Pacific Basin

# TEAM
# + CARGOES
# + RELATIONSHIPS
# + BUSINESS MODEL
# = PERFORMANCE

Interim Report 2017

Stock Code: 2343

# Business Highlights

## Better but still challenging dry bulk market conditions in first half 2017

### Group

- Market conditions have improved since last year and we believe the worst of the current dry bulk market cycle is behind us
- We booked a much reduced underlying loss of US$6.7 million and increased positive EBITDA of US$56.6 million
- Our Handysize and Supramax daily TCE earnings outperformed the market indices by 20% and 11% respectively
- We took delivery of our final newbuildings and recommenced secondhand acquisitions
- Our mid-year cash position was US$248 million with net gearing of 40%
- We opened a new commercial office in Rio and relocated our headquarters in Hong Kong to an improved, lower-cost office

### Fleet

- Our last seven newbuildings delivered in the first half of the year
- We used the still weak asset values to buy a younger, larger Supramax vessel of better design to one we sold, and we purchased two secondhand Handysize vessels
- Our owned fleet expanded to 101 ships on the water by mid-year, and we operated about 250 dry bulk ships overall
- We continued to exercise good control of our operating expenses
- We have covered 57% of our Handysize and 80% of our Supramax revenue days for second half 2017 at US$8,360 and US$9,830 per day net respectively

### Position

- Market freight rates in the first half were significantly above the historic low levels of one year ago, but earnings are still not profitable for most dry bulk shipowners
- The shrinking orderbook bodes well for the long term, but reduced scrapping and continued global fleet growth remain negative factors
- More scrapping and limited ordering are required for a more normal market balance to be sustained
- Our healthy cash and net gearing positions enhance our ability to safely navigate the protracted challenging environment and attract cargo as a strong partner
- We continue to assess attractive ship acquisition opportunities to grow and renew our fleet

### Our Fleet (as at 30 June 2017)

| | Vessels in operation Owned | Chartered | Total |
|---|---|---|---|
| Handysize | 79 | 73 | 152 |
| Supramax | 21 | 82 | 103 |
| Post-Panamax | 1 | 1 | 2 |
| Total | 101 | 156 | 257 |

**Our cover design is a map of international load line zones used to establish safe loading practices in different areas and at different times of the year.**

International Date Line

Tropic of Capricorn

# Financial Summary

| | 30 June 2017 US$ Million | 30 June 2016 US$ Million | 31 December 2016 US$ Million |
|---|---|---|---|
| **Results** | | | |
| Revenue | **702.9** | 488.4 | 1,087.4 |
| Gross loss | **(0.5)** | (41.3) | (54.3) |
| EBITDA[1] | **56.6** | (5.0) | 22.8 |
| Underlying loss KPI | **(6.7)** | (61.6) | (87.7) |
| Finance costs, net | **(15.7)** | (17.1) | (31.2) |
| Loss attributable to shareholders | **(12.0)** | (49.8) | (86.5) |
| **Balance Sheet** | | | |
| Total assets | **2,203.6** | 2,171.1 | 2,107.2 |
| Net borrowings | **704.8** | 466.1 | 570.0 |
| Shareholders' equity | **1,029.6** | 1,067.4 | 1,040.8 |
| Total cash and deposits | **247.6** | 406.1 | 269.2 |
| Capital commitments | **–** | 236.7 | 119.1 |
| **Cash Flows** | | | |
| Operating | **47.6** | 7.7 | 49.5 |
| Investing | **(164.2)** | (49.4) | (98.6) |
| Financing | **89.3** | 72.7 | 18.1 |
| **Per Share Data** | HK cents | HK cents | HK cents |
| Basic EPS | **(2.4)** | (14.4) | (20.4) |
| Dividends KPI | **–** | – | – |
| Operating cash flows | **9** | 2 | 12 |
| Company net book value | **198** | 213 | 201 |
| Share price at period end | **172** | 73 | 125 |
| Market capitalisation at period end | **HK$6.9bn** | HK$2.8bn | HK$5.0bn |
| **Ratios** | | | |
| Net profit margin | **(2%)** | (10%) | (8%) |
| Eligible profit payout ratio | **–** | – | – |
| Return on average equity | **(1%)** | (5%) | (9%) |
| Total shareholders' return | **38%** | (41%) | 1% |
| Net borrowings to shareholders' equity | **68%** | 44% | 55% |
| Net borrowings to net book KPI value of property, plant and equipment | **40%** | 29% | 34% |
| Interest coverage KPI (excluding impairments) | **3.3X** | N/A | 0.7X |

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

# Contents



**Key to navigation symbols**

linkage to related details within the Interim Report

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

KPI Key Performance Indicators

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

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

# Chief Executive's Review

## Staying on course

## Our CEO Mats Berglund reports on our performance

### FINANCIAL RESULTS

Dry bulk market freight rates in the first half of 2017 were markedly improved compared to the same period last year, albeit from an historically low base. In this better but still challenging trading environment, our underlying loss reduced to US$6.7 million (2016: US$61.6 million loss) and EBITDA improved to US$56.6 million (2016: negative US$5.0 million and positive US$22.8 million for the whole of 2016). Basic EPS was a negative HK2.4 cents.

### PERFORMANCE OVERVIEW

#### Improved but still challenging market conditions

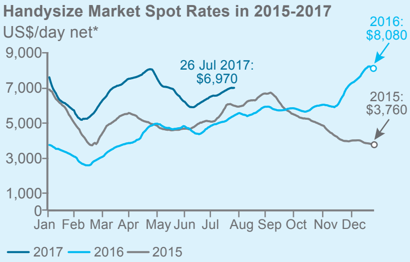
With progressively fewer new ships delivering from shipyards and demand gradually recovering, the dry bulk freight market is returning to a healthier balance with demand in the first half outpacing supply. By mid-April, rates were at their highest in over two years, with demand improvements driven most notably by strong underlying demand for South American and US grain exports.

The overall improved earnings environment has resulted in much reduced scrapping which, combined with new ship deliveries, has led to a net growth of 2.0% and 1.5% in the global Handysize and Supramax fleets.

Despite the market declines in January and May, Handysize and Supramax average freight market indices for the first half of 2017 were around 70% higher than for the same period in 2016. As significant as this improvement is, market freight earnings are still not at profitable levels for most dry bulk shipowners.

> "Outperforming in a better but still challenging dry bulk market"
>
> Hong Kong, 28 July 2017

**Handysize Market Spot Rates in 2015-2017**




* excludes 5% commission
Source: Baltic Exchange, data as at 26 Jul 2017

#### Pacific Basin outperforms

Our average Handysize and Supramax daily TCE earnings of US$7,920 and US$8,920 per day net were up 30% and 51% year on year and outperformed the BHSI and BSI indices by 20% and 11% respectively.

This TCE premium – including the positive margins we generate with short-term operated ships that we charter to supplement our core owned and long-term fleet – is due mainly to our ability to draw on our experienced teams, global office network, strong cargo support and large fleet of high-quality substitutable ships in a way that optimises ship and cargo combinations for maximum utilisation.

#### Positive initiatives

During the half year, we completed our newbuilding programme with the delivery of seven newbuildings of the latest, efficient designs. The last of these delivered in May 2017.

We used the still weak asset values to purchase a secondhand Supramax and sell an older, smaller Supramax, thereby trading up to a vessel of better design and longer life at an attractive price. We also purchased two secondhand Handysize vessels. By 30 June we had expanded our owned fleet to 101 ships on the water out of about 250 ships that we operate overall.

Our new commercial office in Rio de Janeiro has generated valuable new business since it was established early this year to help grow our cargo volumes and support our many customers on the east coast of South America while enabling us to more fully cover all regions in the Atlantic.

In May, we relocated our headquarters to Wong Chuk Hang, about 15 minutes from Hong Kong's Central business district. We now benefit from a better, more energised, collaborative and productive office with a markedly lower rent which will result in significant cost savings over the coming six years.

We sold one towage vessel in June 2017 and have agreed the sale of our final tug for delivery in the second half of 2017. Together, these disposals will generate sale proceeds of approximately US$2 million and conclude our exit from this non-core activity.

## DRY BULK OUTLOOK Possible market drivers in the medium term

### OPPORTUNITIES

- Increasing government stimulus driving greater infrastructure investment in both China and the US
- Continued strong grain demand for animal feed due to shift towards meat-based diet
- Environmental policy in China encouraging shift from domestic to imported supply of resources
- Continued historically low new ship ordering and shrinking orderbook influenced by:
  - (a) the large gap between newbuilding and secondhand prices;
  - (b) new low sulphur and BWTS rules causing uncertainty about ship designs; and
  - (c) new accounting rules from 2019 discouraging long time charters
- Environmental regulations encouraging increased ship scrapping
- Periods of higher fuel oil prices encouraging slower ship operating speeds which decreases supply

### THREATS

- Reduction in Chinese industrial growth and investments impacting demand for dry bulk shipping
- Environmental policy in China encouraging greater shift to renewable energy, possibly impacting coal imports
- Increased protectionism dampening trade by favouring domestic supplies over foreign imports
- Increased new ship ordering if the price gap between newbuilding and secondhand ships closes
- Reduced scrapping due to improved market conditions may be insufficient to offset new ship deliveries
- Periods of low fuel prices supporting faster ship operating speeds which increases supply

## BALANCE SHEET

With our final newbuildings all paid for and delivered, we had cash and deposits of US$248 million as at 30 June 2017. We drew down our remaining Japanese export credit facilities and other committed facilities following the delivery of our newbuildings resulting in net borrowings of US$705 million and net gearing of 40%.

## STRATEGY AND POSITION

### Well positioned for a recovering market

We believe the worst of the current dry bulk market cycle is behind us. However, the market improvement year on year was from a very low base, and more time, scrapping and limited ordering are required for a more normal market balance to be sustained.

The Handysize and Supramax segments have seen historically low ordering over the past 18 months which bodes well for the long term. However, while the dry bulk orderbook is shrinking, scrapping has reduced and the global fleet is still growing.

We believe that new low sulphur fuel regulations (effective from 2020) will lead to higher fuel costs and hence lower ship operating speeds. Also, ballast water treatment regulations require investment for compliance with effect from special surveys between September 2019 to 2024. Combined, these regulations will over time drive scrapping of older ships and ships of poor design, thus improving the supply-demand balance.

We continued to achieve reductions in our vessel operating costs – without impacting maintenance or safety – through scale benefits as our owned fleet has grown further.

We have healthy cash and net gearing positions which contribute to the strong corporate profile that sets us apart as a preferred, strong, reliable and safe partner for customers and other stakeholders.

We continue to look for and assess attractive ship acquisition opportunities to grow and renew our fleet with modern, high-quality secondhand ships or resales that can generate a reasonable pay-back and cash flow even in today's challenging market, and can reduce our average daily vessel costs.

We will continue to focus on our world-leading Handysize and Supramax dry bulk business where we have developed a strong competitive edge and an exceptional fleet.

Our strategy is to be the best operator in our space and maximise our fleet's utilisation and TCE earnings by leveraging all the key attributes of our business model. Minor bulk shipping demand is characterised by diversified geographical, cargo and customer profiles. This, combined with our large fleet of substitutable ships and worldwide office network, allows for the combination of trades to achieve higher laden utilisation, which is exactly our strategy and how we can deliver value over market earnings.

We thank you as always for your continued support.

# Market Review

## Freight Market Summary

Handysize and Supramax spot market rates averaged US$6,590 and US$8,010 per day net respectively in the first half of 2017, representing a substantial 69% and 76% improvement in average earnings from a very low base in the first half of 2016. As significant as this improvement is, market freight earnings are still not at profitable levels for most dry bulk shipowners.

The dry bulk freight market indices were characterised by a familiar pattern with a short seasonal decline at the start of the year, recovery after Chinese New Year and a stronger second quarter, especially in the Pacific which started the year markedly weaker than the Atlantic. By mid-April, rates were at their highest in over two years, driven by increased Chinese industrial imports of major and minor bulks, record South American grain export volumes and improved US grain exports compared to a year earlier.

Market rates have softened since end April following the seasonal peaks in the South American agricultural export seasons and, in part, due to reduced Australian coal port congestion and exports in the wake of Cyclone Debbie.

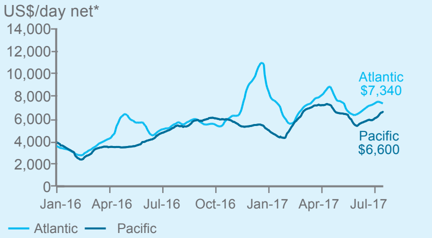
**US$6,590 net ↑ +69%**

Handysize 1H17 average market spot rate

**US$8,010 net ↑ +76%**

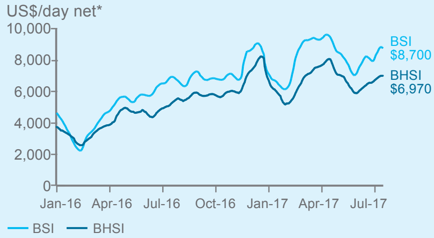
Supramax 1H17 average market spot rate#

### Handysize Spot Rates Atlantic vs Pacific Routes




* excludes 5% commission
Source: Baltic Exchange, data as at 26 Jul 2017

### Baltic Handysize Index (BHSI) & Baltic Supramax Index (BSI)#




* excludes 5% commission
# BSI is now based on a standard 58,000 dwt bulk carrier
Source: Baltic Exchange, data as at 26 Jul 2017

FREIGHT MARKET & OUTLOOK IMPACT SHIP VALUES

## Key Supply Developments

SUPPLY DRIVERS

The global fleets of 25,000-40,000 dwt Handysize and 50,000-60,000 dwt Supramax ships grew 2.0% and 1.5% net respectively during the half year as much reduced scrapping outweighed a reduction in newbuilding deliveries. Overall dry bulk capacity expanded by 2.3% in the period.

The reduced pace of scrapping to 1.0% of existing dry bulk capacity and 1.0% of Handysize capacity was due to the markedly improved freight market conditions compared to a year before.

A reduction in newbuilding deliveries to 3.2% of existing capacity was expected due to the declining orderbook. Deliveries appear to have been boosted by a number of Chinese-built newbuildings that had essentially been completed some time ago but withheld by their builders until markets improved.

Yard deliveries are typically higher early in the year, so net fleet growth is likely to reduce in the second half – depending on scrapping, more of which is required for a more normal market balance to be sustained.

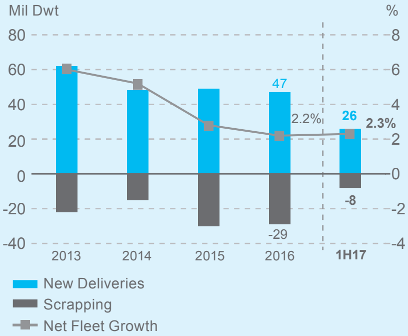
**↑ +2.0% (Jan to Jun)**

1H17 Global Handysize capacity

**↑ +2.3% (Jan to Jun)**

1H17 Overall dry bulk capacity

### Dry Bulk Supply Development




Source: Clarksons Platou, Bloomberg

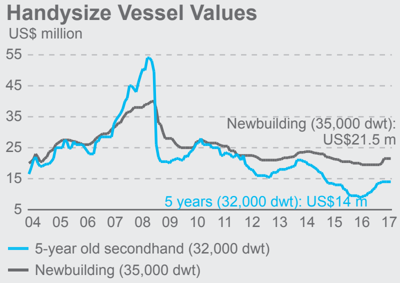
## Ship Values

Improved freight market conditions overall have supported sale and purchase activity and increased vessel values. Clarksons Platou currently values a benchmark five year old Handysize bulk carrier at US$14.0 million – up 4% since the start of 2017 and 47% from one year ago. Newbuilding prices have increased 10% since the beginning of the year to US$21.5 million. The gap between newbuilding and secondhand prices continues to discourage new ship ordering which will benefit freight market fundamentals in the future.

**US$14m ↑ +47%**

Secondhand Handysize

### Handysize Vessel Values




Source: Clarksons Platou, data as at 26 Jul 2017

VALUES & OUTLOOK IMPACT NEW SHIP ORDERING

## Key Demand Developments

Clarksons Platou estimate dry bulk shipping demand in the first quarter to have improved by 4.9% from a year earlier. This compares favourably to 0.4% growth in the first quarter of 2016 and a 1.7% decline in the first quarter of 2015. Data for the second quarter is not yet available but will likely show an improved demand/supply balance compared to a year ago.

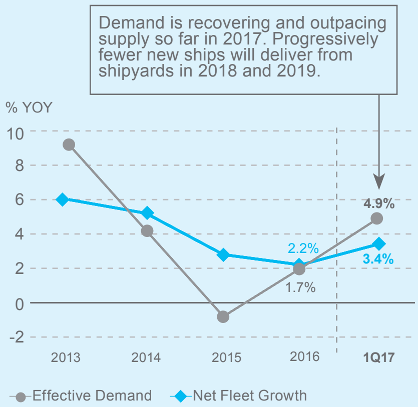
Key drivers through the first half included improved North and South American grain exports despite increased stock piling by farmers speculating on price and, in Brazil, currency exchange rate changes.

Cyclone Debbie affected Australian coal operations causing a dramatic reduction in metallurgical coal exports in April causing coal importers to look to other exporters to cover the shortfall.

Brazilian fertiliser imports saw a strong upswing, and coal imports to Vietnam, Philippines, Thailand and Malaysia increased due to increased coal-fired power capacity. India registered higher steel and grain imports.

In January to June, Chinese imports of eight minor bulks that we track increased 15%, and Chinese dry bulk imports overall increased 12%. Chinese steel exports reduced 25% in the first six months despite a 4% increase in production, illustrating the strength of domestic demand growth from industrial activity.

**Dry Bulk Effective Demand & Supply**




**Overall dry bulk demand**

**+4.9% 1Q17 YoY**

**1H17 Chinese imports – major bulks**

| | |
|---|---|
| Iron Ore | +9% |
| Coal | +23% |

**1H17 Chinese imports – minor bulks**

| | |
|---|---|
| Manganese Ore | +44% |
| Bauxite | +26% |
| Soybean | +16% |
| Logs | +9% |

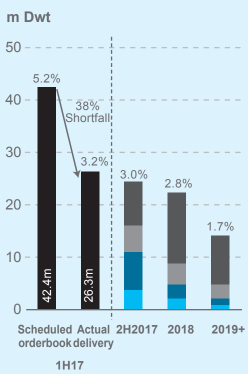
Source: Clarksons Platou, Bloomberg

## Orderbook

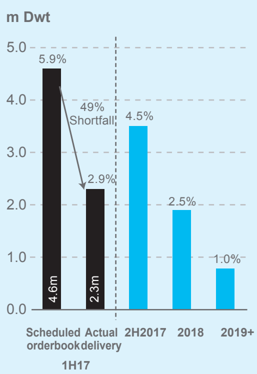
The dry bulk orderbook has reduced further to 8% from 15% a year ago. New ship ordering remained very limited at 5.5 million dwt in the first half of the year, representing 1.4% of the fleet (annualised) with most new orders placed for larger Panamax and Kamsarmax ships.

Historically low new ordering and a continued orderbook delivery shortfall should result in further reductions in new ship deliveries in the coming years. Scheduled deliveries for this year are 37% smaller than last year, and we expect actual deliveries will be around 38 to 44 million deadweight tonnes compared to last year's 47 million deadweight tonnes.

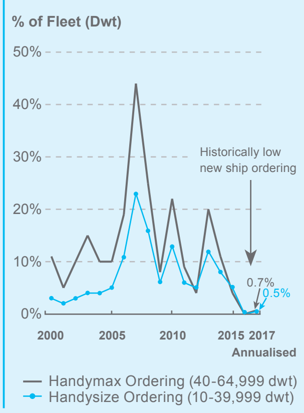
**Orderbook by Year**




**Handysize Orderbook**




**Dry Bulk New Ship Ordering**




Source: Clarksons Platou, data as at 1 Jul 2017

| | ORDERBOOK AS % OF EXISTING FLEET | AVERAGE AGE | OVER 20 YEARS OLD | 1H17 SCRAPPING AS % OF EXISTING FLEET, AS AT 1 JUL 2017 (ANNUALISED) |
|---|---|---|---|---|
| Handysize (25,000–39,999 dwt) | 8% | 8.6 | 10% | 1.9% |
| Handymax (incl. Supramax) (40,000–64,999 dwt) | 6% | 8.3 | 7% | 2.0% |
| Panamax & Post-Panamax (65,000–119,999 dwt) | 5% | 8.4 | 6% | 1.2% |
| Capesize (incl. VLOC) (120,000+ dwt) | 10% | 7.6 | 7% | 2.4% |
| Total Dry Bulk > 10,000 dwt | 8% | 8.8 | 7% | 2.0% |

# Our Performance

## Our core dry bulk business generated a much reduced net loss of US$6.3 million (2016: net loss US$60.4 million) in an improved but still challenging dry bulk market

## Dry Bulk Operating Performance

| US$ Million | 2017 | 2016 | Change |
|---|---|---|---|
| | Six months ended 30 June | | |
| Handysize Contribution | 7.8 | (30.2) | >+100% |
| Supramax Contribution | 9.1 | (6.8) | >+100% |
| Post-Panamax Contribution | 2.7 | 2.7 | – |
| Dry Bulk operating performance before overheads | 19.6 | (34.3) | >+100% |
| Overheads and tax | (25.9) | (26.1) | +1% |
| **Dry Bulk net loss** | (6.3) | (60.4) | +90% |
| Dry Bulk vessel net book value | 1,756.6 | 1,573.9 | +12% |

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

## Our Dry Bulk Cargo Volumes in 1H 2017

**Minerals**

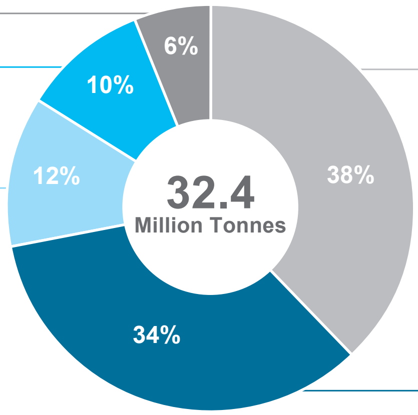
| | |
|---|---|
| Sand & Gypsum | 2% |
| Salt | 2% |
| Soda Ash | 2% |

**Energy**

| | |
|---|---|
| Coal | 5% |
| Petcoke | 4% |
| Wood Pellets | 1% |

**Metals**

| | |
|---|---|
| Concentrates & Other Metals | 7% |
| Ores | 4% |
| Alumina | 1% |




**Agricultural Products and Related**

| | |
|---|---|
| Grains & Agriculture Products | 24% |
| Fertiliser | 10% |
| Sugar | 4% |

**Construction Materials**

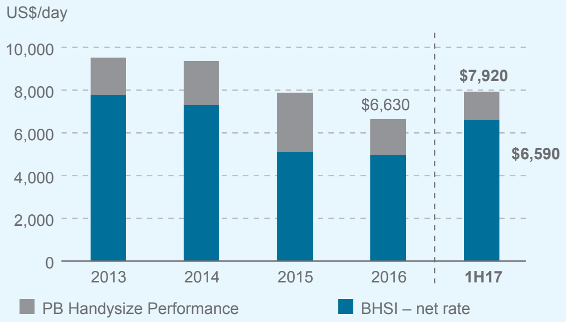
| | |
|---|---|
| Steel & Scrap | 12% |
| Logs & Forest Products | 12% |
| Cement & Cement Clinkers | 10% |

## Key Performance Indicators

### Performance vs Market

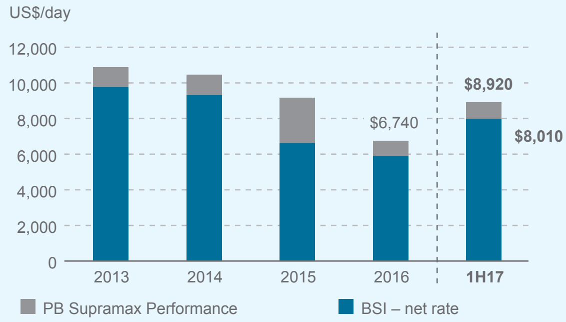
Handysize

20% 1H2017 outperformance compared to market




Supramax

11% 1H2017 outperformance compared to market

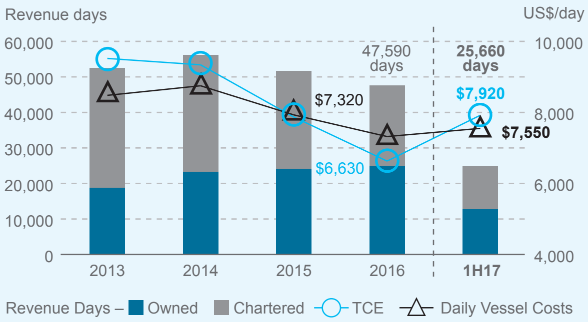



- Our 20% and 11% outperformance in first half 2017 compared to spot market indices reflects the value of our fleet scale and cargo book, and our ability to optimise cargo combinations and match the right ships with the right cargoes.

## Profitability

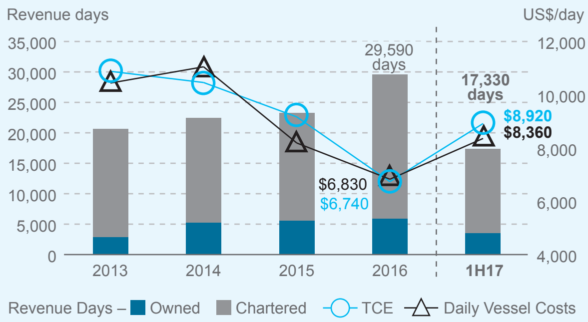
### Handysize

# US$7.8m contribution




### Supramax

# US$9.1m contribution



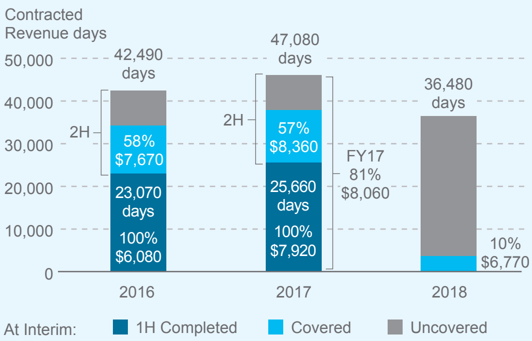

- We generated Handysize daily earnings of US$7,920 with daily costs of US$7,550 on 25,660 revenue days. We generated Supramax daily earnings of US$8,920 with daily costs of US$8,360 on 17,330 revenue days.
- Our Handysize and Supramax contributions returned to positive territory as we leveraged our business model to outperform in the improved but still challenging market.

As part of our business model, we charter in vessels for short periods for combination with cargoes with the aim of making a margin irrespective of whether the market is high or low. In low markets as over the past 18 months, these short-term positions generally lower our reported TCE earnings while in fact making a valuable positive contribution. If we exclude the vessel days attributable to these short-term operated ships and factor their positive margin into the TCE results of our core owned and long-term fleet, then our restated first half 2017 Handysize and Supramax daily earnings would improve to US$8,010 on 21,460 days and US$9,890 on 8,980 days respectively.

- We operated an average of 142 Handysize and 96 Supramax ships resulting in 11% and 22% increases in our Handysize and Supramax revenue days year on year.
- We are redelivering expiring medium- and long-term chartered vessels to gradually lower our charter-in costs, relying instead on our growing fleet of owned ships supplemented by low-cost shorter-term and index-linked charters.

## Future Earnings and Cargo Cover

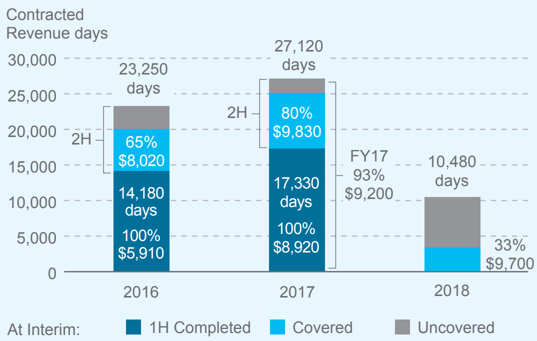
### Handysize




Currency: US$ per day

2016 data as announced in Jul 2016

### Supramax




Currency: US$ per day

- We have covered 57% and 80% of our 21,420 Handysize and 9,790 Supramax revenue days currently contracted for the second half of 2017 at US$8,360 and US$9,830 per day respectively.

  (Cargo cover excludes revenue days related to inward-chartered vessels on variable, index-linked rates)
- While ship operators such as ourselves typically face significant exposure to the spot market, our contract cover provides a degree of earnings visibility.

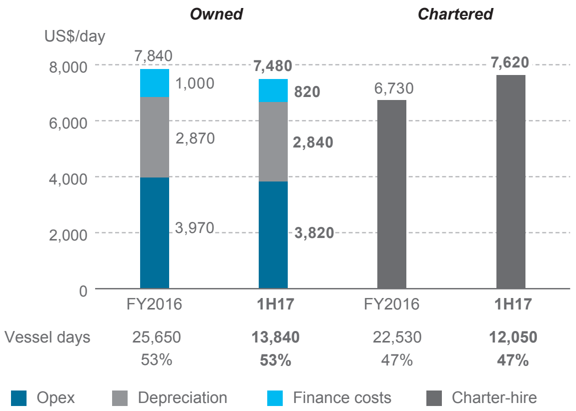
# Analysis of Daily Vessel Costs

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

## Handysize Daily Vessel Costs

**Blended US$7,550** (FY2016: US$7,320)

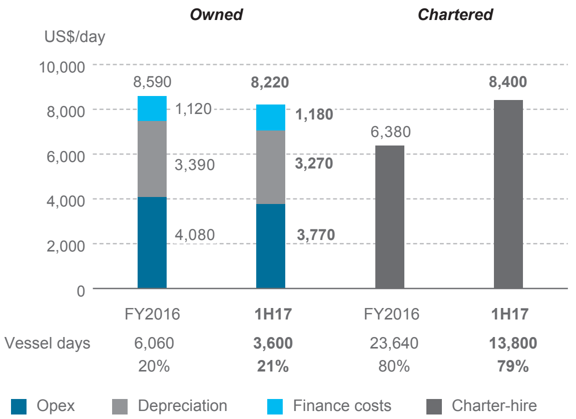
(excluding overheads)




## Supramax Daily Vessel Costs

**Blended US$8,360** (FY2016: US$6,830)

(excluding overheads)




**Opex** – The daily opex element of our vessel costs decreased 4% for Handysize and 8% for Supramax mainly due to scale benefits and procurement cost efficiencies.

**Depreciation** – Our depreciation costs were substantially unchanged.

**Finance costs** – Our owned Handysize vessels' daily P/L and cash finance costs were US$820 and US$760 respectively, and our Supramax daily P/L and cash finance costs were US$1,180 and US$1,090 respectively. The difference between the P/L and cash finance costs reflects the difference between the coupon and effective interest rate of our convertible bonds. Our Handysize daily finance costs reduced compared to 2016 while Supramax daily finance costs increased. This was due to the allocation of more convertible bonds interest to this vessel type as more Supramax owned newbuildings delivered.

**Charter-hire** – Our chartered Handysize vessels' daily P/L and cash charter-hire costs were US$7,620 and US$8,310 respectively, and our Supramax daily P/L and cash charter-hire costs were US$8,400 and US$8,630 respectively. The difference between the P/L and cash charter-hire costs mainly reflects the write-back of onerous contract provisions made in 2014 relating to the 2017 element of our charter commitments.

Chartered-in days represented 47% and 79% of our total Handysize and Supramax vessel days respectively. Our Handysize and Supramax chartered-in days increased 12% to 12,050 days (2016: 10,720 days) and 22% to 13,800 days (2016: 11,330 days) respectively. Our Supramax fleet benefitted in the weak market from its larger proportion of low-cost short-term chartered-in ships and the redelivery of more expensive vessels.

**Daily cash cost** – Our average blended owned and chartered daily cash cost excluding overheads was US$6,310 (2016: US$6,010) for our Handysize fleet and US$7,850 (2016: US$5,940) for our Supramax fleet.

**Overheads** – Our dry bulk direct staff overheads and office costs, along with all overheads categorised as indirect overheads, was maintained at US$25.6 million (2016: US$25.6 million) despite operating more ships. Spread across our vessel days, the aggregate overheads translated into a daily cost of US$590 (2016: US$680) per ship per day.

The Group's total administrative expenses (including those of our remaining towage activities) amounted to US$26.2 million (2016: US$27.4 million). The year-on-year saving of US$1.2 million reflects a range of cost-saving initiatives undertaken during the period.

During the period, we secured 760 Handysize vessel days (2016: 1,630 days) and 300 Supramax vessel days (2016: 200 days) via variable-rate, inward charters with rates linked to the Baltic Handysize and Supramax indices. These index-linked vessels represented 6% and 2% of our chartered Handysize and Supramax vessel days respectively.

Our fleet of owned dry bulk vessels experienced on average 0.6 days (FY2016: 2.6 days) of unplanned technical off-hire per vessel during the period.

Page 12
Vessel Operating Lease Commitments
Analysis of our long-term, short-term and index-linked inward charter commitments

# Funding

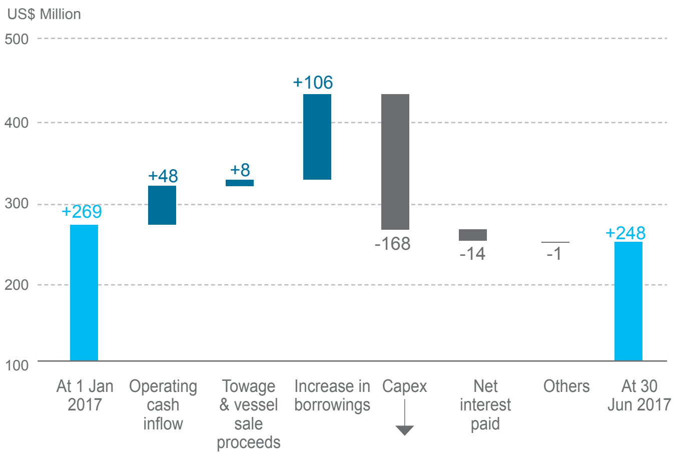
## CASH FLOW AND CASH

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

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

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

### Sources and Uses of Group Cash in 1H 2017




*Includes the following vessel purchases*
*Delivered – secondhand: 2 Handysize, 1 Supramax*
*Delivered – newbuildings: 4 Handysize, 3 Supramax*

### Current Position and Outlook

In the first half of 2017:

- Our operating cash inflow further improved to US$48 million, as compared with US$8 million in the first half of 2016 and US$50 million in full year 2016 on the back of a better dry bulk market conditions.
- Borrowings increased by US$106 million, after:
  - We drew down US$158 million, comprising US$140 million under our Japanese export credit facilities in respect of seven delivered newbuildings to fund the capital commitments of US$119 million during the period, and US$18 million of other borrowings on two existing vessels; and
  - Our net repayment of US$52 million of secured borrowings and revolving facilities.
- In June 2016, we raised US$143 million of cash, after expenses, through the issue of rights shares. US$124 million of such proceeds were used to repay the 2018 convertible bonds in October last year, and during 2017, we deployed the remaining proceeds of US$19 million to fund in part the purchase of two secondhand Handysize and one secondhand Supramax vessels with an aggregate consideration of US$31 million.

As at 30 June 2017:

- The Group's cash and deposits were US$248 million reflecting a 40% net gearing ratio.
- Our unmortgaged vessels comprise five dry bulk vessels with an aggregate net book value of US$90 million.
- Our committed banking facilities were fully drawn.

### Cash and Deposits

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

| US$ Million | 30 June 2017 | 31 December 2016 | Change |
|---|---|---|---|
| **Total cash and deposits** | **247.6** | 269.2 | -8% |
| Current portion of long-term borrowings | **(112.1)** | (95.7) | |
| Long-term borrowings | **(840.3)** | (743.5) | |
| **Total borrowings** | **(952.4)** | (839.2) | -13% |
| Net borrowings | **(704.8)** | (570.0) | -24% |
| Net borrowings to shareholders' equity | **68%** | 55% | |
| Net borrowings to net book value of property, plant and equipment KPI | **40%** | 34% | |
| Net working capital | **126.2** | 160.6 | -21% |

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

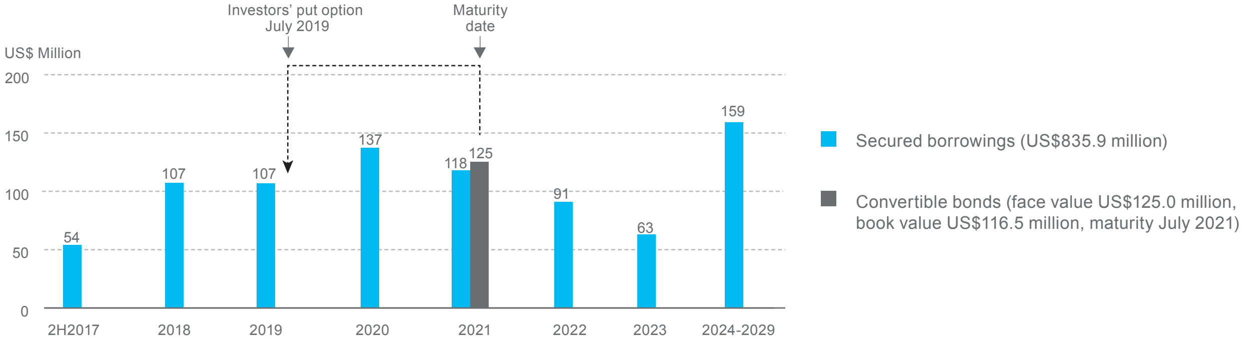
Treasury enhances Group income by investing in a mix of financial products, based on the perceived balance of risk, return and liquidity. Cash, deposits and investment products are placed with a range of leading banks, mainly in Hong Kong.

The Group's cash and deposits at 30 June 2017 comprised US$239.7 million in United States Dollars and US$7.9 million in other currencies. They are primarily placed in liquid deposits of three months or less and saving accounts. This maintains liquidity to meet the Group's vessel purchase commitments and working capital needs.

During the first half of 2017, Treasury achieved a 1.4% return on the Group's cash.

## BORROWINGS

### Schedule of Repayments of Borrowings




The Group's Treasury function arranges financing by leveraging the Group's balance sheet to optimise the availability of cash resources of the Group. The aggregate borrowings of the Group at 30 June 2017, which comprised secured borrowings and the liability component of convertible bonds, amounted to US$952.4 million (31 December 2016: US$839.2 million) and are mainly denominated in United States Dollars.

#### Secured Borrowings – US$835.9 million (31 December 2016: US$723.8 million)

Secured borrowings are in the functional currency of the business segment to which they relate. The overall increase in secured borrowings is mainly due to the drawdowns under our Japanese export credit facilities and other borrowings, partially offset by scheduled loan amortisation.

In the first half of 2017, we drew down all our remaining committed loan facilities, which comprise our Japanese export credit facilities of US$139.7 million secured on seven newbuildings which were delivered during the period and other borrowings of US$18.2 million in respect of two existing vessels.

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

As at 30 June 2017:

- The Group's secured borrowings were secured by 96 dry bulk vessels with a total net book value of US$1,666.3 million and an assignment of earnings and insurances in respect of these vessels.
- Our unmortgaged vessels included five dry bulk vessels with an aggregate net book value of US$90.3 million.
- The Group was in compliance with all its loans-to-asset value requirements.

P/L impact:

The increase in interest (after capitalisation) to US$13.9 million (1H 2016: US$10.3 million) was mainly due to an increase in average secured borrowings to US$798.9 million (1H 2016: US$520.5 million).

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

#### Convertible Bonds – Liability Component is US$116.5 million (31 December 2016: US$115.4 million)

As at 30 June 2017 and 31 December 2016, there remained the 3.25% p.a. coupon July 2021 convertible bonds with an outstanding principal of US$125.0 million and the prevailing conversion price of HK$3.07.

P/L impact:

The US$3.2 million (1H 2016: US$7.4 million) interest expense of the convertible bonds is calculated at an effective interest rate of 5.7% (1H 2016: 5.2%).

## FINANCE COSTS

### Finance Costs by Nature

| US$ Million | Average interest rate P/L | Average interest rate Cash | Balance at 30 June 2017 | Finance costs 1H 2017 | Finance costs 1H 2016 | (Increase)/ decrease |
|---|---|---|---|---|---|---|
| Secured borrowings (including realised interest rate swap costs) | 3.5% | 3.5% | 835.9 | **13.9** | 10.3 | (35%) |
| Convertible bonds (Note) | 5.7% | 3.3% | 116.5 | **3.2** | 7.4 | 57% |
| | KPI 3.7% | KPI 3.4% | 952.4 | **17.1** | 17.7 | 4% |
| Unrealised interest rate swap income | | | | **–** | (0.8) | |
| Other finance charges | | | | **0.3** | 1.1 | |
| Total finance costs | | | | **17.4** | 18.0 | 4% |
| Interest coverage (calculated as EBITDA divided by total gross finance costs) KPI | | | | **3.3x** | N/A | |

*Note: The convertible bonds have a P/L cost of US$3.2 million and a cash cost of US$2.0 million.*

The KPIs on which management focuses to assess the cost of borrowings are the 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 2017, all our interest rate swap contracts qualified for hedge accounting as cash flow hedges and US$0.6 million of interest rate swap costs were realised. As at 30 June 2017, 64% (31 December 2016: 65%) of the Group's long-term borrowings were on fixed interest rates. As at 31 December 2017 and 2018, we expect about 65% of the Group's existing long-term borrowings will be on fixed interest rates.

## DELIVERED VESSELS

As at 30 June 2017, the Group had in operation owned dry bulk vessels with a net book value of US$1,757 million as follows:

| | Number | Average size (dwt tonnes) | Average age (years) | Average net book value (US$ Million) | Total net book value (US$ Million) |
|---|---|---|---|---|---|
| Handysize | 79 | 32,500 | 9.4 | 15.6 | 1,235 |
| Supramax | 21 | 55,800 | 6.3 | 22.8 | 478 |
| Post-Panamax | 1 | 115,500 | 6.0 | 44.3 | 44 |

Latest estimated fair market values published by Clarksons Platou are US$14 million and US$16 million for 5-year old 32,000 dwt Handysize and 56,000 dwt Supramax vessels respectively.

## VESSEL COMMITMENTS

As at 30 June 2017, we had no vessel commitments.

As at 30 June 2017, the Group had options to purchase 11 Handysize, 3 Supramax and 1 Post-Panamax vessels at predetermined times and prices during the period of their leases. These options are not expected to be exercised under current market conditions.

## VESSEL OPERATING LEASE COMMITMENTS

Vessel operating lease commitments stood at US$508.5 million (31 December 2016: US$549.4 million), comprising US$342.0 million for Handysize, US$140.1 million for Supramax and US$26.4 million for Post-Panamax.

Our Handysize operating lease committed days slightly decreased 3% to 33,960 days (31 December 2016: 35,140 days) while our Supramax operating lease committed days decreased 10% to 12,090 days (31 December 2016: 13,370 days).

### Onerous Contract Provisions

The Group wrote back US$8.3 million and US$1.9 million for Handysize and Supramax onerous contract provisions made in the first six months of 2017 following the utilisation of the first six months of 2017 elements of the charters. At 30 June 2017, there remains a provision of US$31.8 million for Handysize and US$9.9 million for Supramax time charter contracts substantially expiring during a three-year period as charter rates are higher than the expected earnings during this period. The remaining provisions will be released back to the income statement in the periods in which the charter payments for these vessels are due (see adjacent table).

| | | | US$ Million |
|---|---|---|---|
| Year | Handysize | Supramax | Total |
| 2H17 | 8.2 | 1.9 | 10.1 |
| 2018 | 15.4 | 6.8 | 22.2 |
| 2019 | 5.3 | 1.2 | 6.5 |
| 2020 | 2.9 | – | 2.9 |
| Total | 31.8 | 9.9 | 41.7 |

### Charter Hire Reduction by issuing new shares

In 2016, new shares were issued to 10 shipowners in return for a US$12.6 million reduction in charter-hire rates over a 24-month period on 10 of our existing long-term chartered ships (“Charter Hire Reduction”). The income statement still reflects the original contracted charter costs, but the cash payments in the 24-month period are reduced by the value of shares issued (see adjacent table).

| | | | US$ Million |
|---|---|---|---|
| Year | Handysize | Supramax | Total |
| 2016 | 0.7 | 0.4 | 1.1 |
| 1H17 | 2.1 | 1.0 | 3.1 |
| 2H17 | 2.2 | 1.0 | 3.2 |
| 2018 | 3.6 | 1.6 | 5.2 |
| Total | 8.6 | 4.0 | 12.6 |

### Commitments Excluding Index-linked Vessels

The following table shows the average daily charter rates both on the cash basis and P/L basis for the total vessel days of our chartered-in Handysize and Supramax vessels during their remaining operating lease terms by year. Compared to the contracted charter-hire costs, i) the cash basis reflects the reduced payments following the issue of shares for charter-hire payments; and ii) the P/L basis cost reflects the reduction due to the write-back of onerous contract provisions.

| | Handysize | | | Supramax | | |
|---|---|---|---|---|---|---|
| | | Average daily rate | | | Average daily rate | |
| Year | Vessel days | Cash basis (US$) | P/L basis (US$) | Vessel days | Cash basis (US$) | P/L basis (US$) |
| 2H17 | 6,300 | 8,850 | 7,880 | 4,640 | 9,690 | 9,490 |
| 2018 | 7,790 | 9,940 | 8,430 | 2,790 | 12,370 | 10,560 |
| 2019 | 7,400 | 10,440 | 9,720 | 2,190 | 13,150 | 12,670 |
| 2020 | 4,460 | 10,640 | 9,990 | 1,650 | 13,120 | 13,120 |
| 2021 | 3,350 | 10,360 | 10,360 | 680 | 12,260 | 12,260 |
| 2022+ | 4,680 | 10,570 | 10,570 | 150 | 12,500 | 12,500 |
| Total | 33,980 | | | 12,100 | | |
| Aggregate operating lease commitments | | US$342.0m | | | US$140.1m | |

### Commitments Including Index-linked Vessels

Our fixed rate and variable rate index-linked lease commitments charged to the income statement for first six months completed and for second half of 2017 and 2018 contracted can be analysed as follows:

| | 1H2017 | | **2H2017** | | **2018** | |
|---|---|---|---|---|---|---|
| **Handysize** | Vessel Days | Average daily P/L rate (US$) | **Vessel Days** | **Average daily P/L rate (US$)** | **Vessel Days** | **Average daily P/L rate (US$)** |
| Long-term (>1 year) | 4,570 | 7,990 | **4,620** | **8,170** | **7,750** | **8,440** |
| Short-term | 6,720 | 7,370 | **1,680** | **7,080** | **40** | **6,350** |
| Index-linked | 760 | 7,670 | **520** | **Market rate** | **100** | **Market rate** |
| Total | 12,050 | 7,620 | **6,820** | | **7,890** | |
| **Supramax** | | | | | | |
| Long-term (>1 year) | 1,400 | 11,710 | **1,630** | **11,350** | **2,640** | **10,610** |
| Short-term | 12,100 | 8,020 | **3,010** | **8,480** | **150** | **9,520** |
| Index-linked | 300 | 7,960 | **550** | **Market rate** | **610** | **Market rate** |
| Total | 13,800 | 8,400 | **5,190** | | **3,400** | |

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

Index-linked vessel operating lease commitments refer to leases with market-linked variable charter rates. The variable charter rates are linked to the Baltic Handysize Index or Baltic Supramax Index (as applicable) and adjusted to reflect differences in the vessels’ characteristics compared to Baltic indices reference vessels. Vessels we charter are typically larger and more fuel efficient than index reference vessels.

# Corporate Governance

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

Throughout the six months ended 30 June 2017, the Group complied with all code provisions of the Code as set out in Appendix 14 of the Rules Governing the Listing of the Securities on the Stock Exchange (the "Listing Rules").

## DIRECTORS' SECURITIES TRANSACTIONS

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

The Board confirms that, having made specific enquiry, the Directors have complied in full with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions during the six month ended 30 June 2017.

## SENIOR MANAGERS' AND STAFF'S SECURITIES TRANSACTIONS

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

Having made specific enquiry, the Board confirms that all those senior managers and staff who had been notified and provided with the Dealing Rules have complied in full with the required standards set out in the Dealing Rules during the six months ended 30 June 2017.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Other than for satisfying restricted awards granted under the Company's 2013 Share Award Scheme, neither the Company nor any of its subsidiaries has during the period 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(9) 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 17 August 2017 when it is sent to those shareholders who have elected to receive a printed copy.

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

## CLOSURE OF REGISTER OF MEMBERS

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

## DIRECTORS

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

With reference to the Company's announcement of 9 January 2017 and 24 April 2017, Mr. Andrew Thomas Broomhead will step down from the roles of Executive Director and Chief Financial Officer on 20 August 2017. Mr. Broomhead will remain available to the Company as a consultant from 21 August 2017 until 31 December 2017 so as to ensure a smooth transition and handover.

## CHANGE OF CHIEF FINANCIAL OFFICER

With reference to the Company's announcement of 24 April 2017, the Board has appointed Mr. Peter Schulz as the Chief Financial Officer of the Company with effect from 21 August 2017. Biographical information about Mr. Schulz can be found in the same announcement.

# 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 2017, 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[2] | |
|---|---|---|---|---|---|---|
| | | | | | 30 Jun 17 | 31 Dec 16 |
| David M. Turnbull [1] | 8,137,000 | 2,524,918 [3] | Long | 10,661,918 | 0.26% | 0.23% |
| Mats H. Berglund [1] | 15,623,000 | – | Long | 15,623,000 | 0.39% | 0.30% |
| Andrew T. Broomhead [1] | 4,477,000[4] | 4,181,408 | Long | 8,658,408 | 0.21% | 0.22% |
| Patrick B. Paul | 380,000 | – | Long | 380,000 | less than 0.01% | less than 0.01% |
| Daniel R. Bradshaw | – | 772,834 [5] | Long | 772,834 | 0.02% | 0.02% |

*Notes:*

*(1) Restricted share awards were granted under the 2013 Share Award Scheme and have been disclosed on page 15 of this Report.*

*(2) The total issued share capital of the Company was 4,038,428,275 shares as at 30 June 2017 and was 4,015,313,275 shares as at 31 December 2016.*

*(3) 2,524,918 shares held are in the form of convertible bonds due 2021 at nominal value of US$1m held by a Trust named Bentley Trust (Malta) Limited.*

*(4) Mr. Broomhead's personal interest of 4,477,000 shares are restricted share awards, of which 906,000 shares vested on 14 July 2017 and the balance of 3,571,000 shares are expected to lapse when he steps down on 20 August 2017. His family interest of 4,181,408 shares are held by his wife.*

*(5) 772,834 shares are held by Cormorant Shipping Limited and Goldeneye Shipping Limited of which Mr. Bradshaw is the sole shareholder.*

All the interests stated above represent long positions. No short positions and shares under equity derivatives held by Directors were recorded in the register maintained by the Company under section 352 of the SFO as at 30 June 2017.

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

## 2013 SHARE AWARD SCHEME ("SAS")

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

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

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

Details of the grant of long-term incentives and the movements of the outstanding incentives during the six months ended 30 June 2017 are as follows:

| '000 shares/units | Date of first award | Total awarded | Vested to date | Unvested at 30 June 2017 | During the period: Unvested at 1 Jan 2017 | During the period: Granted | During the period: Vested[3] or lapsed | Vesting in: 2017[4] | Vesting in: 2018 | Vesting in: 2019 | Vesting in: 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | | |
| David M. Turnbull | 5-Aug-08 | 7,524 | (2,505) | 5,019 | 3,429 | 1,590 | – | 694 | 1,242 | 1,493 | 1,590 |
| Mats H. Berglund | 1-Jun-12 | 15,623 | (4,338) | 11,285 | 7,662 | 3,623 | – | 1,430 | 2,830 | 3,402 | 3,623 |
| Andrew T. Broomhead [1] | 11-May-07 | 7,881 | (3,404) | 4,477 | 4,477 | – | – | 906 | 1,622 | 1,949 | – |
| Chanakya Kocherla [2] | 11-May-07 | 6,324 | (6,324) | – | 4,048 | – | (4,048) | – | – | – | – |
| | | 37,352 | (16,571) | 20,781 | 19,616 | 5,213 | (4,048) | 3,030 | 5,694 | 6,844 | 5,213 |
| **Other Employees** | | | | 69,014 | 47,640 | 26,066 | (4,692) | 10,072 | 18,857 | 19,195 | 20,890 |
| | | | | 89,795 | 67,256 | 31,279 | (8,740) | 13,102 | 24,551 | 26,039 | 26,103 |

*Notes:*

*(1) Mr. Broomhead's 906,000 shares vested on 14 July 2017 according to the annual vesting schedule, and the balance of 3,571,000 Shares are expected to lapse when he steps down on 20 August 2017.*

*(2) Mr. Kocherla's 4,048,000 unvested restricted share awards lapsed upon his resignation on 12 April 2017.*

*(3) 3,306,000 shares lapsed due to the resignation of three employees and 1,386,000 shares vested due to the redundancy of one employee.*

*(4) 13,102,000 shares vested on 14 July 2017 in accordance with the annual vesting schedule.*

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 June 2017, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

| Name | Capacity/Nature of interest | Long/Short Position | Number of Shares | Approximate percentage of the issued share capital of the Company[1]: 30 Jun 17 | Approximate percentage of the issued share capital of the Company[1]: 31 Dec 16 |
|---|---|---|---|---|---|
| Aberdeen Asset Management Plc and its Associates (together the "Aberdeen Group") on behalf of accounts managed by the Aberdeen Group | Investment manager | Long | 605,773,000 | 15.00% | 15.77% |
| Michael Hagn | Interest in corporation controlled | Long | 237,046,846 | 5.87% | 6.70% |
| Citigroup Inc.[2] | Person having a security interest/Interest in corporation controlled/ Custodian corporation & approved lending agent | Long | 243,128,790 | 6.02% | 5.91% |
| | | Short | 146,402 | 0.00% | N/A |

*Note:*

*(1) The total issued share capital of the Company was 4,038,428,275 shares as at 30 June 2017 and was 4,015,313,275 shares as at 31 December 2016.*

*(2) The long position in shares held by Citigroup Inc. is held in the capacities of Person having a security interest (relating to 5,049,229 shares), Interest in corporation controlled (relating to 223,000 shares) and Custodian corporation/approved lending agent (relating to 237,856,561 shares).*

# Financial Statements

## GROUP PERFORMANCE REVIEW

| | Six months ended 30 June | | |
|---|---|---|---|
| US$ Million | **2017** | 2016 | Change |
| Revenue | **702.9** | 488.4 | +44% |
| Bunker & port disbursements | **(339.7)** | (254.7) | -33% |
| Time charter equivalent earnings (“TCE”) | **363.2** | 233.7 | +55% |
| Other direct costs | **(363.7)** | (275.0) | -32% |
| Gross loss | **(0.5)** | (41.3) | +99% |
| Dry Bulk | **(6.3)** | (60.4) | +90% |
| Towage | **(0.5)** | (0.1) | >-100% |
| Others | **0.1** | (1.1) | >+100% |
| Underlying loss | **(6.7)** | (61.6) | +89% |
| Unrealised derivative (expenses)/income | **(2.6)** | 13.7 | |
| Office relocation costs | **(1.4)** | – | |
| Impairment of towage vessels | **(0.9)** | – | |
| Sales of vessels | **(0.4)** | (1.9) | |
| Loss attributable to shareholders | **(12.0)** | (49.8) | +76% |
| EBITDA | **56.6** | (5.0) | >+100% |
| Net profit margin | **(2%)** | (10%) | +8% |
| Return on average equity employed | **(1%)** | (5%) | +4% |

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

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

The main drivers of our results in the first six months of 2017 were as follows:

- Revenue and cost of services increased by 44% and 33% respectively, mainly due to improved market conditions since last year, albeit from an historically low base.
- Loss attributable to shareholders was mainly affected by:
  - an unrealised derivative accounting loss of US$2.6 million mainly from the mark-to-market of existing and new bunker swap contracts to be completed;
  - one-off office relocation costs of US$1.4 million relating to the relocation of our headquarters in Hong Kong to a lower-cost location, which will result in significant cost savings over the coming six years;
  - non-cash impairment of US$0.9 million for the two remaining towage vessels; and
  - the disposal loss of US$0.4 million on the two towage vessels and one Supramax vessel sold.
- EBITDA was US$56.6 million (2016: negative US$5.0 million) contributing to a positive operating cash flow. Our cash and deposits at 30 June 2017 stood at US$247.6 million (31 December 2016: US$269.2 million) with net gearing of 40% (31 December 2016: 34%).

# Unaudited Condensed Consolidated Balance Sheet

| | Note | 30 June 2017 US$'000 | 31 December 2016 US$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Property, plant and equipment | 5 | **1,762,846** | 1,653,433 |
| Goodwill | 5 | **25,256** | 25,256 |
| Available-for-sale financial assets | 6 | **439** | 875 |
| Derivative assets | 7 | **317** | 969 |
| Trade and other receivables | 8 | **2,292** | 5,405 |
| Restricted bank deposits | 9 | **58** | 58 |
| | | **1,791,208** | 1,685,996 |
| Current assets | | | |
| Inventories | | **77,761** | 62,492 |
| Derivative assets | 7 | **802** | 2,831 |
| Assets held for sale | | **2,112** | 5,820 |
| Trade and other receivables | 8 | **84,189** | 80,940 |
| Cash and deposits | 9 | **247,524** | 269,146 |
| | | **412,388** | 421,229 |
| **Total assets** | | **2,203,596** | 2,107,225 |
| **EQUITY** | | | |
| Capital and reserves attributable to shareholders | | | |
| Share capital | 13 | **39,464** | 40,046 |
| Retained profits | | **137,754** | 150,783 |
| Other reserves | | **852,360** | 849,942 |
| **Total equity** | | **1,029,578** | 1,040,771 |
| **LIABILITIES** | | | |
| Non-current liabilities | | | |
| Derivative liabilities | 7 | **14,525** | 24,860 |
| Long-term borrowings | 11 | **840,310** | 743,507 |
| Provision for onerous contracts | 12 | **20,453** | 31,564 |
| Trade and other payables | 10 | **12,555** | 5,856 |
| | | **887,843** | 805,787 |
| Current liabilities | | | |
| Derivative liabilities | 7 | **3,152** | 2,899 |
| Trade and other payables | 10 | **149,292** | 140,625 |
| Current portion of long-term borrowings | 11 | **112,083** | 95,735 |
| Taxation payable | | **360** | 1,054 |
| Provision for onerous contracts | 12 | **21,288** | 20,354 |
| | | **286,175** | 260,667 |
| **Total liabilities** | | **1,174,018** | 1,066,454 |

# Unaudited Condensed Consolidated Income Statement

| | | Six months ended 30 June | |
|---|---|---|---|
| | Note | **2017 US$'000** | 2016 US$'000 |
| Revenue | 4 | **702,924** | 488,377 |
| Cost of services | | **(703,448)** | (529,712) |
| Gross loss | | **(524)** | (41,335) |
| General and administrative expenses | | **(3,690)** | (3,157) |
| Other income and gains | | **10,196** | 14,054 |
| Other expenses | | **(2,794)** | (1,903) |
| Finance income | 14 | **1,645** | 942 |
| Finance cost | 14 | **(17,361)** | (18,027) |
| Loss before taxation | 15 | **(12,528)** | (49,426) |
| Taxation | 16 | **562** | (372) |
| Loss attributable to shareholders | | **(11,966)** | (49,798) |
| Basic and diluted earnings per share for loss attributable to shareholders (in US cents) | 18 | **US(0.30) cents** | US(1.86) cents |

# Unaudited Condensed Consolidated Statement of Comprehensive Income

| | Six months ended 30 June | |
|---|---|---|
| | **2017 US$'000** | 2016 US$'000 |
| Loss attributable to shareholders | **(11,966)** | (49,798) |
| Other comprehensive income – items that may be reclassified to income statement: | | |
| Cash flow hedges | | |
| – fair value gains/(losses) | **6,654** | (905) |
| – transferred to income statement | **(6,850)** | 1,938 |
| Currency translation differences | **459** | 578 |
| Fair value losses on available-for-sale financial assets | **(436)** | (734) |
| Release of exchange losses from reserves to income statement for foreign operations upon repayment of shareholder loans by subsidiaries | **–** | 608 |
| Total comprehensive income attributable to shareholders | **(12,139)** | (48,313) |

# Unaudited Condensed Consolidated Statement of Changes in Equity

| | Capital and reserves attributable to shareholders | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| US$'000 | Share capital | Share premium | Merger reserve | Convertible bonds reserve | Staff benefits reserve | Hedging reserve | Investment valuation reserve | Exchange reserve | Contributed surplus | Retained profits | Total |
| **At 1 January 2017** | 40,046 | 139,887 | (56,606) | 13,772 | (2,368) | (22,295) | – | (2,386) | 779,938 | 150,783 | 1,040,771 |
| Total comprehensive income attributable to shareholders | – | – | – | – | – | (196) | (436) | 459 | – | (11,966) | (12,139) |
| Share-based compensation | – | – | – | – | 2,117 | – | – | – | – | – | 2,117 |
| Shares purchased by trustee of the SAS (Note 13(a)) | (1,233) | – | – | – | – | – | – | – | – | – | (1,233) |
| Shares awards lapsed (Note 13(a)) | (1,296) | – | – | – | 1,296 | – | – | – | – | – | – |
| Share awards granted (Note 13(a)) | 1,716 | – | – | – | (591) | – | – | – | – | (1,125) | – |
| Shares issued upon grant of restricted share awards (Note 13(a)) | 231 | 5,014 | – | – | (5,245) | – | – | – | – | – | – |
| Unclaimed dividends forfeited | – | – | – | – | – | – | – | – | – | 62 | 62 |
| **At 30 June 2017** | 39,464 | 144,901 | (56,606) | 13,772 | (4,791) | (22,491) | (436) | (1,927) | 779,938 | 137,754 | 1,029,578 |
| **At 1 January 2016** | 194,480 | 604,821 | (56,606) | 47,920 | (2,580) | (25,145) | – | (5,185) | – | 213,233 | 970,938 |
| Capital reduction | (175,117) | (604,821) | – | – | – | – | – | – | 779,938 | – | – |
| Right issue, net of issuing expenses | 19,468 | 123,304 | – | – | – | – | – | – | – | – | 142,772 |
| Total comprehensive income attributable to shareholders | – | – | – | – | – | 1,033 | (734) | 1,186 | – | (49,798) | (48,313) |
| Share-based compensation | – | – | – | – | 2,047 | – | – | – | – | – | 2,047 |
| Derecognition of equity component upon CB redemption | – | – | – | (14,830) | – | – | – | – | – | 14,830 | – |
| Shares awards lapsed (Note 13(a)) | (46) | – | – | – | 46 | – | – | – | – | – | – |
| **At 30 June 2016** | 38,785 | 123,304 | (56,606) | 33,090 | (487) | (24,112) | (734) | (3,999) | 779,938 | 178,265 | 1,067,444 |

# Unaudited Condensed Consolidated Cash Flow Statement

| | | Six months ended 30 June | |
|---|---|---|---|
| | Note | **2017 US$'000** | 2016 US$'000 |
| Operating activities | | | |
| Cash generated from operations | 19 | **47,782** | 7,949 |
| Overseas taxation paid | | **(157)** | (228) |
| Net cash generated from operating activities | | **47,625** | 7,721 |
| Investing activities | | | |
| Purchase of property, plant and equipment | | **(167,578)** | (48,432) |
| Disposal of vessels and other PP&E | | **7,587** | 11,876 |
| Disposal of investment properties | | **–** | 2,587 |
| Increase in term deposits | | **(5,823)** | (16,438) |
| Increase in restricted bank deposits | | **–** | (6,151) |
| Decrease in restricted bank deposits | | **–** | 6,151 |
| Interest received | | **1,645** | 942 |
| Net cash used in investing activities | | **(164,169)** | (49,465) |
| Financing activities | | | |
| Drawdown of bank loans and other borrowings | | **157,311** | 209,261 |
| Repayment of bank loans and other borrowings | | **(51,565)** | (158,589) |
| Proceeds from rights issue, net of issuing expenses | | **–** | 142,772 |
| Payment for redemption of convertible bonds | | **–** | (105,590) |
| Interest and other finance charges paid | | **(15,229)** | (15,148) |
| Payment for shares purchased by trustee of the SAS | | **(1,233)** | – |
| Net cash generated from financing activities | | **89,284** | 72,706 |
| Net (decrease)/increase in cash and cash equivalents | | **(27,260)** | 30,962 |
| Exchange (losses)/gains on cash and cash equivalents | | **(185)** | 285 |
| Cash and cash equivalents at 1 January | | **168,679** | 199,737 |
| Cash and cash equivalents at 30 June | | **141,234** | 230,984 |
| Term deposits at 1 January | | **100,467** | 158,633 |
| Increase in term deposits | | **5,823** | 16,438 |
| Cash and deposits at 30 June | | **247,524** | 406,055 |

# 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.

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Market Review

## 2 BASIS OF PREPARATION

### (a) Accounting standards

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

*• Cash settlement of contracts completed in the period*

*• 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.

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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:

| Date of grant | Number of unvested share awards | Vesting periods | | | |
|---|---|---|---|---|---|
| | | 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.

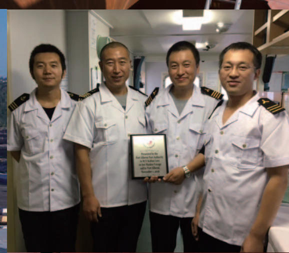
## 23 EVENTS AFTER THE BALANCE SHEET DATE

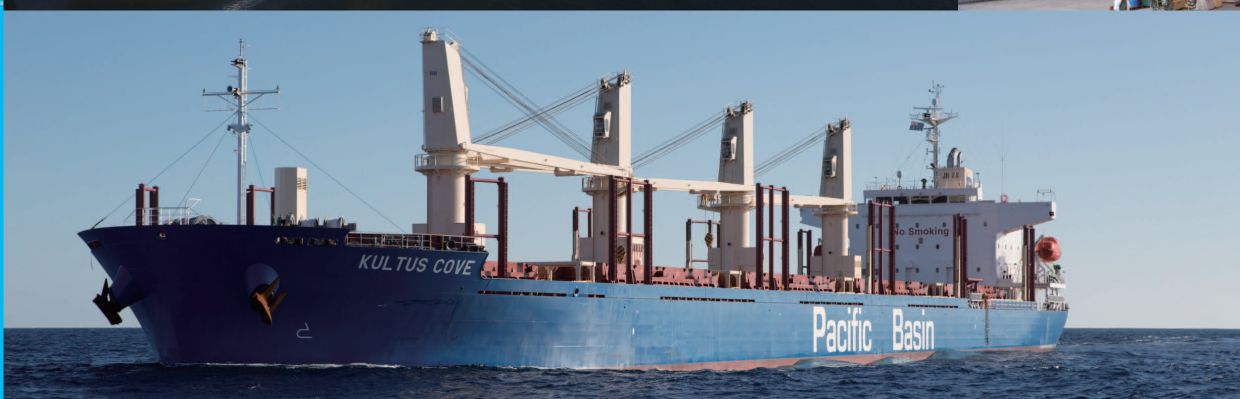
Subsequent to 30 June 2017, the Group has agreed with a third party to sell a tug for approximately US$1 million.

NO SMOKING

LTF
LF
LT
LS
LW
LWNA

Pacific Basin





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