

# Notes to the Financial Statements

## 1 General information

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

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

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

These unaudited condensed consolidated interim financial statements have been approved for issue by the Board of Directors on 31 July 2019.

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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 2018, 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 2018, except for the adoption of new standard as described below.

The following new standard is mandatory for the accounting period beginning on or after 1 January 2019 and is relevant to the Group’s operation.

HKFRS 16	Leases
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The new accounting policies and the impact of the adoption of this standard are disclosed in Note 2(c) and 2(d) respectively. Other new standards that became effective in this accounting period do not have any impact on the Group’s accounting policies and do not require any adjustments.

### (c) Accounting policies under HKFRS 16 “Leases”

Set out below are the new accounting policies following the adoption of HKFRS 16 “Leases”, which have been applied from the date of initial application.

At inception, we assess whether a contract is or contains a lease. This assessment involves the exercise of judgement about whether it depends on a specified asset.

### Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, and lease payments made before the commencement date. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Right-of-use assets are subject to testing for impairment if there is an indicator of impairment, as for owned assets.

### Lease liabilities

At the commencement date of the lease, lease liabilities are measured at the present value of lease payments to be made over the lease term. The lease term comprises the non-cancellable period with addition of periods covered by options to extend the lease if the Group is reasonably certain to exercise the extension option or reasonably certain not to exercise the termination option. This assessment is made on inception of the lease. The lease payments include fixed payments and variable payments depending on an index or a rate.

In calculating the present value of lease payments, the incremental borrowing rate at the lease commencement date is used. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the fixed lease payments or a change in the assessment to purchase the underlying asset.

### Short-term leases and leases of low-value assets

The Group applies the lease recognition exemption to the short-term leases and leases for which the underlying asset is of low value such as office equipment (e.g. printing and photocopying machines). Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

### Subleasing

The Group enters into arrangements to sublease an underlying asset to a third party, while the Group retains the primary obligation under the original lease. In these arrangements, the Group acts as both the lessee and lessor of the same underlying asset.

If a leased vessel is subleased under terms transferring substantially all remaining risks and rewards under the head lease to the lessee in the sublease, the right-of-use asset is derecognised, and a lease receivable is recognised and classified as a finance lease. Gain/loss on the derecognised right-of-use asset, if any, is recognised in the income statement as other operating income/expenses.

During the term of the sublease, the Group recognises both finance income on the sublease and finance costs on the head lease.

### Non-lease component

The Group has elected to separately account for the lease (i.e. bareboat charter) and non-lease components (i.e. technical management services) for leases of time charter contracts on vessels. Assessing the measurement of the non-lease component includes a significant accounting judgement. Consideration of the lease component and non-lease component is allocated with reference to the stand-alone market prices which is benchmarked against market data available from the industry reports.

### Lessor accounting

Lessor accounting under HKFRS 16 “Leases” is substantially unchanged from the accounting under HKAS 17 Leases. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between two types of leases: operating and finance leases.

### (d) Transition to HKFRS 16 “Leases”

This note explains the impact of the adoption of HKFRS 16 “Leases” on the Group’s financial statement at the date of initial application (i.e. 1 January 2019).

The Group has adopted HKFRS 16 “Leases” using the modified retrospective approach from 1 January 2019 without restating comparative figures by recognising the cumulative effects as an adjustment to the opening balance of retained profits as at 1 January 2019.

### (i) Practical expedients applied

In applying HKFRS 16 “Leases” for the first time, the Group has applied the following practical expedients permitted by the standard.

- For contracts entered into before the transition date, the Group did not reassess whether a contract is, or contains a lease at the date of initial application but relied on its assessment made applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease instead.
- A single discount rate is used to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar type of vessels). The incremental borrowing rate applied to the lease liabilities on 1 January 2019 were in the range of 3.9-4.3%, depending on the maturity of the lease contracts.
- The Group relied on previous assessments on whether leases are onerous.
- The operating leases with a remaining lease term of up to 12 months as at 1 January 2019 were treated as short-term leases.
- The initial direct costs for the measurement of the right-of-use asset at the date of initial application were excluded.
- The Group used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

### (ii) Impact on the financial statements

The impact of the adoption of HKFRS 16 “Leases” to the financial statements for the six months ended and as at 30 June 2019 is disclosed below which includes the full income statement and those affected line items on the balance sheet and cash flow statement.

#### Income statement

US\$'000	Before adoption of HKFRS 16 “Leases”	Effects of adopting HKFRS 16 “Leases”	As reported
Revenue	768,852	(1,712)	767,140
Cost of services	(741,973)	6,091	(735,882)
Gross profit	26,879	4,379	31,258
Indirect general and administrative overheads	(3,705)	123	(3,582)
Other income and gains	367	–	367
Other expenses	(189)	–	(189)
Finance income	3,181	142	3,323
Finance costs	(19,852)	(2,492)	(22,344)
Profit before taxation	6,681	2,152	8,833
Tax charges	(616)	–	(616)
Profit attributable to shareholders	6,065	2,152	8,217

#### Balance Sheet (extract)

US\$'000	Before adoption of HKFRS 16 “Leases”	Effects of adopting HKFRS 16 “Leases”	As reported
<b>Non-current assets</b>			
Right-of-use assets	–	103,292	103,292
Subleasing receivables	–	5,314	5,314
<b>Current assets</b>			
Current portion of subleasing receivables	–	6,553	6,553
Trade and other receivables	102,613	(54)	102,559
<b>Equity</b>			
Retained profits	186,121	(2,424)	183,697
Other reserves	1,007,122	129	1,007,251
<b>Non-current liabilities</b>			
Lease liabilities	–	77,818	77,818
Trade and other payables	5,537	(2,343)	3,194
<b>Current liabilities</b>			
Current portion of lease liabilities	–	45,170	45,170
Trade and other payables	155,201	(3,245)	151,956

#### Cash Flow Statement (extract)

US\$'000	Before adoption of HKFRS 16 “Leases”	Effects of adopting HKFRS 16 “Leases”	As reported
Operating activities	72,168	20,577	92,745
Investing activities	(83,678)	3,283	(80,395)
Financing activities	(3,991)	(23,860)	(27,851)
<b>Net change in cash and deposits</b>	<b>(15,501)</b>	<b>–</b>	<b>(15,501)</b>

## 2 Basis of preparation (continued)

### (d) Transition to HKFRS 16 "Leases" (continued)

#### (iii) Adjustments to the opening balances

The 2019 opening balance restatement effect is disclosed below.

Line items that were not affected by the changes have not been included.

#### Balance Sheet (extract)

US\$'000	31 December 2018 (as previously reported)	Effects of adoption HKFRS 16 "Leases"	1 January 2019
<b>Non-current assets</b>			
Right-of-use assets	–	107,313	107,313
Subleasing receivables	–	8,607	8,607
<b>Current assets</b>			
Current portion of subleasing receivables	–	6,401	6,401
Trade and other receivables	88,679	(30)	88,649
<b>Equity</b>			
Retained profits	202,262	(4,575)	197,687
Other reserves	983,742	204	983,946
<b>Non-Current liabilities</b>			
Lease liabilities	–	88,127	88,127
Trade and other payables	5,537	(1,123)	4,414
<b>Current liabilities</b>			
Current portion of lease liabilities	–	42,332	42,332
Trade and other payables	150,559	(2,674)	147,885

#### (iv) Transformation of 2018 operating lease commitments to lease liabilities

The lease liabilities as of 1 January 2019 amount to US\$130,459,000 and can be reconciled with the operating lease commitments disclosed in the 2018 annual report Note 26(b)(i) as follows:

US\$'000	
<b>Total operating lease commitments as at 31 December 2018</b>	328,050
Technical management service costs (non-lease component)	(106,982)
Short-term leases	(47,944)
Lease commitments regarding leases not yet commenced	(18,804)
Leases with a remaining term of up to 12 months as at 1 January 2019	(12,572)
Interest element	(10,734)
Leases of low-value assets	(523)
Exchange differences	(32)
<b>Lease liabilities as at 1 January 2019</b>	130,459

## 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 2018.

## 4 Revenue and segment information

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

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

## 5 Expenses by nature

US\$'000	Six months ended 30 June	
	2019	2018
<b>Vessel – related expenses</b>		
Operating lease expenses - vessels (b)	<b>200,094</b>	241,333
Bunker consumed	<b>190,443</b>	191,190
Port disbursements and other voyage costs	<b>171,671</b>	174,352
Vessel depreciation		
– owned vessels	<b>60,133</b>	56,321
– right-of-use assets	<b>16,835</b>	–
Employee benefit expenses (c)	<b>51,281</b>	48,464
Vessel operating expenses	<b>25,121</b>	18,919
Lubricating oil consumed	<b>3,654</b>	5,120
Net gains on bunker swap contracts	<b>(10,226)</b>	(9,350)
	<b>709,006</b>	726,349
<b>General and administrative overheads (a)</b>		
Employee benefit expenses including directors' emoluments (c)	<b>24,352</b>	22,837
Other PP&E depreciation		
– owned other PP&E	<b>924</b>	930
– right-of-use assets	<b>1,005</b>	–
Operating lease expenses - land and buildings	<b>424</b>	1,518
Net foreign exchange losses/(gains)	<b>207</b>	(106)
Other general and administrative expenses	<b>3,546</b>	3,193
	<b>30,458</b>	28,372
<b>Other expenses</b>		
Losses on disposal of assets held for sale	<b>174</b>	–
Realised losses on forward freight agreements	<b>15</b>	104
Write-off of loan arrangement fees	–	1,623
Losses on disposal of property, plant and equipment	–	19
Write-back for impairment losses for other receivables	–	(7)
	<b>189</b>	1,739
The sum of the above reconciles to the following headings in the income statement. (i) "cost of services", (ii) "indirect general and administrative overheads" and (iii) "other expenses"	<b>739,653</b>	756,460

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

US\$'000	Six months ended 30 June	
	2019	2018
Direct G&A overheads included in cost of services	<b>26,876</b>	24,751
Indirect G&A overheads	<b>3,582</b>	3,621
	<b>30,458</b>	28,372

### (b) Operating lease expenses

Total vessel operating lease expenses included contingent lease payments amounting to US\$1.6 million (2018: US\$11.8 million). These related to the vessels chartered-in on an index-linked basis.

### (c) Employee benefit expenses

Total employee benefit expenses amounted to US\$75.6 million (2018: US\$71.3 million), comprising crew wages and other costs of US\$51.3 million (2018: US\$48.5 million) included in cost of services.

## 6 Other income and gains

US\$'000	Six months ended 30 June	
	2019	2018
Write-back of disposal cost provision	367	–
Utilisation of provision for onerous contracts	–	8,057
Gains on forward freight agreements	–	7
	367	8,064

## 7 Finance income and finance costs

US\$'000	Six months ended 30 June	
	2019	2018
<b>Finance income</b>		
Bank interest income	(3,181)	(1,218)
Subleasing receivables interest income	(142)	–
	(3,323)	(1,218)
<b>Finance costs</b>		
Interest on borrowings		
Secured bank loans	15,208	12,366
Unsecured convertible bonds	3,319	3,250
Other secured borrowings	1,006	1,083
Interest on lease liabilities		
Vessels	2,269	–
Other PP&E	223	–
Net gains on interest rate swap contracts	(302)	(3)
Other finance charges	621	461
	22,344	17,157
Finance costs, net	19,021	15,939

## 8 Taxation

Shipping income from international trade is either not subject to or exempt from taxation according to the tax regulations prevailing in the countries in which the Group operates. Income from non-shipping activities is subject to tax at prevailing rates in the countries in which these businesses operate.

The amount of taxation charged to the income statement represents:

US\$'000	Six months ended 30 June	
	2019	2018
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2018: 16.5%)	408	274
Overseas tax, provided at the rates of taxation prevailing in the countries	188	171
Adjustments in respect of prior year	20	111
Tax charges	616	556

## 9 Dividends

No interim dividend was declared for the period ended 30 June 2019 (2018: HK 2.5 cents or US 0.3 cents per share).

The 2018 final dividend of HK 3.7 cents or US 0.5 cents per share, totalling US\$21,825,000 was paid during the period.

## 10 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 2013 Share Award Scheme ("SAS") and unvested restricted shares (Note 20(b)).

		Six months ended 30 June	
		2019	2018
Profit attributable to shareholders (US\$'000)		8,217	30,752
Weighted average number of ordinary shares in issue ('000)		4,539,977	4,366,033
Basic earnings per share (US cents)		0.18	0.70
Equivalent to (HK cents)		1.42	5.52

### (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 (Note 20(b)) where dilutive.

		Six months ended 30 June	
		2019	2018
Profit attributable to shareholders (US\$'000)		8,217	30,752
Weighted average number of ordinary shares in issue ('000)		4,539,977	4,366,033
Adjustment for calculation of diluted EPS relating to unvested restricted shares ('000)		96,695	89,941
Weighted average number of ordinary share for diluted EPS ('000)		4,636,672	4,455,974
Diluted earnings per share (US cents)		0.18	0.69
Equivalent to (HK cents)		1.39	5.41

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

US\$'000	Property, plant and equipment		Goodwill
	2019	2018	2019 & 2018
<b>Net book value</b>			
At 1 January	<b>1,807,672</b>	1,797,587	<b>25,256</b>
Additions	<b>101,282</b>	80,785	-
Depreciation	<b>(61,057)</b>	(57,251)	-
Disposals	-	(616)	-
Exchange differences	<b>25</b>	(25)	-
At 30 June	<b>1,847,922</b>	1,820,480	<b>25,256</b>

As at 30 June 2019, the Group operated owned vessels with a net book value of US\$1,842.7 million as follows:

	Number	Average net book value (US\$ Million)	Total net book value (US\$ Million)
Handysize	<b>82</b>	<b>14.5</b>	<b>1,186.4</b>
Supramax	<b>30</b>	<b>20.5</b>	<b>616.0</b>
Post-Panamax	<b>1</b>	<b>40.3</b>	<b>40.3</b>
	<b>113</b>		<b>1,842.7</b>

## 12 Right-of-use assets

US\$'000	Vessels	Other PP&E	2019
At 1 January	<b>98,773</b>	<b>8,540</b>	<b>107,313</b>
Additions	<b>11,739</b>	<b>1,990</b>	<b>13,729</b>
Depreciation	<b>(16,835)</b>	<b>(1,005)</b>	<b>(17,840)</b>
Exchange differences	-	<b>90</b>	<b>90</b>
At 30 June	<b>93,677</b>	<b>9,615</b>	<b>103,292</b>

## 13 Subleasing receivables

Subleasing receivables relate to the arrangements entered by the Group to sublease an underlying asset to a third party, while the Group retains the primary obligation under the original lease. In these arrangements, the Group acts as both the lessee and lessor of the same underlying asset.

US\$'000	2019
At 1 January	<b>15,008</b>
Amounts received	<b>(3,141)</b>
At 30 June	<b>11,867</b>
Non-Current	<b>5,314</b>
Current	<b>6,553</b>
	<b>11,867</b>

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

US\$'000	30 June 2019
<b>Gross subleasing receivables</b>	
Within one year	<b>6,924</b>
In the second to fifth year	<b>5,410</b>
	<b>12,334</b>
<b>Unearned future finance income</b>	
Within one year	<b>(371)</b>
In the second to fifth year	<b>(96)</b>
	<b>(467)</b>
<b>Net subleasing receivables</b>	
Within one year	<b>6,553</b>
In the second to fifth year	<b>5,314</b>
	<b>11,867</b>

## 14 Derivative assets and liabilities

The Group is exposed to fluctuations in freight rates, bunker prices, interest rates and currency exchange rates. The Group manages these exposures using the derivatives summarised below together with their respective fair value levels.

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

### Fair value levels

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

US\$'000	30 June 2019		31 December 2018	
	Assets	Liabilities	Assets	Liabilities
<b>Non-current</b>				
Cash flow hedges				
Interest rate swap contracts (a)	186	(1,950)	1,055	(563)
Forward foreign exchange contracts (b)(i)	56	(8,419)	21	(7,948)
Derivatives that do not qualify for hedge accounting				
Bunker swap contracts (c)	1,128	(691)	669	(1,401)
Forward foreign exchange contracts (b)(ii)	–	(11)	–	–
	<b>1,370</b>	<b>(11,071)</b>	1,745	(9,912)
<b>Current</b>				
Derivatives that do not qualify for hedge accounting				
Bunker swap contracts (c)	1,464	(1,170)	214	(7,374)
	<b>1,464</b>	<b>(1,170)</b>	214	(7,374)
<b>Total</b>	<b>2,834</b>	<b>(12,241)</b>	1,959	(17,286)

### (a) Interest rate swap contracts

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

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.

Effective date	Notional amount	Swap details	Expiry
<b>At 30 June 2019</b>			
June 2019	US\$92 million on amortising basis	USD 3-month LIBOR swapped to a fixed rate of approximately 1.7% per annum	Contract expires in May 2026
<b>At 30 June 2019 and 31 December 2018</b>			
December 2018	US\$40 million on amortising basis	USD 6-month LIBOR swapped to a fixed rate of approximately 3.0% per annum	Contract expires in June 2025
December 2018	US\$5 million on bullet basis	USD 3-month LIBOR swapped to a fixed rate of approximately 2.9% per annum	Contract expires in June 2025
December 2013 & June 2018	US\$117 million on amortising basis	USD 3-month LIBOR swapped to a fixed rate of approximately 2.0% to 2.1% per annum	Contracts expire through December 2021
February 2017	US\$9 million on amortising basis	USD 1-month LIBOR swapped to a fixed rate of approximately 1.8% per annum	Contract expires in January 2022

### (b) Forward foreign exchange contracts

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

#### (i) Forward foreign exchange contracts that qualify for hedge accounting as cash flow hedges

At 30 June 2019, the outstanding forward foreign exchange contracts held by the Group mainly consist of contracts with banks to buy Danish Kroner ("DKK") of approximately DKK487.0 million (31 December 2018: DKK554.4 million) and simultaneously sell approximately US\$86.8 million (31 December 2018: US\$99.0 million), which expire through August 2023. The Group has long-term bank borrowings denominated in DKK with maturity in August 2023. To hedge against the potential fluctuations in foreign exchange, the Group entered into these forward foreign exchange contracts with terms that match the repayment schedules of such long-term bank borrowings.

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

At 30 June 2019, the Group had outstanding forward foreign exchange contracts with a bank to buy approximately US\$2.0 million and simultaneously sell approximately AUD2.8 million for revenue that was denominated in Australian Dollars. These contracts expire through June 2022.

### (c) Bunker swap contracts

#### None of our bunker swap contracts qualify for hedge accounting

The Group enters into bunker swap contracts for fuel oil and marine gas oil to mainly manage the fluctuations in bunker prices in connection with the Group's cargo contract commitments. We have also used bunker swap contracts to lock in the prevailing future fuel price spread between low and high sulphur fuel for a portion of the estimated fuel consumption on some Supramax vessels that will be fitted with scrubbers. Future movements in bunker price will be reflected in the eventual operating results derived from the vessels, which is expected to offset such increase/decrease of the Group's profit after tax and equity in future periods.

At 30 June 2019, the Group had outstanding bunker swap contracts as follows:

Contract Type	Fuel Type	Quantity (metric tonnes)	Average deal price (US\$)	Expiry through
<b>At 30 June 2019</b>				
Buy	Fuel oil	117,693	338	December 2022
Buy	Marine gas oil	14,111	584	December 2021
Sell	Marine gas oil	49,519	571	December 2022
<b>At 31 December 2018</b>				
Buy	Fuel oil	135,228	352	December 2022
Buy	Marine gas oil	10,511	591	December 2021
Sell	Marine gas oil	27,480	566	December 2022

## 15 Trade and other receivables

US\$'000	30 June 2019	31 December 2018
<b>Non-current</b>		
Deposit on vessels purchased (a)	<b>33,500</b>	8,900
<b>Current</b>		
Gross trade receivables	<b>45,319</b>	44,565
Less: provision for impairment	-	-
Net trade receivables (b)	<b>45,319</b>	44,565
Other receivables	<b>21,346</b>	22,253
Prepayments	<b>35,894</b>	21,861
	<b>102,559</b>	88,679

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

#### (a) Deposit on vessels purchased

It represents the total cash consideration paid for two secondhand Supramax vessels which were delivered in July 2019.

#### (b) Net trade receivables

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

US\$'000	30 June 2019	31 December 2018
≤ 30 days	<b>43,608</b>	35,057
31-60 days	<b>264</b>	3,609
61-90 days	<b>80</b>	1,899
> 90 days	<b>1,367</b>	4,000
	<b>45,319</b>	44,565

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

## 16 Cash and deposits

US\$'000	30 June 2019	31 December 2018
Cash at bank and on hand	34,638	23,299
Bank deposits	279,115	318,503
Total cash and deposits	313,753	341,802
Cash and cash equivalents	313,694	329,244
Term deposits	–	12,500
Cash and deposits	313,694	341,744
Restricted bank deposits included in non-current assets	59	58
Total cash and deposits	313,753	341,802

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.

Cash and deposits include US\$125,000,000 cash reserved for the repayments of 3.25% coupon convertible bonds in July and August 2019. Please refer to Note 18(c) for the details. 

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Funding



## 17 Trade and other payables

US\$'000	30 June 2019	31 December 2018
<b>Non-current</b>		
Accruals and other payables	976	–
Receipts in advance	2,218	5,537
	3,194	5,537
<b>Current</b>		
Trade payables	52,250	54,530
Accruals and other payables	63,522	58,300
Receipts in advance	36,184	37,729
	151,956	150,559

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

The ageing of trade payables based on due date is as follows:

US\$'000	30 June 2019	31 December 2018
≤ 30 days	49,471	49,930
31-60 days	266	1,125
61-90 days	41	157
> 90 days	2,472	3,318
	52,250	54,530

## 18 Long-term borrowings

US\$'000	30 June 2019	31 December 2018
<b>Non-current</b>		
Secured bank loans (a)	737,523	703,114
Other secured borrowings (b)	31,341	34,263
	768,864	737,377
<b>Current</b>		
Secured bank loans (a)	104,780	97,809
Other secured borrowings (b)	5,819	5,726
Unsecured convertible bonds (c)	121,468	120,181
	232,067	223,716
Total	1,000,931	961,093

The fair value of long-term borrowings is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments and are within Level 2 of the fair value scale. Please refer to Note 14 (Fair value levels) for the definition of different levels. 

### (a) Secured bank loans

The Group's bank loans as at 30 June 2019 were secured, inter alia, by the following:

- Mortgages over certain owned vessels with net book values of US\$1,705,764,000 (31 December 2018: US\$1,588,102,000); and
- Assignment of earnings and insurance in respect of the vessels.

The secured bank loans are repayable as follows:

US\$'000	30 June 2019	31 December 2018
Within one year	104,780	97,809
In the second year	104,780	97,809
In the third to fifth year	295,967	286,275
After the fifth year	336,776	319,030
	842,303	800,923

**(b) Other secured borrowings**

The Group's other secured borrowings as at 30 June 2019 were in respect of seven (31 December 2018: seven) owned vessels with net book values of US\$96,588,000 (31 December 2018: US\$100,352,000) 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 2019	31 December 2018
Within one year	5,819	5,726
In the second year	6,606	7,035
In the third to fifth year	24,735	23,614
After the fifth year	-	3,614
	<b>37,160</b>	<b>39,989</b>

**(c) Unsecured convertible bonds**

US\$'000	30 June 2019		31 December 2018	
	Face value	Liability component	Face value	Liability component
3.25% coupon due 2021	125,000	121,468	125,000	120,181

The carrying value of convertible bonds approximate their fair values.

During the exercise period from 6 May 2019 to 3 June 2019, Put Option Rights relating to 3.25% coupon convertible bonds having an aggregate principal amount of US\$122,216,000 were exercised. On 3 July 2019, an aggregate principal amount of US\$122,216,000 were redeemed and cancelled at 100% of their principal amount.

On the same day, the Group has exercised its Call Option Right to redeem all the remaining outstanding aggregate principal amount of the Bonds of US\$2,784,000 ("Remaining Bonds") at 100% of their principal amount. The redemption of the Remaining Bonds shall take place on 2 August 2019 and the Remaining Bonds will be cancelled upon settlement. Subsequent to the completion of the redemption and cancellation of the Remaining Bonds, the full aggregate principal amount of the 3.25% coupon convertible bonds will have been redeemed and fully cancelled accordingly.

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\$2.96 (with effect from 23 April 2019)
Conversion at bondholders' options	Any time on or after 19 July 2015
Bondholder put date for redemption at 100% of the principal amount ("Put Option Right")	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 ("Call Option Right")	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.

## 19 Lease liabilities

US\$'000	2019
At 1 January	130,459
Additions	13,729
Repayments	(21,368)
Exchange differences	168
At 30 June	122,988
Non-current	77,818
Current	45,170
	122,988

The lease liabilities are repayable as follows:

US\$'000	30 June 2019
Within one year	45,170
In the second year	33,620
In the third to fifth year	39,331
After the fifth year	4,867
	122,988

## 20 Share capital

	2019		2018	
	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	4,532,519,114	45,205	4,436,939,102	43,554
Share issued as Vessel Consideration Shares (a)	101,014,125	1,010	30,227,127	302
Shares issued upon grant of restricted share awards (b)	25,592,000	256	21,150,000	212
Shares granted to employees in the form of restricted share awards (b)	6,614,000	1,406	6,948,000	1,189
Shares transferred back to trustee upon lapse of restricted share awards (b)	(177,000)	(32)	(1,239,000)	(211)
Shares purchased by trustee of the SAS (b)	(5,966,000)	(1,279)	(377,000)	(110)
At 30 June	4,659,596,239	46,566	4,493,648,229	44,936

The issued share capital of the Company as at 30 June 2019 was 4,659,773,239 shares (30 June 2018: 4,493,648,229 shares). The difference compared to the number of shares in the table above of 177,000 (30 June 2018: Nil) represents the shares held by the trustee in relation to restricted share awards amounting to US\$32,150 (30 June 2018: Nil) 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. In 2018, an aggregate of 69,746,012 shares were issued upon the delivery of two vessels to the Group and, in January and February 2019, an aggregate of 101,014,125 shares were issued upon the delivery of the remaining two vessels to the Group.

### (b) Restricted share awards

Restricted share awards under the Company's SAS were granted to Executive Directors and certain employees. The SAS under HKFRS is regarded as a special purpose entity of the Company.

On the grant of the restricted share awards, the relevant number of shares is legally transferred or issued to the trustee who holds the shares for the benefit of the grantees. A grantee shall not be entitled to vote, to receive dividends (except where the Board grants dividend rights to the grantee at the Board's discretion) or to have any other rights of a shareholder in respect of the shares until vesting. If the shares 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.

**(b) Restricted share awards**

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

000' shares	2019	2018
At 1 January	76,930	74,006
Granted	32,206	28,098
Lapsed	(177)	(1,239)
Vested	(1,842)	(2,346)
At 30 June	107,117	98,519

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\$1.61 (2018: HK\$1.67).

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			
	2019		2018	
Sources of shares granted	Number of granted shares awards	Related movement US\$'000	Number of granted shares awards	Related movement US\$'000
Shares issued	25,592,000	5,611	21,150,000	5,559
Shares purchased by the trustee of the SAS on the Stock Exchange funded by the Company	5,966,000	1,279	377,000	110
Shares transferred from the trustee	648,000	127	6,571,000	1,079
	32,206,000	7,017	28,098,000	6,748

The grant dates and vesting dates of the unvested restricted share awards as at 30 June 2019 are as follows:

Date of grant	Number of unvested share awards	Vesting date			
		14 July 2019	14 July 2020	14 July 2021	14 July 2022
12 August 2016	21,418,000	21,418,000	–	–	–
27 January 2017	24,696,000	704,000	23,992,000	–	–
26 May 2017	558,000	278,000	280,000	–	–
21 August 2017	2,296,000	1,147,000	1,149,000	–	–
26 January 2018	25,990,000	1,640,000	1,640,000	22,710,000	–
25 January 2019	32,159,000	–	2,230,000	2,230,000	27,699,000
	107,117,000	25,187,000	29,291,000	24,940,000	27,699,000

## 21 Notes to the unaudited condensed consolidated cash flow statement

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

US\$'000	Six months ended 30 June	
	2019	2018
Profit before taxation	8,833	31,308
<b>Adjusted for:</b>		
<b>Assets and liabilities adjustments</b>		
Depreciation on vessels and other PP&E	61,057	57,251
Depreciation on right-of-use assets	17,840	–
Net unrealised gains on derivative instruments not qualified as hedges	(8,611)	(4,350)
Losses on disposal of assets held for sale	174	–
Charter hire reduction	24	2,751
Write-back of disposal cost provision	(367)	–
Utilisation of provision for onerous contracts	–	(8,057)
Write-off of loan arrangement fees	–	1,623
Losses on disposal of property, plant and equipment	–	19
<b>Capital and funding adjustments</b>		
Share-based compensation	2,995	2,885
<b>Results adjustments</b>		
Finance costs, net	19,021	15,939
Net foreign exchange losses/(gains)	207	(106)
Profit before taxation before working capital changes	101,173	99,263
Increase in trade and other receivables	(7,269)	(17,454)
Increase in trade and other payables	2,338	6,485
Increase in inventories	(3,194)	(15,960)
Cash generated from operations	93,048	72,334

(b) The total cash outflow for all leases is US\$223.0 million (2018: US\$236.9 million).

## 22 Commitments

### (a) Capital commitments

US\$'000	30 June 2019	31 December 2018
Contracted but not provided for – vessel acquisition and vessel equipment contracts	13,058	70,247

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Vessel Capital Commitments



### (b) Commitments under operating leases

#### (i) The Group as the lessee – payments

According to the Group policy following the adoption of HKFRS 16 “Leases” in 2019, short-term leases and leases of low-value assets are not recognised in the balance sheet as right-of-use assets and lease liabilities. In addition, leases not yet commenced at the reporting date are also not recognised. The future aggregate minimum lease payments of these leases are as follows:

US\$'000	Vessels	Land and buildings	Total
<b>At 30 June 2019</b>			
Within one year	39,263	144	39,407
In the second to fifth year	21,276	327	21,603
After the fifth year	3,137	–	3,137
	<b>63,676</b>	<b>471</b>	<b>64,147</b>
<b>At 31 December 2018</b>			
Within one year	153,999	2,261	156,260
In the second to fifth year	151,644	8,236	159,880
After the fifth year	11,502	408	11,910
	317,145	10,905	328,050

2018 operating lease commitments represented commitments for all leases and please refer to Note 2(d)(iv) for details.

#### (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 2019	31 December 2018
Within one year	17,120	32,408
In the second to fifth year	26,298	38,253
After the fifth year	14,113	16,560
	<b>57,531</b>	<b>87,221</b>

The Group's operating leases have terms ranging from less than 1 year to 15 years and they mainly represent the receipt from a Post-Panamax vessel amounting to US\$47.0 million (31 December 2018: US\$70.7 million).

## 23 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

### Key management compensation (including Directors' emoluments)

US\$'000	Six months ended 30 June	
	2019	2018
Directors' fees	303	283
Salaries and bonus	1,596	1,254
Share-based compensation	652	754
Retirement benefit costs	3	3
	<b>2,554</b>	<b>2,294</b>

## 24 Contingent liabilities and contingent assets

The Group has no material contingent liabilities and contingent assets at 30 June 2019 and 31 December 2018.