Notes to the Unaudited Condensed Consolidated Financial Statements

1 GENERAL INFORMATION

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

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

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

These unaudited condensed consolidated interim financial statements have been approved for issue by the Board of Directors on 28 July 2017.

Page 4
Market Review

2 BASIS OF PREPARATION

(a) Accounting standards

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016, 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 2016.

Certain amendments to standards are mandatory for the accounting period beginning 1 January 2017. The adoption of these amendments to standards does not result in any substantial change to the Group's accounting policies.

3 ESTIMATES

The preparation of unaudited condensed consolidated interim financial statement 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 statement, 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 2016.

4 REVENUE AND SEGMENT INFORMATION

The Group's revenue is substantially all 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 Directors consider that the nature of our shipping services, which are carried out internationally, precludes a meaningful allocation of operating profits to specific geographical segments.

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

	Property, plant and equipment		Goodwill
US$'000	**2017**	2016	**2017 & 2016**
Net book amounts			
At 1 January	**1,653,433**	1,611,000	**25,256**
Additions	**167,578**	48,432	**–**
Depreciation	**(52,977)**	(49,044)	**–**
Disposals	**(5,249)**	(14,919)	**–**
Exchange differences	**61**	308	**–**
At 30 June	**1,762,846**	1,595,777	**25,256**

6 AVAILABLE-FOR-SALE FINANCIAL ASSETS

US$'000	Valuation method	**30 June 2017**	31 December 2016
Listed equity securities (a)	Level 1	**439**	875

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

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

Fair value levels

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

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

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

Notes to the Unaudited Condensed Consolidated Financial Statements continued

7 DERIVATIVE ASSETS AND LIABILITIES

The Group is exposed to fluctuations in freight rates, bunker prices, interest rates and currency exchange rates. The Group manages these exposures by way of:

- forward freight agreements;
- bunker swap contracts;
- interest rate swap contracts; and
- forward foreign exchange contracts.

	30 June 2017			31 December 2016		
US$'000	Level 1	Level 2	Total	Level 1	Level 2	Total
Derivative assets						
Derivative assets that do not qualify for hedge accounting						
Bunker swap contracts (a)	–	1,100	1,100	–	3,800	3,800
Forward freight agreements (b)	19	–	19	–	–	–
Total	19	1,100	1,119	–	3,800	3,800
Less: non-current portion of						
Bunker swap contracts (a)	–	(317)	(317)	–	(969)	(969)
Non-current portion	–	(317)	(317)	–	(969)	(969)
Current portion	19	783	802	–	2,831	2,831
Derivative liabilities						
Cash flow hedges						
Forward foreign exchange contracts (c)	–	11,626	11,626	–	21,506	21,506
Interest rate swap contracts (d(i))	–	712	712	–	788	788
Derivative liabilities that do not qualify for hedge accounting						
Bunker swap contracts (a)	–	5,333	5,333	–	5,456	5,456
Forward freight agreements (b)	6	–	6	–	–	–
Interest rate swap contracts (d(ii))	–	–	–	–	9	9
Total	6	17,671	17,677	–	27,759	27,759
Less: non-current portion of						
Forward foreign exchange contracts (c)	–	(11,626)	(11,626)	–	(21,506)	(21,506)
Interest rate swap contracts (d(i))	–	(712)	(712)	–	(788)	(788)
Bunker swap contracts (a)	–	(2,187)	(2,187)	–	(2,566)	(2,566)
Non-current portion	–	(14,525)	(14,525)	–	(24,860)	(24,860)
Current portion	6	3,146	3,152	–	2,899	2,899

(a) Bunker swap contracts

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

Bunker swap contracts that do not qualify for hedge accounting

At 30 June 2017, the Group had outstanding bunker swap contracts to buy approximately 140,295 (31 December 2016: 124,170) metric tonnes of bunkers. These contracts expire through December 2021 (31 December 2016: December 2021).

(b) Forward freight agreements

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

Forward freight agreements that do not qualify for hedge accounting

At 30 June 2017, the Group had outstanding forward freight agreements as follows:

Contract Type	Index[1]	Quantity (days)	Contract daily price (US$)	Expiry through
For 2017:				
Buy	BSI	60	8,600	December 2017
Sell	BSI	30	8,800	December 2017

[1] "BSI" stands for "Baltic Supramax Index".

(c) Forward foreign exchange contracts

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

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

At 30 June 2017, the outstanding forward foreign exchange contracts held by the Group mainly comprised contracts with banks to buy Danish Kroner ("DKK") of approximately DKK763.3 million (31 December 2016: DKK835.2 million) and simultaneously sell approximately US$136.8 million (31 December 2016: US$149.8 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 on terms that match the repayment schedules of such long-term bank borrowings.

(d) Interest rate swap contracts

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

(i) Interest rate swap contracts that qualify for hedge accounting as cash flow hedges

Effective date	Notional amount	Swap details	Expiry
For 2017:			
February 2017	US$9 million on amortising basis	USD 1-month LIBOR swapped to a fixed rate of approximately 1.8% per annum	Contract expires in January 2022
For 2017 & 2016:			
December 2013 & January 2014	US$178 million on amortising basis	USD 3-month LIBOR swapped to a fixed rate of approximately 1.9% to 2.1% per annum	Contracts expire through December 2021

(ii) Interest rate swap contracts that do not qualify for hedge accounting

As at 31 December 2016, the Group had an outstanding interest rate swap contract with a notional amount of US$40 million under which the 6-month floating rate LIBOR was swapped to a fixed rate of approximately 5.0% per annum so long as the 6-month floating rate LIBOR remains below the agreed cap strike level of 6.0%. This fixed rate switches to a discounted floating rate (discount is approximately 1.0%) for the 6-month fixing period when the prevailing 6-month floating rate LIBOR is above 6.0% and reverts back to the fixed rate should the 6-month floating rate LIBOR subsequently drop below 6.0%. This contract expired in January 2017.

Notes to the Unaudited Condensed Consolidated Financial Statements continued

7 DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

(d) Analysis of derivative income and expenses

During the period, the Group recognised net derivative expenses of US$4.5 million, as follows:

			Six months ended 30 June	
US$'000	Realised	Unrealised	**2017**	2016
Income				
Forward freight agreements	–	19	**19**	–
Bunker swap contracts	2,539	1,410	**3,949**	17,453
Interest rate swap contracts	–	9	**9**	787
	2,539	1,438	**3,977**	18,240
Expenses				
Forward freight agreements	–	(6)	**(6)**	–
Bunker swap contracts	(3,925)	(3,988)	**(7,913)**	(12,788)
Interest rate swap contracts	(552)	–	**(552)**	(2,386)
	(4,477)	(3,994)	**(8,471)**	(15,174)
Net				
Forward freight agreements	–	13	**13**	–
Bunker swap contracts	(1,386)	(2,578)	**(3,964)**	4,665
Interest rate swap contracts	(552)	9	**(543)**	(1,599)
	(1,938)	(2,556)	**(4,494)**	3,066

Realised:
- *Cash settlement of contracts completed in the period*

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

The application of HKAS 39 “Financial Instruments: Recognition and Measurement” has the effect of shifting to this period the estimated results of these derivative contracts that expire in future periods. On 30 June 2017, this created net unrealised non-cash expenses of US$2.6 million (2016: income of US$13.7 million). The cash flows of these contracts will occur in future reporting periods.

8 TRADE AND OTHER RECEIVABLES

US$'000	**30 June 2017**	31 December 2016
Non-current		
Prepayments	**2,292**	5,405
Current		
Trade receivables – gross	**38,964**	32,960
Less: provision for impairment	**(2,264)**	(1,685)
Trade receivables – net	**36,700**	31,275
Other receivables	**25,104**	26,296
Prepayments	**22,385**	23,369
Total	**84,189**	80,940

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

At 30 June 2017, the ageing of net trade receivables based on invoice date is as follows:

US$'000	**30 June 2017**	31 December 2016
≤ 30 days	**31,547**	24,872
31-60 days	**885**	800
61-90 days	**589**	345
> 90 days	**3,679**	5,258
	36,700	31,275

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

9 CASH AND DEPOSITS

US$'000	30 June 2017	31 December 2016
Cash at bank and on hand	**12,406**	50,505
Bank deposits	**235,176**	218,699
Total cash and deposits	**247,582**	269,204
Cash and cash equivalents	**141,234**	168,679
Term deposits	**106,290**	100,467
Cash and deposits	**247,524**	269,146
Restricted bank deposits included in non-current assets	**58**	58
Total cash and deposits	**247,582**	269,204

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

Page 9
Funding

10 TRADE AND OTHER PAYABLES

US$'000	30 June 2017	31 December 2016
Non-current		
Receipts in advance	**12,555**	5,856
Current		
Trade payables	**53,947**	51,569
Accruals and other payables	**53,246**	51,236
Receipts in advance	**42,099**	37,820
	149,292	140,625

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

At 30 June 2017, the ageing of trade payables based on due date is as follows:

US$'000	30 June 2017	31 December 2016
≤ 30 days	**52,410**	45,327
31-60 days	**48**	670
61-90 days	**108**	402
> 90 days	**1,381**	5,170
	53,947	51,569

11 LONG-TERM BORROWINGS

US$'000	30 June 2017	31 December 2016
Non-current		
Secured bank loans (a)	**680,983**	599,102
Other secured borrowings (b)	**42,803**	29,033
Unsecured convertible bonds (c)	**116,524**	115,372
	840,310	743,507
Current		
Secured bank loans (a)	**106,598**	91,734
Other secured borrowings (b)	**5,485**	4,001
	112,083	95,735
Total long-term borrowings	**952,393**	839,242

The fair value of long-term borrowings is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments and are within Level 2 of the fair value scale. Please refer to Note 6 (Fair value levels) for the definition of different levels.

(a) Secured bank loans

The Group's bank loans are repayable as follows:

US$'000	30 June 2017	31 December 2016
Within one year	**106,598**	91,734
In the second year	**106,264**	88,944
In the third to fifth year	**358,110**	303,226
After the fifth year	**216,609**	206,932
	787,581	690,836

The bank loans as at 30 June 2017 were secured, inter alia, by the following:

- Mortgages over certain owned vessels with net book values of US$1,555,807,000 (31 December 2016: US$1,419,515,000); and
- Assignment of earnings and insurances compensation in respect of the vessels.

Notes to the Unaudited Condensed Consolidated Financial Statements continued

11 LONG-TERM BORROWINGS (CONTINUED)

(b) Other secured borrowings

The Group's other secured borrowings as at 30 June 2017 related to seven (31 December 2016: five) owned vessels with net book values of US$110,511,000 (31 December 2016: US$79,384,000) which were sold and simultaneously leased back by the Group on a bareboat charter basis. Under the terms of the leases, the Group has options to purchase these vessels at pre-determined timings during the lease period and is obliged to purchase these vessels upon the expiry of the respective lease. Such borrowings are effectively secured as the rights to the leased vessels revert to the lessors in the event of default.

These other secured borrowings are repayable as follows:

US$'000	30 June 2017	31 December 2016
Within one year	**5,485**	4,001
In the second year	**5,643**	4,124
In the third to fifth year	**23,316**	15,123
After the fifth year	**13,844**	9,786
	48,288	33,034

(c) Convertible bonds

	30 June 2017		31 December 2016	
US$'000	Face value	Liability component	Face value	Liability component
3.25% coupon due 2021	**125,000**	**116,524**	125,000	115,372

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

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

12 PROVISION FOR ONEROUS CONTRACTS

US$'000	2017	2016
At 1 January	**51,918**	79,582
Utilised during the period	**(10,177)**	(13,832)
At 30 June	**41,741**	65,750
Analysis of provisions		
Current	**21,288**	27,164
Non-current	**20,453**	38,586
	41,741	65,750

The utilisation of provision for onerous contract is included in other income.

13 SHARE CAPITAL

	2017		2016	
	Number of shares	US$'000	Number of shares	US$'000
Authorised	**36,000,000,000**	**360,000**	3,600,000,000	360,000
Issued and fully paid				
At 1 January	**4,014,512,275**	**40,046**	1,945,855,119	194,480
Shares issued upon grant of restricted share awards (a)	**23,115,000**	**231**	–	–
Shares granted to employees in the form of restricted share awards (a)	**8,164,000**	**1,716**	–	–
Shares transferred back to trustee upon lapse of restricted share awards (a)	**(7,354,000)**	**(1,296)**	(113,000)	(46)
Shares purchased by trustee of the SAS (a)	**(5,213,000)**	**(1,233)**	–	–
Capital reduction	**–**	**–**	–	(175,117)
Right issue	**–**	**–**	1,946,823,119	19,468
At 30 June	**4,033,224,275**	**39,464**	3,892,565,238	38,785

The issued share capital of the Company as at 30 June 2017 was 4,038,428,275 shares (30 June 2016: 3,893,646,238 shares). The difference from the number of shares in the table above of 5,204,000 (30 June 2016: 1,081,000) represents shares held by the trustee in relation to restricted share awards, amounting to US$920,000 (30 June 2016: US$151,000) as a debit to share capital.

(a) Restricted share awards

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

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

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

000' shares	2017	2016
At 1 January	**67,256**	26,409
Granted	**31,279**	–
Lapsed	**(7,354)**	(113)
Vested	**(1,386)**	–
At 30 June	**89,795**	26,296

During the period ended 30 June 2017, a total of 31,279,000 restricted share awards were granted to certain employees. The market prices of the restricted share awards on the grant date represented the fair values of those shares.

Notes to the Unaudited Condensed Consolidated Financial Statements continued

13 SHARE CAPITAL (CONTINUED)

The sources of the shares granted in 2017 and the related movements between share capital and share premium and staff benefit reserve are as follows:

	Six months ended 30 June 2017	
Sources of shares granted	Number of granted shares awards	Related movement US$'000
Shares issued	23,115,000	5,245
Shares purchased by the trustee of the SAS on the Stock Exchange funded by the Company	5,213,000	1,233
Shares transferred from the trustee	2,951,000	483
	31,279,000	6,961

The vesting dates and grant dates of the unvested restricted share awards as at 30 June 2017 are as follows:

		Vesting periods			
Date of grant	**Number of unvested share awards**	**14 July 2017**	**14 July 2018**	**14 July 2019**	**14 July 2020**
5 May 2014	9,288,000	9,288,000	–	–	–
17 April 2015	21,206,000	1,704,000	19,502,000	–	–
12 August 2016	29,067,000	2,110,000	2,110,000	24,847,000	–
27 January 2017	29,398,000	–	2,661,000	914,000	25,823,000
26 May 2017	836,000	–	278,000	278,000	280,000
	89,795,000	13,102,000	24,551,000	26,039,000	26,103,000

14 FINANCE INCOME AND FINANCE COSTS

	Six months ended 30 June	
US$'000	**2017**	2016
Finance income		
Bank interest income	**(1,645)**	(942)
Total finance income	**(1,645)**	(942)
Finance costs		
Interest on borrowings		
Secured bank loans	**12,680**	8,605
Unsecured convertible bonds	**3,184**	7,389
Other secured borrowings	**1,027**	–
Net losses on interest rate swap contracts	**543**	1,599
Other finance charges	**300**	1,103
	17,734	18,696
Less: amounts capitalised as PP&E	**(373)**	(669)
Total finance costs	**17,361**	18,027
Finance costs, net	**15,716**	17,085

15 LOSS BEFORE TAXATION

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

	Six months ended 30 June	
US$'000	**2017**	2016
Operating lease expenses		
– vessels	**219,525**	148,888
– land and buildings	**1,873**	2,106
Bunkers consumed	**162,958**	93,589
Port disbursement and other voyage costs	**174,511**	152,794
Employee benefit expenses including Directors' emoluments (Note)	**65,298**	62,373
Depreciation		
– owned vessels	**52,178**	48,214
– other property, plant and equipment	**799**	830
– investment properties	**–**	26
Amortisation of land use rights	**–**	30
Utilisation of provision for onerous contracts	**(10,177)**	(13,832)
Losses on derivative instruments which do not qualify for hedge accounting		
– bunker swap contracts	**7,913**	12,788
– forward freight agreements	**6**	–
Gains on derivative instruments which do not qualify for hedge accounting		
– bunker swap contracts	**(3,949)**	(17,453)
– forward freight agreements	**(19)**	–
Lubricating oil consumed	**4,984**	4,411
Office relocation costs	**1,391**	–
Provision for impairment losses		
– trade receivables	**894**	101
– assets held for sale	**830**	–
– other receivables	**112**	–
Losses on disposal of vessels	**436**	1,902
Gains on disposal of investment properties	**–**	(222)

Note: Employee benefit expenses comprise crew wages and other costs of US$44.4 million (2016: US$41.8 million), which are included in cost of services. The comparative figures have been recategorised to conform to the current year's presentation.

Total administrative expenses

	Six months ended 30 June	
US$'000	**2017**	2016
Direct overheads	**22,532**	24,265
General and administrative expenses	**3,690**	3,157
Total administrative expenses	**26,222**	27,422

The year-on-year saving of US$1.2 million in total administrative expenses reflected a range of cost-saving initiatives undertaken during the period.

Operating lease expenses

Contingent lease payments made amounted to US$8.2 million (2016: US$7.7 million). These related to dry bulk vessels chartered in on an index-linked basis.

Impairment of assets held for sale

The impairment charge of US$830,000 related to the two remaining towage vessels. The recoverable amount of the impaired assets was calculated as the fair value less cost to sell. Fair value assumes a willing buyer and willing seller basis under general market conditions, and it is considered a Level 3 valuation in accordance with HKFRS 13. Please refer to Note 6 (Fair value levels) for the definition of different levels.

Notes to the Unaudited Condensed Consolidated Financial Statements continued

16 TAXATION

Shipping income from dry bulk 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 towage and non-shipping activities are subject to tax at prevailing rates in the countries in which these businesses operate.

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

	Six months ended 30 June	
US$'000	**2017**	2016
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2016:16.5%)	**202**	330
Overseas tax, provided at the rates of taxation prevailing in the countries	**142**	168
Adjustments in respect of prior year	**(906)**	(126)
Tax (credits)/charges	**(562)**	372

17 DIVIDENDS

No interim dividends were declared for the periods ended 30 June 2017 and 30 June 2016. No final dividend was declared for the year ended 31 December 2016.

18 EARNINGS PER SHARE

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

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

		Six months ended 30 June	
		Basic and diluted EPS 2017	Basic and diluted EPS 2016
Loss attributable to shareholders	(US$'000)	**(11,966)**	(49,798)
Weighted average number of ordinary shares in issue	('000)	**3,944,296**	2,681,595
Earnings per share	(US cents)	**(0.30)**	(1.86)
Equivalent to	(HK cents)	**(2.36)**	(14.42)

Diluted earnings per share for the period ended 30 June 2017 and 2016 is the same as the basic earnings per share since the potential ordinary shares from convertible bonds and unvested restricted shares have anti-dilutive effect.

19 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of loss before taxation to cash generated from operations

	Six months ended 30 June	
US$'000	**2017**	2016
Loss before taxation	**(12,528)**	(49,426)
Adjusted for:		
Assets and liabilities adjustments:		
Depreciation and amortisation	**52,977**	49,100
Utilisation of provision for onerous contracts	**(10,177)**	(13,832)
Net unrealised losses/(gains) on derivative instruments not qualified as hedges, excluding interest rate swap contracts	**2,564**	(12,913)
Provision for impairment losses		
– trade receivables	**894**	101
– assets held for sale	**830**	–
– other receivables	**112**	–
Losses on disposal of vessels	**436**	1,902
Gains on disposal of investment properties	**–**	(222)
Capital and funding adjustments:		
Share-based compensation	**2,117**	2,047
Results adjustments:		
Finance costs, net	**15,716**	17,085
Net foreign exchange losses	**104**	1,256
Profit/(loss) before taxation before working capital changes	**53,045**	(4,902)
(Increase)/decrease in trade and other receivables	**(7,190)**	5,771
Increase in trade and other payables	**17,196**	9,694
Increase in inventories	**(15,269)**	(2,614)
Cash generated from operations	**47,782**	7,949

20 COMMITMENTS

(a) Capital commitments

US$'000	**30 June 2017**	31 December 2016
Contracted but not provided for		
– vessel acquisitions and shipbuilding contracts	**–**	119,054

No capital commitments for the Group falls due in one year or less (31 December 2016: US$119.1 million).

(b) Commitments under operating leases

(i) The Group as the lessee – payments

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

US$'000	**Dry bulk vessels**	**Land and buildings**	**Total**
At 30 June 2017			
Within one year	**163,260**	**2,425**	**165,685**
In the second to fifth year	**309,193**	**6,963**	**316,156**
After the fifth year	**36,001**	**967**	**36,968**
	508,454	**10,355**	**518,809**
At 31 December 2016			
Within one year	157,497	3,612	161,109
In the second to fifth year	340,404	8,037	348,441
After the fifth year	51,491	2,268	53,759
	549,392	13,917	563,309

The Group's operating leases for dry bulk vessels have terms ranging from less than 1 year to 10 years (31 December 2016: less than 1 year to 10 years). Certain of the leases have escalation clauses, renewal rights and purchase options.

Notes to the Unaudited Condensed Consolidated Financial Statements continued

20 COMMITMENTS (CONTINUED)

(b) Commitments under operating leases (continued)

(ii) The Group as the lessor – receipts

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

US$'000	Dry bulk vessels and total
At 30 June 2017	
Within one year	**23,348**
In the second to fifth year	**53,044**
After the fifth year	**26,442**
	102,834
At 31 December 2016	
Within one year	22,475
In the second to fifth year	57,670
After the fifth year	29,719
	109,864

The Group's operating leases have terms extending 15 years into the future and they mainly represent the receipts from two Post-Panamax dry bulk vessels amounting to US$95.4 million (2016: US$103.3 million).

21 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

Key management compensation (including Directors' emoluments)

	Six months ended 30 June	
US$'000	**2017**	2016
Directors' fees	**271**	224
Salaries and bonus	**1,525**	1,799
Share-based compensation	**174**	594
Retirement benefit costs	**4**	4
	1,974	2,621

22 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company had no contingent liabilities and contingent assets at 30 June 2017 and 31 December 2016.

23 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 30 June 2017, the Group has agreed with a third party to sell a tug for approximately US$1 million.