

Daily Vessel Costs and Commitments

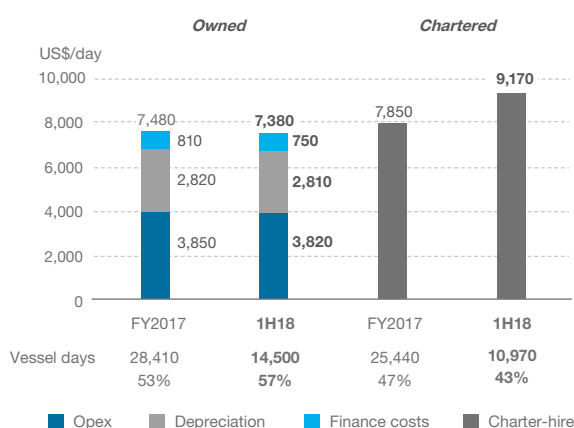
The cost of owning and operating dry bulk ships is the major component of our Group's total costs, and our ability to maintain good control of our "daily vessel costs" has a significant bearing on our operating margins and our financial performance overall. We provide below a short analysis of our daily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

Vessels' Daily P/L Costs

Handysize

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

(excluding overheads)



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

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

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

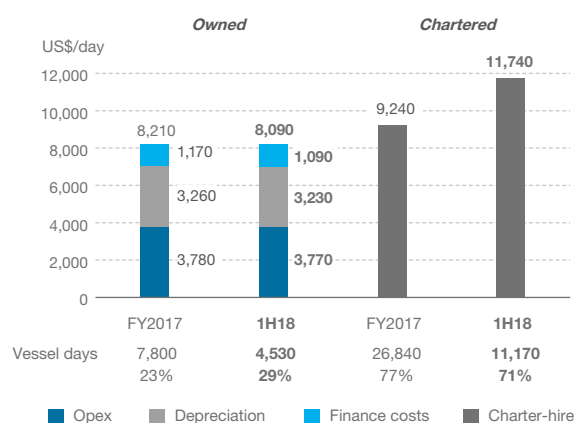
Finance costs – Our owned vessels' daily P/L and cash finance costs were US\$750 and US\$690 respectively for Handysize and US\$1,090 and US\$1,010 respectively for Supramax. The difference between the P/L and cash finance costs reflects the difference between the effective interest and coupon rate of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

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

Supramax

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

(excluding overheads)



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

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

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

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

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



Vessel Operating Lease Commitments

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

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

Onerous Contract Provisions

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

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

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New accounting standard – HKFRS 16 "Leases"

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Onerous Contract Provisions

Charter Hire Reduction by Issuing New Shares

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

Commitments Excluding Index-linked Vessels

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

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

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

Commitments Including Index-linked Vessels

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

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

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

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