

Pacific International Lines (Private) Limited and its subsidiaries

Consolidated Income Statements

For the half year ended 30 June 2017 and 30 June 2018

	GROUP	
	1H 2017	1H 2018
	(unaudited)	(unaudited)
	US\$'000	US\$'000
Turnover	1,877,595	2,243,577
Other operating income	7,286	23,480
Changes in inventories of finished goods and work in progress	(1,452)	13,999
Raw material and consumables used	(429,302)	(756,237)
Investment and interest income	1,383	2,914
Staff costs	(117,781)	(156,264)
Depreciation	(120,456)	(125,531)
Amortisation of intangible assets	(265)	(1,319)
Write-back of impairment losses, net	105	72
(Loss)/gain on disposal of shares in subsidiaries	(13)	6
Loss on disposal of shares in associates and joint ventures	-	(2,358)
Fair value changes in other investments	136	21
Net fair value changes in derivative financial instruments	281	(3,770)
Foreign exchange differences	(9,378)	8,096
Shipping expenses	(985,681)	(1,155,465)
Administration and non-shipping expenses	(131,878)	(134,506)
Finance costs	(59,877)	(96,666)
Share of results of associates and joint ventures	4,876	5,520
Profit/(loss) before taxation	35,579	(134,431)
Taxation	(9,223)	(6,745)
Profit/(loss) for the period	26,356	(141,176)
Attributable to:		
Equity holders of the Company	10,603	(140,947)
Non-controlling interests	15,753	(229)
Profit/(loss) for the period	26,356	(141,176)

Consolidated Balance Sheets
As at 31 December and 30 June

	GROUP	
	31 December 2017	30 June 2018
	(audited)	(unaudited)
	US\$'000	US\$'000
Non-current assets		
Fixed assets	4,325,335	4,637,270
Intangible assets	35,576	34,660
Associates and joint ventures	133,307	143,260
Other investments	76,475	67,498
Deferred tax assets	830	833
Deferred transaction costs	55,240	52,725
Prepayments	7,323	5,834
Amounts due from related companies	729	8,593
Derivative financial instruments	1,014	1,519
	4,635,829	4,952,192
Current assets		
Other investments	511	531
Stocks	317,885	360,065
Trade debtors	472,150	602,354
Other debtors	175,459	199,061
Deferred transaction costs	4,491	5,427
Prepayments	11,381	14,981
Derivative financial instruments	2,844	—
Assets held for sale	3,405	3,324
Amounts due from holding company	147,294	147,844
Amounts due from related companies	30,459	27,526
Short-term fixed deposits, secured	1,151	1,338
Cash and short-term deposits	304,215	351,227
	1,471,245	1,713,678
Current liabilities		
Derivative financial instruments	—	4,843
Trade creditors	594,527	680,140
Loans	833,658	845,400
Lease creditors	58,308	79,221
Bills payable	211,833	233,821
Other creditors and accruals	223,821	286,679
Amounts due to related companies	67,371	63,101
Notes	71,765	149,785
Provision for taxation	6,915	6,255
	2,068,198	2,349,245
Non-current liabilities		
Loans	1,211,755	1,274,866
Amounts due to related companies	182,665	182,284
Notes	44,409	43,659
Lease creditors	680,104	1,060,857
Other creditors	4,433	19,193
Deferred tax liabilities	9,569	8,144
	2,132,935	2,589,003
Net assets	1,905,941	1,727,622
Equity attributable to equity holders of the Company		
Share capital	376,127	376,127
Capital reserve	40,017	38,829
Fair value reserve	3,063	(14,385)
Hedging reserve	16	16
Foreign currency translation reserve	(7,585)	(12,586)
Share options reserve	657	654
Other reserve	9,277	8,961
Revenue reserve	1,068,482	930,452
	1,490,054	1,328,068
Non-controlling interests	415,887	399,554
Total equity	1,905,941	1,727,622

Statement of Consolidated Cash Flow

For the half year ended 30 June 2017 and 30 June 2018

	Group	
	1H 2017 (unaudited) US\$'000	1H 2018 (unaudited) US\$'000
Cash flows from operating activities		
Profit/(loss) before taxation	35,579	(134,431)
Adjustments for:		
Amortisation of intangible assets	265	1,319
Depreciation	120,456	125,531
Dividend income from investment securities	(104)	(966)
Fair value changes in other investments	(136)	(21)
Net fair value changes in derivative financial instruments	(281)	3,770
Fixed assets written off, net of amount recovered	495	6,069
Loss/(gain) on disposal of fixed assets, net	23,379	(13,322)
Loss on disposal of shares in subsidiaries	13	1,949
Loss on disposal of shares in associates and joint ventures	—	2,358
Interest income	(1,279)	(1,948)
Interest expense	54,576	89,035
Amortisation of deferred transaction costs	2,555	5,736
Amortisation of Notes issuance costs	963	593
Write-back of Impairment loss on trade debtors and other debtors	(105)	(72)
Share of results of associates and joint ventures	(4,876)	(5,520)
Currency realignment	18,972	(3,288)
Operating income before working capital changes	250,472	76,792
Increase in prepayments, trade and other debtors	(63,934)	(156,412)
Increase in stocks	(37,000)	(42,180)
Increase in trade and other creditors and accruals	10,002	151,239
Increase in bills payable	29,268	21,988
Cash flows generated from operations	188,808	51,427
Interest income received	1,264	1,931
Interest paid	(53,486)	(77,676)
Income taxes paid	(10,594)	(8,278)
Net cash flows generated from/(used in) operating activities	125,992	(32,596)
Cash flows from investing activities		
Repayment of loan by a subsidiary's associates and joint ventures	(360)	(62)
Repayment/(addition) of loan by associates and joint ventures	107	(3,202)
Additional investment in associates and joint ventures, net	(278)	(10,818)
Additional investment in subsidiaries	—	(316)
Purchase of other investments	(817)	(9,018)
Cash (outflow)/inflow arising from disposal of subsidiaries	(13)	326
Cash outflow arising from acquisition of subsidiaries	—	(1,064)
Dividends from associates and joint ventures	4,534	4,503
Dividends from other investments	104	966
Addition of other intangible assets	(2,122)	(156)
Placement of short-term fixed deposits, secured	(73)	(187)
Proceeds from sales of fixed assets	84,739	58,141
Proceeds from sales of fixed assets written off	7	76
Purchase of fixed assets	(62,740)	(119,760)
Net cash flows generated from/(used in) investing activities	23,088	(80,571)

Statement of Consolidated Cash Flow

For the half year ended 30 June 2017 and 30 June 2018

	Group	
	1H 2017	1H 2018
	(unaudited)	(unaudited)
	US\$'000	US\$'000
Cash flows from financing activities		
Dividends paid by subsidiaries to non-controlling interests	(2,002)	(3,717)
Capital contribution by subsidiaries to non-controlling interests	–	(454)
Proceeds from loans	608,976	585,295
Repayment of loans	(855,335)	(512,677)
Proceeds from issuance of Notes	–	80,000
Payment of transaction costs related to borrowings	(12,652)	(2,059)
Increase in net amount due from ultimate holding company	–	(550)
Increase in net amount due from associates and joint ventures	(3,029)	(739)
Increase/(decrease) in net amount due to related companies	1,678	(8,891)
Increase in amount due to of lease creditors, net	82,213	25,660
Net cash flows (used in)/generated from financing activities	(180,151)	161,868
Net (decrease)/increase in cash and cash equivalents	(31,071)	48,701
Effect of exchange rate changes on cash and cash equivalents	(1,743)	(1,689)
Cash and cash equivalents at beginning of period	331,892	304,215
Cash and cash equivalents at end of period	299,078	351,227

1H FY2017 versus 1H FY2018
Income Statement

Turnover

The Group recorded a 19% increase in revenue from US\$1,877.6 million in 1H 2017 to US\$2,243.6 million in 1H 2018, mainly due to an increase in shipping volume and a strong demand for manufactured shipping containers. The Group's container shipping business managed to achieve a growth of 5% in shipping volumes which led to a 2% marginal increase in freight and charter hire income generated from shipping segment due to the weakening freight rate environment in 1H 2018. There was a 57% increase in turnover generated by Singamas as a result of strong demand for new containers thanks to the growth in global trade, coupled with the higher selling price of 20' dry freight container due to the use of the waterborne paint.

The table below shows the Group's turnover by business segment, as a percentage of total turnover, for 1H FY 2017 and 1H FY 2018:

	1H 2017		1H 2018	
	US\$'000	%	US\$'000	%
Freight and charter hire	1,231,732	66%	1,251,417	56%
Sales of containers	594,932	32%	933,456	42%
Others	50,931	2%	58,704	2%
Total turnover	1,877,595	100%	2,243,577	100%

Other operating income

The threefold increase in other income from US\$7.3 million in 1H 2017 to US\$23.5 million in 1H 2018 was mainly due to an increase in gain on disposal of containers, which amounted to approximately US\$15 million.

Shipping expenses

Shipping expenses increased by 17.2% to US\$1,155.5 million in 1H 2018 from US\$985.7 million in 1H2017 primarily due to an increase in the number of vessels operated and bunker price. Total shipping expenses in 1H 2018 are mainly represented by bunker costs and terminal charges, 22.4% (US\$258.7 million) and 27.1% (US\$313.5 million) respectively.

Finance costs

Finance costs increased by 61.4% from US\$59.9 million in 1H 2017 to US\$96.7 million in 1H 2018. The increase was primarily due to an increase in finance lease commitments for the financing of five new vessels which were delivered in 1H2018 and increases in floating interest rates.

Profit/(loss) for the period

The Group reported a net loss of US\$141.2 million in 1H 2018 compared to a net profit of US\$26.4 million recorded in 1H 2017. The Group's operating performance was adversely affected by the unexpected drop in freight rates in 2Q 2018 and rising bunker prices. In addition, the increased material costs (mainly corten steel) of Singamas were not entirely passed on to the customers, resulting in less than favourable operating performance contribution to the group as well.

1H FY2017 versus 1H FY2018

Balance Sheet

Total assets of the Group amounted to US\$6,665.9 million as at 30 June 2018, an increase of 9.2% over the preceding year-end balance of US\$6,107.1 million. The increase was mainly due to the addition of newbuild vessels as well as an increase in Singamas trade debtors and manufacturing stocks as a result of higher container manufacturing business activity. This was partially offset by increased depreciation of fixed assets.

Total liabilities of the Group amounted to US\$4,938.2 million as at 30 June 2018, an increase of 17.5% over the preceding year-end balance of US\$4,201.1 million.

As at 30 June 2018, the Group had approximately US\$3,462.7 million of total debt outstanding. The table below sets out certain information in respect of the Group's total debt as at 30 June 2018:

	Secured Loans	Unsecured Loans	Notes	Finance Lease Commitments	Hire Purchase Creditors
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Amount repayable in June 2019, or on demand	256,688 ⁽¹⁾	591,571 ⁽²⁾	150,953 ⁽³⁾	78,948	272
Amount repayable in:					
June 2020	249,369	246,412	43,888	76,970	131
June 2021	282,214	15,000	-	91,400	84
June 2022	116,131	-	-	112,746	60
June 2023	132,872	-	-	84,597	37
Later than June 2024	237,562	-	-	694,833	-
Total	1,274,836	852,983	194,841	1,139,494	584

Approximately 35.2% of the Group's total debt consists of term loans secured primarily by vessels.

New Financial Reporting Framework

The Singapore Accounting Standards Council ("ASC") has introduced a new Singapore financial reporting framework which is equivalent to the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The new framework is referred to as the Singapore Financial Reporting Standards (International) ("SFRS(I)"). The Group's financial statements for the financial year ending 31 December 2018 will be prepared in accordance with SFRS(I) as issued by the ASC.

The Group has adopted the (SFRS(I)s) on 1 January 2018 and has prepared its financial information under SFRS(I)s for the half year ended 30 June 2018. In adopting SFRS(I)s, the Group is required to apply all of the specific transition requirements in SFRS(I) 1 First time Adoption of Singapore Financial Reporting Standards (International).

a) Application of SFRS(I) 1

The Group has decided not to elect any of the optional exemptions provided by SFRS(I).

b) Application of SFRS(I) 15

SFRS (I) 15 establishes a five-step model to account for revenue arising from contracts with customers, and introduces new contract cost guidance.

Following the requirements in SFRS(I) 15, advances received from customers in respect of sales of containers yet to be transferred to customers, previously included in accruals and other payables were reclassified to advances from customers.

Other than the abovementioned, the Group adopted SFRS(I) 15 retrospectively in accordance with the requirement of SFRS(I) 1 on the required effective date from 1 January 2018.

c) Adoption of SFRS(I) 9

SFRS (I) 9 is effective for financial years beginning on or after 1 January 2018. SFRS(I)9 introduces new requirements for classification and measurement of financial instruments, impairment of financial assets, and hedge accounting:

(i) The impairment of financial assets requires an expected credit loss model to be applied. The Group applies the simplified approach to recognize lifetime expected credit losses for its trade receivables. The Group has adopted this new method retrospectively.

(ii) The Group elects to present in other comprehensive income ("OCI") the changes in fair value of the unquote equity securities that are held by the Group because these investments are not held for trading. The changes in fair value recognised in OCI will not be reclassified to profit or loss upon disposal of these equity instruments.

The Group has elected to apply the short-term exemption under SFRS(I) 1, which exempt the Group from applying SFRS(I) 9 to comparative information. Accordingly, requirements of FRS 39 Financial Instruments: Recognition and Measurement will continue to apply to financial instruments up to the financial year ended 31 December 2017.

The following reconciliations summarise the impacts on initial application of SFRS(I) 9 on the Group's equity:

Group	Fair value reserve	Revenue reserve
	US\$'000	US\$'000
As at 31 December 2017	3,063	1,068,482
Adoption of SFRS(I) 9	13,926	(667)
As restated at 1 January 2018	16,989	1,067,815

By Order of the Board
Pacific International Lines (Private) Limited
Teo Siong Seng
Executive Chairman
14 September 2018

¹ US\$256.7 million includes US\$ 59.5 million of bullet repayments, out of which US\$ 44 million will be refinanced in 2nd half of 2018 and US\$15.5 million will be refinanced in 1st half of 2019.

² US\$591.6 million includes US\$487.5 million revolving credit facilities which will be rolled over.

³ S\$97 million (US\$71 million equivalent) Notes, bearing interest rate of 7.25% per annum, will mature on 16 November 2018.
US\$80 million Notes, bearing interest rate of 9% per annum, will mature on 28 March 2019.