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

2020 Annual Report

Contents

Company Profile

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

Leveraging its robust expertise and strong industrial background in the marine business, the Group focuses on developing ship and marine equipment leasing business. With a fleet of 136 vessels as at the end of 2020, the Group is a global leader in the ship leasing industry in terms of asset size and number of vessels. Since its inception, the Group has maintained high growth in business and efficiency. While marine business remains in the doldrums, the Group continues to implement counter-cyclical investment management measures so as to provide leasing services to leading partners in various market segments of the marine industry, thereby establishing long-term strategic cooperative relations. In particular, the Group could continue to maintain a healthy and sustainable business, thanks to its strong and effective measures against the severe impact of the outbreak of COVID-19.

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

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

For identification purpose only

* 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. Zhong Jian *(Chairman)*
(re-designated as an executive Director and appointed as the chairman on 29 April 2020)
Mr. Hu Kai
Mr. Yang Li (resigned on 29 April 2020)

Non-Executive Directors

Mr. Li Wei
Mr. Zou Yuanjing

Independent Non-Executive Directors

Mr. Wang Dennis (appointed on 10 November 2020)
Mdm. Shing Mo Han Yvonne, *BBS, JP*
Mr. Li Hongji
Dr. Wong Yau Kar David, *GBS, JP*
(resigned on 10 November 2020)

Audit Committee

Mdm. Shing Mo Han Yvonne, *BBS, JP (Chairperson)*
Mr. Wang Dennis (appointed on 10 November 2020)
Mr. Li Hongji
Mr. Li Wei
Mr. Zou Yuanjing
Dr. Wong Yau Kar David, *GBS, JP*
(resigned on 10 November 2020)

Remuneration Committee

Mr. Wang Dennis *(Chairperson)*
(appointed on 10 November 2020)
Mdm. Shing Mo Han Yvonne, *BBS, JP*
Mr. Li Hongji
Dr. Wong Yau Kar David, *GBS, JP*
(resigned on 10 November 2020)

Nomination Committee

Mr. Zhong Jian *(Chairperson)*
(appointed on 29 April 2020)
Mr. Wang Dennis (appointed on 10 November 2020)
Mdm. Shing Mo Han Yvonne, *BBS, JP*
Mr. Li Hongji
Dr. Wong Yau Kar David, *GBS, JP*
(resigned on 10 November 2020)
Mr. Yang Li (resigned on 29 April 2020)

Company Secretary

Mr. Ding Weisong

Assistant Company Secretary

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

Authorised Representatives

Mr. Hu Kai
Ms. Wong Sau Ping

Hong Kong Legal Adviser

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

Compliance Adviser

Red Solar Capital Limited
Unit 402B, 4/F
China Insurance Group Building
No. 141 Des Voeux Road Central
Central
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

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

Principal Banks

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

Company's Website

http://www.csscshipping.cn

Stock Code

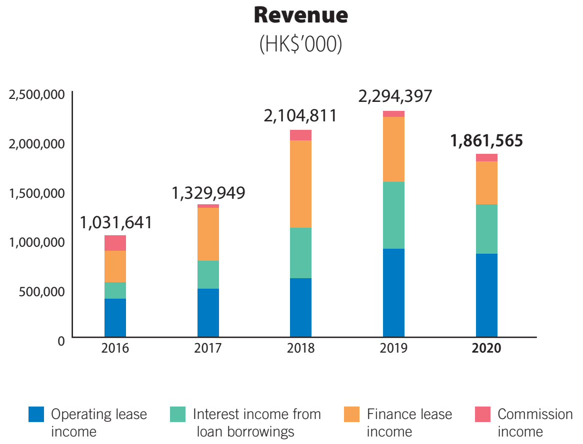
3877

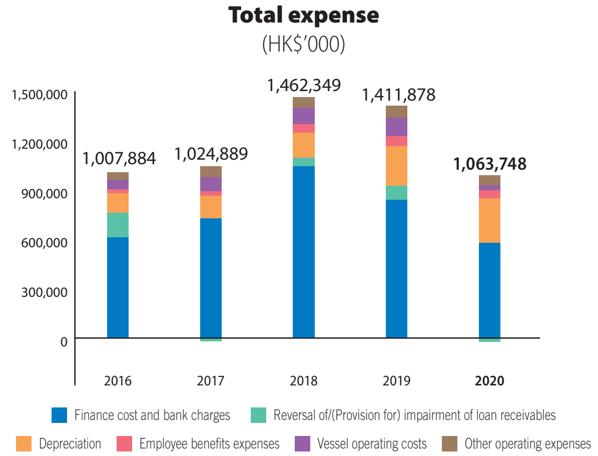
Listing Date

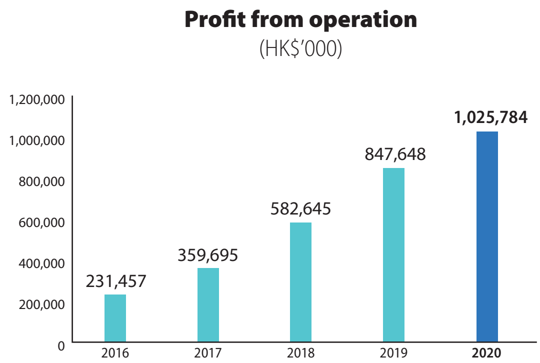
17 June 2019

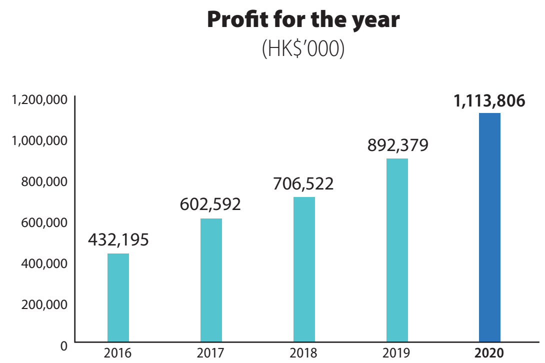
Financial Highlights and Five-year Financial Summary

Five-year Summary of Consolidated Income Statement



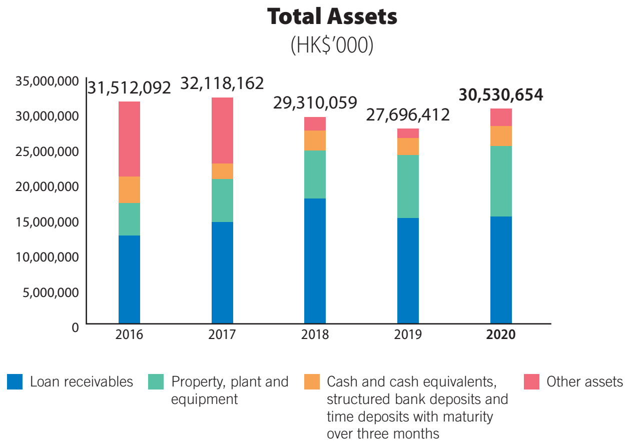


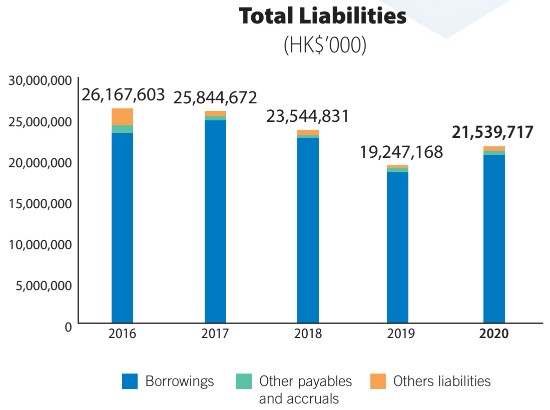


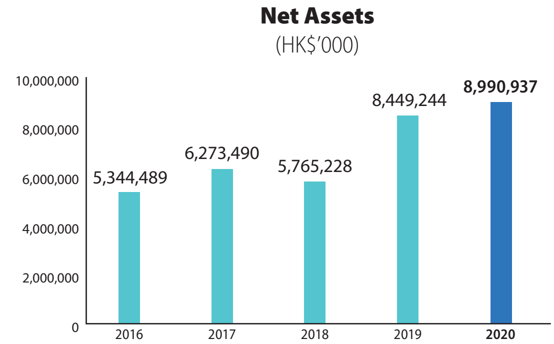


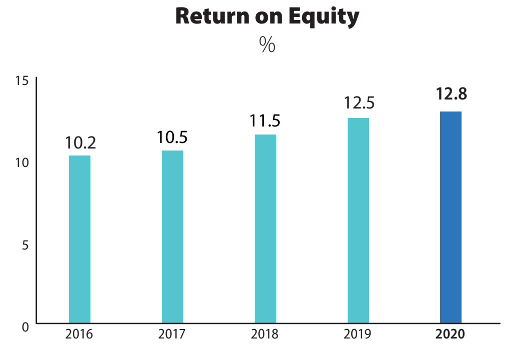
Financial Highlights and Five-year Financial Summary

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	
	2020	2019
Return on average assets[1]	**3.8%**	3.1%
Return on average net assets[2]	**12.8%**	12.5%
Average cost of interest-bearing liabilities[3]	**3.0%**	4.1%
Net profit margin[4]	**59.8%**	38.9%
Asset-liability ratio[5]	**70.6%**	69.5%
Risk asset-to-equity ratio[6]	**3.1 times**	3.0 times
Gearing ratio[7]	**2.3 times**	2.2 times
Net debt-to-equity ratio[8]	**2.0 times**	1.9 times
Credit ratings		
S&P Global Ratings	**A-**	A-
Fitch Ratings	**A**	A

Notes:

(1) Calculated by dividing net profit attributable to the equity holders of the Company 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,

In 2020, in light of the severe impact of the COVID-19 pandemic and challenging internal and external environments, the Company continued to develop rapidly and recorded strong profit growth with its major operating indicators registering new highs. Net profit was HK$1.114 billion, representing a year-on-year growth of 24.8%; operating profit was HK$1.026 billion, representing a year-on-year growth of 21.0%; earnings per share increased to HK$0.181, representing an increase of 11.1%; return on average net assets was 12.8% and return on average total assets was 3.8%, both achieved year-on-year growth and were at the higher and of the industry. Meanwhile, the average cost of interest-bearing liabilities was further significantly reduced from 4.1% to 3%; asset-liability ratio was controlled at 70.6%, representing a relatively low level. During the year ended 31 December 2020, the Group achieved gratifying results.

In 2020, the global shipping market went downhill again with new ship orders and total investment in new ships plunging year-on-year. The Company insisted on sparing no effort to implement counter-cyclical investment strategies, promptly adopted more proactive operating measures, ramped up risk prevention and control efforts, and strengthened coordination with charterers, leasees and shipyards to ensure the steady development of ship leasing business and the overall quality of assets. During the year, the Group entered into 15 new ship projects comprising a total of 31 vessels with a contract value of US$1.122 billion. We continued to expand our circle of allies and realized business cooperation with 7 new customers.

During the year, we received 20 new vessels and the amount invested increased by 16.4% year-on-year. As of 31 December 2020, the Group's fleet size reached 136 vessels, 90 of which were chartered for operation and 46 of which were under construction. We will soon reach the goal of chartering 100 vessels for operation. According to Clarkson's statistics, the Group's ship assets stood at top five of the industry. At the same time, the Company's utilization rate of ship assets maintained at 100%, and its high rental collection rate, diversified, modernized, young and large-scale fleet provided a concrete foundation for its sustained and stable growth.

As for vessel portfolio, clean energy offshore equipment, which mainly refers to liquefied natural gas ("**LNG**") and floating storage and regasification unit ("**FSRU**"), accounted for 34%; bulk carriers, container vessels and tankers accounted for 44%; special tonnage carriers accounted for 22%. Such portfolio striked a balance between both liquidity and value-adding with outstanding professional characteristics among the industry. The PRC's requirements on carbon peak and carbon neutral targets as well as the in-depth advancement of oil and gas reforms will usher in a new development period for clean energy offshore equipment. The Company fully deployed clean energy offshore equipment to realize competitive advantage to seize the development opportunity.

In 2020, Fitch Ratings ("**Fitch**") and S&P Global Ratings continued to assign corporate credit ratings of "A"/stable and "A-"/stable, respectively, to us. We successfully issued bonds with an amount of US$800 million to further expand our diversified financing channels, thereby optimizing our debt structure and reducing financing costs. Meanwhile, we achieved major breakthroughs in the comprehensive reform under the "Double-Hundred Action", through which we further expanded our operational autonomy and pushed forward the implementation of share option scheme and incentive mechanism for the vitality of our staff members. Our internal management standard continuously improved, thus optimizing our management system.

We were determined to perform our social and corporate responsibilities. During the outbreak of pandemic in the PRC, we purchased large quantities of medical supplies that were in shortage from the PRC, Greece, Turkey, Germany, the Netherlands, etc. to support the pandemic areas, and simultaneously assisted Hong Kong to prevent and control the pandemic. Taking social responsibilities has always been one of the objectives of the Company's development.

Looking forward to 2021, the PRC will establish a new development pattern with "domestic circulation as the main theme with domestic and international dual-circulation reinforcing each other", so as to optimize and upgrade the industrial structure and further the energy structure for providing new and material strategic opportunities for the development of the ship chartering industry. Since the beginning of the year, the global shipping market has recorded a recovery growth. The Company will focus on ship chartering services, expand diversified leasing business, keep strengthening business cooperation with shipowners, charterers, shipyards, financing banks and other business partners, and explore innovative business models to meet the development demands of all parties. The Company will continue to deepen its mechanism reform, enhance operational breakthroughs, optimize the management system, continue to reduce costs and increase efficiency, perform social responsibilities and promote high-quality development.

Lastly, on behalf of the Company's board (the "**Board**") of directors (the "**Directors**"), management and all employees, I hereby express my gratitude to all shareholders, customers, fund providers and other business partners for their continuous concern, trust and support to the Company. The Company will adhere to its established strategic direction and strive to achieve remarkable operating results to reward its shareholders, the society and its employees.

CSSC (Hong Kong) Shipping Company Limited
Zhong Jian
Chairman

Management Discussion and Analysis

1. Industry Conditions

The COVID-19 epidemic has accelerated the fluctuations in the world's macroeconomic and seaborne trade volume, development of the shipping industry diverged and certain subdivided markets had exceeded our expectations. During the COVID-19 epidemic, the world economy has declined significantly. Coupled with the surging of extreme thoughts, such as unilateralism, protectionism, hegemonism, etc., operation of the global industrial chain, supply chain and value chain were once disrupted, leading to the first negative growth (-3.8%) after the financial crisis in the world's seaborne trade in 2020. However, due to the increasingly complex and volatile macro environment, commodities such as crude oil and iron ore experienced drastic fluctuations in prices, the economic and social recovery of major economies was unsynchronized and unbalanced, which led to frequent unexpected trends in the shipping industry, for example, the oil shipping market skyrocketed in mid-to-late April 2020, the container shipping market continued to prosper in the second half of the year, and the dry bulk shipping market surged twice in the middle and the end of the year. Therefore, although seaborne trade volume declined, the tragedies in the international shipping industry in 2009 or 2016 have not repeated in 2020. The Clarkson's Shipping Index, an industry barometer, recorded an annual average value of US$14,839 per day, down by 1.6% as compared with that of last year, which was still at a high level in the past decade. Shipowners and operators in certain subdivided shipping sectors have generally achieved gratifying results.

The market breadth of bulk carrier market fluctuated. In the past year, the downward pressure on the world economy increased as the COVID-19 epidemic continued to escalate and a series of black swan events were frequently triggered, which led to the fluctuation in the market breadth of bulk carrier market. Under the coupling effect of policies on the COVID-19 epidemic, Australia's and Brazil's iron ore pallets and domestic coal, Baltic Dry Index showed two small periodic fluctuations during the year.

The crude oil vessel market fluctuated downward. As the global COVID-19 epidemic continued to escalate at the beginning of the year, it was expected that the downward pressure on the international economy would increase, and global crude oil consumption demand was extremely sluggish. However, in late March 2020, major oil-producing countries ramped up production, and as a result, international oil prices plummeted, which once stimulated the concentrated release of oil transportation demand and supported the surge of freight rates to a historic high. Since June 2020, the benefit of low oil prices has faded, and as the off season of oil freight approached, the crude oil freight market had once again experienced a general decline. In the fourth quarter of the year, global energy demand continued to be restrained with major subdivided ship models plunging to the lowest value of the year, and Baltic Exchange Dirty Tanker Index falling to the lowest point since 2000.

Refined oil tanker market leaped high then finished low. In March and April 2020, as the oil prices plunged, the international shipments of refined oil increased significantly, and the freight rate among the of refined oil tanker market skyrocketed, reaching a new high since 2005. Subsequently, as oil prices have risen, the refined oil tanker market then declined again. In the fourth quarter of the year, the freight rates of major subdivided ship models dropped to the lowest point of the year.

The container ship market has been soaring at the end of the year. Given the impact of the epidemic, countries strictly adhered to epidemic prevention measures in the first half of the year. Coupled with insufficient end consumer demand, the trend of the container shipping market was sluggish, and suspension of transportation capacity and idle cabin were severe. In the third quarter of the year, the trend of the epidemic across the world diverged, many countries gradually eased out their prevention and control measures, and the container shipping market stabilized and rebounded. In the fourth quarter of the year, the epidemic in western countries escalated, which stimulated the release of demand for daily necessities and medical products, and shipping demand therefore continued to run at a high level. In December 2020, China Containerized Freight Index continuously soared and hit a new high since 2005.

2. Business Review

1) Ship leasing business developed steadily, and the Company's profit grew significantly

The Group focuses on ship leasing services. In 2020, the COVID-19 pandemic has become a pandemic worldwide and was normalized for a prolonged period, which severely impacted the global shipping market, investment in new ships, ship production and delivery, and business transactions. Leveraging its own professional advantages and anti-risk capabilities, the Group has achieved rapid growth in its results. For the year ended 31 December 2020, the Group's profit for the year was HK$1.114 billion, representing a year-on-year increase of 24.8%, setting a record high and maintaining rapid growth for years. The operating profit of the Group was HK$1.026 billion, representing a year-on-year increase of 21.0%, reflecting the strong growth of the Company's business. As at 31 December 2020, the Group's return on average net assets and return on average assets were 12.8% and 3.8%, respectively, representing growth as compared to 2019. The Group, including its joint ventures and associates, newly commenced 16 lease contracts and completed 7 lease contracts with 90 lease contracts in total, among which, 40 were operating lease contracts and 50 were financial lease contracts. Among the 90 ongoing lease contracts, there were 73 lease contracts with a term of over one year, and the weighted average remaining lease term was approximately 7.3 years.

The Group seized the opportunity of low prices of ship assets and insisted on implementing counter-cyclical investment. In 2020, the Group has increased its efforts in investment in high-quality ships in subdivided markets such as clean energy equipment, dual-fuel gas carriers, dual-fuel long-range liquefied petroleum gas carriers, new medium-range chemical tankers, environmentally friendly feeder tankers, and smart fishery large-scale aquaculture ships, thereby continuously optimising its asset allocation. In 2020, despite the extremely challenging market environment, the Group, including its joint ventures and associates, entered into contracts for 31 new vessels with a contract value of US$1.122 billion, which was the highest level since the establishment of the Group. In 2020, the Group, including its joint ventures and associates, entered into ship leasing contracts with 7 new customers, which further reflected the Company's ability to develop business. As at 31 December 2020, the vessel portfolio of the Group, including its joint ventures and associates, reached 136 vessels, of which 90 vessels were operating and 46 vessels were under construction. The utilization rate of our ship portfolio reached 100%, and the recovery rate of charter hire in cash was 97.65%. The Group continued to maintain a diverse, modern and young ship portfolio. In terms of contract amount, bulk carriers, container vessels, tankers, marine clean energy equipment and special tonnage carriers accounted for 19%, 11%, 14%, 34%, and 22%, respectively. The allocation of ship assets was diverse with reasonable structure and has continuous competitiveness.

2. Business Review *(Continued)*

2) Ship operating assets continued to shine, supporting the Company's continuous growth

Since its establishment, leveraging its professional advantages as a shipyard-affiliated leasing company, the Group has continued to enhance the allocation of ship operating assets in accordance with the changes in operating environment. As at 31 December 2020, the carrying amount of the Group's ship operating assets was approximately US$970 million. With the gradual recovery of the shipping market, according to third-party valuations, the market value of the Group's operating assets had a 10% premium over its carrying amount. In 2020, the percentage of the Group's operating lease income to its total revenue increased to 53.6%, representing an increase of 25 percentage points from 28.6% in 2019. In 2020, the Group optimized its asset allocation through disposing of numerous ship assets, and recorded a gain of over HK$100 million. The Company continued to adopt the strategy of counter-cyclical investment in operating assets and took advantages of market fluctuations to obtain asset premiums. The outstanding performance of the Group's operating assets will continue to support the development of its results.

3) Outstanding operating results of joint ventures, creating a new growth point for the Company's results

The joint ventures established by the Group had 3 new vessels commencing operation in 2020, and had 11 vessels in operation with an investment revenue of HK$102 million recorded. In the next two years, the 10 vessels under construction of the ship associate will also be put into operation gradually, and the number of vessels owned will further increase, providing strong support for the further development of the Group.

4) Implementation of diverse financing methods led to the significant decrease in financing costs

During the year, the Group successfully issued United States dollar ("**US$**") bonds in an aggregate amount of US$800 million with an average annual interest rate of 2.75%. The issuance rate of such bonds was in market low, which highlighted the continuous improvement of the Group's financing capabilities. Moreover, the utilization of bond funds for capital investment in ship leasing business and replacement of certain high-interest loans further reduced the cost of interest-bearing liabilities of the Group. For the year ended 31 December 2020, S&P Global Ratings and Fitch Ratings continued to assign corporate credit ratings of "A-"/stable and "A"/stable, respectively, to the Group. The Group maintained close cooperation and established good credit relationships with 20 banks, which further optimized its debt structure and external financing conditions, thereby achieving a substantial reduction in financing costs. The comprehensive annual interest rate of the Group's interest-bearing liabilities in 2020 was 3.0% as compared to 4.1% in the corresponding period in 2019.

2. Business Review *(Continued)*

5) Continued implementation of high dividend policy, attaching great importance to reasonable investment returns for investors

2020 marked the first full year of the Group's listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The Group continued to maintain rapid earnings growth, and its earnings per share in 2020 further increased to HK$0.181, representing an increase of 11.1% as compared with HK$0.163 in 2019. The Group adhered to a stable dividend policy and distributed an interim dividend of HK$0.03 per share in 2020. The Group recommended the payment of a final dividend of HK$0.06 per share in 2020 with a dividend of HK$552 million distributed in total, representing a year-on-year increase of 12.5%, subject to the approval at the Company's forthcoming annual general meeting (the "**AGM**"). The dividend ratio remained high at approximately 50%.

Outlook

In 2021, the political and economic landscape around the globe will remain complex and severe with a lot of uncertainties in the development of the outbreak of the pandemic as well the external environment, which implies that the Company shall not overlook risks of any kind arising therefrom. However, the introduction and promotion of vaccines has brought confidence to the international community. After taking into the account of the political reshape and policy shift in the US, together with the signing and implementation of multilateral trade agreements such as the Regional Comprehensive Economic Partnership Agreement and the China-Europe Investment Agreement, mainstream economic observers anticipates that global economy will rebound significantly. Against the backdrop of the gradual recovery of the world economy, the growth rate of global maritime trade is expected to rebound to 5%, which was outperformed the pre-pandemic level. In particular, the growth rate of maritime trade in oil products, containers and dry bulk cargoes will flip from negative to positive, while the growth rate of maritime trade in cargoes such as LNG will witness significant increase. Shipping market will keep rebounding, and the operating conditions and the investment ability of shippers will be further improved.

The Group will give full play to the professional advantages as a shipyard-affiliated leasing company, expand strategic partnerships with business partners in the industry chain, seize opportunities for recovery growth of the global shipping market, continue to increase investment in ship portfolio, especially the allocation of operating assets, and maintain a healthy and quality ship portfolio. The Group will ensure that new ships-under-construction will be put into operation in 2021 as scheduled and in turn achieve better returns. A large quantity of new ships being put into operation will continuously drive the stable development of the Company going forward. The Group will pay attention to the demand for clean energy equipment under the practice of "Peak Emissions, Carbon Neutrality" and enhance business layout under international and domestic "dual circulation", thereby bringing new growth points to the growth in results of the Company. The Group will continue to enrich and expand its financing channels, further reduce financing costs, and strive to further reduce the comprehensive annual interest rate of our interest-bearing liabilities. The Group will focus on optimizing its risk prevention and control system, establish a risk assessment model with customer credit evaluation as the core, and push forward the establishment of digital internal control and assets management, thus ensuring quality operations of projects. The Group will continue to deepen institutional reforms and implement share option scheme to stimulate operation and personnel vitality. In 2021, the Group will enter into a new stage of development. As the market stabilizes and rebounds, the Group will usher in greater development with a large quantity of new ships being put into operation.

3. Financial Review

3.1 Analysis on Consolidated Income Statement

	For the year ended 31 December		
(HKD in thousands)	**2020**	2019	Change
Revenue	**1,861,565**	2,294,397	(18.9%)
Total expenses	**(1,063,748)**	(1,411,878)	(24.7%)
Profit from operations	**1,025,784**	847,648	21.0%
Profit for the year	**1,113,806**	892,379	24.8%
Earnings per share (HK$)	**0.181**	0.163	11.0%

Management Discussion and Analysis

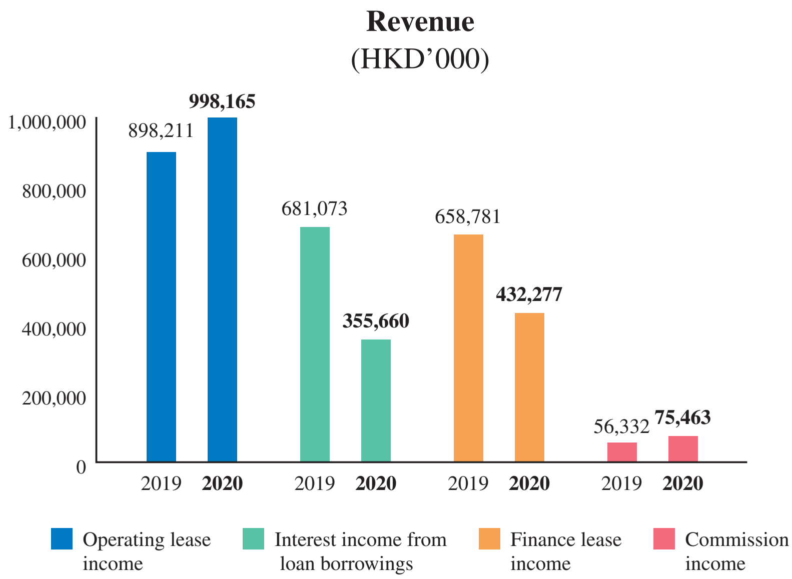
3. Financial Review *(Continued)*

3.1 Analysis on Consolidated Income Statement *(Continued)*

3.1.1 Overview of Consolidated Income Statement

Revenue

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



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			
	2020 HK$'000	**%**	2019 HK$'000	%
Operating lease income	**998,165**	**53.6%**	898,211	39.1%
Interest income from loan borrowings	**355,660**	**19.1%**	681,073	29.7%
Finance lease income	**432,277**	**23.2%**	658,781	28.7%
Commission income	**75,463**	**4.1%**	56,332	2.5%
Total	**1,861,565**		2,294,397	

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 Service Type

The Group's revenue decreased by 18.9% from HK$2,294.4 million for the year ended 31 December 2019 to HK$1,861.6 million for the year ended 31 December 2020, primarily due to the decrease in finance lease income and interest income from loan borrowings.

Operating Lease Income

The Group's operating lease income increased by 11.1% from HK$898.2 million for the year ended 31 December 2019 to HK$998.2 million for the year ended 31 December 2020. Such increase in operating lease income was due to the increase in the Group's total shipping capacity in 2020 as the Group added 3 bulk carriers to its vessel portfolio.

Interest Income from Loan Borrowings

The Group's interest income from loan borrowings decreased by 47.8% from HK$681.1 million for the year ended 31 December 2019 to HK$355.7 million for the year ended 31 December 2020. The significant decrease in interest income from loan borrowings was mainly due to (i) the significant decrease in London Interbank Offered Rate ("**LIBOR**") as the Group charged its customers based on a floating rate with reference to LIBOR. The average 3-month LIBOR decreased from 2.3% for the year ended 31 December 2019 to 0.7% for the year ended 31 December 2020; and (ii) the decrease in the average balance of loan borrowings of 2.2%. The average balance of loan borrowings decreased from HK$7,718.4 million as at 31 December 2019 to HK$7,545.7 million as at 31 December 2020.

Finance Lease Income

The Group's recognised finance lease income of HK$432.3 million for the year ended 31 December 2020, compared with HK$658.8 million for the year ended 31 December 2019, representing a decrease of HK$226.5 million or 34.4%. The decrease in finance lease income was mainly due to (i) the significant decrease in LIBOR as part of the Group's finance lease income is priced on a floating rate basis with reference to LIBOR; and (ii) the decrease in the average balance of finance lease receivables of 16.0%. The average balance of finance lease receivables decreased from HK$8,152.0 million as at 31 December 2019 to HK$6,847.8 million as at 31 December 2020 due to the continuous repayment of the principal of finance lease contracts by the charterers and the early repayment by the charterers of the Group's 5 contracts during 2020.

Commission Income

The Group's commission income is generated by providing shipbroking services when the Group successfully facilities shipbuilding transactions. The Group's commission income increased by 34.1% from HK$56.3 million for the year ended 31 December 2019 to HK$75.5 million for the year ended 31 December 2020. Such increase was mainly attributable to the increased number of vessel sales concluded in 2020 as compared to 2019.

3. Financial Review *(Continued)*

3.1 Analysis on Consolidated Income Statement *(Continued)*

3.1.1 Overview of Consolidated Income Statement (Continued)

Other Income

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

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Dividend income	**29,744**	29,342
Interest income from		
– financial assets at fair value through profit or loss	**19,575**	3,495
– financial assets at fair value through other comprehensive income	**25,207**	25,499
– bank deposits	**34,276**	46,045
– Government subsidies	**4,316**	–
Total	**113,118**	104,381

The main components of other income are (i) interest income from both private and listed bonds and bank deposits; (ii) dividend income from listed preference shares; and (iii) income from government subsidies. The Group recorded a net increase of 8.3% in other income, amounting to HK$113.1 million for the year ended 31 December 2020 as compared to HK$104.4 million for the year ended 31 December 2019.

In order to achieve a better investment return, the Group seized market opportunities and further increased its investment in bonds in 2020, which led to an increase of HK$16.1 million in interest income derived from bonds. In addition, the increase in other income was partially offset by the decrease in interest income from bank deposits.

3. Financial Review *(Continued)*

3.1 Analysis on Consolidated Income Statement *(Continued)*

3.1.1 Overview of Consolidated Income Statement (Continued)

Other Gains/(Losses), Net

The Group recorded net other gains of HK$114.8 million for the year ended 31 December 2020, as compared to net other losses of HK$139.3 million for the year ended 31 December 2019. The other gains derived in 2020 were mainly due to (i) gains on disposal of vessels; (ii) net foreign exchange gain; and (iii) the unrealised gain on changes in fair value of financial assets at fair value through profit or loss.

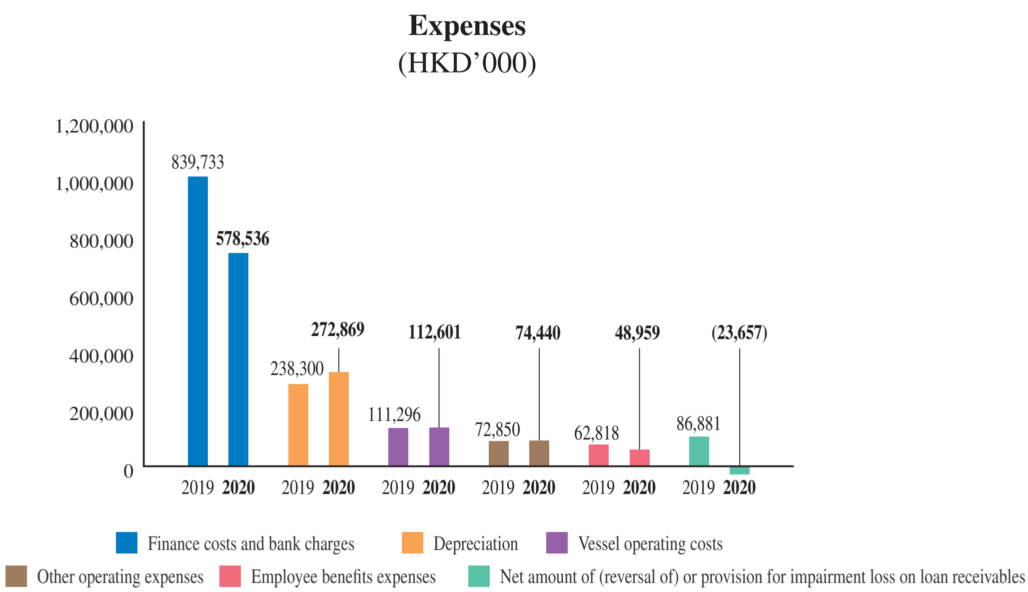
The Group recorded a gain on disposal of vessels of HK$128.9 million due to the disposal of 3 vessels in 2020.

The Group recorded the net foreign exchange gain of HK$42.6 million for the year ended 31 December 2020, as compared to net foreign exchange loss of HK$27.8 million for the year ended 31 December 2019. The net gain from foreign exchange was due to the appreciation of Euro in relation to our EUR-denominated bank deposit during the year.

The Group recognised unrealised gain on changes in fair value of financial assets at fair value through profit or loss of HK$28.6 million because the Group further invested in wealth management products in 2020 which performed relatively well during the year. Our management will continue to review the portfolio and seek the best options to improve the investment return.

Expenses

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



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	
	2020	2019
	HK$'000	HK$'000
Interest and charges on bonds	**161,459**	-
Interest and charges on borrowings	**468,065**	917,757
Interest on lease liabilities	**821**	107
Bank charges	**5,564**	1,537
	635,909	919,401
Less: finance costs capitalised	**(57,373)**	(79,668)
Total	**578,536**	839,733

The Group's finance costs and bank charges during the year mainly consist of interests and charges on bonds and bank borrowings.

The Group's finance costs and bank charges decreased by 31.1% from HK$839.7 million for the year ended 31 December 2019 to HK$578.5 million for the year ended 31 December 2020, primarily due to (i) the Group's improved credit rating and financing viability, which helped the Group obtain lower interest rates from various banks; (ii) the dramatic decrease in the Group's bank loan interest payment that was linked to the floating rates with reference to LIBOR; and (iii) the decrease in the amount of the Group's average bank borrowings from HK$20,482.7 million as at 31 December 2019 to HK$19,457.0 million as at 31 December 2020.

3. Financial Review *(Continued)*

3.1 Analysis on Consolidated Income Statement *(Continued)*

3.1.1 Overview of Consolidated Income Statement *(Continued)*

Net Amount of Reversal of or Provision for Impairment Loss on Loan Receivables

The reversal for expected credit loss of HK$23.7 million for the year ended 31 December 2020 was mainly due to the decrease in provision as the expected credit loss of loan receivables transferred from stage 2 to stage 1. The transfer of loan receivables from stage 2 to stage 1 was mainly due to the improvement of the shipping market of liquefied gas carriers.

Depreciation

The Group's 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	
	2020 HK$'000	2019 HK$'000
Vessels	**262,550**	233,567
Office equipment	**745**	583
Motor vehicles	**176**	387
Leasehold improvements	**601**	297
Right-of-use assets	**8,797**	3,466
Total	**272,869**	238,300

The Group's depreciation expenses increased by 14.5% from HK$238.3 million for the year ended 31 December 2019 to HK$272.9 million for the year ended 31 December 2020. The increase was mainly attributable to vessels delivered during 2020.

Employee Benefits Expenses

The Group's 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	
	2020 HK$'000	2019 HK$'000
Wages, salaries, and other allowances (including directors' emoluments)	**41,457**	53,101
Retirement benefit costs	**7,502**	9,717
Total	**48,959**	62,818

The Group's employee benefits expenses decreased by 22.1% from HK$62.8 million for the year ended 31 December 2019 to HK$49.0 million for the year ended 31 December 2020. The decrease in employee benefits expense was mainly due to the decrease in the provision of employees' bonus for the year ended 31 December 2020.

3. Financial Review *(Continued)*

3.1 Analysis on Consolidated Income Statement *(Continued)*

3.1.1 Overview of Consolidated Income Statement *(Continued)*

Vessel Operating Costs

The Group's vessel operating costs represent the expenses incurred in operating vessels under operating lease arrangements, including crew expenses, vessel repair and maintenance fees, ship management fees and vessel insurances.

The Group's vessel operating costs amounted to HK$111.3 million and HK$112.6 million for the years ended 31 December 2019 and 2020, respectively.

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

	Year ended 31 December	
	2020 **HK$'000**	2019 HK$'000
Ship management fees	**14,001**	19,381
Crew expenses	**66,866**	51,387
Commission	**9,190**	12,328
Insurance	**5,175**	7,408
Services and suppliers	**8,765**	9,687
Repairs and maintenance	**3,567**	5,563
Port charges	**2,698**	2,122
Others	**2,339**	3,420
	112,601	111,296

Share of Results of Joint Ventures

The Group's share of results of joint ventures increased significantly from HK$53.5 million for the year ended 31 December 2019 to HK$112.7 million for the year ended 31 December 2020. The significant increase was mainly because (i) as at 31 December 2020, the Group's joint venture companies operated 11 vessels as compared to 8 vessels as at 31 December 2019; and (ii) the market for liquefied gas carriers improved during the year. The vessels under construction will be delivered in 2021 and 2022. Our management expected that these vessels will further contribute to the Group's profit.

3. Financial Review *(Continued)*

3.1 Analysis on Consolidated Income Statement *(Continued)*

3.1.1 Overview of Consolidated Income Statement (Continued)

Income Tax Expenses

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 British Virgin Islands, 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.

3.2 Analysis on the Consolidated Statement of Financial Position

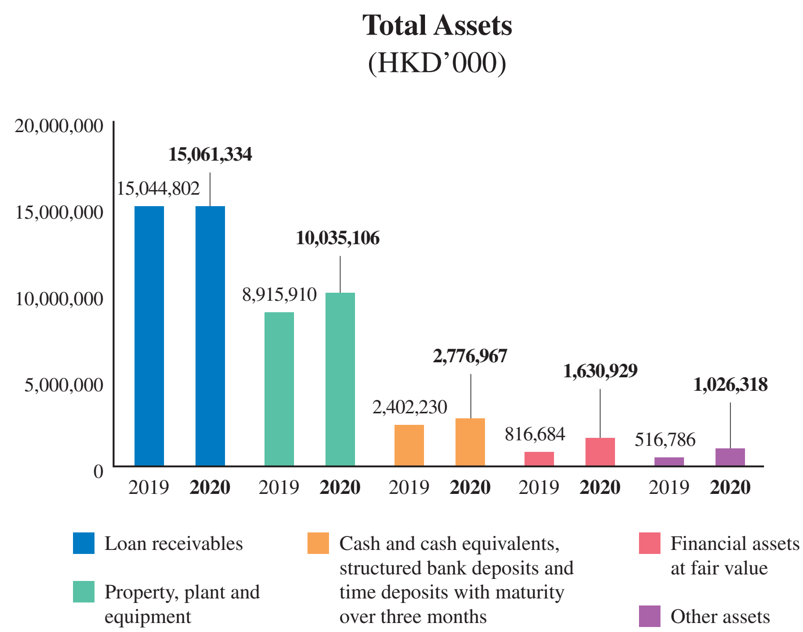
	As at 31 December		
(HKD in thousands)	**2020**	2019	Change
Total assets	**30,530,654**	27,696,412	10.2%
Total liabilities	**21,539,717**	19,247,168	11.9%
Net assets	**8,990,937**	8,449,244	6.4%

3. Financial Review *(Continued)*

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

Assets

The Group's total assets increased by 10.2% from HK$27,696.4 million as at 31 December 2019 to HK$30,530.7 million as at 31 December 2020.



3. Financial Review *(Continued)*

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

Assets *(Continued)*

Loan Receivables

The Group's 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	
	2020	2019
	HK$'000	HK$'000
Loan borrowings	**7,458,786**	7,632,584
Finance lease receivables	**6,881,529**	6,814,012
Loans to joint ventures	**721,019**	598,206
Total	**15,061,334**	15,044,802

During the year ended 31 December 2020, there was no major default in the repayment of loan receivables from our customers and none of our loan receivables was written off.

(a) Loan Borrowings

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

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Secured loan services	**7,486,207**	7,847,210
Less: Accumulated allowance for impairment loss	**(27,421)**	(214,626)
Net carrying amount	**7,458,786**	7,632,584

3. Financial Review *(Continued)*

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

Assets *(Continued)*

Loan Receivables (Continued)

(a) 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	
	2020	2019
	HK$'000	HK$'000
Within 1 year	**1,101,435**	987,993
After 1 year but within 2 years	**565,272**	932,942
After 2 years but within 5 years	**1,719,965**	3,023,641
Over 5 years	**4,072,114**	2,688,008
Total	**7,458,786**	7,632,584

Loan borrowings mainly refer to receivables from the secured loan provided by us. Our loan borrowings were secured and bore interest at rates ranging from 3.6% to 8.0% per annum and repayable from 2021 to 2031 as at 31 December 2020.

The Group's loan borrowings decreased from HK$7,632.6 million as at 31 December 2019 to HK$7,458.8 million as at 31 December 2020. The decrease in loan borrowings was mainly due to the continuous repayment of principal amounts made by our customers during the year.

3. Financial Review *(Continued)*

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

Assets *(Continued)*

Loan Receivables (Continued)

(b) 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	
	2020	2019
	HK$'000	HK$'000
Finance lease receivables	**5,623,063**	5,461,527
Guaranteed residual values	**3,050,560**	2,889,594
Gross investment in leases	**8,673,623**	8,351,121
Less: Unearned finance income	**(1,316,054)**	(1,224,633)
Net investments in leases	**7,357,569**	7,126,488
Less: accumulated allowance for impairment loss	**(476,040)**	(312,476)
Finance lease receivables – net	**6,881,529**	6,814,012

3. Financial Review *(Continued)*

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

Assets *(Continued)*

Loan Receivables (Continued)

(b) Finance Lease Receivables *(Continued)*

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	
	2020	2019
	HK$'000	HK$'000
Gross investment in finance leases		
– Within 1 year	**2,356,399**	1,525,107
– After 1 year but within 2 years	**790,037**	1,922,039
– After 2 years but within 5 years	**2,435,181**	2,593,238
– Over 5 years	**3,092,006**	2,310,737
Total	**8,673,623**	8,351,121

Finance lease receivables were secured and repayable within 12 years and bore interest at rates ranging from 3.5% to 9.0% as at 31 December 2020.

The Group's net finance lease receivables amounted to HK$6,814.0 million and HK$6,881.5 million as at 31 December 2019 and 31 December 2020, respectively. Such receivables slightly increased because the Group entered into several new finance lease contracts in the fourth quarter of 2020.

(c) Loans to Joint Ventures

Loans to joint ventures represent the unsecured loan to joint ventures which were repayable on demand, of which HK$352.4 million bore the interest rates ranged from 3.0% to 5.1% per annum as at 31 December 2020.

The Group's loans to joint ventures increased significantly by 20.5% from HK$598.2 million as at 31 December 2019 to HK$721.0 million as at 31 December 2020. The increase in loans to joint ventures was mainly due to the injection of funding to joint ventures for vessels under construction which was in accordance with the business plan.

During the year ended 31 December 2020, there was no major default in the repayment of loan receivables from our customers and none of our loan receivables was written off.

3. Financial Review *(Continued)*

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

Assets *(Continued)*

Property, Plant and Equipment

The Group's property, plant and equipment comprise constructions in progress, vessels held for operating leases, leasehold improvements, office equipment and motor vehicles held for business purposes. As at 31 December 2019 and 31 December 2020, the Group's property, plant and equipment amounted to HK$8,915.9 million and HK$10,035.1 million, respectively.

The increase of 12.6% in the Group's property, plant and equipment during the year was primarily due to the increase in the number of vessels under operating lease arrangements.

Interests in Joint Ventures

Our interest in joint ventures increased from HK$211.3 million as at 31 December 2019 to HK$483.5 million as at 31 December 2020 due to the capital injection for construction of vessels and the share of profits generated from the joint ventures.

Interests in Associates

As at 31 December 2019 and 31 December 2020, our interests in associates amounted to HK$35.6 million and HK$49.8 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 as at 31 December		Principal activities
		2020	2019	
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%**	25%	Marine technology

The increase in our interests in associates from HK$35.6 million as at 31 December 2019 to HK$49.8 million as at 31 December 2020 was mainly due to capital injection to a new associate amounting to HK$22.5 million and the share of profits of our associates 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 represent cross currency swap and interest rate swap.

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

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Interest rate swap	**10,306**	3,881
Total	**10,306**	3,881

Prepayments, Deposits, Other Receivables

Our prepayments, deposits and other receivables mainly include prepayments for construction of vessels under finance lease arrangements, vessel operating costs and interest receivables.

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

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Prepayments	**364,059**	15,567
Interest receivables	**23,340**	71,021
Other receivables	**7,170**	78,107
Total	**394,569**	164,695

Our prepayments, deposits, other receivables increased from HK$164.7 million as at 31 December 2019 to HK$394.6 million as at 31 December 2020, primarily due to a significant increase in prepayment for a new finance lease project.

3. Financial Review *(Continued)*

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

***Assets** (Continued)*

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.

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	
	2020	2019
	HK$'000	HK$'000
Financial assets at fair value through profit or loss	**904,671**	39,460
Financial assets at fair value through other comprehensive income	**726,258**	777,224
Total	**1,630,929**	816,684

The Group seized market opportunities and further invested in bonds in 2020 for better investment return. Hence, investments increased from HK$816.7 million as at 31 December 2019 to HK$1,630.9 million as at 31 December 2020.

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

Our amounts due from associates, fellow subsidiaries and joint ventures amounted to HK$29.0 million and HK$55.2 million as at 31 December 2019 and 31 December 2020, respectively. Such increase was mainly due to the injection of funding to joint ventures for vessels under construction which was in accordance with the business plan.

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	
	2020	2019
	HK$'000	HK$'000
Amounts due from associates	**25,320**	23,968
Amounts due from fellow subsidiaries	**3,024**	220
Amounts due from joint ventures	**26,871**	4,776
Total	**55,215**	28,964

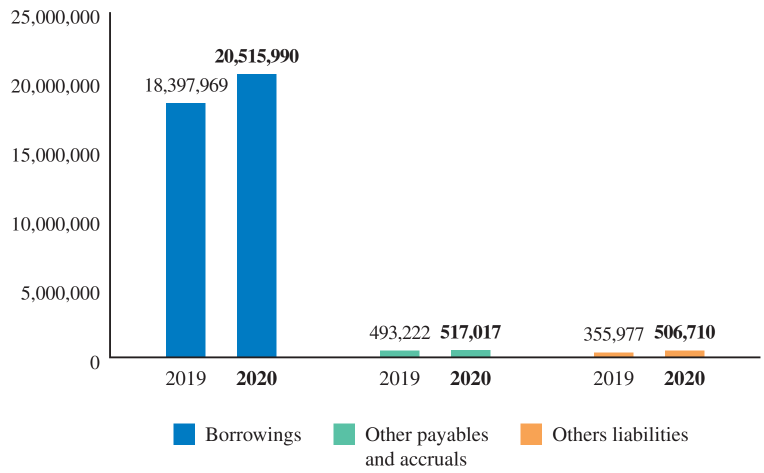
3. Financial Review *(Continued)*

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

Liabilities

The Group's total liabilities increased by 11.9% from HK$19,247.2 million as at 31 December 2019 to HK$21,539.7 million as at 31 December 2020.

Total Liabilities
(HKD'000)



Borrowings

	2020 **HK$'000**	2019 HK$'000
Bank borrowings	**14,279,534**	18,397,969
Guaranteed bonds	**6,236,456**	–
	20,515,990	18,397,969

The Group's borrowings increased by 11.5% from HK$18,398.0 million as at 31 December 2019 to HK$20,516.0 million as at 31 December 2020, mainly due to the drawdown of borrowings during 2020 and the completion of issuance of US$800 million bonds by the Group in the first half of 2020.

The weighted average interest rates for the years ended 31 December 2019 and 2020 ranged from 2.69% to 4.60%, and 1.12% to 3.62%, respectively.

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.

3. Financial Review *(Continued)*

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

Liabilities *(Continued)*

Borrowings (Continued)

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

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
On demand and within 1 year	**8,374,024**	5,621,747
After 1 year but within 2 years	**854,066**	1,711,312
After 2 years but within 5 years	**2,625,900**	6,017,514
After 5 years	**2,425,544**	5,047,396
Total	**14,279,534**	18,397,969

Other Payables and Accruals

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

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Accruals	**12,608**	17,825
Deposits received	**434,278**	438,732
Other payables	**70,131**	36,665
Total	**517,017**	493,222

Our deposits received amounted to HK$438.7 million and HK$434.3 million as at 31 December 2019 and 31 December 2020, 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.

3. Financial Review *(Continued)*

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

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 2020	**39,938**	**192,132**	**271,495**	**503,565**
Loan receivables as of 31 December 2020	**13,187,769**	**2,105,635**	**271,495** (Note)	**15,564,899**

Note: overdued more than 90 days.

As at 31 December 2020, we made provision for impairment loss on loan receivables of HK$503.6 million, which comprised 12-month expected credit loss of HK$39.9 million for assets under stage 1 and lifetime expected credit loss of HK$192.1 million and HK$271.5 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 issuance of bonds. When determining the allocation of its capital resources, the Group primarily considers its business strategies and development plans, future capital needs and projected cash flow.

During the 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 during 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	
	2020	2019
	HK$'000	HK$'000
Net cash generated from operating activities	**654,156**	3,548,526
Net cash used in investing activities	**(2,071,923)**	(242,745)
Net cash generated from/(used in) financing activities	**1,701,792**	(2,303,694)
Net increase in cash and cash equivalents	**284,025**	1,002,087
Cash and cash equivalents at the beginning of the year	**1,895,182**	924,060
Effect of foreign exchange rate changes on cash and cash equivalents	**1,073**	(30,965)
Cash and cash equivalents at the end of the year	**2,180,280**	1,895,182

3. Financial Review *(Continued)*

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

Liquidity and Working Capital *(Continued)*

Cash Flow *(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 2020, our net cash generated from operating activities amounted to HK$654.2 million.

Net Cash used in Investing Activities

For the year ended 31 December 2020, our net cash used in investing activities amounted to HK$2,071.9 million, primarily attributable to the payment for purchase of vessels and property, plant and equipment of HK$1,461.1 million and the increase in portfolio investment of HK$1,374.5 million, which was partially offset by proceeds on disposal of financial assets at fair value through other comprehensive income of HK$332.9 million.

Net Cash generated from/(used in) Financing Activities

During the year, our cash flow generated from financing activities was primarily attributable to the proceeds from bank borrowings and issue of bonds, 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 2020, our net cash generated from financing activities amounted to HK$1,701.8 million, primarily attributable to the Company's issue of guaranteed bonds to develop its leasing business and refinancing of its existing debts during the year.

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 rates on a net basis. The Group's hedge relationship between interest rate swaps and the designated hedged items were highly effective. In 2020, 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 borrowings as at the dates indicated:

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Variable rate balances		
Loan receivables	**11,931,272**	12,495,843
Bank borrowings	**(13,487,888)**	(15,333,159)

Sensitivity analysis

As at 31 December 2020, 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$13.0 million (2019: HK$23.7 million). 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 points 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 2020 and 2019, are as follows:

	As at 31 December 2020			As at 31 December 2019		
	EUR HK$'000	**SGD HK$'000**	**RMB HK$'000**	EUR HK$'000	SGD HK$'000	RMB HK$'000
Prepayments, deposits and other receivables	**–**	**1,977**	**5,796**	–	–	12,388
Amounts due from associates	**–**	**25,320**	**–**	–	23,968	–
Structured bank deposits	**–**	**–**	**467,443**	–	–	335,653
Cash and cash equivalents	**145,436**	**5,136**	**128,907**	1,351,998	482	123,889
Other payables and accruals	**–**	**(6,707)**	**(31,734)**	–	–	(4,577)
Net exposure	**145,436**	**25,726**	**570,412**	1,351,998	24,450	467,353

The following table details the Group's sensitivity to a 5% increase in the relevant functional currencies against HK$ as at 31 December 2020 and 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 2020. 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.

	As at 31 December	
	2020 HK$'000	2019 HK$'000
EUR	**6,072**	56,446
SGD	**1,074**	1,021
RMB	**23,815**	19,512

Directors and Senior Management

Directors

Executive Directors

Mr. Zhong Jian (鐘堅), aged 58, was a non-executive Director appointed in September 2019. He was re-designated as an executive director and appointed as the chairman of the Board on 29 April 2020. Mr. Zhong is primarily responsible for overseeing our general management, strategic development, investments, human resources, project evaluation and compliance.

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

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. Hu Kai (胡凱), aged 52, 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 50, 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. Zou Yuanjing (鄒元晶), aged 59, 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 the 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

Mr. Wang Dennis (王德銀), aged 58, was appointed as an independent non-executive Director on 10 November 2020. Mr. Wang is primarily responsible for the independent supervision of the management of the Group.

Mr. Wang is an entrepreneur. Mr. Wang was previously the chairman, an executive director and the chief consultant of China Water Industry Group Limited (中國水業集團有限公司*), the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1129), the chairman and the general manager of Tibet Jinzhu Co., Ltd.* (西藏金珠股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600773), the founder and the chairman of Shenzhen Hornson Science and Tech. Co., Ltd.* (深圳豪信科技有限公司), and the chairman and the president of Shenzhen Modern Computer Co., Ltd.* (深圳現代計算機有限公司).

Mr. Wang obtained a bachelor's degree in computer engineering from Xidian University (西安電子科技大學) in the People's Republic of China in 1986.

Mdm. Shing Mo Han Yvonne (盛慕嫻), *BBS, JP*, aged 65, 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 Chartered Governance Institute (formerly known as Institute of Chartered Secretaries and Administrators).

Mr. Li Hongji (李洪積), aged 64, 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 59, 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 48, 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 45, 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*

Directors' Report

The Board is pleased to present the report and the audited consolidated financial statements of the Group for the year ended 31 December 2020 (the "**Reporting Year**").

Global Offering

The Company was incorporated in Hong Kong on 25 June 2012 as a limited liability company. The shares of the 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 segment for the year ended 31 December 2020 is set out in note 5 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2020 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 129 and 130 of this annual report, respectively.

Final Dividend

To share the fruitful results of the Group among all shareholders of the Company (the "**Shareholders**"), the Board recommends the payment of a final dividend of HK$0.06 per share out of the distributable reserve of the Company in respect of the year ended 31 December 2020. 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 July 2021 following approval at the Company's forthcoming AGM.

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 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 has utilized the above proceeds in full in accordance with the purposes disclosed in the prospectus of the Company dated 28 May 2019 (the "**Prospectus**").

Major Customers and Suppliers

Major Customers

For the year ended 31 December 2020, the transaction amounts of the top five customers of the Group accounted for 60.0% of the Group's total revenue (2019: 63.1%), while the transaction amounts of the single largest customer of the Group accounted for 17.7% of the Group's total revenue (2019: 26.0%).

None of the Directors, their close associates or any Shareholder (which to the knowledge of the Directors own more than 5% of the number of Company's issued shares) had an interest in the five major suppliers or customers of the Group.

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 Year 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 Year are set out in note 28 to the consolidated financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the Reporting Year are set out in the consolidated statement of changes in equity on pages 224 and 133 of this annual report, respectively.

Reserves Available for Distribution

As at 31 December 2020, 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$58,781,000.

Bank Borrowings

Particulars of bank borrowings of the Group as at 31 December 2020 are set out in note 25 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 30 June 2020, Earl Shipping S.A., Epoch Shipping S.A., Elsa Shipping S.A., Emma Shipping S.A., Essence Shipping S.A., Empire Shipping S.A. and Excellency Shipping S.A., being the Company's wholly-owned subsidiaries, as borrowers entered into a facility agreement with a bank as lender, pursuant to which the lender has agreed to make a term loan facility of US$123,468,000 available to the borrowers in seven tranches for the sole purpose of re-financing part of the acquisition cost of seven vessels. The loan under each tranche shall be repaid in full in 10 years from the relevant utilization date.

The Company has, under the facility agreement, represented that (i) CSSC Group is the single largest shareholder (directly or indirectly) of the Company; and (ii) more than 51% of the equity interests in CSSC Group are directly or indirectly owned by the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China* (國務院國有資產監督管理委員會), or similar government authority acceptable to the Lender.

On 24 August 2020, the Company, as borrower, entered into a facility agreement with a bank as lender, pursuant to which the lender has agreed to make a term loan facility of US$48,260,000 available to the Company for the purpose of funding the acquisition cost of vessels. The loan shall be repaid in full in one year from the relevant utilization date.

Pursuant to the facility agreement, the Company has undertaken that, during the term of the facility agreement, (i) CSSC Group shall remain as a controlling shareholder of the Company; and (ii) CSSC Group shall be directly administered by the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China* (國務院國有資產監督管理委員會)

Directors

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

Executive Directors:

Mr. Zhong Jian *(Chairman)* (re-designated as an executive Director and appointed as the chairman on 29 April 2020)
Mr. Hu Kai
Mr. Yang Li (resigned on 29 April 2020)

Non-executive Directors:

Mr. Li Wei
Mr. Zou Yuanjing

Independent Non-executive Directors:

Mr. Wang Dennis (appointed on 10 November 2020)
Mdm. Shing Mo Han Yvonne, *BBS, JP*
Mr. Li Hongji
Dr. Wong Yau Kar David, *GBS, JP* (resigned on 10 November 2020)

Directors *(Continued)*

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.

Pursuant to article 99(1) of the Articles of Association, at each annual general meeting, 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.

Therefore, Mr. Zhong Jian, Mr. Hu Kai, Mr. Li Wei and Mr. Wang Dennis shall retire by rotation, and offer themselves for re-election at the AGM.

The particulars of Directors who are subject to re-election at the forthcoming 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 40 to 44 of this annual report.

A full list of the names of the Directors of the Group's subsidiaries is available on the Company's website.

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 are independent during the Reporting Year.

Directors' Service Contracts and Letters of Appointment

The Company entered into a service contract with Mr. Hu Kai, the executive Director, and a letter of appointment with each of Mdm. Shing Mo Han Yvonne and Mr. Li Hongji, 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 re-designation as an executive Director, Mr. Zhong Jian has entered into a service contract with the Company for an initial period of three years commencing from 29 April 2020. With regard to the appointment of independent non-executive Director, Mr. Wang Dennis has signed a letter of appointment with the Company for an initial term of three years commencing from 10 November 2020.

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

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 Reporting Year and up to the date of this annual report, none of the Directors or entity connected with 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 Reporting Year and up to the date of this annual report.

Employee and Emolument Policy

As at 31 December 2020, the Group had a total of 74 employees, approximately 42% 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 2020, approximately 96% of the Group's employees had a bachelor's degree or above. As at 31 December 2020 and 31 December 2019, the remuneration of the Group's employees amounted to approximately HK$49.0 million and HK$62.8 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 Year 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 2020, 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 2020, as far as the Directors are aware, the following persons (other than the Directors and chief executives of the Company) had interests or short positions in the Shares or underlying Shares which were required to be disclosed to the Company pursuant to 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 2020, as far as the Directors are aware, no other persons (other than the Directors and chief executives of the Company) had interests or short positions in the Shares or underlying Shares which were required to be disclosed to the Company pursuant to 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 Reporting Year 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.

Principal Risks and Uncertainties

The principal financial risks are set out in note 3(b)to the consolidated financial statements.

Environmental Policies and Performance

Details of the discussion on the environmental policies and performance of the Company, please refer to the Company's Environmental, Social and Governance Report in this annual report.

Compliance with Laws and Regulations

During the Reporting Year, the Company was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

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 Year.

Purchase, Redemption or Sales of the Listed Securities

During the Reporting Year, none of the Company or any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Pledge of Assets

As at 31 December 2020, the Group's secured bank borrowings of HK$7,569,637,000 (2019: HK$18,397,969,000) were secured by loan receivables of approximately HK$9,594,395,000 (2019: HK$11,334,000,000), certain of shares of the subsidiaries, deposits of approximately HK$158,568,000 (2019: HK$35,000,000), general assignments, bareboat charterer assignments, intra group loan assignments and property, plant and equipment of approximately HK$2,545,058,000 (2019: HK$2,514,736,000). Among which, HK$1,922,949,000 (2019: $4,671,155,000) were secured by corporate guarantee from the ultimate holding company.

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 Year, and confirmed that the Controlling Shareholders have complied with the deed of non-competition.

Directors' Interest in Competing Business

During the Reporting Year, 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 of the Company. 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 dated 9 September 2019.

Connected Transactions and Continuing Connected Transactions *(Continued)*

Non-exempt continuing connected transactions

During the year ended 31 December 2020, 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 2020 (HK$ million)
Framework property leasing agreement (Note 1)	CSSC Group and/or its associates	Leasing of properties	18	14
Framework shipbuilding agreement (Note 2)	CSSC Group and/or its associates	Purchase of vessels	6,150	2,162
Framework shipbroking agreement (Note 3)	CSSC Group and/or its associates	Shipbroking services	111	14

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 (Revised) "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 reported to the Directors 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 Year, 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 29 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 Year 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$2,917,000 during the Reporting Year.

Material Legal Proceedings

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

Events after the Reporting Year

Details of significant events after the Reporting Year are set out in note 36 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 2020.

* *For identification purpose only*

Directors' 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 58 to 73 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 throughout the Reporting Year and up to the date of this annual report.

Auditor

As the Company was unable to reach agreement with PricewaterhouseCoopers ("**PwC**") on the audit fees for the financial year ended 31 December 2020, PwC retired as auditor of the Company at the conclusion of the 2019 AGM held on 8 June 2020 (the "**2019 AGM**") upon the expiry of their term of office and did not accept re-appointment. The Company has appointed Grant Thornton Hong Kong Limited ("**Grant Thornton**") as the new auditor of the Company following the retirement of PwC, which was approved by the Shareholders at the 2019 AGM. Save for the above, there has been no change in the auditor of the Company during the last three years.

Grant Thornton was appointed as the auditor for the year ended 31 December 2020. Grant Thornton has audited the accompanying financial statements, which were prepared in accordance with Hong Kong Financial Reporting Standards.

Grant Thornton is subject to retirement at the forthcoming AGM and shall, being eligible, offer himself for re-election. A resolution for the re-appointment of Grant Thornton as the auditor will be proposed at the forthcoming AGM.

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

Hong Kong, 31 March 2021

Corporate Governance Report

The Board is pleased to present this corporate governance report of the Company for the period from 1 January 2020 to 31 December 2020 (the "**Reporting Year**").

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 own code of corporate governance.

During the Reporting Year, 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 of the Company (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, two non-executive Directors and three independent non-executive Directors as set out below:

Executive Directors:

Mr. Zhong Jian *(Chairman)* (re-designated as an executive Director and appointed as the chairman on 29 April 2020)
Mr. Hu Kai

Non-executive Directors:

Mr. Li Wei
Mr. Zou Yuanjing

Independent Non-executive Directors:

Mr. Wang Dennis (appointed on 10 November 2020)
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 Reporting Year, 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.

Currently, members of the Board have various professional experience and qualifications in finance, accounting, law, etc. After considering the composition and measurable objectives of the Board, the Company considers that members of the Board are sufficiently diverse and have the appropriate balance of skills and experience for effective management and sustainable development of the Company.

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 during the Reporting Year according to the records provided by the Directors is as follows:

Name of Directors	Nature of Continuous Professional Development
Mr. Zhong Jian(1)	A/B
Mr. Hu Kai	A/B
Mr. Li Wei	A/B
Mr. Zou Yuanjing	A/B
Mr. Wang Dennis(2)	A/B
Mdm. Shing Mo Han Yvonne	A/B
Mr. Li Hongji	A/B
Mr. Yang Li(3)	A/B
Dr. Wong Yau Kar David(4)	A/B

Notes:

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

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

(1) Mr. Zhong Jian was re-designated as an executive Director and appointed as the chairman on 29 April 2020.

(2) Mr. Wang Dennis was appointed as an independent non-executive Director on 10 November 2020.

(3) Mr. Yang Li resigned as an executive Director on 29 April 2020.

(4) Dr. Wong Yau Kar David resigned as an independent non-executive Director on 10 November 2020.

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. Zhong Jian, 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 Reporting Year, 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 Mr. Hu Kai, the executive Director, and a letter of appointment with each of Mdm. Shing Mo Han Yvonne and Mr. Li Hongji, the independent non-executive Directors, on 6 May 2019. Each of the service contract and the letters of appointment is for an initial term of three years commencing from the Listing Date.

With regard to the re-designation as an executive Director, Mr. Zhong Jian has entered into a service contract with the Company for an initial period of three years commencing from 29 April 2020. With regard to the appointment of Mr. Wang Dennis as an independent non-executive Director, Mr. Wang Dennis has signed a letter of appointment with the Company for an initial term of three years commencing from 10 November 2020.

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

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 any service contract with any member of the Group, 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 Reporting Year, 12 Board meetings and 2 general meetings were held. The attendance of the individual Directors at the Board meetings and general meetings is set out in the table below:

Directors	Number of Board meetings attended/held	Number of general meeting attended/held
Mr. Zhong Jian[(1)]	12/12	2/2
Mr. Hu Kai	12/12	2/2
Mr. Li Wei	12/12	0/2
Mr. Zou Yuanjing	12/12	2/2
Mr. Wang Dennis[(2)]	2/2	0/0
Mdm. Shing Mo Han Yvonne	12/12	2/2
Mr. Li Hongji	12/12	1/2
Mr. Yang Li[(3)]	2/2	1/1
Dr. Wong Yau Kar David[(4)]	9/9	2/2

Notes:

(1) Mr. Zhong Jian was re-designated as an executive Director and appointed as the chairman on 29 April 2020.

(2) Mr. Wang Dennis was appointed as an independent non-executive Director on 10 November 2020.

(3) Mr. Yang Li resigned as an executive Director on 29 April 2020.

(4) Dr. Wong Yau Kar David resigned as an independent non-executive Director on 10 November 2020.

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 Reporting Year.

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 Year, 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 2020, 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), Mr. Wang Dennis 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, approving the remuneration and terms of engagement of the external auditor, and dealing with 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; and

(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 2020 to discuss and consider the following:

- Review of the interim results of the Company and its subsidiaries for the six months ended 30 June 2020;

- Review of the Company's 2019 Environmental, Social and Governance Report, review of the Company's continuing connected transactions, consideration of the 2019 risk management and internal audit exercise, consideration of the 2019 internal control evaluation report, and consideration of the resolution in respect of the adjustment on the annual auditor's work programme; 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
Mr. Wang Dennis(1)	0/0
Mr. Li Hongji	2/2
Mr. Li Wei	2/2
Mr. Zou Yuanjing	2/2
Dr. Wong Yau Kar David(2)	2/2

Notes:

(1) Mr. Wang Dennis was appointed as a member of the Audit Committee on 10 November 2020.

(2) Dr. Wong Yau Kar David resigned as a member of the Audit Committee on 10 November 2020.

Board Committees *(Continued)*

Nomination Committee

The current members of the Nomination Committee include one executive Director, Mr. Zhong Jian (Chairperson), and three independent non-executive Directors, namely Mr. Wang Dennis, Mdm. Shing Mo Han Yvonne and Mr. Li Hongji.

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.

Board Committees *(Continued)*

Nomination Committee *(Continued)*

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 three meetings during the year ended 31 December 2020 to discuss and consider the following:

- Discussion of the structure, size and composition of the Board;
- Discussion of the Board diversity policy and its implementation;
- Assessment of the independence of the independent non-executive Directors;
- Consideration of resolutions for the retirement of Directors for re-election;
- Consideration of resolutions relating to the change of chairmanship of the Board, resignation of Directors, membership of the Nomination Committee and change of chairmanship; and
- Consideration of resolution relating to the appointment of independent 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. Zhong Jian(1)	3/3
Mr. Wang Dennis(2)	0/0
Mdm. Shing Mo Han Yvonne	3/3
Mr. Li Hongji	3/3
Mr. Yang Li(3)	2/2
Dr. Wong Yau Kar David(4)	2/2

Notes:

(1) Mr. Zhong Jian resigned as a member of the Nomination Committee on 29 April 2020.

(2) Mr. Wang Dennis was appointed as a member of the Nomination Committee on 10 November 2020.

(3) Mr. Yang Li resigned as a member of the Nomination Committee on 29 April 2020.

(4) Dr. Wong Yau Kar David resigned as a member of the Nomination Committee on 10 November 2020.

Board Committees *(Continued)*

Remuneration Committee

The current members of the Remuneration Committee include three independent non-executive Directors, namely Mr. Wang Dennis (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 three meetings during the year ended 31 December 2020 to discuss and consider the following:

- Review of the policies in respect of the remuneration of Directors for 2020; and

- Review of the proposal regarding the recommendation on the remuneration level of the appointed executive Directors and independent non-executive Directors.

Board Committees *(Continued)*

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
Mr. Wang Dennis[(1)]	0/0
Mdm. Shing Mo Han Yvonne	3/3
Mr. Li Hongji	3/3
Dr. Wong Yau Kar David[(2)]	2/2

Notes:

(1) Mr. Wang Dennis was appointed as the chairman of the Remuneration Committee on 10 November 2020.

(2) Dr. Wong Yau Kar David resigned as the chairman of the Remuneration Committee on 10 November 2020.

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 2020 are set out on pages 40 to 44 of this annual report and below:

Remuneration band	Number of individuals
Nil to HK$1,000,000	7
HK$1,500,001 to HK$2,000,000	1
HK$2,500,001 to HK$3,000,000	3
HK$3,500,001 to HK$4,000,000	1

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 2020 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 auditor regarding its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 123 to 128 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 2020 is as follows:

Type of services	**Amount** (HK$'000)
Audit services	2,480
Non-audit services	2,474
Total	4,954

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 Year, 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 Reporting Year, there were no changes to the Articles of Association.

Environmental, Social and Governance Report

About This Report

This Environmental, Social and Governance ("**ESG**") Report (this "**Report**") covers the latest sustainability-related information of CSSC (Hong Kong) Shipping Company Limited ("**CSSC Shipping**" or the "**Company**") and its subsidiaries (collectively referred to as the "**Group**" or "**we**") in 2020, and includes issues that are of interests to stakeholders and related to the sustainable development of the Company. This Report was compiled to enable stakeholders to better understand the Company's sustainable development concept, management approaches, measures, and related performance. This Report should be read in conjunction with the Company's *2020 Annual Report* (in particular the *Corporate Governance Report* contained therein) to provide a comprehensive understanding of the Company's performance.

Reporting Year

Unless otherwise specified, this Report presents the Group's specific ESG policies and performance during the period between 1 January 2020 and 31 December 2020 (the "**Reporting Year**"). Due to data continuity and comparability, the timeframes of some of the contents have been adjusted where necessary.

Reporting Scope

The reporting scope of this Report is consistent with the Company's 2020 Annual Report, which includes CSSC Shipping and its subsidiaries. At the beginning of the Reporting Year, the new office of the Group located in Guangzhou has been in operation, thus the Guangzhou office has been added to the reporting scope of this Report as compared to 2019.

Basis of Report Preparation

This Report was prepared in accordance with the Environmental, Social and Governance Reporting Guide (2016) (the "**ESG Reporting Guide**") contained in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**SEHK**") (the "**Listing Rules**"), and complied with the "comply or explain" provisions of the ESG Reporting Guide. Moreover, the selection of information for disclosure was also based on the result of the materiality assessment. Please refer to the Content Index of Appendix 3 in this Report for details of the corresponding sections of the provisions.

The reporting principles (of Materiality, Quantitative, Balance, and Consistency) outlined in the ESG Reporting Guide have been practically adopted in this Report.

Access to This Report

This Report is available in both Chinese and English. Should there be any discrepancy between the Chinese and English versions, the Chinese version shall prevail.

Electronic copies are available in the following websites:

- HKEXnews: http://www.hkexnews.hk/
- CSSC Shipping's website: http://www.csscshipping.cn

Response to This Report

If you have comments and suggestions regarding this Report and the sustainability performance of the Company, you can contact us through the following means:
Email: ir@csscshipping.com
Phone: +852 2238 5299

Approval and Confirmation

The Board of CSSC Shipping is fully responsible for overseeing the Group's implementation and management of ESG related matters. The information disclosed in this Report is mainly derived from the internal documents and public information of the Group. This Report was reviewed and approved by the Board in March 2021.

Chairman's Statement

The year of 2020 was an extraordinary year. Facing the unprecedented risks and challenges resulted from the COVID-19 pandemic and other factors, we have withstood the most severe challenges since the establishment of the Company with the requirements of "no changes on plans, no adjustments on indicators, no reductions on tasks, and increases in efforts", strongly maintaining the development momentum of "progress has been achieved and stability ensured". Adhere to the principle of "professionalism, focus, innovation", we focus on high-quality development, highlight the main business, prevent and resolve fundamental risks, complete the primary objectives and tasks of the year, and improve the quality and efficiency of development.

Adhering to the promotion of high-quality developmental transformation, focusing on the development of clean energy ship projects, and optimizing fleet structure. In the coming 10 years, the domestic energy structure will be profoundly adjusted, which will bring long-term benefits to the investment on equipment and infrastructure of clean energy ships. In 2020, we have delivered 13 clean energy ships with assets of about USD 914 million, accounting for 31.2% of all ships. All traditional ships (77 ships in total) have reached the latest emission standards.

Adhering to reinforcing innovation-driven reformation, enhancing the momentum of development, and gradually improving the business development quality. In 2020, global new ship booking orders declined again, with a year-on-year decrease of 34% based on the compensated gross tonnage; and the total amount of new ship investment significantly dropped by 47%. Facing the grim situation, we adhered to innovation-driven and vigorous implementation of countercyclical investment, with 34 newly signed ship orders and the contract amount of USD 1.363 billion. Meanwhile, we promoted the construction of a new development pattern of "dual circulation", and actively explored the new cooperation mode among the upstream and downstream of the industry chain of large shippers. In addition, we received 20 ships and invested USD 794 million in shipping funds with a year-on-year increase of 16.4% throughout the year.

Adhering to improving the corporate governance, strengthening legal compliance, and improving the internal control mechanism of the Company in multiple aspects. In 2020, we focused on the prevention of business risks, internally carried out a comprehensive risk assessment for more than two months, added and amended various risk management systems, strictly managed the progress of projects, strengthened post-loan risk management, adhered to "one project, one policy", and strictly controlled the risks of incremental and remnant projects. In addition, we externally strengthened the communication with all stakeholders of businesses, took the initiative to possible risks, and effectively reduced the possibility of the Company's loss of interests while ensuring that the benefits of all parties.

Through deeply promoting enterprise management according to laws, we will continue to improve the Company's management system and continuously promote the construction of internal control system. In 2020, we formulated 48 new corporate systems and measures to further expand the breadth and depth of enterprise management. At the same time, by strengthening the communication and participation of stakeholders, we enhanced the transparency of the Company's operations and effectively controlled the environmental, social and management risks.

Adhering to open cooperation, bravely breaking through "comfort zone", actively developing businesses. In 2020, we enlarged the construction of joint venture investment, took the initiative to cooperate with government and enterprises, signed a strategic cooperation framework agreement with Xiongxian People's Government, actively sought strong cooperation with other market entities, and cooperated with Zhejiang Rongsheng Group in ship projects in the form of joint venture, and took the initiative to use overseas capital markets, relying on our own credit, we have successfully issued USD800 million bonds from overseas, expanding the channels of debt financing.

Adhering to corporate social responsibility, promoting poverty alleviation, and ensuring the physical and mental health of employees. CSSC Shipping supports the poverty alleviation of couplet-assistance areas as always. In 2020, regarding the couplet-assistance of local people in Mengla County, Yunnan Province, CSSC Shipping helped solve the production and sales problems, and also provided employees with high-quality special local products.

Meanwhile, we are closer to employees and pay attention to their career development and physical and mental health. With the supports and efforts from the domestic subsidiaries and local policies, CSSC Shipping strives for benefits for its employees, and subsequently set up a labour union in 2020. The labour union can better help our employees to solve practical difficulties in their work and life, thereby coordinating and striking a balance between enterprises and employees, and promoting common progress and development between both parties. After the establishment of the labour union, employees are better served with special funds allocated by the administration, which greatly improve the sense of belonging and enterprise cohesion among employees.

Walking over the long journey certainly requires endeavour. We will continue to be professional, dedicated and innovative, adhering to the high-quality development strategy, and sharing the better future of sustainable development with all stakeholders.

Zhong Jian
Chairman
31 March 2021

Focus on 2020

The development of clean energy is an important fulcrum in pursing sustainable development, addressing climate change, coordinating energy structure adjustment and economic transformation. As a responsible and accountable enterprise, the Group pays close attention to the development of clean energy industries, actively engages in the clean energy investment distribution, and assists in achieving global sustainable development.

Clean Energy Projects

While chasing overseas resources, CSSC Shipping gradually turns its attention to China, actively participates in the construction of “domestic circulation”, vigorously develops clean energy projects, and explores domestic business opportunity and investment. The Group firmly believes that liquified natural gas (LNG) will play an increasingly important role in global low-carbon energy transition, hence we will continuously invest in relevant clean energy equipment.

Besides, compared to natural gas and petrol, hydrogen energy of the same unit mass contains higher energy content and is more suitable for transportation, the Strategic Planning Department of CSSC Shipping has conducted in-depth research on the potential opportunities of hydrogen energy industry chain, aiming to prepare for future green energy investment and financing.

LNG Carriers

The Group believes that with the further growth of offshore clean energy production and logistics demand, the development of leasing business on offshore clean energy related equipment will be forcefully promoted. The Group actively invests in clean energy marine transportation carriers and ships that offers services to clean energy infrastructure construction. As of the end of the Reporting Year, the Group and the subordinate joint venture companies had a total of 9 super-large liquified petroleum transportation carriers, and 5 of them had been in operation and 4 of them were being built.

On May 18, 2020, the first ship of CSSC Shipping LNG project completed the main deck penetration, marking a breakthrough in the construction of the optimised LNG dock. The boat vigorously promoted the automatic welding work by using it in all shipping cabin areas, all transverse butt joints of outer plates, the bottom of cargo hold, and the flat butt joints of the ship hold. With the adoption of automatic welding technology, the welding efficiency of projects is greatly improved, and the labour load is reduced, and the workload of weld repairment and polishing is also significantly reduced.

1 Automatic welding usually refers to the mechanization and automation during welding. Specifically, if the welding operation is completed by the machine, it is called automatic welding.

On 8 December 2020, the 174,000 m^2 LNG transportation carrier No.2 of CSSC Shipping has successfully docked at Changxing base No.1, which sets the best docking record in terms of completeness, marking the full recovery of the project under the influence of COVID-19 pandemic, which undoubtedly lays a solid foundation for the subsequent mooring test[2] and the construction of cargo containment system.

The carrier, with a length of 295.00m, a width of 45.00m, a depth of 26.25m, the design speed of 19.5 knots and a dual fuel main engine propulsion, is the world's fourth generation of LNG transportation carriers using XDF dual fuel propulsion. The evaporation rate of the carrier is rarely 0.1% during transportation, and its low-temperature insulation performance is 30% or above better than previous generation; the energy consumption decreases by 16% with the adaptation of dual fuel system, which is the most efficient and environmentally friendly LNG transportation carrier in the world.

As of 31 December 2020, the Group's clean energy-related assets had reached USD 930 million, accounting for 31% of total shipping assets. The Group will continue to support the development of offshore clean marine energy and build a better future for the world.

Hydrogen Energy Industry Chain Research Output

In order to carry out green energy investment and financing, CSSC Shipping had conducted an in-depth analysis on hydrogen energy industry chain research, including the understanding of the benefits of hydrogen energy and current challenges, general summary of hydrogen energy industry chain (hydrogen storage, transportation and distribution), sources of supply, and the comparison of different production technology costs, industrial uses of hydrogen, competitiveness of hydrogen fuel cell and existing policies of each country for promoting the development of hydrogen energy.

2 Mooring test refers to the test of all kinds of relevant systems and equipment under specific working conditions when ships are anchored at the wharf.

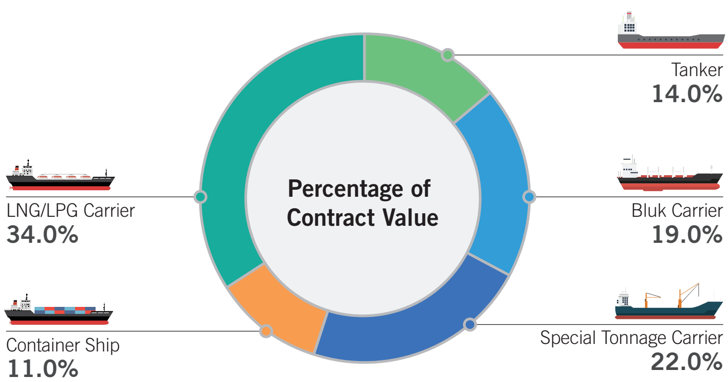
Performance of 2020

Economic Performance Indicators

New Ship Orders	Operating Revenue
31 Ships	HKD 1.862 billion

Values of the Contracts	Net Profit	
USD 1.122 billion	HKD 1.113 billion	A year-on-year increase of 24.8%

Contract Value



Agency Rating

1. Fitch International Credit Rating: A Grade

2. S&P International Credit Rating: A– Grade

The rating results are the highest ratings given to non-bank leasing companies since Fitch and S&P entered China's bond rating market.

Environmental, Social and Governance Report

About Us

Corporate Culture

The Company's history dates back to the year of 2012, as the first shipyard-affiliated leasing company in the Greater China and one of the world's leading ship leasing companies, we continuously enlarge our operation scale and vessel portfolio. As a leading market contributor in global ship leasing industry, the Company offers customised and flexible ship leasing solutions that suit customers' different needs.

As the sole leasing company under China State Shipbuilding Corporation Limited (the "**CSSC Group**"), the Company benefits from its close relationship with the CSSC Group (one of the controlling shareholders of the Company). The Company believes that the background of the shareholder has distinguished the Company from its competitors and enhances its competitiveness in the ship leasing industry.

CSSC Shipping focuses on creating values and driving development with innovation and persists in the "specialised, market-oriented, and internationalised" development roadmap.

Specialised	Market-oriented	Internationalised
The first shipyard-affiliated leasing company under the CSSC Group	With a higher financing ratio and relatively low financing cost, as well as market-oriented competitiveness, shipowners are assisted to renew their capacity at a lower cost for sustained operations, easing their operating pressure	Basing oneself on Hong Kong's shipping financial centre, fully utilizing the offshore funds and the overseas capital markets to serve the transformation and upgrading as well as the innovation-driven development of China's shipbuilding industry

Major Businesses

The Group's core business is to provide rental services, including financing leasing and operating leasing. Leveraging the robust expertise of the Group in the marine industry, the Group's rental services focus on ship leasing. The Group also offers shipbroking services and loan services to customers.

Leasing Services

The Group provides tailored leasing services to its customers with the options of financial lease and operating lease.

Financial lease refers to a leasing model whereby the lessor purchases an asset according to the lessee's specific requirements and choice of supplier or whereby the lessor purchases an asset from the lessee, and then leases it to the lessee for periodic lease payments. A lease is classified as a financial lease if the terms of the lease transfer substantially all the risks and rewards incidental to the ownership of an asset (including its residual value) to the lessee.

Operating lease refers to a leasing model whereby the lessor grants the right to use an asset to the lessee for a specified period and in return with periodic lease payments. A lease is classified as an operating lease if substantially all the risks and rewards incidental to the ownership of an asset (including its residual value) remain with the lessor.

Shipbroking Services

Leveraging on the Group's extensive network and substantial experience in the marine industry, the Group provides shipbroking services to shipbuilders and prospective purchasers incidental to the conduct of the Group's leasing business.

Acting as an intermediary between shipyards and prospective purchasers, the Group provides a wide range of services, including identifying market opportunities for shipbuilders, recommending shipbuilders to interested purchasers, advising interested purchasers on vessel types, specifications and capabilities, providing market information to shipbuilders and interested purchasers, liaising with and serving as the channel of communication between shipbuilders and interested purchasers, negotiating the terms of shipbuilding agreements, as well as resolving issues that arise during the execution of shipbuilding agreements.

Loan Services

The Group's loan services mainly include pre-delivery loan, secured loan and factoring services. As part of the Group's leasing services, the Group provides pre-delivery loan services to customers who require funding to satisfy their pre-delivery payment obligations under their shipbuilding agreements. The pre-delivery loans the Group extends are solely to finance the purchase of vessels under its financial lease transactions, and are generally secured by corporate guarantee, the assignment of shipbuilding agreement and refund guarantee rendered by the Group's customers.

Development and Value

Business Development

2012	• The Company was incorporated in Hong Kong as the sole leasing company under CSSC Group
2013	• The Company entered into an operating lease transaction for three 18,000-TEU container vessels with a leading global shipping group • The Company entered into a financial lease transaction for three 208,000-tonne bulk carriers with certain subsidiaries of a global shipping company
2014	• The Group and Gloar, the world's leading LNG industry chain equipment operation company, signed for the world's first retrofit floating LNG production and storage unit (FLNG) construction financing and sale-leaseback project • The Company entered into a financial lease transaction for seven 208,000-tonne bulk carriers with certain subsidiaries of a global shipping company
2015	• The Company entered into a sale-and-leaseback transaction for a FLNG vessel with a subsidiary of a LNG shipping company
2016	• The Group invested in the world's largest 85,000 cubic meter fully-cooled very large LPG carrier (VLGC) to serve China's clean energy supply • The Group and Red Box signed two agreements for the sale and leaseback of the world's first polar class heavy-transport deck carriers, connecting Chinese shipbuilding companies with the Russian Yamal LPG project
2017	• The Group and Dynagas, a world-renowned LNG carrier operator, signed a agreement for two 174,000 cubic meter floating LNG storage and regasification units (LNG-FSRU) financing and leasing project. This is the first domestic large-scale LNG-FSRU order received
2019	• The Group undertook "the 2019 High Quality Development Forum and Signing Ceremony of Billions of Orders" of CSSC Group • CSSC Shipping was successfully listed on SEHK
2020	• The Company released the first ESG report (2019) • The Company issued USD 400 million bonds due 2025 and USD 400 million bonds due 2030 • The Company entered into a financial leasing project for four 86,000 cubic meter dual-fuel of VLGC carrier with Southwest Marine Limited

The Group possesses diversified, modern, and relatively new fleets. As of 31 December 2020, the Group's fleet vessel size reached 136, of which 90 ships were in operation and 46 ships were under construction. The average age ship assets is 3.48 years. Leveraging the Group's unique insights into the marine industry, the Group carefully allocates, adjusts, and optimises the proportion of various types of vessels based on industry conditions and customers' needs.

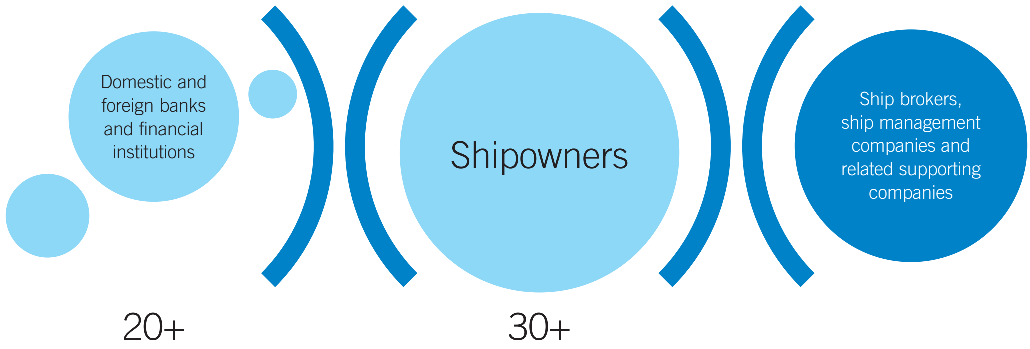
Value Achievement

In the year of 2020, the global economy faced many uncertain impacts, the combination of the global spread of the COVID-19 pandemic and the extreme volatility of oil prices has significantly affected the volume of global seaborne trade. CSSC Shipping has leveraged its own business advantages to continuously broaden the development path of itself and improved the alignment with the national development strategies. In pursuance of creating values in a manner consented by various stakeholders, CSSC Shipping has also enhanced its capabilities of improving sustainable development as an important means to enhance its competitiveness, so as to effectively respond to market challenges and to seize opportunities in the era.

The Group has always relied on the CSSC Group's solid and comprehensive strength and the results of reformation and development in the 8 years ever since its establishment. Under the leadership of the CSSC Group, the Group has completed the transformation from market-based operations of shipyards to ship leasing enterprises. Through exploration and development in the stages of creation, start-up, layout, development, accumulation and innovation, CSSC Shipping has become one of the world's largest non-bank ship leasing companies and one of the world's top four leasing companies holding ship assets. During the Reporting Year, the Group has consecutively awarded with Fitch international credit rating "A" rating, which reflects Fitch's expectation that CSSC Shipping's strategical important role and close integration with its parent company will not change meaningfully.

"Combination of Industry and Finance, Serving Major Business, Innovation and Development"			
A Balancer for Business	**An International Window**	**Creativity in New Products**	**Managing Good Customer Relationships**
The Group conducts countercyclical investments to create value for shareholders and investors during market downturns and the industry recovery period. In the past few years when the ship market was sluggish, the Group's new shipbuilding orders has continued to increase, injecting new impetus to the healthy and stable development of the industry; when the market was in a period of rapid recovery and prosperity, the ship price rosed rapidly, and the ships the Group held were sold to realise assets dividend.	The Group actively explores international markets and establishes communication channels with Hong Kong Shipowners Associations and Hong Kong General Chambers of Commerce. Currently, more than 90% of the Group's customers are from overseas markets. The Group also actively participates in international maritime exhibitions and maritime forums, as well as the daily maintenance of shipowners, and constantly strengthens communication with international shipowners.	The Group deeply taps into market opportunities and leads innovation. The Group continuously invests in clean energy ship projects to enhance the competitiveness of Chinese companies in the LNG industry chain; the Group undertook a number of first container ship orders for Chinese companies, enabling them to rapidly develop the industrial chain of ultra-large container ships and regional container ships; the Group launched the CSSC Group's first batch of Suezmax tankers, directly expanding its product breadth in the oil tanker market.	The Group maintains customer loyalty, increases customer coverage, and concentrates on managing customer relationships. The Group provides customers with full-cycle ship operation services through leasing services, shipbroking services, and loan services and establishing long-term and stable customer relationships. The Group's market-oriented operation model and the transaction structure were designed to meet the customised needs of customers, and attracted a batch of new customers.

Substantive Cooperation



During the Reporting Year, the Group has been in substantive cooperation with more than 20 domestic and foreign banks and financial institutions, more than 30 shipowners, and a group of ship brokers, ship management companies, and related supporting companies, which resulted in substantial achievements.

Our Governance

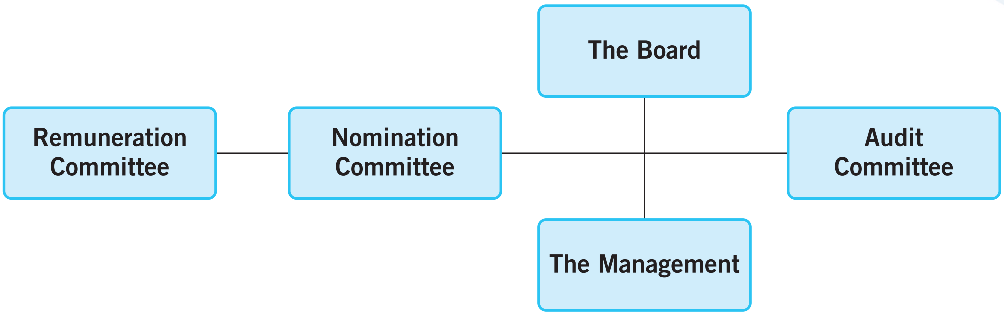
CSSC Shipping strictly abides by the laws and regulations in the operating sites, the regulatory provisions, its own governance policies and codes of practice. The Company operates honestly and legally and attaches great importance to risk management and internal control. The Company also monitors the operations of its subsidiaries through the implementation of policies and systems to ensure their compliance with laws and regulations, improvement of business operations, and management of risks and opportunities. Through robust corporate governance, the Company ensures that the business process is compliant and continues to promote its sustainable development. During the Reporting Year, the Company has adopted the *Corporate Governance Code* and *Corporate Governance Report* contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

The material issue, “Corporate Governance”, identified in the materiality assessment is particularly addressed in the section of this Report. If you would like to know more about the Company’s information on corporate governance, please refer to the *Corporate Governance Report* in this annual report.

Governance Structure

CSSC Shipping strictly complies with the provisions and requirements of the Listing Rules and executes its governance policies, such as the *Articles of Association* and the *Management Measures for the Board Meetings (Trial)*. CSSC Shipping continuously improves its governance structure, which includes the Board, the Nomination Committee, the Audit Committee, the Remuneration Committee and the management, and relevant governance policies, ensuring that all decisions are made on the principles of accountability and fairness through improving the level of the Company’s governance and regulating the Company’s operations. These policies are announced in an open and transparent manner in order to protect the interests of all shareholders.

CSSC Shipping Governance Structure



The Board

The Board is the operational decision-making body of the Company, accountable to the shareholders of CSSC Shipping. The management of the business of the Company shall be vested in the Board. In addition to the powers and authorities by the *Articles of Association* expressly conferred upon it, the Board may exercise all such powers and do all such acts and things as may be exercised or done by the Company that are not expressly required to be exercised or done by the Company through general meetings under the *Companies Ordinance or the Articles of Association*, (but subject nevertheless to the provisions of the *Companies Ordinance* and the *Articles of Association* and any regulations from time to time made by the Company at general meetings).

As of 31 December 2020, the Board comprised a total of 7 members, with 2 executive Directors, 2 non-executive Directors and 3 independent non-executive Directors. The biographies of all Directors have been published in this annual report and on the Company's website.

The Board has established 3 committees, namely the Remuneration Committee, the Nomination Committee, and the Audit Committee. They were established with specific written terms of reference respectively which sets out with their respective authorities and responsibilities clearly. Details can be found in the terms of reference of each of the committee uploaded to the HKEXnews website.

Remuneration Committee

The Remuneration Committee's duties include, but are not limited to:

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

- review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives

- 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

Nomination Committee

The Nomination Committee's duties include, but are not limited to:

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

- identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships

- assess the independence of the independent non-executive Directors

Audit Committee

The Audit Committee's duties include, but are not limited to:

- be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and other terms of engagement of the external auditor, and any questions of its resignation or dismissal

- review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards

- discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences; to ensure coordination between them if more than one external audit firm is engaged, Concurrently, the Audit Committee assists the Board in maintaining the Group's risk management. The composition of the committees as at the date of the Report is shown below:

The Board
2 executive Directors
2 non-executive Directors
3 independent non-executive Directors

Audit Committee
3 independent non-executive Directors
2 non-executive Directors

Nomination Committee
1 executive Director
3 independent non-executive Directors

Remuneration Committee
3 independent non-executive Directors

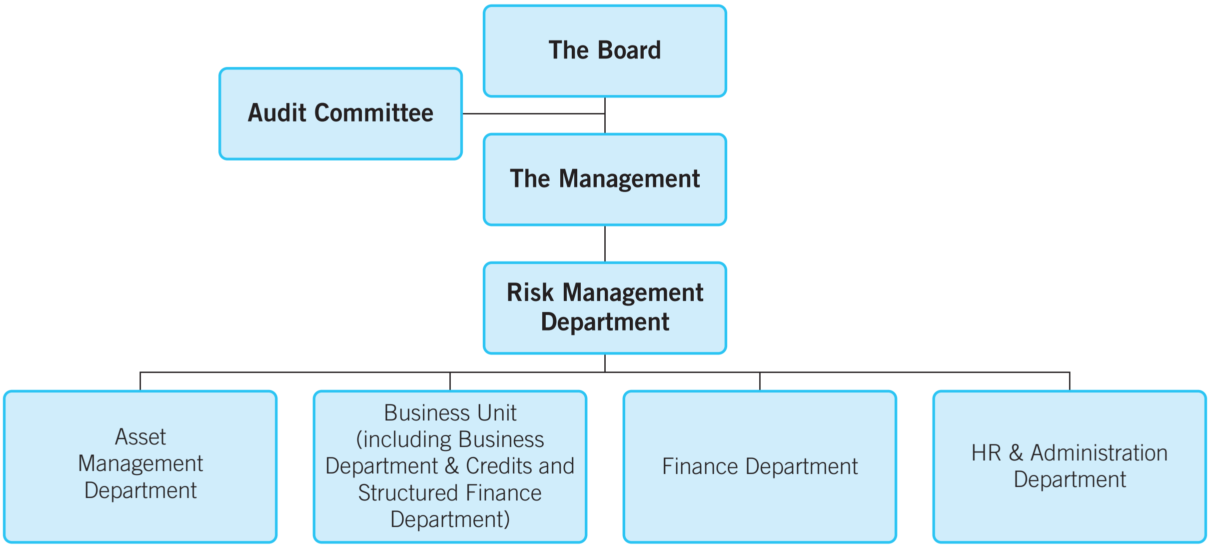
Risk Management and Internal Control

Since its establishment, CSSC Shipping has attached great importance to risk management and internal control. The Board clearly recognises that they are responsible for establishing and maintaining risk management and internal control corresponding to its strategic objectives and in line with the actual needs of the Group. The Chairman and the General Manager of the Company bear the main responsibility for the effectiveness of the Group's risk management, while the management of the Company undertakes corresponding responsibility for the risk management of its business.

During the Reporting Year, the Group executed the *Comprehensive Management Measures for Risk* to accurately identify, prudently evaluate, dynamically monitor, timely respond to, and extensively manage the risks faced by the Group during operations, as to improve the scientificalness, standardization and validity of the Group's management and operations, to enhance the ability to prevent financial risks, and to continuously ensure the stable development of various businesses.

Risk Management Structure

CSSC Shipping has established a risk management structure covering the Board and different departments, of which the Risk Management Department is the core department with risk management function in the Group.



The Board	• Bearing the ultimate responsibility for risk management • Responsible for the goals and strategies for audit-related risk management • Monitoring the implementation of risk management policies and assessment of overall risks
Audit Committee	• Responsible for monitoring the implementation of internal control procedures • Reviewing financial information and assessing financial conditions • Overseeing the internal audit functions • Providing independent advice to the Board on financial reporting, risk management and internal control
The Management	• Responsible for implementing risk management strategies and policies • Supervising daily risk management operations and monitoring the fulfilment of the duties of the Risk Management Department

Risk Management Department	• Implementing comprehensive risk management procedures and establishing a business risk management control and compliance management system • Cooperating with other functional departments to develop financing business and relevant guidelines • Formulating management measures and implementation rules related to the project review and business contract management of the Group • Analysing and evaluating major risks of specific projects and proposing risk prevention measures • Cooperating with the Business Development Department in the early investigation, evaluation, marketing and negotiation work of projects • Following up on the implementation of projects after leases and loans, and regularly reporting the overall status of business risks to the management • Developing relevant systems for handling major risk events and emergencies

As the Group is principally engaged in the provision of leasing and loan services, the Group faces certain risks in its business operation, including credit risks, liquidity risks, legal and compliance risks, and operational risks. In order to minimise the risks to safeguard the long-term interests of the Group, the Group has customised a comprehensive and prudent risk management system based on business characteristics and implemented risk management procedures at each important stage of the business process (including due diligence, project evaluation and approval, contract execution, fund release and leasing).

Main Risk Management Mechanisms

The Group determines its risk appetite based on its strategic goals and risk tolerance, and then establishes relevant risk indicators such as risk tolerance and risk limit based on risk appetite. Relevant resources have been allocated accordingly, and it is adjusted according to the Group's strategic goals and market environment in a timely manner. The risk indicators must be approved by the Board, the management or its authorised units, which are subsequently subdivided into different levels and arranged to each department for implementation.

Management Procedures

1. **Continuous analysis of internal and external factors that may affect the achievement of business objectives**
   - Identify the sources, and formation conditions of risks
   - Classify the identified risks based on risk category
2. **Establish risk assessment standards based on the likelihood and influence of risks**
   - Adopt a combination of qualitative and quantitative methods to analyse and assess specific risks
   - Determine risk levels that needs attention and priority control
   - Conduct regular assessment on key risks
3. **Prompt and alert on the risk situation involved in major business development and major decisions in a timely manner**
   - Choose a response strategy that corresponds to risk appetite

CSSC Shipping has gradually established a risk management information technology system that is compatible with the complexity of the business and the risk indicator system. Advanced risk management methods and tools are continuously being introduced to ensure that transactions and business processes involving risks are timely, accurate, completely recorded and communicated within the Group. It also ensures the risks are quantified, summarised, alerted and monitored to achieve centralised management of relevant risk information.

Based on the results of risk assessment and early warning, the Group selects a response strategy corresponding to its risk appetite. In addition, the Group has gradually established a risk emergency mechanism for major risks and emergencies, put forward suggestions for risk control, and continuously improved through mechanisms such as pressure testing.

Sustainable Development Management

CSSC Shipping is keenly aware of various expectations on the sustainable development of the Group from stakeholders, and firmly believes that the implementation of sustainability concept is an inevitable choice for achieving high-quality social and economic development, therefore, the Company is dedicated to promoting corporate sustainability. In recent years, the Group pays close attention to the risks and opportunities arisen from environmental and social issues, actively managing corresponding impacts, and aiming to further construct long-term sustainable management mechanism.

The Board and management have recognised that a comprehensive ESG management mechanism is conducive to the stable development of enterprises, therefore, on the basis of understanding the expectations of stakeholders on the Group, the Group actively takes ESG principles into the consideration of business operation and decision making, which enhances positive contribution to the environment and society, and supports sustainable economic development, and facilitates the achievement of the Group's goals and strategies, so as to meet the expectations of various stakeholders.

The Group has formulated and implemented the *Environmental, Social and Corporate Governance Policy* ("**ESG Policy**") and established an overarching ESG governance mechanism to ensure that the Group fully recognises ESG risks and opportunities in its operations, management and decision-making processes, and exercises its rights and responsibilities in line with business-related ESG principles. ESG Policy applies to all employees, customers, partners, suppliers and affiliates with the Group.

Decision-making Level	The Board and the management
	• ESG Policy is reviewed and overseen by the Board • Responsible for ensuring that ESG risks are fully considered in daily operations and management • Incorporating ESG principles into the overall strategy through decision-making processes
Execution Level	The Departments
	• Responsible for determining the department's own ESG performance • Designing corresponding performance indicators for management • Improving the department's own ESG management • Timely reporting to the management and the Board

The Group has established fundamental ESG principles for the operations, management, and decision-making processes in the three major areas: environmental, social and governance, which are used to standardise the Group's business operations and decision-making processes. The Group requires all its units to abide by relevant laws and regulations, maintain high-standard corporate governance mechanisms, fully consider the impact of business activities and the full life cycle of business development and protect the interests of all stakeholders of the Group.

Governance principles for operations, management and decision-making processes

- Strictly complying with national laws and regulations and governance policies in the production and operating sites;
- Achieving high-standard corporate governance mechanisms, upholding integrity, openness, and transparency in daily management and business development, strengthening corporate social responsibility, and ensuring compliance with laws and regulations;
- Complying with all applicable requirements in the Corporate Governance Code contained in Appendix 14 to the Listing Rules;
- Requiring all units to follow the high standards of ethics generally accepted by the society when dealing with other employees, customers, suppliers, regulators, etc.;
- Improving the corporate legal person governance structure and balancing powers and responsibilities between different organizations through control mechanisms;
- Ensuring that the information disclosed is true, clear and effective, so that shareholders and the public can independently and comprehensively evaluate the Company's situation and make investment decisions;
- Maintaining effective communication with shareholders and continuously improving the shareholder communication policies of the Company;
- Continuously improving the Company's governance framework, and strictly complying with applicable laws and regulations and corresponding rules;
- Continuously reviewing and monitoring to ensure compliance with the disclosure obligations under the Listing Rules, and continuously reviewing the legality and effectiveness of the disclosure process.

Stakeholder Engagement

CSSC Shipping attaches great importance to the expectations of its stakeholders and communicates in a full and frank manner with major stakeholders to understand the ESG issues they are most concerned about, so as to maintain a good relationship with them. As the Group's business covers different aspects, the Group engages with different types of stakeholders, including shareholders, business partners, customers, investors, governments and regulators, the public, employees, suppliers, and the media. The Group regularly communicates with the major stakeholders through various channels to understand and respond to their comments and requests of stakeholders.

Stakeholder Types	Major Stakeholders	Channels	Matters of Concern	The Group's responses
Shareholders/Investors	Major controlling shareholders Public investors	• Annual General Meeting • Board Meeting • Meetings of the Board's Committees • Financial Results Reporting • Other investors communication means	• Good business performance • Good corporate governance • Risk control and integrity • The Company's strategic direction • Sufficient disclosure	• Improving corporate governance • Corporate strategy fulfilling investors' expectations • True and Sufficient Disclosure
Business Partners	Intermediaries Classification societies Professional ship asset management companies Institutes Colleges	• Negotiation of contract terms • Daily communication between business representatives • Management-level meetings	• Benefit sharing, integrity and mutual benefit • Promotion and innovation of management	• Increasing profit • Improving return on funds
Customers	Ship operators Trading companies	• Response to customer inquiry • Customer visit • Telephone communication	• Financing amount • Financing ratio • Interest rate level	• Promoting business negotiations • Ship technology contract pre-research • Facilitating project implementation

Stakeholder Types	Major Stakeholders	Channels	Matters of Concern	The Group's responses
Governments and Regulators	Governments Industry regulators	• Enterprise Investigation • Work Reporting • Policy/Regulator conferences • Financial Results Reporting	• Operations compliance • Profit/tax • Serving national strategies	• Creating job opportunities • Total taxes • Promoting the development of the industrial chain
The Public	Surrounding communities Community organizations Non-profit organizations	• Participating in community voluntary activities • Charitable donations • Signing public interest-related agreements • Coordinating community events	• Charity investment • Harmonious community • Safety and environmental protection	• Increasing community investment • Volunteer activity
Employees	All employees	• Face-to-face communication • Seminars on democratic life • Employee suggestion boxes • Employee activities • Vocational training	• Sound welfare • Good career development • Comfortable working environment	• Providing diverse employee activities • Providing different kinds of professional training
Suppliers	Shipyards	• Open tender • Interviews and site visits	• Win-win cooperation	• Increasing investment, being open and transparent
Media	The press	• Press conferences • Invitations to interviews • Regular discussions	• Business and product situation • Industry status	• True and sufficient disclosure

Confirming Material Issues

The Group communicates continuously with stakeholders in a regular manner via questionnaires, performance evaluations, business exchanges, and other communication channels to assess the importance of different issues to stakeholders, as to confirm the material items shall be disclosed in this Report from the investigation results. While preparing this Report, the Company reviewed the material issues assessed in 2019 and their corresponding materiality, and thus confirmed that the material issues of 2019 are still applicable to be disclosed in this Report since there were no significant changes in businesses and organizational structures of the Company during the Reporting Year.

CSSC Shipping Materiality Matrix

Results of Materiality Assessment

The identification of material issues was based on the sum of the scores in the two dimensions, namely, the "Importance to Stakeholders" and the "Importance to the Group" (the sustainability issues that obtained scores of 5 or above on both dimensions are identified as material issues). All sustainability issues of CSSC Shipping are listed below, material issues are highlighted in blue.

Issues in Environmental Aspect		Issues in Social Aspect	
Addressing Climate Change	Use of Water Resources	Corporate Governance	Serving National Strategies
Use of Energy	Greenhouse Gas Emission	Employment	Labour Standards
Air Emission	Wastewater Discharge	Development and Training	Health and Safety
Waste Generation		Anti-corruption	Supply Chain Management
		Community Engagement	

Our Operations

The Group understands its own competitive advantages and establishes strategic goals and business strategies based on the competitive advantages, taking "combination of industry and finance, serving major business, innovation and development" as the corporate mission to ensure continuous value creation for various stakeholders. Concurrently, the Group upholds its honesty, maintains the highest standards of market conduct, requires all employees to comply with the Group's relevant policies and systems for business activities, strictly prevents operating risks, and adheres to business ethics. The Group continuously strengthens cooperation with stakeholders, establishes long-term mutual trust and cooperation, and jointly creates greater shared values.

The material issues, "Serving National Strategies" and "Anti-corruption", identified in the materiality assessment are responded in the section of this Report.

Business Strategies

CSSC Shipping faces a market environment that full of opportunities and challenges. Upholding the concept of sustainable development, CSSC Shipping takes full advantages of the platform as a shipyard-affiliated leasing company and gives full play to the synergies brought by the financial business to the ship-related industries to serve the needs of economic and social development.

With the implementation of the International Maritime Organization (IMO) 2020 "Sulphur Restriction Order", China's formal accession to the Ballast Water Management Convention, and the 2050 carbon emission reduction target, the development of the shipping industry have been profoundly impacted. The Group concretely implements the environmental protection requirements of IMO towards existing fleets, and actively studies the innovative application of vessel technology for existing fleet.

Under various external and internal environmental pressures, ship leasing services provide diversified financing channels and sufficient funding used to support to the shipping industry and plays an important role in the promotion of industry transformation and upgrading and the combination of industry and finance.

Implementation of Four Strategies

Professional Ship Leasing and Reasonable Asset Portfolio

The Group's balanced asset portfolio includes different types of ships. Through continuous optimization of asset portfolios, hedging effects are achieved, risks are diversified, and stable performance is achieved.

As of 31 December 2020, CSSC Shipping had a fleet of 90 vessels under management, 9 of them are clean energy carriers.

Relying on its extensive experience in the shipping industry and the customer database shared with various ship-related companies, the Group has accumulated a large number of high-quality customers' performance data during multiple rounds of the industry cycle. Based on these data, the Group actively evaluates customers' compliance risks, and strategically adjusts the combination ratio of various types of ships to achieve the maximum optimization rate based on industry conditions and customer needs.

The average ship age of the Group's ship assets is around 3.4 years, and the fleet of the Group is with advanced technology and complete equipment. Among them, the average remaining lease term of the Group's existing contracts is 7.3 years, which provides the Group with stable and predictable cash flow and lays a solid foundation on the further development of the Group.

Focusing on Greater China and Deploying Worldwide

The Group has maintained long-term cooperative relationships with more than 10 ship-related companies around the world and has a global customer network.

As the first shipyard-affiliated leasing company in the Greater China, the Group relies on synergies with ship-related companies and close business relationships to grasp the latest news on supply and demand in the maritime market and customer needs, and to seize business opportunities in a timely manner. Through close cooperation with shipping companies, the Group was able to deeply explore customer needs and provided customers with professional one-stop and customised leasing services.

The Group has a leading position, stable market ranking and global customer base in the ship leasing industry, providing ship leasing services to approximately 50 customers in 13 regions around the world. The Group has always maintained its strategy of in-depth development of the Greater China. On the basis of its unique advantages, it has continuously expanded new markets with extensive industry experience.

Creating the Advantages of Shipping Fintech

The Group continuously promotes the combination of leasing business and financial technology, and has the development idea of "combination between industry and finance, technology upgrading" to open up new business areas for shipyards and ship leasing companies.

The Group has taken the lead in developing digital leasing management solutions, comprehensively using satellite data and industry data to establish a digital smart platform for ship leasing that integrates full-cycle management of leasing projects, full-scale monitoring of ship assets, and digital models of business decisions. The platform displays the leasing situation of the Group's existing ships in a real-time and intuitive visualization mode. It uses ship satellite positioning, satellite image recognition, intelligent algorithms, big data business intelligence analysis, and other auxiliary tools to interpret macro data, segment the supply market, provide decision foresight, and strengthen internal control.

The Group currently explores the application of blockchain technology in the leasing industry with the industry's leading blockchain financial technology research institute, China Institute of Marine Technology and Economy, and other institutions. The Group will continue to use innovative financial technology to promote the quality development of financial services companies.

Strategic Implementation of Clean Energy Industry Chain

Following the development trend of international clean energy demand, the Group provided leasing services for the world's first retrofitted floating liquefied natural gas plant (FLNG). This equipment is a brand-new liquefied natural gas production solution and has been successfully put into operation in mid-2018.

Concurrently, the Group also actively invests in clean energy marine transportation vessels and vessels providing services for clean energy infrastructure construction. The Group's joint venture company owns and operates 4 very large LPG carriers. The Group believes that the demand for offshore clean energy production and logistics will grow further in the future, and it is bound to promote the development of offshore clean energy related equipment leasing business.

Under the severe influence of COVID-19 pandemic in 2020, new shipbuilding market and second-handed ship market advanced together among the hardworking and unremitting efforts of all employees, and successfully signed contracts with 15 projects which includes 31 ships and accounts for USD 1.122 billion.

Compliant Operations

CSSC Shipping's adherence to compliant operations is the key foundation for corporate sustainable development. CSSC Shipping strictly complies with relevant laws and regulations in the operating sites in relation to health and safety, advertising, labelling and privacy matters of products and services provided. In order to ensure compliant operations, the Group has formulated and implemented internal anti-corruption policies to adhere to business ethics and fulfil corporate responsibilities. Meanwhile, the Group consistently enhances employee training as to raise their compliance awareness internally. The Group insists in compliant operations and continuously promote healthy, sound and sustainable development.

The Group's business footprint spans multiple countries or regions, and in our daily operations management, we strictly comply with applicable laws and regulations related to the protection of sales and credit management, privacy, and information security, as well as trademarks, patents and intellectual property. When signing a business-related contract, the parties engaged must sign a confidentiality agreement on the protection of confidential data or proprietary information, and the disclosure of relevant data and information to any third-party is strictly prohibited unless written consent is obtained from both parties.

Work with Integrity

The Group is committed to conducting business operations with the highest standards of ethical conduct and professionalism and strictly requires all employees to comply with various laws and regulations in the operating sites. The Group has formulated and implemented the Management *Measures for on Anti-Fraud Work (Trial) and the Guideline for Risk Prevention of Anti-sanction*, clarifying the anti-corruption related business codes and definitions, so as to strictly regulate the management process of daily operations, and require all subsidiaries to follow the provisions that are applicable to the operating sites. Besides, the Group clearly expounds that the social principles need to be firmly implemented during operation management and decision-making processes as listed below:

- Maintaining honest operation, fair selection of suppliers and business partners, and eliminating commercial bribery;
- Prohibiting any conducts relating to depravity, corruption, fraud during business operations;
- Protecting the interests of all stakeholders, including but not limited to employees, customers, business partners, suppliers, regulators, and society, and providing services to the aforementioned.

The Group has clarified the anti-fraud responsibility among all levels in the *Management Measures for on Anti-Fraud Work (Trial)*. Specifically, the Chairman of CSSC Shipping is the top leader for anti-fraud work, and the management is responsible for implementing all the requirements of the Board. The Group continuously improves the internal control mechanisms of anti-fraud, including the establishment of reporting channels to prevent anti-fraud behaviours and to implement control measures to lower the chance of anti-fraud. Concurrently, the Group's Risk Management Department is responsible for periodically collecting reporting information, completing information registration and reporting the content of the records to the General Manager. After receiving the report, the Risk Management Department first reports it to the General Manager, and then assigns investigators to conduct investigations.

- If the report involves the management, the Risk Management Department also reports to the Chairman;

- For real-name reports, the Risk Management Department reports the investigation to the reporters.

The heads of all departments shall shoulder the responsibility, carry out legal and compliant operations with the scope of authorization and establish and improve effective internal control. Employees at all levels and stakeholders of the Group can report corruption in real names or anonymously through the reporting channels designated by the Group.

The Group requires that employees who confirm the report or are responsible for investigating corruption cases shall not provide any department nor individual with relevant information and report content of the reporters. If relevant information of the report is needed for work, the personnel must register with the Risk Management Department for the relevant inquiry of the report content and time after the approval of the General Manager. As the permanent establishment of anti-fraud work, the Risk Management Department will file reporting documents, investigation reports, and investigation results in accordance with the regulations of the department after the completion of the corruption investigation.

For the employees who are confirmed to have anti-fraud behaviour, the Risk Management Department will investigate and verify the facts and the seriousness of fraud behaviours according to the investigation and suggest the Company to investigate the liability according to the Employee Handbook. For the behaviours violating the law, the Risk Management Department will collect relevant evidence and then transfer it to the judiciary for prosecution.

The Group understands the importance of publicity for the benefit of enterprises. However, the Group's current business strategy does not rely on advertising for publicity. In addition, the Group's main business is the provision of financial services and does not involve any health and safety issues related to the services. As there are no actual product sales in the Group's direct operations, no matters related to product labelling are involved.

In addition, during the Reporting Year, the Group mainly purchased ships from shipyards. The Group actively pays attention to the environmental and social performance of shipyards. For suppliers that provide professional consulting services to the Group, such as auditing, legal, tax and other consulting services, the Group has formulated a clear tendering policy to set criteria, procedures, contracts, etc., for selecting suppliers.

Our Employees

CSSC Shipping is committed to constructing an efficient top-notch talent team to continuously extend and enrich the shipbuilding industry chain and to promote the sustainable development of the physical manufacturing industry. The Group understands that standardised and comprehensive human resource policies are necessary to attract and retain top-notch talents. Therefore, the Group provides comprehensive and competitive welfare and benefits, regularly reviews employees' salaries, formulates clear policies and guidelines as well as improves the establishment of a comprehensive training mechanism, to ensure that employees' own welfare is protected, striving to create a positive, harmonious and fair working environment for employees.

The Group strictly abides by applicable laws and regulations in the operating sites, and continuously improves employment management measures, including implementing effective social principles during operations management and decision-making process, including but not limited to：

- Complying with labour laws and regulations;
- Providing workplaces that legal occupational safety and health standards are met;
- Complying with the provisions of the Employee Handbook on employment behaviour, employee health and safety, etc.;
- Providing equal employment opportunities and preventing discrimination against employees in all aspects such as race, religion, colour, gender, physical or mental disability, age, place of birth, marital status, sexual orientation, etc.

The material issues, "Employment", "Labour Standards", "Development and Training", and "Health and Safety", which were identified in the materiality assessment, are particularly addressed in this section of the Report.

Employment Policy and Protecting Employees' Rights

To enhance the construction of talent teams, the Group continuously improves human resource management system as to clarify employees' related rights and business codes. Meanwhile, the Group requires all subsidiaries to implement employment-related provisions that are applicable to their operating sites. In formulating human resource management policies, the Group pays full attention to the impacts of these policies on employees' rights, incorporates the principles of equal opportunity, diversity and anti-discrimination into its operations, and ensures employees of different nationalities, ethnicity, nationalities, genders, ages, marital status, social status and religious beliefs are protected from infringements of their rights and dignity. The Group cares about the rights of female employees and minorities, aiming to build diversified teams including different nationality, education backgrounds, work experiences, and expertises.

The Group has formulated the *Management Method for Recruitment and Employment*, which further standardises the recruitment and employment process, and allocates human resources more reasonably and effectively. The Group adheres to the talent selection principle of "open recruitment", "fair competition", "Person-Job fit" and "merit-based enrolment", and the Human Resources Department will formulate annual recruitment plan according to the needs, with the recruitment channels including internal referral, campus recruitment, media recruitment, job fair and intermediate agencies. Besides, the management measure also stipulates relevant requirements in respect of abiding by the labour practices, that is to check the applicant's identity documents during the recruitment and employment, so as to avoid child labour. If any falsification or counterfeit of personal information are found, the Group has the rights to dismiss them in accordance with the local labour laws and regulations at the operating sites. Meanwhile, the Group respects the freedom and rights of leave of employees, signs employment contract or labour contract with new employees once they are employed, which establishes employment relationship and specifies the working hours of employees, thereby eliminating the case of forced labour.

The Group values the interests of employees and resists any behaviour that ignores and violates human rights. The Group adheres to the fair, equitable and diversified recruitment principles, only taking work experience, knowledge and skills, occupational conduct as the key reference in recruitment, promotion, dismissal, work performance appraisal, remuneration and welfare and other aspects, ensuring all employees' legitimate rights and interests are treated fairly and equally. The employment contracts are signed and terminated in strict accordance with the relevant laws and regulations in operating sites to fully protect the rights and obligations of employees and the Group.

During the Reporting Year, the Group has analysed the management of human resources and further optimised remuneration and welfare systems. Competitive welfare package is an effective tool to attract, retain and motivate employees. The remuneration of the employees of the Group includes basic salaries and performance bonuses. The Group establishes its plans for eligible employees in Hong Kong under the *Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong*. In addition, employees of the Group's subsidiaries operating in Mainland China are required to participate in social security retirement plans administered by the local municipal government. These subsidiaries are required to make contributions to social security pension plans at a certain percentage of employees' respective salaries. In order to achieve market wage, the Group promotes the reformation of incentive mechanism from the following three aspects:

(1) To actively explore the reformation of market wage and to establish a reasonable and effective mechanism to determine the total salary;

(2) To achieve medium-term and long-term incentive mechanism and to pay bonus during the Reporting Year;

(3) To promote the reformation of share incentive and to adopt a share option scheme during the Reporting Year.

The Group is committed to improving employee performance appraisal mechanism, and thus published the *Management Measure for Employees Performance Appraisal* during the Reporting Year, with the establishment of a performance management mechanism that is compose of personal assessment indicators and evaluation methods, which set annual performance appraisal results as the reference for performance bonus distribution, salary adjustment, promotion and development, and performance guidance training, so as to stimulate the enthusiasm of employees and to encourage them to realise their own values, and eventually to achieve the improvement of operations management level and comprehensive strength of the Group.

The Group continuously works on the construction of comprehensive and effective welfare and protection system, in addition to provide statutory holidays, the Group also provides extra leaves, including wedding leave, bereavement leave, family visit leave, breastfeeding leave and personal leave etc. Besides, the Group provides medical insurance that meets the requirements of the operating sites so as to take care of the needs of employees. To strengthen the sense of belongingness and happiness, the Group also provides comprehensive and effective welfare, including but not limited to:

Welfare at a glance		
	Statutory Social Benefits	• Mandatory Provident Fund • Social Security Pension
	Complementary Medical Insurance	• Providing group medical insurance for employees to protect their basic needs such as outpatient, inpatient surgery, and dental treatment
	Annual Physical Examination	• Providing annual medical examination reimbursement for employees who have been employed for more than a year • Providing reimbursement of HKD 3,000 for employees
	Leaves	• Providing employees with different types of statutory leaves to meet their needs
	Transportation Allowance	• Providing employees with transportation allowance arising from work, including applications for reimbursement of the Group's vehicles and transportation expenses

The Group advocates the balance between work and life for employees through organising staff activities to enhance team cohesion and morale, and relieves their work pressure, for example, the Group gave female employees greeting cards, roses and other gifts on March 8 Women's Day to express gratitude and blessing.

Protecting Health and Safety

The Group pays close attention to the physical and mental health and safety of employees. The main business operation environment is office. In order to create a comfortable and safe office environment, the Group has established and implemented the management of safety targets. The heads of departments are assigned as the personnel responsible for safety management and to arrange regular security safety inspections. In addition, to ensure that the health of employees will not be affected by work and to avoid occupational hazards, the Group has adopted a series of measures, including:

- Strengthening the safety management of flammable, explosive and other dangerous goods to ensure the normal order of office areas;
- The installation and use of all computer equipment must meet safety requirements; employees must strictly abide by the operating regulations; special personnel are responsible for keeping the computer equipment;
- All employees can report individual violations of the Group's safety and security systems;
- Providing supplementary medical care insurance, annual physical examinations etc. to employees.

In view of COVID-19 pandemic, the Group immediately established a communication mechanism for prevention and control work and always prioritises employee health. The Group deployed the procurement and distribution of pandemic prevention materials in a timely manner, enhanced the disinfection of office places, arranged all Hong Kong employees to work from home or in turn, took the initiative to offer sympathy and care to the mainland family members of expatriates, and arranged resident employees return to the mainland for business trip, office, leave adjustment, etc. in batches according to work needs to relieve the pressure of employees during the COVID-19 pandemic.

Talent Development and Training

The Group attaches great importance to the formation of talent team, firmly believes that talent is one of the key factors to construct the core competitiveness of enterprises and adheres to the strategy of "strong talents for companies". The Group continues to invest abundant training resources, and is committed to fulfilling the career development needs of employees at different stages, so as to achieve the common growth and development of employees and the Group while improving their own value.

The Group has formulated and published the Staff Training Management Measures to standardise the staff training work and to improve training management systems. The Group clarifies that departments and employees all have the rights to voice out their training needs, and stipulates that the Human Resources Department shall understand the yearly training needs of each department in December of each year, so as to formulate the training plan for the next year, and to obtain the approval of relevant management personnel for execution. In order to assist employees in improving their knowledge and skills and continuously expand their room of career development, the Group provides diversified training for employees in various forms, including:

Internal Training
The Group arranges lecturers (external or internal lecturers) to train employees.

External Training
Based on training needs, employees are assigned to participate in externally organised trainings.

Rotation Training
Employees are trained across departments to accumulate and improve business skills and experience.

Mentor Training
Instructors or leaders in the departments train employees and impart business knowledge, skills and experience.

Employee Self-Learning
According to the needs of the position or career development, employees learn the necessary knowledge and skills on their own.

Online Learning
The Group uses Internet and other modern information technology to provide training courses, making good use of big data, "Internet +" and other concepts and technical means to improve the level of training management informatization.

Our Environment

With the increasing impacts of climate change on the Earth, CSSC Shipping continuously adopts energy conservation and emission reduction measures to reduce the carbon footprint resulted from operation. In addition, as the Group focuses on the leasing business of ships and marine equipment, which means that the main operating activities involve clerical work and business meetings at the office, its impacts on the environment and natural capital are limited. Nonetheless, the Group is committed to minimizing the impacts of daily operations on the environment while maintaining effective corporate operations, and actively promotes the concepts of energy saving, emission reduction, low-carbon, and environmental protection in the office to raise employees' environmental awareness.

The Group strictly abides by relevant laws and regulations, and continuously improves environmental protection measures, including the implementation of principles of environmental governance during operation management and decision-making processes which as listed below:

- Complying with local environment-related laws and regulations, implementing low-carbon and green office, and ensuring long-term and sustainable development of the Company;
- Reducing consumption of natural resources and energy;
- Giving full consideration to the environmental impacts of business activities and business development throughout the full life cycle, and providing corresponding solutions;
- Ensuring proper disposal of wastes generated from business activities;
- Improving the Company's environmental performance through providing training for employees;
- Continuously monitoring and improving corporate environmental governance.

Protecting the Environment

The Group actively pays attention to environmentally friendly industrial development and product applications, comprehensively deploys the offshore clean energy industry chain, promotes the construction of clean energy infrastructure, installs desulfurization equipment for ships to reduce emissions and acquires several dual-fuel ships, to ensure that emissions meet different regulations. In addition, the Group continues to research and invest in clean energy for supporting the construction of a new generation of energy.

Green Office

The main sources of air pollution emissions and greenhouse gas emissions of the Group generated from daily operation are the emissions from vehicles used for business, electricity consumption and business travel by plane. Therefore, the Group has formulated the *Vehicle Management Measures* to encourage employees to use public transportation when attending business meetings and commuting. Concurrently, the Group advocates the use of video conferences and teleconferences instead of on-site meetings to reduce business travels, so as to reduce greenhouse gas emissions. In addition, as electricity consumption is the main source of greenhouse gas emissions in the operation of the Group, the Group implements various measures in the offices to reduce the use of electricity, such as posting reminders on all electronic equipment and reminding employees to turn off the power of all office equipment during non-office hours with the form of email, thereby reducing greenhouse gas emissions.

By setting the cost of kinetic energy generated from the use of electricity in daily operation as one of the energy saving and environmental protection indicators of the Group, CSSC Group requires all subsidiaries of the Group to reduce unnecessary waste of energy. As the Group found a new subsidiary in Guangzhou at the end of 2019, and concurrently, the Hong Kong headquarters has additionally added nearly 700 square metres of office space on the basis of the original area. Taking into account the size and employees of the Group, the total employee number of the Group increased by about 4% in 2020, resulting in an increase in electricity consumption. Under the condition of fully implementing energy saving and emission reduction requirements of CSSC Group, the Group will continue to monitor the electricity consumption, presenting the yearly performance changes in the future and preparing for setting environmental performance targets in the future.

The non-hazardous waste generated from the Group's daily operation is office paper and limited number of plastic bottles. Regarding reducing paper consumption, the Group encourages employees to use electronic communications where possible, saves files to shared disks for circulation, and posts reminders next to the printers to remind employees to save paper and print on both sides as far as possible.

The Group also produces a small amount of hazardous waste, including mercury-vapour lamps, ink cartridges and batteries. The Group encourages employees to participate in various waste reduction and recycling activities in offices, tries their best to reduce wastes at the sources, avoids waste generation, reuse resources, and recycles waste whenever feasible. The Group returns all the used ink cartridges to the supplier for disposal, and hands over other hazardous waste to the property manager for collection and recycling.

In addition to reducing waste generation, the Group also encourages employees to develop water-saving habits to avoid the waste of water resources. The Group's water resources come from the municipal supply and are under the unified control of the property management. During the Reporting Year, the Group has not encountered any difficulties in obtaining water.

Community Investment

CSSC Shipping values the engagement and support of local communities, the Group actively undertakes its role of corporate citizen and constantly seeks ways to give back to society. The Group is enthusiastic about social welfare, promotes community construction, and shares the fruits of corporate development with the society. The Group has been firmly fulfilling its corporate social responsibility by effectively implementing the principles of social investment during operation management and decision-making processes, including but not limited to:

- Supporting employees who are dedicated to serving the vulnerable groups in the communities;

- Encouraging employees to actively participate in volunteer activities after completing their work and eliminating any form of forced labour.

The Group currently undertakes targeted poverty alleviation work under the unified deployment arrangements of the CSSC Group in an active manner, jointly supporting the poverty alleviation of Mengla, Heqing and Qiubei Counties in Yunnan Province. The Group conducted poverty alleviation through consumption, which is a way to increase the income of the poor by purchasing products and services from poor areas and the poor. During the Reporting Year, the Group purchased agricultural by-product amounted to RMB29,641 from Heqing County, Dali Bairen Autonomous Prefecture, Yunnan Province, Mengla County, Xishuangbanna Dai Autonomous Prefecture, and Qiubei County, Wenshan Zhuang and Miao Autonomous Prefecture, etc.

Appendix 1 Performance of 2020

Social and environmental related key performance indicators of 2020:

Social Aspect

Key Performance Indicators	Units	2020	2019
Employees	Person	**74**	71
Number of Employees by Region			
Mainland China	Person	**58**	46
Hong Kong	Person	**16**	25
Number of Employees by Gender			
Female	Person	**38**	38
Male	Person	**36**	33
Number of Employees by Type			
Full-time	Person	**74**	71
Part-time	Person	**0**	0
Number of Employees by Age			
Below or Equal to 30	Person	**9**	17
31 – 40	Person	**50**	39
41 – 50	Person	**11**	11
Above 51	Person	**4**	4
Employee Turnover	Percentage	**9%**	5
Employees Turnover Rate by Region			
Mainland China	Percentage	**3%**	6%
Hong Kong	Percentage	**31%**	7%
Employees Turnover Rate by Gender			
Female	Percentage	**11%**	12%
Male	Percentage	**8%**	0%
Employees Turnover Rate by Age			
Below or Equal to 30	Percentage	**11%**	15%
31 – 40	Percentage	**8%**	5%
41 – 50	Percentage	**9%**	0%
Above 51	Percentage	**25%**	0%

Key Performance Indicators	Units	2020	2019
Employee Training[3]			
Percentage of Trained Employees by Gender			
Female	Percentage	**51.35%**	55.81%
Male	Percentage	**48.65%**	44.19%
Percentage of Trained Employees by Rank			
High-level	Percentage	**6.76%**	11.63%
Mid-level	Percentage	**13.51%**	16.28%
Basic-level	Percentage	**79.73%**	72.09%
Average Training Hours by Gender			
Female	Hour	**8.50**	11.09
Male	Hour	**23.08**	16.76
Average Training Hours by Rank			
High-level	Hour	**17.60**	78.00
Mid-level	Hour	**75.50**	17.10
Basic-level	Hour	**5.24**	7.69
Work Safety			
Work-related Fatalities	Person	**0**	0
Lost days due to work injury	Day	**0**	0
Community Charity			
Focus Areas of Contribution			
Poverty Alleviation	Ten Thousand Yuan	**1**	100

3 The calculation of percentage of trained employees refers to HKEX ESG Reporting Guide, which is the trained employees in the specified category divides by the total number of trained employees. Due to the difference in calculation method used in last year, the data of 2020 has revised accordingly.

Environmental Aspect[4]

Key Performance Indicators	Units	2020	2019
Air Emissions[5]			
NOX	Kg	**0.42**	
SOX	Kg	**0.02**	
CO	Kg	**9.04**	
PM	Kg	**0.04**	
Greenhouse Gas Emission			
Total Greenhouse Gas Emissions	CO_2 equivalent metric tonne	**106.65**	59.60
Greenhouse Gas Emission Intensity	CO_2 equivalent metric tonne/ square metre	**0.05**	0.03
Scope 1			
Direct Emissions from Mobile Sources with Operational Control[6]	CO_2 equivalent metric tonne	**3.76**	–
Scope 2			
Indirect Emissions from Purchased Electricity [7]	CO_2 equivalent metric tonne	**64.67**	59.60
Scope 3			
Business Air Travel by Employees	Tonnes	**38.22**[8]	131.08
Hazardous Waste			
Waste Mercury-Vapour Lamps	No.	**3**	61
Waste Mercury-Vapour Lamps Intensity	No./person	**0.04**	1.14
Wasted Batteries	No.	**230**	373
Wasted Batteries Intensity	No./person	**3.11**	5.25
Ink Cartridges/Tonner	No.	**26**	–
Ink Cartridges/Tonner Intensity	No./person	**0.35**	

4 Compared with the reporting scope of 2019, the reporting scope of environmental related key performance indicators during the Reporting Year adds a new office in Guangzhou in addition to offices in Shanghai and Hong Kong. Therefore, certain data of the Reporting Year has largely increased compared to that of 2019.

5 The calculation of air emissions is based on the Technical Guide for the Preparation of Road Vehicle Air Pollutant Emission Inventory published by the Ministry of Ecology and Environment of the People's Republic of China.

6 The calculation method refers to the Guidelines for Accounting and Reporting of Greenhouse Gas Emissions of Land Transportation Industries (Trial) and the Guidelines for Accounting and Reporting of Greenhouse Gas Emissions of Industrial and Other Industry published by the National Development and Reform Commission of the People's Republic of China.

7 The emission factors used in calculation is with reference to the 2015 National Power Grid Average Emission Coefficient in the Notice on the Establishment of 2018 Carbon Emission Reporting and Verification and Emission Monitoring Plan and the Sustainability Report 2019 published by HK Electric Investments Limited.

8 Since there is no solid source for relevant emission factor, the indirect emissions of scope 3 does not include a total of 8 flights between Hongqiao airport to Dalian Zhoushuizi airport.

Key Performance Indicators	Units	2020	2019
Non-hazardous Waste			
Paper[9]	Kg	**1,302.50**	–
Intensity of Paper recycled	Kg/person	**17.60**	
Plastic[10]	Kg	**41.95**	
Intensity of Plastic recycled	Kg/person	**0.57**	
Use of Resources			
Total Use of Resources	kWh in 000's	**106.24**	–
Use of Resources Intensity	kWh in 000's/ square metre	**0.05**	
Purchased Electricity Consumption	kWh in 000's	**91.20**	89.67
Purchased Electricity Consumption Intensity	kWh in 000's/ square metre	**0.04**	0.05
Petrol Consumption	kWh in 000's	**15.21**	–
Petrol Consumption Intensity	kWh in 000's/ square metre	**7.11×10^{-3}**	
Water Resource Consumption[11]	Cubic Metre	**364.58**	–
Water Resource Consumption Intensity	Cubic metre/ square metre	**0.17**	

9 Paper consumption is an estimated amount through calculating the quantity of paper purchased.

10 The plastic used in CSSC Shipping mainly comes from the plastic water bottles used at offices. This figure is an estimated amount with the weight of each bottle being approximately 15.8g.

11 As the Group mainly operates in office environment, it is difficult to measure water consumption. Guangzhou office cannot calculate the water consumption as its property fee covers water consumption fee. Shanghai Office calculates the actual water consumption, while Hong Kong office calculates the water consumption based on the estimation that one person will consume 1.5 cubic metres of water every month.

Appendix 2 The List of Laws and Regulations

The laws and regulations that have a significant impact on the Group's business operations in China and Hong Kong are as follows:

ESG Aspects	Laws and Regulations: Mainland China	Laws and Regulations: Hong Kong	Compliance Status
Environmental	*Environmental Protection Law of the People's Republic of China* *Environmental Impact Assessment Law of the People's Republic of China* *Environmental Protection Tax Law of the People's Republic of China* *Implementing Regulations on the Environmental. Protection Tax Law of the People's Republic of China* *Atmospheric Pollution Prevention and Control Law of the People's Republic of China* *Water Pollution Prevention and Control Law of the People's Republic of China* *Solid Waste Prevention and Control Law of the People's Republic of China*	*Cap.311 Air Pollution Control Ordinance* *Cap.354 Waste Disposal Ordinance*	During the Reporting Year, the Group did not experience any violation of laws and regulations relating to the Group's air emissions and GHG emissions, discharges into to water and land, waste generation and disposal that had a significant impact on the Group.

ESG Aspects	Laws and Regulations: Mainland China	Laws and Regulations: Hong Kong	Compliance Status
Employment and Labour Standards	*Labour Law of the People's Republic of China* *Labour Contract Law of the People's Republic of China* *Social Insurance Law of the People's Republic of China* *Minors Protection Law of the People's Republic of China* *Provisions on the Prohibition of Using Child Labour*	*Cap. 57 Employment Ordinance* *Cap. 480 Sex Discrimination Ordinance* *Cap. 487 Disability Discrimination Ordinance* *Cap. 602 Race Discrimination Ordinance*	During the Reporting Year, the Group did not receive any information about laws and regulations that had a significant impact on the Group and are related to employment, child labour, and forced labour.
Health and Safety	*Occupational Diseases Prevention and Treatment Law of the People's Republic of China* *Fire Control Law of the People's Republic of China*	*Cap. 509 Occupational Safety and Health Ordinance* *Cap. 282 Employees' Compensation Ordinance*	During the Reporting Year, the Group did not receive any complaints about occupational health and safety that had a significant impact on the Group.

ESG Aspects	Laws and Regulations: Mainland China	Laws and Regulations: Hong Kong	Compliance Status
Product Responsibility	*Patent Law of the People's Republic of China* *Trademark Law of the People's Republic of China* *Anti-Unfair Competition Law of the People's Republic of China*	*Cap. 362 Trade Descriptions Ordinance* *Cap. 486 Personal Data (Privacy) Ordinance* *Cap. 559 Trade Marks Ordinance* *Cap. 571 Securities and Futures Ordinance*	During the Reporting Year, the Group was not aware of any incidents of non-compliance with regulations and voluntary codes concerning the provision and use of the Group's products and services, which cover product and service information and labelling, marketing communications including advertising, promotion and sponsorship, and property rights including intellectual property rights that had a significant impact on the Group.
Anti-corruption	*Anti-Money Laundering Law of the People's Republic of China* *Interim Provisions on Banning Commercial Bribery*	*Cap. 201 Prevention of Bribery Ordinance* *Cap. 204 Independent Commission Against Corruption Ordinance* *Cap. 571 Securities and Futures Ordinance* *Cap. 615 Anti-Money Laundering and Counter-Terrorist Financing Ordinance* *Cap. 622 Companies Ordinance*	During the Reporting Year, the Group did not receive any relevant laws and regulations relating to the prevention of bribery, extortion, fraud, and money laundering, and did not received any case relating to internal employees involved in bribery, extortion, and money laundering.

Appendix 3 Content Index

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
	Disclosure		
A. Environmental			
Aspect A1: Emission	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. Note: Air emissions include NOx, Sox, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations.		"Our Environment"
	KPI A1.1	The types of emissions and respective emissions data.	"Performance of 2020"
	KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	"Performance of 2020"
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	"Performance of 2020"
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	"Performance of 2020"
	KPI A1.5	Description of measures to mitigate emissions and results achieved.	"Performance of 2020"
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	"Performance of 2020"

Subject Areas, Aspects, General Disclosures and KPIs			
	Disclosure		Chapter
Aspect A2: Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc		"Green Office"
	KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	"Performance of 2020"
	KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	"Performance of 2020"
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.	"Green Office"
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	"Green Office"
	KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	Not Applicable[12]
Aspect A3: The Environment and Natural Resources	General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		Not Applicable[13]
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	

12 The major business activities of the Group are leasing services, ship brokerage services and loan services of which the business process, the use of packaging materials for finished products are not involved. Therefore, the indicator is not applicable.

13 As the Group focuses on the leasing business of ships and marine equipment, the main operating activities involve clerical work and business meetings at the office, so its impacts on the environment and natural capital are limited.

	Subject Areas, Aspects, General Disclosures and KPIs Disclosure		Chapter
B. Social			
Aspect B1: Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		"Our Employees"
	KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	"Performance of 2020"
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.	"Performance of 2020"
Aspect B2: Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		"Our Employees"
	KPI B2.1	Number and rate of work-related fatalities.	"Performance of 2020"
	KPI B2.2	Lost days due to work injury.	"Performance of 2020"
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	"Protecting Health and Safety"

Subject Areas, Aspects, General Disclosures and KPIs			
	Disclosure		Chapter
Aspect B3: Development and Training	General Disclosure Policies on improving employee knowledge and skills for discharging duties at work. Description of training activities. Note: Training refers to vocational training. It may include internal and external courses paid by the employer.		"Our Employees"
	KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	"Performance of 2020"
	KPI B3.2	The average training hours completed per employee by gender and employee category	"Performance of 2020"
Aspect B4: Labour Standards	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		"Our Employees"
Aspect B5: Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.		"Our Operations"

Subject Areas, Aspects, General Disclosures and KPIs			
	Disclosure		Chapter
Aspect B6: Product Responsibility	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Not applicable[14]
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	"Compliant Operations"
Aspect B7: Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		"Our Operations"
	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Year and the outcomes of the cases.	"Work with Integrity"
	KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	"Work with Integrity"

14 The Group understands the importance of publicity for the benefit of companies. However, the Group's current business strategy does not rely on advertising for publicity. In addition, the Group's main business is the provision of financial services and does not involve any health and safety issues related to the services. As there are no actual product sales in the Group's direct operations, no matters related to product labelling are involved.

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
	Disclosure		
Aspect B8: Community Investment	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		"Community Investment"
	KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	"Performance of 2020"
	KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	"Performance of 2020"

Independent Auditor's Report

Grant Thornton
均富

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

Opinion

We have audited the consolidated financial statements of CSSC (Hong Kong) Shipping Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 129 to 224, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2020, 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Matter	How the matter was addressed in our audit
Lease arrangements	
Refer to notes 2.14 and 4(i) to the consolidated financial statements. Management assessed the classification of leases in accordance with Hong Kong Financial Reporting Standard 16 "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 statement 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 which involves 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.	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 procedures for the appropriateness of the judgments made by management in the determination of lease classification: – 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; – 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.

Key Audit Matter	How the matter was addressed in our audit

Impairment of loan receivables

Refer to notes 2.8, 3(b)(i), 4(i) and 17 to the consolidated financial statements.

As at 31 December 2020, the net carrying amounts of the Group's loan receivables amounted to approximately HK$15,061,334,000, in which provision for impairment loss of approximately HK$503,565,000 were recorded.

The balances of provision for impairment on loan receivables represent the management's best estimates at the reporting date of the 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").

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

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.
- 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 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.
- 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.

Key Audit Matter	How the matter was addressed in our audit
Impairment of loan receivables *(Continued)* (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.	

Other Information

The directors are responsible for the other information. The other information comprises all the information included in the 2020 annual report of the Company, but does not include 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 for the Consolidated Financial Statements

The directors 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 directors assisted by the Audit Committee are 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.

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

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

- 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, actions taken to eliminate threats or safeguards applied.

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.

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

31 March 2021

Lam Yau Hing
Practising Certificate No.: P06622

Consolidated Income Statement

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Revenue	5	**1,861,565**	2,294,397
Other income	6	**113,118**	104,381
Other gains/(losses), net		**114,849**	(139,252)
Expenses			
Finance cost and bank charges	7	**(578,536)**	(839,733)
Reversal of/(provision for) impairment of loan receivables, net	17	**23,657**	(86,881)
Depreciation		**(272,869)**	(238,300)
Employee benefits expenses	10	**(48,959)**	(62,818)
Vessel operating costs		**(112,601)**	(111,296)
Other operating expenses		**(74,440)**	(72,850)
Total expenses		**(1,063,748)**	(1,411,878)
Profit from operations	8	**1,025,784**	847,648
Share of results of joint ventures	15	**112,699**	53,547
Share of results of associates	16	**(10,315)**	3,021
Profit before income tax		**1,128,168**	904,216
Income tax expense	9	**(14,362)**	(11,837)
Profit for the year		**1,113,806**	892,379
Profit for the year attributable to:			
Equity holders of the Company		**1,108,518**	883,089
Non-controlling interests		**5,288**	9,290
		1,113,806	892,379
Earnings per share (HK$)			
Basic and diluted	12	**0.181**	0.163

The notes on pages 136 to 224 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 HK$'000	2019 HK$'000
Profit for the year	**1,113,806**	892,379
Other comprehensive income/(expense) including reclassification adjustments for the year		
Items that will be reclassified subsequently to profit or loss:		
– Exchange differences on translation of investments in subsidiaries, associates and joint ventures	**7,379**	(37,369)
– Fair value change of financial assets at fair value through other comprehensive income (debt instruments)	**3,488**	17,528
– Release upon settlement of debt instruments at fair value through other comprehensive income	**–**	(3,384)
– Fair value change of derivative financial instruments (cash flow hedges)	**(111,027)**	(67,055)
– Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	**8,214**	–
Items that will not be reclassified subsequently to profit or loss:		
– Fair value change of financial assets at fair value through other comprehensive income (equity instruments)	**10,718**	53,584
Total other comprehensive expense for the year	**(81,228)**	(36,696)
Total comprehensive income for the year	**1,032,578**	855,683
Total comprehensive income for the year attributable to:		
Equity holders of the Company	**1,027,469**	846,398
Non-controlling interests	**5,109**	9,285
Total comprehensive income for the year	**1,032,578**	855,683

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
ASSETS			
Property, plant and equipment	13	**10,035,106**	8,915,910
Right-of-use assets	14	**32,964**	23,685
Interests in joint ventures	15	**483,480**	211,304
Interests in associates	16	**49,784**	35,618
Loan receivables	17	**15,061,334**	15,044,802
Derivative financial assets	18	**10,306**	3,881
Prepayments, deposits and other receivables	19	**394,569**	164,695
Financial assets at fair value through profit or loss	20	**904,671**	39,460
Financial assets at fair value through other comprehensive income	21	**726,258**	777,224
Amounts due from associates	22	**25,320**	23,968
Amounts due from fellow subsidiaries	22	**3,024**	220
Amounts due from joint ventures	22	**26,871**	4,776
Structured bank deposits	23	**467,443**	335,653
Time deposits with maturity over three months	23	**129,244**	171,395
Cash and cash equivalents	23	**2,180,280**	1,895,182
Asset held for sales	24	**–**	48,639
Total assets		**30,530,654**	27,696,412
LIABILITIES			
Income tax payables		**32,386**	22,138
Borrowings	25	**20,515,990**	18,397,969
Derivative financial liabilities	18	**263,958**	105,966
Amounts due to fellow subsidiaries	22	**17,490**	20,179
Amount due to a joint venture	22	**71,732**	96,118
Amount due to a non-controlling interest	22	**87,497**	87,922
Other payables and accruals	26	**517,017**	493,222
Lease liabilities	27	**33,647**	23,654
Total liabilities		**21,539,717**	19,247,168
Net assets		**8,990,937**	8,449,244

Consolidated Statement of Financial Position

As at 31 December 2020

	Note	2020 HK$'000	2019 HK$'000
EQUITY			
Share capital	28	**6,614,466**	6,614,466
Reserves		**2,332,876**	1,796,292
		8,947,342	8,410,758
Non-controlling interests		**43,595**	38,486
Total equity		**8,990,937**	8,449,244

The consolidated financial statements on pages 129 to 224 were approved by the Board of Directors on 31 March 2021 and were signed on its behalf.

ZHONG JIAN	**HU KAI**
Director	*Director*

The notes on pages 136 to 224 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to equity holders 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 2020	**6,614,466**	**10,218**	**(67,055)**	**11,051**	**(71,896)**	**1,913,974**	**8,410,758**	**38,486**	**8,449,244**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**1,108,518**	**1,108,518**	**5,288**	**1,113,806**
Other comprehensive income/ (expense) for the year	**–**	**14,206**	**(102,813)**	**–**	**7,558**	**–**	**(81,049)**	**(179)**	**(81,228)**
Total comprehensive income for the year	**–**	**14,206**	**(102,813)**	**–**	**7,558**	**1,108,518**	**1,027,469**	**5,109**	**1,032,578**
Transactions with equity holders:									
– Dividends (note 35)	**–**	**–**	**–**	**–**	**–**	**(490,885)**	**(490,885)**	**–**	**(490,885)**
At 31 December 2020	**6,614,466**	**24,424**	**(169,868)**	**11,051**	**(64,338)**	**2,531,607**	**8,947,342**	**43,595**	**8,990,937**
At 1 January 2019	4,602,046	(57,510)	–	7,195	(34,532)	1,218,823	5,736,022	29,201	5,765,223
Profit for the year	–	–	–	–	–	883,089	883,089	9,290	892,379
Other comprehensive income/ (expense) for the year	–	67,728	(67,055)	–	(37,364)	–	(36,691)	(5)	(36,696)
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 28)	2,012,420	–	–	–	–	–	2,012,420	–	2,012,420
– Dividends (note 35)	–	–	–	–	–	(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

The notes on pages 136 to 224 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 HK$'000	2019 HK$'000
Cash flows from operating activities			
Net cash generated from operations	30(a)	**1,236,730**	4,370,233
Interest received		**74,778**	98,535
Interest paid		**(653,238)**	(909,894)
Income tax paid		**(4,114)**	(10,348)
Net cash generated from operating activities		**654,156**	3,548,526
Cash flows from investing activities			
Investment in joint ventures		**(160,416)**	(157,689)
Investment in an associate		**(22,498)**	(16,742)
Decrease in time deposits with maturity over three months		**41,340**	1,408,463
Increase in structured bank deposits		**(106,126)**	(23,497)
Payment of purchase of vessels and property, plant and equipment		**(1,461,063)**	(2,438,976)
Increase in portfolio investment at fair value through profit or loss/fair value through other comprehensive income		**(1,374,458)**	(40,639)
Dividend received from financial assets at fair value through other comprehensive income		**29,744**	29,342
Proceeds on disposal of property, plant and equipment		**184,789**	–
Proceeds on disposal of asset held for sales		**68,254**	–
Proceeds on disposal of financial assets at fair value through other comprehensive income		**332,891**	368,494
Proceeds on disposal of financial assets at fair value through profit or loss		**279,310**	407,005
Increase in loan to joint ventures		**142,711**	119,540
Increase in amounts due from associates		**(1,468)**	873
Increase in amount due from joint ventures		**(22,127)**	(9,552)
Increase in amounts due from fellow subsidiaries		**(2,806)**	110,633
Net cash used in investing activities		**(2,071,923)**	(242,745)

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	**2020** **HK$'000**	2019 HK$'000
Cash flows from financing activities			
Proceeds from issuance of guaranteed bonds	30(b)	**6,204,880**	–
Proceeds from borrowings	30(b)	**8,367,901**	8,111,516
Repayment of borrowings	30(b)	**(12,344,582)**	(11,859,777)
Payment of lease liabilities	30(b)	**(8,997)**	(3,609)
Dividends paid		**(490,885)**	(184,082)
Net proceeds from issuance of ordinary shares under public offering		**–**	2,055,587
Professional expenses paid in connection with public offering		**–**	(30,180)
Proceeds from joint venture during the year		**508**	96,618
Repayment to related companies during the year		**(24,440)**	(500)
Repayment to joint ventures during the year		**–**	(70,433)
Proceeds from fellow subsidiaries during the year		**950**	1,200
Repayment to fellow subsidiaries during the year		**(3,543)**	(420,034)
Net cash generated from/(used in) financing activities		**1,701,792**	(2,303,694)
Net increase in cash and cash equivalents		**284,025**	1,002,087
Cash and cash equivalents at 1 January		**1,895,182**	924,060
Effect of foreign exchange rate changes on cash and cash equivalents		**1,073**	(30,965)
Cash and cash equivalents at 31 December	23	**2,180,280**	1,895,182

The notes on pages 136 to 224 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.

Shares of the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited ("The Stock Exchange") on 17 June 2019.

These consolidated financial statements have been approved for issue by the Board of Directors on 31 March 2021.

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 and the adoption of new and amended HKFRSs and the impacts on the Group's consolidated financial statements, if any, are disclosed in note 2.1.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance Cap. 622 and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange. The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and liabilities as specified below which are stated at fair value.

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)*

Amended HKFRSs that are effective for annual period beginning on 1 January 2020

In the current year, the Group has applied for the first time the following amended HKFRSs issued by the HKICPA which are relevant to the Group's operation and effective for the Group's consolidated financial statements for the period beginning on 1 January 2020:

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

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

Issued but not yet effective HKFRSs

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but not yet effective and have not been early adopted by the Group.

HKFRS 17	Insurance Contracts and related amendments[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[6]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRS 16	COVID-19 – Related Rent Concessions[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[4]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[3]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[3]
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combination[6]

1 Effective for annual periods beginning on or after 1 June 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after 1 January 2022
4 Effective for annual periods beginning on or after 1 January 2023
5 Effective date not yet determined
6 Effective for business combinations/common control combination for which the acquisition/combination date is on or after the beginning of the first annual period beginning on or after 1 January 2022

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. The adoption of the new and amended HKFRSs are not expected to have material impact on the Group's financial statements.

2 Summary of significant accounting policies *(Continued)*

2.2 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, consolidated statement of financial position and consolidated statement of changes in equity.

(ii) Associates

Associates are all entities over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investees 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 whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions relating about relevant activities require the unanimous consent of the parties sharing control.

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)*

2.2 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 2.7.

2.3 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)*

2.4 Segment reporting

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

The board of directors has appointed executive directors of the Group as the CODM to assess the financial performance and position of the Group, make strategic decisions and corporate planning.

2.5 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$") is the functional currency of the Company and its major subsidiaries. The financial statements are presented in Hong Kong dollars ("HK$"), 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 and other gains/(losses), net.

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.

2 Summary of significant accounting policies *(Continued)*

2.5 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 reporting date

- 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.

2.6 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 accumulated depreciation and any impairment. 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)*

2.6 Property, plant and equipment *(Continued)*

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

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, 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 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

2 Summary of significant accounting policies *(Continued)*

2.7 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.

2.8 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)*

2.8 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)*

2.8 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 consolidated statement of 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 consolidated statement of 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 consolidated statement of 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 debt 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 ("ECL") 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 general approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 3(b)(i) and 17 for further details.

2 Summary of significant accounting policies *(Continued)*

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position 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.

2.10 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 18. Movements in the hedging reserve in shareholders' equity are shown in consolidated statement of changes in equity.

2 Summary of significant accounting policies *(Continued)*

2.10 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 hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other income, other gains/(losses). net.

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/(losses), net.

2.11 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.

2.12 Recognition of revenue and income

Revenue is measured at the fair value of the consideration received or receivable.

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).

2 Summary of significant accounting policies *(Continued)*

2.12 Recognition of revenue and income *(Continued)*

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

Interest income – recognised using the effective interest method, see note 2.26.

Dividends income – 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 shipbuilding company. 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. Commission income from charterer would be recognised over the period of related lease.

2.13 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate.

Government grants relating to income is presented in gross under "Other income" in the consolidated income statement.

2.14 Leases

Definition of a lease and the Group as a lessee

At inception of a contract, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;

- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

2 Summary of significant accounting policies *(Continued)*

2.14 Leases *(Continued)*

As a lessee

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.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less.

Refundable rental deposits paid are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

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 and credit rating of the Group 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. value of ROU, term, country, currency and value of 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 consolidated statement of financial position as finance lease receivables-net under loan receivables) 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 income statement 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.

2.17 Amounts due to fellow subsidiaries, a joint venture and a non-controlling interest

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)*

2.18 Provisions

Provisions for legal claims 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.

2.19 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 statement 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)*

2.20 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.

2.21 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)*

2.21 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 on either: (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered. 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.

2.22 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)*

2.22 Employee benefits *(Continued)*

(ii) Pension obligations

The Group joined the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those qualifying employees 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's PRC subsidiaries 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 "Provision, Contingent Liabilities and Contingent Assets" 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)*

2.23 Earnings per share

(i) ***Basic earnings per share***

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders 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.

2.24 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.

2.25 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)*

2.26 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).

2.27 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.

2.28 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 statement of financial position.

2 Summary of significant accounting policies *(Continued)*

2.29 Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) the party is an entity and if any of the following conditions applies:

(i) the entity and the Group are members of the same group.

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) the entity and the Group are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 Financial risk management

(a) Financial instruments by category

Financial assets as at 31 December 2020	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	–	10,306	–	10,306
Financial assets at fair value through profit or loss	–	904,671	–	904,671
Financial assets at fair value through other comprehensive income	–	–	726,258	726,258
Loan receivables	15,061,334	–	–	15,061,334
Other receivables (excluding prepayments)	30,510	–	–	30,510
Amounts due from associates	25,320	–	–	25,320
Amounts due from fellow subsidiaries	3,024	–	–	3,024
Amounts due from joint ventures	26,871	–	–	26,871
Time deposits with maturity over three months	129,244	–	–	129,244
Cash and cash equivalents	2,180,280	–	–	2,180,280
Structured bank deposits	–	467,443	–	467,443
Total	17,456,583	1,382,420	726,258	19,565,261

3 Financial risk management *(Continued)*

(a) Financial instruments by category *(Continued)*

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

Financial liabilities as at 31 December 2020	**Financial liabilities at amortised cost HK$'000**	**Financial liabilities at fair value through profit or loss HK$'000**	**Financial liabilities at fair value through other comprehensive income HK$'000**	**Total HK$'000**
Borrowings	**20,515,990**	**–**	**–**	**20,515,990**
Other payables and accruals (excluding deposits received)	**82,739**	**–**	**–**	**82,739**
Amount due to a non-controlling interest	**87,497**	**–**	**–**	**87,497**
Amount due to a joint venture	**71,732**	**–**	**–**	**71,732**
Amounts due to fellow subsidiaries	**17,490**	**–**	**–**	**17,490**
Derivative financial liabilities	**–**	**94,090**	**169,868**	**263,958**
Lease liabilities	**33,647**	**–**	**–**	**33,647**
Total	**20,809,095**	**94,090**	**169,868**	**21,073,053**

3 Financial risk management *(Continued)*

(a) Financial instruments by category *(Continued)*

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	Financial liabilities at fair value through other comprehensive income 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	–	38,911	67,055	105,966
Lease liabilities	23,654	–	–	23,654
Total	18,680,332	38,911	67,055	18,786,298

(b) 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 fellow subsidiaries, joint ventures and associates, 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 fellow subsidiaries, joint ventures and associates 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.

3 Financial risk management *(Continued)*

(b) Financial risk factors *(Continued)*

(i) Credit risk *(Continued)*

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.

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)*

(b) 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)*

(b) 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. In applying the forward-looking information, the Group has taken into account the possible impacts associated with the overall change in the economic environment arising from COVID-19.

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)*

(b) 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 2020	**37,121**	**228,389**	**261,712**	**527,222**
Transfer from stage 1 to stage 2	**(15,679)**	**39,548**	**–**	**23,869**
Transfer from stage 2 to stage 1	**12,716**	**(142,001)**	**–**	**(129,285)**
Loan receivables originated during the year	**5,780**	**66,196**	**9,783**	**81,759**
Provision for impairment of loan receivables as of 31 December 2020	**39,938**	**192,132**	**271,495**	**503,565**

	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

3 Financial risk management *(Continued)*

(b) 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 2020	**11,872,063**	**2,822,695**	**877,266**	**15,572,024**
Transfer from stage 1 to stage 2	**(600,621)**	**600,621**	**–**	**–**
Transfer from stage 2 to stage 1	**1,461,103**	**(1,461,103)**	**–**	**–**
Loan receivables originated/(derecognised) during the year other than write-off	**455,224**	**143,422**	**(605,771)**	**(7,125)**
Loan receivables as of 31 December 2020	**13,187,769**	**2,105,635**	**271,495**	**15,564,899**

	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

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)*

(b) 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)*

(b) Financial risk factors *(Continued)*

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

Financial assets

	As at 31 December 2020					
	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	10,306	–	–	–	10,306	10,306
Financial assets at fair value through profit or loss and other comprehensive income	1,630,929	–	–	–	1,630,929	1,630,929
Loan receivables	4,527,888	1,447,317	4,422,125	7,698,535	18,095,865	15,061,334
Other receivables (excluding prepayments)	30,510	–	–	–	30,510	30,510
Amounts due from associates, joint ventures and fellow subsidiaries	55,215	–	–	–	55,215	55,215
Cash and cash equivalents and time deposits with maturity over three months	2,309,524	–	–	–	2,309,524	2,309,524
Structured bank deposits	467,443	–	–	–	467,443	467,443
	9,031,815	1,447,317	4,422,125	7,698,535	22,599,792	19,565,261

	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

3 Financial risk management *(Continued)*

(b) Financial risk factors *(Continued)*

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

Financial liabilities

	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
As at 31 December 2020						
Other payables and accruals (excluding deposits received)	**82,739**	**–**	**–**	**–**	**82,739**	**82,739**
Amounts due to a non-controlling interest, a joint venture and fellow subsidiaries	**176,719**	**–**	**–**	**–**	**176,719**	**176,719**
Borrowings	**8,755,918**	**1,142,544**	**6,456,522**	**6,081,506**	**22,436,490**	**20,515,990**
Derivative financial instruments	**263,958**	**–**	**–**	**–**	**263,958**	**263,958**
Lease liabilities	**9,755**	**9,755**	**15,769**	**–**	**35,279**	**33,647**
	9,289,089	**1,152,299**	**6,472,291**	**6,081,506**	**22,995,185**	**21,073,053**
As at 31 December 2019						
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
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	6,535	6,535	12,432	–	25,502	23,654
	6,195,817	1,843,187	6,953,491	6,243,223	21,235,718	18,786,298

3 Financial risk management *(Continued)*

(b) 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 loan receivables and 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:

	2020 **HK$'000**	2019 HK$'000
Variable rate balances		
Loan receivables	**11,931,272**	12,495,843
Bank borrowings	**13,487,888**	15,333,159

3 Financial risk management *(Continued)*

(b) 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 35% (2019: 14%) of the variable loan principal outstanding. The fixed interest rates of the swaps range between 0.72% and 3.00% (2019: 1.65% and 3.00%), and the variable rates of the loans are the 3 month LIBOR rate which, at the end of the reporting period, was 0.24% (2019: 1.91%). The effects of the interest rate swaps on the Group's consolidated financial position and performance are as follows:

	2020 HK$'000	2019 HK$'000
Interest rate swaps		
Carrying amount	**(213,803)**	(91,392)
Notional amount	**4,739,410**	2,201,340
Maturity date	**2028-2031**	2029
Change in fair value of outstanding hedging instruments since 1 January	**(115,684)**	(74,957)

Sensitivity analysis

At 31 December 2020, 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$12,998,000 (2019: HK$23,692,000). 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)*

(b) Financial risk factors *(Continued)*

(iv) Foreign currency risk

The Group has foreign currency income, expenses 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"), 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 2020 and 2019, are as follows:

	As at 31 December 2020			As at 31 December 2019		
	EUR HK$'000	SGD HK$'000	RMB HK$'000	EUR HK$'000	SGD HK$'000	RMB HK$'000
Prepayments, deposits and other receivables	-	1,977	5,796	–	–	12,388
Amounts due from associates	–	25,320	–	–	23,968	–
Structured bank deposits	–	–	467,443	–	–	335,653
Cash and cash equivalents	145,436	5,136	128,907	1,351,998	482	123,889
Other payables and accruals	–	(6,707)	(31,734)	–	–	(4,577)
Net exposure	145,436	25,726	570,412	1,351,998	24,450	467,353

3 Financial risk management *(Continued)*

(b) 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 2020 and 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 2020 and 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.

	2020 **HK$'000**	2019 HK$'000
EUR	**6,072**	56,446
SGD	**1,074**	1,021
RMB	**23,815**	19,512

(c) 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 total borrowings divided by total equity. Total borrowings including "borrowings" as shown in the consolidated statement of financial position.

3 Financial risk management *(Continued)*

(c) Capital risk management *(Continued)*

The gearing ratios as at 31 December 2020 and 2019 were as follows:

	31 December 2020 HK$'000	31 December 2019 HK$'000
Borrowings	**20,515,990**	18,397,969
Total equity	**8,990,937**	8,449,244
Gearing ratio	**2.3 times**	2.2 times

Loan covenants

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

- the debt to asset 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.

(d) 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, investments in wealth management portfolio and 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.

3 Financial risk management *(Continued)*

(d) Fair value estimation *(Continued)*

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

Fair value hierarchy

	Notes	**Level 1** HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
At 31 December 2020					
Financial assets					
Derivative financial assets	18	**–**	**10,306**	**–**	**10,306**
Financial assets at fair value through profit or loss	20	**–**	**687,584**	**217,087**	**904,671**
Financial assets at fair value through other comprehensive income	21	**726,258**	**–**	**–**	**726,258**
Structure bank deposits	23	**–**	**467,443**	**–**	**467,443**
Total financial assets at fair value		**726,258**	**1,165,333**	**217,087**	**2,108,678**
Financial liabilities					
Derivative financial liabilities	18	–	263,958	–	263,958
At 31 December 2019					
Financial assets					
Derivative financial assets	18	–	3,881	–	3,881
Financial assets at fair value through profit or loss	20	–	–	39,460	39,460
Financial assets at fair value through other comprehensive income	21	777,224	–	–	777,224
Structured bank deposits	23	–	335,653	–	335,653
Total financial assets at fair value		777,224	339,534	39,460	1,156,218
Financial liabilities					
Derivative financial liabilities	18	–	105,966	–	105,966

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)*

(d) 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 reporting date
- the fair value of unlisted exchangeable note in determined using binomial option pricing model
- 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 2020 HK$'000	Fair value at 31 December 2019 HK$'000	Unobservable inputs	Range of inputs 2020	Range of inputs 2019	Relationship of unobservable inputs to fair value
Investments in wealth management portfolio	–	39,460	Expected rate of return	N/A	5%-6%	The higher the expected rate of return the higher the fair value
			Expected volatility	N/A	20%	
Unlisted exchangeable note	217,087	–	Discount rate	11.47%	N/A	The higher the discount rate for lack of marketability, the lower the fair value
			Expected volatility	39.82%	N/A	The lower the expected volatility, 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 35% and 10% decrease and increase of (i) the expected volatility; and/or (ii) the discount rate, where applicable, with all other variables held constant, the profit before income tax for the year ended 31 December 2020 would have been decreased by approximately HK$739,000 and HK$16,820,000 respectively and the Group's equity would have been decreased by approximately HK$617,000 and HK$14,045,000 respectively, which are not significant to the financial performance and financial position of the Group.

3 Financial risk management *(Continued)*

(d) Fair value estimation *(Continued)*

Valuation techniques used to determine fair values *(Continued)*

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 and the Group's equity would have been increased/decreased by approximately HK$3,460,000, which are not significant to the financial performance and financial position of the Group.

Fair value adjustment in unlisted exchangeable note and investments in wealth management portfolio is included in "Other gains/(losses), net" in the consolidated income statement.

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.

(e) Offsetting financial assets and financial liabilities

There is no material offsetting, enforceable master netting arrangement and similar agreements as at 31 December 2020 and 2019.

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 consolidated 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. As set out in note 13 and 17 to the consolidated financial statements, loan receivables and vessels included in property, plant and equipment and construction in progress consist of leasing during 2020 and 2019. As at 31 December 2020, the carrying amount of loan receivables, vessels and construction in progress included in property, plant and equipment are HK$15,061,334,000 (2019: HK$15,044,802,000), HK$7,633,004,000 (2019: HK$7,304,931,000) and HK$2,398,736,000 (2019: HK$1,608,725,000).

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 measures the loss allowance for loan receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood of risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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.

4 Significant accounting judgments and estimates *(Continued)*

(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.

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

Leasing services

The Group provide tailored vessel leasing services to the Group's customers with the options of finance lease and operating lease. Finance lease refers to a leasing model whereby the lessor purchases an asset according to the lessee's specific requirements and choice of supplier or the lessor purchases an asset from the lessee, and then leases it to the lessee for periodic lease payments. Operating lease refers to a leasing model whereby the lessor grants the right to use an asset to the lessee for a specified period and in return for periodic lease payments.

Shipbroking Services

Shipbroking services to shipbuilders includes recommending shipbuilders to interested purchasers and advising interested purchasers on vessel types, specifications and capabilities. Shipbroking services to charterers includes advising interested charterers to lease the vessels in form of finance lease and operating lease and advising interested charterers on vessel types, specifications and capabilities.

Loan borrowings

Loan borrowings mainly include pre-delivery loan, secured loan and factoring services. Pre-delivery loan services are offered as part of leasing services and to customers who require funding to satisfy their pre-delivery payment obligations under their shipbuilding agreements. Secured loan services are offered to customers to satisfy their funding needs and are generally secured by our customers' vessels or assets.

5 Segment information and revenue *(Continued)*

The segment information provided to the executive directors for the years ended 31 December 2020 and 2019 are as follows:

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

	Leasing services HK$'000	Loan borrowings HK$'000	Shipbroking services HK$'000	Total HK$'000
For the year ended 31 December 2020				
Segment revenue	**1,430,442**	**355,660**	**75,463**	**1,861,565**
Inter-segment revenue	**–**	**–**	**–**	**–**
Revenue from external customers	**1,430,442**	**355,660**	**75,463**	**1,861,565**
For the year ended 31 December 2019				
Segment revenue	1,556,992	681,073	56,332	2,294,397
Inter-segment revenue	–	–	–	–
Revenue from external customers	1,556,992	681,073	56,332	2,294,397

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

For the year ended 31 December 2020, commission income included in shipbroking services are recognised at a point in time and over time amounting to HK$25,314,000 and HK$50,149,000 (2019: HK$56,332,000 and HK$Nil) respectively.

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 no analysis by geographical area is presented.

Revenue by business activities

	2020 **HK$'000**	2019 HK$'000
Finance lease income	**432,277**	658,781
Operating lease income	**998,165**	898,211
Interest income from loan borrowings	**355,660**	681,073
Commission income	**75,463**	56,332
	1,861,565	2,294,397

Information about major customers

Details of revenue from external customers individually contributed over 10% of the Group's revenue during the year are as follows:

	2020 **HK$'000**	2019 HK$'000
Customer A in the loan borrowings segment	**261,885**	587,465
Customer B in the leasing services segment	**329,705**	323,201
Customer C in the leasing services segment	**303,764**	273,064

6 Other income

Other income recognised during the year are as follows:

	2020 HK$'000	2019 HK$'000
Dividend income	**29,744**	29,342
Interest income from		
– financial assets at fair value through profit or loss	**19,575**	3,495
– financial assets at fair value through other comprehensive income	**25,207**	25,499
– bank deposits	**34,276**	46,045
Government subsidies	**4,316**	–
	113,118	104,381

During the year ended 31 December 2020, the Group received government subsidies of HK$700,000 from the Employment Support Scheme ("ESS"), which aims to retain employment and combat COVID-19, under the Anti-pandemic Fund, set up by the Government of the HKSAR. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the subsidies, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

In addition, the Group received government subsidies amounting to HK$3,616,000 from government authorities of the PRC to support the Group's operations.

7 Finance costs and bank charges

	2020 HK$'000	2019 HK$'000
Interest and charges on bonds	**161,459**	–
Interest and charges on borrowings	**468,065**	917,757
Interest on lease liabilities	**821**	107
Bank charges	**5,564**	1,537
	635,909	919,401
Less: finance costs capitalised	**(57,373)**	(79,668)
	578,536	839,733

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 3.07% (2019: 4.52%).

8 Profit from operations

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

	2020 HK$'000	2019 HK$'000
Depreciation on		
– property, plant and equipment	**264,072**	234,834
– right-of-use assets	**8,797**	3,466
Foreign exchange (gain)/loss, net	**(42,588)**	27,827
Employee benefits expenses (note 10)	**48,959**	62,818
Net unrealised loss on changes in fair value of derivative financial instruments	**48,374**	38,587
Net realised loss from derivative financial instruments	**6,913**	9,784
Net realised gain on disposal of debt instruments at fair value through other comprehensive income	**(6,141)**	(5,219)
Net realised gain from financial assets at fair value through profit or loss	**(7,343)**	(21,346)
Net unrealised (gain) loss on changes in fair value of financial assets at fair value through profit or loss	**(28,582)**	441
Net gain on disposal of asset held for sales	**(19,615)**	–
Net gain on disposal of property, plant and equipment	**(109,269)**	–
Net (gain)/loss on de-recognition of finance lease receivables	**(13,653)**	99,990
Auditor remuneration		
– audit services	**2,480**	5,300
– non-audit services	**2,474**	2,049

9 Income tax expense

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

Hong Kong profits tax is provided at 16.5% (2019: 16.5%) based on assessable profits arising in Hong Kong during the year ended 31 December 2020.

For the year ended 31 December 2020, the PRC corporate income tax is charged at the statutory rate of 25% (2019: 25%) of the assessable income as determined with the relevant tax rules and regulations of the PRC.

Income tax expense in the consolidated income statements represents:

	2020 HK$'000	2019 HK$'000
Hong Kong profits tax		
– current year	**5,898**	–
– under-provision in prior years	**2,578**	–
	8,476	–
PRC corporate income tax		
– current year	**5,886**	11,837
Income tax expense	**14,362**	11,837

9 Income tax expense *(Continued)*

Reconciliation between income tax expense and profit before income tax at the applicable tax rate:

	2020 HK$'000	2019 HK$'000
Profit before income tax	**1,128,168**	904,216
Less:		
Share of results of associates	**10,315**	(3,021)
Share of results of joint ventures	**(112,699)**	(53,547)
	1,025,784	847,648
Calculated at tax rate of 16.5%	**169,255**	139,861
Effect of different tax rates in other countries	**2,660**	(3,112)
Income not subject to tax	**(340,506)**	(419,677)
Expenses not deductible for tax purpose	**187,069**	284,575
Utilisation of previously unrecognised tax loss	**(6,634)**	–
Tax effect of tax loss not recognised	**–**	10,190
Tax effect of temporary differences not recognised	**(60)**	–
Under-provision in prior years	**2,578**	–
Income tax expense	**14,362**	11,837

At 31 December 2020, the Group has not recognised deferred income tax assets in respect of tax losses of approximately HK$11,688,000 (2019: HK$18,324,000). 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 as at 31 December 2020. 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 2020, the Group's tax losses will expire:

	2020 HK$'000	2019 HK$'000
No expiry date	**70,835**	111,054

10 Employee benefits expenses

	2020 HK$'000	2019 HK$'000
Wages, salaries, and other allowances (including directors' emoluments)	41,457	53,101
Retirement benefit costs	7,502	9,717
	48,959	62,818

(a) Five highest paid individuals

The five individuals whose remuneration were the highest in the Group include 2 directors (2019: 2 directors) for the year ended 31 December 2020, whose remuneration are reflected in the analysis presented in note 11.

The remuneration paid to the remaining 3 (2019: 3) individuals are as follows:

	2020 HK$'000	2019 HK$'000
Wages, salaries, and other allowances	7,206	6,506
Retirement benefit costs	660	599
	7,866	7,105

The number of non-director highest paid employees whose remuneration fell within the following band is as follows:

	2020 HK$'000	2019 HK$'000
HK$nil to HK$1,000,000	–	–
HK$1,000,001 to HK$1,500,000	–	–
HK$1,500,001 to HK$2,000,000	–	–
HK$2,000,001 to HK$2,500,000	1	3
HK$2,500,001 to HK$3,000,000	2	–

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 2020 (2019: 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 of every director are set out below:

	Year ended 31 December 2020				
Name of Directors	Fees HK$'000	Salaries and allowances HK$'000	Discretionary Bonus (Note ii) HK$'000	Employer's contribution to retirement benefit scheme HK$'000	Total HK$'000
Chairman and Executive Directors					
ZHONG JIAN (note i and v)	–	695	–	110	805
YANG LI (note i and iv)	–	464	2,196	81	2,741
Executive Director					
HU KAI (note i)	–	1,160	2,196	259	3,615
Non-Executive Directors					
LI WEI	–	–	–	–	–
ZHONG JIAN	–	–	–	–	–
ZOU YUANJING	–	–	–	–	–
Independent Non-Executive Directors					
WONG YAU KAR DAVID (note vi)	270	–	–	–	270
SHING MO HAN YVONNE (note vii)	300	–	–	–	300
LI HONG JI (note vii)	300	–	–	–	300
WANG DENNIS (note viii)	30	–	–	–	30
Total	900	2,319	4,392	450	8,061

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)*

	Year ended 31 December 2019				
Name of Directors	Fees HK$'000	Salaries and allowances HK$'000	Discretionary bonus (Note ii) HK$'000	Employer's contribution to retirement benefit scheme HK$'000	Total HK$'000
Chairman and Executive Director					
YANG LI (note i and iv)	–	1,280	2,370	262	3,912
Executive Director					
HU KAI (note i)	–	968	2,032	293	3,293
Non-Executive Directors					
LI WEI	–	–	–	–	–
ZHONG JIAN (note v)	–	–	–	–	–
ZOU YUANJING	–	–	–	–	–
Independent Non-Executive Directors					
WONG YAU KAR DAVID (note vi)	150	–	–	–	150
SHING MO HAN YVONNE (note vii)	150	–	–	–	150
LI HONG JI (note vii)	150	–	–	–	150
Total	450	2,248	4,402	555	7,655

Note:

i. 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 2020 (2019: Nil).

ii. The bonus is determined with reference to the operating results individual performance and comparable market statistics during both years.

iii. During the year ended 31 December 2020, 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 (2019: Nil). No consideration was provided to or receivable by third parties for making available directors' services (2019: Nil). There are no loans, quasi loans or other dealings in favour of the directors, their controlled body corporate and connected entities (2019: 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 2020 (2019: Nil).

iv. Mr. Yang Li was resigned on 29 April 2020.

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: *(Continued)*

v. Mr. Zhong Jian was re-designated as an executive director and appointed as the chairman on 29 April 2020.

vi. Dr. Wong Yau Kar David was appointed as the Company's independent non-executive director on 6 May 2019 and resigned on 10 November 2020.

vii. Mdm. Shing Mo Han Yvonne, and Mr. Li Hong Ji were appointed as the Company's independent non-executive directors on 6 May 2019.

viii. Mr. Wang Dennis was appointed as the Company's independent non-executive director on 10 November 2020.

ix. No director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year. No director waived or agreed to waive any emoluments during the years ended 31 December 2020 and 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.

	2020	2019
Profit attributable to equity holders of the Company (in HK$'000)	**1,108,518**	883,089
Weighted average number of ordinary shares in issue ('000)	**6,136,066**	5,434,200
Basic earnings per share (in HK$)	**0.181**	0.163

Note: The weighted average of 5,434,200,000 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 2019; 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 2020	**1,608,725**	**8,216,972**	**2,249**	**5,314**	**1,808**	**9,835,068**
Additions	**1,430,896**	**86,034**	**–**	**1,057**	**449**	**1,518,436**
Transfer	**(632,705)**	**632,705**	**–**	**–**	**–**	**–**
Disposal	**–**	**(357,804)**	**–**	**–**	**–**	**(357,804)**
Exchange differences	**(8,180)**	**(39,840)**	**136**	**155**	**(60)**	**(47,789)**
At 31 December 2020	**2,398,736**	**8,538,067**	**2,385**	**6,526**	**2,197**	**10,947,911**
Accumulated depreciation						
At 1 January 2020	**–**	**913,041**	**1,763**	**3,886**	**468**	**919,158**
Charge for the year	**–**	**262,550**	**176**	**745**	**601**	**264,072**
Written back on disposal	**–**	**(266,125)**	**–**	**–**	**–**	**(266,125)**
Exchange differences	**–**	**(4,403)**	**116**	**117**	**(130)**	**(4,300)**
At 31 December 2020	**–**	**905,063**	**2,055**	**4,748**	**939**	**912,805**
Net carrying amount						
At 31 December 2020	**2,398,736**	**7,633,004**	**330**	**1,778**	**1,258**	**10,035,106**
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 24)	–	(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 24)	–	(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

13 Property, plant and equipment *(Continued)*

At 31 December 2020, the Group's vessels with aggregate net carrying amounts of HK$2,545,058,000 (2019: HK$2,514,736,000), were pledged to secure general banking facilities granted to the Group.

14 Right-of-use assets

	HK$'000
Cost	
At 1 January 2020	**27,151**
Additions	**18,117**
Exchange differences	**38**
Written off	**(3,754)**
At 31 December 2020	**41,552**
Accumulated depreciation	
At 1 January 2020	**3,466**
Exchange differences	**24**
Charge for the year	**8,797**
Written back on written off	**(3,699)**
At 31 December 2020	**8,588**
Net carrying amount	
At 31 December 2020	**32,964**
Cost	
At 1 January 2019	–
Effect upon adoption of HKFRS 16	3,572
Additions	23,579
At 31 December 2019	27,151
Accumulated depreciation	
At 1 January 2019	–
Charge for the year	3,466
At 31 December 2019	3,466
Net carrying amount	
At 31 December 2019	23,685

14 Right-of-use assets *(Continued)*

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.

15 Interests in joint ventures

	2020 HK$'000	2019 HK$'000
At the beginning of the year	**211,304**	8
Capital Injection	**160,416**	157,689
Share of results of joint ventures	**112,699**	53,547
Exchange differences	**(939)**	60
At the end of the year	**483,480**	211,304

Particulars of the Group's joint ventures as at 31 December 2020 and 2019 are as follows:

Name	**Place of incorporation/ registration and operation**	**Percentage of equity attributable to the Company at 31 December 2020**	2019	**Principal activities**
Ocean Classic Limited (note i)	British Virgin Islands ("BVI")	**50%**	50%	Chartering services
Sino-sin Shipping Company Limited	BVI	**50%**	50%	Vessel owning
Vista Shipping PTE. LTD. (note)	Singapore	**50%**	–	Vessel owning and chartering
Vista Shipping Limited (note)	Marshall Islands	**–**	50%	Vessel owning and chartering
Zhendui Industrial Intelligent Technology Co., Ltd.* 震兌工業智能科技有限公司	The PRC	**18%**	18%	Marine technology

All joint ventures have a reporting date of 31 December.

* The English name of the joint ventures represents the best effort by the management of the Group in translating their Chinese names as thay do not have an official English name.

Note:

Vista Shipping Limited has re-domiciled from Marshall Islands to Singapore on 7 August 2020 and renamed as "Vista Shipping Pte. Ltd.

15 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	
	2020	2019
	HK$'000	HK$'000
Current assets	**173,967**	139,351
Non-current assets	**2,078,470**	2,168,899
Current liabilities	**(691,246)**	(845,025)
Non-current liabilities	**(1,300,195)**	(1,355,581)
Revenue	**421,094**	404,125
Profit after income tax	**153,931**	145,375
Other comprehensive income	**–**	–
Total comprehensive income	**153,931**	145,375
Cash and cash equivalents	**64,705**	39,588
Current financial liabilities (excluding trade and other payables and provisions)	**65,126**	65,442
Non-current financial liabilities (excluding trade and other payables and provisions)	**–**	–
Depreciation and amortisation	**(87,265)**	(66,360)
Interest income	**21**	23
Interest expense	**(43,911)**	(72,167)
Income tax expense	**–**	–

15 Interests in joint ventures *(Continued)*

(i) Summarised financial information for a material joint venture *(Continued)*

Reconciliation of summarised financial information

	Ocean Classic Limited	
	2020	2019
	HK$'000	HK$'000
Opening net assets 1 January	**107,644**	16
Profit for the year	**153,931**	107,523
Currency translation differences	**(579)**	105
Closing net assets as at 31 December	**260,996**	107,644
Interest in joint venture	**50%**	50%
Share of net assets	**130,498**	53,822
Carrying value	**130,498**	53,822

(ii) The aggregate amount of the Group's share of results of its joint ventures which are individually immaterial are as follows:

	2020	2019
	HK$'000	HK$'000
Aggregate carrying amount of individual joint ventures in the consolidated financial statements	**352,982**	157,482

	2020	2019
	HK$'000	HK$'000
Net profit for the year	**35,733**	8,012

15 Interests in joint ventures *(Continued)*

(iii) Commitments and contingent liabilities of joint ventures attributable to the Group

	As at 31 December 2020 HK$'000	As at 31 December 2019 HK$'000
Capital commitment:		
Construction of vessels	**502,835**	629,542

16 Interests in associates

	2020 HK$'000	2019 HK$'000
At the beginning of the year	**35,618**	15,938
Share of results of associates	**(10,315)**	3,021
Capital injection	**22,498**	16,742
Exchange differences	**1,983**	(83)
At the end of the year	**49,784**	35,618

Particulars of the Group's associates as at 31 December 2020 and 2019 are as follows:

Name	**Place of incorporation/ registration and operation**	**Percentage of equity attributable to the Company at 31 December 2020**	2019	**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）海洋科技有限公司	The PRC	**25%**	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 2020 (2019: none).

All associates have a reporting date of 31 December.

* 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.

17 Loan receivables

	As at 31 December 2020		
	Gross amount HK$'000	Allowance for impairment losses HK$'000	Net carrying amount HK$'000
Loan borrowings (note a)	**7,486,207**	**(27,421)**	**7,458,786**
Finance lease receivables (note b)	**7,357,569**	**(476,040)**	**6,881,529**
Loans to joint ventures (note c)	**721,123**	**(104)**	**721,019**
	15,564,899	**(503,565)**	**15,061,334**

	As at 31 December 2019		
	Gross amount HK$'000	Allowance for impairment losses HK$'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

Movement of the provision of impairment loss of the Group are as follows:

	HK$'000
At 1 January 2019	**440,341**
Provision for the year	**188,248**
Reversal during the year	**(101,367)**
At 31 December 2019 and 1 January 2020	**527,222**
Provision for the year	**189,255**
Reversal during the year	**(212,912)**
At 31 December 2020	**503,565**

As at 31 December 2020 and 2019, there was no loan receivables past due but not impaired.

17 Loan receivables *(Continued)*

(a) Loan borrowings

As at 31 December 2020, loan borrowings were secured, interest bearing at rates ranging from 3.6% to 8.0% (2019: 4.7% to 15.0%) per annum and repayable in 2021 to 2031 (2019: 2020 to 2026). The secured loan receivables are secured by the respective vessel and certain shares of borrowers, which owned the vessel.

A maturity profile of the loan borrowings, based on the maturity date, net of impairment losses, is as follows:

	2020 **HK$'000**	2019 HK$'000
Within 1 year	**1,101,435**	987,993
After 1 year but within 2 years	**565,272**	932,942
After 2 years but within 5 years	**1,719,965**	3,023,641
Over 5 years	**4,072,114**	2,688,008
	7,458,786	7,632,584

(b) Finance lease receivables

As at 31 December 2020, the Group's finance lease receivables were secured, interest bearing at rates ranging from 3.5% to 9.0% (2019: 4.0% to 10.0%). Details of finance lease receivables as at 31 December 2020 are as follows:

	2020	2019
Finance lease receivables	**5,623,063**	5,461,527
Guaranteed residual value	**3,050,560**	2,889,594
Gross investment in leases	**8,673,623**	8,351,121
Less: unearned finance income	**(1,316,054)**	(1,224,633)
Net investments in leases	**7,357,569**	7,126,488
Less: accumulated allowance for impairment	**(476,040)**	(312,476)
Finance lease receivables – net	**6,881,529**	6,814,012

17 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.

	2020 HK$'000	2019 HK$'000
Gross investment in finance leases	**8,673,623**	8,351,121
Less: unguaranteed residual values	**–**	–
Minimum lease payments receivable	**8,673,623**	8,351,121
Less: unearned finance income related to minimum lease payments receivable	**(1,316,054)**	(1,224,633)
Present value of minimum lease payments receivable	**7,357,569**	7,126,488

The table below analyses the Group's gross investment in finance leases by relevant maturity groupings as at 31 December 2020 and 2019:

	2020 HK$'000	2019 HK$'000
Gross investment in finance leases		
– Within 1 year	**2,356,399**	1,525,107
– After 1 year but within 2 years	**790,037**	1,922,039
– After 2 years but within 5 years	**2,435,181**	2,593,238
– Over 5 years	**3,092,006**	2,310,737
	8,673,623	8,351,121

(c) Loans to joint ventures

As at 31 December 2020, except for loans to joint ventures of HK$352,446,000 (2019: HK$210,808,000) which were unsecured, interest bearing at rates ranging from 3.0% to 5.1% (2019: 4.89% to 5.63%) per annum and repayable on demand. The remaining balances were unsecured, interest-free and repayable on demand.

18 Derivative financial instruments

	2020 HK$'000	2019 HK$'000
Assets		
Interest rate swap – held for trading	–	299
Interest rate swap – cash flow hedges	10,306	3,582
	10,306	3,881
Liabilities		
Interest rate swap – held for trading	28,029	4,509
Interest rate swap – cash flow hedges	224,109	94,974
Cross currency swap	11,820	6,483
	263,958	105,966

Interest rate swap

(i) ***Hedging reserves***

The Group's hedging reserves disclosed in consolidated statement of changes in equity relate to the following hedging instruments:

	Hedging reserves HK$'000
At 1 January 2019	–
Add: Net change in fair value of hedging instrument recognised in other comprehensive income	(67,055)
At 31 December 2019 and 1 January 2020	(67,055)
Add: Change in fair value of hedging instrument recognised in other comprehensive income	(111,027)
Less: Reclassified from OCI to profit or loss	8,214
At 31 December 2020	(169,868)

During the year ended 31 December 2020, there is balance in cash flow hedge reserve arising from hedging relationship for which hedge accounting is no longer applied amounting to HK$8,214,000 (2019: HK$Nil).

18 Derivative financial instruments *(Continued)*

Interest rate swap *(Continued)*

(ii) 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:

	2020 **HK$'000**	2019 HK$'000
Net loss on cross currency swap and interest rate swap not qualifying as hedges included in other gain/(losses), net	**48,374**	38,587

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.

As at 31 December 2020, the Group has outstanding interest rate swap contracts with notional amount of US$708,936,000, approximately equivalent to HK$5,496,452,000 (2019:US$433,236,000, approximately equivalent to HK$3,375,212,000).

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.

Cross currency swap

As at 31 December 2020, the Group has outstanding cross currency swap contracts with notional amounts of US$58,430,000, approximately equivalent to HK$453,014,000 (2019: US$140,000,000, approximately equivalent to HK$1,090,698,000).

Fair value measurement

For information about the methods and assumptions used in determining the fair value of derivatives, please refer to note 3(d).

19 Prepayments, deposits and other receivables

	2020 HK$'000	2019 HK$'000
Prepayments	**364,059**	15,567
Interest receivables	**23,340**	71,021
Other receivables	**7,170**	78,107
	394,569	164,695

As at 31 December 2020, included in prepayments in an amount of HK$325,312,000 represents prepayment to fellow subsidies for acquisition of vessels for finance lease purposes.

The carrying amounts of these receivables of the Group approximate their fair values.

20 Financial assets at fair value through profit or loss

	2020 HK$'000	2019 HK$'000
Investments in wealth management portfolio	**687,584**	39,460
Investments in exchange notes	**217,087**	–
	904,071	39,460

The movements of financial assets at fair value through profit or loss are as follows:

	2020 HK$'000	2019 HK$'000
At 1 January	**39,460**	385,659
Addition during the year	**1,109,122**	39,901
Disposal during the year	**(279,310)**	(407,005)
Net change in fair value	**35,925**	20,905
Exchange differences	**(526)**	–
At 31 December	**904,671**	39,460

21 Financial assets at fair value through other comprehensive income

	2020 **HK$'000**	2019 HK$'000
Equity instruments		
– Listed perpetual securities	**508,230**	574,198
Debt instruments		
– Listed debts	**218,028**	203,026
	726,258	777,224

The movements in 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 2020	**574,198**	**203,026**	**777,224**
Addition during the year	**–**	**265,336**	**265,336**
Disposal during the year	**(77,565)**	**(255,326)**	**(332,891)**
Net change in fair value	**10,718**	**9,629**	**20,347**
Exchange differences	**879**	**(4,637)**	**(3,758)**
At 31 December 2020	**508,230**	**218,028**	**726,258**

	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

22 Amounts due from/to associates, fellow subsidiaries, joint ventures and a non-controlling interest

	2020 HK$'000	2019 HK$'000
Amounts due from associates	**25,320**	23,968
Amounts due from fellow subsidiaries	**3,024**	220
Amounts due from joint ventures	**26,871**	4,776

	2020 HK$'000	2019 HK$'000
Amounts due to fellow subsidiaries	**17,490**	20,179
Amount due to a joint venture	**71,732**	96,118
Amount due to a non-controlling interest	**87,497**	87,922

The amounts due from associates are unsecured, interest free, repayable on demand and are denominated in SGD which are non-trade nature.

The amounts due from/to 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 from/to joint ventures are unsecured, interest free, repayable on demand and denominated in HK$ and US$, which are non-trade nature.

23 Cash and cash equivalents, time deposits with maturity over three months and structured bank deposits

	2020 HK$'000	2019 HK$'000
Time deposits with maturity over three months	**129,244**	171,395
Cash at bank and on hand	**2,180,280**	1,895,182
Total	**2,309,524**	2,066,577
Structured bank deposits	**467,443**	335,653

23 Cash and cash equivalents, time deposits with maturity over three months and structured bank deposits *(Continued)*

The carrying amounts of the Group's cash and cash equivalents and time deposits are denominated in following currencies:

	2020 HK$'000	2019 HK$'000
EUR	**145,436**	1,351,998
HK$	**53,046**	7,906
RMB	**128,907**	123,889
SGD	**5,136**	482
US$	**1,976,999**	582,302
	2,309,524	2,066,577

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 2020 is 0.57% (2019: 2.29%) per annum.

As 31 December 2020, the bank balances of the Group denominated in RMB amounted to HK$128,907,000 (2019: HK$123,889,000). 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 2020 and 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.

24 Asset held for sale

	2020 HK$'000	2019 HK$'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$8,800,000 (approximately equivalent to HK$68,254,000).

25 Borrowings

	2020 HK$'000	2019 HK$'000
Bank borrowings	**14,279,534**	18,397,969
Guaranteed bonds	**6,236,456**	–
	20,515,990	18,397,969

Bank borrowings

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

	2020 HK$'000	2019 HK$'000
On demand and within 1 year	**8,374,024**	5,621,747
After 1 year but within 2 years	**854,066**	1,711,312
After 2 years but within 5 years	**2,625,900**	6,017,514
After 5 years	**2,425,544**	5,047,396
	14,279,534	18,397,969

The weighted average interest rates of the borrowings of the Group for the years ended 31 December 2020 and 2019 were as follows:

	2020	2019
Bank borrowings	**From 1.12% to 3.62%**	From 2.69% to 4.60%

25 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:

	2020 HK$'000	2019 HK$'000
Variable rate balances		
Bank borrowings	**13,487,888**	15,333,159

As at 31 December 2020, the Group's secured bank borrowings of HK$7,569,637,000 (2019: HK$18,397,969,000) were secured by loan receivables of approximately HK$9,594,395,000 (2019: HK$11,334,000,000), certain of shares of the subsidiaries, deposits of approximately HK$158,568,000 (2019: HK$35,000,000), general assignments, bareboat charterer assignments, intra group loan assignments and property, plant and equipment of approximately HK$2,545,058,000 (2019: HK$2,514,736,000). Among which, HK$1,922,949,000 (2019: $4,671,155,000) were secured by corporate guarantee from the ultimate holding company.

As at 31 December 2020, the Group's bank borrowings of HK$6,709,897,000 (2019: nil) were unsecured and guaranteed by the Company.

Guaranteed bonds

In February 2020, the Group issued two guaranteed bonds of US$400,000,000 (approximately HK$3,101,240,000) due 2025 and US$400,000,000 (approximately HK$3,101,240,000) due 2030 bearing interest at 2.5% and 3.0% respectively listed on The Stock Exchange of Hong Kong Limited. The guaranteed bonds were guaranteed by the Company and repayable as follows:

	2020 HK$'000
Within 1 year	**33,976**
After 1 year but within 2 years	**–**
After 2 years but within 5 years	**3,101,240**
After 5 years	**3,101,240**
	6,236,456

26 Other payables and accruals

	2020	2019
Accruals	12,608	17,825
Deposits received	434,278	438,732
Other payables	70,131	36,665
	517,017	493,222

The carrying amount of other payables and accruals are considered to be the same as their fair values, due to their short-term nature.

27 Lease liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities:

	2020 HK$'000	2019 HK$'000
Total minimum lease payments:		
Due within one year	9,755	6,535
Due in the second to fifth years	25,524	18,967
	35,279	25,502
Future finance charges	(1,632)	(1,848)
Present value of lease liabilities	33,647	23,654

	2020 HK$'000	2019 HK$'000
Present value of minimum lease payments:		
Due within one year	9,041	5,860
Due in the second to fifth years	24,606	17,794
	33,647	23,654

During the year ended 31 December 2020, the total cash outflows for the leases (including short term lease) amounted to HK$12,569,000 (2019: HK$8,705,000).

28 Share capital

Ordinary shares, issued and fully paid:

	Numbers of shares ('000)	Share capital HK$'000
At 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, 1 January 2020 and 31 December 2020	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.

29 Related party transactions

The directors of the Company regard CSSC International Holding Company Limited as the immediate holding company, which owns 75% of the Company's issued ordinary shares at 31 December 2020. The parent company of the Group is China State Shipbuilding Corporation Limited ("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 years ended 31 December 2020 and 2019, the Group's significant transactions with entities that are controlled, jointly controlled or significantly influenced by the PRC government, mainly include most of its bank deposits and the corresponding interest income, bank borrowings and corresponding interest expenses and part of sales and purchases of goods and services. The price and other terms of such transactions are set out in the underlying agreements, based on market prices or as mutually agreed.

Apart from the above-mentioned transactions with the government-related entities and the related party information shown elsewhere in these 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 2020.

29 Related party transactions *(Continued)*

(a) Transactions with related parties

Other than as disclosed in else where of these consolidated financial statements, the Group entered into the following related party transactions during the year:

Transactions with fellow subsidiaries:

	2020 **HK$'000**	2019 HK$'000
Commission income	**14,386**	7,735
Rental and utilities expenses	**14,384**	6,939
Purchase of vessels and offshore equipment	**2,162,058**	2,434,363

Transactions with ultimate holding company:

	2020 **HK$'000**	2019 HK$'000
Guarantee expenses	**4,131**	35,610

Transactions with joint ventures:

	2020 **HK$'000**	2019 HK$'000
Interest income	**9,409**	29,072

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

29 Related party transactions *(Continued)*

(b) Balances with related parties

	2020 HK$'000	2019 HK$'000
Amounts due from		
– Associates	**25,320**	23,968
– Fellow subsidiaries	**3,024**	220
– Joint ventures	**26,871**	4,776
Loans to joint ventures	**721,019**	598,206
Prepayment to fellow subsidiaries	**325,312**	–
Amounts due to		
– Fellow subsidiaries	**17,490**	20,179
– A joint venture	**71,732**	96,118
– A non-controlling interest	**87,497**	87,922

(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:

	2020 HK$'000	2019 HK$'000
Wages, salaries and bonuses	**17,747**	16,254
Retirement benefit costs	**1,506**	1,669
	19,253	17,923

30 Note to consolidated statement of cash flows

(a) Reconciliation from profit before income tax to net cash generated from operations

	2020 HK$'000	2019 HK$'000
Profit before income tax	**1,128,168**	904,216
Adjustments for		
– Finance costs and bank charges	**578,536**	839,733
– Interest income	**(79,058)**	(75,039)
– Depreciation	**272,869**	238,300
– Dividend income	**(29,744)**	(29,342)
– (Reversal of)/Provision for impairment of loan receivables, net	**(23,657)**	86,881
– Net gain on disposal of property, plant and equipment	**(109,269)**	–
– Gain on disposal of asset held for sale	**(19,615)**	–
– Net (gain)/loss on de-recognition of finance lease receivable	**(13,653)**	99,990
– Net unrealised loss on changes in fair value of derivative financial instruments	**48,374**	38,587
– Net realised loss from settlement of derivative financial instruments	**6,913**	9,784
– Net realised gain from financial assets at fair value through profit or loss	**(7,343)**	(21,346)
– Net unrealised (gain)/loss on changes in fair value of financial assets at fair value through profit or loss	**(28,582)**	441
– Share of results of associates	**10,315**	(3,021)
– Share of results of joint ventures	**(112,699)**	(53,547)
– Net realised gain on disposal of debt instruments at fair value through other comprehensive income	**(6,141)**	(5,219)
Operating profit before working capital charges	**1,615,414**	2,030,418
Increase in loan receivables	**(2,046,630)**	(400,307)
(Increase)/decrease in prepayments, deposits and other receivables	**(226,478)**	72,019
Increase in other payables and accruals	**42,344**	121,385
Proceeds on de-recognition of finance lease receivable	**1,852,080**	2,546,718
Net cash generated from operations	**1,236,730**	4,370,233

Material non-cash transactions

(i) During the year ended 31 December 2020, 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$2,256,001,000 (2019: HK$787,491,000).

30 Note to consolidated statement of cash flows *(Continued)*

(b) Debt reconciliation *(Continued)*

The table below set out the reconciliation of liabilities arising from financing activities:

	Lease liabilities HK$'000	Amount due to fellow subsidiaries HK$'000	Amount due to a joint venture HK$'000	Amount due to a non-controlling interest HK$'000	Borrowings HK$'000
As at 1 January 2019	3,577	439,013	–	88,397	22,567,489
Proceeds of borrowings	–	–	–	–	8,111,516
Repayment of borrowings	–	–	–	–	(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	–	–	–	–
Proceeds during the year	–	1,200	96,618	–	–
Repayment during the year	–	(420,034)	(500)	–	–
As at 31 December 2019 and 1 January 2020	23,654	20,179	96,118	87,922	18,397,969
Proceeds from issuance of guaranteed bonds	**–**	**–**	**–**	**–**	**6,204,880**
Proceeds of borrowings	**–**	**–**	**–**	**–**	**8,367,901**
Repayment of borrowings	**–**	**–**	**–**	**–**	**(12,344,582)**
Interests paid	**–**	**–**	**–**	**–**	**(653,238)**
Principle element of lease liabilities paid	**(8,176)**	**–**	**–**	**–**	**–**
Interest element of lease liabilities paid	**(821)**	**–**	**–**	**–**	**–**
Foreign exchange adjustments	**52**	**(96)**	**(454)**	**(425)**	**(92,028)**
Financial costs incurred	**–**	**–**	**–**	**–**	**635,088**
Increase in lease liabilities from entering into new leases during the year	**18,117**	**–**	**–**	**–**	**–**
Interest on lease liabilities	**821**	**–**	**–**	**–**	**–**
Proceeds during the year	**–**	**950**	**508**	**–**	**–**
Repayment during the year	**–**	**(3,543)**	**(24,440)**	**–**	**–**
As at 31 December 2020	**33,647**	**17,490**	**71,732**	**87,497**	**20,515,990**

31 Operating lease arrangements

As lessor

For the year ended 31 December 2020, the Group leases its vessels under operating lease arrangements, which leases negotiated for terms of 1 to 15 years (2019: 1 to 15 years). None of the leases includes contingent rentals (2019: none).

At 31 December 2020, the Group had total future minimum lease receivables under non-cancellable operating leases with its leases falling due as follows:

	2020 **HK$'000**	2019 HK$'000
Within one year	**606,750**	780,253
In the second to fifth year inclusive	**2,835,880**	2,825,004
After five years	**4,632,328**	3,543,108
	8,074,958	7,148,365

32 Capital commitments

As at 31 December 2020, capital commitments outstanding contracted but not provided for are as follows:

	2020 **HK$'000**	2019 HK$'000
Contracted for:		
– Construction of vessels	**2,834,735**	4,289,405

In addition, as at 31 December 2020, the commitments contracted for construction of vessels, which were classified as finance lease arrangement was approximately HK$8,967,619,000 (2019: HK$7,361,019,000).

33 Provisions and Contingencies

The financial guarantees issued by the Group as at 31 December 2020 are analysed as below:

	2020 **HK$'000**	2019 HK$'000
Guarantees provided in respect of bank loans of:		
Bank guarantees to joint ventures	**1,940,100**	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.

34 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 18 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 2.10(i).

(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.

35 Dividends

	2020 HK$'000	2019 HK$'000
Dividend approved and paid:		
Interim dividend of HK3 cents (2019: HK3 cents) per ordinary share	**184,082**	184,082
Final dividend in respect of the year ended 31 December 2019 of HK5 cents per ordinary share	**306,803**	–
	490,885	184,082
Dividends proposed:		
Final dividend in respect of the year ended 31 December 2020 of HK6 cents (2019: HK5 cents) per ordinary share	**368,164**	306,803

At the board meeting held on 31 March 2021, the board has declared final dividend of HK6 cents (2019: HK5 cents) per share, and the final dividend is declared after reporting period, such dividend has not been recognised as liability as at 31 December 2020.

36 Impact of COVID-19

The COVID-19 pandemic has caused big impact on the domestic and overseas social and economic development. The Group has considered this factor when assessing the recoverability of receivables for the year ended 31 December 2020.

The Group will continue to 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 of report, 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.

37 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 2020	2019	Principal activities
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
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

37 Investments in subsidiaries *(Continued)*

Name	Country/place of Incorporation/establishment	Issued and fully paid share capital/ registered capital	Effective interest held at 31 December 2020	2019	Principal activities
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 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 Lianjiang Shipping S.A.	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 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
Fortune Ricardo Shipping Limited	Hong Kong	HK$1	**100%**	100%	Finance leasing
Fortune Qian Shipping Limited	Marshall Islands	US$100	**100%**	100%	Finance leasing

37 Investments in subsidiaries *(Continued)*

Name	Country/place of Incorporation/establishment	Issued and fully paid share capital/ registered capital	Effective interest held at 31 December 2020	2019	Principal activities
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 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
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

37 Investments in subsidiaries *(Continued)*

Name	Country/place of Incorporation/establishment	Issued and fully paid share capital/ registered capital	Effective interest held at 31 December 2020	2019	Principal activities
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
Fortune Guangzhou Shipping Limited	Marshall Islands	US$100	**100%**	N/A	Finance leasing
Fortune May Shipping Limited	Marshall Islands	US$100	**100%**	N/A	Finance leasing
Fortune July Shipping Limited	Marshall Islands	US$100	**100%**	N/A	Finance leasing
Fortune Pluto Holding Company Limited	BVI	US$100	**100%**	N/A	Finance leasing
Fortune Harbin Shipping Limited	Marshall Islands	US$100	**100%**	N/A	Finance leasing
Fortune Central Shipping Limited	Marshall Islands	US$100	**100%**	N/A	Operating leasing
Fortune CD Astraeus Shipping Limited	Hong Kong	HK$100	**100%**	N/A	Finance leasing
Fortune CD Prometheus Shipping Limited	Hong Kong	HK$100	**100%**	N/A	Finance leasing
Fortune Gentle Shipping Limited	Hong Kong	HK$100	**100%**	N/A	Operating leasing
Fortune CGAS Shipping I Limited	Hong Kong	HK$100	**100%**	N/A	Finance leasing
Fortune CGAS Shipping II Limited	Hong Kong	HK$100	**100%**	N/A	Finance leasing
Fortune CGAS Shipping III Limited	Hong Kong	HK$100	**100%**	N/A	Finance leasing
Fortune London Company Limited	Hong Kong	HK$100	**100%**	N/A	Finance leasing
Fortune Grit Shipping Limited	Hong Kong	HK$100	**100%**	N/A	Finance leasing

37 Investments in subsidiaries *(Continued)*

Name	Country/place of Incorporation/establishment	Issued and fully paid share capital/ registered capital	Effective interest held at 31 December 2020	2019	Principal activities
Fortune Shanghai Shipping Limited	Marshall Islands	US$100	100%	N/A	Finance leasing
CSSC Capital 2015 Limited	BVI	US$100	100%	N/A	Bond issuing
Epoch Shipping S.A.	Marshall Islands	US$100	100%	N/A	Operating leasing
Fortune Changchun Shipping Limited	Marshall Islands	US$100	100%	N/A	Operating leasing
Fortune Crete Shipping Limited	Marshall Islands	US$100	100%	N/A	Finance leasing
Fortune Great Shipping Limited	Hong Kong	HK$100	100%	N/A	Operating leasing
Fortune Grind Shipping Limited	Hong Kong	HK$100	100%	N/A	Finance leasing
Fortune Lantau Shipping Limited	Marshall Islands	US$100	100%	N/A	Operating leasing
Fortune Leopard Shipping Limited	Hong Kong	HK$100	100%	N/A	Finance leasing
Fortune Pingtan Shipping Limited	Hong Kong	HK$100	100%	N/A	Finance leasing
Fortune Power Shipping Limited	Hong Kong	HK$100	100%	N/A	Operating leasing
Fortune Shenyang Shipping Limited	Marshall Islands	US$100	100%	N/A	Operating leasing
Fortune Tsingyi Shipping Limited	Marshall Islands	US$100	100%	N/A	Operating leasing
Fortune Vbulker Shipping Pte Ltd	Singapore	US$50,000	100%	N/A	Finance leasing
Fortune VGAS Shipping I Pte Ltd	Singapore	US$100	100%	N/A	Finance leasing
Fortune VGAS Shipping II Pte Ltd	Singapore	US$100	100%	N/A	Finance leasing
Fortune VGAS Shipping III Pte Ltd	Singapore	US$100	100%	N/A	Finance leasing
Fortune VGAS Shipping IV Pte Ltd	Singapore	US$100	100%	N/A	Finance leasing
Fortune Wanchai Shipping Limited	Marshall Islands	US$100	100%	N/A	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.

\# These subsidiaries were registered in the PRC as a wholly foreign owned enterprise.

Δ These subsidiaries were registered in the PRC as a wholly domestic owned enterprise.

38 Statement of financial position and reserve movements of the Company

		2020 HK$'000	2019 HK$'000
ASSETS			
Property, plant and equipment		**1,267**	819
Right-of-use asset		**32,709**	22,983
Interests in subsidiaries		**835,489**	839,514
Loan receivables		**1,117,569**	653,528
Derivative financial assets		**10,306**	3,881
Prepayments, deposits and other receivables		**23,705**	256,191
Financial assets at fair value through profit or loss		**217,087**	39,459
Financial assets at fair value through other comprehensive income		**726,258**	777,224
Amounts due from subsidiaries		**20,064,298**	13,310,588
Amounts due from fellow subsidiaries		**–**	902
Amounts due from joint ventures		**–**	467
Cash and bank balances		**1,752,571**	1,563,278
Total assets		**24,781,259**	17,468,834
LIABILITIES			
Borrowings		**6,709,897**	7,522,044
Derivative financial liabilities		**263,958**	105,966
Amounts due to subsidiaries		**11,051,264**	3,373,560
Amounts due to fellow subsidiaries		**–**	76,799
Amounts due to a joint venture		**–**	96,118
Lease liabilities		**33,077**	22,959
Other payables and accruals		**88,671**	37,327
Total liabilities		**18,146,867**	11,234,773
Net assets		**6,634,392**	6,234,061
EQUITY			
Share capital		**6,614,466**	6,614,466
Reserves/(deficits)	Note a	**19,926**	(380,405)
Total equity		**6,634,392**	6,234,061

The statement of financial position of the Company was approved by the Board of Directors on 31 March 2021 and was signed on its behalf.

ZHONG JIAN
Director

HU KAI
Director

38 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 2020	**5,558**	**(67,055)**	**(4,296)**	**(210,253)**	**(104,359)**	**(380,405)**
Profit and total comprehensive income for the year	**18,866**	**67,055**	**–**	**151,270**	**654,025**	**891,216**
Dividends (Note 35)	**–**	**–**	**–**	**–**	**(490,885)**	**(490,885)**
At 31 December 2020	**24,424**	**–**	**(4,296)**	**(58,983)**	**58,781**	**19,926**
At 1 January 2019	(62,170)	–	(4,296)	(110,436)	373,795	196,893
Loss and total comprehensive expense for the year	67,728	(67,055)	–	(99,817)	(294,072)	(393,216)
Dividends (Note 35)	–	–	–	–	(184,082)	(184,082)
At 31 December 2019	5,558	(67,055)	(4,296)	(210,253)	(104,359)	(380,405)

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