Pacific Basin

Robust Business Model
Versatile Fleet
Dedicated Team

Interim Report 2019

Stock Code: 2343

Business Highlights

One-off negative demand factors led to markedly weaker dry bulk market conditions early in the year which adversely affected our results. Market rates have been firming, the outlook for our minor bulk segments is positive and we are well positioned for the future

GROUP

We booked an EBITDA of US$101.1 million and a net profit of

US$8.2 million

Our Handysize and Supramax TCE earnings outperformed market indices by

59% and 39%

We secured a revolving credit facility of

US$115 million

at a competitive cost of LIBOR+1.35%

Our mid-year cash position was

US$314 million

with net gearing of 37%

We are repaying our US$125 million convertible bonds

FLEET

We took delivery of four modern vessels (plus two more in July) and completed the sale of one older ship

We currently own 115 ships and, including chartered ships, we operated an average of 230 Handysize and Supramax ships overall in the period

We have covered 56% and 76% of our Handysize and Supramax vessel days for second half 2019 at US$9,050 and US$10,790 per day net respectively

Our blended Handysize and Supramax vessel operating expenses averaged US$3,990 per day and we maintain a competitive cost structure overall

OUTLOOK

Easing of export disruptions in Brazil, sound minor bulk demand growth and IMO 2020 effects on the global fleet bode well for the freight market in our sectors

We expect to see stronger freight market conditions in the remainder of 2019, although with continued volatility due to uncertainty about the trade war, slower economic growth than in recent years and the impact of African Swine Fever on soybean imports to China

We still see upside in secondhand vessel values and will continue to look opportunistically but cautiously at acquiring good quality secondhand ships

WHAT WE DO

Pacific Basin is one of the world's leading owners and operators of modern Handysize and Supramax dry bulk ships.

Our customers include over 500 industrial users, traders and producers of dry bulk commodities for whom we carry cargo worldwide under spot and multi-shipment cargo contracts.

OUR FLEET

(as at 30 June 2019)

	Vessels in operation			Total	Total Capacity (million DWT)	Average Age
	Owned[1]	Long-term Chartered[2]	Short-term Chartered[2]		Owned[1]	Owned[1]
Handysize	82	19	33	134	2.70	11.0
Supramax	30	6	74	110	1.71	7.5
Post-Panamax	1	1	0	2	0.12	8.0
Total	113	26	107	246	4.53	10.0

1 An additional 2 Supramax vessels delivered into our fleet in July 2019

2 Average number of chartered-in vessels operated in June 2019

Financial Summary

US$8.2m
Net Profit
US$22.5m YoY

US$101.1m
EBITDA [1, 2]

US$313.8m
Cash Position
as at 30 June 2019

37%
Net Gearing

	30 June 2019 US$ Million	30 June 2018 US$ Million	31 December 2018 US$ Million
Results			
Revenue	**767.1**	795.6	1,591.6
Total Time-Charter Equivalent ("TCE") Earnings	**406.6**	435.0	881.1
EBITDA [1]	**101.1** [2]	99.3	215.8
Underlying (loss)/profit KPI	**(0.6)**	28.0	72.0
Profit attributable to shareholders	**8.2**	30.8	72.3
Balance Sheet			
Total assets	**2,529.7**	2,357.9	2,366.2
Total cash and deposits	**313.8**	317.1	341.8
Net borrowings	**687.1**	657.1	619.3
Shareholders' equity	**1,237.5**	1,195.1	1,231.2
Capital commitments	**13.1**	50.0	70.2
Cash Flows			
Operating	**92.7** [2]	72.1	189.5
Investing	**(80.4)**	(58.9)	(116.8)
Financing	**(27.8)**	76.3	30.0
Net (decrease)/increase in cash and cash equivalents excluding term deposits	**(15.5)**	89.5	102.7
Per Share Data	**HK cents**	HK cents	HK cents
Basic EPS	**1.4**	5.5	12.9
Dividends KPI	**–**	2.5	6.2
Operating cash flows	**16.0**	12.9	33.8
Shareholders' equity	**208**	208	213
Share price at period end	**143**	215	149
Market capitalisation at period end	**HK$6.7bn**	HK$9.7bn	HK$6.8bn
Ratios			
Net profit margin	**1%**	4%	5%
Return on average equity	**1%**	3%	6%
Total shareholders' return	**(2%)**	27%	(10%)
Net borrowings to net book value of owned vessels KPI	**37%**	36%	34%
Net borrowings to shareholders' equity	**56%**	55%	50%
Interest coverage KPI	**4.5X** [2]	5.8X	6.0X

[1] EBITDA (earnings before interest, tax, depreciation and amortisation) is gross profit less indirect general and administrative overheads, excluding: depreciation and amortisation; exchange differences; share-based compensation; and, net unrealised derivative income and expenses.

[2] Following the adoption of the new accounting standard HKFRS 16 "Leases", all chartered-in operating leases with a term over 12 months have been recognised as right-of-use asset and lease liabilities on the balance sheet. As a result a significant portion of the charter-hire expenses have been replaced by depreciation and interest expenses which materially changes the presentation of key performance measures and ratios such as EBITDA, operating cash flow and interest coverage, as the Group has adopted HKFRS 16 "Leases" using the modified retrospective approach from 1 January 2019 without restating comparative figure.

EBITDA, operating cash flow and interest coverage for the period adjusted for adoption of HKFRS 16 "Leases" are US$78.9 million, US$72.2 million and 4.0X respectively, which are comparable to previous years disclosure.

Contents

BUSINESS REVIEW

FINANCIAL STATEMENTS

Key to navigation symbols

linkage to related details within the Interim Report

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

KPI High-level KPIs (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, high laden utilisation, global office network, experienced people, larger owned fleet and competitive cost structure position us well for the future

Financial Results

Our results for the first half of 2019 were supported by our robust customer-focused business model and competitive cost structure, but adversely affected by markedly weaker dry bulk freight market conditions. We made a net profit of US$8.2 million (2018: US$30.8 million), an underlying loss of US$0.6 million (2018: US$28.0 million profit), and EBITDA of US$101.1 million (2018: US$99.3 million), although EBITDA was positively affected by new lease accounting standards. Basic EPS was HK1.4 cents.

As our underlying result was at the break-even level, the Board has declared no interim dividend for the period, but will consider a dividend of 50% of net profit for the full year in line with our policy.

Market Recovering Following a Weak Start

2019 started weaker than the last two years with a more pronounced Chinese New Year dip, followed by a partial recovery. The US-China trade war and African Swine Fever impacted soybean imports to China, flooding in the Mississippi River impeded grain exports from the United States, and damage to mining infrastructure disrupted Brazilian iron ore exports while severe weather disrupted Australian iron ore exports.

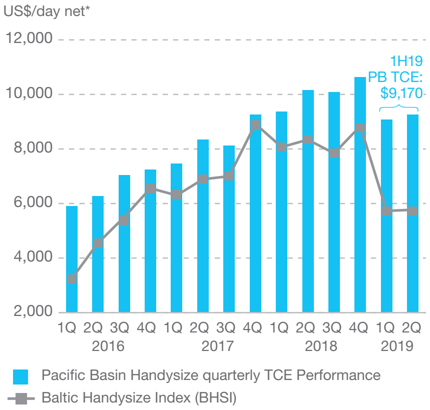
Global dry bulk capacity grew by 1.6% net during the half year which is similar to a year ago, but was undermined by faster growth in Panamax capacity and was still not small enough to offset demand side weakness.

On a positive note, some of the key negative demand disruptions are easing, demand for minor bulks continues at a healthy level and dry bulk activity is typically seasonally stronger in the second half of the year.

Pacific Basin Continues to Outperform

While our average Handysize and Supramax daily TCE earnings of US$9,170 and US$10,860 per day net were down 6% and 7% year on year, our outperformance over the BHSI and BSI indices increased to 59% and 39% respectively.

PB Handysize Performance



* excludes 5% commission
Source: Pacific Basin, Baltic Exchange

Our ship operating expenses ("Opex") of US$3,990 per day, general and administrative ("G&A") overheads of US$730 per day and favourable financing costs of US$820 per day are also very competitive by industry standards.

Our TCE premium and competitive costs are driven by our ability to draw on our experienced commercial and technical teams, global office network, strong cargo support and large fleet of high-quality interchangeable ships in ways that optimise ship and cargo combinations for maximum utilisation and by generating scale benefits and other efficiencies from good systems, optimisation and strict cost control.

Positive Growth Initiatives

In the first half of 2019, we took delivery of four modern secondhand vessels (one Handysize and three Supramax), three of which we committed to purchase in 2018, and we completed the sale of an older, small Handysize. Two further modern Supramax acquisitions delivered into our fleet in July, expanding our owned fleet to 115 ships. Including chartered ships, we operated an average of 230 Handysize and Supramax ships overall during the first half of the year.

Strong Balance Sheet

In May we closed a new US$115 million syndicated 7-year reducing revolving credit facility secured against 10 of our previously unmortgaged ships, raising fresh capital at a competitive interest cost of LIBOR plus 1.35%. The new facility further enhances our funding flexibility and reinforces our already competitive vessel break-even levels.

During the period, holders of our convertible bonds due in 2021 exercised their right to redeem US$122.2 million of the convertible bonds on 3 July 2019, and on the same date we exercised our option to redeem all the remaining bonds totalling US$2.8 million on 2 August 2019.

As at 30 June 2019, we had cash and deposits of US$314 million, providing sufficient liquidity to repay the US$125 million convertible bonds in full. We had net borrowings of US$687 million, which is 37% of the net book value of our owned vessels at mid-year.

DRY BULK OUTLOOK
Possible market drivers in the medium term

OPPORTUNITIES

- Continued strong industrial growth and infrastructure investment in China (boosted by economic stimulus) and other emerging markets, enhancing demand for minor bulk shipping
- Easing of US-China trade tensions resulting in improved sentiment and dry bulk trade activity
- Environmental policy in China encouraging shift from domestic to imported resources
- Limited newbuilding ordering and deliveries in our segments supporting tighter supply in the medium term
- Environmental maritime regulations encouraging increased ship scrapping from current minimal levels and discouraging new ship ordering
- Supply contraction due to scrubber installations ahead of IMO 2020 and slower operating speed of ships burning more expensive low-sulphur fuel
- Easing of recent export disruptions in Brazil and the United States, resulting in stronger exports of iron ore and grain

THREATS

- Slowing global economic growth, especially in China, affecting the trade in dry bulk commodities
- Environmental policy in China encouraging greater shift to renewable energy, possibly impacting coal imports
- Worsening 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
- African Swine Fever undermining Chinese demand for imported soybean

Environmental Regulations Impacting Vessel Investment Decisions

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

To comply with the Ballast Water Management Convention, 30 of our owned ships are now fitted with ballast water treatment systems (BWTS), and we have arranged to retrofit our remaining owned Handysize and Supramax vessels by the end of 2022.

The IMO 2020 global 0.5% sulphur limit takes effect on 1 January 2020, and we expect the majority of the global dry bulk fleet, especially smaller vessels such as our Handysize ships, will comply by using more expensive low-sulphur fuel. We are preparing thoroughly for this, including cleaning our fuel tanks, securing availability of good quality compliant fuel and training our crews to ensure compliance and seamless service delivery to our customers.

Some owners of larger vessels with higher fuel consumption, including some Supramaxes, are planning to comply by continuing to burn cheaper heavy fuel oil in combination with installing exhaust gas cleaning systems or “scrubbers”. We have chosen a balanced approach, with scrubbers successfully fitted and operational on ten of our Supramaxes so far, and we have arrangements in place with repair yards and scrubber makers to install scrubbers on a majority of our owned Supramax vessels. However, we are not fitting scrubbers on our larger fleet of 82 owned Handysize ships. Including chartered-in ships, we expect 85%-90% of our combined Handysize and Supramax fleet will comply by burning low-sulphur fuel. The future fuel price differential is uncertain, but having 10%-15% of our overall fleet scrubber fitted provides us some optionality in how we manage our fuel needs to comply with the new rules.

We are also carefully following the developments of IMO’s ambitious longer-term strategy to cut CO_2 and total greenhouse gas emissions from shipping.

We believe that these environmental regulations will discourage new ship ordering until new, lower-emissions ship designs become available. This will improve the supply-demand balance and benefit larger, stronger companies with high quality fleets that are better positioned to adapt and cope both practically and financially with compliance and new technology.

Market Outlook

The IMF expects the global economy to gradually strengthen in the second half of the year and into 2020, partly as a result of Chinese economic stimulus and continued loose monetary policy in the United States and Europe. As published in July, the IMF forecasts global economic growth of 3.2% in 2019 and 3.5% in 2020.

Uncertainty over new environmental regulations and the gap between newbuilding and secondhand prices continue to discourage new ship ordering, and the small Handysize orderbook continues to be a positive factor for the health of our segments in the medium term.

The dry bulk freight market is expected to benefit in the second half of 2019 and early 2020 from many larger ships being taken out of service for several weeks for scrubber installation. We believe the market for smaller dry bulk ships like ours will benefit also over the longer term, as they will consume more expensive low-sulphur fuel and therefore tend to operate at slower speeds which reduces supply.

Clarksons Research estimates combined Handysize and Supramax net fleet growth of around 2.3% for 2019 and 1.3% for 2020 despite limited scrapping, while minor bulk tonne-mile demand is expected to grow more than 4% in 2019 and 2020.

We expect to see seasonally stronger freight market conditions in the second half of 2019, although with continued volatility influenced by further uncertainty about the US-China trade war, slower economic growth than in recent years and the impact of African Swine Fever on soybean imports to China.

Key catalysts for improvement on the demand side are expected to include the onset of the Black Sea grain export season and a return to normal levels of grain traffic out of the Mississippi River and iron ore exports from Brazil. Market rates have been firming, especially in the Atlantic.

Well Positioned for the Future

We still see upside in secondhand vessel values and will continue to look opportunistically but cautiously at acquiring good quality secondhand ships where prices are attractive.

2019 is a year heavily influenced by preparations for new environmental regulations. At the same time, several one-off market disruptions caused a pause in market momentum during the first half of the year. We have chosen to position many of our owned ships for dry docking this year to install ballast water treatment systems on our Handysize and Supramax vessels and scrubbers on a majority of our Supramaxes to set us up for what we believe will be stronger years ahead. We think the market momentum will return and we are well positioned to benefit.

Thank you for your interest in Pacific Basin and your continued support of our business.

Market Review

Both demand and supply look better in our segments

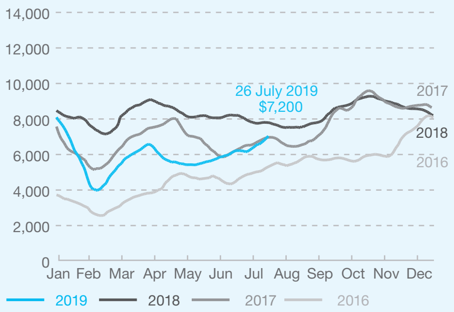
Freight Market Summary

US$5,750 net ⬇ 30%

Handysize 1H19
average market spot rate

Handysize Market Spot Rates in 2016–2019

US$/day net*



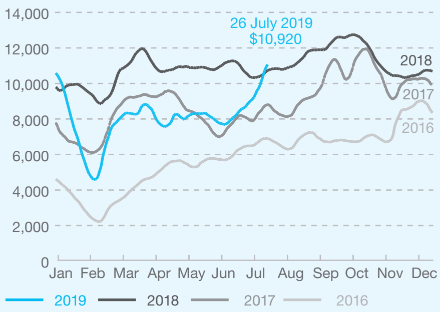
* excludes 5% commission
Source: Baltic Exchange (BHSI 28,000 dwt), data as at 26 July 2019

US$7,790 net ⬇ 26%

Supramax 1H19
average market spot rate

Supramax Market Spot Rates in 2016–2019

US$/day net*



* excludes 5% commission
Source: Baltic Exchange (BSI 58,000 dwt), data as at 26 July 2019

2019 started weaker than the last two years with a more pronounced Chinese New Year dip, followed by a partial recovery in dry bulk freight rates in the second quarter and stronger improvement in July.

Seasonal weakness was compounded by a number of demand-side factors which outweighed the benefit of slow growth in global dry bulk supply.

Handysize and Supramax spot market rates averaged US$5,750 and US$7,790 per day net respectively in the first half of 2019, representing 30% and 26% reductions in average earnings compared to the first half of last year. In contrast, our own TCE earnings for the period reduced only 6% and 7% respectively.

Minor Bulk Drives Demand

Clarksons Research estimates total dry bulk tonne-mile demand growth in the first quarter to have reduced to 0.6% year on year. Data for the second quarter is not yet available but will show improvement.

Demand weakness was mainly attributable to significantly disrupted iron ore and grain trades which directly affected larger bulk carriers but also impacted sentiment in the market for smaller vessel types.

Brazilian iron ore exports were disrupted by damage to mining infrastructure. The US-China trade war impacted soybean imports to China, as did African Swine Fever which significantly reduced Chinese pig stocks and in turn demand for soybean which is a key feed grain. Flooding in the Mississippi River impeded grain exports from the United States. On a positive note, coal imports into China grew 6% year on year despite shrinking in the first quarter.

Demand for minor bulk commodities remains strong, benefitting from growth particularly in Chinese imports of bauxite, nickel and manganese ores.

The second half of the year is typically stronger than the first and, for full years 2019 and 2020, Clarksons Research estimates 1.3% and 3.1% growth in dry bulk tonne-mile demand respectively. Minor bulk tonne-mile demand is expected to grow at a stronger 4.5% in 2019 and 4.8% in 2020.

DEMAND DRIVERS

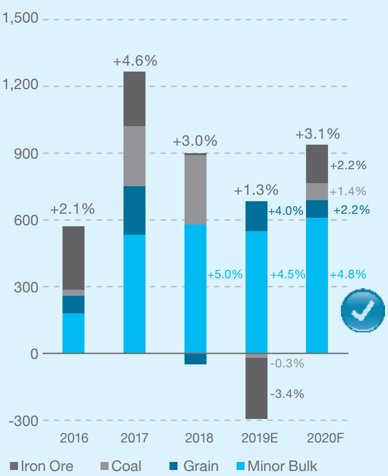
1H19 Chinese Import Volumes

Iron Ore	⬇	6%
Coal	⬆	6%
Grain	⬇	19%
Minor Bulks*	⬆	18%

* Chinese imports of 6 minor bulks including logs, fertiliser, bauxite, nickel, copper concentrates & manganese ore
Source: Bloomberg, data as at June 2019

Annual Change in Global Dry Bulk Tonne-mile Demand

Annual change in Billion Tonne-miles

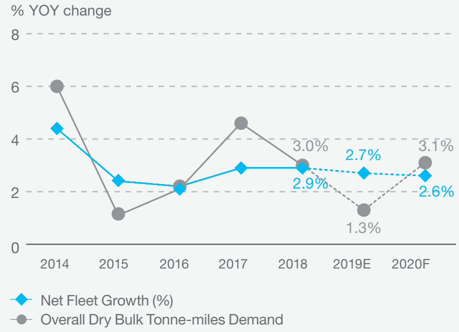


Source: Clarksons Research, data as at June 2019

Significantly Better Demand and Supply Balance in Our Segments

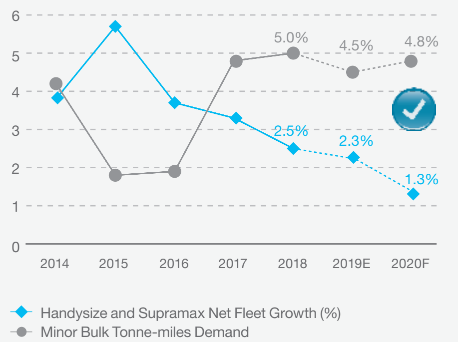
Dry Bulk Demand & Supply

% YOY change



Minor Bulk Demand and Handysize/Supramax Supply

% YOY change



Source: Clarksons Research, supply data as at July 2019

Net Fleet Growth is Reducing for Smaller Vessels

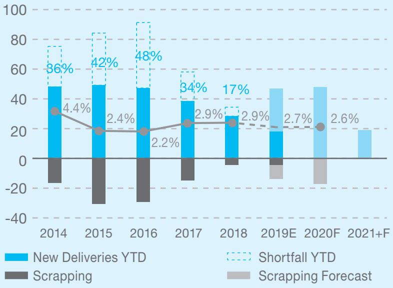
+1.6% ⟷ 0% YOY

Overall dry bulk capacity 1H19

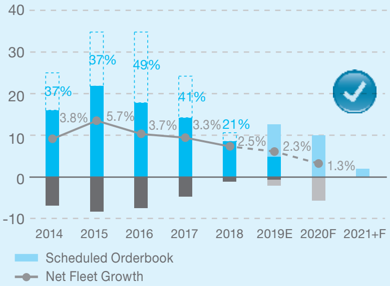
+1.5% ↑ 0.1% YOY

Global Handy/Supra capacity 1H19

Overall Dry Bulk Supply Development



Handysize/Supramax Supply Development



Source: Clarksons Research, data as at July 2019

Supply growth grew slightly slower in the first half compared to one year ago with the global fleets of 25,000-41,999 dwt Handysize and 42,000-64,999 dwt Supramax ships growing about 1.7% and 1.4% net respectively during the half year, and overall dry bulk capacity growing by about 1.6% net.

Scrapping increased to 0.5% of existing dry bulk capacity in the first half, but is still at a low level and concentrated in the much larger Capesize and ore carrier segments, with smaller vessel segments seeing even less scrapping. Substantially no Handysize or Supramax capacity was scrapped during the period.

Newbuilding deliveries in the first half of the year amounted to 2.1% of the existing fleet, with Panamax deliveries outweighing moderate reductions in deliveries of other vessel types.

SUPPLY DRIVERS

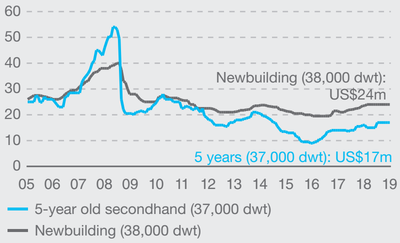
Ship Values Remain Stable

US$17m ⟷ +0%

Secondhand Handysize YTD

Despite weaker freight market conditions, values for modern ships have been relatively stable. Clarksons Research currently values a benchmark five year old Handysize bulk carrier at US$17.0 million – unchanged since the start of 2019. Newbuilding prices have also remained steady at US$24.0 million. The gap between newbuilding and secondhand prices continues to discourage new ship ordering.

Handysize Vessel Values



Source: Clarksons Research, data as at 26 July 2019

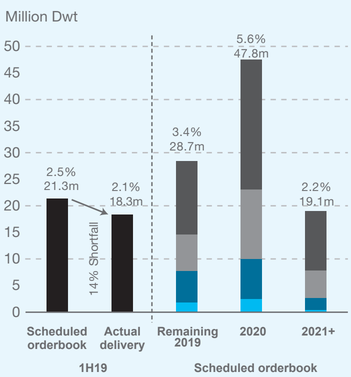
VALUES & OUTLOOK IMPACT NEW SHIP ORDERING

Supply Developments Favour Smaller Vessels

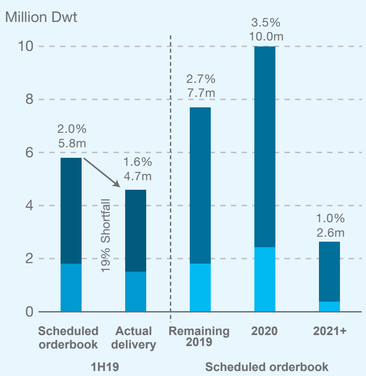
New ship ordering in the first half of 2019 was less than a year ago and remained concentrated in the Panamax and Capesize segments. New orders for Handysize and Supramax vessels remained more limited. The combined Handysize and Supramax orderbook now stands at 7.2%.

New ship ordering is expected to remain restrained, discouraged by the continued gap between newbuilding and secondhand prices as well as uncertainty over upcoming environmental regulations and their impact on future vessel designs.

Orderbook by Year



Combined Orderbook: Handysize & Supramax



Source: Clarksons Research, data as at 1 July 2019

	ORDERBOOK AS % OF EXISTING FLEET	AVERAGE AGE	OVER 20 YEARS OLD	1H19 SCRAPPING AS % OF EXISTING FLEET (ANNUALISED)
Handysize (25,000–41,999 dwt)	5.5%	10	11%	0.4%
Supramax (formerly Handymax) (42,000–64,999 dwt)	7.9%	10	8%	0.4%
Panamax & Post-Panamax (65,000–119,999 dwt)	11.0%	10	8%	0.2%
Capesize (incl. VLOC) (120,000+ dwt)	15.3%	9	5%	2.2%
Total Dry Bulk > 10,000 dwt	11.2%	10	7%	1.1%

Our Performance

Our business generated an underlying loss of US$0.6 million (2018: underlying profit of US$28.0 million) in markedly weaker dry bulk market conditions. We generated daily earnings that outperformed the BHSI and BSI indices and continued to maintain good control of our vessel operating costs.

Dry Bulk Operating Performance

US$ Million	Six months ended 30 June 2019	2018	Change
Handysize Contribution	**21.2**	38.4	-45%
Supramax Contribution	**7.4**	15.8	-53%
Post-Panamax Contribution	**2.1**	2.7	-22%
Operating performance before overheads	**30.7**	56.9	-46%
G&A overheads	**(30.5)**	(28.4)	-7%
Tax and others	**(0.8)**	(0.5)	-60%
Underlying (loss)/profit	**(0.6)**	28.0	>-100%
Vessel net book value	**1,842.7**	1,815.1	+2%

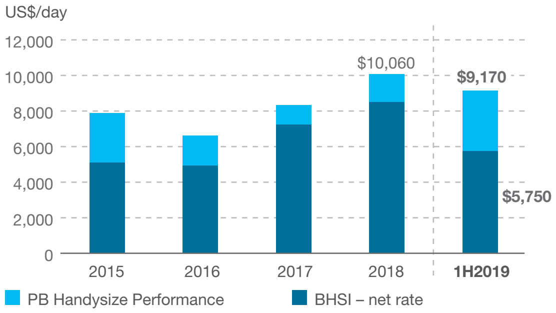
+/- Note: In our tabulated figures, positive changes represent an improving result and negative changes represent a worsening result.

Key Performance Indicators KPI

PERFORMANCE VS MARKET

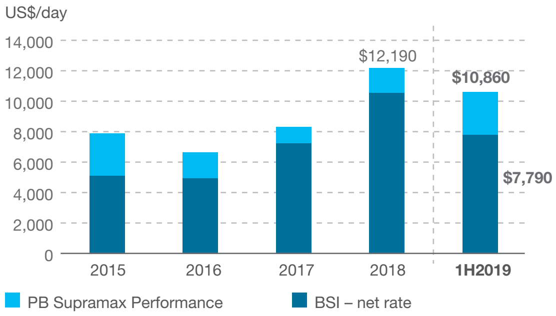
Handysize

59% 1H2019 outperformance compared to market



Supramax

39% 1H2019 outperformance compared to market

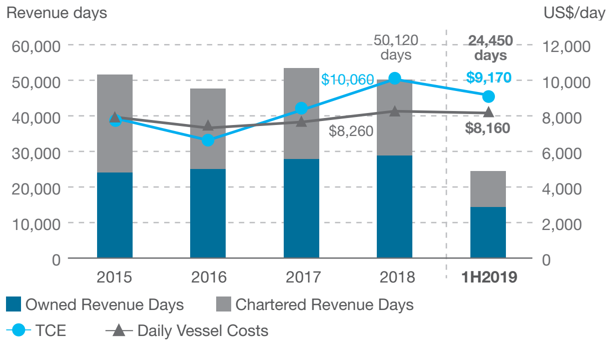


- Our outperformance in first half 2019 compared to spot market indices reflects the value of our fleet scale and cargo book, and our ability to optimise cargo combinations and match the right ships with the right cargoes to maximise our utilisation and vessel earnings.

PROFITABILITY

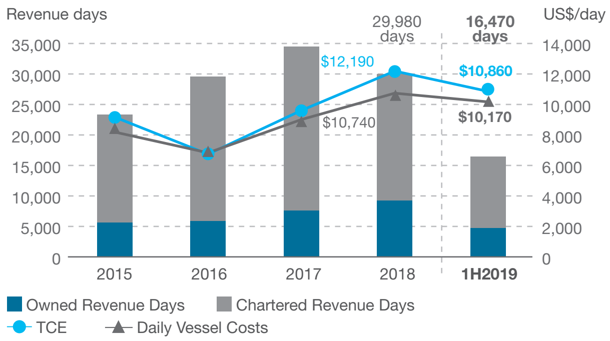
Handysize

US$21.2m contribution



Supramax

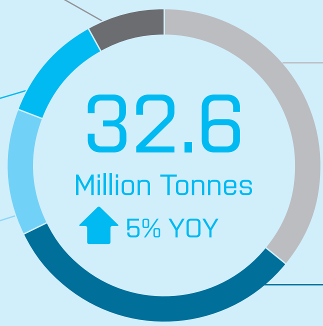
US$7.4m contribution



- We generated Handysize daily earnings of US$9,170 with daily costs of US$8,160 on 24,450 revenue days.
- We generated Supramax daily earnings of US$10,860 with daily costs of US$10,170 on 16,470 revenue days.
- Our Handysize and Supramax contributions reduced significantly due to markedly weaker dry bulk market conditions, despite our strong outperformance compared to spot market indices and our good cost control.

Our Cargo Volumes in 1H 2019

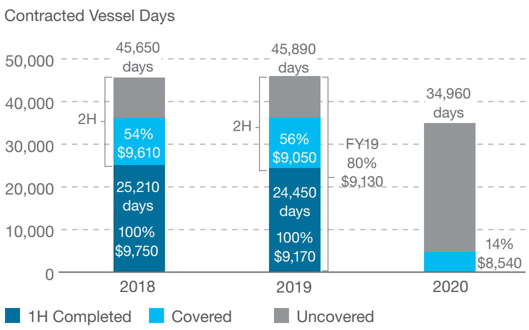
Minerals	**8%**
Salt	4%
Sand & Gypsum	3%
Soda Ash	1%
Energy	**11%**
Coal	5%
Petcoke	4%
Wood Pellets	2%
Metals	**13%**
Concentrates	5%
Ores	5%
Alumina	2%
Others	1%



Construction Materials	**36%**
Cement & Cement Clinkers	13%
Logs & Forest Products	13%
Steel & Scrap	10%
Agricultural Products & Related	**32%**
Grains & Agricultural Products	18%
Fertiliser	10%
Sugar	4%

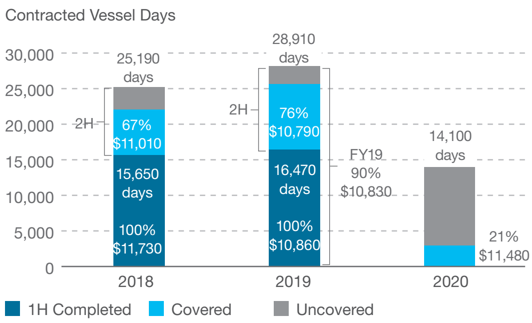
FUTURE EARNINGS AND CARGO COVER

Handysize



US$ per day, as at mid-July

Supramax

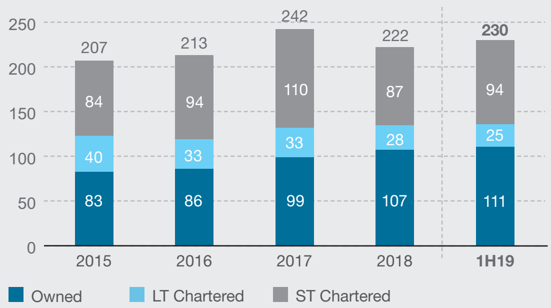


US$ per day, as at mid-July

- We have covered 56% and 76% of our 21,440 Handysize and 12,440 Supramax vessel days currently contracted for the second half of 2019 at US$9,050 and US$10,790 per day net respectively. (Cargo cover excludes vessel 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.

PACIFIC BASIN FLEET DEVELOPMENT

Average No. of Handysize and Supramax Ships Operated During the Period



As at 30 June 2019, we owned 82 Handysize and 30 Supramax ships

- Excluding our two Post-Panamax vessels, we operated an average of 137 Handysize and 93 Supramax ships in the first half of 2019 resulting in a 3% reduction and a 5% increase in our Handysize and Supramax revenue days respectively compared to the same period last year. This mainly reflects redeliveries of long-term chartered Handysize ships and the expansion of our owned and chartered-in Supramax fleet.

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Financial Statements Note 11
Net book value of our owned vessels

Daily Vessel Costs

The cost of owning and operating dry bulk ships is the largest 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.

Owned Vessel Costs

Operating expenses – Our daily operating expenses ("Opex") increased by 4% and 3% for Handysize and Supramax respectively mainly due to increased costs of crewing, repair and maintenance, ballast water treatment systems ("BWTS") operation and IMO 2020 preparation. Our Opex remained at very competitive levels as a result of efficient management, good cost control and scale benefits, including operational and procurement cost efficiencies.

In the period, our fleet of owned vessels experienced on average 0.4 days (FY2018: 1.2 days) of unplanned technical off-hire per vessel.

	Handysize		Supramax	
	1H2019	**FY2018**	**1H2019**	**FY2018**
Vessel days	**14,890**	29,470	**5,200**	9,420
Vessel costs (US$)				
Opex	**4,020**	3,880	**3,890**	3,780
Depreciation	**2,830**	2,790	**3,270**	3,220
Finance costs	**740**	740	**1,060**	1,090
Total	**7,590**	7,410	**8,220**	8,090

Depreciation – Our depreciation costs (including capitalisation of dry-docking costs) were slightly increased principally due to installation of BWTS.

Finance costs – Our owned vessels' daily P/L and cash finance costs were US$740 and US$680 respectively for Handysize and US$1,060 and US$970 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.

Daily cash cost – Our daily cash cost before G&A overheads for owned vessels was US$4,700 and US$4,860 (FY2018: US$4,560 and US$4,780) for Handysize fleet and Supramax fleet respectively.

Chartered Vessel Costs

Adoption of HKFRS 16 "Leases"

Following the adoption of the new accounting standard HKFRS 16 "Leases" on 1 January 2019, all charter-in operating leases with a term over 12 months at the date of the adoption have been accounted for on balance sheet as right-of-use assets and lease liabilities. These operating lease expenses in the income statement have been replaced by a combination of the depreciation of right-of-use assets and interest expenses on lease liabilities (lease portion) and technical management service costs (non-lease portion). Operating leases with a term of up to 12 months are expensed on a straight-line basis over the lease term as before the adoption of HKFRS 16 "Leases".

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

Daily P/L cost – The daily P/L cost comprises the depreciation of right-of-use assets, interest expenses of lease liabilities, technical management service costs for leases over 12 months and operating lease expenses for leases of up to 12 months. The daily P/L costs in 2018 has not been restated following the adoption of HKFRS 16 "Leases".

Daily cash cost – The daily cash cost before G&A overheads represents the actual charter-hire payments under the terms of charter contracts. Our daily cash cost decreased to US$9,240 and US$11,090 (FY2018: US$9,880 and US$12,050) for our Handysize fleet and Supramax fleet respectively due to weaker market conditions.

	Handysize		Supramax	
	1H2019	**FY2018**	**1H2019**	**FY2018**
Long-term (>1 year)				
Vessel days	**3,380**	7,450	**1,240**	2,820
Average rate (US$)				
P/L basis	**10,380**	8,600	**12,570**	11,530
Cash basis	**11,030**	9,840	**13,070**	12,260
Short-term and index-linked				
Vessel days	**6,600**	13,850	**10,420**	17,860
Average rate (US$)				
P/L basis	**8,320**	9,890	**10,860**	12,010
Cash basis	**8,320**	9,890	**10,860**	12,010
Total chartered				
Vessel days	**9,980**	21,300	**11,660**	20,680
Average rate (US$)				
P/L basis	**9,020**	9,440	**11,040**	11,950
Cash basis	**9,240**	9,880	**11,090**	12,050

Blended Costs

Our average blended owned and chartered daily P/L cost excluding G&A overheads was US$8,160 and US$10,170 (FY2018: US$8,260 and US$10,740) for Handysize fleet and Supramax fleet respectively.

General and Administrative ("G&A") Overheads

While reduced on a per-vessel basis, our total G&A overheads increased to US$30.5 million (1H 2018: US$28.4 million and FY2018: US$59.8 million) due primarily to an increase in our staffing overheads. Spread across all our vessel days, these total G&A overheads translated into an improved daily cost of US$730 (FY2018: US$740) per ship, comprising US$940 and US$540 (FY2018: US$950 and US$540) per day for owned and chartered-in ships respectively.

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Financial Statements Note 5
Expenses by Nature
Analysis of our costs including general and administrative overheads

Vessel Commitments

Vessel Capital Commitments

As at 30 June 2019, the Group had committed vessel equipment contracts of US$13.1 million.

As at 30 June 2019, the Group had options to purchase 7 Handysize, 2 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.

Vessel Lease Commitments

The analysis below considers the future lease commitments for all chartered-in vessels.

As at 30 June 2019, our future vessel lease commitments stood at US$287.7 million (31 December 2018: US$317.1 million), comprising US$200.2 million for Handysize, US$75.6 million for Supramax and US$11.9 million for Post-Panamax.

Our Handysize lease committed days decreased 7% to 18,570 days (31 December 2018: 20,040 days) while our Supramax lease committed days decreased 18% to 6,260 days (31 December 2018: 7,620 days).

The table below shows the average daily charter rates for our chartered-in Handysize and Supramax vessels (excluding Index-linked Vessels) during their remaining operating lease terms by year. The cash costs reflect contracted charter-hire payments while the P/L costs reflect the charter costs as defined in HKFRS 16 "Leases".

	Handysize								**Supramax**							
	Long-term (>1 year)			**Short-term**		**Total**			**Long-term (>1 year)**			**Short-term**		**Total**		
Year	Vessel days	Average rate P/L basis	Average rate Cash basis	Vessel days	Average rate	Vessel days	Average rate P/L basis	Average rate Cash basis	Vessel days	Average rate P/L basis	Average rate Cash basis	Vessel days	Average rate	Vessel days	Average rate P/L basis	Average rate Cash basis
2H2019	3,620	10,080	10,100	740	9,100	4,360	9,910	9,930	1,360	11,770	12,400	1,440	10,680	2,800	11,210	11,520
2020	4,690	10,270	10,460	–	–	4,690	10,270	10,460	1,970	11,780	12,750	60	11,260	2,030	11,760	12,710
2021	3,460	10,160	10,310	–	–	3,460	10,160	10,310	960	11,420	12,220	–	–	960	11,420	12,220
2022	2,720	9,830	10,110	–	–	2,720	9,830	10,110	470	11,150	12,280	–	–	470	11,150	12,280
2023	1,830	10,520	10,780	–	–	1,830	10,520	10,780	–	–	–	–	–	–	–	–
2024+	1,510	10,740	11,320	–	–	1,510	10,740	11,320	–	–	–	–	–	–	–	–
Total	17,830			740		18,570			4,760			1,500		6,260		

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 rates linked to the Baltic Handysize and Supramax indices (as applicable). 80 index-linked Supramax days are currently committed for 2019.

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 vessels, 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 owned vessels – which we believe is appropriate over all stages of the shipping cycle.

The information in this section as presented is adjusted for the implementation of HKFRS 16 "Leases" to give a better understanding of our underlying cash flow.

Key Developments in 1H 2019

- Our operating cash inflow inclusive of all long and short term charter-hire payments was US$72.2 million, as compared with US$72.1 million in the first half of 2018 and US$189.5 million in the full year 2018.
- In May 2019 we closed a new US$115.0 million syndicated 7-year reducing revolving credit facility secured against 10 unmortgaged vessels at an interest cost of LIBOR plus 1.35%.
- Our borrowings increased by US$36.6 million in the period after we drew down net US$91.8 million under our new committed loan facility while making net repayments of US$55.2 million of secured borrowings and revolving facilities.
- During the period we incurred capital expenditure of US$105.6 million in cash, of which:
  - (a) we paid US$66.4 million for one Handysize newbuilding resale and three secondhand Supramaxes which were delivered into our fleet in the first half of 2019 and a further two secondhand Supramaxes which delivered in July 2019; and
  - (b) we paid US$39.2 million for dry dockings, including the installation of ballast water treatment systems and scrubbers.
- In addition to the above cash payments for ships, we issued new shares equivalent to US$26.2 million to the ship sellers for two of the vessels that delivered in the period.

As at 30 June 2019:

- the Group's cash and deposits were US$313.8 million reflecting a 37% net gearing ratio;
- we have only one unmortgaged vessel; and
- our available committed banking facilities were fully drawn.

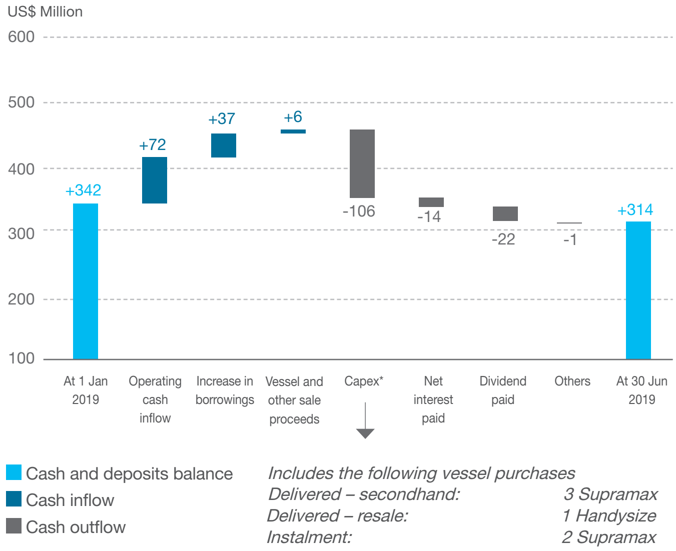
Treasury is permitted to invest in a range of cash and investment products subject to limits specified in the Group Treasury Manual. These include overnight and term deposits, money market funds, liquidity funds, certificates of deposit and structured notes.

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 2019 comprised US$311.4 million in United States Dollars and US$2.4 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 2019, Treasury achieved a 2.9% return on the Group's cash.

Sources and Uses of Group Cash in 1H 2019



* excluding Capex of US$26.2 million funded by equity

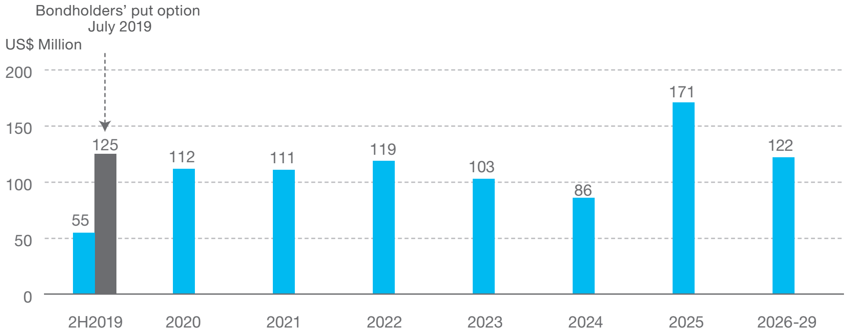
Cash, Deposits and Borrowings

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

US$ Million	30 Jun 2019	31 Dec 2018	Change
Cash and deposits	**313.8**	341.8	-8%
Current portion of long-term borrowings	**(232.0)**	(223.7)	
Long-term borrowings	**(768.9)**	(737.4)	
Total borrowings	**(1,000.9)**	(961.1)	-4%
Net borrowings	**(687.1)**	(619.3)	-11%
Net borrowings to shareholders' equity	**56%**	50%	
Net borrowings to net book value of owned vessels KPI	**37%**	34%	

Borrowings

Schedule of Repayments of Borrowings



- Secured borrowings (US$879.4 million)
- Convertible bonds (face value US$125.0 million, book value US$121.5 million, bondholders' put option July 2019)

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 2019, which comprised secured borrowings and the liability component of convertible bonds, amounted to US$1,000.9 million (31 December 2018: US$961.1 million) and are mainly denominated in United States Dollars.

Secured Borrowings – US$879.4 million (31 December 2018: US$840.9 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 2019, we drew down all our remaining available 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 2019:

- The Group's secured borrowings were secured by 112 vessels with a total net book value of US$1,802.4 million and an assignment of earnings and insurances in respect of these vessels.
- The Group was in compliance with all its loans-to-asset value requirements.

P/L impact:

An increase in interest to US$15.9 million (1H 2018: US$13.4 million) was mainly due to an increase in average secured borrowings to US$758.9 million (1H 2018: US$680.7 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$121.5 million (31 December 2018: US$120.2 million)

As at 30 June 2019 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$2.96.

During the period, holders of our convertible bonds due in 2021 exercised their right to require the Group to redeem US$122.2 million of the convertible bonds at 100% of the principal amount on 3 July 2019. On the same day, the Group exercised the option to redeem all the remaining convertible bonds at 100% of the principal amount of US$2.8 million. Redemption and cancellation of the bonds will take place on 2 August 2019. The total redemption will be funded by the Group's cash reserves.

P/L impact:

The US$3.3 million (1H 2018: US$3.3 million) interest expense of the convertible bonds is calculated at an effective interest rate of 5.7% (1H 2018: 5.7%).

Finance Costs

US$ Million	Average interest rate P/L	Average interest rate Cash	Balance at 30 Jun 2019	Finance costs 1H2019	Finance costs 1H2018	(Increase)/ decrease
Secured borrowings (including realised interest rate swap costs)	4.2%	4.2%	879.4	**15.9**	13.4	(18%)
Convertible bonds (Note)	5.7%	3.3%	121.5	**3.3**	3.3	(2%)
	KPI 4.4%	KPI 4.0%	1,000.9	**19.2**	16.7	(15%)
Other finance charges				**0.6**	0.5	
Total finance costs				**19.8**	17.2	(16%)
Interest coverage (calculated as adjusted EBITDA divided by total finance costs)				KPI **4.0X**	5.8X	

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 2019, all our interest rate swap contracts qualified for hedge accounting as cash flow hedges and US$0.3 million of interest rate swap contract income was realised. As at 30 June 2019, 62% (31 December 2018: 58%) of the Group's long-term borrowings were on fixed interest rates. As at 31 December 2019 and 2020, we expect about 54% and 48% respectively of the Group's existing long-term borrowings will be on fixed interest rates, assuming all revolving credit facilities are fully drawn.

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 and other stakeholders. 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 2019, 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").

Having made specific enquiry, the Board confirms that 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 months ended 30 June 2019.

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.

The Board confirms that, having made specific enquiry, 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 2019.

Purchase, Sale or Redemption of Securities

During the six months ended 30 June 2019, 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.

On 3 July 2019, the Group redeemed and cancelled an aggregate principal amount of US$122,216,000 of its US$125 million 3.25% p.a. coupon guaranteed convertible bonds due 2021 (the "Bonds"), together with accrued but unpaid interest of US$2,031,250 following the exercise of the put option right by bondholders. The remaining outstanding aggregate principal amount of the Bonds was reduced to US$2,784,000 (the "Remaining Bonds"), representing 2.23% of the total principal amount of the Bonds originally issued. The Group has exercised its option to redeem the entire Remaining Bonds at 100% of their principal amount, together with accrued but unpaid interest up to 2 August 2019, being the date fixed for such redemption.

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 2019 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.

Closure of Register Of Members

As the Board has not declared an interim dividend, the register of members will not be closed for this purpose.

Directors

As at the date of this report, the executive Directors of the Company are David Muir Turnbull, Mats Henrik Berglund and Peter Schulz, 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 2019, 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 2019	31 Dec 2018
David M. Turnbull [1]	10,595,000	2,618,750[2]	Long	13,213,750	0.28%	0.26%
Mats H. Berglund [1]	20,391,000	–	Long	20,391,000	0.44%	0.38%
Peter Schulz [1]	6,299,000	129,000[3]	Long	6,428,000	0.14%	0.10%
Patrick B. Paul	380,000	–	Long	380,000	less than 0.01%	less than 0.01%
Daniel R. Bradshaw	–	772,834[4]	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) 2,618,750 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) 129,000 shares are held by Mr. Schulz in the capacity of beneficiary of a trust.

(4) 772,834 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 2019.

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 2019 are as follows:

					During the period						
'000 shares/units	Date of first award	Total awarded	Vested to date	Unvested at 30 Jun 2019	Unvested at 1 Jan 2019	Granted	Vested[1] or lapsed	Vesting in 2H2019[2]	2020	2021	2022
Directors											
David M. Turnbull	5-Aug-08	9,982	(4,441)	5,541	4,263	1,278	–	1,493	1,590	1,180	1,278
Mats H. Berglund	1-Jun-12	21,391	(8,598)	12,793	9,793	3,000	–	3,402	3,623	2,768	3,000
Peter Schulz	21-Aug-17	6,299	(1,147)	5,152	3,464	1,688	–	1,147	1,149	1,168	1,688
		37,672	(14,186)	23,486	17,520	5,966	–	6,042	6,362	5,116	5,966
Other Employees				83,631	59,410	26,240	(2,019)	19,145[3]	22,929[3]	19,824[3]	21,733[3]
				107,117	76,930	32,206	(2,019)	25,187	29,291	24,940	27,699

Notes:

(1) A total of 1,842,000 shares vested in January 2019 according to the vesting schedule and 177,000 shares lapsed in April 2019 due to resignation of an employee.

(2) 25,109,000 shares vested on 14 July 2019 in accordance with the vesting schedule.

(3) A total of 318,000 shares lapsed in July 2019 due to resignation of another employee.

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 2019, the Company had been notified of the following substantial shareholders' 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 2019	31 Dec 2018
Aggregate of Standard Life Aberdeen plc affiliated investment management entities	Investment manager	Long	323,852,000	6.95%	7.86%
Citigroup Inc.[1]	Person having a security interest/Interest of corporation controlled/ Approved lending agent	Long Short	250,286,805 4,251,340	5.37% 0.09%	5.52% 0.09%
Invesco Asset Management Limited	Investment manager	Long	233,957,000	5.02%	Not applicable

Note:

(1) The long position in shares held by Citigroup Inc. is held in the capacities of Person having a security interest (18,434,359 shares), Interest of corporation controlled (17,657,757 shares) and Approved lending agent (214,194,689 shares).

Group Performance Review

US$ Million	Note	Six months ended 30 June 2019	2018	Change*
Revenue		**767.1**	795.6	-4%
Bunker, port disbursement & other voyage costs		**(360.5)**	(360.6)	–
Time-charter equivalent ("TCE") earnings	1	**406.6**	435.0	-7%
Owned vessel costs				
Operating expenses	2	**(80.1)**	(72.5)	-10%
Depreciation	3	**(60.1)**	(56.3)	-7%
Net finance costs	4	**(16.5)**	(15.9)	-4%
Charter costs				
Non-capitalised charter costs	5	**(200.1)**	(233.4)	+14%
Capitalised charter costs	5	**(19.1)**	–	-100%
Operating performance before overheads		**30.7**	56.9	-46%
Total G&A overheads	6	**(30.5)**	(28.4)	-7%
Taxation and others		**(0.8)**	(0.5)	-60%
Underlying (loss)/profit		**(0.6)**	28.0	>-100%
Unrealised derivative income	7	**8.6**	4.4	
Net write-back of disposal cost provision		**0.2**	–	
Write-off of loan arrangement fees		**–**	(1.6)	
Profit attributable to shareholders		**8.2**	30.8	-73%
EBITDA	8	**101.1**	99.3	+2%
Net profit margin		**1%**	4%	-3%
Return on average equity employed		**1%**	3%	-2%

* 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 gross profit less indirect general and administrative overheads, excluding: depreciation and amortisation; exchange differences; share-based compensation; and, net unrealised derivative income and expenses.

Notes

1. Total time-charter equivalent ("TCE") earnings decreased by 7% reflecting weaker market conditions during the period.
2. Total operating expenses of our owned vessels increased by 10% as our owned fleet expanded.
3. Depreciation of our owned vessels increased by 7% as our owned fleet expanded and additional costs were incurred for installation of ballast water treatment systems and scrubbers.
4. Net finance costs increased by 4% primarily due to higher average bank borrowings.
5. Non-capitalised charter costs comprise the non-lease portion of long-term charters with a term over 12 months and charters with a term of up to 12 months. Capitalised charter costs comprise depreciation of right-of-use assets and interest expenses on lease liabilities relating to the capitalised portion of long-term charters with a term over 12 months. Overall charter costs reduced due to weaker market conditions during the period. Charter costs in 2018 included the release of onerous contract provisions.
6. The increase in total G&A overheads was attributable primarily to an increase in staff-related costs as our owned fleet expanded.
7. The unrealised derivative income from bunker swap contracts was a result of a significant increase in bunker fuel prices.
8. EBITDA increased despite the weaker dry bulk freight market due to the impact of HKFRS 16 "Leases" under which charter costs originally included in EBITDA were replaced by depreciation and interest expenses.

   Adjusted EBITDA before adoption of HKFRS 16 "Leases" is US$78.9 million, which is comparable to EBITDA of previous years.

Financial Statements

Unaudited Condensed Consolidated Income Statement

	Note	Six months ended 30 June **2019** **US$'000**	2018 US$'000
Revenue	4	**767,140**	795,643
Cost of services	5	**(735,882)**	(751,100)
Gross profit		**31,258**	44,543
Indirect general and administrative overheads	5	**(3,582)**	(3,621)
Other income and gains	6	**367**	8,064
Other expenses	5	**(189)**	(1,739)
Finance income	7	**3,323**	1,218
Finance costs	7	**(22,344)**	(17,157)
Profit before taxation		**8,833**	31,308
Tax charges	8	**(616)**	(556)
Profit attributable to shareholders		**8,217**	30,752
Earnings per share for profit attributable to shareholders (in US cents)			
Basic earnings per share	10(a)	**0.18**	0.70
Diluted earnings per share	10(b)	**0.18**	0.69

Unaudited Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June **2019** **US$'000**	2018 US$'000
Profit attributable to shareholders	**8,217**	30,752
Other comprehensive income		
Items that may be reclassified to income statement		
Cash flow hedges		
– fair value losses	**(4,286)**	(1,089)
– transferred to income statement	**602**	3,057
Currency translation differences	**53**	(338)
Item that will not be reclassified to income statement		
Fair value losses on financial assets at fair value through other comprehensive income	**–**	(208)
Total comprehensive income attributable to shareholders	**4,586**	32,174

Unaudited Condensed Consolidated Balance Sheet

	Note	30 June 2019 US$'000	31 December 2018 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**1,847,922**	1,807,672
Right-of-use assets	12	**103,292**	–
Subleasing receivables	13	**5,314**	–
Goodwill	11	**25,256**	25,256
Derivative assets	14	**1,370**	1,745
Trade and other receivables	15	**33,500**	8,900
Restricted bank deposits	16	**59**	58
		2,016,713	1,843,631
Current assets			
Inventories		**88,682**	85,488
Current portion of subleasing receivables	13	**6,553**	–
Derivative assets	14	**1,464**	214
Assets held for sale		**–**	6,450
Trade and other receivables	15	**102,559**	88,679
Cash and deposits	16	**313,694**	341,744
		512,952	522,575
Total assets		**2,529,665**	2,366,206
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	20	**46,566**	45,205
Retained profits		**183,697**	202,262
Other reserves		**1,007,251**	983,742
Total equity		**1,237,514**	1,231,209
LIABILITIES			
Non-current liabilities			
Long-term borrowings	18	**768,864**	737,377
Lease liabilities	19	**77,818**	–
Derivative liabilities	14	**11,071**	9,912
Trade and other payables	17	**3,194**	5,537
		860,947	752,826
Current liabilities			
Current portion of long-term borrowings	18	**232,067**	223,716
Current portion of lease liabilities	19	**45,170**	–
Derivative liabilities	14	**1,170**	7,374
Trade and other payables	17	**151,956**	150,559
Taxation payable		**841**	522
		431,204	382,171
Total liabilities		**1,292,151**	1,134,997

Unaudited Condensed Consolidated Statement of Changes in Equity

	Capital and reserves attributable to shareholders										
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
At 1 January 2019	**45,205**	**249,951**	**(56,606)**	**13,772**	**(6,791)**	**4,456**	**–**	**(978)**	**779,938**	**202,262**	**1,231,209**
Change in accounting policy (Note 2(d)(iii))	**–**	**–**	**–**	**–**	**–**	**204**	**–**	**–**	**–**	**(4,575)**	**(4,371)**
Restated total equity at 1 January 2019	**45,205**	**249,951**	**(56,606)**	**13,772**	**(6,791)**	**4,660**	**–**	**(978)**	**779,938**	**197,687**	**1,226,838**
Share issued as Vessel Consideration Shares, net of issuing expenses (Note 20(a))	**1,010**	**25,189**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**26,199**
Dividends paid (Note 9)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(21,825)**	**(21,825)**
Total comprehensive income attributable to shareholders	**–**	**–**	**–**	**–**	**–**	**(3,684)**	**–**	**53**	**–**	**8,217**	**4,586**
Share-based compensation	**–**	**–**	**–**	**–**	**2,995**	**–**	**–**	**–**	**–**	**–**	**2,995**
Shares purchased by trustee of the SAS (Note 20(b))	**(1,279)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,279)**
Shares issued upon grant of restricted share awards (Note 20(b))	**256**	**5,355**	**–**	**–**	**(5,611)**	**–**	**–**	**–**	**–**	**–**	**–**
Share awards granted (Note 20(b))	**1,406**	**–**	**–**	**–**	**(1,024)**	**–**	**–**	**–**	**–**	**(382)**	**–**
Shares awards lapsed (Note 20(b))	**(32)**	**–**	**–**	**–**	**32**	**–**	**–**	**–**	**–**	**–**	**–**
At 30 June 2019	**46,566**	**280,495**	**(56,606)**	**13,772**	**(10,399)**	**976**	**–**	**(925)**	**779,938**	**183,697**	**1,237,514**
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	–	–	–	–	–	–	(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	302	7,524	–	–	–	–	–	–	–	–	7,826
Share-based compensation	–	–	–	–	2,885	–	–	–	–	–	2,885
Shares purchased by trustee of the SAS (Note 20(b))	(110)	–	–	–	–	–	–	–	–	–	(110)
Shares issued upon grant of restricted share awards (Note 20(b))	212	5,347	–	–	(5,559)	–	–	–	–	–	–
Share awards granted (Note 20(b))	1,189	–	–	–	(459)	–	–	–	–	(730)	–
Shares awards lapsed (Note 20(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

Unaudited Condensed Consolidated Cash Flow Statement

	Note	Six months ended 30 June 2019 US$'000	2018 US$'000
Operating activities			
Cash generated from operations	21	**93,048**	72,334
Overseas taxation paid		**(303)**	(204)
Net cash generated from operating activities		**92,745**	72,130
Investing activities			
Purchase of property, plant and equipment		**(105,635)**	(78,295)
Disposal of assets held for sale		**6,276**	–
Receipt of subleasing receivables – principal element	13	**3,141**	–
Subleasing receivables interest received	7	**142**	–
Decrease in term deposits		**12,500**	17,596
Bank interest received	7	**3,181**	1,218
Disposal of property, plant and equipment		**–**	597
Net cash used in investing activities		**(80,395)**	(58,884)
Financing activities			
Drawdown of bank loans and other borrowings		**246,152**	421,441
Repayment of bank loans and other borrowings		**(209,562)**	(330,172)
Interest on borrowings and other finance charges paid		**(17,477)**	(14,846)
Repayment of lease liabilities – principal element	19	**(21,368)**	–
Interest on lease liabilities paid	7	**(2,492)**	–
Dividends paid	9	**(21,825)**	–
Payment for shares purchased by trustee of the SAS	20(b)	**(1,279)**	(110)
Net cash (used in)/generated from financing activities		**(27,851)**	76,313
Net (decrease)/increase in cash and cash equivalents		**(15,501)**	89,559
Exchange (losses)/gains on cash and cash equivalents		**(49)**	422
Cash and cash equivalents at 1 January		**329,244**	227,040
Cash and cash equivalents at 30 June	16	**313,694**	317,021
Term deposits at 1 January	16	**12,500**	17,596
Decrease in term deposits		**(12,500)**	(17,596)
Cash and deposits at 30 June	16	**313,694**	317,021

Notes to the 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 31 July 2019.

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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 2018, 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 2018, except for the adoption of new standard as described below.

The following new standard is mandatory for the accounting period beginning on or after 1 January 2019 and is relevant to the Group's operation.

HKFRS 16	Leases

The new accounting policies and the impact of the adoption of this standard are disclosed in Note 2(c) and 2(d) respectively. Other new standards that became effective in this accounting period do not have any impact on the Group's accounting policies and do not require any adjustments.

(c) Accounting policies under HKFRS 16 "Leases"

Set out below are the new accounting policies following the adoption of HKFRS 16 "Leases", which have been applied from the date of initial application.

At inception, we assess whether a contract is or contains a lease. This assessment involves the exercise of judgement about whether it depends on a specified asset.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, and lease payments made before the commencement date. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Right-of-use assets are subject to testing for impairment if there is an indicator of impairment, as for owned assets.

Lease liabilities

At the commencement date of the lease, lease liabilities are measured at the present value of lease payments to be made over the lease term. The lease term comprises the non-cancellable period with addition of periods covered by options to extend the lease if the Group is reasonably certain to exercise the extension option or reasonably certain not to exercise the termination option. This assessment is made on inception of the lease. The lease payments include fixed payments and variable payments depending on an index or a rate.

In calculating the present value of lease payments, the incremental borrowing rate at the lease commencement date is used. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the lease recognition exemption to the short-term leases and leases for which the underlying asset is of low value such as office equipment (e.g. printing and photocopying machines). Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

Subleasing

The Group enters into arrangements to sublease an underlying asset to a third party, while the Group retains the primary obligation under the original lease. In these arrangements, the Group acts as both the lessee and lessor of the same underlying asset.

If a leased vessel is subleased under terms transferring substantially all remaining risks and rewards under the head lease to the lessee in the sublease, the right-of-use asset is derecognised, and a lease receivable is recognised and classified as a finance lease. Gain/loss on the derecognised right-of-use asset, if any, is recognised in the income statement as other operating income/expenses.

During the term of the sublease, the Group recognises both finance income on the sublease and finance costs on the head lease.

Non-lease component

The Group has elected to separately account for the lease (i.e. bareboat charter) and non-lease components (i.e. technical management services) for leases of time charter contracts on vessels. Assessing the measurement of the non-lease component includes a significant accounting judgement. Consideration of the lease component and non-lease component is allocated with reference to the stand-alone market prices which is benchmarked against market data available from the industry reports.

Lessor accounting

Lessor accounting under HKFRS 16 "Leases" is substantially unchanged from the accounting under HKAS 17 Leases. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between two types of leases: operating and finance leases.

(d) Transition to HKFRS 16 "Leases"

This note explains the impact of the adoption of HKFRS 16 "Leases" on the Group's financial statement at the date of initial application (i.e. 1 January 2019).

The Group has adopted HKFRS 16 "Leases" using the modified retrospective approach from 1 January 2019 without restating comparative figures by recognising the cumulative effects as an adjustment to the opening balance of retained profits as at 1 January 2019.

(i) Practical expedients applied

In applying HKFRS 16 "Leases" for the first time, the Group has applied the following practical expedients permitted by the standard.

- For contracts entered into before the transition date, the Group did not reassess whether a contract is, or contains a lease at the date of initial application but relied on its assessment made applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease instead.
- A single discount rate is used to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar type of vessels). The incremental borrowing rate applied to the lease liabilities on 1 January 2019 were in the range of 3.9-4.3%, depending on the maturity of the lease contracts.
- The Group relied on previous assessments on whether leases are onerous.
- The operating leases with a remaining lease term of up to 12 months as at 1 January 2019 were treated as short-term leases.
- The initial direct costs for the measurement of the right-of-use asset at the date of initial application were excluded.
- The Group used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(ii) Impact on the financial statements

The impact of the adoption of HKFRS 16 "Leases" to the financial statements for the six months ended and as at 30 June 2019 is disclosed below which includes the full income statement and those affected line items on the balance sheet and cash flow statement.

Income statement

US$'000	Before adoption of HKFRS 16 "Leases"	Effects of adopting HKFRS 16 "Leases"	As reported
Revenue	768,852	(1,712)	767,140
Cost of services	(741,973)	6,091	(735,882)
Gross profit	26,879	4,379	31,258
Indirect general and administrative overheads	(3,705)	123	(3,582)
Other income and gains	367	–	367
Other expenses	(189)	–	(189)
Finance income	3,181	142	3,323
Finance costs	(19,852)	(2,492)	(22,344)
Profit before taxation	6,681	2,152	8,833
Tax charges	(616)	–	(616)
Profit attributable to shareholders	6,065	2,152	8,217

Balance Sheet (extract)

US$'000	Before adoption of HKFRS 16 "Leases"	Effects of adopting HKFRS 16 "Leases"	As reported
Non-current assets			
Right-of-use assets	–	103,292	103,292
Subleasing receivables	–	5,314	5,314
Current assets			
Current portion of subleasing receivables	–	6,553	6,553
Trade and other receivables	102,613	(54)	102,559
Equity			
Retained profits	186,121	(2,424)	183,697
Other reserves	1,007,122	129	1,007,251
Non-current liabilities			
Lease liabilities	–	77,818	77,818
Trade and other payables	5,537	(2,343)	3,194
Current liabilities			
Current portion of lease liabilities	–	45,170	45,170
Trade and other payables	155,201	(3,245)	151,956

Cash Flow Statement (extract)

US$'000	Before adoption of HKFRS 16 "Leases"	Effects of adopting HKFRS 16 "Leases"	As reported
Operating activities	72,168	20,577	92,745
Investing activities	(83,678)	3,283	(80,395)
Financing activities	(3,991)	(23,860)	(27,851)
Net change in cash and deposits	(15,501)	–	(15,501)

2 Basis of preparation (continued)

(d) Transition to HKFRS 16 "Leases" (continued)

(iii) Adjustments to the opening balances

The 2019 opening balance restatement effect is disclosed below.

Line items that were not affected by the changes have not been included.

Balance Sheet (extract)

US$'000	31 December 2018 (as previously reported)	Effects of adoption HKFRS 16 "Leases"	1 January 2019
Non-current assets			
Right-of-use assets	–	107,313	107,313
Subleasing receivables	–	8,607	8,607
Current assets			
Current portion of subleasing receivables	–	6,401	6,401
Trade and other receivables	88,679	(30)	88,649
Equity			
Retained profits	202,262	(4,575)	197,687
Other reserves	983,742	204	983,946
Non-Current liabilities			
Lease liabilities	–	88,127	88,127
Trade and other payables	5,537	(1,123)	4,414
Current liabilities			
Current portion of lease liabilities	–	42,332	42,332
Trade and other payables	150,559	(2,674)	147,885

(iv) Transformation of 2018 operating lease commitments to lease liabilities

The lease liabilities as of 1 January 2019 amount to US$130,459,000 and can be reconciled with the operating lease commitments disclosed in the 2018 annual report Note 26(b)(i) as follows:

US$'000	
Total operating lease commitments as at 31 December 2018	328,050
Technical management service costs (non-lease component)	(106,982)
Short-term leases	(47,944)
Lease commitments regarding leases not yet commenced	(18,804)
Leases with a remaining term of up to 12 months as at 1 January 2019	(12,572)
Interest element	(10,734)
Leases of low-value assets	(523)
Exchange differences	(32)
Lease liabilities as at 1 January 2019	130,459

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 2018.

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.

5 Expenses by nature

US$'000	Six months ended 30 June 2019	2018
Vessel – related expenses		
Operating lease expenses - vessels (b)	**200,094**	241,333
Bunker consumed	**190,443**	191,190
Port disbursements and other voyage costs	**171,671**	174,352
Vessel depreciation		
– owned vessels	**60,133**	56,321
– right-of-use assets	**16,835**	–
Employee benefit expenses (c)	**51,281**	48,464
Vessel operating expenses	**25,121**	18,919
Lubricating oil consumed	**3,654**	5,120
Net gains on bunker swap contracts	**(10,226)**	(9,350)
	709,006	726,349
General and administrative overheads (a)		
Employee benefit expenses including directors' emoluments (c)	**24,352**	22,837
Other PP&E depreciation		
– owned other PP&E	**924**	930
– right-of-use assets	**1,005**	–
Operating lease expenses - land and buildings	**424**	1,518
Net foreign exchange losses/(gains)	**207**	(106)
Other general and administrative expenses	**3,546**	3,193
	30,458	28,372
Other expenses		
Losses on disposal of assets held for sale	**174**	–
Realised losses on forward freight agreements	**15**	104
Write-off of loan arrangement fees	**–**	1,623
Losses on disposal of property, plant and equipment	**–**	19
Write-back for impairment losses for other receivables	**–**	(7)
	189	1,739
The sum of the above reconciles to the following headings in the income statement. (i) "cost of services", (ii) "indirect general and administrative overheads" and (iii) "other expenses"	**739,653**	756,460

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

US$'000	Six months ended 30 June 2019	2018
Direct G&A overheads included in cost of services	**26,876**	24,751
Indirect G&A overheads	**3,582**	3,621
	30,458	28,372

(b) Operating lease expenses

Total vessel operating lease expenses included contingent lease payments amounting to US$1.6 million (2018: US$11.8 million). These related to the vessels chartered-in on an index-linked basis.

(c) Employee benefit expenses

Total employee benefit expenses amounted to US$75.6 million (2018: US$71.3 million), comprising crew wages and other costs of US$51.3 million (2018: US$48.5 million) included in cost of services.

6 Other income and gains

US$'000	Six months ended 30 June 2019	2018
Write-back of disposal cost provision	**367**	–
Utilisation of provision for onerous contracts	**–**	8,057
Gains on forward freight agreements	**–**	7
	367	8,064

7 Finance income and finance costs

US$'000	Six months ended 30 June 2019	2018
Finance income		
Bank interest income	**(3,181)**	(1,218)
Subleasing receivables interest income	**(142)**	–
	(3,323)	(1,218)
Finance costs		
Interest on borrowings		
Secured bank loans	**15,208**	12,366
Unsecured convertible bonds	**3,319**	3,250
Other secured borrowings	**1,006**	1,083
Interest on lease liabilities		
Vessels	**2,269**	–
Other PP&E	**223**	–
Net gains on interest rate swap contracts	**(302)**	(3)
Other finance charges	**621**	461
	22,344	17,157
Finance costs, net	**19,021**	15,939

8 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 is subject to tax at prevailing rates in the countries in which these businesses operate.

The amount of taxation charged to the income statement represents:

US$'000	Six months ended 30 June 2019	2018
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2018: 16.5%)	**408**	274
Overseas tax, provided at the rates of taxation prevailing in the countries	**188**	171
Adjustments in respect of prior year	**20**	111
Tax charges	**616**	556

9 Dividends

No interim dividend was declared for the period ended 30 June 2019 (2018: HK 2.5 cents or US 0.3 cents per share).

The 2018 final dividend of HK 3.7 cents or US 0.5 cents per share, totalling US$21,825,000 was paid during the period.

10 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 2013 Share Award Scheme ("SAS") and unvested restricted shares (Note 20(b)).

		Six months ended 30 June 2019	2018
Profit attributable to shareholders	(US$'000)	**8,217**	30,752
Weighted average number of ordinary shares in issue	('000)	**4,539,977**	4,366,033
Basic earnings per share	(US cents)	**0.18**	0.70
Equivalent to	(HK cents)	**1.42**	5.52

(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 (Note 20(b)) where dilutive.

		Six months ended 30 June 2019	2018
Profit attributable to shareholders	(US$'000)	**8,217**	30,752
Weighted average number of ordinary shares in issue	('000)	**4,539,977**	4,366,033
Adjustment for calculation of diluted EPS relating to unvested restricted shares	('000)	**96,695**	89,941
Weighted average number of ordinary share for diluted EPS	('000)	**4,636,672**	4,455,974
Diluted earnings per share	(US cents)	**0.18**	0.69
Equivalent to	(HK cents)	**1.39**	5.41

11 Property, plant and equipment ("PP&E") and goodwill

US$'000	Property, plant and equipment 2019	2018	Goodwill 2019 & 2018
Net book value			
At 1 January	**1,807,672**	1,797,587	**25,256**
Additions	**101,282**	80,785	**–**
Depreciation	**(61,057)**	(57,251)	**–**
Disposals	**–**	(616)	**–**
Exchange differences	**25**	(25)	**–**
At 30 June	**1,847,922**	1,820,480	**25,256**

As at 30 June 2019, the Group operated owned vessels with a net book value of US$1,842.7 million as follows:

	Number	Average net book value (US$ Million)	Total net book value (US$ Million)
Handysize	82	14.5	1,186.4
Supramax	30	20.5	616.0
Post-Panamax	1	40.3	40.3
	113		1,842.7

12 Right-of-use assets

US$'000	Vessels	Other PP&E	2019
At 1 January	98,773	8,540	107,313
Additions	11,739	1,990	13,729
Depreciation	(16,835)	(1,005)	(17,840)
Exchange differences	–	90	90
At 30 June	93,677	9,615	103,292

13 Subleasing receivables

Subleasing receivables relate to the arrangements entered by the Group to sublease an underlying asset to a third party, while the Group retains the primary obligation under the original lease. In these arrangements, the Group acts as both the lessee and lessor of the same underlying asset.

US$'000	2019
At 1 January	15,008
Amounts received	(3,141)
At 30 June	11,867
Non-Current	5,314
Current	6,553
	11,867

The gross subleasing receivables, future finance income and net subleasing receivables as at 30 June 2019 were as follows:

US$'000	30 June 2019
Gross subleasing receivables	
Within one year	6,924
In the second to fifth year	5,410
	12,334
Unearned future finance income	
Within one year	(371)
In the second to fifth year	(96)
	(467)
Net subleasing receivables	
Within one year	6,553
In the second to fifth year	5,314
	11,867

14 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

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).

	30 June 2019		31 December 2018	
US$'000	Assets	Liabilities	Assets	Liabilities
Non-current				
Cash flow hedges				
Interest rate swap contracts (a)	**186**	**(1,950)**	1,055	(563)
Forward foreign exchange contracts (b)(i)	**56**	**(8,419)**	21	(7,948)
Derivatives that do not qualify for hedge accounting				
Bunker swap contracts (c)	**1,128**	**(691)**	669	(1,401)
Forward foreign exchange contracts (b)(ii)	**–**	**(11)**	–	–
	1,370	**(11,071)**	1,745	(9,912)
Current				
Derivatives that do not qualify for hedge accounting				
Bunker swap contracts (c)	**1,464**	**(1,170)**	214	(7,374)
	1,464	**(1,170)**	214	(7,374)
Total	**2,834**	**(12,241)**	1,959	(17,286)

(a) Interest rate swap contracts

All our interest rate swap contracts qualify for hedge accounting as cash flow hedges

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.

Effective date	Notional amount	Swap details	Expiry
At 30 June 2019			
June 2019	US$92 million on amortising basis	USD 3-month LIBOR swapped to a fixed rate of approximately 1.7% per annum	Contract expires in May 2026
At 30 June 2019 and 31 December 2018			
December 2018	US$40 million on amortising basis	USD 6-month LIBOR swapped to a fixed rate of approximately 3.0% per annum	Contract expires in June 2025
December 2018	US$5 million on bullet basis	USD 3-month LIBOR swapped to a fixed rate of approximately 2.9% per annum	Contract expires in June 2025
December 2013 & June 2018	US$117 million on amortising basis	USD 3-month LIBOR swapped to a fixed rate of approximately 2.0% to 2.1% per annum	Contracts expire through 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

(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.

(i) Forward foreign exchange contracts that qualify for hedge accounting as cash flow hedges

At 30 June 2019, the outstanding forward foreign exchange contracts held by the Group mainly consist of contracts with banks to buy Danish Kroner ("DKK") of approximately DKK487.0 million (31 December 2018: DKK554.4 million) and simultaneously sell approximately US$86.8 million (31 December 2018: US$99.0 million), which 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.

(ii) Forward foreign exchange contracts that do not qualify for hedge accounting

At 30 June 2019, the Group had outstanding forward foreign exchange contracts with a bank to buy approximately US$2.0 million and simultaneously sell approximately AUD2.8 million for revenue that was denominated in Australian Dollars. These contracts expire through June 2022.

(c) Bunker swap contracts

None of our bunker swap contracts qualify for hedge accounting

The Group enters into bunker swap contracts for fuel oil and marine gas oil to mainly manage the fluctuations in bunker prices in connection with the Group's cargo contract commitments. We have also used bunker swap contracts to lock in the prevailing future fuel price spread between low and high sulphur fuel for a portion of the estimated fuel consumption on some Supramax vessels that will be fitted with scrubbers. Future movements in bunker price will be reflected in the eventual operating results derived from the vessels, which is expected to offset such increase/decrease of the Group's profit after tax and equity in future periods.

At 30 June 2019, the Group had outstanding bunker swap contracts as follows:

Contract Type	Fuel Type	Quantity (metric tonnes)	Average deal price (US$)	Expiry through
At 30 June 2019				
Buy	Fuel oil	117,693	338	December 2022
Buy	Marine gas oil	14,111	584	December 2021
Sell	Marine gas oil	49,519	571	December 2022
At 31 December 2018				
Buy	Fuel oil	135,228	352	December 2022
Buy	Marine gas oil	10,511	591	December 2021
Sell	Marine gas oil	27,480	566	December 2022

15 Trade and other receivables

US$'000	**30 June 2019**	31 December 2018
Non-current		
Deposit on vessels purchased (a)	**33,500**	8,900
Current		
Gross trade receivables	**45,319**	44,565
Less: provision for impairment	**–**	–
Net trade receivables (b)	**45,319**	44,565
Other receivables	**21,346**	22,253
Prepayments	**35,894**	21,861
	102,559	88,679

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

(a) Deposit on vessels purchased

It represents the total cash consideration paid for two secondhand Supramax vessels which were delivered in July 2019.

(b) Net trade receivables

The ageing of net trade receivables based on invoice date is as follows:

US$'000	**30 June 2019**	31 December 2018
≤ 30 days	**43,608**	35,057
31-60 days	**264**	3,609
61-90 days	**80**	1,899
> 90 days	**1,367**	4,000
	45,319	44,565

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.

16 Cash and deposits

US$'000	30 June 2019	31 December 2018
Cash at bank and on hand	**34,638**	23,299
Bank deposits	**279,115**	318,503
Total cash and deposits	**313,753**	341,802
Cash and cash equivalents	**313,694**	329,244
Term deposits	**–**	12,500
Cash and deposits	**313,694**	341,744
Restricted bank deposits included in non-current assets	**59**	58
Total cash and deposits	**313,753**	341,802

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.

Cash and deposits include US$125,000,000 cash reserved for the repayments of 3.25% coupon convertible bonds in July and August 2019. Please refer to Note 18(c) for the details.

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Funding

17 Trade and other payables

US$'000	30 June 2019	31 December 2018
Non-current		
Accruals and other payables	**976**	–
Receipts in advance	**2,218**	5,537
	3,194	5,537
Current		
Trade payables	**52,250**	54,530
Accruals and other payables	**63,522**	58,300
Receipts in advance	**36,184**	37,729
	151,956	150,559

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

The ageing of trade payables based on due date is as follows:

US$'000	30 June 2019	31 December 2018
≤ 30 days	**49,471**	49,930
31-60 days	**266**	1,125
61-90 days	**41**	157
> 90 days	**2,472**	3,318
	52,250	54,530

18 Long-term borrowings

US$'000	30 June 2019	31 December 2018
Non-current		
Secured bank loans (a)	**737,523**	703,114
Other secured borrowings (b)	**31,341**	34,263
	768,864	737,377
Current		
Secured bank loans (a)	**104,780**	97,809
Other secured borrowings (b)	**5,819**	5,726
Unsecured convertible bonds (c)	**121,468**	120,181
	232,067	223,716
Total	**1,000,931**	961,093

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 14 (Fair value levels) for the definition of different levels.

(a) Secured bank loans

The Group's bank loans as at 30 June 2019 were secured, inter alia, by the following:

- Mortgages over certain owned vessels with net book values of US$1,705,764,000 (31 December 2018: US$1,588,102,000); and
- Assignment of earnings and insurance in respect of the vessels.

The secured bank loans are repayable as follows:

US$'000	30 June 2019	31 December 2018
Within one year	**104,780**	97,809
In the second year	**104,780**	97,809
In the third to fifth year	**295,967**	286,275
After the fifth year	**336,776**	319,030
	842,303	800,923

(b) Other secured borrowings

The Group's other secured borrowings as at 30 June 2019 were in respect of seven (31 December 2018: seven) owned vessels with net book values of US$96,588,000 (31 December 2018: US$100,352,000) 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 2019**	31 December 2018
Within one year	**5,819**	5,726
In the second year	**6,606**	7,035
In the third to fifth year	**24,735**	23,614
After the fifth year	**–**	3,614
	37,160	39,989

(c) Unsecured convertible bonds

	30 June 2019		31 December 2018	
US$'000	**Face value**	**Liability component**	Face value	Liability component
3.25% coupon due 2021	**125,000**	**121,468**	125,000	120,181

The carrying value of convertible bonds approximate their fair values.

During the exercise period from 6 May 2019 to 3 June 2019, Put Option Rights relating to 3.25% coupon convertible bonds having an aggregate principal amount of US$122,216,000 were exercised. On 3 July 2019, an aggregate principal amount of US$122,216,000 were redeemed and cancelled at 100% of their principal amount.

On the same day, the Group has exercised its Call Option Right to redeem all the remaining outstanding aggregate principal amount of the Bonds of US$2,784,000 ("Remaining Bonds") at 100% of their principal amount. The redemption of the Remaining Bonds shall take place on 2 August 2019 and the Remaining Bonds will be cancelled upon settlement. Subsequent to the completion of the redemption and cancellation of the Remaining Bonds, the full aggregate principal amount of the 3.25% coupon convertible bonds will have been redeemed and fully cancelled accordingly.

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$2.96 (with effect from 23 April 2019)
Conversion at bondholders' options	Any time on or after 19 July 2015
Bondholder put date for redemption at 100% of the principal amount ("Put Option Right")	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 ("Call Option Right")	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.

19 Lease liabilities

US$'000	2019
At 1 January	**130,459**
Additions	**13,729**
Repayments	**(21,368)**
Exchange differences	**168**
At 30 June	**122,988**
Non-current	**77,818**
Current	**45,170**
	122,988

The lease liabilities are repayable as follows:

US$'000	30 June 2019
Within one year	**45,170**
In the second year	**33,620**
In the third to fifth year	**39,331**
After the fifth year	**4,867**
	122,988

20 Share capital

	2019		2018	
	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	**4,532,519,114**	**45,205**	4,436,939,102	43,554
Share issued as Vessel Consideration Shares (a)	**101,014,125**	**1,010**	30,227,127	302
Shares issued upon grant of restricted share awards (b)	**25,592,000**	**256**	21,150,000	212
Shares granted to employees in the form of restricted share awards (b)	**6,614,000**	**1,406**	6,948,000	1,189
Shares transferred back to trustee upon lapse of restricted share awards (b)	**(177,000)**	**(32)**	(1,239,000)	(211)
Shares purchased by trustee of the SAS (b)	**(5,966,000)**	**(1,279)**	(377,000)	(110)
At 30 June	**4,659,596,239**	**46,566**	4,493,648,229	44,936

The issued share capital of the Company as at 30 June 2019 was 4,659,773,239 shares (30 June 2018: 4,493,648,229 shares). The difference compared to the number of shares in the table above of 177,000 (30 June 2018: Nil) represents the shares held by the trustee in relation to restricted share awards amounting to US$32,150 (30 June 2018: Nil) 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. In 2018, an aggregate of 69,746,012 shares were issued upon the delivery of two vessels to the Group and, in January and February 2019, an aggregate of 101,014,125 shares were issued upon the delivery of the remaining two vessels to the Group.

(b) Restricted share awards

Restricted share awards under the Company's 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.

(b) Restricted share awards

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

000' shares	**2019**	2018
At 1 January	**76,930**	74,006
Granted	**32,206**	28,098
Lapsed	**(177)**	(1,239)
Vested	**(1,842)**	(2,346)
At 30 June	**107,117**	98,519

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$1.61 (2018: HK$1.67).

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			
	2019		2018	
Sources of shares granted	**Number of granted shares awards**	**Related movement US$'000**	Number of granted shares awards	Related movement US$'000
Shares issued	**25,592,000**	**5,611**	21,150,000	5,559
Shares purchased by the trustee of the SAS on the Stock Exchange funded by the Company	**5,966,000**	**1,279**	377,000	110
Shares transferred from the trustee	**648,000**	**127**	6,571,000	1,079
	32,206,000	**7,017**	28,098,000	6,748

The grant dates and vesting dates of the unvested restricted share awards as at 30 June 2019 are as follows:

		Vesting date			
Date of grant	**Number of unvested share awards**	**14 July 2019**	**14 July 2020**	**14 July 2021**	**14 July 2022**
12 August 2016	21,418,000	21,418,000	–	–	–
27 January 2017	24,696,000	704,000	23,992,000	–	–
26 May 2017	558,000	278,000	280,000	–	–
21 August 2017	2,296,000	1,147,000	1,149,000	–	–
26 January 2018	25,990,000	1,640,000	1,640,000	22,710,000	–
25 January 2019	32,159,000	–	2,230,000	2,230,000	27,699,000
	107,117,000	25,187,000	29,291,000	24,940,000	27,699,000

21 Notes to the unaudited condensed consolidated cash flow statement

(a) Reconciliation of profit before taxation to cash generated from operations

	Six months ended 30 June	
US$'000	**2019**	2018
Profit before taxation	**8,833**	31,308
Adjusted for:		
Assets and liabilities adjustments		
Depreciation on vessels and other PP&E	**61,057**	57,251
Depreciation on right-of-use assets	**17,840**	–
Net unrealised gains on derivative instruments not qualified as hedges	**(8,611)**	(4,350)
Losses on disposal of assets held for sale	**174**	–
Charter hire reduction	**24**	2,751
Write-back of disposal cost provision	**(367)**	–
Utilisation of provision for onerous contracts	**–**	(8,057)
Write-off of loan arrangement fees	**–**	1,623
Losses on disposal of property, plant and equipment	**–**	19
Capital and funding adjustments		
Share-based compensation	**2,995**	2,885
Results adjustments		
Finance costs, net	**19,021**	15,939
Net foreign exchange losses/(gains)	**207**	(106)
Profit before taxation before working capital changes	**101,173**	99,263
Increase in trade and other receivables	**(7,269)**	(17,454)
Increase in trade and other payables	**2,338**	6,485
Increase in inventories	**(3,194)**	(15,960)
Cash generated from operations	**93,048**	72,334

(b) The total cash outflow for all leases is US$223.0 million (2018: US$236.9 million).

22 Commitments

(a) Capital commitments

US$'000	30 June 2019	31 December 2018
Contracted but not provided for – vessel acquisition and vessel equipment contracts	**13,058**	70,247

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Vessel Capital Commitments

(b) Commitments under operating leases

(i) The Group as the lessee – payments

According to the Group policy following the adoption of HKFRS 16 "Leases" in 2019, short-term leases and leases of low-value assets are not recognised in the balance sheet as right-of-use assets and lease liabilities. In addition, leases not yet commenced at the reporting date are also not recognised. The future aggregate minimum lease payments of these leases are as follows:

US$'000	Vessels	Land and buildings	Total
At 30 June 2019			
Within one year	**39,263**	**144**	**39,407**
In the second to fifth year	**21,276**	**327**	**21,603**
After the fifth year	**3,137**	**–**	**3,137**
	63,676	**471**	**64,147**
At 31 December 2018			
Within one year	153,999	2,261	156,260
In the second to fifth year	151,644	8,236	159,880
After the fifth year	11,502	408	11,910
	317,145	10,905	328,050

2018 operating lease commitments represented commitments for all leases and please refer to Note 2(d)(iv) for details.

(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 2019	31 December 2018
Within one year	**17,120**	32,408
In the second to fifth year	**26,298**	38,253
After the fifth year	**14,113**	16,560
	57,531	87,221

The Group's operating leases have terms ranging from less than 1 year to 15 years and they mainly represent the receipt from a Post-Panamax vessel amounting to US$47.0 million (31 December 2018: US$70.7 million).

23 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	**2019**	2018
Directors' fees	**303**	283
Salaries and bonus	**1,596**	1,254
Share-based compensation	**652**	754
Retirement benefit costs	**3**	3
	2,554	2,294

24 Contingent liabilities and contingent assets

The Group has no material contingent liabilities and contingent assets at 30 June 2019 and 31 December 2018.

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