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 27 July 2018.

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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 2017, 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 2017, except for the adoption of new standards as described below.

The following new standards are mandatory for the accounting period beginning after 1 January 2018 and are relevant to the Group's operation.

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 2(c) below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Certain new and amended standards and improvements to HKFRS ("New Standards") have been issued but are not yet effective for the accounting period beginning on 1 January 2018. The new standard that is relevant to the Group's operation is as follows:

HKFRS 16	Leases

The Group has commenced an assessment of the impact of these New Standards. Key changes are expected from HKFRS 16. According to HKFRS 16, charter-in operating leases of longer than 12 months will be accounted for on balance sheet as right-of-use assets and lease liabilities. Operating lease expenses in the income statement will be replaced by a combination of depreciation and interest expenses. Interest expenses will be calculated by reference to the interest rates implicit in the leases and will produce a constant periodic rate of interest on the remaining balance of the lease liabilities. The interest expenses will reduce over time in line with the principal reduction. Charter-in contracts of less than 12 months, representing over 50% of our existing charter-in fleet, will not be affected.

(c) Changes in accounting policies

(i) Impact on the Group's financial statement

Following the adoption of new standards as disclosed in Note 2(b), the Group has elected to use a modified retrospective approach for transition. The reclassifications and the adjustments arising from the new standards are therefore not restated in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018. Please refer to Notes 2(c)(ii) and 2(c)(iii) for detailed explanations.

The table below shows the adjustments recognised in the opening balances of each individual financial statement line item. Line items that were not affected by the changes have not been included.

Unaudited Condensed Consolidated Balance Sheet (extract)

US$'000	31 December 2017 (as previously reported)	HKFRS 15 (Note(c)(ii))	HKFRS 9 (Note(c)(iii))	1 January 2018 (restated)
Non-current assets				
FVOCI[1]	–	–	569	569
AFS[2]	569	–	(569)	–
Current assets				
Trade and other receivables – current	80,275	(8,784)	–	71,491
Equity				
Retained profits	154,387	(8,784)	1,619	147,222
Other reserves	963,194	–	(1,619)	961,575

1 "FVOCI" stands for "financial assets at fair vlaue through other comprehensive income".

2 "AFS" stands for "available-for-sale financial assets".

(ii) HKFRS 15 "Revenue from contracts with customers"

With the adoption of HKFRS 15, the Group's recognition basis of freight income from voyage charter has changed from "discharge to discharge" to "loading to discharge".

The Group has elected to use a modified retrospective approach for transition which allows the Group to recognise the cumulative effects as an adjustment to the opening balances of retained profits and trade and other receivables as at 1 January 2018 with the exemption to restate comparative figures as shown in Note2(c)(i).

The amount by which each financial statement line item is affected by the application of HKFRS 15 as compared to HKAS 18 (previously in effect) is as follows:

Unaudited Condensed Consolidated Balance Sheet (extract)

	As at 30 June 2018		
US$'000	Before adoption of HKFRS 15	Effects of adopting HKFRS 15	As reported
Trade and other receivables – current	93,673	(8,116)	85,557
Retained profits	185,360	(8,116)	177,244

Unaudited Condensed Consolidated Income Statement (extract)

	Six months ended 30 June 2018		
US$'000	Before adoption of HKFRS 15	Effects of adopting HKFRS 15	As reported
Revenue	794,974	669	795,643

The adoption of HKFRS 15 has no impact to the net cash flow from operating, investing and financing activities on the unaudited condensed consolidated cash flow statement.

(iii) HKFRS 9 "Financial Instruments"

Financial assets at fair value through other comprehensive income ("FVOCI")

The Group has elected to present changes in the fair value of its listed equity securities (previously classified as available-for-sale financial assets ("AFS")) (Note 6) in other comprehensive income as they are neither held for trading nor contingent consideration in business combination under HKFRS 9.

Under this election, only qualifying dividends are recognised in profit and loss unless they clearly represent recovery of a part of the cost of the investment. Changes in fair value are recognised in other comprehensive income and never recycled to profit and loss, even if the asset is impaired, sold or otherwise derecognised.

As permitted under HKFRS 9, the Group has elected for exemption to restate its comparatives. As a result, the comparatives continue to be accounted as available-for-sale while its opening balances were reclassified to fair value through other comprehensive income with no adjustments on carrying amount on the date of initial adoption (i.e. 1 January 2018).

Trade and other receivables

The Group's impairment methodology and classification are aligned with the expected credit loss requirements of HKFRS 9. No adjustments are therefore required.

Derivatives and hedging activities

Forward foreign exchange contracts and interest rate swap contracts continued to qualify as cash flow hedges under HKFRS 9. The Group's risk management strategies and hedging documentation are aligned with the requirement of HKFRS 9. No adjustments are therefore required.

3 ESTIMATES

The preparation of unaudited condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

4 REVENUE AND SEGMENT INFORMATION

The Group's revenue is substantially derived from the provision of dry bulk shipping services internationally and, accordingly, information is not presented by business segment.

Geographical segment information is not presented as the management considers that the nature of our shipping services, which are carried out internationally, precludes a meaningful allocation of operating profits to specific geographical segments.

The Group's recognition basis of freight income from voyage charters has changed from "discharge to discharge" to "loading to discharge". Please refer to Note 2(c)(ii) for the changes in accounting policy.

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

	Property, plant and equipment		Goodwill
US$'000	**2018**	2017	**2018 & 2017**
Net book amounts			
At 1 January	**1,797,587**	1,653,433	**25,256**
Additions	**80,785**	167,578	**–**
Depreciation	**(57,251)**	(52,977)	**–**
Disposals	**(616)**	(5,249)	**–**
Exchange differences	**(25)**	61	**–**
At 30 June	**1,820,480**	1,762,846	**25,256**

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI") AND AVAILABLE-FOR-SALE FINANCIAL ASSETS ("AFS")

US$'000	Fair value level	FVOCI 30 June 2018	AFS 31 December 2017
Listed equity securities (a)	Level 1	**361**	569

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

The financial assets were reclassified from AFS to FVOCI following the adoption of HKFRS 9 on 1 January 2018. Please refer to Note 2(c)(iii) for the change in accounting policy.

The 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).

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 using the derivatives summarised below together with their respective fair value levels.

Derivatives	Fair value levels
Interest rate swap contracts	Level 2
Forward foreign exchange contracts	Level 2
Bunker swap contracts	Level 2
Forward freight agreements	Level 1

	30 June 2018		31 December 2017	
US$'000	**Assets**	**Liabilities**	Assets	Liabilities
Non-current portion				
Cash flow hedges				
Interest rate swap contracts (a)	**1,646**	**–**	432	–
Forward foreign exchange contracts (b)	**90**	**(6,045)**	–	(4,706)
Derivative assets that do not qualify for hedge accounting				
Bunker swap contracts (c)	**932**	**(537)**	801	(1,084)
Non-current portion - total	**2,668**	**(6,582)**	1,233	(5,790)
Current portions				
Derivative liabilities that do not qualify for hedge accounting				
Bunker swap contracts (c)	**8,175**	**(334)**	4,834	(748)
Forward freight agreements (d)	**–**	**(107)**	–	(24)
Current portion - total	**8,175**	**(441)**	4,834	(772)
Total	**10,843**	**(7,023)**	6,067	(6,562)

(a) 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.

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

Effective date	Notional amount	Swap details	Expiry
For 2018			
June 2018	US$69 million on amortising basis	USD 3-month LIBOR swapped to a fixed rate of approximately 2.0% per annum	Contract expires in December 2020
For 2018 & 2017			
December 2013	US$48 million on amortising basis	USD 3-month LIBOR swapped to a fixed rate of approximately 2.1% per annum	Contract expires in December 2021
February 2017	US$9 million on amortising basis	USD 1-month LIBOR swapped to a fixed rate of approximately 1.8% per annum	Contract expires in January 2022
For 2017			
January 2014	US$130 million on amortising basis	USD 3-month LIBOR swapped to a fixed rate of approximately 1.9% per annum	Contract expires in November 2020

(b) Forward foreign exchange contracts

The functional currency of most of the Group's operating companies is United States Dollar ("USD") as the majority of our transactions are denominated in this currency. 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 recent vessel purchases are denominated in USD.

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

At 30 June 2018, the outstanding forward foreign exchange contracts held by the Group mainly comprised contracts with banks to buy Danish Kroner ("DKK") of approximately DKK623 million (31 December 2017: DKK692.6 million) and simultaneously sell approximately US$111 million (31 December 2017: US$123.9 million), These foreign exchange contracts expire through August 2023. The Group has long-term bank borrowings denominated in DKK with maturity in August 2023. To hedge against the potential fluctuations in foreign exchange, the Group entered into these forward foreign exchange contracts with terms that match the repayment schedules of such long-term bank borrowings.

(c) 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 2018, the Group had outstanding bunker swap contracts to buy approximately 110,948 (31 December 2017: 130,702) metric tonnes of bunkers. These contracts expire through December 2021 (31 December 2017: December 2021).

(d) 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 2018, the Group had outstanding forward freight agreements as follows:

Contract Type	Index[1]	Quantity (days)	Contract daily price (US$)	Expiry through
For 2018				
Sell	BHSI	90	8,500	December 2018
For 2017				
Sell	BHSI	180	8,500	December 2018

[1] "BHSI" stands for "Baltic Handysize Index".

7 DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

(e) Analysis of derivative gain and loss

During the six months ended 30 June 2018, the Group recognised net derivative gains of US$9.2 million, as follows:

US$'000	Realised	Unrealised	Six months ended 30 June 2018	Six months ended 30 June 2017	Presentation in the Financial Statements:
Gains					
Forward freight agreements	7	–	**7**	19	
Bunker swap contracts	6,093	6,301	**12,394**	3,949	
Interest rate swap contracts	13	–	**13**	9	
	6,113	6,301	**12,414**	3,977	
Losses					
Forward freight agreements	(21)	(83)	**(104)**	(6)	
Bunker swap contracts	(1,176)	(1,868)	**(3,044)**	(7,913)	
Interest rate swap contracts	(10)	–	**(10)**	(552)	
Forward foreign exchange contracts	(39)	–	**(39)**	–	
	(1,246)	(1,951)	**(3,197)**	(8,471)	
Net					
Forward freight agreements	(14)	(83)	**(97)**	13	*Other expenses*
Bunker swap contracts	4,917	4,433	**9,350**	(3,964)	*Cost of services*
Interest rate swap contracts	3	–	**3**	(543)	*Financial costs*
Forward foreign exchange contracts	(39)	–	**(39)**	–	*Cost of services*
	4,867	4,350	**9,217**	(4,494)	

Realised: *• Settlement of contracts completed in the period*

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

8 TRADE AND OTHER RECEIVABLES

US$'000	30 June 2018	31 December 2017
Non-current		
Prepayments	**–**	54
Deposit on vessel purchased	**10,550**	5,200
	10,550	5,254
Current		
Trade receivables – gross	**37,964**	47,038
Less: provision for impairment	**–**	(2,368)
Trade receivables – net	**37,964**	44,670
Other receivables	**26,117**	25,850
Prepayments	**21,476**	9,755
	85,557	80,275

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

At 30 June 2018, the ageing of net trade receivables based on invoice date is as follows:

US$'000	30 June 2018	31 December 2017
≤ 30 days	**26,050**	34,188
31-60 days	**3,893**	3,749
61-90 days	**6,001**	742
> 90 days	**2,020**	5,991
	37,964	44,670

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 2018	31 December 2017
Cash at bank and on hand	**33,091**	25,522
Bank deposits	**283,988**	219,172
Total cash and deposits	**317,079**	244,694
Cash and cash equivalents	**317,021**	227,040
Term deposits	**–**	17,596
Cash and deposits	**317,021**	244,636
Restricted bank deposits included in non-current assets	**58**	58
Total cash and deposits	**317,079**	244,694

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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10 TRADE AND OTHER PAYABLES

US$'000	30 June 2018	31 December 2017
Non-current		
Receipts in advance	**7,889**	10,203
Current		
Trade payables	**57,148**	56,554
Accruals and other payables	**60,019**	52,271
Receipts in advance	**35,461**	35,053
	152,628	143,878

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

At 30 June 2018, the ageing of trade payables based on due date is as follows:

US$'000	30 June 2018	31 December 2017
≤ 30 days	**53,220**	50,729
31-60 days	**97**	290
61-90 days	**222**	221
> 90 days	**3,609**	5,314
	57,148	56,554

11 LONG-TERM BORROWINGS

US$'000	30 June 2018	31 December 2017
Non-current		
Secured bank loans (a)	**720,017**	619,177
Other secured borrowings (b)	**37,160**	39,989
Unsecured convertible bonds (c)	**118,928**	117,710
	876,105	776,876
Current		
Secured bank loans (a)	**92,421**	98,529
Other secured borrowings (b)	**5,643**	5,563
	98,064	104,092
Total long-term borrowings	**974,169**	880,968

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 as at 30 June 2018 were secured, inter alia, by the following:

- Mortgages over certain owned vessels with net book values of US$1,628,402,000 (31 December 2017: US$1,518,309,000); and
- Assignment of earnings and insurances compensation in respect of the vessels.

The secured bank loans are repayable as follows:

US$'000	30 June 2018	31 December 2017
Within one year	**92,421**	98,529
In the second year	**92,421**	97,798
In the third to fifth year	**276,911**	314,997
After the fifth year	**350,685**	206,382
	812,438	717,706

11 LONG-TERM BORROWINGS (CONTINUED)

(b) Other secured borrowings

The Group's other secured borrowings as at 30 June 2018 were in respect of seven (31 December 2017: seven) owned vessels with net book values of US$103,744,000 (31 December 2017: US$107,441,000) 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 2018**	31 December 2017
Within one year	**5,643**	5,563
In the second year	**5,819**	5,726
In the third to fifth year	**20,168**	21,749
After the fifth year	**11,173**	12,514
	42,803	45,552

(c) Unsecured convertible bonds

	30 June 2018		31 December 2017	
US$'000	**Face value**	**Liability component**	Face value	Liability component
3.25% coupon due 2021	**125,000**	**118,928**	125,000	117,710

The carrying value of convertible bonds approximate their fair values.

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	**2018**	2017
At 1 January	**28,846**	51,918
Utilised during the period	**(8,057)**	(10,177)
At 30 June	**20,789**	41,741
Analysis of provisions		
Current	**12,933**	21,288
Non-current	**7,856**	20,453
	20,789	41,741

The provision for onerous contracts utilised during the period was credited to other income.

13 SHARE CAPITAL

	2018		2017	
	Number of shares	**US$'000**	Number of shares	US$'000
Authorised	**36,000,000,000**	**360,000**	36,000,000,000	360,000
Issued and fully paid				
At 1 January	**4,436,939,102**	**43,554**	4,014,512,275	40,046
Share issued as Vessel Consideration Shares (a)	**30,227,127**	**302**	–	–
Shares issued upon grant of restricted share awards (b)	**21,150,000**	**212**	23,115,000	231
Shares granted to employees in the form of restricted share awards (b)	**6,948,000**	**1,189**	8,164,000	1,716
Shares transferred back to trustee upon lapse of restricted share awards (b)	**(1,239,000)**	**(211)**	(7,354,000)	(1,296)
Shares purchased by trustee of the SAS (b)	**(377,000)**	**(110)**	(5,213,000)	(1,233)
At 30 June	**4,493,648,229**	**44,936**	4,033,224,275	39,464

The issued share capital of the Company as at 30 June 2018 was 4,493,648,229 shares (30 June 2017: 4,038,428,275 shares). The table above shows the issued share capital of the Company as at 30 June 2017 as 4,033,224,275 shares which excludes 5,204,000 shares held by the trustee in relation to restricted share awards amounting to US$92,000 and treated as a debit to share capital.

(a) Shares issued as Vessel Consideration Shares

On 14 May 2018, the Group entered into contracts for the acquisition of four vessels at a total purchase consideration of US$88.5 million funded by a combination of: (i) the issue of 170,760,137 shares at an issue price of HK$2.036 per share (''Vessel Consideration Shares") amounting to US$44.3 million to the sellers; and (ii) cash of US$44.2 million. On 22 June 2018, 30,227,127 shares were issued upon delivery of the first vessel to the Group. The balance 140,533,010 shares are expected to be issued to the sellers by January 2019 upon delivery of the three vessels to the Group.

(b) 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 is regarded as a special purpose entity of the Company.

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

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

000' shares	2018	2017
At 1 January	**74,006**	67,256
Granted	**28,098**	31,279
Lapsed	**(1,239)**	(7,354)
Vested	**(2,346)**	(1,386)
At 30 June	**98,519**	89,795

The market prices of the restricted share awards on the grant date represented the fair values of those shares. The weighted average fair value of restricted share awards granted during the period was HK$1.67 (2017: HK$1.46).

13 SHARE CAPITAL (CONTINUED)

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

	Six months ended 30 June			
	2018		2017	
Sources of shares granted	**Number of granted shares awards**	**Related movement US$'000**	Number of granted shares awards	Related movement US$'000
Shares issued	**21,150,000**	**5,559**	23,115,000	5,245
Shares purchased by the trustee of the SAS on the Stock Exchange funded by the Company	**377,000**	**110**	5,213,000	1,233
Shares transferred from the trustee	**6,571,000**	**1,079**	2,951,000	483
	28,098,000	**6,748**	31,279,000	6,961

The grant dates and vesting dates of the unvested restricted share awards as at 30 June 2018 are as follows:

		Vesting date			
Date of grant	**Number of unvested share awards**	**14 July 2018**	**14 July 2019**	**14 July 2020**	**14 July 2021**
17 April 2015	16,734,000	16,734,000	–	–	–
12 August 2016	23,328,000	1,868,000	21,460,000	–	–
27 January 2017	26,080,000	914,000	914,000	24,252,000	–
26 May 2017	836,000	278,000	278,000	280,000	–
21 August 2017	3,443,000	1,147,000	1,147,000	1,149,000	–
26 January 2018	28,098,000	–	3,482,000	1,640,000	22,976,000
	98,519,000	20,941,000	27,281,000	27,321,000	22,976,000

14 FINANCE INCOME AND FINANCE COSTS

	Six months ended 30 June	
US$'000	**2018**	2017
Finance income		
Bank interest income	**(1,218)**	(1,645)
Total finance income	**(1,218)**	(1,645)
Finance costs		
Interest on borrowings		
Secured bank loans	**12,366**	12,680
Unsecured convertible bonds	**3,250**	3,184
Other secured borrowings	**1,083**	1,027
Net (gains)/losses on interest rate swap contracts	**(3)**	543
Other finance charges	**461**	300
	17,157	17,734
Less: amounts capitalised as PP&E	**–**	(373)
Total finance costs	**17,157**	17,361
Finance costs, net	**15,939**	15,716

15 PROFIT/(LOSS) BEFORE TAXATION

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

	Six months ended 30 June	
US$'000	**2018**	2017
Operating lease expenses		
– vessels	**241,333**	219,525
– land and buildings	**1,518**	1,873
Bunkers consumed	**191,190**	162,958
Port disbursement and other voyage costs	**174,352**	174,511
Employee benefit expenses including Directors' emoluments (a)	**71,301**	65,298
Depreciation		
– owned vessels	**56,321**	52,178
– other PP&E	**930**	799
Gains on derivative instruments which do not qualify for hedge accounting		
– bunker swap contracts	**(12,394)**	(3,949)
– forward freight agreements	**(7)**	(19)
Losses on derivative instruments which do not qualify for hedge accounting		
– bunker swap contracts	**3,044**	7,913
– forward freight agreements	**104**	6
Utilisation of provision for onerous contracts	**(8,057)**	(10,177)
Lubricating oil consumed	**5,120**	4,984
Write-off of loan arrangement fees (b)	**1,623**	–
Losses on disposal of PP&E	**19**	436
Office relocation costs	**–**	1,391
Provision for impairment losses		
– trade receivables	**–**	894
– assets held for sale	**–**	830
– other receivables	**–**	112

(a) Employee benefit expenses comprise crew wages and other costs of US$48.5 million (2017: US$44.4 million), which are included in cost of services.

(b) Write-off of loan arrangement fees upon termination of loans refinanced by a new revolving credit facility is included in other expenses.

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

	Six months ended 30 June	
US$'000	**2018**	2017
Direct G&A overheads included in cost of services	**24,751**	22,532
Indirect G&A overheads	**3,621**	3,690
Total G&A overheads	**28,372**	26,222

Operating lease expenses

The total vessel operating lease expenses of US$241.3 million (2017: US$219.5 million) above include contingent lease payments amounting to US$11.8 million (2017: US$8.2 million). These relate to dry bulk vessels chartered-in on an index-linked basis.

16 TAXATION

Shipping income from international trade is either not subject to or exempt from taxation according to the tax regulations prevailing in the countries in which the Group operates. Income from non-shipping activities 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	**2018**	2017
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2017:16.5%)	**274**	202
Overseas tax, provided at the rates of taxation prevailing in the countries	**171**	142
Adjustments in respect of prior year	**111**	(906)
Tax charges/(credits)	**556**	(562)

17 DIVIDENDS

The Board has declared an interim dividend of HK 2.5 cents per share amounting to US$14,315,000 on 27 July 2018. This dividend is not reflected as a dividend payable in these condensed consolidated interim financial statements. For the full year, the Group remains committed to the existing dividend policy of paying out a minimum of 50% of profits excluding disposal gains.

No interim or final dividend was declared for the period ended 30 June 2017 and the year ended 31 December 2017 respectively.

18 EARNINGS PER SHARE ("EPS")

(a) Basic earnings per share

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

		Six months ended 30 June	
		2018	2017
Profit/(loss) attributable to shareholders	(US$'000)	**30,752**	(11,966)
Weighted average number of ordinary shares in issue	('000)	**4,366,033**	3,944,296
Basic earnings per share	(US cents)	**0.70**	(0.30)
Equivalent to	(HK cents)	**5.52**	(2.36)

(b) Diluted earnings per share

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

		Six months ended 30 June	
		2018	2017
Profit/(loss) attributable to shareholders	(US$'000)	**30,752**	(11,966)
Weighted average number of ordinary shares in issue	('000)	**4,366,033**	3,944,296
Adjustment for calculation of diluted EPS relating to unvested restricted shares	('000)	**89,941**	–
Weighted average number of ordinary share for diluted EPS	('000)	**4,455,974**	3,944,296
Diluted earnings per share	(US cents)	**0.69**	(0.30)
Equivalent to	(HK cents)	**5.41**	(2.36)

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

19 NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

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

	Six months ended 30 June	
US$'000	**2018**	2017
Profit/(loss) before taxation	**31,308**	(12,528)
Adjusted for:		
Assets and liabilities adjustments		
Depreciation and amortisation	**57,251**	52,977
Utilisation of provision for onerous contracts	**(8,057)**	(10,177)
Net unrealised (gain)/loss on derivative instruments not qualified as hedges, excluding interest rate swap contracts	**(4,350)**	2,564
Charter Hire Reduction	**2,751**	3,059
Write-off of loan arrangement fees	**1,623**	–
Losses on disposal of PP&E	**19**	436
Provision for impairment losses		
– trade receivables	**–**	894
– assets held for sale	**–**	830
– other receivables	**–**	112
Capital and funding adjustments		
Share-based compensation	**2,885**	2,117
Results adjustments		
Finance costs, net	**15,939**	15,716
Net foreign exchange (gains)/losses	**(106)**	104
Profit before taxation before working capital changes	**99,263**	56,104
Increase in trade and other receivables	**(17,454)**	(10,249)
Increase in trade and other payables	**6,485**	17,196
Increase in inventories	**(15,960)**	(15,269)
Cash generated from operations	**72,334**	47,782

20 COMMITMENTS

(a) Capital commitments

US$'000	**30 June 2018**	31 December 2017
Contracted but not provided for – vessel acquisition contracts	**49,950**	20,800

All capital commitments for the Group as at 30 June 2018 and 31 December 2017 fall due in one year or less.

(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	**Vessels**	**Land and buildings**	**Total**
At 30 June 2018			
Within one year	**149,756**	**2,198**	**151,954**
In the second to fifth year	**191,309**	**7,101**	**198,410**
After the fifth year	**16,723**	**189**	**16,912**
	357,788	**9,488**	**367,276**
At 31 December 2017			
Within one year	135,808	2,420	138,228
In the second to fifth year	238,012	7,892	245,904
After the fifth year	22,643	470	23,113
	396,463	10,782	407,245

The Group's operating leases for vessels have terms ranging from less than 1 year to 10 years (31 December 2017: less than 1 year to 10 years). Certain of the leases have escalation clauses, renewal rights and purchase options.

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 for vessels as follows:

US$'000	30 June 2018	31 December 2017
Within one year	**43,668**	32,294
In the second to fifth year	**45,335**	47,579
After the fifth year	**20,701**	23,130
	109,704	103,003

The Group's operating leases have terms ranging from less than 1 year to 15 years and they mainly represent the receipts from two Post-Panamax vessels amounting to US$81.1 million (31 December 2017: US$86.6 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	**2018**	2017
Directors' fees	**283**	271
Salaries and bonus	**1,254**	1,525
Share-based compensation (a)	**754**	174
Retirement benefit costs	**3**	4
	2,294	1,974

(a) Share-based compensation in 2017 is net of a write-back due to the retirement of a Director.

22 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group has no contingent liabilities and contingent assets at 30 June 2018 and 31 December 2017.