Pacific Basin

Interim Report 2020

Stock Code: 2343

Our Seafarers are our Heroes at Sea

#WithYouForTheLongHaul

Our Heroes at Sea, enduring the Covid-19 coronavirus pandemic

#CopingWithCovid-19

117 owned ships

trading at sea continuously throughout the pandemic

3,000 crew

have served on our owned ships since the pandemic began

1,200 shipments

completed in 1H 2020

Seafarers are overlooked key workers who facilitate the transport of essential goods

We acknowledge all seafarers' tireless commitment during the Covid-19 pandemic

Efforts to contain the Covid-19 pandemic have created a global humanitarian challenge across the shipping industry. Lockdown measures, disembarkation bans and travel restrictions in many countries have made it very difficult for all ship owners and managers to change crews and get seafarers home, leaving tens of thousands of men and women at sea for longer than their original employment contracts. Many seafarers are getting increasingly frustrated and keen to get home, while seafarers stuck at home are eager to board their ships and get to work.

We have been vocal in our efforts to raise the alarm and push governments for solutions, including prioritising seafarers with the same key worker status as airline crews and medical personnel, and enabling the freedom to change crews and repatriate seafarers.

Our Pacific Basin seafarers have demonstrated extraordinary loyalty, patience, determination and professionalism during this difficult period, enabling us to continue to keep the wheels of trade turning and provide our customers with our usual world-class service, uninterrupted.

We have successfully changed and repatriated several of our crews in recent weeks, and we continue our efforts to clear the backlog. Meanwhile, our seagoing and shore-based staff and management are doing their utmost to provide our seafarers with support and encouragement so that they remain motivated, feel appreciated, look after each other, and do their professional best while pandemic-related restrictions keep them at sea.

We recently ran a Pacific Basin crew photo competition and we proudly reproduce some of the entries in this Interim Report. The stories they tell are varied, thoughtful, colourful and poignant, illustrating our colleagues' strength, compassion, team spirit and good humour at sea during the pandemic.

We recognise our crews' patience and professionalism, and their tireless, excellent and essential contribution to our company, our customers and to global trade in essential dry bulk cargoes.

We thank and salute our Pacific Basin Heroes at Sea

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

Business Highlights

GROUP

Global Covid-19 containment measures in the first half of 2020 disrupted economic activity and impacted dry bulk trade, but we continued to significantly outperform the market

Our core Handysize and Supramax daily TCE earnings outperformed the market indices by

US$2,270 and US$4,250

Our operating activity generated a daily margin of

US$1,790 net

Our mid-year committed liquidity amounted to

US$349.5m

(cash and committed facilities) with net gearing of 41%

FLEET

We took delivery of three modern vessels and sold one older, small Handysize

We currently own 117 ships, and have 235 ships on the water overall

We have covered 60% and 75% of our Handysize and Supramax revenue days for second half 2020 at US$8,420 and US$10,810 per day net respectively

Our blended Handysize and Supramax operating expenses have reduced to US$3,940 per day

OUTLOOK

Despite significantly weaker global GDP and dry bulk demand forecasts for 2020 overall, we have observed increasing levels of trade and enquiries in recent months. Chinese activity has significantly recovered, grain volumes are stronger compared to last year, and indicative iron ore loadings are at all-time highs.

Many countries have begun to ease pandemic-related national lockdowns since May and are now applying more targeted measures to contain the spread and enable more economic activity. We expect coal and construction materials such as steel, cement and logs which suffered during earlier lockdowns to slowly recover.

We expect a seasonally stronger albeit volatile second half and generally improved market conditions, assisted by stimulus measures and potential supply-side improvements including fewer newbuilding deliveries.

Our healthy balance sheet and strong liquidity position, combined with our substantially larger owned fleet, our ability to outperform the market indices and our competitive cost structure, position us well for what we believe will be improved freight market conditions in the second half.

OUR FLEET

(as at 30 June 2020)

	Vessels in operation: Owned	Long-term Chartered	Short-term Chartered [1]	Total	Total Capacity (million DWT) Owned	Average Age Owned
Handysize	81	15	42	138	2.69	11.6
Supramax	35	4	56	95	2.01	8.4
Post-Panamax	1	1	0	2	0.12	9.0
Total	117	20	98	235	4.82	10.6

[1] Average number of short-term and index-linked vessels operated in June 2020

Page 10
Average number of Handysize and Supramax ships operated in 1H 2020

Page 27
Financial Statements Note 11
Net book value of our owned vessels as at 30 June 2020

Financial Summary

We booked an underlying loss of US$26.6 million due to weaker freight markets in the first half. We made a net loss of US$222.4 million, mostly attributable to a US$198.2 million one-off non-cash impairment of our Handysize core fleet.

US$79.2m
EBITDA [1]

US$26.6m
Underlying Loss

US$222.4m
Net Loss
incl. US$198m impairment

US$316.0m
Cash Position
as at 30 June 2020

	30 June 2020 US$ Million	30 June 2019 US$ Million	31 December 2019 US$ Million
Results			
Revenue	**681.5**	767.1	1,585.9
Total Time-Charter Equivalent (“TCE”) Earnings	**329.9**	406.6	865.7
EBITDA [1]	**79.2**	101.1	230.7
Underlying (loss)/profit KPI	**(26.6)**	(0.6)	20.5
(Loss)/profit attributable to shareholders	**(222.4)**	8.2	25.1
Balance Sheet			
Total assets	**2,320.7**	2,529.7	2,394.2
Total cash and deposits	**316.0**	313.8	200.2
Net borrowings	**704.8**	687.1	662.9
Shareholders’ equity	**1,044.3**	1,237.5	1,275.9
Capital commitments	**2.5**	13.1	59.8
Cash Flows			
Operating	**96.9**	92.7	217.0
Investing	**(86.7)**	(80.4)	(143.9)
Financing	**100.6**	(27.8)	(202.1)
Net change in cash and cash equivalents excluding term deposits	**110.8**	(15.5)	(129.0)
Per Share Data	**HK cents**	HK cents	HK cents
Basic EPS	**(37.1)**	1.4	4.3
Dividends KPI	**–**	–	2.1
Operating cash flows	**16.2**	16.0	37.3
Shareholders’ equity	**169**	208	212
Share price at period end	**113**	143	164
Market capitalisation at period end	**HK$5.4bn**	HK$6.7bn	HK$7.7bn
Ratios			
Net profit margin	**(33%)**	1%	2%
Return on average equity	**(18%)**	1%	2%
Total shareholders’ return	**(30%)**	(2%)	13%
Net borrowings to net book value of owned vessels KPI	**41%**	37%	35%
Net borrowings to shareholders’ equity	**67%**	56%	52%
Interest coverage KPI	**4.3X**	5.1X	6.1X

[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.

Chief Executive's Review

"Our overall competitiveness enabled us to navigate what we believe to have been the worst of the Covid-19 turbulence and positions us well for improved conditions in the second half of 2020"

Mats Berglund

Chief Executive Officer

Financial Results

In a half-year period dominated by the global Covid-19 coronavirus pandemic and related economic disruption, we made an underlying loss of US$26.6 million (2019: US$0.6 million loss), while achieving a positive EBITDA of US$79.2 million (2019: US$101.1 million).

We made a net loss of US$222.4 million (2019: US$8.2 million profit), mostly attributable to a US$198.2 million non-cash impairment of our Handysize core fleet. Basic EPS was negative HK37 cents.

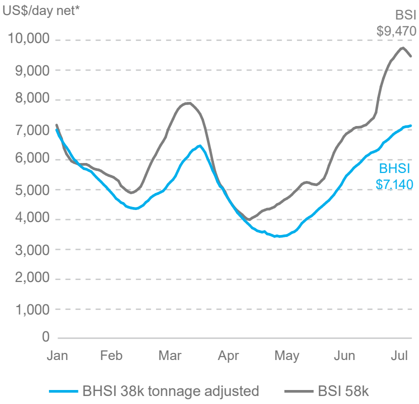
Our underlying results were negatively impacted by markedly weaker dry bulk market freight rates due to global efforts to contain the pandemic while the dry bulk fleet continued to grow.

The impairment relates primarily to our smallest and oldest Handysize vessels and was made after a review of the carrying values of our owned vessels and right-of-use assets following a significant reduction in market freight rates and the uncertain market outlook, and as smaller, older Handysize vessels are no longer fully interchangeable with younger, larger Handysize vessels. The impairment does not impact our operating cash flows, EBITDA or available liquidity, and will result in lower depreciation costs, higher EPS and higher return on equity going forward, all things being equal. In line with previous guidance, we are continuing to gradually sell our oldest and smallest Handysize vessels and replace them with newer, larger vessels.

Containment Measures Impacted Dry Bulk Trade but Recovery is Underway

Seasonal Chinese New Year weakness early in the year was compounded by disrupted logistics caused by measures to contain the Covid outbreak in China. Following a brief recovery in March as Chinese activity gradually returned, the market weakened again from late March until early May as the coronavirus spread and severely impacted activity around other parts of the world. With Chinese activity significantly recovered and more countries partly reopening their economies, freight earnings have improved since May.

Significant Rate Increase Since May



* excludes 5% commission
Source: Baltic Exchange, data as at 27 July 2020

Competitive on Every Level

Despite the weak freight market, our **core business** of deploying owned and long-term chartered ships generated average Handysize and Supramax daily time-charter equivalent ("TCE") earnings of US$7,190 and US$9,980 net per day, which were down 22% and 8% year on year.

Our average TCE earnings outperformed the BHSI (tonnage adjusted) and BSI spot market indices by US$2,270 and US$4,250 respectively in the first half, and by US$2,290 and US$2,550 in the past 12 months.

Our **operating activity** generated a margin of US$1,790 net per day over 6,940 operating days in the first half.

Our ship operating expenses ("Opex") of US$3,940 per day, general and administrative ("G&A") overheads of US$770 per day and financing costs of US$770 per day remain well controlled and very competitive compared to our peers.

The premium we generate over index earnings comes from harnessing 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. As a result, our ships are laden with cargo over 90% of the time. Our cost competitiveness comes primarily from scale benefits and other efficiencies we generate through good systems and strict cost control.

Fleet Growth Strategy

In the first half of 2020, we took delivery of three modern secondhand vessels (one Handysize and two Supramax) and we completed the sale of one older, small Handysize. These transactions have expanded our owned fleet to 117 ships. Including chartered ships, we had an average of 215 Handysize and Supramax ships on the water during the first half of 2020.

Consistent with our strategy, we reduced our long-term chartered fleet by five vessels, relying more on our growing fleet of owned ships and short-term chartered ships typically on one-year charters or less.

Out of caution during the uncertain market conditions, we paused our spending on growing our owned fleet with larger, high-quality secondhand acquisitions, but we will consider resuming our ship acquisitions as the market recovers and as we find particularly compelling opportunities.

Strong Balance Sheet and Liquidity

In June 2020 we closed a new US$30.1 million bilateral 7-year reducing revolving credit facility secured against three unmortgaged vessels at an interest cost of LIBOR plus 1.60%.

POSSIBLE MARKET DRIVERS IN THE MEDIUM TERM

OPPORTUNITIES

- Post-pandemic recovery in Chinese industrial production and extensive stimulus in other key economies, driving a rebound in economic activity and catch-up demand for dry bulk commodities
- Slower operating speed of ships consuming more expensive low-sulphur fuel
- Limited new ship ordering and deliveries due to uncertainty over environmental regulations and future vessel designs, leading to tighter supply
- Increased scrapping of poor quality and poorly designed tonnage facing onerous environmental regulations and expensive maintenance and upgrade costs

THREATS

- Expanding or renewed Covid-19 containment measures further impacting global economic activity and the trade in dry bulk commodities
- Too many newbuilding deliveries in 2020, combined with continued minimal scrapping
- Periods of low fuel prices supporting faster ship operating speeds which increases supply
- Tariffs and protectionism driving local production at the expense of global trade

As at 30 June 2020, we had cash and deposits of US$316.0 million and net borrowings of US$704.8 million, which is 41% of the net book value of our owned vessels at mid-year.

We have finalised an additional US$33.5 million in committed borrowings secured against two additional unmortgaged vessels which is expected to be available to draw upon in the third quarter, thereby further enhancing our committed liquidity position to US$349.5 million.

The Pandemic Presents a Major Crew Change Challenge

Despite significant Covid related disruption, port and cargo handling activity has continued largely as normal, albeit with strict measures in place to prevent the spread of infection.

However, lockdown and travel restrictions around the world have made it very difficult to change crews since the pandemic began. We have been vocal in our efforts to raise the alarm and push governments for solutions, but progress is slow and we are only now beginning to see some easing of restrictions in some countries. We have successfully changed and repatriated several of our crews in recent weeks, and both seagoing and shore-based staff and management are doing their utmost to provide our seafarers with support and encouragement so that they remain motivated, feel appreciated, look after each other, and do their professional best while global lockdown conditions keep them at sea.

Across our offices ashore, we introduced flexible hours, split-team arrangements and other business continuity initiatives so that, whether our staff work from home or the office, our business remains fully operational and our customers can depend on us to provide our usual world-class service.

Compliance with New Environmental Regulations

All of our vessels comply with the IMO 2020 global 0.5% sulphur limit that took effect on 1 January, either by using low-sulphur fuel or, in the case of 28 of our owned Supramax vessels, by operating exhaust gas scrubbers. So far, we have achieved a net saving of US$23.1 million on our scrubbers, representing 38% of our original investment. US$7.4 million of the saving was achieved by closing out bunker price spread hedges.

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

We are constantly working on initiatives to incrementally reduce our fleet's carbon intensity, and we have joined the recently formed Getting to Zero Coalition which is committed to exploring how to get commercially viable deep-sea zero-emission vessels into operation by 2030 – shipping's moon-shot ambition.

As usual, we will expand on these developments in our full-year sustainability reporting.

Market Outlook

In June, the IMF significantly downgraded its global GDP growth forecast to -4.9% in 2020 (and +5.4% in 2021), reflecting the worse than anticipated impact of the Covid pandemic on activity in the first half of 2020 and the more gradual projected recovery than previously forecast.

Earlier questions about geopolitical and trade tensions are overshadowed by the more severe impact of efforts to contain the pandemic. The containment timeline is unclear, hence there is a greater than usual uncertainty around GDP and dry bulk trade forecasts.

We believe many of the dry bulk demand forecasts for 2020, including Clarksons' estimated 7.3% drop in minor bulk demand, are too bearish in view of the increasing levels of trade and enquiries we have observed in recent months, with a few exceptions. Chinese activity has significantly recovered, grain volumes are stronger compared to last year and indicative iron ore loadings appear to be at all-time highs. Coal and construction materials such as steel, cement and logs have been notable exceptions due to the negative effect of lockdown measures on energy consumption and building projects.

However, many countries have begun to ease pandemic-related national lockdowns since May and are now applying more targeted measures to contain the spread and enable more economic activity, and we are seeing more dry bulk activity globally. We expect a seasonally stronger albeit volatile second half and generally improved market conditions, assisted by stimulus measures and potential supply-side improvements, including fewer newbuilding deliveries.

Well Positioned for the Future

Our healthy balance sheet and strong liquidity position, combined with our substantially larger owned fleet, our ability to outperform the market indices and our competitive cost structure, position us well for what we believe will be improved freight market conditions in the second half.

I would like to take this opportunity to express all Pacific Basin staff and board members' sincere appreciation, pride and solidarity with our extraordinarily loyal and capable seafarers who we commend for their determination and professionalism with which they continue their hard work during the ongoing global pandemic. They are our Pacific Basin Heroes at Sea.

Hong Kong, 30 July 2020

Market Review

Freight Market Summary

US$4,920 net ⬇ 26%

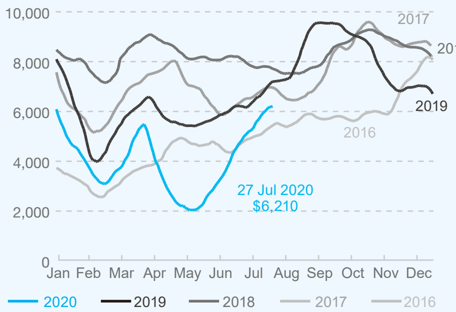
BHSI 38k (tonnage adjusted) Handysize 1H20 average market spot rate

US$5,730 net ⬇ 26%

BSI 58k Supramax 1H20 average market spot rate

Handysize Market Spot Rates in 2016–2020

US$/day net*



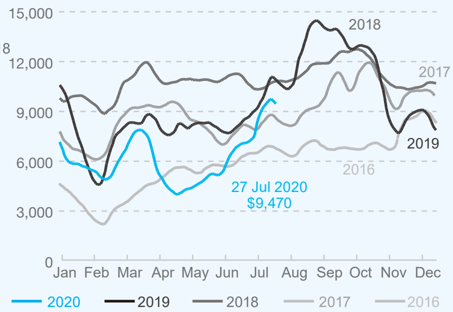
BHSI 28,000 dwt for all years for consistency

* excludes 5% commission

Source: Baltic Exchange, data as at 27 July 2020

Supramax Market Spot Rates in 2016–2020

US$/day net*



BSI 58,000 dwt

Seasonal Chinese New Year weakness early in the year was compounded by measures to contain the Covid-19 outbreak in China. Following a partial recovery in March as Chinese activity gradually returned, the market weakened again from late March until early May as the coronavirus spread and severely impacted activity around other parts of the world.

Overall, average Handysize[1] and Supramax spot market rates declined 26% year on year to US$4,920 and US$5,730 per day net respectively in the first half of 2020.

With Chinese activity significantly recovered and more countries partly reopening their economies, freight earnings have improved since May and are currently over US$7,000 per day net for Handysize[1] and US$9,000 per day net for Supramax.

[1] BHSI 38k tonnage adjusted

Market Activity more Resilient than Demand Estimates seem to Indicate

Despite estimates of a significant reduction in demand in the first half of the year, we have observed increasing levels of trade and enquiries in recent months, with a few exceptions.

Strong grain exports from South America and the Black Sea (especially to Pacific destinations) drove a year-on-year increase in overall grain volumes.

Other positive developments included increasing Japanese steel exports and global demand for bauxite and wood pellets out of North America.

However, some minor bulk segments were negatively affected in the period, with log volumes out of New Zealand being particularly hard hit by the country's earlier ports lockdown. Nickel ore volumes also reduced sharply after Indonesia's ban on nickel ore exports took effect in January, and steel exports from China reduced due to strong domestic demand.

Iron ore provided valuable support to the dry bulk market overall. Based on cargo movement data, global iron ore loadings in the first six months of 2020 appear to have increased slightly compared to the same period last year due to strong Chinese demand growth outweighing reduced imports to Japan and Korea. Chinese imports of coal increased 12% while global coal trade volumes fell about 10% overall as lockdown measures impacted energy consumption.

Clarksons Research is forecasting significant reductions in dry bulk and minor bulk tonne-mile demand in 2020 which we consider too bearish in view of the increasing levels of trade and enquiries we have been observing.

DEMAND DRIVERS

1H20 Chinese Import Volumes

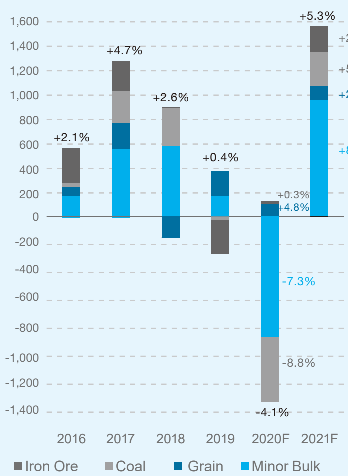
Iron Ore	⬆	9%
Coal	⬆	12%
Soybean	⬆	17%
Minor Bulks*	⬇	-7%

* Chinese imports of 6 minor bulks including logs, fertiliser, bauxite, nickel, copper concentrates & steel

Source: Bloomberg, data as at July 2020

Annual Change in Global Dry Bulk Tonne-mile Demand

Annual change in Billion Tonne-miles

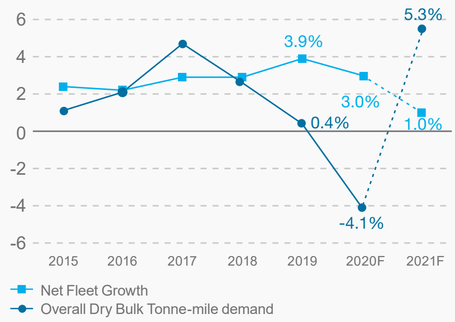


Source: Clarksons Research, data as at July 2020

Estimated Demand and Supply Balance

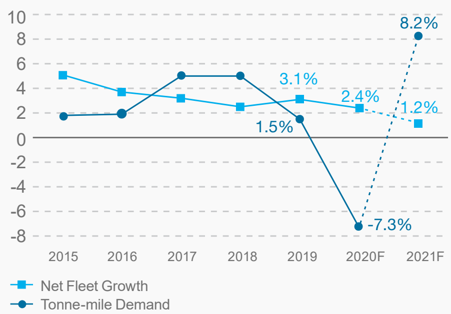
Overall Dry Bulk

% YOY Change



Minor Bulk

% YOY Change



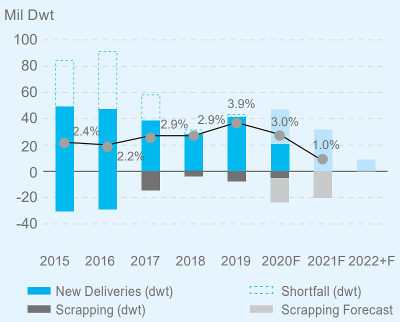
Source: Clarksons Research, supply data as at July 2020

SUPPLY DRIVERS

Net Fleet Growth is Expected to Reduce Going Forward

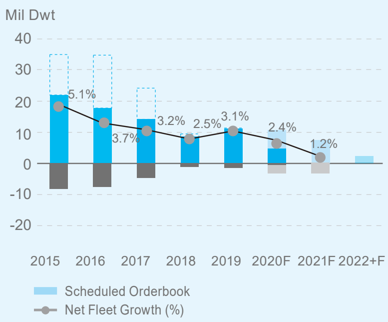
+2.2% ⬆ 0.6% YOY

Overall dry bulk capacity 1H20



+1.8% ⬆ 0.3% YOY

Global Handy/Supra capacity 1H20



Source: Clarksons Research, data as at July 2020

The global dry bulk fleet grew 2.2% net during the half year compared to 1.6% a year ago, mainly due to significant Panamax and Capesize newbuilding deliveries and very little scrapping.

Scrapping crept up to 0.9% of existing dry bulk capacity but is still very low, partly due to lockdowns on the Indian sub-continent, and was concentrated in the much larger Capesize and ore carrier segments. Handysize and Supramax scrapping was very limited.

The global fleet of Handysize (25,000-41,999 dwt) and Supramax (42,000-64,999 dwt) ships in which we specialise grew at 1.8% net, pointing to relatively healthier supply fundamentals compared to the large vessel sizes.

Global dry bulk fleet growth is expected to reduce going forward.

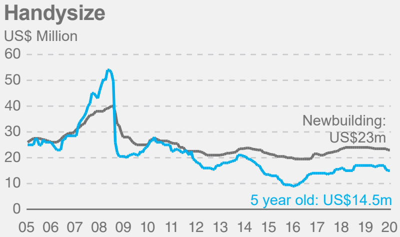
Ship Values are Bottoming Out

US$14.5m ⬇ -15%

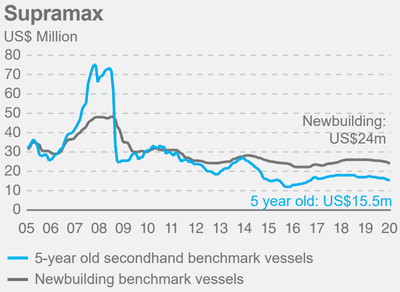
Secondhand Handysize YTD

Vessel values weakened in the first half but recent transactions show values bottoming out, supported by strengthening freight rates. Clarksons Research currently values a benchmark five-year old Handysize at US$14.5 million, down 15% since the start of the year.

Handysize



Supramax



Source: Clarksons Research, data as at 24 July 2020

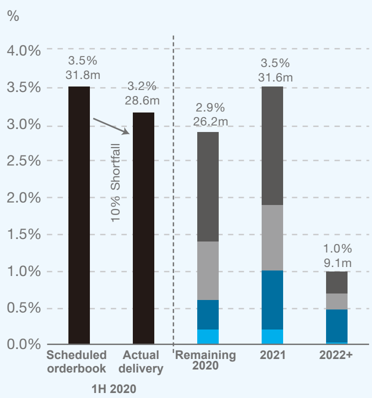
VALUES & OUTLOOK IMPACT NEW SHIP ORDERING

Dry Bulk Orderbook Nears All-Time Low

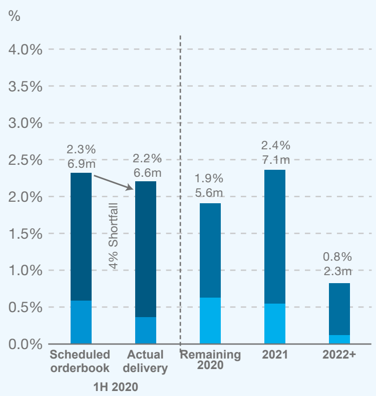
New ship ordering in the first half of 2020 was significantly lower than a year ago and remained concentrated in the Panamax and Capesize segments, while orders for Handysize and Supramax vessels remained more limited. The combined Handysize and Supramax orderbook now stands at 5.1%, which is the lowest since the 1990s. The overall dry bulk orderbook is expected to reach an all-time low later this year.

New ship ordering is expected to remain restrained, discouraged by the continued gap between newbuilding and secondhand prices as well as uncertainty over future environmental regulations to meet IMO's ambitious greenhouse gas reduction targets and their impact on future vessel designs.

Overall Dry Bulk



Handysize/Supramax



Source: Clarksons Research, data as at 1 July 2020

	ORDERBOOK AS % OF EXISTING FLEET	AVERAGE AGE	OVER 20 YEARS OLD	1H20 SCRAPPING AS % OF EXISTING FLEET (ANNUALISED)
Handysize (25,000–41,999 dwt)	4.2%	11	11%	0.6%
Supramax (42,000–64,999 dwt)	5.4%	10	8%	0.5%
Panamax & Post-Panamax (65,000–119,999 dwt)	7.1%	10	9%	0.2%
Capesize (incl. VLOC) (120,000+ dwt)	10.0%	9	3%	4.1%
Total Dry Bulk >10,000 dwt	7.4%	10	7%	1.8%

Our Performance

Our business generated an underlying loss of US$26.6 million (2019: underlying loss of US$0.6 million) in volatile and overall weaker minor bulk market conditions during the global Covid-19 pandemic. We delivered daily TCE earnings that outperformed the BHSI and BSI indices, generated strong operating activity margins, and continued to maintain good control of our vessel operating costs.

	Six months ended 30 June		
US$ Million	**2020**	**2019**	**Change**
Core business Handysize contribution	**(16.0)**	16.3	>-100%
Core business Supramax contribution	**5.0**	6.7	-25%
Operating activity contribution	**12.5**	5.6	+123%
Post-Panamax contribution	**2.1**	2.1	0%
Performance before overheads	**3.6**	30.7	-88%
Adjusted total G&A overheads	**(30.0)**	(30.5)	+2%
Tax and others	**(0.2)**	(0.8)	+75%
Underlying loss	**(26.6)**	(0.6)	>-100%
Vessel net book value	**1,717.5**	1,842.7	-7%

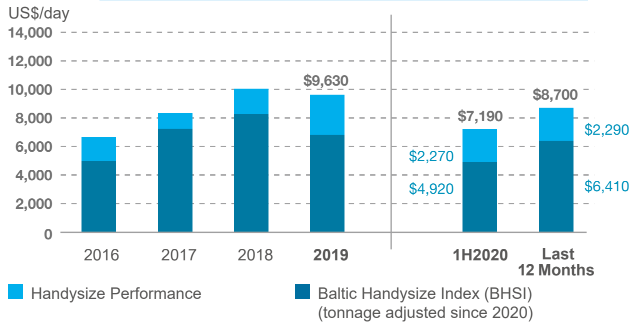
+/- Note: In our tabulated figures, positive changes represent an improving result and negative changes represent a worsening result.

CORE BUSINESS

Handysize

TCE EARNINGS AND OUTPERFORMANCE KPI

US$1,920/day average premium in last 5 years



Note: Historical data has not been restated to split operating activity from core business

TCE EARNINGS KPI

US$7,190 per day (net)

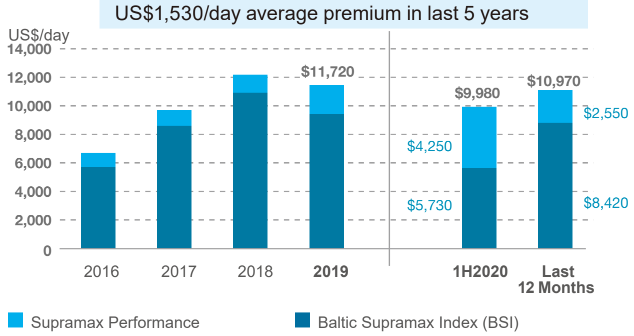
OUTPERFORMANCE VS MARKET KPI

US$2,270 per day (net)

Supramax

TCE EARNINGS AND OUTPERFORMANCE KPI

US$1,530/day average premium in last 5 years



Note: Historical data has not been restated to split operating activity from core business

TCE EARNINGS KPI

US$9,980 per day (net)

OUTPERFORMANCE VS MARKET KPI

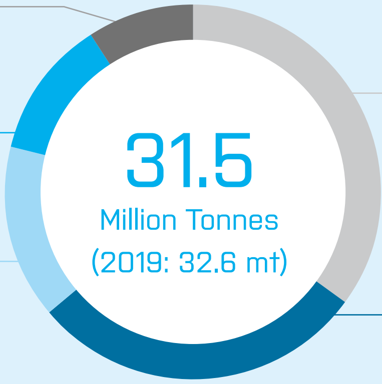
US$4,250 per day (net)

- Our core business generated:
  - Handysize daily earnings of US$7,190 on 16,980 revenue days.
  - Supramax daily earnings of US$9,980 on 6,950 revenue days.
- Our Handysize and Supramax contributions reduced due to volatile and overall weaker minor bulk market conditions, despite our strong outperformance compared to spot market indices and our good cost control.
- Our Supramax outperformance in the first half was particularly strong due to the significant scrubber benefit that we saw early in the period.
- Our outperformance 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.

Starting from 2020, we compare our Handysize TCE performance against the new 38,000 dwt Baltic Handysize Index, tonnage-adjusted to the average vessel size of our core Handysize fleet.

Our Cargo Volumes in 1H2020

Minerals	**9%**
Sand & Gypsum	4%
Salt	3%
Soda Ash	2%
Energy	**12%**
Coal	6%
Petcoke	5%
Wood Pellets	1%
Metals	**15%**
Concentrates	6%
Ores	5%
Alumina	3%
Others	1%

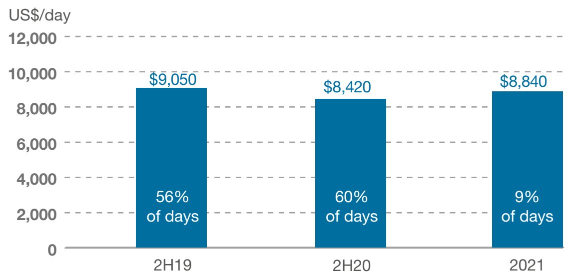


Agricultural Products & Related	**35%**
Grains & Agricultural Products	22%
Fertiliser	8%
Sugar	5%
Construction Materials	**29%**
Cement & Cement Clinkers	11%
Steel & Scrap	9%
Logs & Forest Products	9%

Handysize

FUTURE EARNINGS AND CARGO COVER KPI

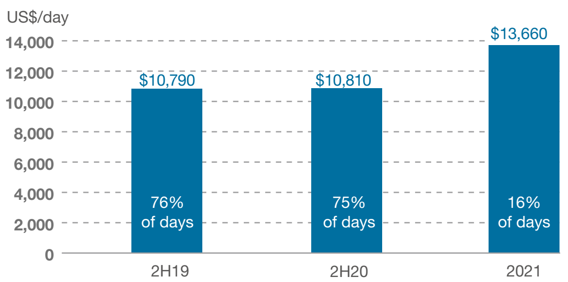
US$8,420 per day (net)



Supramax

FUTURE EARNINGS AND CARGO COVER KPI

US$10,810 per day (net)

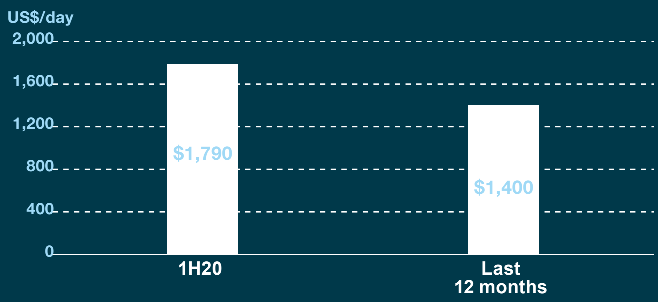


- We have covered 60% and 75% of our 19,070 Handysize and 10,040 Supramax vessel days currently contracted for the second half of 2020 at US$8,420 and US$10,810 per day net respectively. (Cargo cover excludes operating activity.)

OPERATING ACTIVITY

MARGIN KPI

US$1,790 per day (net)



- Our operating activity generated a margin of US$1,790 net per day over 6,940 operating days in the first half of the year and US$1,400 net per day over 13,610 operating days in the past 12 months on short-term ships that we chartered specifically to carry spot cargoes.
- Our operating activity complements our core business by matching our customers' spot cargoes with short-term chartered ships (when our core ships are unavailable), thereby making a margin and contributing to our group results regardless of whether the market is weak or strong.

Page 10
TCE and Margin Explanation
How we now present TCEs generated by our core business and margins generated by our operating activity

Our New KPIs

Since the beginning of 2020, we present our commercial KPIs slightly differently to provide investors with a better understanding of how we run our business. For our "core business" (comprising the majority of our total vessel days) we still present our daily vessel earnings in terms of a daily TCE, but we now separate out from this our short-term ship "operating activity" for which the appropriate measure is the daily margin generated.

CORE BUSINESS

Our **"core business"** is to optimally combine our owned and long-term chartered ships with spot cargoes and multi-shipment contract cargos to achieve the highest daily TCE earnings. Our core business also uses short-term chartered ships to carry contract cargoes to maximise the utilisation and TCE of our owned and long-term chartered ships. The positive (or negative) margin on these short-term chartered ships is added to the TCE achieved on our owned and long-term chartered ships.

OPERATING ACTIVITY

We now also disclose the margin per day generated by our **"operating activity"** which is separate and complementary to our core business. Through our operating activity, we provide a service to our customers even if our core ships are unavailable by matching our customers' spot cargoes with short-term chartered ships, making a margin and contributing to our group results regardless of whether the market is weak or strong.

For our core business, daily TCE revenue is the important KPI, as costs per day are substantially fixed and disclosed. For our operating activity, short-term charter costs fluctuate with the freight market and therefore the important KPI is the margin per day (the net daily difference between TCE revenue and charter costs), not the TCE level itself.

DERIVING OUR CORE BUSINESS DAILY TCE

$$\frac{\text{Owned + Long-Term Chartered TCE Revenue + Short-Term Chartered (excluding Operating) Margin}}{\text{Owned + Long-Term Chartered Revenue Days}}$$

DERIVING OUR OPERATING ACTIVITY DAILY MARGIN

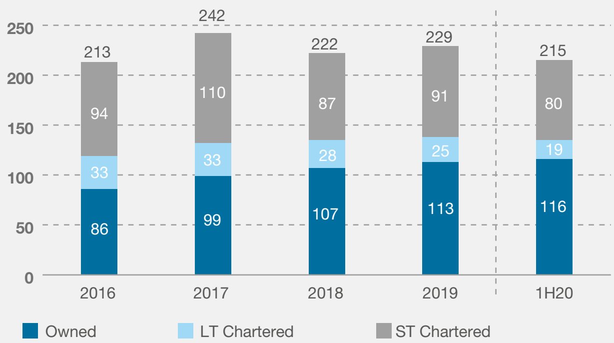
$$\frac{\text{Operating Margin}}{\text{Operating Days}}$$

CORE BUSINESS – Key Characteristics
Contract and spot cargoes
Owned and long-term chartered ships Short-term chartered ships carrying contract cargoes
Costs largely fixed and disclosed
Key KPI = TCE per day
Significant leverage and profits in strong market
Asset heavy – our own crews/quality/safety
Enables reliability, cargo contracts, brand name
Currently about 80%-85% of total vessel days

OPERATING ACTIVITY – Key Characteristics
Spot cargoes
Short-term chartered ships carrying spot cargoes
Costs fluctuate with freight market
Key KPI = Margin per day
Contribution both in weak and strong markets
Asset light – third party crews/quality/safety (harder to control quality)
Enhances and expands the service to our customers
Currently about 15%-20% of total vessel days

PACIFIC BASIN FLEET DEVELOPMENT

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



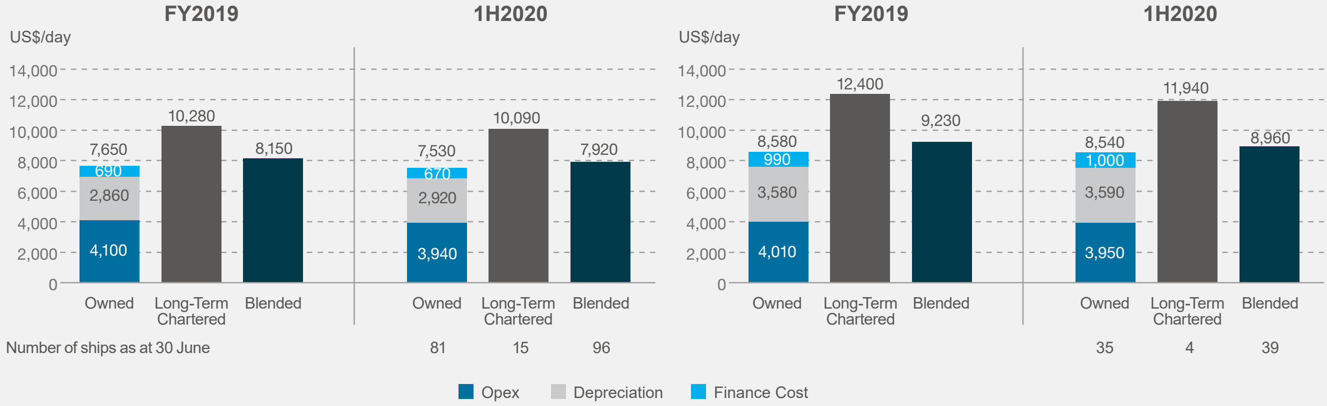
- As at 30 June 2020, we owned 81 Handysize and 35 Supramax ships.
- Including owned and chartered vessels, we operated an average of 127 Handysize and 88 Supramax ships in the first half of 2020. We had fewer chartered ships especially in the middle of the period due to uncertain market conditions and logistical risks due to the pandemic, but our chartered fleet has since increased and our fleet now comprises 235 ships overall.
- Out of caution during the uncertain market conditions, we paused our spending on growing our owned fleet with larger, high-quality secondhand acquisitions, but we will consider resuming our ship acquisitions as the market recovers and as we find particularly compelling opportunities.
- Excluded above are one owned and one chartered Post-Panamax vessels which are employed under long-term charters.

Core Business Vessel Costs

Daily Vessel Costs (Before G&A Overheads)

Handysize
US$ 7,920 per day (blended)

Supramax
US$ 8,960 per day (blended)



Owned Vessel Costs

Operating expenses

Our daily vessel operating expenses ("Opex") decreased by 4% and 1% compared to FY2019 for Handysize and Supramax respectively mainly due to decreased crew travel costs partly offset by increased repair and maintenance costs. 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.

Our blended Handysize and Supramax Opex averaged US$3,940 per day (FY2019: US$4,080).

During the period, our fleet of owned vessels experienced on average 0.4 days (FY2019: 0.9 days) of unplanned technical off-hire per vessel.

Depreciation

Our daily depreciation costs (including capitalisation of dry-docking costs) increased principally due to the installation of ballast water treatment systems and scrubbers.

Finance costs

Our daily finance costs were substantially unchanged. Our blended Handysize and Supramax finance costs averaged US$770 per day (FY2019: US$770)

Long-term Chartered Vessel Costs

The long-term chartered vessel daily costs mainly comprise the depreciation of right-of-use assets, interest expenses of lease liabilities and technical management service costs for leases over 12 months.

Blended Costs

Our daily blended costs for owned and long-term chartered vessels were US$7,920 and US$8,960 for Handysize and Supramax respectively (FY2019: US$8,150 and US$9,230).

General and Administrative ("G&A") Overheads

Our adjusted total G&A overheads reduced to US$30.0 million (1H2019: US$30.5 million and FY2019: US$61.2 million) due primarily to a decrease in our travel and entertainment costs during the period. Spread across all our vessel days, our daily G&A overheads per ship remain competitive at US$770 (FY2019: US$730), comprising US$950 and US$550 (FY2019: US$940 and US$530) per day for owned and chartered ships respectively.

Long-Term Chartered Commitments

	Handysize		Supramax	
Year	Vessel days	Average cost	Vessel days	Average cost
2H2020	2,590	10,370	710	11,890
2021	3,490	10,270	590	11,190
2022	2,880	9,980	340	10,980
2023	2,200	10,560	–	–
2024	1,660	10,630	–	–
2025+	370	10,930	–	–
Total	**13,190**		**1,640**	

Vessel Days

	Handysize		Supramax	
Days	FY2019	1H2020	FY2019	1H2020
Core revenue days	36,220	**16,980**	12,380	**6,950**
– Owned revenue days	29,270	**14,330**	10,090	**6,060**
– Long-term chartered days	6,950	**2,650**	2,290	**890**
Short-term core days	5,770	**2,150**	13,270	**5,390**
Operating days	6,230	**3,490**	7,970	**3,450**
Owned off-hire days	680	**460**	1,050	**230**
Total vessel days	**48,900**	**23,080**	**34,670**	**16,020**

Funding

Cash Flow and Cash

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

We actively manage 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 is presented before the adjustments required by HKFRS 16 "Leases".

Key Developments in 1H 2020

- Our operating cash inflow inclusive of all long and short term charter-hire payments was US$77.5 million, as compared with US$72.2 million in the first half of 2019 and US$173.9 million in the full year 2019.
- In June 2020 we closed a new US$30.1 million bilateral 7-year reducing revolving credit facility secured against 3 unmortgaged vessels at an interest cost of LIBOR plus 1.60%.
- Our borrowings increased by US$153.7 million in the period after we drew down US$212.7 million net under our committed loan facilities while making net repayments of US$59.0 million of secured borrowings and revolving facilities.
- During the period we incurred capital expenditure of US$90.6 million in cash, of which:
  (a) we paid US$38.4 million for one secondhand Handysize and two secondhand Supramaxes which were delivered into our fleet in the first half of 2020; and
  (b) we paid US$52.2 million for dry dockings and the installation of ballast water treatment systems and scrubbers.
- In addition to the above cash payments for ships, we issued new shares at HK$1.8 per share equivalent to a total of US$11.9 million to the ship sellers for two of the vessels that we committed to purchase in September 2019 and that delivered in the period.

As at 30 June 2020:

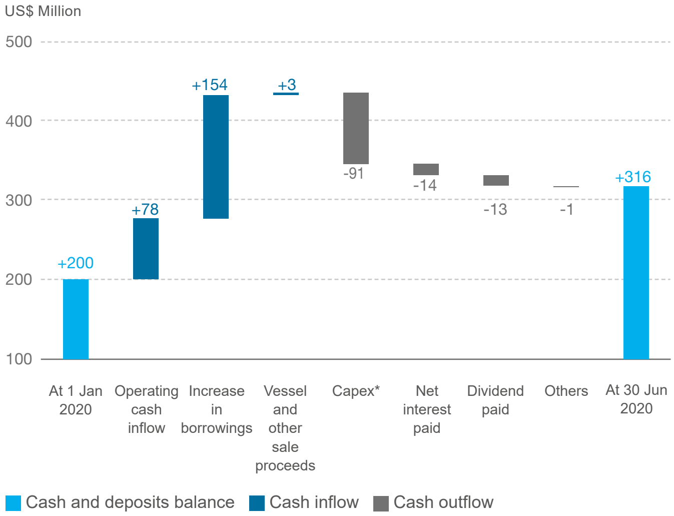
- the Group's cash and deposits were US$316.0 million and we had a 41% net gearing ratio.
- our available committed banking facilities were fully drawn.
- we have three unmortgaged vessels.
- we have finalised an additional US$33.5 million in committed borrowings secured against two additional unmortgaged vessels which is expected to be available to draw upon within the third quarter of 2020.

We invest our cash 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 and Singapore.

The Group's cash and deposits at 30 June 2020 comprised US$312.5 million in United States Dollars and US$3.5 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 working capital needs and any vessel purchase commitments.

During the first half of 2020, we achieved a 1.6% return on the Group's cash.

Cash Inflow and Outflow in 1H 2020



* excluding Capex of US$11.9 million funded by equity

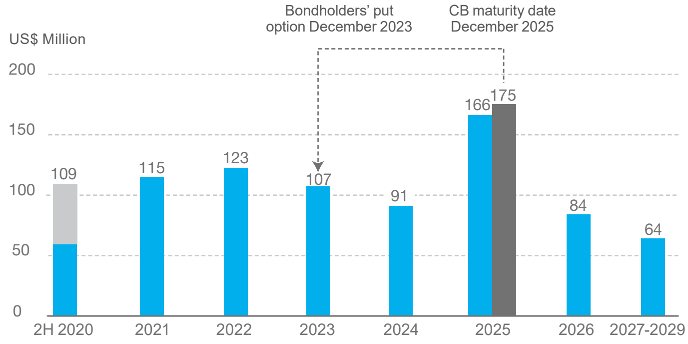
Cash and Deposits

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

US$ Million	30 Jun 2020	31 Dec 2019	Change
Cash and deposits	**316.0**	200.2	+58%
Available undrawn committed facilities	**–**	182.6	-100%
Total available liquidity	**316.0**	382.8	-17%
Current portion of long-term borrowings	**(165.2)**	(127.0)	
Long-term borrowings	**(855.6)**	(736.1)	
Total borrowings	**(1,020.8)**	(863.1)	-18%
Net borrowings	**(704.8)**	(662.9)	-6%
Net borrowings to shareholders' equity	**67%**	52%	
Net borrowings to Net Book Value of owned vessels KPI	**41%**	35%	

Borrowings and Undrawn Committed Facilities

Schedule of Reduction in Borrowings and Undrawn Committed Facilities



We arrange financing by leveraging the Group's balance sheet to optimise the availability of cash resources of the Group. The aggregate borrowings and undrawn committed facilities of the Group at 30 June 2020, including the liability component of the convertible bonds, amounted to US$1,020.8 million (31 December 2019: US$1,045.8 million) and are mainly denominated in United States Dollars.

- US$50.0 million unsecured 364-day revolving credit facility
- Secured borrowings and undrawn committed facilities (US$809.0 million)
- Convertible bonds (face value US$175.0 million, book value US$161.8 million, bondholders' put option December 2023)

Borrowings and Undrawn Committed Facilities – US$859.0 million (31 December 2019: US$885.1 million)

The overall decrease in secured borrowings is mainly due to scheduled loan amortisation, partially offset by the closing of one new revolving credit facility. In the first half of 2020, we drew down all our remaining available committed loan facilities.

The Group monitors the loan-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 2020:

- The Group's secured borrowings were secured by 114 vessels with a total net book value of US$1,652.2 million and by an assignment of earnings and insurances in respect of these vessels.
- The Group was in compliance with all its loan-to-asset value requirements.

P/L impact:

A decrease in interest to US$14.3 million (1H 2019: US$15.9 million) was mainly due to a decrease in average interest rates.

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

Convertible Bonds Liability Component – US$161.8 million (31 December 2019: US$160.7 million)

As at 30 June 2020 there remained the 3.0% p.a. coupon December 2025 convertible bonds with an outstanding principal of US$175.0 million and a prevailing conversion price of HK$2.34 per share.

Currently US$22.2 million of the original convertible bonds proceeds has been used to replenish the cash used as the cash consideration for the purchase of two vessels pursuant to the four-ship acquisition transaction as announced on 17 September 2019, US$27.2 million has been used as the cash consideration for the purchase of the other two vessels of the said transaction and US$16.8 million has been used to purchase a secondhand Supramax delivered to the Group in early 2020. Additionally, it is expected that approximately US$83.2 million will be used for further potential vessel acquisitions and the balance for general corporate purposes including but not limited to vessel operating expenses, vessel charter-hire, the service of the Group's financial obligations, office administrative expenses and vessel and non-vessel equipment expenditures. However, out of caution during the uncertain market conditions due to the Covid-19 pandemic, we paused our spending on growing our owned fleet with larger, high-quality secondhand acquisitions, but we will consider resuming our ship acquisitions as the market recovers and as we find particularly compelling opportunities.

P/L impact:

The US$3.7 million (1H 2019: US$3.3 million) interest expense of the convertible bonds outstanding during the period is calculated at an effective average interest rate of 4.7% (1H 2019: 5.7%).

Finance Costs

US$ Million	Average interest rate P/L	Average interest rate Cash	Balance at 30 June 2020	Finance costs 1H2020	Finance costs 1H2019	Change
Borrowings (including realised interest rate swap contracts)	3.5%	3.5%	859.0	**14.3**	15.9	+10%
Convertible bonds (Note)	4.7%	3.0%	161.8	**3.7**	3.3	-12%
	KPI 3.7%	3.4%	1,020.8	**18.0**	19.2	+6%
Other finance charges				**0.5**	0.6	
Total finance costs				**18.5**	19.8	+7%
Interest coverage (calculated as EBITDA divided by total finance costs)				KPI **4.3X**	5.1X	

Note: The convertible bonds have a P/L cost of US$3.7 million and a cash cost of US$2.6 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 2020, all our interest rate swap contracts qualified for hedge accounting as cash flow hedges and US$0.5 million of interest rate swap contract expense was realised. As at 30 June 2020, 59% (31 December 2019: 74%) of the Group's long-term borrowings were on fixed interest rates. We currently expect about 58% and 57% of the Group's existing long-term borrowings will be on fixed interest rates as at 31 December 2020 and 2021 respectively, assuming all revolving credit facilities are fully drawn.

Corporate Governance

We conduct our business with high standards of corporate governance to ensure responsible direction and management of the Group and to achieve sustainable value for our shareholders 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 2020, the Group complied with all code provisions of the Code as set out in Appendix 14 of the Rules Governing the Listing of the Securities on the Stock Exchange (the "Listing Rules").

Directors' Securities Transactions

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

The Board confirms that, having made specific enquiry, all 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 2020.

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 senior managers and staff who had been notified and provided with the Dealing Rules have fully complied with the required standards set out in the Dealing Rules during the six months ended 30 June 2020.

Share Capital

During the six months ended 30 June 2020, an aggregate of 51,793,762 shares were issued to Helmstar Shipping S.A. and Ever Bright Shipping S.A. and Keishin Kaiun Co., Ltd. as partial consideration upon delivery of the last two vessels to the Group pursuant to the four contracts entered into by the Company for the acquisition of four vessels as announced in September 2019.

Purchase, Sale or Redemption of Securities

During the six months ended 30 June 2020, other than for satisfying restricted awards granted under the Company's 2013 Share Award Scheme, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the share capital or convertible bonds of the Company.

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 14 August 2020 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 external auditor and 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.

Board members

The Directors who held office as at the date of this Interim Report are set out below:

	Board					
	Date of Appointment	Terms of Appointment	Audit Committee	Remuneration Committee	Nomination Committee	Executive Committee
Executive Directors						
David M. Turnbull, Board Chairman	17 May 2006	3 years until 2023 AGM*	–	–	–	Member
Mats H. Berglund, CEO	01 Jun 2012	3 years until 2021 AGM	–	–	–	Chairman
Peter Schulz, CFO	30 Jul 2018	3 years until 2022 AGM	–	–	–	Member
Independent Non-executive Directors						
Patrick B. Paul	25 Mar 2004	3 years until 2021 AGM	Chairman	Member	Member	–
Robert C. Nicholson	25 Mar 2004	3 years until 2022 AGM	Member	Chairman	Chairman	–
Alasdair G. Morrison	01 Jan 2008	3 years until 2021 AGM	Member	–	–	–
Irene Waage Basili	01 May 2014	3 years until 2023 AGM*	–	Member	Member	–
Stanley H. Ryan	05 Jul 2016	3 years until 2022 AGM	–	Member	Member	–
Kirsi K. Tikka	02 Sep 2019	expires on 1 Sept 2022*	Member	–	–	–

All the Independent Non-executive Directors other than Dr. Tikka were members of each of the Audit, Remuneration and Nomination Committees up to 31 December 2019. With effect from 1 January 2020, changes in composition of the board committees were as follows:

(i) Mr. Morrison ceased to be a member of the Remuneration and Nomination Committees but continued to be a member of the Audit Committee;

(ii) Mrs. Basili, Mr. Ryan and Mr. Bradshaw# ceased to be members of the Audit Committee but continued to be members of the Remuneration and Nomination Committees; and

(iii) Dr. Tikka was appointed a member of the Audit Committee.

There has been no change in the annual Directors' fees of the Independent Non-executive Directors except for Dr. Tikka whose annual fee increased from HK$650,000 to HK$800,000 per annum with effect from 1 January 2020 reflecting her appointment to the Audit Committee.

* Re-elected as Director at the Company's annual general meeting held on 8 April 2020.

\# Mr. Daniel Rochfort Bradshaw retired as an Independent Non-executive Director and ceased to be a member of the Remuneration and Nomination Committees at the conclusion of the annual general meeting held on 8 April 2020.

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 2020, 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 20	31 Dec 19
David M. Turnbull [1]	8,726,000	3,955,190 [2]	Long	12,681,190	0.26%	0.22%
Mats H. Berglund [1]	22,322,000	0	Long	22,322,000	0.47%	0.41%
Peter Schulz [1]	7,982,000	129,000 [3]	Long	8,111,000	0.17%	0.14%
Patrick B. Paul	380,000	0	Long	380,000	less than 0.01%	less than 0.01%
Alasdair G. Morrison	0	1,674,380 [4]	Long	1,674,380	0.03%	0.00%

Notes:

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

(2) 3,118,000 shares and 837,190 shares in the form of convertible bonds due 2025 at nominal value of US$250,000 are held respectively by two trusts of which Mr. Turnbull is a beneficiary.

(3) 129,000 shares are held by Mr. Schulz in the capacity of a beneficiary of a trust.

(4) 1,674,380 shares in the form of convertible bonds due 2025 at nominal value of US$500,000 are held by Mr. Morrison in the capacity of a beneficiary of a trust.

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 2020.

Save as disclosed, at no time during the period were the Company, its subsidiaries, or its associated companies 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 the 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 2020 are as follows:

'000 shares/units	Date of first award	Total awarded	Vested to date	Unvested at 30 Jun 2020	During the period Unvested at 1 Jan 2020	Granted[1]	Lapsed	2H2020	Vesting in 2021	2022	2023
Directors											
David M. Turnbull	5-Aug-08	11,231	(5,934)	5,297	4,048	1,249	–	1,590	1,180	1,278	1,249
Mats H. Berglund	1-Jun-12	24,322	(12,000)	12,322	9,391	2,931	–	3,623	2,768	3,000	2,931
Peter Schulz	21-Aug-17	7,982	(2,294)	5,688	4,005	1,683	–	1,149	1,168	1,688	1,683
		43,535	(20,228)	23,307	17,444	5,863	–	6,362	5,116	5,966	5,863
Other Employees				87,927	64,246	23,681	–	22,851	20,389	22,292	22,395
				111,234	81,690	29,544	–	29,213	25,505	28,258	28,258

Notes:

(1) The closing price of the shares of the Company immediately before the grant of 29,544,000 shares on 3 March 2020 was HK$1.23.

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 2020, the Company had been notified of the following substantial shareholder's interests and short positions, being 5% or more of the Company's issued share capital.

Name	Capacity/ Nature of interest	Long/ Short Position	Number of Shares	Approximate percentage of the issued share capital of the Company	
				30 Jun 20	31 Dec 19
Pandanus Associates Inc.[1]	Interest of corporation controlled	Long	438,719,000	9.16%	Not applicable
Pzena Investment Management, LLC[2]	Investment manager/ Beneficial owner	Long	327,295,435	6.83%	5.59%
Citigroup Inc.[3]	Interest of corporation controlled/ Approved lending agent	Long Short	293,921,995 6,442,814	6.14% 0.13%	5.53% 0.05%
Brown Brothers Harriman & Co.	Agent	Long	239,466,919	5.00%	Not applicable

Note:

(1) Based on available public disclosures, Pandanus Associates Inc. is associated with Fidelity International.

(2) According to the advice of Pzena Investment Management, LLC, the long position in shares includes 430,000 shares held in dual capacities as Investment manager and Beneficial owner.

(3) The long position in shares held by Citigroup Inc. is held in the capacities of Interest of corporation controlled (7,226,611 shares) and Approved lending agent (286,695,384 shares).

Group Performance Review

This Group Performance Review comprises a presentation of our income statement adjusted to provide readers with a better understanding of the key dynamics of a shipping business, more consistent with the way we review our performance in our internal management reporting.

		Six months ended 30 June		
US$ Million	Note	**2020**	2019	Change*
Revenue		**681.5**	767.1	-11%
Bunker, port disbursement & other voyage costs		**(351.6)**	(360.5)	+2%
Time-charter equivalent ("TCE") earnings	1	**329.9**	406.6	-19%
Owned vessel costs				
Operating expenses	2	**(83.2)**	(80.1)	-4%
Depreciation	3	**(66.7)**	(60.1)	-11%
Net finance costs	4	**(16.4)**	(16.5)	+1%
Charter costs				
Non-capitalised charter costs	5	**(142.6)**	(200.1)	+29%
Capitalised charter costs	5	**(17.4)**	(19.1)	+9%
Operating performance before overheads		**3.6**	30.7	-88%
Adjusted total G&A overheads	6	**(30.0)**	(30.5)	+2%
Taxation and others		**(0.2)**	(0.8)	+75%
Underlying loss		**(26.6)**	(0.6)	>-100%
Vessel impairment	7	**(198.2)**	–	
Closed out gain on fuel price spread hedge	8	**7.4**	–	
Unrealised derivative (expenses)/income	9	**(4.0)**	8.6	
Disposal loss of assets held for sale		**(1.0)**	–	
Net write-back of disposal cost provision		**–**	0.2	
(Loss)/profit attributable to shareholders		**(222.4)**	8.2	>-100%
EBITDA		**79.2**	101.1	-22%
Net profit margin		**(33%)**	1%	-34%
Return on average equity employed		**(18%)**	1%	-19%

* 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 19% reflecting weaker market conditions during the period.
2. Total operating expenses of our owned vessels increased by 4% as our owned fleet expanded.
3. Depreciation of our owned vessels increased by 11% as our owned fleet expanded and additional costs were incurred for installation of ballast water treatment systems and scrubbers.
4. Net finance costs are substantially unchanged.
5. Non-capitalised charter costs comprise the cost of short-term charters with a term of 12 months or less and the non-lease portion of long-term charters with a term of over 12 months. Capitalised charter costs comprise depreciation of right-of-use assets and interest expenses on lease liabilities relating to the lease portion of long-term charters with a term of over 12 months. Overall charter costs reduced due to weaker market conditions during the period.
6. Adjusted total G&A overheads comprise the total G&A overheads and the interest on lease liabilities of other PP&E. The amount is substantially unchanged.
7. As a result of the significant reduction in market freight rates and the uncertain market outlook, a one-off non-cash impairment on the Group's Handysize core fleet was provided.
8. Since 2018, the Group has entered into 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 a number of Supramax vessels that have been fitted with scrubbers. As the spread has reduced significantly, all contracts were closed out in the first half of 2020 locking in the gain on the position.
9. The unrealised derivative expenses mainly represents the negative mark-to-market on our regular bunker swap contracts.

Financial Statements

Unaudited Condensed Consolidated Income Statement

	Note	Six months ended 30 June 2020 US$'000	2019 US$'000
Revenue	4	**681,487**	767,140
Cost of services	5	**(683,280)**	(735,882)
Gross (loss)/profit		**(1,793)**	31,258
Indirect general and administrative overheads	5	**(3,123)**	(3,582)
Vessel impairment	5	**(198,203)**	–
Other income and gains	6	**348**	367
Other expenses	5	**(1,009)**	(189)
Finance income	7	**2,172**	3,323
Finance costs	7	**(20,266)**	(22,344)
(Loss)/profit before taxation		**(221,874)**	8,833
Tax charges	8	**(503)**	(616)
(Loss)/profit attributable to shareholders		**(222,377)**	8,217
Earnings per share for (loss)/profit attributable to shareholders (in US cents)			
Basic earnings per share	10(a)	**(4.77)**	0.18
Diluted earnings per share	10(b)	**(4.77)**	0.18

Unaudited Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June 2020 US$'000	2019 US$'000
(Loss)/profit attributable to shareholders	**(222,377)**	8,217
Other comprehensive income		
Items that may be reclassified to income statement		
Cash flow hedges		
– fair value losses	**(10,860)**	(4,286)
– transferred to income statement	**763**	602
Currency translation differences	**(480)**	53
Total comprehensive income attributable to shareholders	**(232,954)**	4,586

Unaudited Condensed Consolidated Balance Sheet

	Note	30 June 2020 US$'000	31 December 2019 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**1,721,815**	1,875,352
Right-of-use assets	12	**67,096**	77,835
Subleasing receivables	13	**–**	1,915
Goodwill	11	**25,256**	25,256
Derivative assets	14	**9,135**	1,464
Trade and other receivables	15	**7,852**	25,487
Restricted bank deposits	16	**51**	51
		1,831,205	2,007,360
Current assets			
Inventories		**74,142**	90,381
Current portion of subleasing receivables	13	**5,314**	6,692
Derivative assets	14	**16,158**	2,495
Trade and other receivables	15	**65,990**	82,714
Assets held for sale		**11,880**	4,400
Cash and deposits	16	**315,990**	200,193
		489,474	386,875
Total assets		**2,320,679**	2,394,235
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	20	**47,889**	47,039
(Accumulated losses)/retained profits		**(25,479)**	208,698
Other reserves		**1,021,876**	1,020,195
Total equity		**1,044,286**	1,275,932
LIABILITIES			
Non-current liabilities			
Long-term borrowings	18	**855,535**	736,101
Lease liabilities	19	**48,261**	53,770
Derivative liabilities	14	**25,341**	13,090
Trade and other payables	17	**1,339**	2,123
		930,476	805,084
Current liabilities			
Current portion of long-term borrowings	18	**165,216**	127,050
Current portion of lease liabilities	19	**33,326**	39,137
Derivative liabilities	14	**15,788**	1,937
Trade and other payables	17	**131,128**	143,949
Taxation payable		**459**	1,146
		345,917	313,219
Total liabilities		**1,276,393**	1,118,303

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	Exchange reserve	Contributed surplus	(Accumulated loss)/ retained profits	Total
At 1 January 2020	**47,039**	**292,405**	**(56,606)**	**13,121**	**(7,488)**	**(282)**	**(893)**	**779,938**	**208,698**	**1,275,932**
Comprehensive income										
Loss attributable to shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(222,377)**	**(222,377)**
Other comprehensive income										
Cash flow hedges										
– fair value losses	**–**	**–**	**–**	**–**	**–**	**(10,860)**	**–**	**–**	**–**	**(10,860)**
– transferred to income statement	**–**	**–**	**–**	**–**	**–**	**763**	**–**	**–**	**–**	**763**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**–**	**(480)**	**–**	**–**	**(480)**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**(10,097)**	**(480)**	**–**	**(222,377)**	**(232,954)**
Transactions with owners in their capacity as owners										
Dividends paid (Note 9)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,894)**	**(12,894)**
Shares issued as Vessel Consideration Shares, net of issuing expenses (Note 20(a))	**518**	**11,399**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11,917**
Share-based compensation	**–**	**–**	**–**	**–**	**3,214**	**–**	**–**	**–**	**–**	**3,214**
Share awards granted (Note 20(b))	**1,029**	**–**	**–**	**–**	**(2,123)**	**–**	**–**	**–**	**1,094**	**–**
Shares issued upon grant of restricted share awards (Note 20(b))	**232**	**3,335**	**–**	**–**	**(3,567)**	**–**	**–**	**–**	**–**	**–**
Shares purchased by trustee of the SAS (Note 20(b))	**(929)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(929)**
At 30 June 2020	**47,889**	**307,139**	**(56,606)**	**13,121**	**(9,964)**	**(10,379)**	**(1,373)**	**779,938**	**(25,479)**	**1,044,286**
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	–	–	–	–	–	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
Comprehensive income										
Profit attributable to shareholders	–	–	–	–	–	–	–	–	8,217	8,217
Other comprehensive income										
Cash flow hedges										
– fair value losses	–	–	–	–	–	(4,286)	–	–	–	(4,286)
– transferred to income statement	–	–	–	–	–	602	–	–	–	602
Currency translation differences	–	–	–	–	–	–	53	–	–	53
Total comprehensive income	–	–	–	–	–	(3,684)	53	–	8,217	4,586
Transactions with owners in their capacity as owners										
Shares 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)
Share-based compensation	–	–	–	–	2,995	–	–	–	–	2,995
Share awards granted (Note 20(b))	1,406	–	–	–	(1,024)	–	–	–	(382)	–
Shares issued upon grant of restricted share awards (Note 20(b))	256	5,355	–	–	(5,611)	–	–	–	–	–
Shares purchased by trustee of the SAS (Note 20(b))	(1,279)	–	–	–	–	–	–	–	–	(1,279)
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

Unaudited Condensed Consolidated Cash Flow Statement

	Note	Six months ended 30 June 2020 US$'000	2019 US$'000
Operating activities			
Cash generated from operations	21(a)	**98,084**	93,048
Hong Kong and overseas taxation paid		**(1,187)**	(303)
Net cash generated from operating activities		**96,897**	92,745
Investing activities			
Purchase of property, plant and equipment		**(90,564)**	(105,635)
(Increase)/decrease in term deposits		**(5,030)**	12,500
Disposal of assets held for sale		**3,391**	6,276
Receipt of subleasing receivables – principal element	13	**3,293**	3,141
Subleasing receivables interest received	7	**75**	142
Bank interest received	7	**2,097**	3,181
Net cash used in investing activities		**(86,738)**	(80,395)
Financing activities			
Drawdown of bank loans and other borrowings		**212,687**	246,152
Repayment of bank loans and other borrowings		**(59,002)**	(209,562)
Interest on borrowings and other finance charges paid		**(16,463)**	(17,477)
Repayment of lease liabilities – principal element	19	**(21,069)**	(21,368)
Interest on lease liabilities paid	7	**(1,718)**	(2,492)
Dividends paid	9	**(12,894)**	(21,825)
Payment for shares purchased by trustee of the SAS	20(b)	**(929)**	(1,279)
Net cash generated from/(used in) financing activities		**100,612**	(27,851)
Net increase/(decrease) in cash and cash equivalents		**110,771**	(15,501)
Exchange losses on cash and cash equivalents		**(4)**	(49)
Cash and cash equivalents at 1 January		**200,193**	329,244
Cash and cash equivalents at 30 June	16	**310,960**	313,694
Term deposits at 1 January	16	**–**	12,500
Increase/(decrease) in term deposits		**5,030**	(12,500)
Cash and deposits at 30 June	16	**315,990**	313,694

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 30 July 2020.

Page 6
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 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 2019, 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 2019.

The Group has adopted early the following amendment to the accounting standards for the accounting period commencing 1 January 2020:

HKFRS 16(Amendment)	Covid-19-Related Rent Concessions

The adoption of this amendment to standard does not result in any substantial changes to the Group's accounting policies.

Other new standards and amendments that became effective in this accounting period do not have any impact on the Group's accounting policies.

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 2019, except for the classification of cash-generating units as disclosed in Note 5(c).

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 2020	2019
Vessel – related expenses		
Bunkers consumed	**172,992**	190,443
Port disbursements and other voyage costs	**167,843**	171,671
Vessel charter costs (a)	**142,579**	200,094
Vessel depreciation		
– owned vessels	**66,684**	60,133
– right-of-use assets	**15,957**	16,835
Employee benefit expenses – crew wages and other related costs	**51,597**	51,281
Vessel operating expenses	**26,017**	25,121
Lubricating oil consumed	**5,574**	3,654
Net losses/(gains) on bunker swap contracts	**7,417**	(10,226)
	656,660	709,006
General and administrative overheads (b)		
Employee benefit expenses including directors' emoluments	**25,407**	24,352
Other PP&E depreciation		
– right-of-use assets	**1,133**	1,005
– owned other PP&E	**763**	924
Office lease expenses	**345**	424
Net foreign exchange (gains)/losses	**(341)**	207
Other general and administrative expenses	**2,436**	3,546
	29,743	30,458
Other expenses		
Provision for impairment (c)		
– owned vessels	**194,090**	–
– right-of-use assets	**3,387**	–
– others	**726**	–
Losses on disposal of assets held for sale	**1,009**	174
Net losses on forward freight agreements	**–**	15
	199,212	189
The sum of the above reconciles to the sum of the following items in the income statement: (i) Cost of services, (ii) Indirect general and administrative overheads, (iii) Vessel impairment and (iv) Other expenses	**885,615**	739,653

(a) Vessel charter costs

Vessel charter costs comprise the cost of short-term charters with a term of 12 months or less and the non-lease portion of long-term charters with a term of over 12 months.

The vessel charter costs included variable lease payments on an index-linked basis amounting to US$1.1 million (2019: US$1.6 million).

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

US$'000	Six months ended 30 June 2020	2019
Direct G&A overheads included in cost of services	**26,620**	26,876
Indirect G&A overheads	**3,123**	3,582
Total G&A overheads	**29,743**	30,458

(c) Provision for impairment

Following a significant reduction in market freight rates and the uncertain market outlook, the Group reviewed the carrying values of owned vessels and right-of-use assets, and a one-off impairment of US$198.2 million was provided for our Handysize vessels.

Generally the small and large Handysize vessels are no longer fully interchangeable, therefore the owned vessels and right-of-use assets are now separated into three (31 December 2019: two) cash-generating units ("CGUs"). The three CGUs comprise Handysize vessels smaller than 30,000 dwt ("Small Handysize"), Handysize vessels equal to or larger than 30,000 dwt ("Large Handysize") and Supramax vessels.

An impairment is recognised when the carrying value exceeds the recoverable amount, where the recoverable amount is the higher of value-in-use and fair value less costs of disposal. The Large Handysize was impaired down to the value-in-use while the Small Handysize was impaired down to its fair value less costs of disposal. The valuation of the Small Handysize is based on unobservable inputs and is within Level 3 of the fair value scale (Note 14). In assessing the value-in-use of CGUs, the applicable discount rate was 7.0% (31 December 2019: 6.2%).

6 Other income and gains

US$'000	Six months ended 30 June 2020	2019
Government subsidies (a)	**266**	–
Net gains on forward foreign exchange contracts	**53**	–
Net gains on forward freight agreements	**29**	–
Write-back of disposal cost provisions	**–**	367
	348	367

(a) Government subsidies related to cash subsidies from government in respect of Covid-19 relief measures which are either unconditional grants or grants with conditions having been satisfied.

7 Finance income and finance costs

US$'000	Six months ended 30 June 2020	2019
Finance income		
Bank interest income	**(2,097)**	(3,181)
Subleasing receivables interest income	**(75)**	(142)
	(2,172)	(3,323)
Finance costs		
Interest on borrowings		
Bank loans	**12,996**	15,208
Convertible bonds	**3,707**	3,319
Other borrowings	**782**	1,006
Interest on lease liabilities		
Vessels	**1,509**	2,269
Other PP&E	**209**	223
Net losses/(gains) on interest rate swap contracts	**527**	(302)
Other finance charges	**536**	621
	20,266	22,344
Finance costs, net	**18,094**	19,021

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/(credited) to the income statement represents:

US$'000	Six months ended 30 June 2020	2019
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2019: 16.5%)	**343**	408
Overseas tax, provided at the rates of taxation prevailing in the countries	**162**	188
Adjustments in respect of prior year	**(2)**	20
Tax charges	**503**	616

9 Dividends

No interim dividend was declared for the periods ended 30 June 2020 and 2019.

The 2019 final dividend of HK2.1 cents or US0.3 cents per share, totalling US$12,894,000 was paid during the period. The 2018 final dividend of HK3.7 cents or US0.5 cents per share, totalling US$21,825,000 was paid during the same period in 2019.

10 Earnings per share ("EPS")

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the Group's (loss)/profit attributable to shareholders by the weighted average number of 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 2020	2019
(Loss)/profit attributable to shareholders	(US$'000)	**(222,377)**	8,217
Weighted average number of shares in issue	('000)	**4,660,536**	4,539,977
Basic earnings per share	(US cents)	**(4.77)**	0.18
Equivalent to	(HK cents)	**(37.07)**	1.42

(b) Diluted earnings per share

Diluted earnings per share are calculated by dividing the Group's (loss)/profit attributable to shareholders by the weighted average number of 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 shares from convertible bonds (Note 18(b)) and unvested restricted shares (Note 20(b)) where dilutive.

		Six months ended 30 June 2020	2019
(Loss)/profit attributable to shareholders	(US$'000)	**(222,377)**	8,217
Weighted average number of shares in issue	('000)	**4,660,536**	4,539,977
Adjustment for calculation of diluted EPS relating to unvested restricted shares	('000)	**–**	96,695
Weighted average number of shares for diluted EPS	('000)	**4,660,536**	4,636,672
Diluted earnings per share	(US cents)	**(4.77)**	0.18
Equivalent to	(HK cents)	**(37.07)**	1.39

Basic and diluted earnings per share for the period ended 30 June 2020 are the same as the potential shares from convertible bonds and unvested restricted shares are anti-dilutive.

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

	Property, plant and equipment		Goodwill
US$'000	**2020**	2019	**2020 & 2019**
Net book value			
At 1 January	**1,875,352**	1,807,672	**25,256**
Additions	**119,909**	101,282	**–**
Depreciation	**(67,447)**	(61,057)	**–**
Provision for impairment	**(194,090)**	–	**–**
Transfer to assets held for sale	**(11,880)**	–	**–**
Exchange differences	**(29)**	25	**–**
At 30 June	**1,721,815**	1,847,922	**25,256**

As at 30 June 2020, excluding assets held for sale, the Group owned vessels with a net book value of US$1,717.5 million as follows:

	Number of vessels	Average net book value (US$ Million)	Total net book value (US$ Million)
Small Handysize	**20**	**5.3**	**106.1**
Large Handysize	**58**	**14.4**	**832.9**
Supramax	**35**	**21.2**	**740.2**
Post-Panamax	**1**	**38.3**	**38.3**
	114		**1,717.5**

12 Right-of-use assets

US$'000	Vessels	Other PP&E	Total
At 1 January 2020	**68,751**	**9,084**	**77,835**
Additions	**9,388**	**430**	**9,818**
Depreciation	**(15,957)**	**(1,133)**	**(17,090)**
Provision for Impairment	**(3,387)**	**–**	**(3,387)**
Lease modification	**–**	**38**	**38**
Exchange differences	**–**	**(118)**	**(118)**
At 30 June 2020	**58,795**	**8,301**	**67,096**
At 1 January 2019	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 2019	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 retaining the primary obligation under the original lease. The Group acts as both the lessee and lessor of the same underlying asset.

US$'000	2020	2019
At 1 January	**8,607**	15,008
Amounts received	**(3,293)**	(3,141)
At 30 June	**5,314**	11,867
Non-Current	**–**	5,314
Current	**5,314**	6,553
	5,314	11,867

The gross subleasing receivables, unearned future finance income and net subleasing receivables as at 30 June 2020 and 2019 were as follows:

	30 June	
US$'000	**2020**	2019
Gross subleasing receivables		
Within one year	**5,410**	6,924
In the second to fifth year	**–**	5,410
	5,410	12,334
Unearned future finance income		
Within one year	**(96)**	(371)
In the second to fifth year	**–**	(96)
	(96)	(467)
Net subleasing receivables		
Within one year	**5,314**	6,553
In the second to fifth year	**–**	5,314
	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 2020		31 December 2019	
US$'000	Assets	Liabilities	Assets	Liabilities
Non-current				
Cash flow hedges				
Interest rate swap contracts (a)	–	(9,735)	235	(1,990)
Forward foreign exchange contracts (b)(i)	–	(9,085)	–	(9,128)
Derivatives that do not qualify for hedge accounting				
Bunker swap contracts (c)	9,087	(6,521)	1,229	(1,967)
Forward foreign exchange contracts (b)(ii)	48	–	–	(5)
	9,135	(25,341)	1,464	(13,090)
Current				
Cash flow hedges				
Interest rate swap contracts (a)	–	(344)	–	(96)
Derivatives that do not qualify for hedge accounting				
Bunker swap contracts (c)	16,122	(15,437)	2,495	(1,841)
Forward freight agreements (d)	36	(7)	–	–
	16,158	(15,788)	2,495	(1,937)
Total	25,293	(41,129)	3,959	(15,027)

(a) Interest rate swap contracts

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

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

Effective date	Notional amount	Swap details	Expiry
At 30 June 2020 and 31 December 2019			
June & September 2019	US$115 million on amortising basis	USD 3-month LIBOR swapped to a fixed rate of approximately 1.5% to 1.7% per annum	Contracts expire through May 2026
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 2020, the outstanding forward foreign exchange contracts held by the Group mainly consist of contracts to buy Danish Krone ("DKK") of approximately DKK355.7 million (31 December 2019: DKK420.8 million) and simultaneously sell approximately US$63.3 million (31 December 2019: US$75.0 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 loans.

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

At 30 June 2020, the Group had outstanding forward foreign exchange contracts to buy approximately US$1.6 million (31 December 2019: US$2.0 million) and simultaneously sell approximately AUD2.2 million (31 December 2019: 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 qualifies for hedge accounting

The Group enters into bunker swap contracts for fuel oil, very low sulphur fuel oil and marine gas oil to manage the fluctuations in bunker prices in connection with the Group's fixed rate cargo contract commitments.

The Group has 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 a number of Supramax vessels that have been fitted with scrubbers. As the spread has reduced significantly, all contracts were closed out in the first half of 2020 locking in the gain on the position.

At 30 June 2020, the Group had outstanding bunker swap contracts as follows:

Contract Type	Fuel Type	Quantity (Metric tonnes)	Average deal price (US$)	Average market price (US$)	Expiry through
At 30 June 2020					
Buy	Fuel oil	111,990	281	238	December 2022
Buy	Very low sulphur fuel oil	104,710	337	328	December 2022
Buy	Marine gas oil	158,620	420	364	December 2022
Sell	Fuel oil	103,710	211	240	December 2022
Sell	Very low sulphur fuel oil	103,698	439	327	December 2022
Sell	Marine gas oil	50,793	564	383	December 2022
At 31 December 2019					
Buy	Fuel oil	103,570	281	276	December 2022
Buy	Very low sulphur fuel oil	2,550	480	566	March 2020
Buy	Marine gas oil	58,470	564	593	December 2021
Sell	Very low sulphur fuel oil	56,142	457	493	December 2021
Sell	Marine gas oil	49,500	571	558	December 2022

(d) Forward freight agreements

None of our forward freight agreements qualifies for hedge accounting

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

At 30 June 2020, the Group had outstanding forward freight agreements as follows:

Contract Type	Index	Quantity (Days)	Contract Daily Price (US$)	Expiry through
At 30 June 2020				
Buy	BSI[1]	15	9,650	September 2020
Sell	BSI	75	9,530	September 2020

1 "BSI" represents Baltic Supramax Index.

At 31 December 2019, the Group had no outstanding forward freight agreements.

15 Trade and other receivables

US$'000	30 June 2020	31 December 2019
Non-current		
Prepayments (a)	**7,852**	25,487
Current		
Gross trade receivables	**33,534**	49,669
Less: provision for impairment	**–**	–
Net trade receivables (b)	**33,534**	49,669
Other receivables	**18,637**	20,533
Prepayments	**13,819**	12,512
	65,990	82,714

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

(a) Prepayments

Prepayments comprise instalments paid for the installation of ballast water treatment systems and docking costs. In 2019, they also included deposits paid for vessel acquisitions and instalments paid for the installation of scrubbers.

(b) Net trade receivables

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

US$'000	30 June 2020	31 December 2019
≤ 30 days	**25,793**	38,265
31-60 days	**1,705**	3,346
61-90 days	**1,613**	2,777
> 90 days	**4,423**	5,281
	33,534	49,669

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 2020	31 December 2019
Cash at bank and on hand	**59,778**	27,152
Bank deposits	**256,263**	173,092
Total cash and deposits	**316,041**	200,244
Cash and cash equivalents	**310,960**	200,193
Term deposits	**5,030**	–
Cash and deposits	**315,990**	200,193
Restricted bank deposits included in non-current assets	**51**	51
Total cash and deposits	**316,041**	200,244

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

Page 12
Funding

17 Trade and other payables

US$'000	30 June 2020	31 December 2019
Non-current		
Receipts in advance	**1,339**	1,771
Accruals and other payables	**–**	352
	1,339	2,123
Current		
Trade payables	**45,631**	61,408
Accruals and other payables	**55,475**	54,460
Receipts in advance	**30,022**	28,081
	131,128	143,949

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 2020	31 December 2019
≤ 30 days	**39,765**	56,963
31-60 days	**506**	451
61-90 days	**866**	275
> 90 days	**4,494**	3,719
	45,631	61,408

18 Long-term borrowings

US$'000	30 June 2020	31 December 2019
Non-current		
Bank loans (a)	**669,014**	548,169
Convertible bonds (b)	**161,786**	160,705
Other borrowings (c)	**24,735**	27,227
	855,535	736,101
Current		
Bank loans (a)	**158,610**	120,014
Other borrowings (c)	**6,606**	7,036
	165,216	127,050
Total	**1,020,751**	863,151

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 for the definition of different fair value levels.

(a) Bank loans

The Group's bank loans comprised secured and unsecured bank loans. Certain bank loans as at 30 June 2020 were secured, inter alia, by the following:

- Mortgages over certain owned vessels with net book values of US$1,568,525,000 (31 December 2019: US$1,702,308,000); and
- Assignment of earnings and insurance in respect of the vessels.

These bank loans are repayable as follows:

US$'000	**30 June 2020**	31 December 2019
Within one year	**158,610**	120,014
In the second year	**119,377**	70,209
In the third to fifth year	**374,891**	183,107
After the fifth year	**174,746**	294,853
	827,624	668,183

(b) Convertible bonds

	30 June 2020		31 December 2019	
US$'000	**Face value**	**Liability component**	Face value	Liability component
3.00% coupon due 2025	**175,000**	**161,786**	175,000	160,705

The carrying value of convertible bonds approximate their fair values.

Key terms	
Issue size	US$175.0 million
Issue date	10 December 2019
Maturity date	10 December 2025 (approximately 6 years from issue)
Coupon – cash cost	3.00% p.a. payable semi-annually in arrears on 10 June and 10 December
Effective interest rate	4.68% charged to income statement
Redemption price	100%
Conversion price converting bonds into shares	HK$2.34 (with effect from 17 April 2020) (Note)
Conversion at bondholders' options	Anytime on or after 20 January 2020
Bondholder put date for redemption at 100% of the principal amount	On 10 December 2023 (approximately 4 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

Note: The conversion price is subject to an adjustment arising from any cash dividends paid by the Company according to a pre-determined adjustment factor. Such adjustment becomes effective on the first date on which the shares are traded ex-dividend if a dividend is declared.

(c) Other borrowings

The Group's other borrowings as at 30 June 2020 related to seven (31 December 2019: seven) owned vessels with a combined net book value of US$83,653,000 (31 December 2019: US$98,260,000) 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 borrowings are repayable as follows:

US$'000	**30 June 2020**	31 December 2019
Within one year	**6,606**	7,036
In the second year	**10,891**	6,883
In the third to fifth year	**13,844**	20,344
	31,341	34,263

19 Lease liabilities

US$'000	2020	2019
At 1 January	**92,907**	130,459
Additions	**9,818**	13,729
Repayments	**(21,069)**	(21,368)
Lease modification	**38**	–
Exchange differences	**(107)**	168
At 30 June	**81,587**	122,988
Non-current	**48,261**	77,818
Current	**33,326**	45,170
	81,587	122,988

The lease liabilities are repayable as follows:

US$'000	30 June 2020	30 June 2019
Within one year	**33,326**	45,170
In the second year	**17,879**	33,620
In the third to fifth year	**28,521**	39,331
After the fifth year	**1,861**	4,867
	81,587	122,988

The total cash outflow for all leases amounted to US$155.7 million (2019: US$224.4 million).

20 Share capital

	2020		2019	
	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	**4,713,396,510**	**47,039**	4,532,519,114	45,205
Shares issued as Vessel Consideration Shares (a)	**51,793,762**	**518**	101,014,125	1,010
Shares granted to employees in the form of restricted share awards (b)	**6,358,000**	**1,029**	6,614,000	1,406
Shares issued upon grant of restricted share awards (b)	**23,186,000**	**232**	25,592,000	256
Shares purchased by trustee of the SAS (b)	**(5,863,000)**	**(929)**	(5,966,000)	(1,279)
Shares transferred back to trustee upon lapse of restricted share awards (b)	**–**	**–**	(177,000)	(32)
At 30 June	**4,788,871,272**	**47,889**	4,659,596,239	46,566

The issued share capital of the Company as at 30 June 2019 was 4,659,773,239 shares. The difference of 177,000 compared to the number of shares in the table above represents the shares held by the trustee in relation to restricted share awards amounting to US$32,150 as a debit to share capital.

(a) Shares issued as Vessel Consideration Shares

On 17 September 2019, the Group entered into contracts to acquire four vessels at a total purchase consideration of US$73.8 million funded by a combination of: (i) the issue of 105,912,033 shares at an issue price of HK$1.80 per shares ("Vessel Consideration Shares") amounting to US$24.4 million to the sellers; and (ii) cash of US$49.4 million. In the second half of 2019, an aggregate of 54,118,271 shares were issued upon the delivery of two vessels to the Group. In 2020, an aggregate of 51,793,762 shares were issued upon the delivery of the remaining two vessels to the Group.

On 14 May 2018, the Group entered into contracts to acquire another 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 shares ("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 the first half of 2019, an aggregate of 101,014,125 shares were issued upon the delivery of the remaining two vessels to the Group.

The closing share prices on 14 May 2018 and 17 September 2019 were HK$2.10 and HK$1.77 per share respectively.

(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 are lapsed or 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 (continued)

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

000' shares	2020	2019
At 1 January	**81,690**	76,930
Granted	**29,544**	32,206
Lapsed	**–**	(177)
Vested	**–**	(1,842)
At 30 June	**111,234**	107,117

The fair value of the restricted share awards is determined by the closing share price on the grant date. The fair value of the shares granted during the period was HK$1.50 (2019: HK$1.61) per share.

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			
	2020		2019	
Sources of shares granted	**Number of granted shares awards**	**Related movement US$'000**	Number of granted shares awards	Related movement US$'000
Shares issued	**23,186,000**	**232**	25,592,000	256
Shares purchased by the trustee of the SAS on the Stock Exchange funded by the Company	**5,863,000**	**929**	5,966,000	1,279
Shares transferred from the trustee	**495,000**	**100**	648,000	127
	29,544,000	**1,261**	32,206,000	1,662

The grant dates and vesting dates of the unvested restricted share awards as at 30 June 2020 are as follows:

		Vesting in			
Date of grant	**Number of unvested share awards**	**second half of 2020**	**2021**	**2022**	**2023**
27 January 2017	23,992,000	23,992,000	–	–	–
26 May 2017	280,000	280,000	–	–	–
21 August 2017	1,149,000	1,149,000	–	–	–
26 January 2018	24,194,000	1,562,000	22,632,000	–	–
25 January 2019	32,075,000	2,230,000	2,230,000	27,615,000	–
24 January 2020	29,544,000	–	643,000	643,000	28,258,000
	111,234,000	29,213,000	25,505,000	28,258,000	28,258,000

21 Notes to the unaudited condensed consolidated cash flow statement

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

	Six months ended 30 June	
US$'000	**2020**	2019
(Loss)/profit before taxation	**(221,874)**	8,833
Adjusted for:		
Assets and liabilities adjustments		
Vessel impairment	**198,203**	–
Depreciation on vessels and other PP&E	**67,447**	61,057
Depreciation on right-of-use assets	**17,090**	17,840
Net unrealised gains on derivative instruments not qualified as hedges	**(3,417)**	(8,611)
Losses on disposal of assets held for sale	**1,009**	174
Write-back of disposal cost provision	**–**	(367)
Charter hire reduction	**–**	24
Capital and funding adjustments		
Share-based compensation	**3,214**	2,995
Results adjustments		
Finance costs, net	**18,094**	19,021
Net foreign exchange (gains)/losses	**(341)**	207
Profit before taxation before working capital changes	**79,425**	101,173
Decrease/(increase) in inventories	**16,239**	(3,194)
Decrease/(increase) in trade and other receivables	**16,547**	(7,269)
(Decrease)/increase in trade and other payables	**(14,127)**	2,338
Cash generated from operations	**98,084**	93,048

(b) Significant non-cash transactions

Please refer to Note 20(a) for details of non-cash transactions relating to the purchase of vessels by issuing new shares.

22 Commitments

(a) Capital commitments

US$'000	30 June 2020	31 December 2019
Contracted for but not recognised as liabilities – vessel equipment contracts	**2,467**	59,804

As at 31 December 2019, they also included commitment to acquire three vessels.

(b) Commitments under operating leases

(i) The Group as the lessee – payments

The non-cancellable lease commitment included short-term leases, leases of low-value assets and leases not yet commenced at the reporting date.

The future aggregate minimum lease payments of these leases are as follows:

US$'000	Vessels	Land and buildings	Total
At 30 June 2020			
Within one year	**43,294**	**9**	**43,303**
In the second to fifth year	**16,234**	**5**	**16,239**
	59,528	**14**	**59,542**
At 31 December 2019			
Within one year	35,408	20	35,428
In the second to fifth year	32,580	4	32,584
After the fifth year	2,791	–	2,791
	70,779	24	70,803

(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 2020	31 December 2019
Within one year	**10,366**	13,241
In the second to fifth year	**26,298**	26,298
After the fifth year	**7,543**	10,801
	44,207	50,340

The Group leases vessels with leases expiring within 1 year to 6 years and the amount mainly represents the receipt from a Post-Panamax vessel amounting to US$40.4 million (31 December 2019: US$43.7 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	2020	2019
Directors' fees	**344**	303
Salaries and bonus	**1,516**	1,596
Share-based compensation	**652**	652
Retirement benefit costs	**3**	3
	2,515	2,554

24 Contingent liabilities and contingent assets

The Group had no material contingent liabilities and contingent assets at 30 June 2020 and 31 December 2019.

Report On Review of Interim Financial Information
To the Board of Directors of Pacific Basin Shipping Limited

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 20 to 35, which comprises the interim condensed consolidated balance sheet of Pacific Basin Shipping Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2020 and the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 30 July 2020

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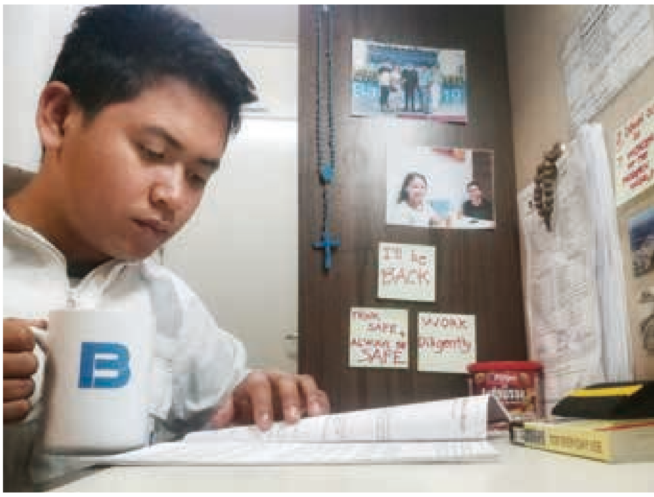

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