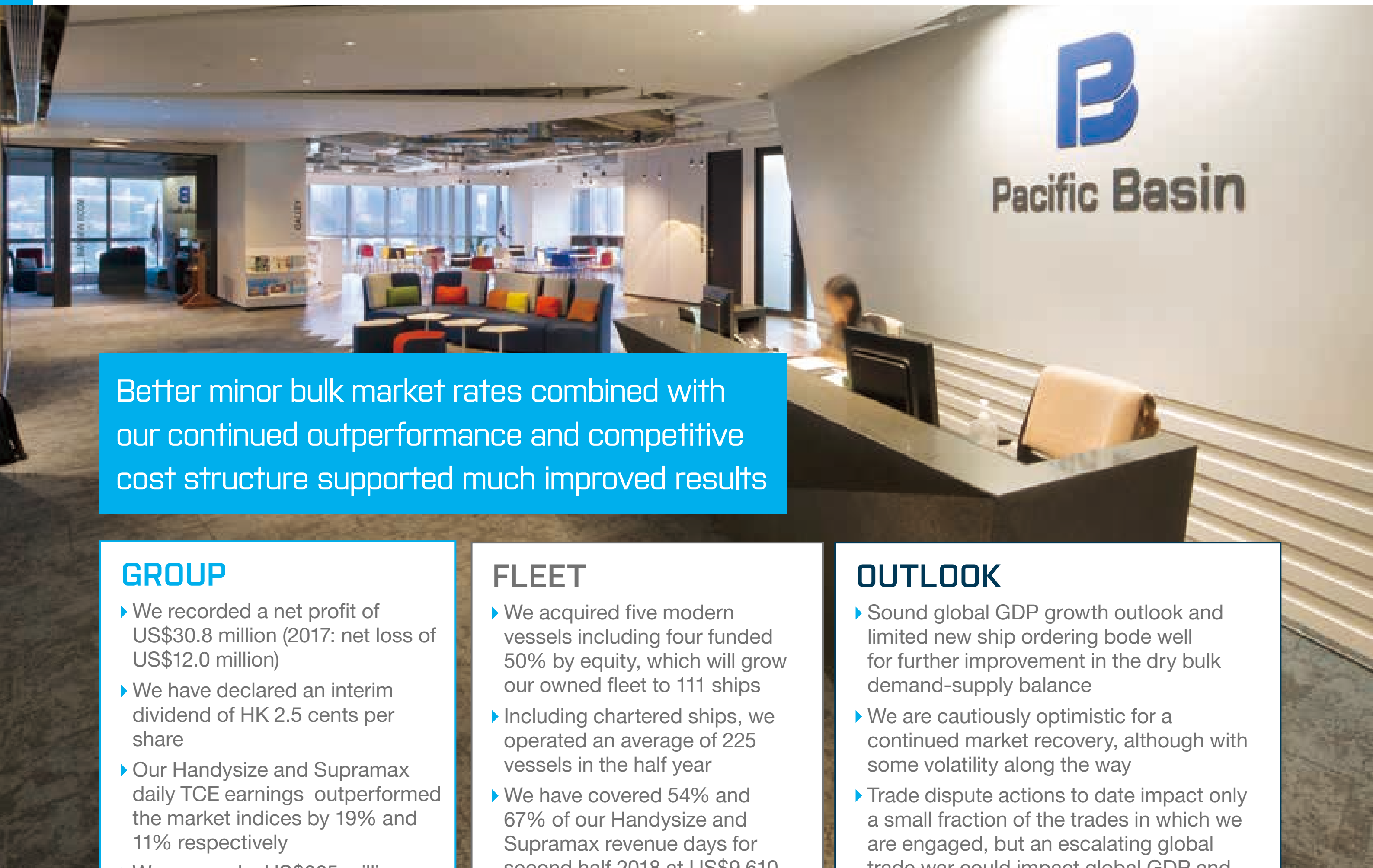
Pacific Basin

# Robust Business Model
# Versatile Fleet
# Passionate Team

## Interim Report 2018

Stock Code: 2343

# Business Highlights




Better minor bulk market rates combined with our continued outperformance and competitive cost structure supported much improved results

## GROUP

- We recorded a net profit of US$30.8 million (2017: net loss of US$12.0 million)
- We have declared an interim dividend of HK 2.5 cents per share
- Our Handysize and Supramax daily TCE earnings outperformed the market indices by 19% and 11% respectively
- We secured a US$325 million revolving credit facility that significantly extends our repayment profile and lowers our finance costs
- Our mid-year cash position was US$317 million with net gearing of 36% (net borrowings to net book value of our fleet)

## FLEET

- We acquired five modern vessels including four funded 50% by equity, which will grow our owned fleet to 111 ships
- Including chartered ships, we operated an average of 225 vessels in the half year
- We have covered 54% and 67% of our Handysize and Supramax revenue days for second half 2018 at US$9,610 and US$11,010 per day net respectively
- Our blended Handysize and Supramax vessel operating expenses averaged US$3,810 per day and we maintain a competitive cost structure overall

## OUTLOOK

- Sound global GDP growth outlook and limited new ship ordering bode well for further improvement in the dry bulk demand-supply balance
- We are cautiously optimistic for a continued market recovery, although with some volatility along the way
- Trade dispute actions to date impact only a small fraction of the trades in which we are engaged, but an escalating global trade war could impact global GDP and dry bulk demand
- We see upside in secondhand vessel values and continue to look at attractive secondhand ship acquisition opportunities
- Our robust business model, large owned fleet, healthy cash position and competitive cost structure position us well to benefit from the recovering market

## OUR FLEET

(as at 30 June 2018)

| | Vessels in operation | | | Total |
|---|---|---|---|---|
| | Owned | Long-term Chartered | Short-term Chartered[2] | |
| Handysize | 81 | 21 | 34 | 136 |
| Supramax | 26 | 8 | 52 | 86 |
| Post-Panamax | 1 | 1 | 0 | 2 |
| **Total** | **108[1]** | **30** | **86** | **224** |

[1] An additional 3 vessels we purchased during the period are scheduled to deliver into our fleet by January 2019

[2] Average number of short-term + index-linked vessels operated in June 2018

# Financial Summary

+US$35m
Underlying Profit
YoY

US$317m
Cash Position
as at 30 June 2018

HK2.5¢
Dividends

36%
Net Gearing

| | 30 June 2018 US$ Million | 30 June 2017 US$ Million | 31 December 2017 US$ Million |
|---|---|---|---|
| **Results** | | | |
| Revenue | **795.6** | 702.9 | 1,488.0 |
| Total Time-Charter Equivalent ("TCE") Earnings | **435.0** | 363.1 | 786.5 |
| EBITDA[1] | **99.3** | 56.6 | 133.8 |
| Underlying profit/(loss) KPI | **28.0** | (6.7) | 2.2 |
| Profit/(loss) attributable to shareholders | **30.8** | (12.0) | 3.6 |
| **Balance Sheet** | | | |
| Total assets | **2,357.9** | 2,203.6 | 2,231.6 |
| Net borrowings | **657.1** | 704.8 | 636.3 |
| Shareholders' equity | **1,195.1** | 1,029.6 | 1,161.1 |
| Total cash and deposits | **317.1** | 247.6 | 244.7 |
| **Cash Flows** | | | |
| Operating | **72.1** | 47.6 | 124.7 |
| Investing | **(58.9)** | (164.2) | (123.6) |
| Financing | **76.3** | 89.3 | 56.8 |
| Net increase/(decrease) in cash and cash equivalents excluding term deposits | **89.5** | (27.3) | 57.9 |
| **Per Share Data** | **HK cents** | HK cents | HK cents |
| Basic EPS | **5.5** | (2.4) | 0.7 |
| Dividends KPI | **2.5** | – | – |
| Operating cash flows | **12.9** | 9 | 23.8 |
| Company net book value | **208** | 198 | 204 |
| Share price at period end | **215** | 172 | 169 |
| Market capitalisation at period end | **HK$9.7bn** | HK$6.9bn | HK$7.5bn |
| **Ratios** | | | |
| Net profit margin | **4%** | (2%) | 1% |
| Return on average equity | **3%** | (1%) | 1% |
| Total shareholders' return | **27%** | 38% | 35% |
| Net borrowings to net book value of property, plant and equipment KPI | **36%** | 40% | 35% |
| Net borrowings to shareholders' equity | **55%** | 68% | 55% |
| Interest coverage KPI (excluding impairments) | **5.8X** | 3.3X | 3.7X |

1 EBITDA (earnings before interest, tax, depreciation and amortisation) is our gross profit less indirect general and administrative overheads, excluding: depreciation and amortisation; exchange differences; share-based compensation; net unrealised bunker swap contract income and expenses; net unrealised forward freight agreements income and expenses; utilised onerous contracts provisions; and Charter Hire Reduction adjustments.

## Contents



### Key to navigation symbols

linkage to related details within the Interim Report

linkage to related details on our website www.pacificbasin.com

KPI Key Performance Indicators

+/- In our tabulated figures, positive changes represent an improving result while negative changes represent a worsening result

A glossary covering many of the terms in this document is available on our website

# Chief Executive's Review

**Our robust customer-focused business model, global office network, experienced people, larger owned fleet and competitive cost structure position us well to benefit from the recovering market**

## Much Improved Financial Results

The minor bulk freight market strengthened again in the first half of 2018 which, combined with our high laden utilisation, continued outperformance and competitive cost structure, enabled us to record much improved positive results compared to the same period last year.

We made a net profit of US$30.8 million (2017: US$12.0 million net loss), an underlying profit of US$28.0 million (2017: US$6.7 million loss), and EBITDA of US$99.3 million (2017: US$56.6 million). Basic EPS was HK5.5 cents.

## Recommencing Dividend Payments

In view of the recovering market conditions and our return to a meaningful level of profitability, we are recommencing dividend payments. The Board has declared an interim dividend of HK2.5 cents per share, in line with the dividend policy of paying out at least 50% of net profits excluding disposal gains for the full year.

## Market Recovery Continues

The Handysize and Supramax freight market indices demonstrated continued year-on-year improvements to register the strongest first-half rates since 2014.

Significantly reduced newbuilding deliveries and only 1.6% net growth in the global dry bulk fleet helped to support a healthier demand-supply balance despite minimal scrapping of older vessels due to the improved freight rate environment.

Stronger minor bulk shipping demand in the Atlantic was driven most notably by growth in Brazilian and US agricultural bulk exports in the first and second quarters respectively, with Brazilian soybean exports reaching an all-time monthly high in May. US coal exports also grew strongly with April exports up more than 50% year on year and representing the highest monthly total in five years. Pacific demand benefited from increased trade in bauxite, nickel ore, copper concentrate and forestry products. Chinese imports of dry bulk commodities continued to be a key driver, especially thermal coal and the minor bulks in which we specialise which in the first half of 2018 are estimated to have increased around 8% year on year (excluding bauxite and nickel ore for which data is not yet available).

## Pacific Basin Continues to Outperform

Our average Handysize and Supramax daily TCE earnings of US$9,750 and US$11,730 per day net were up 23% and 32% year on year and outperformed the BHSI and BSI indices by 19% and 11% respectively.

Our TCE premium and operating margins are driven by our ability to draw on our experienced teams, global office network, strong cargo support and large fleet of high-quality interchangeable ships in a way that optimises ship and cargo combinations for maximum utilisation.

We continue to maintain good control of our vessel operating expenses which averaged US$3,810 per day during the period. This contributes to a competitive overall cost structure and vessel breakeven level on our owned fleet.

## Positive Growth Initiatives

In January 2018 we took delivery of the last of five vessels we acquired in a mainly equity-funded transaction announced in August 2017.

As announced in May 2018, we committed to purchase four more modern vessels for US$88.5 million to be 50% funded by equity. These partly equity-funded acquisitions enhance our operating cash flow, EBITDA and balance sheet strength, lower our P&L breakeven levels, and are expected to be accretive to our earnings per share.

In April we also acquired a secondhand vessel for cash.

Following the delivery of all these acquisitions, our owned fleet will grow to 111 ships.

## Strong Balance Sheet

In June we closed a US$325 million 7-year reducing revolving credit facility secured over 50 of our owned ships, refinancing several of our existing credit facilities and raising fresh capital on previously un-mortgaged vessels at a competitive interest cost of LIBOR plus 1.5%. Supported by a syndicate of eight leading international banks, the new facility significantly extends our overall amortisation profile, further enhances our funding flexibility and reduces our already competitive P&L breakeven levels.

As at 30 June 2018, we had cash and deposits of US$317 million and net borrowings of US$657 million, which is 36% of the net book value of our owned vessels at mid-year.

## Positive Market Outlook

The improvement in the market for minor bulk shipping in the first half of 2018 is encouraging. Supply side fundamentals look more positive with Clarksons Research estimating full-year net growth of 2.5% in global dry bulk capacity against 3.4% growth in dry bulk tonne-mile demand. Fundamentals are even more favourable for our Handysize and Supramax segments with minor bulk tonne-mile demand estimated to expand by 4% this year against combined Handysize and Supramax net capacity growth of about 2%. We are cautiously optimistic for a continued market recovery, although with some volatility along the way.

The trade conflict between the United States and several of its trading partners has escalated with the July roll out of fresh US tariffs on certain goods imported from China and retaliatory Chinese tariffs on imports from the US. Affected goods which could have an impact on cargo flows in our minor bulk segment include steel products and US agricultural products, primarily soybean.

Trade dispute actions to date impact only a small fraction of the trades in which Pacific Basin is engaged. Total US soybean exports to China in 2017 represented only about 0.6% of total dry bulk seaborne trade, and commodity trading patterns tend to shift rather than cease as a result of trade tariffs.

The conflict between the US and its key trading partners might get resolved but may also escalate. This uncertainty weakens sentiment which could undermine trade, and a global trade war could impact global GDP and dry bulk demand.

However, we continue to believe that any negative impact these protectionist actions have on the dry bulk trade will be largely outweighed by positive dry bulk supply fundamentals and continued global dry bulk trade growth overall.

## Environmental Regulations Impacting Vessel Investment Decisions

Pacific Basin continues to assess and plan for three major environmental regulations high on the industry agenda.

The Ballast Water Management Convention requires ballast water treatment systems (BWTS) to be fitted on ships during docking surveys between 2019 and 2024 to substantially eliminate organisms from transferring between marine ecosystems. Following a comprehensive assessment of BWTS options, we have committed to retrofit 50 of our owned vessels with a system based on filtration and electrocatalysis, and nine of our ships are now fitted with BWTS. We are negotiating BWTS systems for our remaining 50+ owned vessels and remain well positioned to complete implementation across our owned fleet by 2023, one year ahead of the IMO's mandatory schedule.

The global 0.5% sulphur cap takes effect on 1 January 2020. We continue to assess the two main methods of compliance – low-sulphur compliant fuel oil versus exhaust gas cleaning systems or "scrubbers" – and are preparing ourselves for this significant change. Some owners of larger vessels, including some Supramax owners, are planning to install scrubbers. However, we expect the majority of the global dry bulk fleet, especially smaller vessels such as Handysize ships, will comply by using more expensive low-sulphur fuel, which would also lead to lower operating speeds and thereby contribute to a more favourable supply-demand balance.

In April 2018, the IMO announced an ambitious strategy to cut total greenhouse gas emissions from shipping by at least 50% by 2050 (compared to 2008) and improve average $CO_2$ efficiency by at least 40% by 2030 and 70% by 2050. The easiest first step to decrease carbon emissions is by reducing speed, but we believe these new IMO targets will in due course lead to the accelerated development of new fuels, engine technology and vessel designs that are not offered or practical today.

We believe that, combined, these regulations will over time encourage scrapping of poor quality ships and be positive for the supply-demand balance and benefit larger, stronger companies with high quality fleets that are better positioned to adapt and to cope practically and financially with compliance and new technology.

## Well Positioned for a Recovering Market

The favourable outlook for widely-spread global GDP growth bodes well for dry bulk demand, and supply is expected to be kept in check by the continued gap between newbuilding and secondhand prices and the uncertain impact of new regulations on ship designs, both of which cause many shipowners in our segments to refrain from ordering new ships.

We see upside in secondhand vessel values and will continue to look at good quality secondhand ship acquisition opportunities as prices are still historically attractive, resulting in reasonable break-even levels and shorter payback times.

Our healthy cash and net gearing positions enhance our ability to take advantage of opportunities to grow our business and attract cargo as a strong partner. Our robust customer-focused business model, global office network, experienced people, larger owned fleet and competitive cost structure position us well to benefit from the recovering market.

We thank all our stakeholders for your continued support.

**Mats Berglund**

Chief Executive Officer

Hong Kong, 27 July 2018

## Dry Bulk Outlook Possible market drivers in the medium term

### Opportunities

- Strong industrial growth and infrastructure investment in China and beyond enhancing demand for dry bulk shipping
- Positive and widely spread growth outlook for all major economic areas
- Continued strong grain demand primarily for animal feed due to shift towards meat-based diet
- Environmental policy in China encouraging shift from domestic to imported supply of resources
- Environmental maritime regulations encouraging ship scrapping from current minimal levels and discouraging new ship ordering
- Low newbuilding deliveries in the medium term
- Periods of higher fuel oil prices encouraging slower ship operating speeds which decreases supply and emissions
- Expanding thermal coal imports into emerging south and south-east Asian countries

### Threats

- Reduction in Chinese industrial growth and investments impacting demand for dry bulk shipping
- Environmental policy in China encouraging greater shift to renewable energy, possibly impacting coal imports
- Trade tariffs between US and its major trading partners resulting in short-term reduction in trade volumes while importers seek alternate commodity sources
- Escalating trade disputes impacting global GDP growth, weakening sentiment and undermining dry bulk demand
- Excessive new ship ordering if the price gap between newbuilding and secondhand ships closes
- Periods of low fuel prices supporting faster ship operating speeds which increases supply and emissions

# Market Review

## Freight Market Summary

**US$8,200 net**

**+24%**

Handysize 1H18
average market spot rate

**US$10,560 net**

**+32%**

Supramax 1H18
average market spot rate

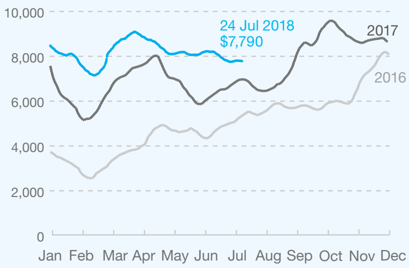
Handysize and Supramax spot market rates averaged US$8,200 and US$10,560 per day net respectively in the first half of 2018, representing 24% and 32% improvements in average earnings over the first half of 2017. This is the fourth consecutive half-yearly improvement in rates, reflecting a sustained recovery since the freight market bottomed in early 2016.

Significantly reduced newbuilding deliveries and only 1.6% net growth in the global dry bulk fleet in the first half helped to support the improved demand-supply balance and market rates.

The dry bulk freight market indices were characterised by a familiar pattern with a short seasonal decline at the start of the year, recovery after Chinese New Year with a stronger March and April followed by some summer weakness thereafter.

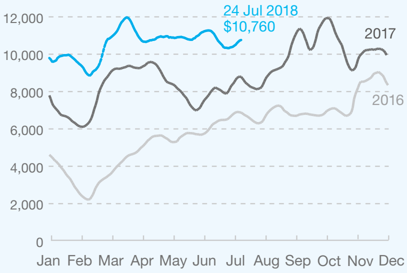
**Handysize Market Spot Rates in 2016–2018**

US$/day net*




**Supramax Market Spot Rates in 2016–2018**

US$/day net*




* excludes 5% commission
Source: Baltic Exchange (BHSI 28,000 dwt, BSI 58,000 dwt), data as at 24 July 2018

## Key Supply Developments

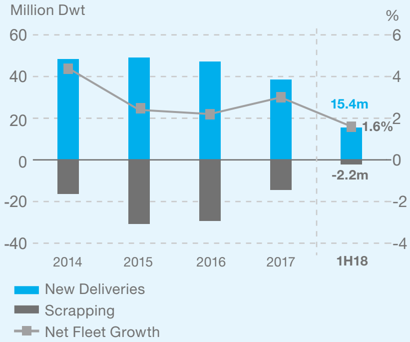
**+1.4%**

Global Handysize capacity 1H18

**+1.6%**

Overall dry bulk capacity 1H18

**Dry Bulk Supply Development**




Source: Clarksons Research, data as at 1 July 2018

**SUPPLY DRIVERS**

The global fleets of 25,000-41,999 dwt Handysize and 42,000-64,999 dwt Supramax ships grew 1.4% and 1.5% net respectively during the half year as reduced newbuilding deliveries outweighed much reduced scrapping. Overall dry bulk capacity expanded by 1.6% in the period.

The reduced pace of scrapping to 0.3% of existing dry bulk capacity and 0.2% of Handysize capacity was due to the markedly improved freight market conditions compared to a year before.

Newbuilding deliveries reduced to 1.9% of existing capacity, as expected due to the declining orderbook.

Yard deliveries are typically higher early in the year, so net fleet growth is likely to reduce in the second half. Current very low levels of scrapping cannot reduce much further and there is potential for increased scrapping due to onerous new environmental regulations.

**FREIGHT MARKET & OUTLOOK IMPACT SHIP VALUES**

## Ship Values

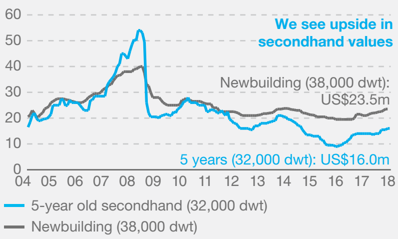
**US$16.0m**

**+14%**

Secondhand Handysize YTD

Improved freight market conditions have supported sale and purchase activity and increased vessel values. Clarksons Research currently values a benchmark five year old Handysize bulk carrier at US$16.0 million – up 14% since the start of 2018. Newbuilding prices have increased 7% since the beginning of the year to US$23.5 million.

**Handysize Vessel Values**




Source: Clarksons Research, data as at 20 July 2018

## Key Demand Developments

DEMAND DRIVERS

Clarksons Research estimate dry bulk shipping tonne-mile demand in the first quarter to have improved by 1.0% year on year (2.1% on an overall demand basis), slower than a year ago mainly due to reduced Brazilian iron ore exports. Data for the second quarter is not yet available but will likely show further improvement in the demand-supply balance compared to a year ago, and even stronger improvement in the minor bulk segment. For the full year, Clarksons Research estimate 3.4% growth in tonne-mile demand against 2.5% net growth in global dry bulk capacity.

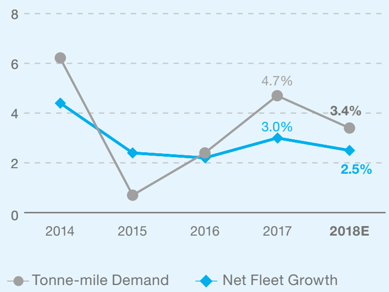
Key positive drivers through the first half included improved Brazilian and US grain exports, especially record soybean volumes from Brazil and corn from the United States in the second quarter. US coal exports also grew strongly to a five-year high in April.

Pacific demand benefited from increased trade in bauxite, nickel ore, copper concentrate, forestry products and other minor bulks in which we specialise. Warm weather in China contributed to increased electricity generation driving 9% year-on-year growth in coal imports in the first half. Chinese steel exports declined 14% due to strong domestic demand.

Trade disputes between the United States and its key trading partners appear so far to have had only limited impact on agricultural and steel trade volumes globally.

### Dry Bulk Demand & Supply

% YOY change




Source: Clarksons Research, data as at 1 July 2018

### 1H18 Import Volumes (examples)

| | | |
|---|---|---|
| China Coal | ↑ | 9% |
| China Minor Bulks* | ↑ | 8% |
| China Soybean | ↔ | 0% |

### 1H18 Export Volumes (examples)

| | | |
|---|---|---|
| US Coal | ↑ | 22% |
| US Agri (sales) | ↑ | 4% |
| Brazil Agri Products | ↑ | 3% |
| China Steel | ↓ | 14% |

* Excluding bauxite and nickel ore for which data is not yet available

Above are examples of only some relevant trades, as only limited trade data is currently available for the period.

Source: Bloomberg, Brazil Customs, Clarksons Research, data as at 1 July 2018

## Orderbook

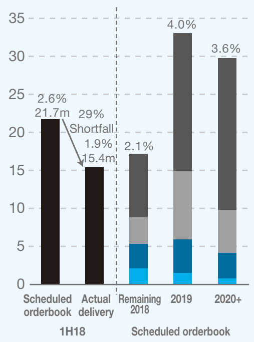
The gap between newbuilding and secondhand prices as well as uncertainty over future ship design requirements continued to discourage new ship ordering which in the first half represented 3% of the global dry bulk fleet (annualised) and only 1.3% of the combined Handysize and Supramax fleet. The dry bulk orderbook remains below 10%, and the combined orderbook for our Handysize and Supramax segments stands at 5.5% – the lowest since the 1990s.

Very limited ordering in our segments and a continued orderbook delivery shortfall should result in further reductions in new ship deliveries in the coming years. Scheduled deliveries for this year are smaller than last year, and we expect actual deliveries will be around 27 million deadweight tonnes compared to 38 million deadweight tonnes in 2017.

Source: Clarksons Research, data as at 1 July 2018

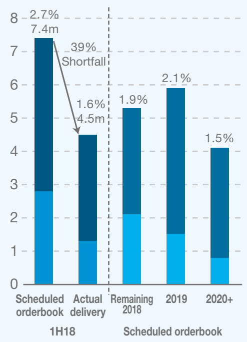
### Orderbook by Year

Million Dwt



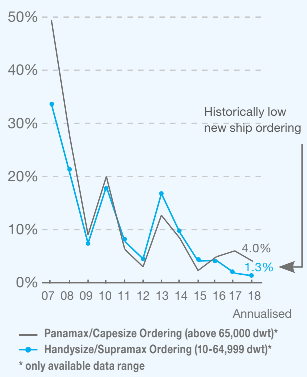

### Combined Orderbook: Handysize & Supramax

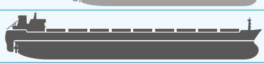
Million Dwt




### Dry Bulk New Ship Ordering

Total Ordering vs Existing Fleet
% of Fleet (Dwt)




| | | Orderbook as % of existing fleet | Average age | Over 20 years old | 1H18 scrapping as % of existing fleet (annualised) |
|---|---|---|---|---|---|
|  | Handysize (25,000–41,999 dwt) | 5.3% | 9 | 10% | 0.4% |
|  | Supramax (formerly Handymax) (42,000–64,999 dwt) | 5.6% | 9 | 7% | 0.3% |
|  | Panamax & Post-Panamax (65,000–119,999 dwt) | 8.3% | 9 | 6% | 0.1% |
|  | Capesize (incl. VLOC) (120,000+ dwt) | 14.7% | 8 | 6% | 0.9% |
| | Total Dry Bulk > 10,000 dwt | 9.7% | 9 | 7% | 0.5% |

# Our Performance

Our business generated a much improved underlying profit of US$28.0 million (2017: underlying loss US$6.7 million) in a better half-year for dry bulk shipping.

## Operating Performance

| US$ Million | Six months ended 30 June 2018 | 2017 | Change* |
|---|---|---|---|
| Handysize Contribution | 38.4 | 7.8 | >+100% |
| Supramax Contribution | 15.8 | 9.1 | +74% |
| Post-Panamax Contribution | 2.7 | 2.7 | – |
| Other Contribution | – | (0.6) | >+100% |
| Operating performance before overheads | 56.9 | 19.0 | >+100% |
| Overheads and tax | (28.9) | (25.7) | -12% |
| **Underlying profit/(loss)** | 28.0 | (6.7) | >+100% |
| Vessel net book value | 1,815.1 | 1,756.6 | +3% |

* In our tabulated figures, positive changes represent an improving result while negative changes represent a worsening result.

## Our Dry Bulk Cargo Volumes in 1H 2018

**Minerals**

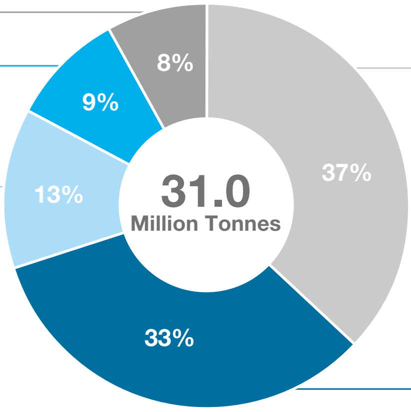
| | |
|---|---|
| Salt | 4% |
| Sand & Gypsum | 3% |
| Soda Ash | 1% |

**Energy**

| | |
|---|---|
| Petcoke | 5% |
| Coal | 3% |
| Wood Pellets | 1% |

**Metals**

| | |
|---|---|
| Ores | 6% |
| Concentrates | 4% |
| Alumina | 2% |
| Others | 1% |




**Agricultural Products and Related**

| | |
|---|---|
| Grains & Agriculture Products | 23% |
| Fertiliser | 10% |
| Sugar | 4% |

**Construction Materials**

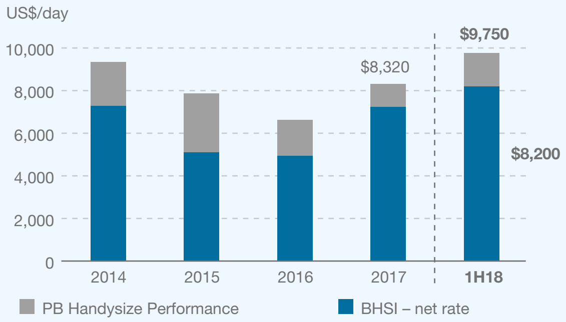
| | |
|---|---|
| Logs & Forest Products | 12% |
| Cement & Cement Clinkers | 11% |
| Steel & Scrap | 10% |

## Key Performance Indicators

### Performance vs Market

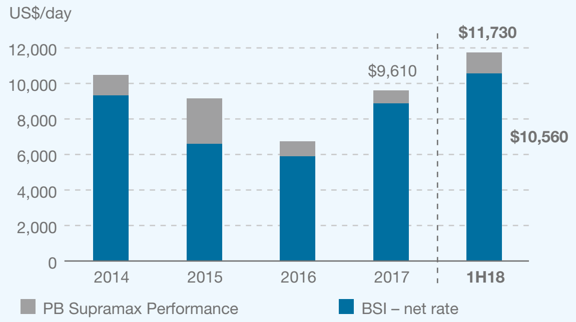
**Handysize**

19% 1H2018 outperformance compared to market




**Supramax**

11% 1H2018 outperformance compared to market

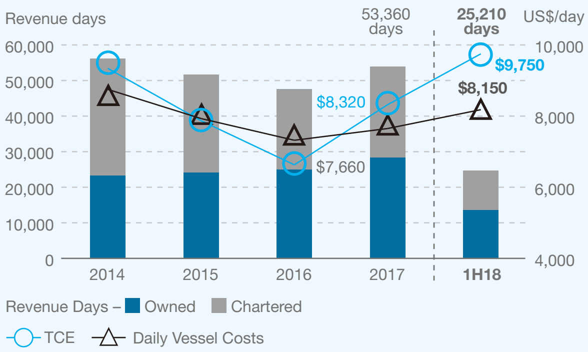



- Our outperformance in first half 2018 compared to spot market indices reflects the value of our fleet scale and cargo book, and our ability to optimise cargo combinations and match the right ships with the right cargoes to maximise our utilisation and vessel earnings.

## Profitability

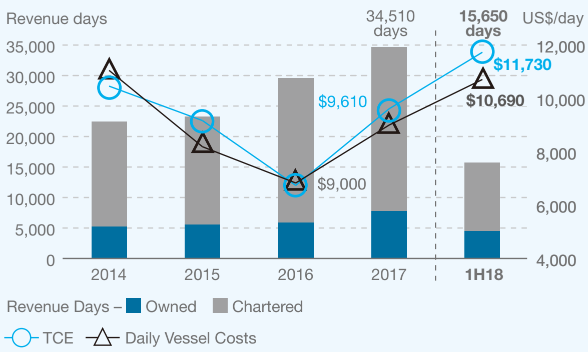
### Handysize

US$38.4m contribution




### Supramax

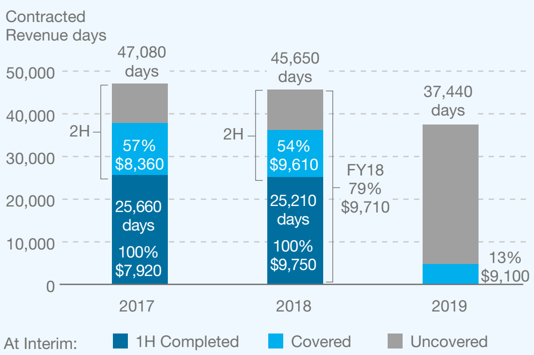
US$15.8m contribution



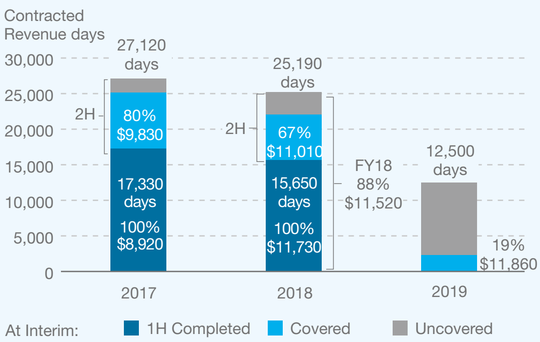

- We generated Handysize daily earnings of US$9,750 with daily costs of US$8,150 on 25,210 revenue days. We generated Supramax daily earnings of US$11,730 with daily costs of US$10,690 on 15,650 revenue days.
- Both our Handysize and Supramax contributions increased significantly year on year. This improvement is due to better markets, continued outperformance and strong cost control leading to increasing profits from our larger owned fleet, as freight rates are now above our competitive owned vessel break-even levels.
- We operated an average of 139 Handysize and 86 Supramax ships resulting in 2% and 10% reductions in our Handysize and Supramax revenue days. This reflects an increase in our owned fleet, offset primarily by reduced short-term chartered-in Supramax ships, mainly due to lower Chinese steel export volumes.

## Future Earnings and Cargo Cover

### Handysize




### Supramax




Currency: US$ per day

2017 data as announced in July 2017

- We have covered 54% and 67% of our 20,440 Handysize and 9,540 Supramax revenue days currently contracted for the second half of 2018 at US$9,610 and US$11,010 per day net respectively. (Cargo cover excludes revenue days related to inward-chartered vessels on variable, index-linked rates)
- While ship operators such as ourselves typically face significant exposure to the spot market, our contract cover provides a degree of earnings visibility.

# Daily Vessel Costs and Commitments

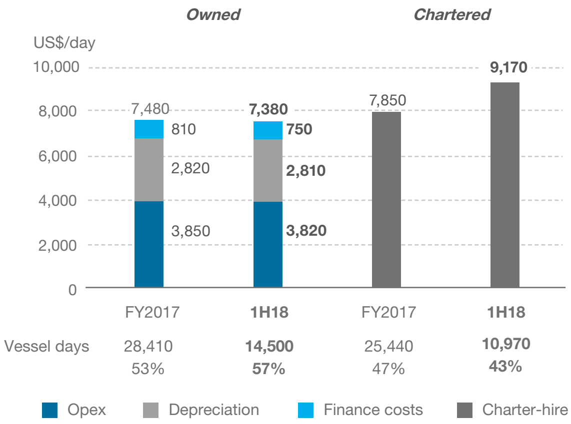
The cost of owning and operating dry bulk ships is the major component of our Group's total costs, and our ability to maintain good control of our "daily vessel costs" has a significant bearing on our operating margins and our financial performance overall. We provide below a short analysis of our daily vessel costs for a better understanding of their components and development.

## Vessels' Daily P/L Costs

### Handysize

**Blended US$8,150** (FY2017: US$7,660)

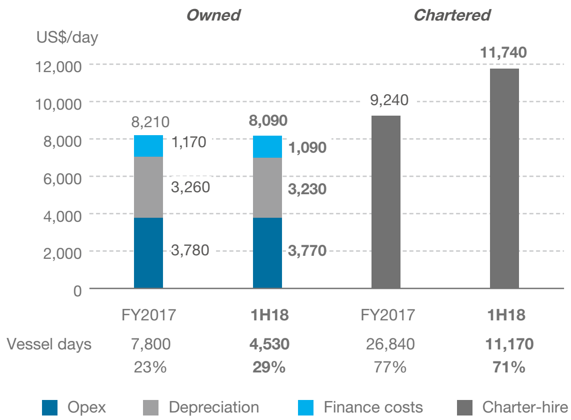
(excluding overheads)




### Supramax

**Blended US$10,690** (FY2017: US$9,000)

(excluding overheads)




**Operating expenses** – The daily operating expenses ("Opex") slightly reduced as a result of scale benefits and procurement cost efficiencies.

Our fleet of owned dry bulk vessels experienced on average 0.3 day (FY2017: 1.0 days) of unplanned technical off-hire per vessel.

**Depreciation** – Our depreciation costs (including capitalisation of dry-docking costs) were slightly reduced principally due to the addition of lower cost acquisitions.

**Finance costs** – Our owned vessels' daily P/L and cash finance costs were US$750 and US$690 respectively for Handysize and US$1,090 and US$1,010 respectively for Supramax. The difference between the P/L and cash finance costs reflects the difference between the effective interest and coupon rate of our convertible bonds.

**Charter-hire** – Our chartered vessels' daily P/L and cash charter-hire costs were US$9,170 and US$9,560 respectively for Handysize, and US$11,740 and US$11,820 respectively for Supramax. The difference between the P/L and cash charter-hire costs mainly reflects the write-back of onerous contract provisions previously made in relation to our 2018 charter commitments.

Chartered-in days represented 43% and 71% of our total Handysize and Supramax vessel days respectively. Their respective chartered-in days decreased 9% to 10,970 days (2017: 12,050 days) and 19% to 11,170 days (2017: 13,800 days).

During the period, we secured 510 Handysize vessel days (2017: 760 days) and 690 Supramax vessel days (2017: 300 days) via variable-rate, inward charters with rates linked to the Baltic Handysize and Supramax indices. These index-linked vessels represented 5% and 6% of our chartered Handysize and Supramax vessel days respectively.

**Daily cash cost** – Excluding non-cash elements of the above and overheads, our average blended owned and chartered daily cash cost was US$6,690 (2017: US$6,310) and US$9,790 (2017: US$7,850) for our Handysize fleet and Supramax fleet respectively.

**General and administrative ("G&A") overheads** – Our total G&A overheads amounted to US$28.4 million (2017: US$26.2 million). Spread across all our vessel days, these total G&A overheads translated into a daily cost of US$690 (2017: US$590) per ship, comprising US$900 per day for owned ships and US$510 per day for chartered-in ships. The year-on-year increase is due primarily to an increase in our staffing overheads combined with a smaller total fleet comprising fewer chartered-in ships partly offset by a larger owned fleet.

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Financial Statements Note 15
Profit/(loss) before taxation –
Analysis of our costs including direct and indirect general and administrative overheads

## Vessel Operating Lease Commitments

Vessel operating lease commitments stood at US$357.8 million (31 December 2017: US$396.5 million), comprising US$240.5 million for Handysize, US$98.7 million for Supramax and US$18.6 million for Post-Panamax.

Our Handysize operating lease committed days decreased 11% to 23,400 days (31 December 2017: 26,340 days) while our Supramax operating lease committed days decreased 8% to 7,870 days (31 December 2017: 8,590 days).

### Onerous Contract Provisions

The Group released onerous contract provisions of US$8.0 million to the income statement following the utilisation of the first half of 2018 elements of the charters. At 30 June 2018, there remains a provision of US$20.8 million for time charter contracts with costs higher than the expected earnings. Out of the remaining provisions, US$8.1 million will be released back to the income statement in the second half of 2018 when the respective charter payments are due.

Following the adoption of new accounting standard HKFRS 16 "Leases" on 1 January 2019, charter-in operating leases of longer than 12 months will be accounted for on balance sheet as right-of-use assets and lease liabilities. The right-of-use assets at 1 January 2019 will be adjusted by any remaining onerous contract provisions.

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Financial Statements Note 2
New accounting standard – HKFRS 16 "Leases"

Page 26
Financial Statements Note 12
Onerous Contract Provisions

### Charter Hire Reduction by Issuing New Shares

New shares were issued to 10 shipowners in 2016 in return for a reduction in charter-hire rates on 10 of our long-term chartered ships ("Charter Hire Reduction") over a 24-month period until the end of 2018. The income statement still reflects the original contracted charter costs, but the cash payments in the 24-month period are reduced by the value of the shares issued. The cash reduction amounted to US$2.8 million for the first half of 2018 and will be US$2.0 million for the second half of 2018.

### Commitments Excluding Index-linked Vessels

The adjacent table shows the average daily charter rates for our chartered-in Handysize and Supramax vessels during their remaining operating lease terms by year, as at 30 June 2018.

In the second half of 2018, the daily rates to be charged to the income statement after the write-back of onerous contract provisions and the Charter Hire Reduction will be US$9,000 and US$11,690 for Handysize and Supramax respectively. Upon the adoption of HKFRS 16 "Leases", no such write-back will be applicable from 2019 onwards.

| | Handysize | | Supramax | |
|---|---|---|---|---|
| Year | Vessel days | Average daily rate (US$) | Vessel days | Average daily rate (US$) |
| 2H18 | 4,980 | 9,990 | 3,080 | 12,060 |
| 2019 | 7,060 | 10,240 | 2,510 | 12,920 |
| 2020 | 4,020 | 10,470 | 1,560 | 13,030 |
| 2021 | 3,130 | 10,220 | 590 | 12,240 |
| 2022 | 2,180 | 9,960 | 130 | 12,500 |
| 2023+ | 2,030 | 11,160 | – | – |
| Total | 23,400 | | 7,870 | |
| Aggregate operating lease commitments | | US$240.5m | | US$98.7m |

### Commitments Including Index-linked Vessels

As at 30 June 2018, our fixed rate and variable rate index-linked lease commitments for the first half of 2018 (completed) and second half of 2018 and 2019 (contracted) can be analysed as follows:

| | 1H2018 | | **2H2018** | | **2019** | |
|---|---|---|---|---|---|---|
| **Handysize** | Vessel Days | Average daily P/L rate (US$) | **Vessel Days** | **Average daily P/L rate (US$)** | **Vessel Days** | **Average daily rate (US$)** |
| Long-term (>1 year) | 3,730 | 8,530 | **3,970** | **8,770** | **7,060** | **10,240** |
| Short-term | 6,730 | 9,570 | **1,010** | **9,920** | **–** | **–** |
| Index-linked | 510 | 8,390 | **10** | **Market rate** | **–** | **–** |
| Total | 10,970 | 9,170 | **4,990** | | **7,060** | |
| **Supramax** | | | | | | |
| Long-term (>1 year) | 1,430 | 11,670 | **1,360** | **11,610** | **2,360** | **13,050** |
| Short-term | 9,050 | 11,810 | **1,720** | **11,760** | **150** | **10,820** |
| Index-linked | 690 | 10,760 | **280** | **Market rate** | **50** | **Market rate** |
| Total | 11,170 | 11,740 | **3,360** | | **2,560** | |

Certain long-term chartered-in vessels may be extended for short-term periods at market rates, but remain categorised as long-term charters.

Index-linked vessel operating lease commitments refer to leases with market-linked variable charter rates. The variable charter rates are linked to the Baltic Handysize and Supramax indices (as applicable) and adjusted to reflect differences in the vessels' characteristics compared to Baltic indices reference vessels.

# Funding

## Cash Flow and Cash

The Group's four main sources of funds are operating cash flows, secured loans, convertible bonds and equity. The major factors influencing future cash balances are operating cash flows, the purchase of dry bulk vessels, sale of assets, and drawdown and repayment of borrowings.

As part of the ordinary activities of the Group, the Treasury function actively manages the cash and borrowings of the Group to ensure sufficient funds are available to meet our Group's commitments and an appropriate level of liquidity is maintained during different stages of the shipping cycle.

Over the long term, we aim to maintain a consolidated net gearing of no greater than 50% – defined as the ratio of net borrowings to net book value of property, plant and equipment – which we believe is appropriate over all stages of the shipping cycle.

### Current Position and Outlook

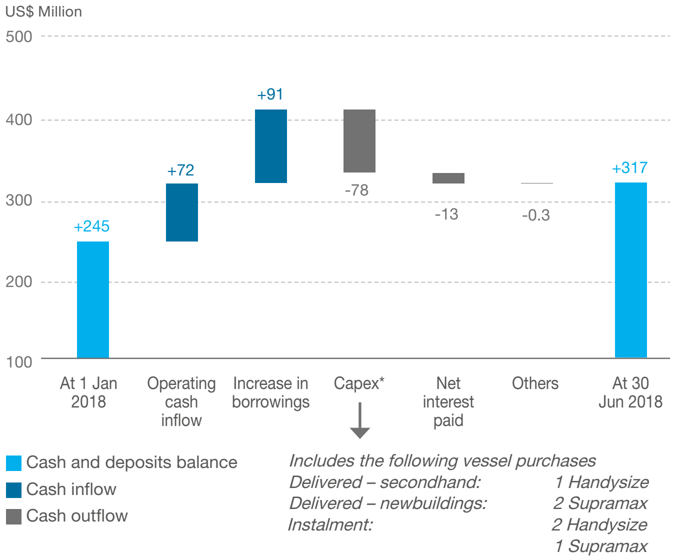
In the first half of 2018:

- Our operating cash inflow further improved to US$72 million, as compared with US$48 million in the first half of 2017 and US$125 million in the full year 2017 on the back of better dry bulk market conditions.
- In June 2018 we closed a new US$325 million syndicated 7-year reducing revolving credit facility secured against 41 previously mortgaged vessels and 9 unmortgaged vessels at an interest cost of LIBOR plus 1.5%. The facility refinanced 6 existing committed loan facilities and raised an additional US$136 million in available funding. Upon closing, the facility was fully drawn.
- Including the effects of the refinancing, our borrowings increased by US$91 million in the period after we drew down net US$145 million under our new committed loan facilities while making net repayments of US$54 million of secured borrowings and revolving facilities.
  - During the period we had capital expenditure of US$78 million, of which:
    - (a) we paid US$21 million cash for a resale Supramax newbuilding in January;
    - (b) we purchased a secondhand Handysize for a cash payment of US$12 million in April;
    - (c) we committed in May to purchase one secondhand Supramax, one secondhand Handysize, one resale Supramax newbuilding and one resale Handysize newbuilding for a total consideration of US$88 million which was funded by way of i) the issue of new shares to the ship sellers equivalent to US$44 million, and ii) a cash payment of US$44 million of which US$30 million was paid in first half of 2018 and the balance US$14 million is due to be paid in the second half of 2018; and
    - (d) we paid US$15 million for dry docking and other costs.

As at 30 June 2018:

- The Group's cash and deposits were US$317 million reflecting a 36% net gearing ratio.
- Our unmortgaged vessels comprise six dry bulk vessels (including the three vessels to be delivered in the second half of 2018 and early 2019) with an aggregate market value of approximately US$120 million.
- Our committed banking facilities were fully drawn.

### Sources and Uses of Group Cash in 1H 2018




* excluding Capex of US$8 million funded by equity

### Cash and Deposits

The split of current and long-term cash, deposits and borrowings is analysed as follows:

| US$ Million | 30 June 2018 | 31 December 2017 | Change |
|---|---|---|---|
| **Cash and deposits** | 317.1 | 244.7 | +30% |
| Current portion of long-term borrowings | (98.1) | (104.1) | |
| Non-current portion of long-term borrowings | (876.1) | (776.9) | |
| **Total borrowings** | (974.2) | (881.0) | -11% |
| Net borrowings | (657.1) | (636.3) | -3% |
| Net borrowings to shareholders' equity | 55% | 55% | |
| Net borrowings to net book value of property, plant and equipment KPI | 36% | 35% | |
| Net working capital | 234.2 | 136.8 | 71% |

Treasury is permitted to invest in a range of cash and investment products subject to limits specified in the Group Treasury Manual. These include overnight and term deposits, money market funds, liquidity funds, certificates of deposit and structured notes.

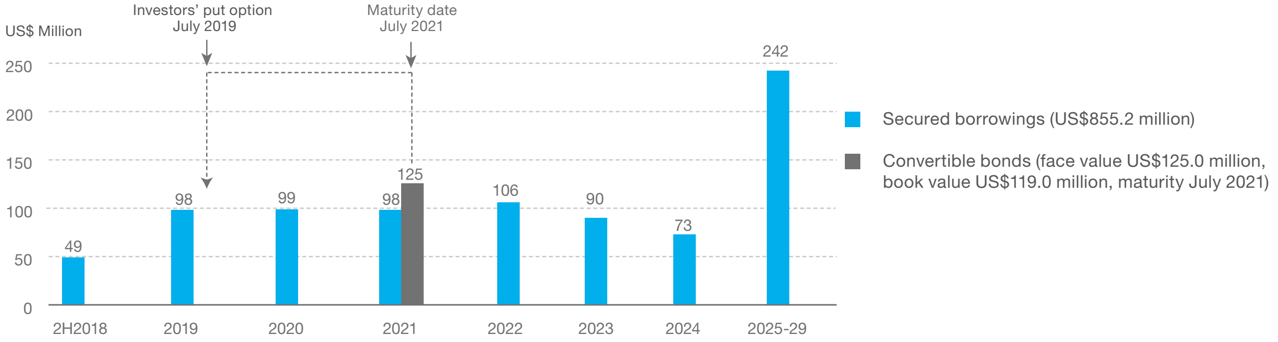
Treasury enhances Group income by investing in a mix of financial products, based on the perceived balance of risk, return and liquidity. Cash, deposits and investment products are placed with a range of leading banks, mainly in Hong Kong.

The Group's cash and deposits at 30 June 2018 comprised US$307.8 million in United States Dollars and US$9.3 million in other currencies. They are primarily placed in liquid deposits of three months or less and saving accounts. This maintains liquidity to meet the Group's vessel purchase commitments and working capital needs.

During the first half of 2018, Treasury achieved a 2.0% return on the Group's cash.

# Borrowings

## Schedule of Repayments of Borrowings




The Group's Treasury function arranges financing by leveraging the Group's balance sheet to optimise the availability of cash resources of the Group. The aggregate borrowings of the Group at 30 June 2018, which comprised secured borrowings and the liability component of convertible bonds, amounted to US$974.2 million (31 December 2017: US$881.0 million) and are denominated in United States Dollars.

### Secured Borrowings – US$855.2 million (31 December 2017: US$763.3 million)

The overall increase in secured borrowings is mainly due to the drawdowns under our committed loan facilities, partially offset by scheduled loan amortisation.

In the first half of 2018, we drew down all our remaining committed loan facilities.

The Group monitors the loans-to-asset value requirements on its bank borrowings. If the market values of the Group's mortgaged assets fall below the level prescribed by our lenders, the Group may pledge additional cash or offer other additional collateral unless the banks offer waivers for technical breaches.

As at 30 June 2018:

- The Group's secured borrowings were secured by 105 vessels with a total net book value of US$1,732.1 million and an assignment of earnings and insurances in respect of these vessels.
- Our unmortgaged vessels comprised six dry bulk vessels with an aggregate market value of approximately US$120 million.
- The Group was in compliance with all its loans-to-asset value requirements.

P/L impact:

A decrease in interest to US$13.4 million (1H 2017: US$13.9 million) was mainly due to a decrease in average secured borrowings to US$680.7 million (1H 2017: US$798.9 million).

Certain secured borrowings are subject to floating interest rates but the Group manages these exposures by using interest rate swap contracts.

### Convertible Bonds – Liability Component is US$119.0 million (31 December 2017: US$117.7 million)

As at 30 June 2018 and 31 December 2017, there remained the 3.25% p.a. coupon July 2021 convertible bonds with an outstanding principal of US$125.0 million and a prevailing conversion price of HK$3.07.

P/L impact:

The US$3.3 million (1H 2017: US$3.2 million) interest expense of the convertible bonds is calculated at an effective interest rate of 5.7% (1H 2017: 5.7%).

## Finance Costs

### Finance Costs by Nature

| US$ Million | Average interest rate P/L | Average interest rate Cash | Balance at 30 June 2018 | Finance costs 1H 2018 | Finance costs 1H 2017 | (Increase)/ decrease |
|---|---|---|---|---|---|---|
| Secured borrowings (including realised interest rate swap costs) | 3.9% | 3.9% | 855.2 | **13.4** | 13.9 | 3% |
| Convertible bonds (Note) | 5.7% | 3.3% | 119.0 | **3.3** | 3.2 | (2%) |
| | KPI 4.2% | KPI 3.8% | 974.2 | **16.7** | 17.1 | 2% |
| Other finance charges | | | | **0.5** | 0.3 | |
| Total finance costs | | | | **17.2** | 17.4 | 1% |
| Interest coverage (calculated as EBITDA divided by total gross finance costs) | | | | KPI **5.8x** | 3.3x | |

Note: The convertible bonds have a P/L cost of US$3.3 million and a cash cost of US$2.0 million.

The KPIs on which management focuses to assess the cost of borrowings are average interest rates for different types of borrowings and the Group's interest coverage (see table above).

The Group aims to achieve a balance between floating and fixed interest rates on its long-term borrowings. This is adjusted from time to time, depending on the interest rate cycle, using interest rate swap contracts where appropriate. In the first half of 2018, all our interest rate swap contracts qualified for hedge accounting as cash flow hedges and US$3,000 of interest rate swap contract income was realised. As at 30 June 2018, 56% (31 December 2017: 65%) of the Group's long-term borrowings were on fixed interest rates. As at 31 December 2018 and 2019, we expect about 65% of the Group's existing long-term borrowings will be on fixed interest rates.

## Delivered Vessels

As at 30 June 2018, the Group operated owned dry bulk vessels with a net book value of US$1,815.1 million as follows:

| | Number | Average size (dwt tonnes) | Average age (years) | Average net book value (US$ Million) | Total net book value (US$ Million) |
|---|---|---|---|---|---|
| Handysize | 81 | 32,600 | 10.3 | 14.9 | 1,203.0 |
| Supramax | 26 | 56,800 | 6.5 | 21.9 | 569.8 |
| Post-Panamax | 1 | 115,500 | 7.0 | 42.3 | 42.3 |

Latest estimated fair market values published by Clarksons Research are US$16.0 million and US$18.0 million for 5-year old 32,000 dwt Handysize and 56,000 dwt Supramax vessels respectively.

## Vessel Capital Commitments

As at 30 June 2018, the Group had vessel commitments of US$50.0 million. These vessels are scheduled to deliver to the Group by January 2019.

As at 30 June 2018, the Group had options to purchase 8 Handysize, 3 Supramax and 1 Post-Panamax vessels at predetermined times and prices during the period of their leases. These options are not expected to be exercised under current market conditions.

| US$ Million | Number | 2H18 | 2019 | Total |
|---|---|---|---|---|
| Contracted and authorised commitments | | | | |
| Handysize | 2 | 36.0 | – | 36.0 |
| Supramax | 1 | – | 14.0 | 14.0 |
| | 3 | 36.0 | 14.0 | 50.0 |

# Corporate Governance

Pacific Basin views high standards of corporate governance as central to ensuring responsible direction and management of the Group and to achieving sustainable value for our investors. In setting our standards, the Board considers the needs and requirements of the business, its stakeholders and the Corporate Governance Code (the "Code") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Throughout the six months ended 30 June 2018, the Group complied with all code provisions of the Code as set out in Appendix 14 of the Rules Governing the Listing of the Securities on the Stock Exchange (the "Listing Rules").

## Directors' Securities Transactions

The Board of Directors has adopted the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 of the Listing Rules (the "Model Code").

The Board confirms that, having made specific enquiry, the Directors have complied in full with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions during the six month ended 30 June 2018.

## Senior Managers' and Staff's Securities Transactions

The Company has adopted rules for those senior managers and staff who are more likely to be in possession of unpublished inside information of the Group based on the Model Code (the "Dealing Rules"). These senior managers and staff have been individually notified and provided with a copy of the Dealing Rules.

Having made specific enquiry, the Board confirms that all those senior managers and staff who had been notified and provided with the Dealing Rules have complied in full with the required standards set out in the Dealing Rules during the six months ended 30 June 2018.

## Purchase, Sale or Redemption of Securities

Other than for satisfying restricted awards granted under the Company's 2013 Share Award Scheme, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the share capital or convertible bonds of the Company during the period.

## Shareholders' Rights

Shareholders are encouraged to maintain direct communication with the Company and if they have any questions for the Board, they may send an e-mail to companysecretary@pacificbasin.com or a letter to:

*Company Secretary*
Pacific Basin Shipping Limited
31/F One Island South
2 Heung Yip Road
Wong Chuk Hang
Hong Kong

## Interim Report and Disclosure of Information on Stock Exchange's Website

The announcement of interim results containing all the information required by paragraphs 46(1) to 46(10) of Appendix 16 of the Listing Rules has been published on the Stock Exchange's website at www.hkexnews.hk and on the Company's website at www.pacificbasin.com.

This Interim Report is printed in English and Chinese languages, and will be available on our website on or around 16 August 2018 when it is sent to those shareholders who have elected to receive a printed copy.

The interim results and this Interim Report have been reviewed by the Audit Committee of the Company.

## Interim Dividend and Closure of Register Of Members

The Board has declared an interim dividend for the six months ended 30 June 2018 of HK 2.5 cents per share which will be paid on 22 August 2018 to those shareholders whose names appear on the Company's register of members on 13 August 2018.

The register of members will be closed on 13 August 2018 and no transfer of shares will be effected on this date. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 10 August 2018. The ex-dividend date for the interim dividend will be on 9 August 2018.

## Directors

As at the date of this report, the executive Directors of the Company are David Muir Turnbull and Mats Henrik Berglund, and the Independent Non-executive Directors of the Company are Patrick Blackwell Paul, Robert Charles Nicholson, Alasdair George Morrison, Daniel Rochfort Bradshaw, Irene Waage Basili and Stanley Hutter Ryan.

# Other Information

## Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Any Associated Corporation

At 30 June 2018, the discloseable interests and short positions of each Director and the Chief Executive in shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the SFO, which: (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or (b) were required to be entered in the register maintained by the Company under Section 352 of the SFO, or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

| Name of Director | Personal interest | Corporate or Family interests/ Trust & similar interests | Long/Short position | Total Share interests | Approximate percentage holding of issued share capital 30 Jun 18 | 31 Dec 17 |
|---|---|---|---|---|---|---|
| David M. Turnbull [1] | 9,317,000 | 2,524,918 [2] | Long | 11,841,918 | 0.26% | 0.24% |
| Mats H. Berglund [1] | 18,391,000 | 0 | Long | 18,391,000 | 0.41% | 0.35% |
| Patrick B. Paul | 380,000 | 0 | Long | 380,000 | less than 0.01% | less than 0.01% |
| Daniel R. Bradshaw | 0 | 772,834 [3] | Long | 772,834 | 0.02% | 0.02% |

*Notes:*

*(1) Restricted share awards were granted under the 2013 Share Award Scheme and have been disclosed below.*

*(2) 2,524,918 shares held are in the form of convertible bonds due 2021 at nominal value of US$1m held by a Trust named Bentley Trust (Malta) Limited.*

*(3) 772,823 shares are held by Cormorant Shipping Limited and Goldeneye Shipping Limited of which Mr. Bradshaw is the sole shareholder.*

All the interests stated above represent long positions. No short positions and shares under equity derivatives held by Directors were recorded in the register maintained by the Company under section 352 of the SFO as at 30 June 2018.

Save as disclosed, at no time during the period was the Company, its subsidiaries, or its associated companies a party to any arrangement to enable the Directors and Chief Executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

## 2013 Share Award Scheme ("SAS")

The current SAS was adopted by the Board on 28 February 2013 and has an effective term of 10 years. It is a single share award scheme under which no share options can be granted.

The SAS enables the Company to grant share awards or unit awards ("Awards") to eligible participants, being principally executive Directors and employees, as an incentive and recognition for their contribution to the Group.

Since the adoption of the SAS, the Board has not granted, and currently has no intention to grant, any Awards to Independent Non-executive Directors as they have the responsibility to administer the scheme in accordance with the rules of the SAS.

Details of the grant of long-term incentives and the movements of the outstanding incentives during the six months ended 30 June 2018 are as follows:

| | | | | | During the period | | | Vesting in | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| '000 shares/units | Date of first award | Total awarded | Vested to date | Unvested at 30 Jun 2018 | Unvested at 1 Jan 2018 | Granted | Vested[1] or lapsed | 2018[2] | 2019 | 2020 | 2021 |
| **Directors** | | | | | | | | | | | |
| David M. Turnbull | 5-Aug-08 | 8,704 | (3,199) | 5,505 | 4,325 | 1,180 | – | 1,242 | 1,493 | 1,590 | 1,180 |
| Mats H. Berglund | 1-Jun-12 | 18,391 | (5,768) | 12,623 | 9,855 | 2,768 | – | 2,830 | 3,402 | 3,623 | 2,768 |
| | | 27,095 | (8,967) | 18,128 | 14,180 | 3,948 | – | 4,072 | 4,895 | 5,213 | 3,948 |
| **Senior Management** | | | | | | | | | | | |
| Peter Schulz | 21-Aug-17 | 4,611 | – | 4,611 | 3,443 | 1,168 | – | 1,147 | 1,147 | 1,149 | 1,168 |
| **Other Employees** | | | | 75,780 | 56,383 | 22,982 | (3,585) | 15,722 | 21,239 | 20,959 | 17,860 |
| | | | | 98,519 | 74,006 | 28,098 | (3,585) | 20,941 | 27,281 | 27,321 | 22,976 |

*Notes:*

*(1) A total of 1,747,000 shares vested according to the vesting schedule in January 2018, 1,239,000 shares lapsed due to the resignation of two employees and 599,000 shares vested due to the redundancy of one employee.*

*(2) 20,941,000 shares vested on 14 July 2018 in accordance with the vesting schedule.*

## Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 June 2018, the Company had been notified of the following substantial shareholder's interests and short positions, being 5% or more of the Company's issued share capital.

| Name | Capacity/Nature of interest | Long/Short Position | Number of Shares | Approximate percentage of the issued share capital of the Company 30 Jun 18 | 31 Dec 17 |
|---|---|---|---|---|---|
| Aggregated of Standard Life Aberdeen plc affiliated investment management | Investment manager | Long | 431,223,000 | 9.60% | 12.95% |

# Financial Statements

## Group Performance Review

| US$ Million | Note | Six months ended 30 June 2018 | 2017 | Change* |
|---|---|---|---|---|
| Revenue | | **795.6** | 702.9 | +13% |
| Bunker, port disbursement & other voyage costs | | **(360.6)** | (339.8) | -6% |
| Time-charter equivalent ("TCE") earnings | 1 | **435.0** | 363.1 | +20% |
| Owned vessel costs | | | | |
| Operating expenses | 2 | **(72.5)** | (66.9) | -8% |
| Depreciation | 3 | **(56.3)** | (52.2) | -8% |
| Net finance costs | 4 | **(15.9)** | (15.7) | -1% |
| Charter costs | 5 | **(233.4)** | (209.3) | -12% |
| Operating performance before overheads | | **56.9** | 19.0 | >+100% |
| Total G&A overheads | 6 | **(28.4)** | (26.2) | -8% |
| Taxation | | **(0.5)** | 0.5 | >-100% |
| Underlying profit/(loss) | | **28.0** | (6.7) | >+100% |
| Unrealised derivative income/(expense) | 7 | **4.4** | (2.6) | |
| Write-off of loan arrangement fees | 8 | **(1.6)** | – | |
| Office relocation costs | | **–** | (1.4) | |
| Impairments and sales of towage vessels | | **–** | (1.3) | |
| Profit/(loss) attributable to shareholders | | **30.8** | (12.0) | >+100% |
| EBITDA | 9 | **99.3** | 56.6 | +75% |
| Net profit margin | | **4%** | (2%) | +6% |
| Return on average equity employed | | **3%** | (1%) | +4% |

* In our tabulated figures, positive changes represent an improving result and negative changes represent a worsening result.

EBITDA (earnings before interest, tax, depreciation and amortisation) is our gross profit less indirect general and administrative overheads, excluding: depreciation and amortisation; exchange differences; share-based compensation; net unrealised bunker swap contract income and expenses; net unrealised forward freight agreements income and expenses; utilised onerous contract provisions; and Charter Hire Reduction adjustments.

Notes

1. Total time-charter equivalent ("TCE") earnings increased by 20%, reflecting a continued market recovery.
2. Total operating expenses of our owned vessels increased by 6% as our owned fleet expanded, but our daily vessel costs reduced primarily through scale benefits and continued cost control.
3. Depreciation of our owned vessels increased by 8% as our owned fleet expanded, but with lower daily cost principally due to the addition of lower cost acquisitions.
4. Net finance costs were substantially unchanged.
5. Charter costs net of the write-back of onerous contract provisions increased by 12% due to the higher charter rates in stronger market conditions.
6. The increase in total G&A overheads was attributable primarily to an increase in staff-related costs as our owned fleet expanded.
7. An unrealised derivative income from bunker swap contracts was a result of increased oil and bunker prices.
8. Loan arrangement fees were written off upon termination of loans refinanced by a new revolving credit facility.
9. EBITDA increased substantially mainly due to the stronger freight market in the first half of 2018. Our cash and deposits at the period end stood at US$317.1 million (31 December 2017: US$244.7 million) with net gearing of 36% (31 December 2017: 35%).

# Unaudited Condensed Consolidated Balance Sheet

| | Note | 30 June 2018 US$'000 | 31 December 2017 US$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Property, plant and equipment | 5 | **1,820,480** | 1,797,587 |
| Goodwill | 5 | **25,256** | 25,256 |
| Financial assets at fair value through other comprehensive income | 6 | **361** | – |
| Available-for-sale financial assets | 6 | **–** | 569 |
| Derivative assets | 7 | **2,668** | 1,233 |
| Trade and other receivables | 8 | **10,550** | 5,254 |
| Restricted bank deposits | 9 | **58** | 58 |
| | | **1,859,373** | 1,829,957 |
| Current assets | | | |
| Inventories | | **87,734** | 71,774 |
| Derivative assets | 7 | **8,175** | 4,834 |
| Trade and other receivables | 8 | **85,557** | 80,275 |
| Cash and deposits | 9 | **317,021** | 244,636 |
| Tax receivable | | **–** | 116 |
| | | **498,487** | 401,635 |
| **Total assets** | | **2,357,860** | 2,231,592 |
| **EQUITY** | | | |
| Capital and reserves attributable to shareholders | | | |
| Share capital | 13 | **44,936** | 43,554 |
| Retained profits | | **177,244** | 154,387 |
| Other reserves | | **972,946** | 963,194 |
| **Total equity** | | **1,195,126** | 1,161,135 |
| **LIABILITIES** | | | |
| Non-current liabilities | | | |
| Derivative liabilities | 7 | **6,582** | 5,790 |
| Long-term borrowings | 11 | **876,105** | 776,876 |
| Provision for onerous contracts | 12 | **7,856** | 12,731 |
| Trade and other payables | 10 | **7,889** | 10,203 |
| | | **898,432** | 805,600 |
| Current liabilities | | | |
| Derivative liabilities | 7 | **441** | 772 |
| Trade and other payables | 10 | **152,628** | 143,878 |
| Current portion of long-term borrowings | 11 | **98,064** | 104,092 |
| Taxation payable | | **236** | – |
| Provision for onerous contracts | 12 | **12,933** | 16,115 |
| | | **264,302** | 264,857 |
| **Total liabilities** | | **1,162,734** | 1,070,457 |

# Unaudited Condensed Consolidated Income Statement

| | Note | Six months ended 30 June 2018 US$'000 | 2017 US$'000 |
|---|---|---|---|
| Revenue | 4 | **795,643** | 702,924 |
| Cost of services | | **(751,100)** | (703,448) |
| Gross profit/(loss) | | **44,543** | (524) |
| Indirect general and administrative overheads | | **(3,621)** | (3,690) |
| Other income and gains | | **8,072** | 10,196 |
| Other expenses | | **(1,747)** | (2,794) |
| Finance income | 14 | **1,218** | 1,645 |
| Finance cost | 14 | **(17,157)** | (17,361) |
| Profit/(loss) before taxation | 15 | **31,308** | (12,528) |
| Tax (charges)/credits | 16 | **(556)** | 562 |
| Profit/(loss) attributable to shareholders | | **30,752** | (11,966) |
| Earnings per share for profit/(loss) attributable to shareholders (in US cents) | 18 | | |
| Basic earnings per share | | **0.70** | (0.30) |
| Diluted earnings per share | | **0.69** | (0.30) |

# Unaudited Condensed Consolidated Statement of Comprehensive Income

| | Six months ended 30 June 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Profit/(loss) attributable to shareholders | **30,752** | (11,966) |
| **Other comprehensive income** | | |
| Items that may be reclassified to income statement | | |
| Cash flow hedges | | |
| – transferred to income statement | **3,057** | (6,850) |
| – fair value (losses)/gains | **(1,089)** | 6,654 |
| Currency translation differences | **(338)** | 459 |
| Item that may not be reclassified to income statement | | |
| Fair value losses on financial assets at fair value through other comprehensive income/available-for-sale financial assets | **(208)** | (436) |
| Total comprehensive income attributable to shareholders | **32,174** | (12,139) |

# Unaudited Condensed Consolidated Statement of Changes in Equity

| US$'000 | Share capital | Share premium | Merger reserve | Convertible bonds reserve | Staff benefits reserve | Hedging reserve | Investment valuation reserve | Exchange reserve | Contributed surplus | Retained profits | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital and reserves attributable to shareholders | | | | | | | | | | |
| **At 1 January 2018** | **43,554** | **224,567** | **(56,606)** | **13,772** | **(3,716)** | **5,854** | **(306)** | **(309)** | **779,938** | **154,387** | **1,161,135** |
| Change in accounting policy (Note 2(c)(i)) | **–** | **–** | **–** | **–** | **–** | **–** | **(1,619)** | **–** | **–** | **(7,165)** | **(8,784)** |
| **Restated total equity at 1 January 2018** | **43,554** | **224,567** | **(56,606)** | **13,772** | **(3,716)** | **5,854** | **(1,925)** | **(309)** | **779,938** | **147,222** | **1,152,351** |
| Total comprehensive income attributable to shareholders | **–** | **–** | **–** | **–** | **–** | **1,968** | **(208)** | **(338)** | **–** | **30,752** | **32,174** |
| Share issued as Vessel Consideration Shares, net of issuing expenses (Note 13(a)) | **302** | **7,524** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **7,826** |
| Share-based compensation | **–** | **–** | **–** | **–** | **2,885** | **–** | **–** | **–** | **–** | **–** | **2,885** |
| Shares purchased by trustee of the SAS (Note 13(b)) | **(110)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(110)** |
| Shares issued upon grant of restricted share awards (Note 13(b)) | **212** | **5,347** | **–** | **–** | **(5,559)** | **–** | **–** | **–** | **–** | **–** | **–** |
| Share awards granted (Note 13(b)) | **1,189** | **–** | **–** | **–** | **(459)** | **–** | **–** | **–** | **–** | **(730)** | **–** |
| Shares awards lapsed (Note 13(b)) | **(211)** | **–** | **–** | **–** | **211** | **–** | **–** | **–** | **–** | **–** | **–** |
| **At 30 June 2018** | **44,936** | **237,438** | **(56,606)** | **13,772** | **(6,638)** | **7,822** | **(2,133)** | **(647)** | **779,938** | **177,244** | **1,195,126** |
| **At 1 January 2017** | 40,046 | 139,887 | (56,606) | 13,772 | (2,368) | (22,295) | – | (2,386) | 779,938 | 150,783 | 1,040,771 |
| Total comprehensive income attributable to shareholders | – | – | – | – | – | (196) | (436) | 459 | – | (11,966) | (12,139) |
| Share-based compensation | – | – | – | – | 2,117 | – | – | – | – | – | 2,117 |
| Shares purchased by trustee of the SAS (Note 13(b)) | (1,233) | – | – | – | – | – | – | – | – | – | (1,233) |
| Shares issued upon grant of restricted share awards (Note 13(b)) | 231 | 5,014 | – | – | (5,245) | – | – | – | – | – | – |
| Share awards granted (Note 13(b)) | 1,716 | – | – | – | (591) | – | – | – | – | (1,125) | – |
| Shares awards lapsed (Note 13(b)) | (1,296) | – | – | – | 1,296 | – | – | – | – | – | – |
| Unclaimed dividends forfeited | – | – | – | – | – | – | – | – | – | 62 | 62 |
| **At 30 June 2017** | 39,464 | 144,901 | (56,606) | 13,772 | (4,791) | (22,491) | (436) | (1,927) | 779,938 | 137,754 | 1,029,578 |

# Unaudited Condensed Consolidated Cash Flow Statement

| | | Six months ended 30 June | |
|---|---|---|---|
| | Note | **2018 US$'000** | 2017 US$'000 |
| Operating activities | | | |
| Cash generated from operations | 19 | **72,334** | 47,782 |
| Overseas taxation paid | | **(204)** | (157) |
| Net cash generated from operating activities | | **72,130** | 47,625 |
| Investing activities | | | |
| Purchase of PP&E | | **(78,295)** | (167,578) |
| Disposal of PP&E | | **597** | 7,587 |
| Decrease/(increase) in term deposits | | **17,596** | (5,823) |
| Interest received | | **1,218** | 1,645 |
| Net cash used in investing activities | | **(58,884)** | (164,169) |
| Financing activities | | | |
| Drawdown of bank loans and other borrowings | | **421,441** | 157,311 |
| Repayment of bank loans and other borrowings | | **(330,172)** | (51,565) |
| Interest and other finance charges paid | | **(14,846)** | (15,229) |
| Payment for shares purchased by trustee of the SAS | 13(b) | **(110)** | (1,233) |
| Net cash generated from financing activities | | **76,313** | 89,284 |
| Net increase/(decrease) in cash and cash equivalents | | **89,559** | (27,260) |
| Exchange gains/(losses) on cash and cash equivalents | | **422** | (185) |
| Cash and cash equivalents at 1 January | | **227,040** | 168,679 |
| Cash and cash equivalents at 30 June | 9 | **317,021** | 141,234 |
| Term deposits at 1 January | 9 | **17,596** | 100,467 |
| (Decrease)/increase in term deposits | | **(17,596)** | 5,823 |
| Cash and deposits at 30 June | 9 | **317,021** | 247,524 |

# Notes to the Unaudited Condensed Consolidated Financial Statements

## 1 GENERAL INFORMATION

Pacific Basin Shipping Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the provision of dry bulk shipping services internationally.

The Company was incorporated in Bermuda on 10 March 2004 as an exempted company with limited liability under the Companies Act 1981 of Bermuda.

The Company is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These unaudited condensed consolidated interim financial statements have been approved for issue by the Board of Directors on 27 July 2018.

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Market Review

## 2 BASIS OF PREPARATION

### (a) Accounting standards

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS").

### (b) Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2017, except for the adoption of new standards as described below.

The following new standards are mandatory for the accounting period beginning after 1 January 2018 and are relevant to the Group's operation.

| | |
|---|---|
| HKFRS 9 | Financial instruments |
| HKFRS 15 | Revenue from contracts with customers |

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 2(c) below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Certain new and amended standards and improvements to HKFRS ("New Standards") have been issued but are not yet effective for the accounting period beginning on 1 January 2018. The new standard that is relevant to the Group's operation is as follows:

| | |
|---|---|
| HKFRS 16 | Leases |

The Group has commenced an assessment of the impact of these New Standards. Key changes are expected from HKFRS 16. According to HKFRS 16, charter-in operating leases of longer than 12 months will be accounted for on balance sheet as right-of-use assets and lease liabilities. Operating lease expenses in the income statement will be replaced by a combination of depreciation and interest expenses. Interest expenses will be calculated by reference to the interest rates implicit in the leases and will produce a constant periodic rate of interest on the remaining balance of the lease liabilities. The interest expenses will reduce over time in line with the principal reduction. Charter-in contracts of less than 12 months, representing over 50% of our existing charter-in fleet, will not be affected.

### (c) Changes in accounting policies

#### (i) Impact on the Group's financial statement

Following the adoption of new standards as disclosed in Note 2(b), the Group has elected to use a modified retrospective approach for transition. The reclassifications and the adjustments arising from the new standards are therefore not restated in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018. Please refer to Notes 2(c)(ii) and 2(c)(iii) for detailed explanations.

The table below shows the adjustments recognised in the opening balances of each individual financial statement line item. Line items that were not affected by the changes have not been included.

**Unaudited Condensed Consolidated Balance Sheet (extract)**

| US$'000 | 31 December 2017 (as previously reported) | HKFRS 15 (Note(c)(ii)) | HKFRS 9 (Note(c)(iii)) | 1 January 2018 (restated) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| FVOCI[1] | – | – | 569 | 569 |
| AFS[2] | 569 | – | (569) | – |
| **Current assets** | | | | |
| Trade and other receivables – current | 80,275 | (8,784) | – | 71,491 |
| **Equity** | | | | |
| Retained profits | 154,387 | (8,784) | 1,619 | 147,222 |
| Other reserves | 963,194 | – | (1,619) | 961,575 |

1 "FVOCI" stands for "financial assets at fair vlaue through other comprehensive income".

2 "AFS" stands for "available-for-sale financial assets".

### (ii) HKFRS 15 "Revenue from contracts with customers"

With the adoption of HKFRS 15, the Group's recognition basis of freight income from voyage charter has changed from "discharge to discharge" to "loading to discharge".

The Group has elected to use a modified retrospective approach for transition which allows the Group to recognise the cumulative effects as an adjustment to the opening balances of retained profits and trade and other receivables as at 1 January 2018 with the exemption to restate comparative figures as shown in Note2(c)(i).

The amount by which each financial statement line item is affected by the application of HKFRS 15 as compared to HKAS 18 (previously in effect) is as follows:

**Unaudited Condensed Consolidated Balance Sheet (extract)**

| | As at 30 June 2018 | | |
|---|---|---|---|
| US$'000 | Before adoption of HKFRS 15 | Effects of adopting HKFRS 15 | As reported |
| Trade and other receivables – current | 93,673 | (8,116) | 85,557 |
| Retained profits | 185,360 | (8,116) | 177,244 |

**Unaudited Condensed Consolidated Income Statement (extract)**

| | Six months ended 30 June 2018 | | |
|---|---|---|---|
| US$'000 | Before adoption of HKFRS 15 | Effects of adopting HKFRS 15 | As reported |
| Revenue | 794,974 | 669 | 795,643 |

The adoption of HKFRS 15 has no impact to the net cash flow from operating, investing and financing activities on the unaudited condensed consolidated cash flow statement.

### (iii) HKFRS 9 "Financial Instruments"

#### Financial assets at fair value through other comprehensive income ("FVOCI")

The Group has elected to present changes in the fair value of its listed equity securities (previously classified as available-for-sale financial assets ("AFS")) (Note 6) in other comprehensive income as they are neither held for trading nor contingent consideration in business combination under HKFRS 9.

Under this election, only qualifying dividends are recognised in profit and loss unless they clearly represent recovery of a part of the cost of the investment. Changes in fair value are recognised in other comprehensive income and never recycled to profit and loss, even if the asset is impaired, sold or otherwise derecognised.

As permitted under HKFRS 9, the Group has elected for exemption to restate its comparatives. As a result, the comparatives continue to be accounted as available-for-sale while its opening balances were reclassified to fair value through other comprehensive income with no adjustments on carrying amount on the date of initial adoption (i.e. 1 January 2018).

#### Trade and other receivables

The Group's impairment methodology and classification are aligned with the expected credit loss requirements of HKFRS 9. No adjustments are therefore required.

#### Derivatives and hedging activities

Forward foreign exchange contracts and interest rate swap contracts continued to qualify as cash flow hedges under HKFRS 9. The Group's risk management strategies and hedging documentation are aligned with the requirement of HKFRS 9. No adjustments are therefore required.

## 3 ESTIMATES

The preparation of unaudited condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

## 4 REVENUE AND SEGMENT INFORMATION

The Group's revenue is substantially derived from the provision of dry bulk shipping services internationally and, accordingly, information is not presented by business segment.

Geographical segment information is not presented as the management considers that the nature of our shipping services, which are carried out internationally, precludes a meaningful allocation of operating profits to specific geographical segments.

The Group's recognition basis of freight income from voyage charters has changed from "discharge to discharge" to "loading to discharge". Please refer to Note 2(c)(ii) for the changes in accounting policy.

## 5 PROPERTY, PLANT AND EQUIPMENT ("PP&E") AND GOODWILL

| | Property, plant and equipment | | Goodwill |
|---|---|---|---|
| US$'000 | **2018** | 2017 | **2018 & 2017** |
| **Net book amounts** | | | |
| At 1 January | **1,797,587** | 1,653,433 | **25,256** |
| Additions | **80,785** | 167,578 | **–** |
| Depreciation | **(57,251)** | (52,977) | **–** |
| Disposals | **(616)** | (5,249) | **–** |
| Exchange differences | **(25)** | 61 | **–** |
| **At 30 June** | **1,820,480** | 1,762,846 | **25,256** |

## 6 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI") AND AVAILABLE-FOR-SALE FINANCIAL ASSETS ("AFS")

| US$'000 | Fair value level | FVOCI<br>30 June 2018 | AFS<br>31 December 2017 |
|---|---|---|---|
| Listed equity securities (a) | Level 1 | **361** | 569 |

(a) Listed equity securities represent the Group's investment in Greka Drilling Limited, a company listed on the London AIM market.

The financial assets were reclassified from AFS to FVOCI following the adoption of HKFRS 9 on 1 January 2018. Please refer to Note 2(c)(iii) for the change in accounting policy.

The financial assets have been analysed by valuation method. Please see below for the definitions of different levels of fair value.

### Fair value levels

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: 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 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

## 7 DERIVATIVE ASSETS AND LIABILITIES

The Group is exposed to fluctuations in freight rates, bunker prices, interest rates and currency exchange rates. The Group manages these exposures using the derivatives summarised below together with their respective fair value levels.

| Derivatives | Fair value levels |
|---|---|
| Interest rate swap contracts | Level 2 |
| Forward foreign exchange contracts | Level 2 |
| Bunker swap contracts | Level 2 |
| Forward freight agreements | Level 1 |

| US$'000 | 30 June 2018<br>Assets | 30 June 2018<br>Liabilities | 31 December 2017<br>Assets | 31 December 2017<br>Liabilities |
|---|---|---|---|---|
| **Non-current portion** | | | | |
| Cash flow hedges | | | | |
| Interest rate swap contracts (a) | **1,646** | **–** | 432 | – |
| Forward foreign exchange contracts (b) | **90** | **(6,045)** | – | (4,706) |
| Derivative assets that do not qualify for hedge accounting | | | | |
| Bunker swap contracts (c) | **932** | **(537)** | 801 | (1,084) |
| **Non-current portion - total** | **2,668** | **(6,582)** | 1,233 | (5,790) |
| **Current portions** | | | | |
| Derivative liabilities that do not qualify for hedge accounting | | | | |
| Bunker swap contracts (c) | **8,175** | **(334)** | 4,834 | (748) |
| Forward freight agreements (d) | **–** | **(107)** | – | (24) |
| **Current portion - total** | **8,175** | **(441)** | 4,834 | (772) |
| **Total** | **10,843** | **(7,023)** | 6,067 | (6,562) |

### (a) Interest rate swap contracts

Certain secured borrowings are subject to floating rates, which can be volatile, but the Group manages these exposures by way of entering into interest rate swap contracts.

#### Interest rate swap contracts that qualify for hedge accounting as cash flow hedges

| Effective date | Notional amount | Swap details | Expiry |
|---|---|---|---|
| **For 2018** | | | |
| June 2018 | US$69 million on amortising basis | USD 3-month LIBOR swapped to a fixed rate of approximately 2.0% per annum | Contract expires in December 2020 |
| **For 2018 & 2017** | | | |
| December 2013 | US$48 million on amortising basis | USD 3-month LIBOR swapped to a fixed rate of approximately 2.1% per annum | Contract expires in December 2021 |
| February 2017 | US$9 million on amortising basis | USD 1-month LIBOR swapped to a fixed rate of approximately 1.8% per annum | Contract expires in January 2022 |
| **For 2017** | | | |
| January 2014 | US$130 million on amortising basis | USD 3-month LIBOR swapped to a fixed rate of approximately 1.9% per annum | Contract expires in November 2020 |

### (b) Forward foreign exchange contracts

The functional currency of most of the Group's operating companies is United States Dollar ("USD") as the majority of our transactions are denominated in this currency. Historically, a major part of our exchange rate fluctuations risk arose from the purchase of vessels denominated in non-USD currency. However, this risk has significantly reduced as most of our recent vessel purchases are denominated in USD.

#### Forward foreign exchange contracts that qualify for hedge accounting as cash flow hedges

At 30 June 2018, the outstanding forward foreign exchange contracts held by the Group mainly comprised contracts with banks to buy Danish Kroner ("DKK") of approximately DKK623 million (31 December 2017: DKK692.6 million) and simultaneously sell approximately US$111 million (31 December 2017: US$123.9 million), These foreign exchange contracts expire through August 2023. The Group has long-term bank borrowings denominated in DKK with maturity in August 2023. To hedge against the potential fluctuations in foreign exchange, the Group entered into these forward foreign exchange contracts with terms that match the repayment schedules of such long-term bank borrowings.

### (c) Bunker swap contracts

The Group enters into bunker swap contracts to manage the fluctuations in bunker prices in connection with the Group's cargo contract commitments.

#### Bunker swap contracts that do not qualify for hedge accounting

At 30 June 2018, the Group had outstanding bunker swap contracts to buy approximately 110,948 (31 December 2017: 130,702) metric tonnes of bunkers. These contracts expire through December 2021 (31 December 2017: December 2021).

### (d) Forward freight agreements

The Group enters into forward freight agreements as a method of managing its exposure to both its physical tonnage and cargo commitments with regard to its Handysize and Supramax vessels.

#### Forward freight agreements that do not qualify for hedge accounting

At 30 June 2018, the Group had outstanding forward freight agreements as follows:

| Contract Type | Index[1] | Quantity (days) | Contract daily price (US$) | Expiry through |
|---|---|---|---|---|
| **For 2018** | | | | |
| Sell | BHSI | 90 | 8,500 | December 2018 |
| **For 2017** | | | | |
| Sell | BHSI | 180 | 8,500 | December 2018 |

[1] "BHSI" stands for "Baltic Handysize Index".

## 7 DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

### (e) Analysis of derivative gain and loss

During the six months ended 30 June 2018, the Group recognised net derivative gains of US$9.2 million, as follows:

| | | | Six months ended 30 June | | |
|---|---|---|---|---|---|
| US$'000 | Realised | Unrealised | 2018 | 2017 | Presentation in the Financial Statements: |
| **Gains** | | | | | |
| Forward freight agreements | 7 | – | 7 | 19 | |
| Bunker swap contracts | 6,093 | 6,301 | 12,394 | 3,949 | |
| Interest rate swap contracts | 13 | – | 13 | 9 | |
| | 6,113 | 6,301 | 12,414 | 3,977 | |
| **Losses** | | | | | |
| Forward freight agreements | (21) | (83) | (104) | (6) | |
| Bunker swap contracts | (1,176) | (1,868) | (3,044) | (7,913) | |
| Interest rate swap contracts | (10) | – | (10) | (552) | |
| Forward foreign exchange contracts | (39) | – | (39) | – | |
| | (1,246) | (1,951) | (3,197) | (8,471) | |
| **Net** | | | | | |
| Forward freight agreements | (14) | (83) | (97) | 13 | *Other expenses* |
| Bunker swap contracts | 4,917 | 4,433 | 9,350 | (3,964) | *Cost of services* |
| Interest rate swap contracts | 3 | – | 3 | (543) | *Financial costs* |
| Forward foreign exchange contracts | (39) | – | (39) | – | *Cost of services* |
| | 4,867 | 4,350 | 9,217 | (4,494) | |

Realised:
- *Settlement of contracts completed in the period*

Unrealised:
- *Contracts to be settled in future periods*
- *Accounting reversal of earlier period contracts now completed*

## 8 TRADE AND OTHER RECEIVABLES

| US$'000 | 30 June 2018 | 31 December 2017 |
|---|---|---|
| **Non-current** | | |
| Prepayments | – | 54 |
| Deposit on vessel purchased | 10,550 | 5,200 |
| | 10,550 | 5,254 |
| **Current** | | |
| Trade receivables – gross | 37,964 | 47,038 |
| Less: provision for impairment | – | (2,368) |
| Trade receivables – net | 37,964 | 44,670 |
| Other receivables | 26,117 | 25,850 |
| Prepayments | 21,476 | 9,755 |
| | 85,557 | 80,275 |

The carrying values of trade and other receivables approximate their fair values due to their short-term maturities.

At 30 June 2018, the ageing of net trade receivables based on invoice date is as follows:

| US$'000 | 30 June 2018 | 31 December 2017 |
|---|---|---|
| ≤ 30 days | 26,050 | 34,188 |
| 31-60 days | 3,893 | 3,749 |
| 61-90 days | 6,001 | 742 |
| > 90 days | 2,020 | 5,991 |
| | 37,964 | 44,670 |

Trade receivables consist principally of voyage-related trade receivables. It is industry practice that 95% to 100% of freight is paid upon completion of loading, with any balance paid after completion of discharge and the finalisation of port disbursements, demurrage claims or other voyage-related charges. The Group will not normally grant any credit terms to its customers.

## 9 CASH AND DEPOSITS

| US$'000 | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Cash at bank and on hand | **33,091** | 25,522 |
| Bank deposits | **283,988** | 219,172 |
| Total cash and deposits | **317,079** | 244,694 |
| | | |
| Cash and cash equivalents | **317,021** | 227,040 |
| Term deposits | **–** | 17,596 |
| Cash and deposits | **317,021** | 244,636 |
| Restricted bank deposits included in non-current assets | **58** | 58 |
| Total cash and deposits | **317,079** | 244,694 |

Cash and deposits are mainly denominated in United States Dollars and the carrying values approximate their fair values due to the short-term maturities of these assets.

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Funding

## 10 TRADE AND OTHER PAYABLES

| US$'000 | 30 June 2018 | 31 December 2017 |
|---|---|---|
| **Non-current** | | |
| Receipts in advance | **7,889** | 10,203 |
| **Current** | | |
| Trade payables | **57,148** | 56,554 |
| Accruals and other payables | **60,019** | 52,271 |
| Receipts in advance | **35,461** | 35,053 |
| | **152,628** | 143,878 |

The carrying values of trade and other payables approximate their fair values due to their short-term maturities of these liabilities.

At 30 June 2018, the ageing of trade payables based on due date is as follows:

| US$'000 | 30 June 2018 | 31 December 2017 |
|---|---|---|
| ≤ 30 days | **53,220** | 50,729 |
| 31-60 days | **97** | 290 |
| 61-90 days | **222** | 221 |
| > 90 days | **3,609** | 5,314 |
| | **57,148** | 56,554 |

## 11 LONG-TERM BORROWINGS

| US$'000 | 30 June 2018 | 31 December 2017 |
|---|---|---|
| **Non-current** | | |
| Secured bank loans (a) | **720,017** | 619,177 |
| Other secured borrowings (b) | **37,160** | 39,989 |
| Unsecured convertible bonds (c) | **118,928** | 117,710 |
| | **876,105** | 776,876 |
| **Current** | | |
| Secured bank loans (a) | **92,421** | 98,529 |
| Other secured borrowings (b) | **5,643** | 5,563 |
| | **98,064** | 104,092 |
| Total long-term borrowings | **974,169** | 880,968 |

The fair value of long-term borrowings 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 and are within Level 2 of the fair value scale. Please refer to Note 6 (Fair value levels) for the definition of different levels.

### (a) Secured bank loans

The Group's bank loans as at 30 June 2018 were secured, inter alia, by the following:

- Mortgages over certain owned vessels with net book values of US$1,628,402,000 (31 December 2017: US$1,518,309,000); and
- Assignment of earnings and insurances compensation in respect of the vessels.

The secured bank loans are repayable as follows:

| US$'000 | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Within one year | **92,421** | 98,529 |
| In the second year | **92,421** | 97,798 |
| In the third to fifth year | **276,911** | 314,997 |
| After the fifth year | **350,685** | 206,382 |
| | **812,438** | 717,706 |

## 11 LONG-TERM BORROWINGS (CONTINUED)

### (b) Other secured borrowings

The Group's other secured borrowings as at 30 June 2018 were in respect of seven (31 December 2017: seven) owned vessels with net book values of US$103,744,000 (31 December 2017: US$107,441,000) which were sold and simultaneously leased back by the Group on a bareboat charter basis. Under the terms of the leases, the Group has options to purchase these vessels at pre-determined timings during the lease period and is obliged to purchase these vessels upon the expiry of the respective lease. Such borrowings are effectively secured as the rights to the leased vessels revert to the lessors in the event of default.

These other secured borrowings are repayable as follows:

| US$'000 | **30 June 2018** | 31 December 2017 |
|---|---|---|
| Within one year | **5,643** | 5,563 |
| In the second year | **5,819** | 5,726 |
| In the third to fifth year | **20,168** | 21,749 |
| After the fifth year | **11,173** | 12,514 |
| | **42,803** | 45,552 |

### (c) Unsecured convertible bonds

| | **30 June 2018** | | 31 December 2017 | |
|---|---|---|---|---|
| US$'000 | **Face value** | **Liability component** | Face value | Liability component |
| 3.25% coupon due 2021 | **125,000** | **118,928** | 125,000 | 117,710 |

The carrying value of convertible bonds approximate their fair values.

| Key items | 3.25% coupon due 2021 |
|---|---|
| Issue size | US$125.0 million |
| Issue date | 8 June 2015 |
| Maturity date | 3 July 2021 (approximately 6.1 years from issue) |
| Coupon – cash cost | 3.25% p.a. payable semi-annually in arrears on 3 January and 3 July |
| Effective interest rate | 5.70% charged to income statement |
| Redemption price | 100% |
| Conversion price converting bonds into shares (Note) | HK$3.07 (with effect from 30 May 2016) |
| Conversion at bondholders' options | Any time on or after 19 July 2015 |
| Bondholder put date for redemption at 100% of the principal amount | On 3 July 2019 (approximately 4.1 years from issue), each bondholder will have the right to require the Group to redeem all or some of the bonds. As this is an unconditional put option, accounting standards require the Group to treat the convertible bonds as falling due on the put date. |
| Issuer call date for redemption at 100% of the principal amount | After 3 July 2019, the Group may redeem the bonds in whole, provided that the closing price of the Company's shares is at least at a 30% premium to the conversion price then in effect for thirty consecutive trading days. |

Note: The conversion price was subject to an adjustment arising from any cash dividends paid by the Company according to a pre-determined adjustment factor. Such adjustment would have become effective on the first date on which the Shares were traded ex-dividend had a dividend been declared.

## 12 PROVISION FOR ONEROUS CONTRACTS

| US$'000 | **2018** | 2017 |
|---|---|---|
| **At 1 January** | **28,846** | 51,918 |
| Utilised during the period | **(8,057)** | (10,177) |
| **At 30 June** | **20,789** | 41,741 |
| **Analysis of provisions** | | |
| Current | **12,933** | 21,288 |
| Non-current | **7,856** | 20,453 |
| | **20,789** | 41,741 |

The provision for onerous contracts utilised during the period was credited to other income.

## 13 SHARE CAPITAL

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Number of shares** | **US$'000** | Number of shares | US$'000 |
| Authorised | **36,000,000,000** | **360,000** | 36,000,000,000 | 360,000 |
| Issued and fully paid | | | | |
| **At 1 January** | **4,436,939,102** | **43,554** | 4,014,512,275 | 40,046 |
| Share issued as Vessel Consideration Shares (a) | **30,227,127** | **302** | – | – |
| Shares issued upon grant of restricted share awards (b) | **21,150,000** | **212** | 23,115,000 | 231 |
| Shares granted to employees in the form of restricted share awards (b) | **6,948,000** | **1,189** | 8,164,000 | 1,716 |
| Shares transferred back to trustee upon lapse of restricted share awards (b) | **(1,239,000)** | **(211)** | (7,354,000) | (1,296) |
| Shares purchased by trustee of the SAS (b) | **(377,000)** | **(110)** | (5,213,000) | (1,233) |
| **At 30 June** | **4,493,648,229** | **44,936** | 4,033,224,275 | 39,464 |

The issued share capital of the Company as at 30 June 2018 was 4,493,648,229 shares (30 June 2017: 4,038,428,275 shares). The table above shows the issued share capital of the Company as at 30 June 2017 as 4,033,224,275 shares which excludes 5,204,000 shares held by the trustee in relation to restricted share awards amounting to US$92,000 and treated as a debit to share capital.

### (a) Shares issued as Vessel Consideration Shares

On 14 May 2018, the Group entered into contracts for the acquisition of four vessels at a total purchase consideration of US$88.5 million funded by a combination of: (i) the issue of 170,760,137 shares at an issue price of HK$2.036 per share (''Vessel Consideration Shares") amounting to US$44.3 million to the sellers; and (ii) cash of US$44.2 million. On 22 June 2018, 30,227,127 shares were issued upon delivery of the first vessel to the Group. The balance 140,533,010 shares are expected to be issued to the sellers by January 2019 upon delivery of the three vessels to the Group.

### (b) Restricted share awards

Restricted share awards under the Company's 2013 Share Award Scheme ("SAS") were granted to Executive Directors and certain employees. The SAS under HKFRS is regarded as a special purpose entity of the Company.

On the grant of the restricted share awards, the relevant number of shares is legally transferred or issued to the trustee who holds the shares for the benefit of the grantees. A grantee shall not be entitled to vote, to receive dividends (except where the Board grants dividend rights to the grantee at the Board's discretion) or to have any other rights of a shareholder in respect of the shares until vesting. If the shares lapse or are forfeited, they will be held by the trustee and can be utilised for future awards. Any dividends paid to the grantees in respect of those shares granted to them but prior to vesting are considered to be a cost of employment and charged directly to the income statement.

Movements of the number of unvested restricted share awards during the period are as follows:

| 000' shares | 2018 | 2017 |
|---|---|---|
| **At 1 January** | **74,006** | 67,256 |
| Granted | **28,098** | 31,279 |
| Lapsed | **(1,239)** | (7,354) |
| Vested | **(2,346)** | (1,386) |
| **At 30 June** | **98,519** | 89,795 |

The market prices of the restricted share awards on the grant date represented the fair values of those shares. The weighted average fair value of restricted share awards granted during the period was HK$1.67 (2017: HK$1.46).

## 13 SHARE CAPITAL (CONTINUED)

The sources of the shares granted and the related movements between share capital and share premium and staff benefit reserve are as follows:

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| Sources of shares granted | Number of granted shares awards | Related movement US$'000 | Number of granted shares awards | Related movement US$'000 |
| Shares issued | **21,150,000** | **5,559** | 23,115,000 | 5,245 |
| Shares purchased by the trustee of the SAS on the Stock Exchange funded by the Company | **377,000** | **110** | 5,213,000 | 1,233 |
| Shares transferred from the trustee | **6,571,000** | **1,079** | 2,951,000 | 483 |
| | **28,098,000** | **6,748** | 31,279,000 | 6,961 |

The grant dates and vesting dates of the unvested restricted share awards as at 30 June 2018 are as follows:

| | | Vesting date | | | |
|---|---|---|---|---|---|
| Date of grant | Number of unvested share awards | 14 July 2018 | 14 July 2019 | 14 July 2020 | 14 July 2021 |
| 17 April 2015 | 16,734,000 | 16,734,000 | – | – | – |
| 12 August 2016 | 23,328,000 | 1,868,000 | 21,460,000 | – | – |
| 27 January 2017 | 26,080,000 | 914,000 | 914,000 | 24,252,000 | – |
| 26 May 2017 | 836,000 | 278,000 | 278,000 | 280,000 | – |
| 21 August 2017 | 3,443,000 | 1,147,000 | 1,147,000 | 1,149,000 | – |
| 26 January 2018 | 28,098,000 | – | 3,482,000 | 1,640,000 | 22,976,000 |
| | 98,519,000 | 20,941,000 | 27,281,000 | 27,321,000 | 22,976,000 |

## 14 FINANCE INCOME AND FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| US$'000 | 2018 | 2017 |
| **Finance income** | | |
| Bank interest income | **(1,218)** | (1,645) |
| **Total finance income** | **(1,218)** | (1,645) |
| **Finance costs** | | |
| Interest on borrowings | | |
| Secured bank loans | **12,366** | 12,680 |
| Unsecured convertible bonds | **3,250** | 3,184 |
| Other secured borrowings | **1,083** | 1,027 |
| Net (gains)/losses on interest rate swap contracts | **(3)** | 543 |
| Other finance charges | **461** | 300 |
| | **17,157** | 17,734 |
| Less: amounts capitalised as PP&E | **–** | (373) |
| **Total finance costs** | **17,157** | 17,361 |
| **Finance costs, net** | **15,939** | 15,716 |

## 15 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is stated after charging/(crediting) the following:

| | Six months ended 30 June | |
|---|---|---|
| US$'000 | **2018** | 2017 |
| Operating lease expenses | | |
| – vessels | **241,333** | 219,525 |
| – land and buildings | **1,518** | 1,873 |
| Bunkers consumed | **191,190** | 162,958 |
| Port disbursement and other voyage costs | **174,352** | 174,511 |
| Employee benefit expenses including Directors' emoluments (a) | **71,301** | 65,298 |
| Depreciation | | |
| – owned vessels | **56,321** | 52,178 |
| – other PP&E | **930** | 799 |
| Gains on derivative instruments which do not qualify for hedge accounting | | |
| – bunker swap contracts | **(12,394)** | (3,949) |
| – forward freight agreements | **(7)** | (19) |
| Losses on derivative instruments which do not qualify for hedge accounting | | |
| – bunker swap contracts | **3,044** | 7,913 |
| – forward freight agreements | **104** | 6 |
| Utilisation of provision for onerous contracts | **(8,057)** | (10,177) |
| Lubricating oil consumed | **5,120** | 4,984 |
| Write-off of loan arrangement fees (b) | **1,623** | – |
| Losses on disposal of PP&E | **19** | 436 |
| Office relocation costs | **–** | 1,391 |
| Provision for impairment losses | | |
| – trade receivables | **–** | 894 |
| – assets held for sale | **–** | 830 |
| – other receivables | **–** | 112 |

(a) Employee benefit expenses comprise crew wages and other costs of US$48.5 million (2017: US$44.4 million), which are included in cost of services.

(b) Write-off of loan arrangement fees upon termination of loans refinanced by a new revolving credit facility is included in other expenses.

### Total general and administrative ("G&A") overheads

| | Six months ended 30 June | |
|---|---|---|
| US$'000 | **2018** | 2017 |
| Direct G&A overheads included in cost of services | **24,751** | 22,532 |
| Indirect G&A overheads | **3,621** | 3,690 |
| Total G&A overheads | **28,372** | 26,222 |

### Operating lease expenses

The total vessel operating lease expenses of US$241.3 million (2017: US$219.5 million) above include contingent lease payments amounting to US$11.8 million (2017: US$8.2 million). These relate to dry bulk vessels chartered-in on an index-linked basis.

## 16 TAXATION

Shipping income from international trade is either not subject to or exempt from taxation according to the tax regulations prevailing in the countries in which the Group operates. Income from non-shipping activities are subject to tax at prevailing rates in the countries in which these businesses operate.

The amount of taxation charged/(credited) to the consolidated income statement represents:

| | Six months ended 30 June | |
|---|---|---|
| US$'000 | **2018** | 2017 |
| Current taxation | | |
| Hong Kong profits tax, provided at the rate of 16.5% (2017:16.5%) | **274** | 202 |
| Overseas tax, provided at the rates of taxation prevailing in the countries | **171** | 142 |
| Adjustments in respect of prior year | **111** | (906) |
| Tax charges/(credits) | **556** | (562) |

## 17 DIVIDENDS

The Board has declared an interim dividend of HK 2.5 cents per share amounting to US$14,315,000 on 27 July 2018. This dividend is not reflected as a dividend payable in these condensed consolidated interim financial statements. For the full year, the Group remains committed to the existing dividend policy of paying out a minimum of 50% of profits excluding disposal gains.

No interim or final dividend was declared for the period ended 30 June 2017 and the year ended 31 December 2017 respectively.

## 18 EARNINGS PER SHARE ("EPS")

### (a) Basic earnings per share

Basic earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period, excluding the shares held by the trustee of the Company's SAS and unvested restricted shares (Note 13(b)).

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| Profit/(loss) attributable to shareholders | (US$'000) | **30,752** | (11,966) |
| Weighted average number of ordinary shares in issue | ('000) | **4,366,033** | 3,944,296 |
| Basic earnings per share | (US cents) | **0.70** | (0.30) |
| Equivalent to | (HK cents) | **5.52** | (2.36) |

### (b) Diluted earnings per share

Diluted earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period, excluding the shares held by the trustee of the Company's SAS but after adjusting for the number of potential dilutive ordinary shares from convertible bonds and unvested restricted shares where dilutive (Note 13(b)).

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| Profit/(loss) attributable to shareholders | (US$'000) | **30,752** | (11,966) |
| Weighted average number of ordinary shares in issue | ('000) | **4,366,033** | 3,944,296 |
| Adjustment for calculation of diluted EPS relating to unvested restricted shares | ('000) | **89,941** | – |
| Weighted average number of ordinary share for diluted EPS | ('000) | **4,455,974** | 3,944,296 |
| Diluted earnings per share | (US cents) | **0.69** | (0.30) |
| Equivalent to | (HK cents) | **5.41** | (2.36) |

Diluted earnings per share for the period ended 30 June 2017 was the same as the basic earnings per share since the potential ordinary shares from convertible bonds and unvested restricted shares had an anti-dilutive effect.

## 19 NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

### Reconciliation of profit/(loss) before taxation to cash generated from operations

| | Six months ended 30 June | |
|---|---|---|
| US$'000 | **2018** | 2017 |
| Profit/(loss) before taxation | **31,308** | (12,528) |
| **Adjusted for:** | | |
| **Assets and liabilities adjustments** | | |
| Depreciation and amortisation | **57,251** | 52,977 |
| Utilisation of provision for onerous contracts | **(8,057)** | (10,177) |
| Net unrealised (gain)/loss on derivative instruments not qualified as hedges, excluding interest rate swap contracts | **(4,350)** | 2,564 |
| Charter Hire Reduction | **2,751** | 3,059 |
| Write-off of loan arrangement fees | **1,623** | – |
| Losses on disposal of PP&E | **19** | 436 |
| Provision for impairment losses | | |
| – trade receivables | **–** | 894 |
| – assets held for sale | **–** | 830 |
| – other receivables | **–** | 112 |
| **Capital and funding adjustments** | | |
| Share-based compensation | **2,885** | 2,117 |
| **Results adjustments** | | |
| Finance costs, net | **15,939** | 15,716 |
| Net foreign exchange (gains)/losses | **(106)** | 104 |
| Profit before taxation before working capital changes | **99,263** | 56,104 |
| Increase in trade and other receivables | **(17,454)** | (10,249) |
| Increase in trade and other payables | **6,485** | 17,196 |
| Increase in inventories | **(15,960)** | (15,269) |
| Cash generated from operations | **72,334** | 47,782 |

## 20 COMMITMENTS

### (a) Capital commitments

| US$'000 | **30 June 2018** | 31 December 2017 |
|---|---|---|
| Contracted but not provided for – vessel acquisition contracts | **49,950** | 20,800 |

All capital commitments for the Group as at 30 June 2018 and 31 December 2017 fall due in one year or less.

### (b) Commitments under operating leases

#### (i) The Group as the lessee – payments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| US$'000 | **Vessels** | **Land and buildings** | **Total** |
|---|---|---|---|
| **At 30 June 2018** | | | |
| Within one year | **149,756** | **2,198** | **151,954** |
| In the second to fifth year | **191,309** | **7,101** | **198,410** |
| After the fifth year | **16,723** | **189** | **16,912** |
| | **357,788** | **9,488** | **367,276** |
| At 31 December 2017 | | | |
| Within one year | 135,808 | 2,420 | 138,228 |
| In the second to fifth year | 238,012 | 7,892 | 245,904 |
| After the fifth year | 22,643 | 470 | 23,113 |
| | 396,463 | 10,782 | 407,245 |

The Group's operating leases for vessels have terms ranging from less than 1 year to 10 years (31 December 2017: less than 1 year to 10 years). Certain of the leases have escalation clauses, renewal rights and purchase options.

## 20 COMMITMENTS (CONTINUED)

### (b) Commitments under operating leases (continued)

### (ii) The Group as the lessor – receipts

The Group had future aggregate minimum lease receipts under non-cancellable operating leases for vessels as follows:

| US$'000 | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Within one year | **43,668** | 32,294 |
| In the second to fifth year | **45,335** | 47,579 |
| After the fifth year | **20,701** | 23,130 |
| | **109,704** | 103,003 |

The Group's operating leases have terms ranging from less than 1 year to 15 years and they mainly represent the receipts from two Post-Panamax vessels amounting to US$81.1 million (31 December 2017: US$86.6 million).

## 21 SIGNIFICANT RELATED PARTY TRANSACTIONS

Significant related party transactions (that do not fall under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules) carried out in the normal course of the Group's business and on an arm's length basis, were as follows:

### Key management compensation (including Directors' emoluments)

| | Six months ended 30 June | |
|---|---|---|
| US$'000 | 2018 | 2017 |
| Directors' fees | **283** | 271 |
| Salaries and bonus | **1,254** | 1,525 |
| Share-based compensation (a) | **754** | 174 |
| Retirement benefit costs | **3** | 4 |
| | **2,294** | 1,974 |

(a) Share-based compensation in 2017 is net of a write-back due to the retirement of a Director.

## 22 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group has no contingent liabilities and contingent assets at 30 June 2018 and 31 December 2017.





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