
At 1 January 2019	**520,614**	**550,560**	**1,071,174**
Addition during the year	**–**	**1,597**	**1,597**
Disposal during the year	**–**	**(368,494)**	**(368,494)**
Net change in fair value	**53,584**	**19,363**	**72,947**
At 31 December 2019	**574,198**	**203,026**	**777,224**

	Equity instruments HK$'000	Debt instruments HK$'000	Total HK$'000
At 1 January 2018	653,398	176,330	829,728
Addition during the year	–	397,407	397,407
Disposal during the year	(77,594)	–	(77,594)
Net change in fair value	(55,190)	(23,177)	(78,367)
At 31 December 2018	520,614	550,560	1,071,174

21 Amounts due from/(to) associates, fellow subsidiaries, joint ventures, related companies and a non-controlling interest

	2019 HK$'000	2018 HK$'000
Amounts due from associates	**23,968**	24,841
Amounts due from fellow subsidiaries	**220**	114,098
Amounts due from joint ventures	**4,776**	–

	2019 HK$'000	2018 HK$'000
Amounts due to related companies	**–**	(70,433)
Amounts due to fellow subsidiaries	**(20,179)**	(439,013)
Amount due to a joint venture	**(96,118)**	–
Amount due to a non-controlling interest	**(87,922)**	(88,397)

21 Amounts due from/(to) associates, fellow subsidiaries, joint ventures, related companies and a non-controlling interest *(Continued)*

The amounts due from fellow subsidiaries are unsecured, interest free, repayable on demand and are denominated in HK$, US$ and CHF which are non-trade nature.

The amount due to a non-controlling interest is unsecured, interest free, repayable on demand and denominated in US$, which are non-trade nature.

The amounts due to fellow subsidiaries are unsecured, interest free and mainly denominated in US$. As at 31 December 2018, except for the amounts in aggregate of HK$346,550,000, which are repayable within one year, which are non-trade nature, the remaining balance is not repayable within one year from the end of each reporting periods. All the remainings are trade nature.

The amounts due from/(to) related companies and joint ventures are unsecured, interest free, repayable on demand and denominated in HK$ and US$, which are non-trade nature.

22 Cash at bank

	2019 **HK$'000**	2018 HK$'000
Time deposits with maturity over three months	**171,395**	1,579,858
Cash at bank and on hand	**1,895,182**	924,060
Total	**2,066,577**	2,503,918
Structured bank deposits	**335,653**	312,156

22 Cash at bank *(Continued)*

The carrying amounts of the Group's cash and cash equivalents and time deposits are denominated in following currencies:

	2019 HK$'000	2018 HK$'000
EUR	**1,351,998**	1,632,256
HK$	**7,906**	60,594
RMB	**123,889**	54,041
SGD	**482**	2,399
US$	**582,302**	754,628
	2,066,577	2,503,918

The short-term bank deposits are with original maturity over three months and carried interests at the prevailing market interest during the year. The effective interest rate on deposits with bank as at 31 December 2019 is 2.29% (2018: 4.11%) per annum.

As 31 December 2019, the bank balances of the Group denominated in RMB amounted to HK$123,889,000 (2018: HK$54,014,000). These bank balances are not freely convertible into other currencies, however, subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

As at 31 December 2019, the Group's structured bank deposits are principal-protected and placed with the PRC banks. These deposits are with original maturity dates more than three months, interest bearing, denominated in RMB. The carrying amounts of structured bank deposits approximate their fair values.

23 Asset held for sale

	2019 HK$'000	2018 HK$'000
Vessel	**48,639**	–

In August 2019, the directors of the Group intended to sell a vessel which was under operating lease arrangement. The vessel was consequently present as asset held for sale in the consolidated financial statements. The sales transaction was completed in January 2020 at a consideration of US$8,000,000 (approximately equivalent to HK$62,325,600).

24 Borrowings

	2019 HK$'000	2018 HK$'000
Bank borrowings – secured	**18,397,969**	22,567,489

Bank borrowings

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

	2019 HK$'000	2018 HK$'000
On demand and within 1 year	**5,621,747**	7,159,770
More than 1 year but less than 2 years	**1,711,312**	1,566,560
Between 2 to 5 years	**6,017,514**	1,177,954
After 5 years	**5,047,396**	12,663,205
	18,397,969	22,567,489

The weighted average interest rates of the borrowings of the Group for the years ended 31 December 2019 and 2018 were as follows:

	2019	2018
Bank borrowings	**From 2.69% to 4.60%**	from 2.87% to 4.98%

24 Borrowings *(Continued)*

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of each reporting periods is as follows:

	2019	2018
Variable rate balances		
Bank borrowings	**15,333,159**	19,980,241

As at 31 December 2019 and 2018, the Group's bank borrowings were secured by certain of property, plant and equipment and the ultimate holding company's guarantee.

25 Other payables and accruals

	2019	2018
Accruals	**17,825**	15,660
Deposits received	**438,732**	262,168
Other payables	**36,665**	81,022
	493,222	358,850

The carrying amount of other payables and accruals are considered to be the same as their fair values, due to their short-term nature.

26 Share capital

Ordinary shares, issued and fully paid:

	Numbers of shares ('000)	Share capital HK$'000
At 31 December 2018 and 1 January 2019	**4,602,046**	4,602,046
Issues of shares by public offering (note)	**1,534,020**	2,012,420
At 31 December 2019	**6,136,066**	6,614,466

Note:

1,534,020,000 ordinary shares, were issued by way of the public offering on the Main Board of The Stock Exchange of Hong Kong at a price of HK$1.34 per share on 17 June 2019. The net proceeds raised by the Company after deducting the capitalised listing expenses of HK$43,167,000 were approximately HK$2,012,420,000.

27 Financial instruments by category

(a) Financial assets

As at 31 December 2019

	Amortised at cost HK$'000	Financial assets at fair value through profit or loss HK$'000	Financial assets at fair value through other comprehensive income HK$'000	Total HK$'000
Derivative financial assets	–	3,881	–	3,881
Financial assets at fair value through profit or loss	–	39,460	–	39,460
Financial assets at fair value through other comprehensive income	–	–	777,224	777,224
Loan receivables	15,044,802	–	–	15,044,802
Other receivables (excluding prepayments)	149,128	–	–	149,128
Amounts due from associates	23,968	–	–	23,968
Amounts due from fellow subsidiaries	220	–	–	220
Amounts due from joint ventures	4,776	–	–	4,776
Time deposits with maturity over three months	171,395	–	–	171,395
Cash and cash equivalents	1,895,182	–	–	1,895,182
Structured bank deposits	–	335,653	–	335,653
Total	17,289,471	378,994	777,224	18,445,689

As at 31 December 2018

	Amortised at cost HK$'000	Financial assets at fair value through profit or loss HK$'000	Financial assets at fair value through other comprehensive income HK$'000	Total HK$'000
Derivative financial assets	–	27,623	–	27,623
Financial assets at fair value through profit or loss	–	385,659	–	385,659
Financial assets at fair value through other comprehensive income	–	–	1,071,174	1,071,174
Loan receivables	17,799,656	–	–	17,799,656
Other receivables (excluding prepayments)	66,334	–	–	66,334
Amounts due from fellow subsidiaries	114,098	–	–	114,098
Amounts due from associates	24,841	–	–	24,841
Time deposits with maturity over three months	1,579,858	–	–	1,579,858
Cash and cash equivalents	924,060	–	–	924,060
Structured bank deposits	–	312,156	–	312,156
Total	20,508,847	725,438	1,071,174	22,305,459

27 Financial instruments by category *(Continued)*

(b) Financial liabilities

As at 31 December 2019

	Financial liabilities at amortised cost HK$'000	Financial liabilities at fair value through profit or loss HK$'000	Total HK$'000
Borrowings	**18,397,969**	**–**	**18,397,969**
Other payables and accruals (excluding deposits received)	**54,490**	**–**	**54,490**
Amount due to a non-controlling interest	**87,922**	**–**	**87,922**
Amount due to a joint venture	**96,118**	**–**	**96,118**
Amounts due to fellow subsidiaries	**20,179**	**–**	**20,179**
Derivative financial liabilities	**–**	**105,966**	**105,966**
Lease liabilities	**23,654**	**–**	**23,654**
Total	**18,680,332**	**105,966**	**18,786,298**

As at 31 December 2018

	Financial liabilities at amortised cost HK$'000	Total HK$'000
Borrowings	22,567,489	22,567,489
Other payables and accruals (excluding deposits received)	96,682	96,682
Amount due to a non-controlling interest	88,397	88,397
Amounts due to related companies	70,433	70,433
Amounts due to fellow subsidiaries	439,013	439,013
Total	23,262,014	23,262,014

28 Related party transactions

The directors of the Company regard CSSC International Holding Company Limited as the immediate holding company, which owns 75% of the Company's ordinary shares at 31 December 2019. The parent company of the Group is China State Shipbuilding Corporation ("CSSC Group"), a state-owned enterprise established in the PRC. CSSC Group itself is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC.

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

For the year ended 31 December 2019 and 2018, the Group's significant transactions with entities that are controlled, jointly controlled or significantly influenced by the PRC government, mainly include most of its bank deposits and the corresponding interest income and part of sales and purchases of goods and services. The price and other terms of such transactions are set out in the underlying agreements, based on market prices or as mutually agreed.

Apart from the above-mentioned transactions with the government-related entities and the related party information shown elsewhere in these consolidated financial statements, the following is a summary of the significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the year ended 31 December 2019.

(a) Transactions with related parties

Save as disclosed in elsewhere of the report, the Group entered into the following related party transactions during the year:

Transactions with fellow subsidiaries:

	2019 **HK$'000**	2018 HK$'000
Finance lease income	**–**	1,298
Commission income	**7,735**	81,980
Rental and utilities expenses	**(6,939)**	(8,128)
Purchase of vessels and offshore equipment	**(2,434,363)**	(1,296,875)

28 Related party transactions *(Continued)*

(a) Transactions with related parties *(Continued)*

Transactions with ultimate holding company:

	2019 **HK$'000**	2018 HK$'000
Guarantee expenses	**(35,610)**	(39,646)

Transactions with associates:

	2019 **HK$'000**	2018 HK$'000
Commission income	**–**	8,292
Purchase of vessels and offshore equipment	**–**	(155,266)

Transactions with joint ventures:

	2019 **HK$'000**	2018 HK$'000
Interest income	**29,072**	–

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

28 Related party transactions *(Continued)*

(b) Balances with related parties

	2019 HK$'000	2018 HK$'000
Amounts due from		
– Associates	**23,968**	24,841
– Fellow subsidiaries	**220**	114,098
– Joint ventures	**4,776**	–
Loans to joint ventures	**598,206**	505,607
Amounts due to		
– Related companies	**–**	70,433
– Fellow subsidiaries	**20,179**	439,013
– A joint venture	**96,118**	–
– A non-controlling interest	**87,922**	88,397

(c) Key management personnel compensations

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

	2019 HK$'000	2018 HK$'000
Wages, salaries and bonuses	**16,254**	7,458
Retirement benefit costs	**1,669**	909
	17,923	8,367

29 Note to consolidated statement of cash flows

(a) Reconciliation from profit before income tax to net cash generated from/(used in) operations

	2019 HK$'000	2018 HK$'000
Profit before income tax	**904,216**	704,415
Adjustments for		
– Finance costs and bank charges	**839,733**	1,046,155
– Interest income	**(75,039)**	(140,754)
– Depreciation	**238,300**	150,192
– Dividend income	**(29,342)**	(47,545)
– Gain in disposal of associates	**–**	(40,766)
– Provision for impairment of loan receivables, net	**86,881**	52,138
– Net loss on de-recognition of finance lease receivable	**99,990**	–
– Net loss/(gain) on changes in fair value of derivative financial instruments	**38,587**	(45,750)
– Net realised loss from settlement of derivative financial instruments	**9,784**	–
– Net realised gain from financial assets at fair value through profit or loss	**(21,346)**	–
– Net loss on changes in fair value of financial assets at fair value through profit or loss	**441**	6,849
– Share of results of associates	**(3,021)**	(81,004)
– Share of results of joint ventures	**(53,547)**	–
– Net gain on disposal of financial assets at fair value through other comprehensive income	**(5,219)**	–
Operating profit before working capital charges	**2,030,418**	1,695,430
Increase in loan receivables	**(818,702)**	(2,535,437)
Decrease in prepayments, deposits and other receivables	**606,041**	52,760
(Increase)/decrease in amounts due from a fellow subsidiary	**(308,201)**	452,038
(Increase)/decrease in amounts due from related companies	**(70,433)**	1,535
Increase in amount due to a joint venture	**91,342**	–
Increase/(decrease) in other payables and accruals	**121,385**	(90,556)
Proceeds on de-recognition of finance lease receivable	**2,546,718**	–
Decrease in amounts due to fellow subsidiaries	**–**	(100,680)
Increase in amounts due to related companies	**–**	65,456
Net cash generated from/(used in) operations	**4,198,568**	(459,454)

29 Note to consolidated statement of cash flows *(Continued)*

(a) Reconciliation from profit before income tax to net cash generated from/(used in) operations *(Continued)*

Material non-cash transactions

(i) During the year ended 31 December 2019, the Group has transferred from prepayments to finance lease receivables upon the delivery of the respective vessels for finance leasing and commencement of the respective finance lease arrangements amounting to HK$787,491,000 (2018: HK$890,274,000).

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt.

	2019 HK$'000	2018 HK$'000
Cash and cash equivalents	**(1,895,182)**	(924,060)
Borrowings	**18,397,969**	22,567,489
Amount due to a non-controlling interest	**87,922**	88,397
Lease liabilities	**23,654**	–
Net debt	**16,614,363**	21,731,826

29 Note to consolidated statement of cash flows *(Continued)*

(b) Net debt reconciliation *(Continued)*

Reconciliation of liabilities from financing activities:	**Lease liabilities** HK$'000	**Amount due to a non-controlling interest** HK$'000	**Borrowings** HK$'000
As at 1 January 2018	–	87,750	24,740,129
Advances from	–	647	–
Proceeds of bank borrowing	–	–	7,210,509
Repayment of bank borrowing	–	–	(4,253,708)
Repayment of bonds	–	–	(4,762,315)
Interest paid	–	–	(1,096,604)
Non cash transactions:			
Foreign exchange adjustments	–	–	(316,677)
Financial costs incurred	–	–	1,046,155
As at 31 December 2018 and 1 January 2019	–	88,397	22,567,489
Effect of adoption of HKFRS 16	3,577	–	–
At 1 January 2019, as restated (note 13(b))	3,577	88,397	22,567,489
Proceeds of bank borrowing	–	–	8,111,516
Repayment of bank borrowing	–	–	(11,859,777)
Interest paid	–	–	(909,894)
Principle element of lease liabilities paid	(3,502)	–	–
Interest element of lease liabilities paid	(107)	–	–
Foreign exchange adjustments	–	(475)	(393,512)
Financial costs incurred	–	–	882,147
Increase in lease liabilities from entering into new leases during the year	23,579	–	–
Interest on lease liabilities	107	–	–
As at 31 December 2019	23,654	87,922	18,397,969

30 Operating lease arrangements

As lessor

For the year ended 31 December 2019, the Group leases its vessels under operating lease arrangements, which leases negotiated for terms of 1 to 15 years (2018: 1 to 12 years). None of the leases includes contingent rentals (2018: none).

At 31 December 2019, the Group had total future minimum lease receivables under non-cancellable operating leases with its leases falling due as follows:

	2019 HK$'000	2018 HK$'000
Within one year	**780,253**	390,641
In the second to fifth year inclusive	**2,825,004**	1,698,505
After five years	**3,543,108**	904,264
	7,148,365	2,993,410

31 Capital commitments

Capital commitments outstanding at 31 December 2019 contracted but not provided for are as follows:

	2019 HK$'000	2018 HK$'000
Contracted for:		
– Construction of vessels	**11,650,424**	8,901,233

32 Provisions and Contingencies

The financial guarantees issued by the Group as at 31 December are analysed as below:

	2019 HK$'000	2018 HK$'000
Guarantees provided in respect of bank loans of:		
Bank guarantees to joint ventures	**1,830,227**	–

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

33 Reserves

(a) Investment revaluation reserve

Investment revaluation reserve represents the reserve of the fair value change from financial assets at fair value through other comprehensive income.

(b) Hedging reserve

The hedging reserve includes the cash flow hedge reserve and the costs of hedging reserve, see note 17 for details. The cash flow hedge reserve is used to recognise effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges, as described in note 2.11. Amounts are subsequently either transferred to the initial cost of inventory or reclassified to profit or loss as appropriate.

(c) Exchange reserve

Exchange reserve represents the exchange difference arising from the Group's non-monetary items.

(d) Other reserves

Other reserves represent the statutory surplus reserve and other reserve.

34 Dividends

	2019 HK$'000	2018 HK$'000
Interim, paid, of HK3 cents (2018: nil) per ordinary share	**184,082**	–
Special, paid, of HK nil cent (2018: HK$0.319) per ordinary share	**–**	1,467,000
Final, proposed, of HK 5 cents (2018: nil) per ordinary share	**306,803**	–

At the board meeting held on 27 March 2020, the board has declared final dividend of HK 5 cents (2018: nil) per share, and the final dividend is declared after reporting period, such dividend has not been recognised as liability as at 31 December 2019.

35 Events after the reporting period

(i) Issuance of bonds

For the purpose of developing leasing business and refinancing of the Group, in February 2020, CSSC Capital 2015 Limited, a wholly owned subsidiary of the Group, has issued guaranteed bonds of US$400,000,000 and US$400,000,000 carried fixed interest rate at 2.50% and 3.00% respectively. The bonds will mature in 5 years (i.e. 2025) and 10 years (i.e. 2030) from the issuance date respectively and are guaranteed by the Group.

(ii) Acquisition and lease of four vessels

In March 2020, the Group entered into agreements with independent third parties for acquisition of vessels at a total consideration of US$296,780,000 (equivalent to HK$2,312,124,000). On the same date, the Group further entered into a bareboat charterer agreements to lease these vessels to the charterers at a total estimated charter-hire fee of approximately US$376,691,000 (equivalent to HK$2,934,687,000) for 10 years. The transactions are expected to be completed in December 2021.

(iii) Assessment of 2020 Coronavirus impact

After the outbreak of COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region.

The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of consolidated financial statements were authorised for issue, the Group was not aware of any material adverse effects on the consolidated financial statements as a result of the COVID-19 outbreak.

Other than the events disclosed above, the Group had no material event after the reporting period.

36 Investments in subsidiaries

Particulars of the Company's material subsidiaries are as follows:

Name	Country/place of Incorporation/establishment	Issued and fully paid share capital/ registered capital	Effective interest held at 31 December		Principal activities
			2019	2018	
Zhongqiao Shipping Limited	Hong Kong	HK$10,000	**100%**	100%	Operating leasing
New Pearl River Shipping Limited	Hong Kong	HK$1	**100%**	100%	Finance leasing
CP Shanghai Shipping S.A.	Marshall Islands	–	**75%**	75%	Operating leasing
CP Guangzhou Shipping S.A.	Marshall Islands	–	**75%**	75%	Operating leasing
CP Tianjin Shipping S.A.	Marshall Islands	–	**75%**	75%	Operating leasing
CP Chongqing Shipping S.A.	Marshall Islands	–	**75%**	75%	Operating leasing
CP Nanjing Shipping S.A.	Marshall Islands	–	**75%**	75%	Operating leasing
CP Shenzhen Shipping S.A.	Marshall Islands	–	**75%**	75%	Operating leasing
CSSC Financial Leasing (Shanghai) Company Limited* (中船融資租賃(上海)有限公司)	The PRC	RMB100,000,000	**100%**	100%	Finance leasing
Shanghai Jiabojiang Ship Leasing Co. Ltd.* (上海佳駁江船舶租賃有限公司)	The PRC	RMB100,000	**100%**	100%	Finance leasing
Shanghai Jiabohe Ship Leasing Co., Ltd.* (上海佳駁河船舶租賃有限公司)	The PRC	RMB100,000	**100%**	100%	Finance leasing
Shanghai Jiabohu Ship Leasing Co., Ltd.* (上海佳駁湖船舶租賃有限公司)	The PRC	RMB100,000	**100%**	100%	Finance leasing
Shanghai Jiabohai Ship Leasing Co., Ltd.* (上海佳駁海船舶租賃有限公司)	The PRC	RMB100,000	**100%**	100%	Finance leasing
Shanghai Jiabowang Ship Leasing Co., Ltd.* (上海佳駁汪船舶租賃有限公司)	The PRC	RMB100,000	**100%**	100%	Finance leasing
Shanghai Jiaboyang Ship Leasing Co., Ltd.* (上海佳駁洋船舶租賃有限公司)	The PRC	RMB100,000	**100%**	100%	Finance leasing

36 Investments in subsidiaries *(Continued)*

Name	Country/place of Incorporation/establishment	Issued and fully paid share capital/ registered capital	Effective interest held at 31 December 2019	2018	Principal activities
CSSC Financial Leasing (Tianjin) Company Limited* (中船融資租賃(天津)有限公司)	The PRC	RMB500,000,000	**100%**	100%	Finance leasing
CSSC Ruiyun (Tianjin) Financial Leasing Co., Ltd.* (中船瑞雲(天津)融資租賃有限公司)	The PRC	RMB100,000	**100%**	100%	Finance leasing
CSSC Jiyun (Tianjin) Financial Leasing Co., Ltd.* (中船吉雲(天津)融資租賃有限公司)	The PRC	RMB100,000	**100%**	100%	Finance leasing
CHA First Shipping S.A	Marshall Islands	US$1	**100%**	100%	Finance leasing
CHA Second Shipping S.A	Marshall Islands	US$1	**100%**	100%	Finance leasing
CHC First Shipping S.A.	Marshall Islands	US$1	**100%**	100%	Operating leasing
CHC Second Shipping S.A.	Marshall Islands	US$1	**100%**	100%	Operating leasing
CHC Third Shipping S.A.	Marshall Islands	US$1	**100%**	100%	Operating leasing
Kylin Offshore Engineering Pte Ltd.	Singapore	SGD5,000,000	**70%**	70%	Marine engineering business
Fortune Beijing Shipping Limited	Marshall Islands	US$100	**100%**	100%	Operating leasing
Fortune Fuzhou Shipping Limited	Marshall Islands	US$100	**100%**	100%	Operating leasing
Fortune Quanzhou Shipping Limited	Hong Kong	HK$1	**100%**	100%	Operating leasing
Fortune Xiamen Shipping Limited	Hong Kong	HK$1	**100%**	100%	Operating leasing
Fortune Star I Shipping Limited	Marshall Islands	US$100	**100%**	100%	Operating leasing
Fortune Star II Shipping Limited	Marshall Islands	US$100	**100%**	100%	Operating leasing
Fortune Maritime I Shipping Limited	Marshall Islands	US$100	**100%**	100%	Operating leasing
Fortune Sea I Shipping Limited	Marshall Islands	US$100	**N/A**	100%	Operating leasing
Fortune Sea II Shipping Limited	Marshall Islands	US$100	**N/A**	100%	Operating leasing
Fortune Sea III Shipping Limited	Marshall Islands	US$100	**N/A**	100%	Operating leasing
Fortune Lianjiang Shipping S.A.	Marshall Islands	US$100	**100%**	100%	Finance leasing

36 Investments in subsidiaries *(Continued)*

Name	Country/place of Incorporation/establishment	Issued and fully paid share capital/ registered capital	Effective interest held at 31 December		Principal activities
			2019	2018	
Fortune January Shipping Limited	Marshall Islands	US$100	N/A	100%	Finance leasing
Fortune February Shipping Limited	Marshall Islands	US$100	N/A	100%	Finance leasing
Fortune June Shipping Limited	Marshall Islands	US$100	N/A	100%	Finance leasing
Fortune August Shipping Limited	Marshall Islands	US$100	N/A	100%	Finance leasing
Fortune September Shipping Limited	Marshall Islands	US$100	N/A	100%	Finance leasing
Fortune October Shipping Limited	Marshall Islands	US$100	100%	100%	Finance leasing
Shenjiamen Shipping S.A	Marshall Islands	US$100	100%	100%	Finance leasing
Zhujiajian Shipping S.A.	Marshall Islands	US$100	100%	100%	Finance leasing
Fortune Spring Shipping Limited	Marshall Islands	US$100	N/A	100%	Finance leasing
Fortune Summer Shipping Limited	Marshall Islands	US$100	N/A	100%	Finance leasing
Fortune Autumn Shipping Limited	Marshall Islands	US$100	N/A	100%	Finance leasing
Fortune Winter Shipping Limited	Marshall Islands	US$100	N/A	100%	Finance leasing
Fortune Chile Shipping Limited	Marshall Islands	US$100	100%	100%	Finance leasing
CP Jinan Shipping S.A	Marshall Islands	–	100%	100%	Operating leasing
CP Xian Shipping S.A	Marshall Islands	–	100%	100%	Operating leasing
CP Hangzhou Shipping S.A.	Marshall Islands	–	100%	100%	Operating leasing
CP Fuzhou Shipping S.A	Marshall Islands	–	100%	100%	Operating leasing
Fortune Taizhou Shipping S.A.	Marshall Islands	US$100	100%	100%	Finance leasing
Fortune Tianhe Shipping Limited	Hong Kong	HK$1	100%	100%	Finance leasing
Fortune Haizhu Shipping Limited	Hong Kong	HK$1	100%	100%	Finance leasing
Fortune Liwan Shipping Limited	Hong Kong	HK$1	100%	100%	Finance leasing
Fortune Nansha Shipping Limited	Hong Kong	HK$1	100%	100%	Finance leasing

36 Investments in subsidiaries *(Continued)*

Name	Country/place of Incorporation/establishment	Issued and fully paid share capital/ registered capital	Effective interest held at 31 December 2019	2018	Principal activities
Fortune Ricardo Shipping Limited	Hong Kong	HK$1	**100%**	100%	Finance leasing
Fortune Qian Shipping Limited	Marshall Islands	US$100	**100%**	100%	Finance leasing
Fortune Kun Shipping Limited	Marshall Islands	US$100	**100%**	100%	Finance leasing
Fortune Zhen Shipping Limited	Marshall Islands	US$100	**100%**	100%	Finance leasing
Fortune Xun Shipping Limited	Marshall Islands	US$100	**100%**	100%	Finance leasing
Fortune Kan Shipping Limited	Marshall Islands	US$100	**100%**	100%	Finance leasing
Fortune Li Shipping Limited	Marshall Islands	US$100	**100%**	100%	Finance leasing
Fortune Gen Shipping Limited	Marshall Islands	US$100	**100%**	100%	Finance leasing
Fortune Dui Shipping Limited	Marshall Islands	US$100	**100%**	100%	Finance leasing
Fortune Poseidon Holding Company Limited	BVI	US$100	**100%**	100%	Finance leasing
Fortune Qinglong Shipping S.A.	Marshall Islands	US$100	**100%**	100%	Finance leasing
Fortune Baihu Shipping S.A.	Marshall Islands	US$100	**100%**	100%	Finance leasing
Fortune Haumea Holding Company Limited	BVI	US$100	**100%**	100%	Finance leasing
Fortune Suez I Shipping Limited	Marshall Islands	US$100	**100%**	100%	Finance leasing
Fortune Suez II Shipping Limited	Marshall Islands	US$100	**100%**	100%	Finance leasing
Fortune Suez III Shipping Limited	Marshall Islands	US$100	**100%**	100%	Finance leasing
Fortune Xuanyuan Shipping Limited	Marshall Islands	US$100	**100%**	100%	Finance leasing
Fortune Jessica Shipping Limited	Marshall Islands	US$100	**100%**	100%	Finance leasing
Fortune East Sea Holding Company Limited	BVI	US$100	**100%**	100%	Finance leasing
Fortune Aspiration I Shipping Limited	Marshall Islands	US$100	**100%**	100%	Finance leasing
Fortune Aspiration II Shipping Limited	Marshall Islands	US$100	**100%**	100%	Finance leasing
Earl Shipping S.A.	Marshall Islands	US$100	**100%**	100%	Operating leasing

36 Investments in subsidiaries *(Continued)*

Name	Country/place of Incorporation/establishment	Issued and fully paid share capital/ registered capital	Effective interest held at 31 December 2019	2018	Principal activities
Emma Shipping S.A.	Marshall Islands	US$100	**100%**	100%	Operating leasing
Empire Shipping S.A.	Marshall Islands	US$100	**100%**	100%	Operating leasing
Epoch Shipping S.A.	Marshall Islands	US$100	**100%**	100%	Operating leasing
Essence Shipping S.A.	Marshall Islands	US$100	**100%**	100%	Operating leasing
Excellency Shipping S.A.	Marshall Islands	US$100	**100%**	100%	Operating leasing
Elmar Shipping S.A.	Marshall Islands	US$100	**100%**	100%	Operating leasing
Elsa Shipping S.A.	Marshall Islands	US$100	**100%**	100%	Operating leasing
Ernest Shipping S.A.	Marshall Islands	US$100	**100%**	100%	Operating leasing
Fortune Caribbean I Shipping Limited	Marshall Islands	US$100	**100%**	100%	Operating leasing
Fortune Caribbean II Shipping Limited	Marshall Islands	US$100	**100%**	100%	Operating leasing
Fortune Caribbean III Shipping Limited	Marshall Islands	US$100	**100%**	100%	Operating leasing
Fortune Caribbean IV Shipping Limited	Marshall Islands	US$100	**100%**	100%	Operating leasing
Fortune Bec I Shipping Limited	Cyprus	EUR$1,000	**100%**	100%	Finance leasing
Fortune Bec II Shipping Limited	Cyprus	EUR$1,000	**100%**	100%	Finance leasing
Fortune Bec III Shipping Limited	Cyprus	EUR$1,000	**100%**	100%	Finance leasing
Fortune Bec IV Shipping Limited	Cyprus	EUR$1,000	**100%**	100%	Finance leasing
CP Chartering Company Limited	BVI	US$1	**75%**	75%	Operating leasing

Notes:

All companies now comprising the Group have adopted 31 December as their financial year end date.

* The English name of these subsidiaries represents the best effort by the management of the Group in translating their Chinese names as they do not have an official English name.

37 Statement of financial position and reserve movements of the Company

		2019 HK$'000	2018 HK$'000
ASSETS			
Property, plant and equipment		**819**	1,220
Right-of-use asset		**22,983**	–
Interests in subsidiaries		**839,514**	766,344
Loan receivables		**653,528**	1,372,146
Derivative financial assets		**3,881**	27,623
Prepayments, deposits and other receivables		**256,191**	211,644
Financial assets at fair value through profit or loss		**39,459**	385,659
Financial assets at fair value through other comprehensive income		**777,224**	1,071,174
Amounts due from subsidiaries		**13,310,588**	10,495,049
Amounts due from fellow subsidiaries		**902**	64,693
Amounts due from joint ventures		**467**	–
Time deposits with maturity over three months		**1,345,320**	1,381,624
Cash and cash equivalents		**217,958**	715,790
Total assets		**17,468,834**	16,492,966
LIABILITIES			
Borrowings		**7,522,044**	8,546,991
Derivative financial liabilities		**105,966**	–
Amounts due to subsidiaries		**3,373,560**	2,985,781
Amounts due to fellow subsidiaries		**76,799**	92,463
Amounts due to related companies		**–**	42,408
Amounts due to a joint venture		**96,118**	–
Lease liabilities		**22,959**	–
Other payables and accruals		**37,327**	26,379
Total liabilities		**11,234,773**	11,694,022
Net assets		**6,234,061**	4,798,944
EQUITY			
Share capital		**6,614,466**	4,602,046
(Deficits)/reserves	Note a	**(380,405)**	196,898
Total equity		**6,234,061**	4,798,944

The statement of financial position of the Company was approved by the Board of Directors on 27 March 2020 and was signed on its behalf.

YANG LI
Director

HU KAI
Director

37 Statement of financial position and reserve movements of the Company *(Continued)*

Note (a) Reserve movement of the Company

	Investment revaluation reserve HK$'000	Hedging reserve HK$'000	Other reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2019	**(62,170)**	**–**	**(4,296)**	**(110,436)**	**373,800**	**196,898**
Adjustment on adoption of HKFRS 16, net of tax	**–**	**–**	**–**	**–**	**(5)**	**(5)**
At 1 January 2019, as restated	**(62,170)**	**–**	**(4,296)**	**(110,436)**	**373,795**	**196,893**
Profit and total comprehensive income for the year	**67,728**	**(67,055)**	**–**	**(99,817)**	**(294,072)**	**(393,216)**
Dividends	**–**	**–**	**–**	**–**	**(184,082)**	**(184,082)**
At 31 December 2019	**5,558**	**(67,055)**	**(4,296)**	**(210,253)**	**(104,359)**	**(380,405)**
At 1 January 2018	16,034	–	(3,920)	(49,959)	555,441	517,596
Profit and total comprehensive income for the year	(78,922)	–	–	(60,477)	932,951	793,552
Share of other reserves of associates	–	–	352,750	–	–	352,750
Recycle to retained profits upon disposal of associates	718	–	(353,126)	–	352,408	–
Dividends	–	–	–	–	(1,467,000)	(1,467,000)
At 31 December 2018	(62,170)	–	(4,296)	(110,436)	373,800	196,898

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