

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 30 July 2020.

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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 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 2019, 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 2019.

The Group has adopted early the following amendment to the accounting standards for the accounting period commencing 1 January 2020:

HKFRS 16(Amendment) Covid-19-Related Rent Concessions

The adoption of this amendment to standard does not result in any substantial changes to the Group’s accounting policies.

Other new standards and amendments that became effective in this accounting period do not have any impact on the Group’s accounting policies.

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 2019, except for the classification of cash-generating units as disclosed in Note 5(c).

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 | |
|--|--------------------------|----------|
| | 2020 | 2019 |
| Vessel – related expenses | | |
| Bunkers consumed | 172,992 | 190,443 |
| Port disbursements and other voyage costs | 167,843 | 171,671 |
| Vessel charter costs (a) | 142,579 | 200,094 |
| Vessel depreciation | | |
| – owned vessels | 66,684 | 60,133 |
| – right-of-use assets | 15,957 | 16,835 |
| Employee benefit expenses – crew wages and other related costs | 51,597 | 51,281 |
| Vessel operating expenses | 26,017 | 25,121 |
| Lubricating oil consumed | 5,574 | 3,654 |
| Net losses/(gains) on bunker swap contracts | 7,417 | (10,226) |
| | 656,660 | 709,006 |
| General and administrative overheads (b) | | |
| Employee benefit expenses including directors' emoluments | 25,407 | 24,352 |
| Other PP&E depreciation | | |
| – right-of-use assets | 1,133 | 1,005 |
| – owned other PP&E | 763 | 924 |
| Office lease expenses | 345 | 424 |
| Net foreign exchange (gains)/losses | (341) | 207 |
| Other general and administrative expenses | 2,436 | 3,546 |
| | 29,743 | 30,458 |
| Other expenses | | |
| Provision for impairment (c) | | |
| – owned vessels | 194,090 | – |
| – right-of-use assets | 3,387 | – |
| – others | 726 | – |
| Losses on disposal of assets held for sale | 1,009 | 174 |
| Net losses on forward freight agreements | – | 15 |
| | 199,212 | 189 |
| The sum of the above reconciles to the sum of the following items in the income statement: (i) Cost of services, (ii) Indirect general and administrative overheads, (iii) Vessel impairment and (iv) Other expenses | 885,615 | 739,653 |

(a) Vessel charter costs

Vessel charter costs comprise the cost of short-term charters with a term of 12 months or less and the non-lease portion of long-term charters with a term of over 12 months.

The vessel charter costs included variable lease payments on an index-linked basis amounting to US\$1.1 million (2019: US\$1.6 million).

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

| US\$'000 | Six months ended 30 June | |
|---|--------------------------|--------|
| | 2020 | 2019 |
| Direct G&A overheads included in cost of services | 26,620 | 26,876 |
| Indirect G&A overheads | 3,123 | 3,582 |
| Total G&A overheads | 29,743 | 30,458 |

(c) Provision for impairment

Following a significant reduction in market freight rates and the uncertain market outlook, the Group reviewed the carrying values of owned vessels and right-of-use assets, and a one-off impairment of US\$198.2 million was provided for our Handysize vessels.

Generally the small and large Handysize vessels are no longer fully interchangeable, therefore the owned vessels and right-of-use assets are now separated into three (31 December 2019: two) cash-generating units ("CGUs"). The three CGUs comprise Handysize vessels smaller than 30,000 dwt ("Small Handysize"), Handysize vessels equal to or larger than 30,000 dwt ("Large Handysize") and Supramax vessels.

An impairment is recognised when the carrying value exceeds the recoverable amount, where the recoverable amount is the higher of value-in-use and fair value less costs of disposal. The Large Handysize was impaired down to the value-in-use while the Small Handysize was impaired down to its fair value less costs of disposal. The valuation of the Small Handysize is based on unobservable inputs and is within Level 3 of the fair value scale (Note 14). In assessing the value-in-use of CGUs, the applicable discount rate was 7.0% (31 December 2019: 6.2%).

6 Other income and gains

| US\$'000 | Six months ended 30 June | |
|---|-----------------------------|------|
| | 2020 | 2019 |
| Government subsidies (a) | 266 | – |
| Net gains on forward foreign exchange contracts | 53 | – |
| Net gains on forward freight agreements | 29 | – |
| Write-back of disposal cost provisions | – | 367 |
| | 348 | 367 |

(a) Government subsidies related to cash subsidies from government in respect of Covid-19 relief measures which are either unconditional grants or grants with conditions having been satisfied.

7 Finance income and finance costs

| US\$'000 | Six months ended 30 June | |
|--|-----------------------------|---------|
| | 2020 | 2019 |
| Finance income | | |
| Bank interest income | (2,097) | (3,181) |
| Subleasing receivables interest income | (75) | (142) |
| | (2,172) | (3,323) |
| Finance costs | | |
| Interest on borrowings | | |
| Bank loans | 12,996 | 15,208 |
| Convertible bonds | 3,707 | 3,319 |
| Other borrowings | 782 | 1,006 |
| Interest on lease liabilities | | |
| Vessels | 1,509 | 2,269 |
| Other PP&E | 209 | 223 |
| Net losses/(gains) on interest rate swap contracts | 527 | (302) |
| Other finance charges | 536 | 621 |
| | 20,266 | 22,344 |
| Finance costs, net | 18,094 | 19,021 |

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/(credited) to the income statement represents:

| US\$'000 | Six months ended 30 June | |
|---|-----------------------------|------|
| | 2020 | 2019 |
| Current taxation | | |
| Hong Kong profits tax, provided at the rate of 16.5% (2019: 16.5%) | 343 | 408 |
| Overseas tax, provided at the rates of taxation prevailing in the countries | 162 | 188 |
| Adjustments in respect of prior year | (2) | 20 |
| Tax charges | 503 | 616 |

9 Dividends

No interim dividend was declared for the periods ended 30 June 2020 and 2019.

The 2019 final dividend of HK2.1 cents or US0.3 cents per share, totalling US\$12,894,000 was paid during the period. The 2018 final dividend of HK3.7 cents or US0.5 cents per share, totalling US\$21,825,000 was paid during the same period in 2019.

10 Earnings per share ("EPS")

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the Group's (loss)/profit attributable to shareholders by the weighted average number of 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 | |
|--|------------|-----------------------------|-----------|
| | | 2020 | 2019 |
| (Loss)/profit attributable to shareholders | (US\$'000) | (222,377) | 8,217 |
| Weighted average number of shares in issue | ('000) | 4,660,536 | 4,539,977 |
| Basic earnings per share | (US cents) | (4.77) | 0.18 |
| Equivalent to | (HK cents) | (37.07) | 1.42 |

(b) Diluted earnings per share

Diluted earnings per share are calculated by dividing the Group's (loss)/profit attributable to shareholders by the weighted average number of 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 shares from convertible bonds (Note 18(b)) and unvested restricted shares (Note 20(b)) where dilutive.

| | | Six months ended 30 June | |
|--|------------|-----------------------------|-----------|
| | | 2020 | 2019 |
| (Loss)/profit attributable to shareholders | (US\$'000) | (222,377) | 8,217 |
| Weighted average number of shares in issue | ('000) | 4,660,536 | 4,539,977 |
| Adjustment for calculation of diluted EPS relating to unvested restricted shares | ('000) | – | 96,695 |
| Weighted average number of shares for diluted EPS | ('000) | 4,660,536 | 4,636,672 |
| Diluted earnings per share | (US cents) | (4.77) | 0.18 |
| Equivalent to | (HK cents) | (37.07) | 1.39 |

Basic and diluted earnings per share for the period ended 30 June 2020 are the same as the potential shares from convertible bonds and unvested restricted shares are anti-dilutive.

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

| US\$'000 | Property, plant and equipment | | Goodwill |
|----------------------------------|-------------------------------|-----------|---------------|
| | 2020 | 2019 | 2020 & 2019 |
| Net book value | | | |
| At 1 January | 1,875,352 | 1,807,672 | 25,256 |
| Additions | 119,909 | 101,282 | – |
| Depreciation | (67,447) | (61,057) | – |
| Provision for impairment | (194,090) | – | – |
| Transfer to assets held for sale | (11,880) | – | – |
| Exchange differences | (29) | 25 | – |
| At 30 June | 1,721,815 | 1,847,922 | 25,256 |

As at 30 June 2020, excluding assets held for sale, the Group owned vessels with a net book value of US\$1,717.5 million as follows:

| | Number of vessels | Average net book value (US\$ Million) | Total net book value (US\$ Million) |
|-----------------|-------------------|---------------------------------------|-------------------------------------|
| Small Handysize | 20 | 5.3 | 106.1 |
| Large Handysize | 58 | 14.4 | 832.9 |
| Supramax | 35 | 21.2 | 740.2 |
| Post-Panamax | 1 | 38.3 | 38.3 |
| | 114 | | 1,717.5 |

12 Right-of-use assets

| US\$'000 | Vessels | Other PP&E | Total |
|--------------------------|-----------------|----------------|-----------------|
| At 1 January 2020 | 68,751 | 9,084 | 77,835 |
| Additions | 9,388 | 430 | 9,818 |
| Depreciation | (15,957) | (1,133) | (17,090) |
| Provision for Impairment | (3,387) | – | (3,387) |
| Lease modification | – | 38 | 38 |
| Exchange differences | – | (118) | (118) |
| At 30 June 2020 | 58,795 | 8,301 | 67,096 |
| At 1 January 2019 | 98,773 | 8,540 | 107,313 |
| Additions | 11,739 | 1,990 | 13,729 |
| Depreciation | (16,835) | (1,005) | (17,840) |
| Exchange differences | – | 90 | 90 |
| At 30 June 2019 | 93,677 | 9,615 | 103,292 |

13 Subleasing receivables

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

| US\$'000 | 2020 | 2019 |
|------------------|----------------|---------|
| At 1 January | 8,607 | 15,008 |
| Amounts received | (3,293) | (3,141) |
| At 30 June | 5,314 | 11,867 |
| Non-Current | – | 5,314 |
| Current | 5,314 | 6,553 |
| | 5,314 | 11,867 |

The gross subleasing receivables, unearned future finance income and net subleasing receivables as at 30 June 2020 and 2019 were as follows:

| US\$'000 | 30 June | |
|---------------------------------------|--------------|--------|
| | 2020 | 2019 |
| Gross subleasing receivables | | |
| Within one year | 5,410 | 6,924 |
| In the second to fifth year | – | 5,410 |
| | 5,410 | 12,334 |
| Unearned future finance income | | |
| Within one year | (96) | (371) |
| In the second to fifth year | – | (96) |
| | (96) | (467) |
| Net subleasing receivables | | |
| Within one year | 5,314 | 6,553 |
| In the second to fifth year | – | 5,314 |
| | 5,314 | 11,867 |

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 2020 | | 31 December 2019 | |
|--|---------------|-----------------|------------------|-------------|
| | Assets | Liabilities | Assets | Liabilities |
| Non-current | | | | |
| Cash flow hedges | | | | |
| Interest rate swap contracts (a) | – | (9,735) | 235 | (1,990) |
| Forward foreign exchange contracts (b)(i) | – | (9,085) | – | (9,128) |
| Derivatives that do not qualify for hedge accounting | | | | |
| Bunker swap contracts (c) | 9,087 | (6,521) | 1,229 | (1,967) |
| Forward foreign exchange contracts (b)(ii) | 48 | – | – | (5) |
| | 9,135 | (25,341) | 1,464 | (13,090) |
| Current | | | | |
| Cash flow hedges | | | | |
| Interest rate swap contracts (a) | – | (344) | – | (96) |
| Derivatives that do not qualify for hedge accounting | | | | |
| Bunker swap contracts (c) | 16,122 | (15,437) | 2,495 | (1,841) |
| Forward freight agreements (d) | 36 | (7) | – | – |
| | 16,158 | (15,788) | 2,495 | (1,937) |
| Total | 25,293 | (41,129) | 3,959 | (15,027) |

(a) Interest rate swap contracts

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

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

| Effective date | Notional amount | Swap details | Expiry |
|---|-------------------------------------|---|--|
| At 30 June 2020 and 31 December 2019 | | | |
| June & September 2019 | US\$115 million on amortising basis | USD 3-month LIBOR swapped to a fixed rate of approximately 1.5% to 1.7% per annum | Contracts expire through May 2026 |
| 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 2020, the outstanding forward foreign exchange contracts held by the Group mainly consist of contracts to buy Danish Krone ("DKK") of approximately DKK355.7 million (31 December 2019: DKK420.8 million) and simultaneously sell approximately US\$63.3 million (31 December 2019: US\$75.0 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 loans.

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

At 30 June 2020, the Group had outstanding forward foreign exchange contracts to buy approximately US\$1.6 million (31 December 2019: US\$2.0 million) and simultaneously sell approximately AUD2.2 million (31 December 2019: 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 qualifies for hedge accounting**

The Group enters into bunker swap contracts for fuel oil, very low sulphur fuel oil and marine gas oil to manage the fluctuations in bunker prices in connection with the Group's fixed rate cargo contract commitments.

The Group has 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 a number of Supramax vessels that have been fitted with scrubbers. As the spread has reduced significantly, all contracts were closed out in the first half of 2020 locking in the gain on the position.

At 30 June 2020, the Group had outstanding bunker swap contracts as follows:

| Contract Type | Fuel Type | Quantity (Metric tonnes) | Average deal price (US\$) | Average market price (US\$) | Expiry through |
|------------------------|---------------------------|-----------------------------|------------------------------|--------------------------------|----------------|
| At 30 June 2020 | | | | | |
| Buy | Fuel oil | 111,990 | 281 | 238 | December 2022 |
| Buy | Very low sulphur fuel oil | 104,710 | 337 | 328 | December 2022 |
| Buy | Marine gas oil | 158,620 | 420 | 364 | December 2022 |
| Sell | Fuel oil | 103,710 | 211 | 240 | December 2022 |
| Sell | Very low sulphur fuel oil | 103,698 | 439 | 327 | December 2022 |
| Sell | Marine gas oil | 50,793 | 564 | 383 | December 2022 |

At 31 December 2019

| | | | | | |
|------|---------------------------|---------|-----|-----|---------------|
| Buy | Fuel oil | 103,570 | 281 | 276 | December 2022 |
| Buy | Very low sulphur fuel oil | 2,550 | 480 | 566 | March 2020 |
| Buy | Marine gas oil | 58,470 | 564 | 593 | December 2021 |
| Sell | Very low sulphur fuel oil | 56,142 | 457 | 493 | December 2021 |
| Sell | Marine gas oil | 49,500 | 571 | 558 | December 2022 |

(d) Forward freight agreements**None of our forward freight agreements qualifies for hedge accounting**

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.

At 30 June 2020, the Group had outstanding forward freight agreements as follows:

| Contract Type | Index | Quantity (Days) | Contract Daily Price (US\$) | Expiry through |
|------------------------|------------------|-----------------|-----------------------------|----------------|
| At 30 June 2020 | | | | |
| Buy | BSI ¹ | 15 | 9,650 | September 2020 |
| Sell | BSI | 75 | 9,530 | September 2020 |

¹ "BSI" represents Baltic Supramax Index.

At 31 December 2019, the Group had no outstanding forward freight agreements.

15 Trade and other receivables

| US\$'000 | 30 June 2020 | 31 December 2019 |
|--------------------------------|-----------------|---------------------|
| Non-current | | |
| Prepayments (a) | 7,852 | 25,487 |
| Current | | |
| Gross trade receivables | 33,534 | 49,669 |
| Less: provision for impairment | – | – |
| Net trade receivables (b) | 33,534 | 49,669 |
| Other receivables | 18,637 | 20,533 |
| Prepayments | 13,819 | 12,512 |
| | 65,990 | 82,714 |

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

(a) Prepayments

Prepayments comprise instalments paid for the installation of ballast water treatment systems and docking costs. In 2019, they also included deposits paid for vessel acquisitions and instalments paid for the installation of scrubbers.

(b) Net trade receivables

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

| US\$'000 | 30 June 2020 | 31 December 2019 |
|------------|-----------------|---------------------|
| ≤ 30 days | 25,793 | 38,265 |
| 31-60 days | 1,705 | 3,346 |
| 61-90 days | 1,613 | 2,777 |
| > 90 days | 4,423 | 5,281 |
| | 33,534 | 49,669 |

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 2020 | 31 December 2019 |
|---|-----------------|---------------------|
| Cash at bank and on hand | 59,778 | 27,152 |
| Bank deposits | 256,263 | 173,092 |
| Total cash and deposits | 316,041 | 200,244 |
| Cash and cash equivalents | 310,960 | 200,193 |
| Term deposits | 5,030 | – |
| Cash and deposits | 315,990 | 200,193 |
| Restricted bank deposits included in non-current assets | 51 | 51 |
| Total cash and deposits | 316,041 | 200,244 |

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

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Funding



17 Trade and other payables

| US\$'000 | 30 June 2020 | 31 December 2019 |
|-----------------------------|-----------------|---------------------|
| Non-current | | |
| Receipts in advance | 1,339 | 1,771 |
| Accruals and other payables | – | 352 |
| | 1,339 | 2,123 |
| Current | | |
| Trade payables | 45,631 | 61,408 |
| Accruals and other payables | 55,475 | 54,460 |
| Receipts in advance | 30,022 | 28,081 |
| | 131,128 | 143,949 |

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 2020 | 31 December 2019 |
|------------|-----------------|---------------------|
| ≤ 30 days | 39,765 | 56,963 |
| 31-60 days | 506 | 451 |
| 61-90 days | 866 | 275 |
| > 90 days | 4,494 | 3,719 |
| | 45,631 | 61,408 |

18 Long-term borrowings

| US\$'000 | 30 June 2020 | 31 December 2019 |
|-----------------------|------------------|---------------------|
| Non-current | | |
| Bank loans (a) | 669,014 | 548,169 |
| Convertible bonds (b) | 161,786 | 160,705 |
| Other borrowings (c) | 24,735 | 27,227 |
| | 855,535 | 736,101 |
| Current | | |
| Bank loans (a) | 158,610 | 120,014 |
| Other borrowings (c) | 6,606 | 7,036 |
| | 165,216 | 127,050 |
| Total | 1,020,751 | 863,151 |

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 for the definition of different fair value levels.



(a) Bank loans

The Group's bank loans comprised secured and unsecured bank loans. Certain bank loans as at 30 June 2020 were secured, inter alia, by the following:

- Mortgages over certain owned vessels with net book values of US\$1,568,525,000 (31 December 2019: US\$1,702,308,000); and
- Assignment of earnings and insurance in respect of the vessels.

These bank loans are repayable as follows:

| US\$'000 | 30 June 2020 | 31 December 2019 |
|----------------------------|-------------------------|---------------------|
| Within one year | 158,610 | 120,014 |
| In the second year | 119,377 | 70,209 |
| In the third to fifth year | 374,891 | 183,107 |
| After the fifth year | 174,746 | 294,853 |
| | 827,624 | 668,183 |

(b) Convertible bonds

| US\$'000 | 30 June 2020 | | 31 December 2019 | |
|-----------------------|---------------------|----------------------------|------------------|---------------------|
| | Face value | Liability component | Face value | Liability component |
| 3.00% coupon due 2025 | 175,000 | 161,786 | 175,000 | 160,705 |

The carrying value of convertible bonds approximate their fair values.

| Key terms | |
|--|---|
| Issue size | US\$175.0 million |
| Issue date | 10 December 2019 |
| Maturity date | 10 December 2025 (approximately 6 years from issue) |
| Coupon – cash cost | 3.00% p.a. payable semi-annually in arrears on 10 June and 10 December |
| Effective interest rate | 4.68% charged to income statement |
| Redemption price | 100% |
| Conversion price converting bonds into shares | HK\$2.34 (with effect from 17 April 2020) (Note) |
| Conversion at bondholders' options | Anytime on or after 20 January 2020 |
| Bondholder put date for redemption at 100% of the principal amount | On 10 December 2023 (approximately 4 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 |

Note: The conversion price is subject to an adjustment arising from any cash dividends paid by the Company according to a pre-determined adjustment factor. Such adjustment becomes effective on the first date on which the shares are traded ex-dividend if a dividend is declared.

(c) Other borrowings

The Group's other borrowings as at 30 June 2020 related to seven (31 December 2019: seven) owned vessels with a combined net book value of US\$83,653,000 (31 December 2019: US\$98,260,000) 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 borrowings are repayable as follows:

| US\$'000 | 30 June 2020 | 31 December 2019 |
|----------------------------|-------------------------|---------------------|
| Within one year | 6,606 | 7,036 |
| In the second year | 10,891 | 6,883 |
| In the third to fifth year | 13,844 | 20,344 |
| | 31,341 | 34,263 |

19 Lease liabilities

| US\$'000 | 2020 | 2019 |
|----------------------|-----------------|----------|
| At 1 January | 92,907 | 130,459 |
| Additions | 9,818 | 13,729 |
| Repayments | (21,069) | (21,368) |
| Lease modification | 38 | – |
| Exchange differences | (107) | 168 |
| At 30 June | 81,587 | 122,988 |
| Non-current | 48,261 | 77,818 |
| Current | 33,326 | 45,170 |
| | 81,587 | 122,988 |

The lease liabilities are repayable as follows:

| US\$'000 | 30 June 2020 | 30 June 2019 |
|----------------------------|---------------|--------------|
| Within one year | 33,326 | 45,170 |
| In the second year | 17,879 | 33,620 |
| In the third to fifth year | 28,521 | 39,331 |
| After the fifth year | 1,861 | 4,867 |
| | 81,587 | 122,988 |

The total cash outflow for all leases amounted to US\$155.7 million (2019: US\$224.4 million).

20 Share capital

| | 2020 | | 2019 | |
|--|-----------------------|----------------|------------------|----------|
| | 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 | 4,713,396,510 | 47,039 | 4,532,519,114 | 45,205 |
| Shares issued as Vessel Consideration Shares (a) | 51,793,762 | 518 | 101,014,125 | 1,010 |
| Shares granted to employees in the form of restricted share awards (b) | 6,358,000 | 1,029 | 6,614,000 | 1,406 |
| Shares issued upon grant of restricted share awards (b) | 23,186,000 | 232 | 25,592,000 | 256 |
| Shares purchased by trustee of the SAS (b) | (5,863,000) | (929) | (5,966,000) | (1,279) |
| Shares transferred back to trustee upon lapse of restricted share awards (b) | – | – | (177,000) | (32) |
| At 30 June | 4,788,871,272 | 47,889 | 4,659,596,239 | 46,566 |

The issued share capital of the Company as at 30 June 2019 was 4,659,773,239 shares. The difference of 177,000 compared to the number of shares in the table above represents the shares held by the trustee in relation to restricted share awards amounting to US\$32,150 as a debit to share capital.

(a) Shares issued as Vessel Consideration Shares

On 17 September 2019, the Group entered into contracts to acquire four vessels at a total purchase consideration of US\$73.8 million funded by a combination of: (i) the issue of 105,912,033 shares at an issue price of HK\$1.80 per shares ("Vessel Consideration Shares") amounting to US\$24.4 million to the sellers; and (ii) cash of US\$49.4 million. In the second half of 2019, an aggregate of 54,118,271 shares were issued upon the delivery of two vessels to the Group. In 2020, an aggregate of 51,793,762 shares were issued upon the delivery of the remaining two vessels to the Group.

On 14 May 2018, the Group entered into contracts to acquire another 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 shares ("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 the first half of 2019, an aggregate of 101,014,125 shares were issued upon the delivery of the remaining two vessels to the Group.

The closing share prices on 14 May 2018 and 17 September 2019 were HK\$2.10 and HK\$1.77 per share respectively.

(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 are lapsed or 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 (continued)

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

| 000' shares | 2020 | 2019 |
|--------------|---------|---------|
| At 1 January | 81,690 | 76,930 |
| Granted | 29,544 | 32,206 |
| Lapsed | – | (177) |
| Vested | – | (1,842) |
| At 30 June | 111,234 | 107,117 |

The fair value of the restricted share awards is determined by the closing share price on the grant date. The fair value of the shares granted during the period was HK\$1.50 (2019: HK\$1.61) per share.

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 | | | |
|--|---------------------------------|---------------------------|---------------------------------|---------------------------|
| | 2020 | | 2019 | |
| Sources of shares granted | Number of granted shares awards | Related movement US\$'000 | Number of granted shares awards | Related movement US\$'000 |
| Shares issued | 23,186,000 | 232 | 25,592,000 | 256 |
| Shares purchased by the trustee of the SAS on the Stock Exchange funded by the Company | 5,863,000 | 929 | 5,966,000 | 1,279 |
| Shares transferred from the trustee | 495,000 | 100 | 648,000 | 127 |
| | 29,544,000 | 1,261 | 32,206,000 | 1,662 |

The grant dates and vesting dates of the unvested restricted share awards as at 30 June 2020 are as follows:

| Date of grant | Number of unvested share awards | Vesting in | | | |
|-----------------|---------------------------------|---------------------|------------|------------|------------|
| | | second half of 2020 | 2021 | 2022 | 2023 |
| 27 January 2017 | 23,992,000 | 23,992,000 | – | – | – |
| 26 May 2017 | 280,000 | 280,000 | – | – | – |
| 21 August 2017 | 1,149,000 | 1,149,000 | – | – | – |
| 26 January 2018 | 24,194,000 | 1,562,000 | 22,632,000 | – | – |
| 25 January 2019 | 32,075,000 | 2,230,000 | 2,230,000 | 27,615,000 | – |
| 24 January 2020 | 29,544,000 | – | 643,000 | 643,000 | 28,258,000 |
| | 111,234,000 | 29,213,000 | 25,505,000 | 28,258,000 | 28,258,000 |

21 Notes to the unaudited condensed consolidated cash flow statement

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

| US\$'000 | Six months ended 30 June | |
|--|--------------------------|---------|
| | 2020 | 2019 |
| (Loss)/profit before taxation | (221,874) | 8,833 |
| Adjusted for: | | |
| Assets and liabilities adjustments | | |
| Vessel impairment | 198,203 | – |
| Depreciation on vessels and other PP&E | 67,447 | 61,057 |
| Depreciation on right-of-use assets | 17,090 | 17,840 |
| Net unrealised gains on derivative instruments not qualified as hedges | (3,417) | (8,611) |
| Losses on disposal of assets held for sale | 1,009 | 174 |
| Write-back of disposal cost provision | – | (367) |
| Charter hire reduction | – | 24 |
| Capital and funding adjustments | | |
| Share-based compensation | 3,214 | 2,995 |
| Results adjustments | | |
| Finance costs, net | 18,094 | 19,021 |
| Net foreign exchange (gains)/losses | (341) | 207 |
| Profit before taxation before working capital changes | 79,425 | 101,173 |
| Decrease/(increase) in inventories | 16,239 | (3,194) |
| Decrease/(increase) in trade and other receivables | 16,547 | (7,269) |
| (Decrease)/increase in trade and other payables | (14,127) | 2,338 |
| Cash generated from operations | 98,084 | 93,048 |

(b) Significant non-cash transactions

Please refer to Note 20(a) for details of non-cash transactions relating to the purchase of vessels by issuing new shares.

22 Commitments

(a) Capital commitments

| US\$'000 | 30 June 2020 | 31 December 2019 |
|---|-----------------|---------------------|
| Contracted for but not recognised as liabilities – vessel equipment contracts | 2,467 | 59,804 |

As at 31 December 2019, they also included commitment to acquire three vessels.

(b) Commitments under operating leases

(i) The Group as the lessee – payments

The non-cancellable lease commitment included short-term leases, leases of low-value assets and leases not yet commenced at the reporting date.

The future aggregate minimum lease payments of these leases are as follows:

| US\$'000 | Vessels | Land and buildings | Total |
|-----------------------------|---------------|-----------------------|---------------|
| At 30 June 2020 | | | |
| Within one year | 43,294 | 9 | 43,303 |
| In the second to fifth year | 16,234 | 5 | 16,239 |
| | 59,528 | 14 | 59,542 |
| At 31 December 2019 | | | |
| Within one year | 35,408 | 20 | 35,428 |
| In the second to fifth year | 32,580 | 4 | 32,584 |
| After the fifth year | 2,791 | – | 2,791 |
| | 70,779 | 24 | 70,803 |

(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 2020 | 31 December 2019 |
|-----------------------------|-----------------|---------------------|
| Within one year | 10,366 | 13,241 |
| In the second to fifth year | 26,298 | 26,298 |
| After the fifth year | 7,543 | 10,801 |
| | 44,207 | 50,340 |

The Group leases vessels with leases expiring within 1 year to 6 years and the amount mainly represents the receipt from a Post-Panamax vessel amounting to US\$40.4 million (31 December 2019: US\$43.7 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 | |
|--------------------------|--------------------------|--------------|
| | 2020 | 2019 |
| Directors' fees | 344 | 303 |
| Salaries and bonus | 1,516 | 1,596 |
| Share-based compensation | 652 | 652 |
| Retirement benefit costs | 3 | 3 |
| | 2,515 | 2,554 |

24 Contingent liabilities and contingent assets

The Group had no material contingent liabilities and contingent assets at 30 June 2020 and 31 December 2019.