Forging strong relationships

Annual Report 2013 Stock Code: 2343

Pacific Basin

With you for the long haul

For 26 years, Pacific Basin has built a strong name as an owner of specialist Handysize bulk carriers and evolved into an industrial provider of freight services to producers and end-users of raw materials and commodities.

NAVIGATION SYMBOLS

- Linkage to related details within the Annual Report
- Linkage to related details on our website www.pacificbasin.com
- Linkage to our online Annual Report www.pacificbasin.com/ar2013
- KPI Key Performance Indicators
- Audited information
- Customer and investor testimonials

A glossary covering many of the terms in this document is available on our website

What we do

Pacific Basin is headquartered and listed in Hong Kong and has 3,000 seafarers and 380 shore-based staff in 16 offices. We operate globally in our two maritime segments under the banners of:

PACIFIC BASIN DRY BULK

Our core dry bulk business is customer focused, providing industrial users and producers of raw materials and other dry bulk commodities with a professional, high-quality, reliable and competitive freight service, predominantly under long term cargo contracts and on a spot basis.

Page 10
Understanding Our Core Market

PB TOWAGE

PB Towage operates a fleet of modern, high-quality tugs which provide harbour towage services and offshore project towage support for energy and construction projects, operating mainly in Australasia under the banners of PB Towage and PB Sea-Tow.

WE CONTINUE TO EVOLVE THE WAY WE'RE REPORTING

We follow the new International <IR> Framework of the International Integrated Reporting Council.

INTEGRATED REPORTING <IR>

We are proud to introduce an evolved integrated report which aims to concisely demonstrate how we are embedding integrated thinking into our strategy and business, with a view to driving sustainable long-term value creation.

The main evolution this year is in the way we explain performance and value creation and look at our dependence on and access to different resources and relationships – or “Capitals”.

Our “Financial Review” section has been reorganised. The “Group Performance” summary now forms the preface to the Financial Statements, the “Segment Performance” analyses are integrated into the Business Review and the “Funding Review” features as a separate section.

FINANCIAL SUMMARY

	2013 US$ Million	2012 US$ Million
Results		
Revenue*	**1,708.8**	1,443.1
Gross Profit*	**55.1**	85.3
EBITDA (excluding impairments)	**130.4**	145.1
Underlying profit KPI	**15.6**	47.8
Finance costs, net*	**(37.4)**	(18.5)
Discontinued operations – loss for the year	**(8.3)**	(210.7)
Profit/(loss) attributable to shareholders	**1.5**	(158.5)
Balance Sheet		
Total assets	**2,537.4**	2,470.3
Net borrowings	**551.2**	178.0
Shareholders' equity	**1,304.3**	1,332.0
Total cash and deposits	**486.1**	753.5
Capital commitments	**479.1**	235.9
Cash Flows		
Operating	**98.1**	148.7
Investing	**(114.2)**	(247.6)
Financing	**36.8**	110.2
Per Share Data	**HK Cents**	HK Cents
Basic EPS	**0.6**	(64)
Dividends	**5**	5
Operating cash flows KPI	**39**	60
Net book value	**522**	534
Share price at year end	**555**	435
Market capitalisation at year end	**HK$10.7bn**	HK$8.4bn
Ratios		
Net profit margin	**0.1%**	(11%)
Eligible profit payout ratio	**>100%**	>100%
Return on average equity	**0.1%**	(11%)
Total shareholders' return	**29%**	40%
Net borrowings to net book value of property, plant and equipment	**34%**	14%
Net borrowings to shareholders' equity KPI	**42%**	13%
Interest coverage (excluding impairments)	**2.4X**	3.6X

* relates to continuing operations

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FINANCIAL STATEMENTS

With you for the long haul

Our business is people driven, and our success hinges on the strength and quality of our relationship with customers, suppliers and other business partners.

We blend a tremendously effective cargo and customer-focused dry bulk business model with talented, team-focused people who share a sensible set of business values and a passion for delivering excellent service.

WHAT WE STAND FOR

What matters to us most is:

- the value of long-term relationships over short-term gain
- finding the right solutions to challenges faced by our customers
- honouring our commitments
- operating to the highest standards of diligence, care, safety and reliability
- a nimble and dynamic organisation capable of quick decision making
- our hard-earned, preeminent reputation

In this Annual Report, we present six short articles from members of our team to illustrate what drives them and what they – and we – stand for. They demonstrate at a personal level how people across our organisation are motivated by a shared passion to deliver to the best of their ability and – through thick and thin – to ensure the highest possible degree of customer satisfaction.

We believe that the core sentiment of these stories is encompassed in our theme for 2013 – "Forging strong relationships" – and that the promise of the Pacific Basin brand is summed up in our tagline:

WITH YOU FOR THE LONG HAUL

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PATRICK CAMPBELL
GM Chartering, Durban

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KAY AFGHAHI
Operations Executive, Vancouver

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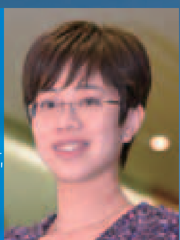
KAREN KONG
General Manager, Treasury



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CAPT. HE XIAN BO
Personnel Manager, Dalian

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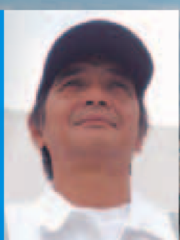
C/E VERGARA HERNAN
Chief Engineer, "Columbia River"



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KITTY MOK
Director of Risk, Group Company Secretary

Business Highlights

Respectable dry bulk performance in a weak market, and a pivotal year of investment for growth and value creation to position for cyclical recovery

GROUP

Respectable results in a weak market were affected by:

- valuable business model enabling 22% outperformance of the Handysize market
- good control over our vessel costs
- weakest half-year dry bulk market since 1986
- stronger and volatile market in the second half
- significantly reduced contribution from PB Towage in the second half
- one-off finance lease break costs

Balance sheet net gearing of 34% with cash and deposits of US$486 million

Dry bulk vessel capital commitments of US$525 million

FLEET

Purchased 43 dry bulk vessels in 2013 for a committed price of US$800 million, and long-term chartered another 18

Owned fleet on the water grew from 37 to 73 dry bulk ships during 2013

Our fleet currently numbers 334 vessels (including newbuildings) comprising 278 dry bulk ships, 52 towage vessels and 4 RoRos

Covered 53% of our contracted 36,750 Handysize revenue days in 2014 at US$10,090 per day net

Current commitments for a further 24 ships

Secondhand Handysize values have increased 35% year on year

OUTLOOK

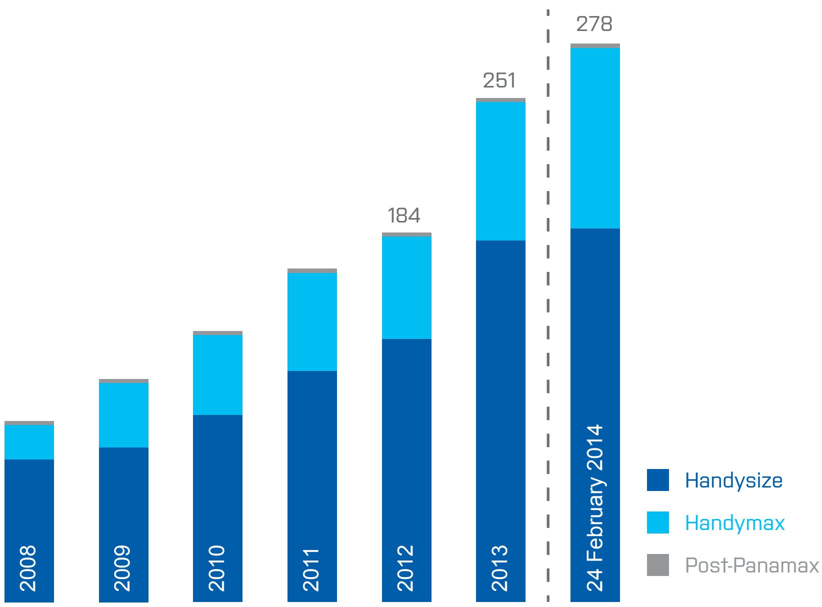
Cyclical upturn has started – dry bulk market is expected to be stronger and volatile in 2014

We remain selectively open to appropriately priced ship acquisitions to further position ourselves for a stronger market

Towage outlook has become more challenging as offshore towage contracts wind down, but underlying harbour towage demand drivers remain positive

Our Dry Bulk Fleet Development

No. of Vessels at Year End (incl. Newbuildings)



Net profit

US$1.5m

(2012: US$158m net loss)

Underlying Profit KPI

US$16m 67%

Cash Position

US$486m 35%

Earnings per share

HK¢0.6

(2012: negative HK¢64)

Dividend per share KPI

HK¢5 0%

Chairman's Statement

Our Chairman David Turnbull reflects on the Company's health and preparedness for the future

Dry bulk shipping in the first half of 2013 experienced its weakest market conditions since 1986, while the second half was characterised by encouraging early signs of a cyclical upturn with increased rate volatility. The weak and challenging market overall continued to test the financial health and performance of bulk carrier owners and operators globally.

DELIVERING VALUE IN A WEAK, VOLATILE MARKET

In this difficult environment, Pacific Basin delivered an underlying profit of US$16 million and an EBITDA of US$130 million. We have again generated respectable results as we have done throughout the down-cycle of the past several years thanks to our cargo and customer-focused business model and our team of talented staff.

It was also a pivotal year for us in terms of growth and value creation.

> We fulfilled our goal of significantly expanding our dry bulk fleet with ships of excellent design acquired at historically low prices

These vessel acquisitions enhance our ability to deliver the best possible service to our customers. They also form the basis of an expanded low-cost owned fleet that will generate increasingly attractive returns for our shareholders as market rates improve with the cyclical recovery.

> We achieved this fleet growth by being financially strong, organisationally well prepared, and willing to work very hard towards accomplishing our goals

As at 31 December 2013, we had total cash and deposits of US$486 million and net gearing of 34%. Our vessel capital expenditure obligations currently amount to US$525 million payable over the next four years in respect of 24 ships which we expect will be mainly funded by Japanese export credit financing, leaving a healthy balance sheet with continued buying power for further opportunities ahead.

DIVIDEND

In view of the Group's operating results, the Board has recommended a final dividend of HK 5 cents per share for 2013 (2012: HK 5 cents final).

Page 79 & 122
Dividend policy
& accounting details

We seek to continuously improve our standards of service and conduct in everything we do in an effort to be a shipping industry leader and the partner of choice for our customers and other stakeholders.

Growing our fleet as we did in 2013 is a large part of that effort. So too is the considered manner in which we have expanded our teams around the world – investing more in recruitment and training to ensure our staff all operate with a consistent set of sensible business values and a passion for delivering excellent service.

OUR FOCUS ON SUSTAINABLE, LONG-TERM GROWTH

High on our list of business principles is the value of long-term relationships over short-term gain. That remains as important at the bottom of the market cycle as it is at the top and it applies to our customers, suppliers, shareholders and staff as well as to less obvious stakeholders such as the main communities in which we operate and the environment. We apply sustainable thinking in our decision-making processes and the way we run our business so as to create long-term value through good corporate governance, accountability, and responsible social and environmental practice.

Pages 8-15
How we create value and deliver on our strategy

Page 37
CSR Report

STRENGTHENING OUR BOARD

Our Board currently comprises nine members after CL Wang stepped down as an Executive Director at the April 2013 AGM. We are grateful to CL for his six years of valuable service on the Board. We have engaged a professional search firm to help us identify a new Independent Non-executive Director to complement the experienced team of directors that we already have. Our search is going well and I expect to be able to announce a new appointment soon.

Page 64
Board of Directors

Page 56
Corporate Governance

Mats Berglund is well into his second year at Pacific Basin and has proven to be a highly capable and effective Chief Executive Officer who has made good progress in driving the several strategic goals that we had set ourselves in 2012. On the next page in the section headed "CEO Review", you will find Mats' summary of the Company's performance and achievements during 2013 and the outlook and our strategy for the year ahead.

A WELL POSITIONED BUSINESS

We expect a stronger, volatile dry bulk market in 2014 as the supply and demand balance continues to improve. I am confident in saying that we are well positioned and equipped to weather any turbulence and benefit from the stronger market that we expect ahead. The Company is in good health, and has a robust and proven business model and a large competitive fleet with a low cost base. It is supported by the excellent people, financial strength, governance structure, strategies, systems and reputation that are key to enhancing our already competitive position in our market.

The Board joins me in thanking our hard-working staff, our loyal customers and suppliers and other stakeholders for their support of Pacific Basin over the past year and in the future.

Underlying profit KPI

US$15.6m ↓67%

Dividend per share KPI

HK¢5 → 0%

Net borrowings to net book value of property, plant and equipment KPI

34% gearing ↑20%

Handysize Secondhand Values

Source: Clarksons

CEO Review

Our CEO Mats Berglund reports on our performance and reflects on the outlook and strategy for Pacific Basin

FINANCIAL RESULTS

The Group produced a net profit of US$1.5 million (2012: US$158 million loss) from an underlying profit of US$16 million (2012: US$48 million).

Basic EPS on continuing operations was HK 0.6 cents. Our EBITDA was US$130 million (2012: US$145 million).

Our results were mainly influenced by:

- the value of our business model enabling our outperformance of the market;
- good control of our vessel costs;
- the weakest half-year dry bulk shipping market since 1986;
- a stronger, more volatile dry bulk market in the second half;
- a reduced second-half contribution from harbour towage due to our Newcastle start-up investment;
- a reduced second-half contribution from offshore towage due to project wind-down costs and diminished activity; and
- the one-off cost of breaking finance leases for ten purchase options.

PERFORMANCE OVERVIEW

Dry Bulk

In our core dry bulk shipping business, our average Handysize daily earnings fell 9% year on year to US$9,520 due to the weak market environment but still outperformed the market by 22%.

Our Handymax earnings outperformed the market by 11% and our growing fleet of low cost, owned ships resulted in our best – albeit still modest – Handymax contribution since 2010.

Our outperformance of the market is driven by an industrial and customer-focused business model – drawing on our fleet's scale and our team's ability to optimally combine contract and spot cargoes with the right ships – achieving a higher than average laden utilisation of our ships.

Strategic progress

Our dry bulk business fulfilled its key strategic objectives for 2013:

- We invested in 43 high-quality Handysize and Handymax ships at attractive prices to boost our future earning capacity;
- We have made good progress in expanding our customer relationships and cargo portfolio, most recently through the establishment of a new commercial presence in Dubai to better serve customers in the Middle East and India; and
- We are gradually decentralising our operational support function which is resulting in increased customer satisfaction.

Towage

PB Towage had a mixed year in 2013.

Our harbour towage activity continued to grow steadily and was further expanded in July with our new operation in the bulk port of Newcastle where job numbers have been encouraging. However, the start-up investment in new operations reduced our harbour towage business' second-half contribution.

In the offshore towage sector, we increased our stake in the OMSA joint venture to 50% early in the year. OMSA's contract to supply marine logistics services to the Gorgon project was subsequently extended from April 2014 to December 2015, although we expect a gradual decline in activity as the project approaches its production phase. Our projects in Gladstone completed during the year and, in December, we redeployed four tugs for a new contract in Australia's Northern Territory where start-up costs and unusually heavy rainfall affected our operations.

While PB Towage delivered a robust performance in the first half of the year, its second half contribution was significantly reduced by the wind-down costs and loss of revenue stemming from the completion of our Gladstone projects and a gradual decline in Gorgon activity, and by the start-up costs for our new operations in Newcastle and the Northern Territory.

RoRo and Non-Core

The PB RoRo wind-down that started in 2012 is progressing as planned. The first two of our RoRo vessels delivered into the buyer Grimaldi's ownership in June and December as contracted, and the remaining four are all on charter until Grimaldi take ownership of at least one vessel in each six-month period until the end of 2015.

Further progress has been made in exiting and simplifying our few remaining non-core activities, allowing us to concentrate more of our resources on our core businesses.

MAJOR INVESTMENT IN 2013

2013 was our busiest year ever for dry bulk acquisitions as we invested for the cyclical upturn. We purchased 26 secondhand ships and we contracted 17 newbuildings at Japanese yards for an aggregate committed price of US$800 million. Additionally, we signed long-term charters for three secondhand ships and 15 newbuilding vessels.

In view of the narrowing gap between secondhand and newbuilding ship prices, we gradually shifted our acquisition focus to newbuildings, including larger 37,000 tonne vessels which are not available in the secondhand market.

Our ship acquisitions were concluded at historically low prices and rates and are all of excellent design for our trades. They will enhance our ability to deliver value to our shareholders and outstanding service to our customers, and further underpin our strong competitive position in the Handysize and Handymax segments.

Our owned fleet on the water grew from 37 to 73 dry bulk ships in 2013

In 2014, we have so far committed to a further two acquisitions, and our current commitments will expand our owned fleet by a further 24 ships over the next four years.

As announced in April and August, we secured US$136 million of 12-year Japanese export credit agency ("ECA") financing, and we have since secured an additional US$178 million in commercial bank loans. Together these loans were raised to finance 25 of our bulk carriers as part of a continuous search for funding opportunities that we consider beneficial to our shareholders.

As at 31 December 2013, we had total cash and deposits of US$486 million and net borrowings of US$551 million. We had 10 unmortgaged dry bulk ships on the water with a combined net book value of US$202 million. Our vessel capital expenditure obligations currently amount to US$525 million, and we are discussing further Japanese ECA financing for our newbuildings and shall review the need for any additional new loan facilities in 2014.

OUTLOOK

We expect the dry bulk market in 2014 to be stronger overall than it was last year as a marked slow-down in newbuilding deliveries and continued healthy dry bulk trade combine to support an increasingly favourable balance of supply and demand.

Periodic and geographic tightening in the market is likely to result in a volatile freight market. A particularly weak first two months of 2014 – exacerbated by a minerals export ban in Indonesia which commenced in January – and the usual seasonal fluctuations are expected to give rise to a weak first half and a stronger second half.

The fundamentals continue to look better for the Handysize segment than for larger vessel sizes due to continued scrapping and reduced new ship deliveries giving rise to negligible net fleet expansion while growth in demand for minor bulks remains healthy.

We remain selectively open to further ship acquisitions in anticipation of the gradual recovery.

The outlook for PB Towage's offshore logistics and construction support services on the Australian coast has become more challenging as our previous contracts are scaling down and competition for new contracts has increased. We expect further expansion of mines and the minerals sector to support Australian trade growth and, in turn, steady growth in harbour towage job numbers. Our harbour towage performance in the short-term will depend on the rate of growth of our new operation in Newcastle. We expect to generate weak short-term offshore towage results due to start-up costs in the Northern Territory, and future performance will be affected by the speed at which we secure new employment of assets following the wind-down of completed projects.

STRATEGY FOR 2014

For 2014, we will hone our focus on three key strategic objectives which are:

1) to further expand our fleet of owned and chartered Handysize and Handymax ships, although the pace of our ship acquisitions is likely to be slower due to increasing prices and the growing difficulty in finding good value buying opportunities;

2) to continue to grow our dry bulk customer and cargo portfolio in tandem with our core fleet expansion, drawing on our expanding commercial office network which now includes a new office in Dubai; and

3) to increase our offshore towage revenue book with stronger efforts directed toward securing contract renewal opportunities and new projects for our tugs and barges.

In 2013 we commenced a review of third-party acquisition interest in PB Towage to enable the Board to assess the value to our shareholders of a possible sale. This process is coming to a conclusion and we expect to reach our decision shortly.

Having invested very actively in dry bulk ships over the past 18 months, our expanding low-cost fleet on the water will enhance our ability to increase customer satisfaction and maintain a competitive cost base, reinforcing our position in a strengthening market and generating sustainable growth, significant cash flow and attractive shareholder returns.

Our Resources In Action

We attach great importance to cultivating resources and relationships – our stores of value or Capitals – which we employ as optimally as we can to propel us towards our vision and create value for our shareholders and customers.

OUR CAPITALS – THE RESOURCES AND RELATIONSHIPS WE RELY ON

Manufactured Capital

Our Fleet – 330 Ships*

		Vessels in operation	Newbuildings on order	Total
Dry Bulk	Handysize	160	27	187
Dry Bulk	Handymax	79	10	89
Dry Bulk	Post Panamax	2	–	2
Towage	Tugs & Barges	52	–	52

www.pacificbasin.com
about us > fleet
full fleet breakdown

Financial Capital

The pool of funds that is:

- Generated through operations and obtained through debt, convertible bonds and equity
- Managed as cash, lending facilities and other resources controlled by the Group

Human Capital

- Optimal combination of people, competencies, capabilities, experience

Our Global Office Network

16 offices globally
13 dry bulk offices
11 chartering offices – positioning us close to our customers

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Understanding Our Core Markets
our world map

Social Capital and Relationship Capital

Relationships within and between our communities, groups of stakeholders and other networks

- Partner-customers
- Suppliers
- Regulators and policy makers
- Local communities

Natural Capital

- All renewable and non-renewable environmental resources and processes that provide services that support the current and future prosperity of our business

Intellectual Capital

- Accumulation of knowledge and development of processes and procedures, through experience and a culture of education and continuous improvement

Our Vision

To be a shipping industry leader and the partner of choice for customers, staff, shareholders and other stakeholders

Our Mission

To achieve our vision by continuously improving our standards of service and conduct

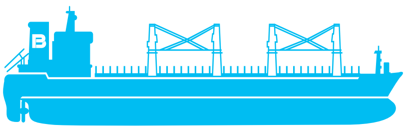
* as at 24 February 2014, including recent secondhand acquisition of 3 Handysize and 2 Handymax not yet delivered but excluding 4 RoRo ships

Page 12
Our Strategic Model

HOW WE CREATE VALUE	OUTCOME
Scale and Interchangability Fleet scale provides network and economic advantages	Optimal scheduling and flexibility for customers Increased economies of scale and vessel utilisation
High-quality Assets Expansion and renewal of our fleet through focused investment	Optimal operational ship design and efficiency Enhanced reliability for customers
In-house Technical Operations Integrated team of technical services and crewing managers	Enhanced service reliability to customers Enhanced health and safety, quality and cost control
Considered Treasury Activity Continuous management of financial resources and funding	Sound financial liquidity to fund investments and meet payment obligations and covenants Optimal balance of financial capital sources benefits shareholders and enhances returns
Investment in Staff Attracting talent, staff training, graduate traineeships, employee engagement and succession planning	Safeguarding and enhancing quality, effectiveness and availability of our teams of staff on shore and at sea
Being Local Regional offices across six continents position us near our customers	Meaningful customer partnerships and better understanding of and response to customer needs
Being Global Worldwide network of offices and trade routes	Access to comprehensive market intelligence and cargo opportunities Optimal trading (cargo combinations) and positioning of our fleet
Stakeholder Engagement Regular multi-level engagement and responsible operating practices to broaden and deepen our relationships with stakeholders	Builds understanding, trust and support between Pacific Basin and our customers, tonnage providers, suppliers, investors, financiers, communities and other stakeholders
Environmental Responsibility Observing or exceeding regulatory requirements and industry standards on environmental impact	Sector-leading efforts to minimise consumption of natural resources and impact on the environment
Effective Business Model & Systems Home-grown value-accretive business model, systems, procedures, know-how and intangibles	Sector-leading service delivery Maximising vessel earnings and generating consistently respectable financial performance through the cycle Strong brand and reputation

Understanding Our Core Market

THE DRY BULK SECTOR



Bulk Carriers for dry bulk commodities

OTHER MAINSTREAM SHIPPING SECTORS

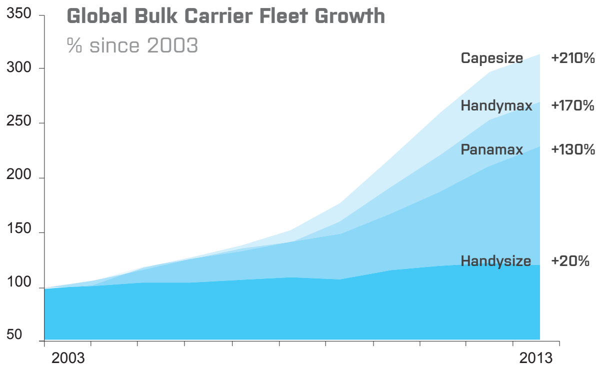
Containerships for containerised goods

Tankers for oil, gas & chemicals

Bulk Carrier Ship Types		Percentage of Global Dry Bulk Capacity	Versatility	Main Commodities Carried
Major bulks without cranes	**Capesize** 120,000+ dwt	**40%**	Less Versatile	**Major Bulks** • Iron ore • Coal
Major bulks without cranes	**Panamax & Post-Panamax** 65,000-120,000 dwt	**28%**		**Secondary Major Bulks** • Grains • Bauxite • Alumina
Minor bulks with cranes (Our Focus)	**Handymax** 40,000-65,000 dwt	**22%**	More Versatile	**Minor Bulks** • Logs & Forest Products • Grains & Agriculture Products • Fertiliser • Cement & Cement Clinker • Ores • Steel & Scrap • Concentrates • Alumina • Salt • Coal/Coke • Petcoke • Sugar • Other Bulks
Minor bulks with cranes (Our Focus)	**Handysize** 25,000-40,000 dwt	**10%**		

Few ports, few customers, few cargo types, low scope for triangulation ⟷ Many ports, many customers, many cargo types, high scope for triangulation

WHY WE FOCUS ON MINOR BULKS



We are the world's largest Handysize owner and operator in a highly fragmented market that revolves around the carriage of minor bulks.

Minor bulk commodities are very varied, controlled by a large number of customers and transported via a large number of ports globally. This segment requires highly versatile self-loading and discharging ("geared") ships of "handy" proportions to allow them access to the many ports around the world restricted by shallow water, locks, narrow channels and river bends. By contrast, large bulk carriers are limited to the carriage of only a few commodities controlled by a handful of cargo owners and transported through a very small number of ports leaving their prospects increasingly subject to the volatility of PRC iron ore or coal imports.

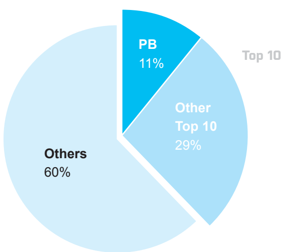
So while we are focused on a very particular ship segment and size, we are diversified geographically and in terms of customers and cargoes. This allows us scope to triangulate our voyages and thus enhance our utilisation and vessel earnings. And while we may not participate in the sometimes astronomic freight earnings that large bulk carriers achieve when markets spike, we are well positioned to achieve our important aim of generating a steadier and more sustainable earnings stream that enables us to outperform the market throughout the cycle and to be profitable also in the down-cycle.

Our earnings reliability is further enhanced by the fact that global Handysize capacity has experienced only 20% growth in the past 10 years relative to the much larger expansion of the major bulk fleets. The relatively modest newbuilding orderbook, old age profile and greater scrapping potential of the global Handysize fleet points to continued good supply side fundamentals.

Page 19
Orderbook
Handysize age profile

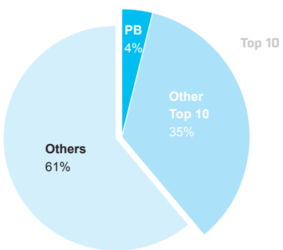
OUR MARKET SHARE

Handysize
(<20 years old)



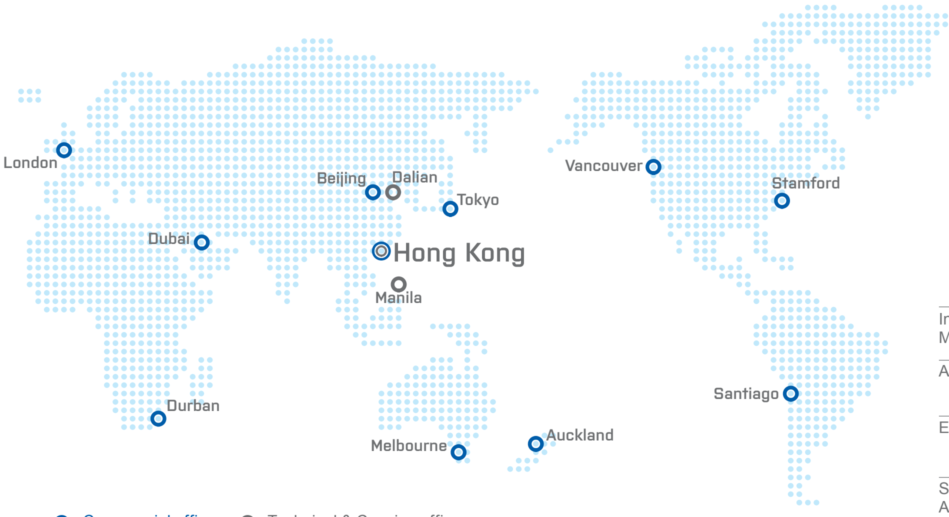
We operate approximately 11% of global 25-40,000 dwt Handysize ships of less than 20 years old

Handymax
(<20 years old)



We operate approximately 4% of global 50-65,000 dwt Handymax ships of less than 20 years old

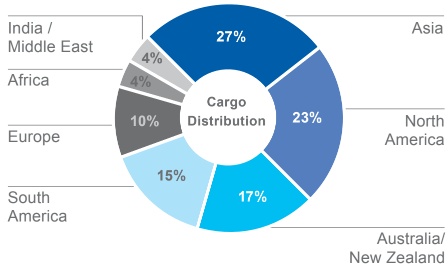
OUR WORLDWIDE NETWORK AND TRADING AREAS



Commercial offices   Technical & Crewing offices

Our Worldwide Network

13 dry bulk offices – including:
11 commercial offices
3 technical & crewing offices



A FOCUSED APPROACH – OFFERING BENEFITS OF DIVERSIFICATION

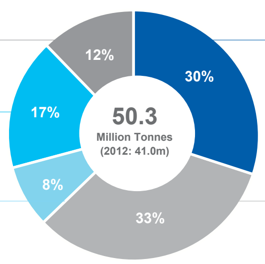
Focused on segment and size

Diversified geographically, customer-wise and cargo-wise

- Over 400 customers globally
- Our largest customer represents only 4%
- Top 25 customers represent less than 40%

Our Handysize and Handymax Cargo Volumes in 2013

Energy	
Coal	5%
Petcoke	7%
Metals	
Alumina	5%
Ores	7%
Concentrates & Other Metals	5%
Minerals	
Salt	3%
Sand & Gypsum	5%
Agricultural Products	
Grains & Agriculture Products	17%
Fertiliser	9%
Sugar	4%
Construction Materials	
Logs & Forest Products	18%
Steel & Scrap	6%
Cement & Cement Clinker	9%



OPPORTUNITIES AND CHALLENGES

Healthy growth in global minor bulks trade
Steady increase in minor bulks transportation demand driven by industrial development in China and recovery in the USA

Limited supply growth
Moderate newbuilding deliveries and ship scrapping are expected to drive negligible Handysize net fleet growth in the medium term

Fragmented market
Handysize sector remains highly fragmented and we continue to grow our already significant market share

Market cycles and volatility
Our business model, know-how and understanding of shipping cycles deleverage our earnings from market volatility and enable us to outperform throughout the cycle, manage our balance sheet and expand and renew our fleet at cyclical low prices

Environmental considerations and regulation
Our drive to increase fuel efficiency ensures that emissions concerns are aligned with our strategy, and our award-winning operations ensure we meet all regulatory requirements and industry practices

Limited supply of seafarers and shore-based talent
Our growth is challenged by a short supply of seafarers and shipping executives, but the strength of our employer brand, industry network and personnel function allows us to attract the staff we need

Handysize Charter Rates demonstrating cyclicality in shipping

Our Strategy

Our dry bulk strategic model leverages four broad characteristics designed to drive business growth and sustainable value creation for our shareholders and customers over the long term

STRATEGIC MODEL

OUR LARGE VERSATILE FLEET

Fleet scale and interchangeable high-quality dry bulk ships facilitate service flexibility to customers, optimised scheduling and maximised vessel utilisation

In-house technical operations facilitate enhanced health & safety, quality and cost control, and enhanced service reliability and seamless, integrated service and support to customers

OUR STRONG CORPORATE & FINANCIAL PROFILE

Striving for best-in-class internal and external reporting, transparency and corporate stewardship

Robust balance sheet through conservative financial structure sets us apart as a preferred counterparty

Well positioned to deploy capital through selective investment in our core market when conditions are right

Responsible observance of stakeholder interests and our commitment to good corporate governance and CSR

OUR MARKET LEADING CUSTOMER FOCUS & SERVICE

Priority to build and sustain long-term customer relationships

Solution-driven approach ensures accessibility, responsiveness and flexibility towards customers

Close partnership with customers generates enhanced access to spot cargoes and long-term cargo contract opportunities of mutual benefit

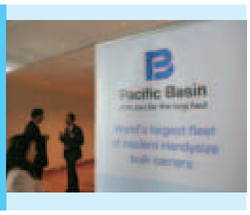
OUR COMPREHENSIVE GLOBAL OFFICE NETWORK

Integrated international service enhanced by commercial and technical offices around the world

Being local facilitates clear understanding of and response to customers' needs and first-rate personalised service

Being global facilitates comprehensive market intelligence and cargo opportunities, and optimal trading and positioning of our fleet

"You have a well-run operation and provide a competitive service all round… It's hard to find a stronger player or better service."



DELIVERING OUR STRATEGY – THE KEY MATTERS WE FOCUS ON

Our integrated approach to running the business and how we report on it requires us to assess all the matters that are material to the long-term success of Pacific Basin and the sustainable growth of its business and operations. This exercise – an analysis of opportunities and risks and how to balance them – also assists us in developing our strategic objectives.

Sustainability is a key element of each of these material matters, and this is the driving force behind our growth and long-term success.

What is material is defined as a matter that would impact our senior management, Board and Board Committees' decisions, applying several criteria such as:

- the potential economic impact of a matter on the business and its ability to create value over the short, medium and long term;
- our main stakeholders' concern with a matter and its likely effect on them; and
- the extent to which a matter is likely to grow in significance and impact in the future.

Through this process, six material matters were identified, all of which are key components of our business model (how we employ our Capitals to create value) and key strategic issues driving the performance and long-term viability of the Group.

MATTERS OF KEY STRATEGIC FOCUS – WHAT WE'RE DOING TO DELIVER OUR STRATEGY

1. Investing in our fleet
2. Deepening our relationships
3. Investing in our people
4. Safeguarding Health, Safety & Environment
5. Enhancing corporate & financial profile
6. Evolving management & governance practices

Delivering Our Strategy

How we are doing in our matters of key strategy focus

1. INVESTING IN OUR FLEET

Strategic objective for 2013	Strategy delivery & performance in 2013	Challenges in 2013	Objectives for 2014	Managing risk
Grow our dry bulk fleet by purchasing high-quality Handysize and Handymax ships at attractive prices.	Invested in 43 high quality Handysize and Handymax ships comprising 26 secondhand ships and 17 newbuildings acquired at cyclically low prices.	Reduced availability of good value buying opportunities Growing our human resources to manage the growing fleet.	Further expand our fleet of owned and chartered Handysize and Handymax ships on a selective basis, though the pace of our acquisitions is likely to be slower.	We draw on our understanding of shipping cycles and our industry network to ensure that we are well placed to access on and off-market acquisition opportunities at appropriate prices.

2. DEEPENING OUR RELATIONSHIPS

Strategic objective for 2013	Strategy delivery & performance in 2013	Challenges in 2013	Objectives for 2014	Managing risk
Expand our dry bulk customer and cargo portfolio in tandem with fleet expansion, and enhance customer experience through closer proximity and better understanding of their needs.	Expansion to over 400 customers generating employment for our 73,000 ship revenue days. 10 commercial offices (now 11) positioned us close to customers enabling deeper partnerships. Gradually decentralised operational support function is resulting in increased customer satisfaction.	Deepening relationships while attending to requirements of a growing customer base and managing an expanding fleet.	Continue to grow our dry bulk customer and cargo portfolio and enhance customer experience, drawing on our expanding commercial teams and office network.	Our business model stresses importance of: being close to customers; understanding their needs; and engaging through customer surveys to facilitate deeper long-term relationships.

3. INVESTING IN OUR PEOPLE

Strategic objective for 2013	Strategy delivery & performance in 2013	Challenges in 2013	Objectives for 2014	Managing risk
Expand our teams to manage our growing fleet, and nurture motivated and productive staff.	Our seafarer numbers grew 43% to 3,000 and shore-based staff grew 19% to 380. Recruited 12 dry bulk graduate trainees – our largest such intake ever – and initiatives such as: introduction of 360° feedback; cross-functional training ashore; promotion of team-work; a supportive, blame-free culture at sea. These contributed to enhanced employee engagement and satisfaction.	At sea and ashore, expanding our teams with experienced staff and maintaining staff fulfilment at a time of significant fleet growth and increasing global demand for staff.	Continue to expand, train and motivate our teams in tandem with growth of our fleet on the water.	We strive to maintain a strong employer brand, industry network and in-house personnel function to position ourselves to attract the staff we need.

4. SAFEGUARDING HEALTH, SAFETY AND ENVIRONMENT

Strategic objective for 2013	Strategy delivery & performance in 2013	Challenges in 2013	Objectives for 2014	Managing risk
Substantially eliminate injury, navigation and pollution incidents, minimise our environmental impact and promote a healthy and supportive work environment at sea and ashore.	Our lost time injury frequency reduced 40%, enhanced by a campaign on personal safety to reduce slips, trips and falls. Our inspection deficiency rate increased 25% in 2013, though we remain among the best performers in the industry.	Rapid expansion of our fleet resulted in almost 1,000 new crew to induct and train in Pacific Basin-specific operational and safety practices. Far East operations exposed us to increased deficiency findings registered even if subsequently proven to be in order.	Continue to focus on efforts to substantially eliminate injury, navigation and pollution incidents, minimise our environmental impact and promote a healthy and supportive work environment at sea and ashore.	Our growing team of Marine & Safety and Training Managers allows us to maintain our ratio of 6 ships per manager and, combined with our robust safety system and continual training and maintenance programmes, address the health and safety pressures of continued expansion of our fleet on the water.

5. ENHANCING CORPORATE & FINANCIAL PROFILE

Strategic objective for 2013	Strategy delivery & performance in 2013	Challenges in 2013	Objectives for 2014	Managing risk
Maintain sound financial liquidity and a healthy balance sheet, and strive for best-in-class reporting, transparency and corporate stewardship. Maintain strong corporate profile that makes Pacific Basin a preferred partner for many stakeholders.	Despite significant investment in our fleet in 2013, we still benefit from conservative gearing and access to attractive financing leaving us with a healthy balance sheet and continued buying power. This financial health gives comfort to customers and shareholders alike which contributes to the strong corporate profile that makes Pacific Basin a preferred partner for many stakeholders.	Bank lending constraints limited funding availability to the wider shipping industry, but we had significant cash to invest and access to attractive Japanese export credit and bank loans. Navigating challenging trading conditions in one of the weakest markets since 1985.	Work within our gearing targets, maintain the financial health of the Group, and strive for best-in-class reporting, transparency and corporate stewardship.	Through continuous management of financial resources and funding, we will take care to avoid excessive gearing and a lack of liquidity.

6. EVOLVING MANAGEMENT & GOVERNANCE PRACTICES

Strategic objective for 2013	Strategy delivery & performance in 2013	Challenges in 2013	Objectives for 2014	Managing risk
Improve quality of information for management decision-making, risk mitigation and board governance procedures and considerations.	We gave greater emphasis to our governance initiatives by formalising the role of Director of Risk. Internal audit assisted communication of risk awareness and identified areas for improved controls. Group complied with all relevant requirements under HK Listing Rules and Securities and Futures Ordinance. Corporate Governance work recognised through various external awards.	Expanded fleet and business transactions increased pressure to involve more staff in risk management and governance matters and tighten risk mitigation and governance practices.	Further refine management decision-making, risk mitigation and board governance procedures and considerations, and ensure all new recruits are trained to fully observe our risk management and governance procedures. To uphold best-in-class levels of transparency and stakeholder confidence.	Identify, categorise and review existing and new risks through internal assessments by business units to test controls on key risks and improve quality of information for decision making.

Our People

Partners for the long haul

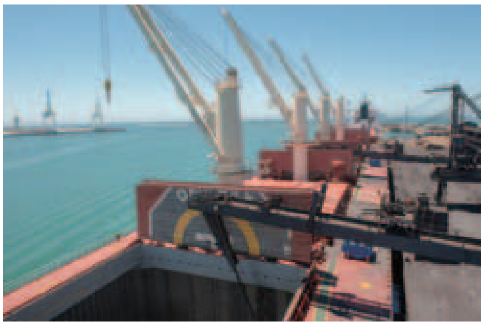
Patrick Campbell
General Manager
Pacific Basin Dry Bulk, Durban office, South Africa

Pacific Basin's Durban office was established in December 2011, and the two years since commencing this operation in South Africa have been among the most fulfilling of my 24 years in shipping.

Despite the difficult market conditions of recent years and the challenges of establishing a commercial presence in the region, we have overcome all obstacles and made good progress through close, constructive interaction between our new Durban team and our Pacific Basin colleagues globally. The willing support of our worldwide commercial office network enabled us to grow and quickly become a leading operator in the Southern and Eastern African region.

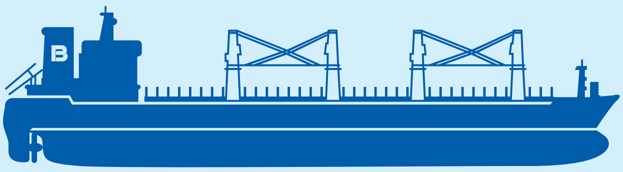
Our progress in Africa is also attributable to the partnerships established with our customers and the support they have given us. The longer-term partnership approach is key to what differentiates us from our competitors. Rather than offering a standard spot freight service, we seek a far greater and closer engagement with our customers so that, face to face, we can fully understand their needs, offer a flexible service and work together to overcome the frequent challenges that stem from Africa's less developed infrastructure and corresponding logistical challenges.

Pacific Basin's corporate tagline – "With you for the long haul" – epitomises our approach to business, both internally and externally. It echoes a philosophy that each of us embraces, as it guides our Durban team to strive for the best possible long-term relationships with our customers, partners and our colleagues worldwide.



Business Review

OUR BULK CARRIERS



- Modern Handysize and Handymax ships respectively carry 25,000-40,000 and 40,000-65,000 metric tonnes of cargo
- Their “handy” proportions allow them to access ports restricted by shallow water, locks, narrow channels and tight river bends
- Four cranes with 30-ton lifting capacity enable self-loading and discharging in regions lacking sophisticated cargo-handling infrastructure
- They are versatile workhorses well suited to carrying a broad range of commodities, mainly in bulk but also in bagged or bundled form
- The average age of our dry bulk core fleet (comprising owned ships and ships chartered for one year or more) is 7 years

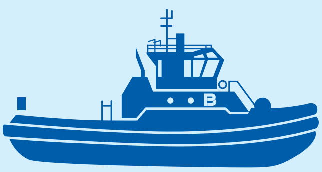
Creating Value

We are the largest owner and operator of Handysize ships in the world with a significant and growing Handymax presence. We believe in focus and scale in order to provide our customers with an industry-leading service in an otherwise fragmented market dominated by smaller owners and operators.

Our business model as an integrated owner and operator of a large fleet of interchangeable dry bulk ships generates substantial value beyond the market-driven steel value of our owned fleet. It enables us to generate premium vessel earnings through our optimal combination of:

- contract cargoes with spot cargoes; and
- cargoes with the right owned and chartered ships.

OUR TUGS



- PB Towage operates a modern fleet of versatile tugs with an average age of 8 years
- Our project vessels are well suited to support the marine logistics requirements of the growing resources sectors in Australasia
- Harbour activities are supported by our young fleet of powerful harbour tugs of up to 69 tons bollard pull

Dry Bulk Market Review 2013

FREIGHT MARKET SUMMARY

2013 started with the weakest half-year market for dry bulk shipping since 1986. By contrast, freight rates in the second half improved significantly with Handysize rates in the final quarter reaching levels not seen since 2011.

Handysize and Handymax daily spot market rates in the second half of the year were 20% and 36% higher than in the first. In the year overall, they averaged US$7,770 and US$9,760 net representing improvements of 7% and 9% year on year.

The average Baltic Dry Index (BDI) increased 31% year on year – influenced heavily by the even stronger recovery in rates for larger Capesize ships.

2013 was characterised also by one of the most volatile freight markets since indices were introduced in 1985 – second only to the extraordinary market of 2008 following the global financial crisis.

The stronger freight rates and increased volatility are indicative of a tighter supply and demand balance than was widely expected following the shipbuilding boom.

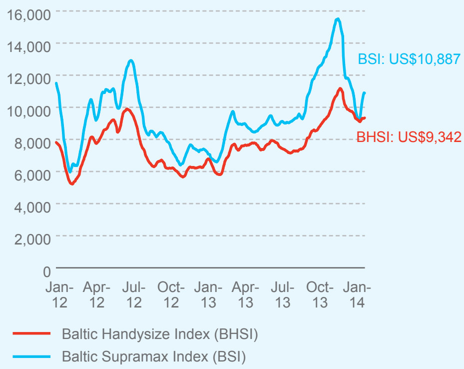
Spot rates have declined in the first two months of 2014 which we attribute to the annual post-New Year surge of newbuilding deliveries, compounded by weather-related cargo disruptions in key trade areas, a mineral export ban in Indonesia and an early Lunar New Year holiday in China – reflecting mainly seasonal factors.

+7% ⬆ US$7,770 net
Handysize average market spot rates

+9% ⬆ US$9,760 net
Handymax average market spot rates

Baltic Dry Bulk Earnings Indices

US$/day net*



* US$ freight rates are net of 5% commission

Source: The Baltic Exchange, data as at 5 Feb 2014

SUPPLY DRIVERS

KEY SUPPLY DEVELOPMENTS

Fewer newbuilding deliveries but reduced ship scrapping resulted in a 6% year-on-year net expansion of the dry bulk fleet. This supply growth is significantly lower than the 10-16% net capacity expansion of the previous three years, and buoyed bulk carrier earnings overall in 2013.

62 million deadweight tonnes of new capacity delivered and 22 million tonnes – 3% of the existing fleet – was sold for scrap. This reduced rate of scrapping was due to the improved freight rate environment and market outlook.

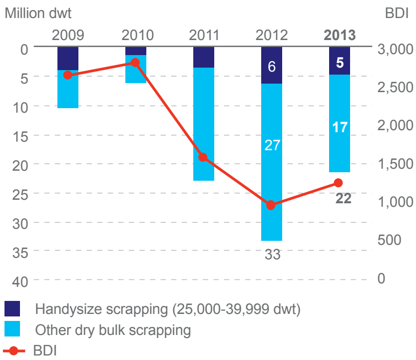
The global fleet of 25,000-40,000 dwt Handysize ships registered only 1% net capacity growth, benefitting from a lower rate of new ship deliveries and continued healthy scrapping.

Overall fleet growth has reduced and widespread slow steaming continues to decrease effective dry bulk shipping capacity. We believe the market is absorbing the over-supply of larger dry bulk ships which in due course should allow for a sustained recovery to take hold.

+1% ⬆
Global Handysize capacity

+6% ⬆
Overall dry bulk capacity

Dry Bulk Scrapping versus BDI



Source: Clarksons, Bloomberg, as at 1 Jan 2014

IMPACTING SHIP VALUES

SHIP VALUES

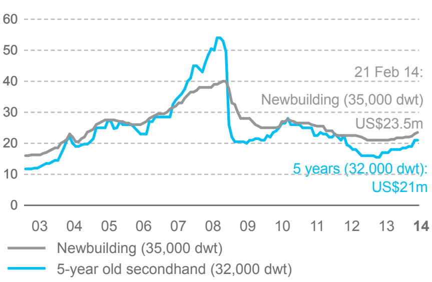
Clarksons currently value their benchmark five year old Handysize at US$21 million representing a 35% increase on the value indicated at the start of 2013 when ship prices bottomed out. Values have increased faster than the improvement in freight rates on increased buying interest and a tight supply of modern, high-quality ships for sale.

+35% ⬆ US$21m
Secondhand Handysize

Handysize newbuilding prices have increased to around US$23.5 million as more buyers are now looking to shipyards for new capacity.

Handysize Vessel Values

US$ million



Source: Clarksons

NEW SHIP ORDERING

"We don't look for carriers, we look for strategic partners… We seem to have found in Pacific Basin a company that understands that."

DEMAND DRIVERS

KEY DEMAND DEVELOPMENTS

Dry bulk transportation demand in 2013 is estimated by R.S. Platou to have increased by a healthy 9% year on year – once again heavily influenced by Chinese imports despite somewhat slower economic growth.

Major bulk trade volumes expanded by 6% driven by high-volume trades such as Chinese coal and iron ore imports which grew 11% and 10% and again set new records.

Lending stronger support to global demand for Handysize and Handymax ships, Chinese imports of seven key minor bulks increased 24% year on year in 2013 (13% excluding Bauxite which jumped 79% on lifting of an Indonesian export ban).

Fourth quarter improvement in the Atlantic was mainly driven by the North American grain export season. The heavily ship-supplied Pacific saw only a modest improvement, benefiting in part from Chinese stock-piling prior to an Indonesian ban on mineral exports from January 2014.

These positive demand factors supported the stronger market in the second half of 2013.

Overall dry bulk demand

+9%

Chinese imports – major bulks

+11% coal

+10% iron ore

Chinese imports – minor bulks

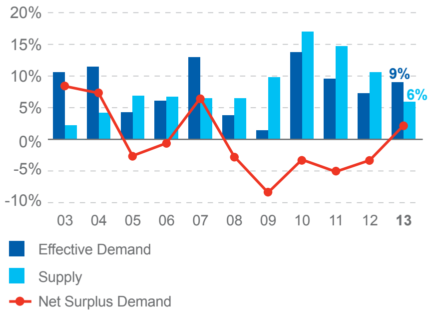
+34% manganese ore

+79% bauxite

-6% fertiliser

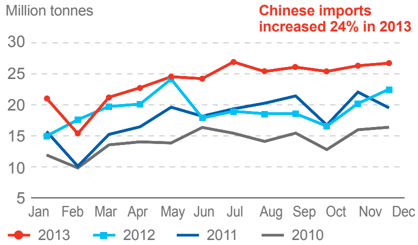
+19% logs

Dry Bulk Supply & Demand



Source: Clarksons, RS Platou

2013 Chinese Minor Bulk Imports



Chinese imports of 7 minor bulks including logs, Soyabean, Fertiliser, Bauxite, Nickel Ore, Copper Concentrates & Manganese Ore

These 7 commodities make up over one third of the cargo volumes we carry

Source: Bloomberg

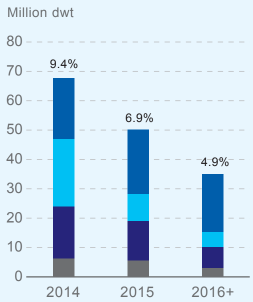
ORDERBOOK

The overall dry bulk orderbook bottomed out in August at 18% and currently stands at 21%. New ship ordering activity predominantly for Capesize and Handymax vessels increased on a growing appetite for more fuel-efficient vessel designs driven by shipyards' efforts to fill their free yard space, and low prices and expectations of a stronger market.

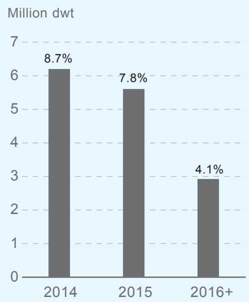
The current published orderbook for Handysize vessels stands at 21% as compared to 17% a year ago. New orders for quality vessels are now generally only possible for 2017 onwards in Japan and 2016 onwards in China.

Source: Clarksons, data as at 1 February 2014

Orderbook by Year

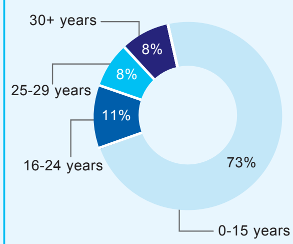


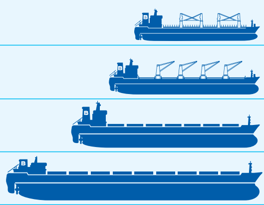
Handysize Orderbook



Handysize Age Profile

2,206 Vessels (70.9 Million Dwt)





	ORDERBOOK AS % OF EACH EXISTING FLEET	AVERAGE AGE	OVER 25 YEARS OLD	2013 SCRAPPING AS % OF EXISTING FLEET ON 1 JANUARY 2014
Handysize (25,000 – 39,999 dwt)	21%	11	16%	7%
Handymax (40,000 – 64,999 dwt)	24%	9	5%	3%
Panamax & Post-Panamax (65,000 – 119,999 dwt)	19%	8	2%	1%
Capesize (120,000+ dwt)	22%	8	2%	3%
Total Dry Bulk (10,000+ dwt)	21%	11	4%	3%

Pacific Basin Dry Bulk
How we performed in 2013

Our Pacific Basin Dry Bulk division generated a net profit of US$26.1 million (2012: US$39 million), a 5% return on net assets and a positive EBITDA of US$115 million in a continued challenging market overall.

This weaker performance year on year reflects the weak dry bulk market coming into 2013 and the expiry of higher paying cargo contracts secured in earlier stronger markets, partly offset by our outperformance of the market and by fuel-saving initiatives and the expansion of our chartered-in fleet of lower cost ships.

Dry Bulk net profit

US$26.1m

EBITDA

US$115.0m

SEGMENT OPERATING PERFORMANCE

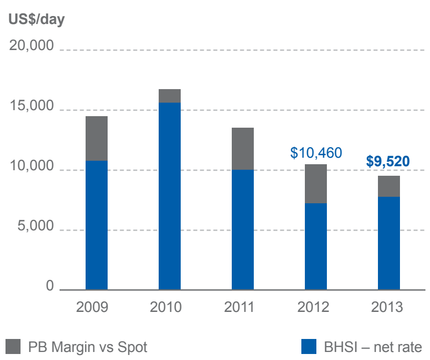
US$ Million	1H13	2H13	2013	2012	Change
Handysize contribution	22.4	29.5	**51.9**	62.0	-16%
Handymax contribution	4.3	4.2	**8.5**	6.7	+27%
Post-Panamax contribution	2.9	2.8	**5.7**	5.9	-3%
Segment operating performance before overheads	29.6	36.5	**66.1**	74.6	-11%
Direct overheads	(18.3)	(21.7)	**(40.0)**	(35.3)	-13%
Segment net profit	11.3	14.8	**26.1**	39.3	-34%
Segment EBITDA	50.7	64.3	**115.0**	114.1	+1%
Segment net assets	885.1	494.5	**494.5**	855.3	-42%

KEY PERFORMANCE INDICATORS KPI

Performance vs Market

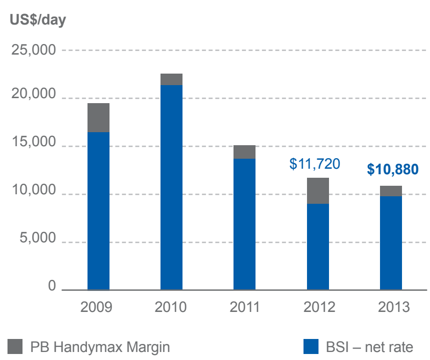
Handysize

22% outperformance compared to market



Handymax

11% outperformance compared to market

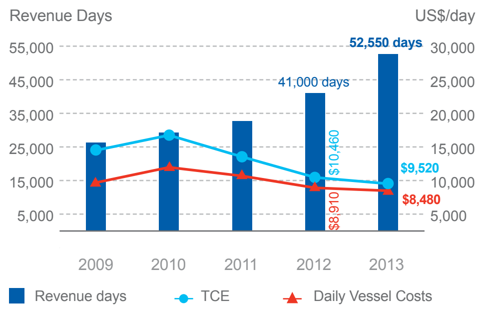


- Our average Handysize and Handymax daily earnings outperformed BHSI and BSI spot market indices by 22% and 11%.
- Outperformance reflects the value of our business model, fleet scale and cargo book, and our team's ability to achieve optimal cargo combinations and match the right ships with the right cargoes.
- Consistently outperformed the market over the past six years and met a key objective of remaining profitable despite historically weak market conditions.

Profitability

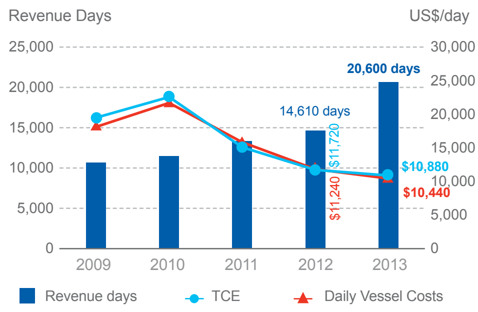
Handysize

US$51.9m contribution ⬇16%



Handymax

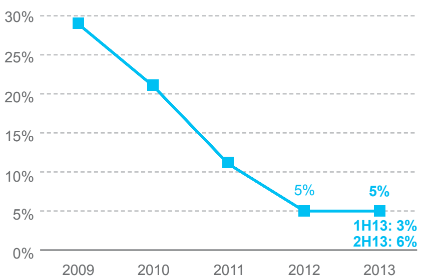
US$8.5m contribution ⬆27%



- Respectable result in difficult market environment on Handysize daily earnings of US$9,520 and daily costs of US$8,480 on 52,550 revenue days.
- Reduced vessel operating margins were partly offset by 28% and 41% increases in Handysize and Handymax revenue days.
- Our capacity increased as our vessel purchases started to deliver and due to the continued use of chartered vessels to service our expanding customer base.
- We operated an average of 145 Handysize and 57 Handymax ships.
- Pacific Basin Dry Bulk revenue increased 24% to US$1.6 billion, representing 94% of total Group revenue.

Return on net assets

5% ➡0%

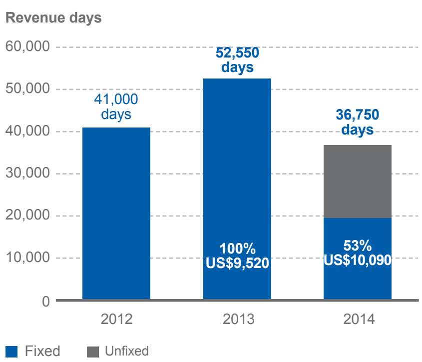


- Return on dry bulk net assets was 5% – unchanged year on year and a sound result in the difficult market environment.
- We aim to achieve solid long-term returns on assets, so we have invested counter-cyclically for enhanced returns in the stronger market ahead.

Future earnings and cargo cover

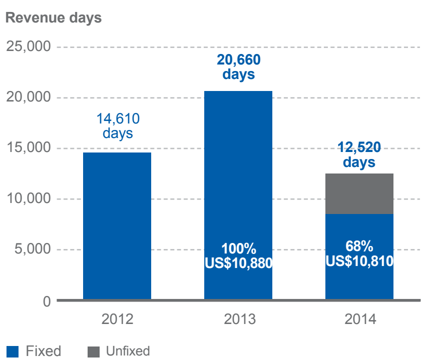
Handysize

53% cover for 2014 at US$10,090 per day



Handymax

68% cover for 2014 at US$10,810 per day



Cargo cover secured for the given year, as at the time of Annual Results Announcement

Cover excludes revenue days of vessels chartered in on an index-linked basis

- We have profitably covered 53% and 68% of our 36,750 Handysize and 12,520 Handymax revenue days currently contracted for 2014 (cargo cover excludes revenue days related to vessels chartered-in on variable, index-linked charter rates).
- While our cover provides a degree of earnings visibility, uncovered capacity is largely expected to generate revenue in the strengthening spot market.

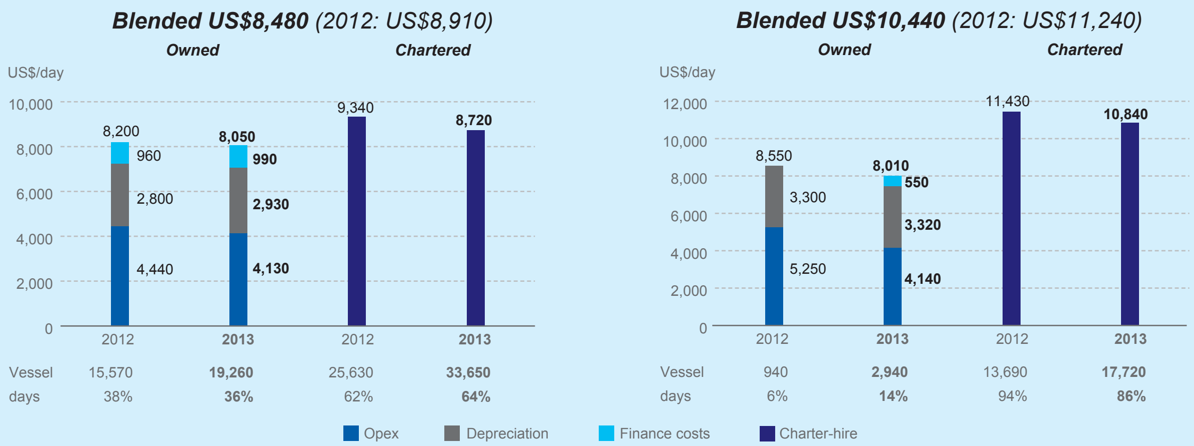
"Pacific Basin offers a very smooth process all round, from chartering to operations and voyage settlement."

ANALYSIS OF DAILY VESSEL COSTS

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

Page 36
Vessel Operating Lease Commitments

Handysize **Handymax**



Our dry bulk fleet incurred direct costs (including bunker fuel costs and port disbursements) of US$1.55 billion (2012: US$1.24 billion) representing 94% of total Group direct costs (2012: 91%).

The impact of the depressed market on our dry bulk segment results was partly mitigated by our increased use of chartered-in third-party vessels at low, market-related daily charter rates. As a result, our chartered-in vessel costs decreased 7% for Handysize and 5% for Handymax which, year on year, reduced our Handysize and Handymax blended daily costs. However, our chartered-in vessel costs increased in the second half of 2013, which is expected to continue as dry bulk market conditions strengthen.

Opex – The daily opex element of our vessel costs decreased 7% for Handysize and 21% for Handymax mainly due to the impact of newbuilding vessels joining the fleet and lower maintenance and repair expenses arising from block purchase and volume discounts for our expanded fleet.

Depreciation – Daily depreciation (including capitalisation of dry dock costs) increased 5% for Handysize mainly due to the addition of new vessels with a higher average net book value than our existing vessels.

Finance costs – Daily finance costs increased due to the larger allocation of borrowings and associated interest from treasury to the Pacific Basin Dry Bulk segment consistent with the delivery of more owned vessels, particularly for Handymax.

Direct overheads, comprising chartering, technical and operations staff and office costs related to our dry bulk ships, reduced 13% to US$540 per day (2012: US$620 per day) as the aggregate total overheads increased more slowly than the rate of expansion of our dry bulk fleet.

Our Handysize chartered-in days increased 31% to 33,650 days (2012: 25,630 days) while our Handymax chartered-in days increased 29% to 17,720 days (2012: 13,690 days). Chartered-in days represented 64% and 86% of our total Handysize and Handymax vessel days respectively.

During the year, we secured 10,980 Handysize vessel days (2012: 4,790 days) and 2,190 Handymax vessel days (2012: 2,090 days) via variable-rate, inward charters with rates linked to the Baltic Handysize and Supramax indices. These index-linked vessels represented 33% and 12% of our chartered Handysize and Handymax vessel days respectively, and serve to increase the scale and enhance the performance of our fleet to better service our customers' needs while generating a small contribution to our core dry bulk activity and segment performance.

Our fleet of owned and finance-leased dry bulk vessels experienced an average 2.0 days off-hire per vessel during the year – up from 1.6 days in 2012.

Our People

Aiming to exceed expectations

Kay Afghahi
Senior Operations Executive
Pacific Basin – Vancouver

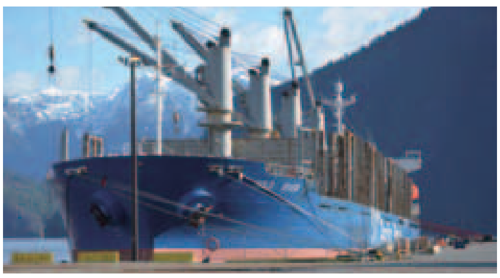
Our vision at Pacific Basin is to be an industry leader, which means not only satisfying our customers' needs, but continuously exceeding their expectations.

As an Operations Executive also involved in port captaincy, I aim to coordinate shipments and optimise cargo stowage in the safest and most efficient and cost-effective manner. This requires careful technical calculations and ship coordination, and the active management of relationships with our customers, stevedores, agents and all parties involved in the process of getting our ships safely loaded, discharged and back out to sea.

I communicate regularly and visit with customers to ascertain and fully understand their requirements so that we can better tailor a bespoke service. I also visit ports and ships, and meet with shippers, captains, crew, agents and terminal operators. This allows me to build great working relationships and further enhance my understanding of technical and operational matters, so that I am better equipped to prevent potential issues and deal with issues effectively when they arise.

My job also requires that I communicate well with my colleagues who, located worldwide, are passionate and hardworking and can always be depended on for solid support. Through teamwork and communication, we provide each other with a wide range of expertise, sharing valuable technical and local knowledge, ensuring that operational challenges are met promptly, efficiently and round the clock.

At the end of the day, my fulfilment comes from knowing that we have delivered a great customer experience.



Pacific Basin Dry Bulk
Business Highlights

FLEET EXPANSION

We fulfilled our strategic priority of expanding further our core fleet in 2013 with high-quality owned and long-term chartered dry bulk ships at costs we consider attractive for the long term. This ensures our continued ability to provide our customers a competitive and reliable service, regardless of market conditions, while generating superior returns for our shareholders.

During the year we purchased 26 secondhand ships at an average price of US$14.8 million and we contracted 17 newbuildings at Japanese yards at an average price of US$24.4 million. Additionally, we signed long-term charters of three years or more for three secondhand ships and 15 newbuilding vessels – some with purchase options.

Our acquisitions are all of the best designed secondhand and newbuilding Handysize and Handymax ships, thus further strengthening our position in the geared (crane-fitted) minor bulk segment, in which we continue to concentrate our efforts and are already a leading global operator.

Our acquisitions have almost doubled our owned fleet on the water from 37 to 73 dry bulk ships during 2013. Including chartered ships, we now operate approximately 240 dry bulk ships – a new record for Pacific Basin.

STRONG RELATIONSHIPS

We continue to develop our cargo and customer base in tandem with our fleet expansion, engaging with our customers to develop opportunities that are mutually beneficial. In 2013 this again resulted in several multi-year cargo contracts – extending up to 2021 – at reasonable long-term freight rates for Pacific Basin and our customers alike. We now serve over 400 customers globally.

We continue to challenge ourselves to deliver industry-leading customer service through hands-on local operational support via Pacific Basin Dry Bulk's 11 commercial regional offices – rare in an industry characterised by operators with centralised back-office functions in limited locations and lacking specific awareness of customers' individual needs.

We recently strengthened our position in the Indian Ocean and Middle East with the establishment of a new commercial presence in Dubai. This expansion of our global network enhances our ability to meet our customers' needs on any route, anywhere in the world and at any time.

In 2013 we carried 50 millions tons of cargo globally with Asia and North America representing our two largest markets.

PEOPLE

We have enlarged our in-house technical management team in Hong Kong in tandem with the expansion of our owned fleet. We now employ around 3,000 seafarers and, both ashore and at sea, we continue to operate to the highest workplace and operating standards to ensure healthy working conditions and a strong safety culture.

ROBUST CORPORATE & FINANCIAL PROFILE

In the recent unforgiving market environment, Pacific Basin stands out as a strong, transparent, long-term counterparty for cargo customers and tonnage providers alike. We offer a solid, visible balance sheet and a performance track record to match. We are committed to responsible business practices and a high standard of corporate social responsibility which we consider a necessary obligation to our counterparties and stakeholders.

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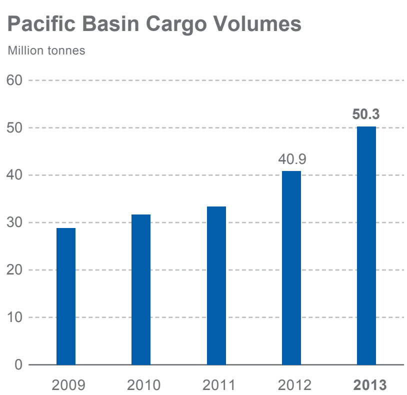
CSR Report
our commitment to safety and the environment



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Cargo volume analysis

MARKET OUTLOOK – DRY BULK

OPPORTUNITIES

- China's continued strong demand for minor bulk commodities despite slower economic and industrial growth
- Increased overseas mining output and lower commodity prices leading to increased Chinese imports in lieu of higher-cost domestic resources
- Continued US economic recovery, reviving industrialisation in North America, continued Chinese activity and a stronger than expected recovery in Europe contributing to global dry bulk demand growth
- A smaller scheduled newbuilding orderbook for 2014 leading to moderate global fleet growth
- Continued scrapping and moderate newbuilding deliveries leading to modest, if any, Handysize net fleet growth

THREATS

- Ship owner optimism and easier access to financing driving reduced scrapping, increased new ship ordering and higher newbuilding prices generating oversupply in the longer term
- Credit squeeze in China and other emerging economies leading to slower economic and industrial growth and slower growth in dry bulk trades
- Lower fuel prices causing the world's dry bulk fleet to speed up resulting in an effective increase in capacity
- Increased national protectionism (such as the Indonesian minerals export ban) impacting Chinese imports, although possibly triggering a beneficial increase in tonne-miles through imports from further afield

OUTLOOK FOR OUR DRY BULK BUSINESS

We expect the dry bulk market in 2014 to be stronger overall than it was last year as a marked slow-down in newbuilding deliveries and continued healthy dry bulk trade combine to support a healthier balance of supply and demand.

Consequently, periodic and geographic tightening in the market is likely to result in increased rate volatility as we saw in 2013. However, a particularly weak first two months of 2014 – exacerbated by a minerals export ban in Indonesia which commenced in January – and seasonal fluctuations are expected to give rise to a weak first half and a stronger second half.

We expect the Handysize and Handymax spot markets to demonstrate gradual recovery in 2014, reflecting the healthy supply and demand balance that characterises the minor bulk segments.

The outlook for our own business is positive: we acquired our ships at attractive prices and rates meaning our fleet benefits from a competitive cost base and demonstrates good upside potential both in terms of values but – most importantly – in terms of contribution.

STRATEGY

Our strategic priority for 2014 is to remain selectively open to the acquisition of Handysize and Handymax ships at appropriate prices. The pace of our ship acquisitions is likely to be slower due to increasing prices and the growing difficulty in finding good value buying opportunities, but we remain well positioned to access both on-market and off-market opportunities as our acquisitions record shows.

We aim to continue to grow our dry bulk customer and cargo portfolio in tandem with our core fleet expansion, drawing on our expanded commercial office network and working closely with our customers to develop long-term cargo contracts that will allow both parties to manage their respective market exposures at reasonable, long-term rates.

We will be judicious in our continued use of index-linked charters which, in isolation, are expected to generate a small contribution to our core dry bulk activity and segment performance. However, leveraging our business model and network, this supplementary index-linked activity increases our fleet scale enabling us to further improve customer satisfaction and generate synergies from better ship and cargo combinations.

Our exposure to the freight market is partly limited by our cargo book which currently provides cover for 57% of our dry bulk revenue days in 2014.

Towage Market Review 2013

The Australian towage market in 2013 was characterised by largely sustained levels of activity undermined by an increasingly competitive landscape.

OFFSHORE TOWAGE AND INFRASTRUCTURE SUPPORT

Demand for offshore towage services in Australia continued to be mainly driven by the Gorgon and Wheatstone LNG projects in Western Australia and Inpex's Ichthys LNG project in Australia's Northern Territory. While such projects still have need for tugs in Western Australia, some projects are approaching their production phase which has resulted in reduced demand for offshore towage support activity. Demand in Queensland has also reduced as the state's three LNG projects are approaching production.

Iron ore infrastructure projects of both major and junior producers are moving forward, assisted by a weaker Australian Dollar and providing opportunities to offshore tugs and barges.

HARBOUR TOWAGE

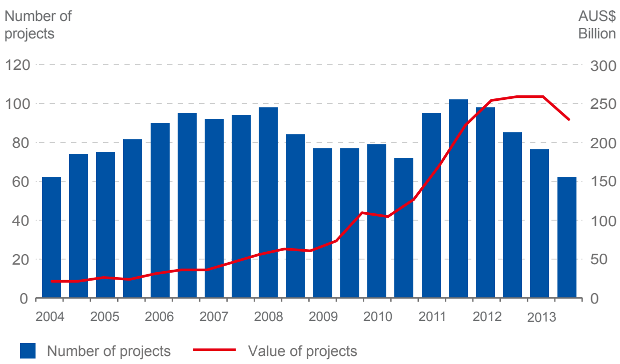
Strong Chinese demand for mineral resources continued to drive Australia's bulk exports, port expansions and, in turn, demand for harbour towage services. This influential demand for raw materials was partly supported by the weaker Australian dollar and triggered smaller new mining projects and renewed activity by the major minerals producers. Container volumes saw modest but steady expansion in line with general economic developments which supported gradual growth in harbour towage activity in Australia's container ports.

COMPETITIVE LANDSCAPE

The relatively high cost of operating in Australia and the challenging legislative and workplace environments in Australia continue to represent barriers to entry for new entrants in the Australian domestic market. Moreover, the completion of a number of projects has increased the supply of available Australian-compliant project support vessels which is driving increased competition.

The market for harbour towage services in the ports where we operate is characterised by similar barriers to entry. We have achieved good steady growth in activity and market share, and that activity growth in the context of continued expansion of Australian exports is considered sustainable.

Australian Resources and Energy Projects at the Committed Stage



Source: Bureau of Resources and Energy Economics, Australian Government

PB Towage
How we performed in 2013

Our PB Towage division generated a net profit of US$10.5 million. A solid contribution in the first half of 2013 was followed by a significantly weaker second half due to reduced revenue and increased costs associated with the wind-down of existing projects and a slower start-up of our new operations in the offshore and harbour towage markets in Australia.

PB Towage net profit

US$10.5m

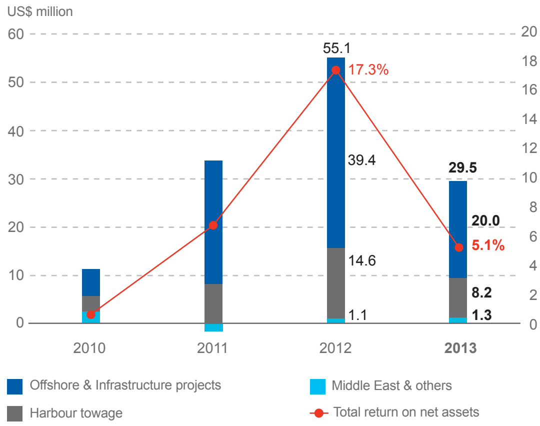
EBITDA

US$24.2m

SEGMENT OPERATING PERFORMANCE

US$ Million	1H13	2H13	2013	2012	Change
Offshore & Infrastructure projects	15.3	4.7	**20.0**	39.4	-49%
Harbour towage	6.2	2.0	**8.2**	14.6	-44%
Middle East & others	0.8	0.5	**1.3**	1.1	+18%
Segment operating performance before overheads	22.3	7.2	**29.5**	55.1	-46%
Direct overheads	(9.7)	(9.3)	**(19.0)**	(17.6)	-8%
Segment net profit/(loss)	12.6	(2.1)	**10.5**	37.5	-72%
Segment EBITDA	19.8	4.4	**24.2**	51.9	-54%
Segment net assets	210.6	203.9	**203.9**	217.9	-6%

Towage Segment Operating Performance before Overheads



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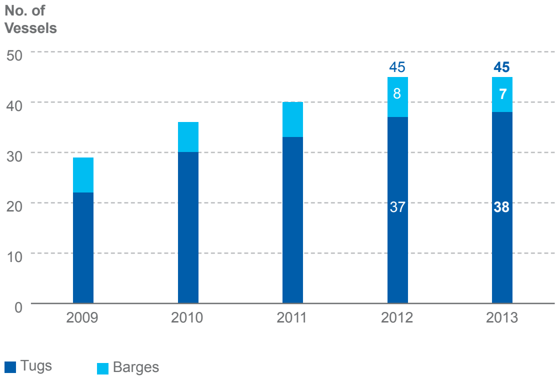
See Financial Statement Note 4
for more on towage segment analysis

KEY PERFORMANCE INDICATORS KPI

Number of Vessels Operated

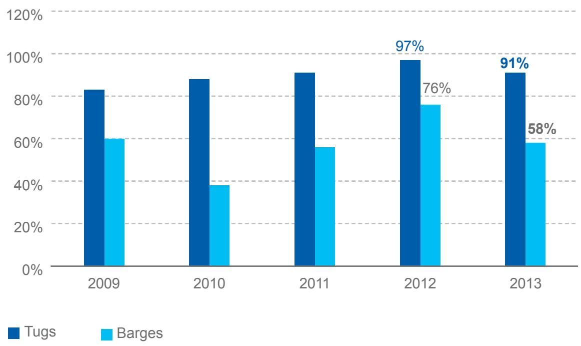
45 vessels (average) ➡ 0%



- We again operated an average 45 towage vessels in 2013.
- We now have 52 vessels reflecting the purchase of 4 barges for a new operation in Australia's Northern Territory in second half 2013 and the charter of additional tugs.
- Our fleet currently comprises 31 owned and 9 chartered tugs, 10 owned barges, 1 chartered passenger/supply vessel and 1 owned bunker tanker.

Percentage of Fleet Deployed

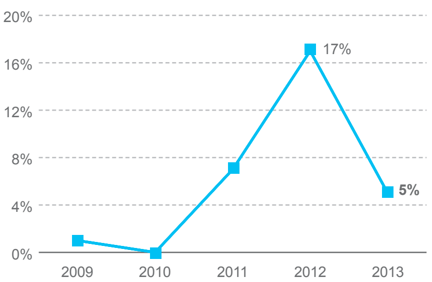
91% utilisation (tug fleet) ⬇ 6%



- Deployment of our tug fleet averaged 91% in 2013.
- Deployment of our barges averaged 58%.
- Utilisation was supported by steady growth in harbour activity but undermined by declining offshore project work and downtime between charters and for vessel modifications.

Return on net assets

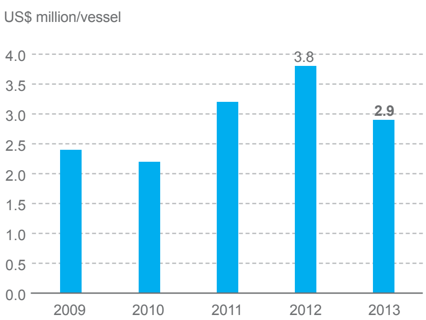
5% ⬇ 12%



- Net profit reduced to US$10.5 million under weaker market conditions and due to project wind-down and start-up costs, generating a return on net assets of 5%.

Vessel Revenue

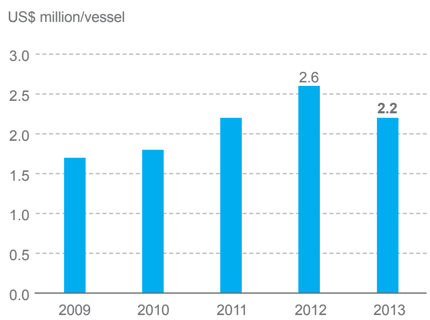
US$2.9m per vessel ⬇ 24%



- Our tugs and barges generated reduced average revenue of US$2.9 million per vessel due to decreased utilisation.

Vessel Costs

US$2.2m per vessel ⬇ 15%



- Our vessel costs averaged US$2.2 million which is down 15% year on year due to reduced crew costs and operating expenses as a higher proportion of our fleet was employed on bareboat charter in 2013.

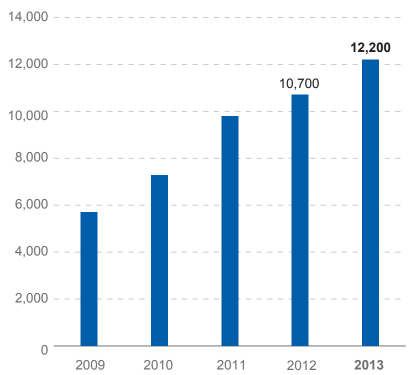
PB Towage
Business Highlights

HARBOUR TOWAGE

Our harbour towage business logged an 8% year-on-year increase in job numbers at the main Australian container ports and a 35% increase at our bulk ports reflecting our expanded market share and volume growth.

In July 2013 we commenced operations in the port of Newcastle where we have deployed four tugs and are one of only two operators. Newcastle is one of Australia's main bulk ports – and the world's largest coal exporting port – which is expected to undergo expansion in the coming years. We signed a major Japanese shipping line as a customer which has generated valuable support for our new operation in Newcastle where, despite the financial impact of initial, one-off start-up costs in the second half of 2013, we expect to generate increasing market share and improved results going forward.

PB Towage Harbour Job Numbers



OFFSHORE TOWAGE AND INFRASTRUCTURE SUPPORT

PB Towage increased its shareholding in the OMSA joint venture to 50% early in the year. OMSA's contract to supply marine logistics services to the Gorgon project was subsequently extended from April 2014 to December 2015, although we expect a decline in activity as the project approaches its production phase.

Our two smaller contracts for LNG projects in Gladstone were completed during the year and we are targeting – directly and through the OMSA joint venture – other opportunities in the LNG sector and elsewhere such as a new contract for which, in December, we redeployed four tugs to Australia's Northern Territory where start-up costs and unusually heavy rainfall affected our operations.

We redeployed two harbour tugs from the Middle East to Australia and have maintained good utilisation of our remaining assets in the Middle East despite continued over-supply in the region. We secured a three-year charter for one tug operating in oilfields off the UAE, while two tugs and three barges are deployed in the transportation of aggregate to Qatar and other spot market opportunities.

MARKET OUTLOOK – TOWAGE

OPPORTUNITIES

- Continued project activity in Australasia providing demand for project and construction cargo logistics
- Growth in Australian bulk exports, containerised trade and port infrastructure development supporting continued growth of our harbour towage activity
- Exclusive licences in a number of bulk ports up for tender in 2015 onwards

THREATS

- Labour market shortages and cost pressures in Australia impacting project economics and timelines
- Increased competition from other operators
- Credit squeeze in China, impacting growth in dry bulk trades and Australian port activity

OUTLOOK FOR OUR TOWAGE BUSINESS

PB Towage has established itself as a safe and quality-conscious operator with a strong customer base in both the harbour and offshore project sectors, and we consider our towage business to be well positioned to compete for opportunities in the Australasian market.

Australian seaborne exports and imports continue to support growing port volumes and, in turn, harbour towage job numbers, and so we expect our harbour towage activities to provide more stable earnings while our offshore towage business weathers the volatility of the offshore logistics sector.

Our harbour towage performance in the short-term will primarily depend on the rate of growth of our new operation in Newcastle. We expect to generate weak short-term offshore towage results due to start-up costs in the Northern Territory, and future performance will be affected by the speed at which we secure new employment of assets following the wind-down of completed projects.

STRATEGY

In 2014, PB Towage will continue to look for new projects and growth opportunities.

In the harbour sector, we will look to further grow our core customer base and expand into ports where the economics are deemed to add value to our business and provide sustainable returns. In the medium term we will be competing for exclusive ports contracts as tenders arise.

In the offshore sector, we will seek to increase our offshore towage revenue book and vessel utilisation with stronger efforts directed toward securing contract renewal opportunities, new offshore construction developments primarily in Australia, and initiatives to develop project transportation solutions through both direct contacts and the OMSA joint venture.

Funding

Our People

Comfort through transparency

Karen Kong
General Manager, Treasury

Shipping is a capital intensive and cyclical business. As such, it is vitally important that we maintain a healthy cash position and access to long-term funding to support us both operationally and as vessel purchase opportunities arise.

Internally, our Treasury team works closely with the senior management and other functional units to forecast both the short-term and long-term cash flow requirements of the Group. We always ensure payments are settled in a timely fashion, as part of our effort to promote Pacific Basin as one of the most reliable counterparties in our sector.

Externally, we strive to develop and maintain our relationship with a range of industry-experienced financial institutions worldwide. This allows us to diversify our access to competitive funding sources, including traditional shipping loans, long-term leases, capital market instruments and government supported export credit financing.

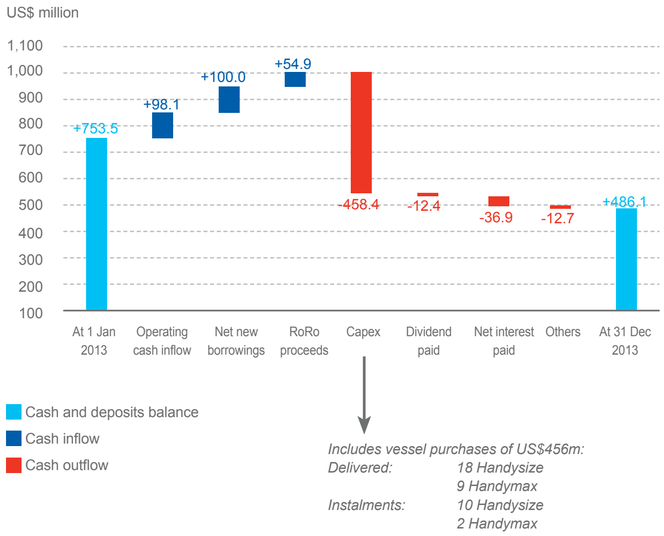
With increasingly stringent capital adequacy and other regulatory requirements, banks and financial institutions today are more selective of their borrowers and business partners. However, we believe that our transparency gives a great deal of comfort to our banking partners as it does to our investors and other stakeholders. We promote transparency by engaging in regular dialogue with our bankers to enhance their understanding of our financial performance, business model and strategy and our outlook for our sector and our business. In addition, we ensure consistent compliance with loan and convertible bond covenants, we are proactive in discussions with our lenders and plan for any potential issues.

We offer our full support to our business units from fulfilling their payment obligations to implementing their business plans. We work closely with the entire Pacific Basin team ensuring that the Company is always optimally positioned throughout all stages of the shipping and economic cycles.

Funding

CASH FLOW AND CASH

2013 Sources and Uses of Group Cash Flow



The Group's four main sources of capital are operating cash flows, bank loans, convertible bonds and equity.

As part of the ordinary activities of the Group, the Treasury function actively manages the cash and borrowings of the Group to ensure sufficient funds are available to meet the Group's commitments and an appropriate level of liquidity is maintained during different stages of the shipping cycle.

Over the long term, the Group aims to maintain a conservative consolidated net gearing of no greater than 50% – defined as the ratio of net borrowings to net book value of property, plant and equipment – which we believe is sustainable over different stages of the shipping cycle.

As at 31 December 2013, the Group had a strong cash position of US$486.1 million resulting in a 34% net gearing ratio.

Cash Flow

The major factors influencing future cash balances are operating cash flows, purchases of dry bulk vessels, sale of assets, and drawdown and repayment of borrowings. The Group has sufficient cash resources and unmortgaged vessels to fund its capital commitments of US$525 million.

Liquidity	US$486.1 million of total cash and deposits (principally denominated in US$) US$23.8 million of unutilised bank borrowing facilities
Net working capital	US$259.3 million

Cash and Deposits

Treasury is permitted to invest in a range of cash and investment products subject to limits specified in the Group Treasury Policy. These include overnight and term deposits, money market funds, liquidity funds, structured notes, and currency linked deposits.

Treasury enhances Group income by investing in a mix of financial products, based on the perceived balance of risk, return and liquidity. Cash, deposits and investment products are placed with a range of leading banks, mainly in Hong Kong.

Restricted bank deposits at 31 December 2013 primarily relate to collateral pledged to maintain guarantees issued for offshore and infrastructure projects in the Towage segment. The equivalent in 2012 related to dry bulk loan covenants.

The split of current and long-term cash, deposits and borrowings is analysed as follows:

US$ Million	2013	2012	Change
Restricted bank deposits – non-current	**1.3**	50.2	
Restricted bank deposits – current	**1.6**	70.2	
Cash and deposits	**483.2**	633.1	
Total cash and deposits	**486.1**	753.5	-35%
Current portion of long term borrowings	**(328.5)**	(77.8)	
Long term borrowings	**(708.7)**	(853.7)	
Total borrowings	**(1,037.2)**	(931.5)	-11%
Net borrowings	**(551.1)**	(178.0)	-210%
Net borrowings to Net Book Value of property, plant and equipment	**34.0%**	14.0%	
Net borrowings to shareholders' equity	**42.3%**	13.4%	

The decrease in cash and deposits mainly represents deployment of US$456 million of cash resources into attractively priced dry bulk vessel purchases.

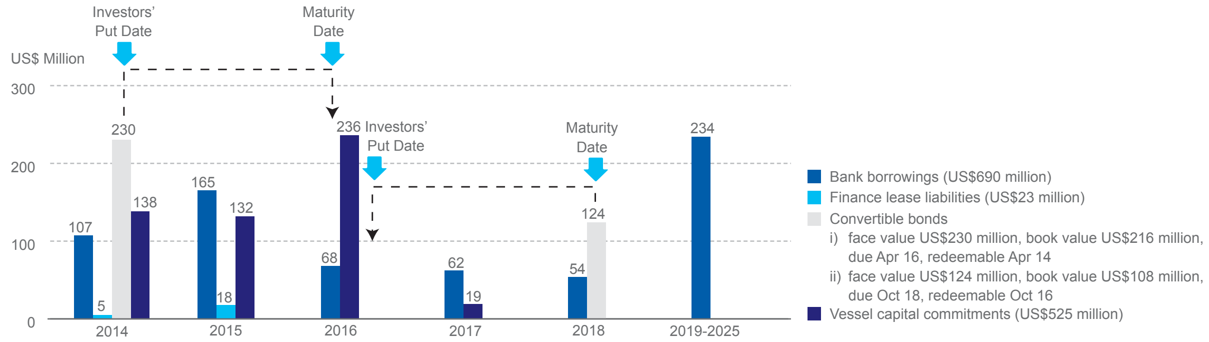
The Group's cash and deposits at 31 December 2013 comprised US$464.7 million in USD, US$14.9 million in AUD and US$6.5 million in other currencies. They are primarily placed in liquid deposits of 3 months or less and saving accounts, to maintain the liquidity to meet the Group's vessel purchase commitments and working capital needs.

During the year, Treasury achieved a 1.5% return on Group cash. Interest income is benchmarked against a target yield of 50 basis point above 3-month USD LIBOR of 0.8%.

"You are very transparent."

BORROWINGS

Schedule of Repayments and Vessel Capital Commitments



The Group's Treasury function arranges financing by leveraging the Group's balance sheet to optimise the availability of cash resources of the Group. Borrowings comprise:

- bank borrowings;
- the debt element of convertible bonds; and
- finance lease liabilities.

The aggregate borrowings of the Group amounted to US$1,037.2 million (2012: US$931.5 million). They are principally denominated in United States Dollars, except for bank loans equivalent to US$22.2 million (2012: US$31.1 million) which are denominated in Australian Dollars.

Bank Borrowings

Bank borrowings (net of deferred loan arrangement fees) were US$690.4 million (2012: US$465.1 million) at 31 December 2013 and are in the functional currency of the business segment to which they relate. During the year, we put in place new bank borrowing facilities totalling US$314 million secured on 25 vessels, including US$136 million from two Japanese export credit facilities secured on 6 vessels.

The Group monitors the loans-to-asset value requirements on its bank borrowings. If the market values of the Group's mortgaged assets fall below the level prescribed by our lenders, the Group pledges additional cash or offers additional unmortgaged vessels as collateral.

As at 31 December 2013:

i. The Group's bank borrowings were secured by mortgages over 76 (2012: 45) vessels with a total net book value of US$1,225.4 million (2012: US$697.1 million) and an assignment of earnings and insurances in respect of these vessels. The Group had 41 (2012: 29) unmortgaged vessels with a total net book value of US$338.4 million (2012: US$227.4 million) split into 10 dry bulk ships with a net book value of US$201.7 million and 31 Towage tugs and barges with a net book value of US$136.7 million.

ii. The Group was in compliance with all its loans-to-asset value requirements.

iii. The Group had unutilised bank borrowing facilities of US$23.8 million (2012: US$6.9 million).

P/L impact: The interest on bank borrowings (after capitalisation of US$3.3 million) amounted to US$11.3 million (2012: US$9.2 million). Certain bank borrowings are subject to floating interest rates but the Group manages these exposures by way of entering into interest rate swap contracts.

Finance Lease Liabilities

Finance lease liabilities decreased following scheduled repayments during the year and the exercise in June and July 2013 of purchase options on finance leases for 10 Handysize vessels.

Finance lease liabilities are allocated to the dry bulk segment in which the assets are owned.

Aggregate current and long term finance lease liabilities at 31 December 2013 were US$23.0 million (2012: US$151.4 million) relating to three Handysize vessels with a total net book value of US$25.0 million (2012: 13 with a total net book value of US$156.0 million) whose bareboat charters expire in 2015. The fixed, equal, quarterly charter-hire payments are accounted for as a combination of repayments of finance lease liabilities on the balance sheet and finance charges in the income statement. Finance charges can be expressed as interest rates, fixed for the period of the leases.

P/L impact: Finance charges of US$5.8 million (2012: US$11.0 million) represent interest payments on Handysize vessels under finance leases.

Convertible Bonds

The debt components of the 1.75% p.a. coupon April 2016 convertible bonds and 1.875% p.a. coupon October 2018 convertible bonds were US$323.8 million (2012: US$315.0 million) at 31 December 2013.

As the holders of the 2016 convertible bonds have the right to require the Group to redeem all or some of the bonds at 100% of the principal amount on 12 April 2014, the Group is required to classify the US$216.4 million debt component of such convertible bonds as current liabilities.

P/L impact: The US$15.2 million (2012: US$10.6 million) interest expense of the convertible bonds is calculated at an effective interest rate of 4.9%.

FINANCE COSTS

Finance Costs by Nature

(US$ Million)	Average interest rate P/L	Average interest rate Cash	Balance at 2013 year end	Finance costs 2013	Finance costs 2012	Change
Bank borrowings including realised interest rate swap contracts	3.4%	3.4%	690.4	17.1	14.6	-17%
Finance lease liabilities	6.8%	6.8%	23.0	5.8	11.0	+47%
Convertible bonds	4.9%	1.8%	323.8	15.2	10.6	-43%
	4.5%	3.5%	1,037.2	38.1	36.2	-5%
Finance lease purchase option termination expenses				15.3	–	
Unrealised interest rate swap income				(2.0)	(0.4)	
Other finance charges				0.7	0.2	
Total finance costs				52.1	36.0	-45%

The KPIs on which management focuses to assess the cost of borrowings are:

- Average interest rates for the sources of borrowings (see table above)
- Group Interest Coverage

	2013	2012
Group Interest Coverage	**2.4x**	3.6x

Group Interest Coverage is calculated as EBITDA divided by total gross finance costs

Our dry bulk and towage operations resulted in finance costs of US$52.1 million. Total finance costs in 2012 of US$40.1 million comprised US$36.0 million from dry bulk and towage operations and US$4.1 million from the discontinued RoRo operations. Included in the 2013 finance costs were US$15.3 million termination costs of the embedded fixed interest rate swap contracts associated with exercising the 10 purchase options on finance leased vessels.

Following the Group's acquisition of dry bulk vessels and securing new loans, additional finance costs and borrowings were allocated from Treasury to the Pacific Basin Dry Bulk segment, reducing the segment net assets.

From 2014, all financing and associated costs for existing vessel commitments and future vessel acquisitions, net of interest income, will be allocated to the appropriate business segment. For Handysize, this is expected to marginally increase the 2014 daily finance cost per vessel, and for Handymax result in an increased allocation of borrowings to these vessels which will raise the 2014 daily finance cost towards that experienced by Handysize in 2013. This will also result in the Treasury segment having a nil net finance cost.

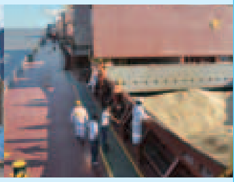
The Group aims to achieve a balance between floating and fixed interest rates on its long term borrowings. This is adjusted from time to time, depending on the shipping and interest rate cycles, using interest rate swap contracts where appropriate. US$5.8 million of interest rate swap contract costs were realised and US$2.0 million of unrealised gains arose resulting in a net US$3.8 million swap contract charge. As at 31 December 2013, 10% of the Group's long term borrowings were subject to floating rates.

DELIVERED VESSELS

As at 31 December 2013, the Group had delivered vessels with a net book value of US$1,589 million as follows:

		Number	Average age (years)	Average net book value (US$ Million)	Total net book value (US$ Million)
Dry Bulk	Handysize	62	7.6	16.7	1,034
Dry Bulk	Handymax	13	5.1	24.8	322
Dry Bulk	Post-Panamax	1	2.0	51.3	51
Towage	Tugs & Barges	41	8.7	4.4	182

Tugs and barges are denominated in their functional currency of the Australian Dollar, and hence their US Dollar carrying values and commitments are subject to exchange rate fluctuations.



"Flexibility is very important for us and Pacific Basin is always willing to try to accommodate our requests to juggle laydays/cancelling dates."

VESSEL COMMITMENTS

As at 31 December 2013, the Group had vessel commitments of US$479.1 million. These vessels are scheduled to deliver to the Group between February 2014 and March 2017.

(US$ Million)	Number of vessels	2014	2015	2016	2017	Total
Contracted and authorised commitments						
Handysize vessels	15	75.6	107.8	122.2	–	305.6
Handymax vessels	7	39.0	23.3	92.7	18.5	173.5
	22	114.6	131.1	214.9	18.5	479.1
Commitments after the year end						
Handysize vessels	1	1.1	1.2	21.1	–	23.4
Handymax vessels	1	22.0	–	–	–	22.0
Total commitments	**24**	**137.7**	**132.3**	**236.0**	**18.5**	**524.5**

These commitments, along with future potential vessel acquisitions, will be financed by a combination of cash generated by the Group's operations, existing cash and additional long term borrowings to be arranged as required. Where commitments are in currencies other than the functional currencies of the underlying assets, the Group has entered into forward foreign exchange contracts to purchase the currencies at predetermined rates.

Coupled with existing vessels, these commitments are expect to increase the number of 2014 vessel days to around 23,750 for Handysize and around 5,000 for Handymax, depending on actual delivery dates. The current 2014 proforma daily depreciation for owned vessels including these commitments is expected to be around US$3,000 per day for Handysize and around US$3,600 per day for Handymax. However, this will change with future potential vessel acquisitions and the capitalisation of dry dock costs incurred during the year.

VESSEL PURCHASE OPTIONS

Certain lease agreements provide the Group with options to purchase the related vessels at predetermined times and prices during the lease periods. The average price of the Group's existing purchase options in the earliest years in which these options may be exercised, along with the number of vessels and the average age of such vessels in those years, are as follows:

Earliest year in which options may be exercised	**Vessel type**	**Number of vessels at 31 December 2013**	**Average age of vessels** (years)	**Average purchase option exercise price**[1] (US$ Million)
2014	Handysize	1	6	20.1
	Tug & barge	7	2	9.6
2016	Handysize	2	5	29.4
	Handymax	1	5	30.0
	Post-Panamax	1	5	50.9
2017	Handysize	2	9	19.0
2020	Handysize	3	5	23.0
2021	Handysize	3	6	24.9
	Handymax	1	5	34.9
2022	Handysize	1	7	30.8
	Handymax	1	7	27.0
Total		23		

Note 1: Includes certain purchase options priced in Japanese Yen.
Note 2: In addition, three finance lease vessels with an average age of 16 years contain purchase options which are currently exercisable at an average price of US$9.2 million.

Estimated fair market values published by Clarksons are US$21.0 million and US$26.0 million for 5 year old 32,000 dwt Handysize and 56,000 dwt Handymax vessels respectively.

VESSEL OPERATING LEASE COMMITMENTS

Vessel operating lease commitments stood at US$854.1 million (2012: US$573.2 million), comprising: US$605.3 million for Handysize; US$192.0 million for Handymax; US$49.1 million for Post-Panamax vessels; and US$7.7 million for tugs.

As a result of the increase in volume of cargoes carried by the Group, our Handysize operating lease committed days increased 55.8% to 57,600 days (2012: 36,980 days) while our Handymax operating lease committed days increased 55.4% to 14,470 days (2012: 9,310 days).

The following table shows the average contracted daily charter rates and the annual total number of vessel days of our chartered-in Handysize and Handymax vessels during their remaining operating lease terms by year, assuming the purchase options will not be exercised until the expiry of the charter-hire agreements.

Commitments Excluding Index-linked Vessels

	Handysize		Handymax	
Year	Vessel days	Average daily rate (US$)	Vessel days	Average daily rate (US$)
2014	10,560	9,730	3,990	12,960
2015	9,210	10,520	1,690	13,580
2016	8,850	10,410	1,830	13,500
2017+	28,980	10,820	6,960	13,320
Total	57,600		14,470	
Aggregate operating lease commitments		US$605.3 m		US$192.0 m

2014 Commitments Including Index-linked Vessels

Our fixed rate and variable rate index-linked lease commitments showing 2013 completed and 2014 outstanding lease periods can be analysed as follows:

Handysize

	2013		1H2014		2H2014	
Classification at inception	Vessel Days	Average daily rate (US$)	Vessel Days	Average daily rate (US$)	Vessel Days	Average daily rate (US$)
Long term (>1 year)	9,140	9,290	4,680	9,630	4,350	10,100
Short term	13,530	8,490	1,530	9,010	–	–
Index-linked	10,980	8,530	6,070	Market rate	4,780	Market rate
Total	33,650	8,720	12,280		9,130	

Handymax

	2013		1H2014		2H2014	
Classification at inception	Vessel Days	Average daily rate (US$)	Vessel Days	Average daily rate (US$)	Vessel Days	Average daily rate (US$)
Long term (>1 year)	3,150	11,680	1,290	12,250	970	13,450
Short term	12,380	10,700	1,730	13,220	–	–
Index-linked	2,190	10,450	1,180	Market rate	870	Market rate
Total	17,720	10,840	4,200		1,840	

The number of Handysize and Handymax contracted index-linked lease days in 2015 currently stand at 4,830 days and 150 days respectively.

Our average contracted daily charter rates are rising partly reflecting a shift in our forward commitments towards chartering larger 37,000 dwt Handysize ships as opposed to the traditional 28,000 to 32,000 dwt designs.

Index-linked vessel operating lease commitments refer to leases with market-linked variable charter rates. The variable charter rates are linked to the Baltic Handysize Index or Baltic Supramax Index (as applicable), and adjusted – usually upwards – to reflect differences in the vessels' characteristics compared to Baltic indices reference vessels. Vessels we charter are typically larger and more fuel efficient than index reference vessels.

CSR Report

Our People

Support through Teamwork

Capt He Xian Bo
Personnel Manager, Dalian

I believe we must continuously build our already strong team both at sea and ashore to ensure we provide the most reliable service to our customers.

I am reminded of a Chinese proverb which engenders the team culture at Pacific Basin: "Shared joy is double joy, shared sorrow is half sorrow". At Pacific Basin, we strive for high-performance teamwork which depends on strong personal relationships which are especially important in the challenging maritime environment so far away from family and home.

That teamwork allows the sharing of knowledge and experiences, and serves to ensure the safety of life, our customers' cargoes and the environment. Individuals have their own strengths and weaknesses but, working as a team, they are able to eliminate their weaknesses and enhance their strengths. And teamwork boosts efficiency and innovation, and so has the power to significantly enhance a fleet and company's performance.

Building a successful team requires positive, encouraging leadership – based on a culture of mutual respect and inspiration, and not fear and intimidation – that in turn promotes open and effective two-way communications within the ship-based team and between the teams at sea and ashore.

At Pacific Basin we do not make daily operational decisions for our seafarers, but we seek to provide them with the best shore-based support and guidance for their efficient management of tasks on board. Our ship and shore-based teams share information and work together to find the best solutions to issues and incidents.

At Pacific Basin, our team members are provided an environment allowing them to focus undistracted on their goal of delivering their service – Pacific Basin's service – to our customers' highest satisfaction. We believe "nobody is perfect, but a team can be", and I am happy to be part of a winning team with the fulfilling responsibility of selecting, recruiting and inspiring the crew who run our ships safely.

Corporate Social Responsibility

A LONG-TERM, INTEGRATED CSR APPROACH

We are a substantial business that draws on and impacts a number of Capitals – the resources and relationships we rely on to create value – on account of the large fleet of ships that we operate worldwide.

The Capitals that we draw on and impact include:

- Natural Capital – predominantly our fleet's consumption of fuel and other inputs and the resulting impacts of emissions on the atmosphere and our marine surroundings
- Human Capital – the skills, experience and loyalty of our staff that we reward and enhance with fair remuneration and a commitment to health and safety, development and training, equal opportunity and a comfortable and fulfilling working environment
- Social & Relationship Capital – the mutually beneficial partnership that we strive to develop and maintain with our customers, suppliers, communities and other stakeholders, while recognising their rights and needs and always demonstrating responsible business practice

As a large and still growing player in our sector with an ambitious vision for the future, we recognise our stakeholder, community and environmental responsibilities which have a bearing on the long-term sustainability of our business. But we believe that many of the responsible actions we take also make us competitively stronger and enhance the value of our business in the future.

These responsibilities and relationships are components of the key material matters that we focus on to deliver our strategy, and so our Corporate Social Responsibility ("CSR") efforts are rooted in our culture and integrated into our daily operating and business practices.

By integrating CSR information in our Annual Report, we create transparency about our operations so that all stakeholders have a clear sense of our non-financial business practices and the linkage across our actions, policies and performance.

OUR IMPACT IN 2013

Environment

Propelling vessels across oceans requires a number of resources or inputs, the consumption of which results in outputs that impact the environment.

13,000,000 nautical miles travelled

785,000 tonnes of heavy fuel oil purchased

Workplace & Operating Practices

Teamwork, healthy working conditions, opportunities to advance, a strong safety culture and responsible practices when conducting business with others are the foundations of how Pacific Basin operates.

3,000 seafarers

380 shore-based employees

Community

We are responsible members of the communities where our ships call and our employees live and work, and we are engaged members of our industry.

369 ports of call across 67 countries

16 office locations worldwide

CSR PERFORMANCE HIGHLIGHTS

In 2013, key accomplishments across environment, workplace and community – the three pillars of our CSR programme – included the enhanced and wider implementation of our Right Speed Programme, other operational measures to reduce our fuel consumption and emissions, and an increase in the number of safety and training managers instructing and mentoring our sea staff.

In addition, we have evolved our CSR reporting to highlight linkages to our Capitals, value creation and strategy. In 2013 we redeveloped our website to provide integration of complementary information published in the Annual Report. Combined, these two media provides readers with a more comprehensive picture of our global CSR activities and progress.

Environment

25% CO_2 emissions reduction in past 6 years

Community

US$80,000 raised and donated to charitable causes

Workplace & Operating Practices

5 officer training seminars in 2013

6 ships per Safety and Training Manager

32% shore staff received external training

22 crew = 22 owners on board "managing ship on ship"

Our CSR Strategy

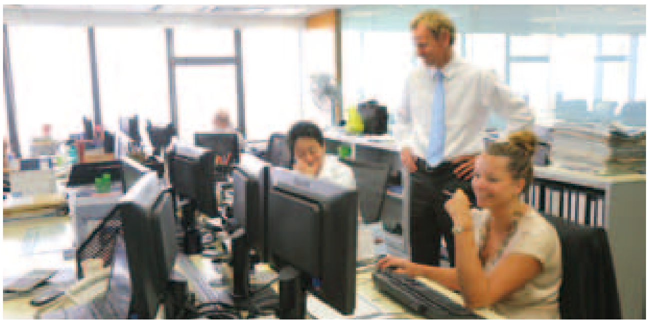
The broad strategic objectives that guide our sustainability initiatives relate to the environment, workplace and operating practices and the communities where our ships trade and where our people live and work.

In the environment Addressing our most material environmental outputs, our sustainability initiatives are oriented towards reducing our impact on the atmosphere and marine environment; we also seek to reduce waste by minimising what we consume both at sea and ashore.

In the workplace We strive to create a culture of safety, innovation, effectiveness, teamwork and fulfilment across all activities, enabling our employees to thrive and make a difference.

In the community We advocate and engage with organisations and other stakeholders that are involved in or connected with the business of shipping and the places where we operate; we follow responsible business practices and the laws of jurisdictions applicable to our operations.

It is under this framework that Pacific Basin takes an active approach to CSR and whereby our policies and systems govern behaviour and practices. However, it is the spirit and the culture within our Company that turn sustainability efforts into reality and make a difference both within and outside of our organisation.



"Your staff are professional, understanding of our business and always available and nice to deal with."

Reporting Framework and Scope

This report, in combination with the CSR content on our website, serves as a record of our main environmental, workplace and community initiatives and performance, and is focused on areas that are material to our business and stakeholders. The report has been tailored to conform to the Hong Kong Stock Exchange guidelines for Environmental, Social and Governance (ESG) reporting and draws on the guidelines and principles of the International Integrated Reporting Council's International <IR> Framework, the United Nations' Global Compact and GRI's sustainability guidelines.

The scope of the report covers environment, workplace and community initiatives that reduce our environmental impact, reinforce our class-leading safety culture and mitigate safety and environmental risks, enhance job fulfilment and promote responsible engagement within the communities where we operate.

Our CSR reporting focuses on the majority portion of our fleet which comprises owned and finance-leased vessels that we control both commercially and technically. It is these vessels over which we have the authority to mandate and control Safety, Quality, Health and Environment (SQH&E) policies and actions. Our fleet of owned and finance-leased vessels averaged 61 ships in 2013 (2012:48 ships) though by year end the fleet numbered 75 ships. We also report on company-wide staff initiatives and performance. At 31 December 2013, we employed 3,000 seafarers and 380 shore-based staff.

A Our maritime environmental and safety KPI data in this report has been measured or calculated in accordance with industry standards, and have been audited by Lloyd's Register Quality Assurance for ISO9001, ISO14001 and OHSAS18001 certification.

CSR Governance

The Chief Executive Officer is delegated responsibility by the Board for corporate sustainability. In turn, his direct reports have functional responsibility for sustainable business practice in specific areas. They include the senior managers of our Fleet & Newbuildings division (including technical operations, fleet personnel and risk, safety & security), our Human Resources & Administration department and our Risk & Governance and Corporate teams.

Materiality Matrix & Stakeholder Engagement

Pacific Basin engages in active two-way dialogue with our stakeholders – primarily customers, suppliers, employees, shareholders, financiers, industry associations and regulators. This enables us to map issues that are of greatest concern to our business and stakeholders, and determine the key matters for discussion in our CSR reporting. In addition to our day-to-day contact with customers, we conduct regular and in-depth customer and investor surveys that provide insight about our operations and ways we can improve. We also engage actively with associations that work to influence and respond to regulations that affect our industry.

In 2013 we contributed to the active dialogue on upcoming regulatory changes relating to Marpol Annex V and garbage management, bilge water and hold washing legislation.

Impact on our Stakeholders	Impact on our Business: Low-Medium	Impact on our Business: High
High	Areas identified as relevant for discussion: Other emissions Marine discharge Shore discharge Waste management Working conditions Diversity & equal opportunity Responsible business practices Community interaction	Areas identified as critical for disclosure: Carbon (CO_2) emissions Marine pollution Health & safety Employee engagement
Low-Medium	Areas identified as not material for disclosure: Other outputs Shore-based enviro initiatives CSR performance of PB Towage (we plan to report in the future)	Areas identified as relevant for discussion: Future green technologies Fuel consumption (energy efficiency) Development & Training Anti-Piracy

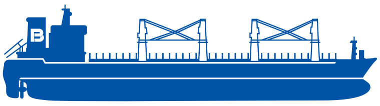
Tackling our Responsibilities

ENVIRONMENT

Propelling a vessel across oceans requires many resources, the outputs of which impact the environment.

Inputs	Outputs	
Fuel oil Paints Ballast water Food & packaging Cargo packing materials Lubricants Chemicals	Atmospheric Emissions	CO_2, greenhouse gases, SOx, NOx, PM and VOCs
	Marine Discharge	Bilge and ballast water, sewage and gray water, garbage/food waste, toxic leaching from paint, cargo residue and accidental discharges
	Shore Discharge	Garbage, waste dunnage, cargo residue, sludge, hazardous waste, expended parts
	Other	Noise, odour, visual impact

We seek to minimise our impact on the environment through adoption of energy-efficient and environmentally-friendly ship designs, technologies and practices at sea and ashore. The information below is a summary of significant initiatives that reduce our environmental impact.

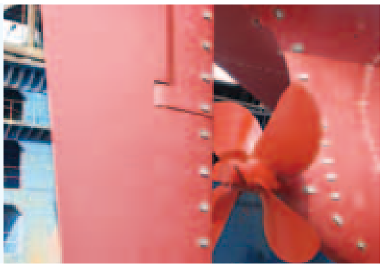


Fuel-efficient Operational Measures

- Adaptive autopilot systems reduce rudder movements and improve course-keeping by automatically adapting to load characteristics and weather conditions.
- Our home-grown Right Speed Programme determines optimal operating speeds based on prevailing freight rates and fuel prices.
- Optimal scheduling of our fleet coupled with fuel-efficient voyage planning minimises ballast passages resulting in fuel savings.

Improving Hull and Propulsion Hydrodynamics

- Fitting propeller boss cap fins improves propulsion hydrodynamics and reduces shaft torque, which improves fuel efficiency and reduces emissions.
- Application of anti-fouling paints over a larger hull area (up to summer load line) reduces drag and improves fuel efficiency even when fully laden.
- Computer-aided calculation and monitoring of hull performance over time allows us to optimise hull condition management.
- By continually renewing our fleet, we introduce ships with fuel-efficient hull designs and machinery which reduces fuel consumption.



Reducing Marine Discharges

- Our ISO 14001 ISM-compliant safety management system prescribes system controls, procedural safeguards and training to prevent and respond to oil spillage.
- Oily water separators and oil discharge monitoring equipment minimise the risk of inadvertently pumping out contaminated bilge water.
- IMO-compliant ballast water management plans set out strict practices to minimise the spread of aquatic species.
- We comply with conventions on bilge water discharge and harmful antifouling hull coatings.

Waste Management

- Garbage compactors on our ships facilitate easy storage of operational garbage (excluding food waste and cargo residues) until it can be disposed of responsibly on shore.

Improving Engine Performance

- Fuel combustion catalysts facilitate more complete and cleaner combustion. This leads to fuel savings and reduces the frequency of engine overhaul maintenance.
- Optimisation of cylinder lubrication and machinery overhaul intervals leads to reduced lubricating oil consumption.

GREEN PLUS

Green Efforts On Shore

Policies and practices are in place across our network of offices to:

- Reduce consumption of electricity, water and materials.
- Recycle office waste.
- Messages, guidelines and communications are regularly posted and published.

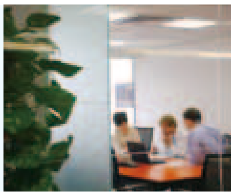
"You offer flexibility on a wide range of issues which helps us grow and ultimately benefit both of our companies in the long run."

WORKPLACE & BUSINESS PRACTICES

Our people are central to our business. For our employees to be passionate about their work, it is vital that we create workplace conditions, job expectations and career opportunities that allow our people to thrive. We believe that the right investment in our employees – both at sea and ashore – does much to increase knowledge, productivity, contribution, and promote a deeper sense of belonging across our organisation. Employee engagement broadly takes the following forms:

Workplace Conditions

- High-quality offices and facilities offer employees a safe and comfortable work environment. These include good lighting and air conditioning and ergonomic workstations.
- We encourage a healthy balance between family life and work.
- We keep our employees engaged through newsletters, information circulars, town hall meetings, an open-door policy, and mechanisms for staying connected such as an intranet and instant messaging system



Health & Safety

- Our SQHE policy in conjunction with Pacific Basin Management System ensures employment standards and certifications comply with the STCW Code.
- Risk assessment systems help identify and maintain appropriate safeguards and practices.
- We promote teamwork and a no-blame culture which drive an excellent safety record.
- Training, best practices and adherence to "Best Management Practices against piracy" are followed in high-risk areas to mitigate the threat of piracy attacks.

Development and Training

- Investment in the education and development of our staff at sea and ashore enhances the safety and productivity of our employees.
- Motivating and engaging our employees is essential to retaining our people.
- Crew conferences, training seminars and cadet programmes facilitate staff development and collaboration and offer a clear path of advancement within the ranks of our crew.

Diversity & Equal Opportunity

- We are proud to employ a diverse group of individuals across a broad range of nationalities and ethnicities.
- We strive to maintain balanced staff age and gender demographics.
- We strive to maintain a healthy rate of employee retention both ashore and at sea.
- Our retention rate speaks volumes about the job fulfilment and shore-based support we offer our seafarers.
- All employees are entitled to employment that is free of sexual or racial harrassment and discrimination.

Responsible Business Practices

- We honour our commitments.
- We seek to know our customers and their business and adhere to trading practices that comply fully with local, regional and international maritime law.
- Our staff are required to observe internal and external codes of conduct prohibiting bribery, fraud, competitive behavior and corruption.
- Stores and spares are purchased from approved suppliers.

COMMUNITY

We seek to ensure that the interests of the community are represented within Pacific Basin and vice versa, which we achieve by:

- Maintaining regular engagement with stakeholders and organisations connected to the shipping industry and the places and jurisdictions in which we operate;
- Ensuring we comply with the laws and regulations of the jurisdictions in which we operate;
- Being mindful of the implications of our business activities on our communities and stakeholders; and
- Donating financially to seafarer welfare organisations and thus giving back to a deserving community and a cause most closely connected to our business.

Environment

We follow all relevant legislation and, in the absence of an alternative primary fuel for dry bulk shipping, we do what more we reasonably can to minimise the impact of our operations on air, sea and land through technical and operational measures and by operating a modern, fuel-efficient fleet.

One of the ways we do this is by expanding or renewing our fleet with next generation, modern ships designed and equipped to enhance efficiency. In 2013, we added 27 modern ships to our core fleet on the water, bringing the average age of our owned and finance-leased ships to 8 years. These included a series of 37,000 dwt JNS-built ships of enhanced, fuel-efficient design which burn 3.5 tonnes less fuel per day while carrying 5,000 tonnes more cargo than the previous generation of 32,000 dwt JNS ships. 24 further ships are currently contracted to deliver into our core fleet in the next few years – all Japanese-built, efficient and of the best design for our trades.

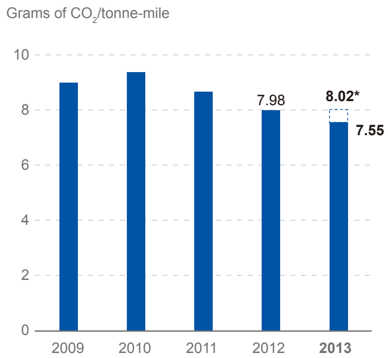
We also enhanced and expanded the implementation of our Right Speed Programme and other operational measures which further reduced our ships' average fuel consumption and emissions.

www.pacificbasin.com
corporate social responsibility > environment
Details of our main environmental measures

KEY PERFORMANCE INDICATORS KPI

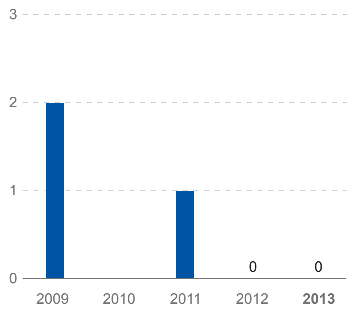
CO_2 Index (Ships' Emissions)

7.55 Grams of CO_2 per tonne-mile ↓5.4%



Environmental Pollution Incidents

0 Incidents → 0%



CO_2 Emission Index

- Our carbon emissions reduced 5.4% year on year to 7.55 grams of CO_2 per tonne-mile.
- 8.02 grams of CO_2 per tonne-mile under new EEOI calculation method.
- Our 2013 performance marks a 25% reduction in our CO_2 Index over the past six years.
- Continued adoption of initiatives and technologies that deliver measurable benefits across our growing core fleet – maximising engine and combustion efficiency, improving hydrodynamics and optimising operating practices.
- Commenced trials of the "Mewis Duct" on two ships and new silicon-based anti-fouling paint, and use of Green Plus fuel combustion catalyst and slide fuel valves for optimised combustion and a cleaner engine.
- Major driver of our fuel consumption and emissions performance in 2013 was again slower optimal operating speeds as determined by our home-grown Right Speed programme based on prevailing freight rates and fuel prices.
- Target for 2014: to do what we reasonably can to minimise our CO_2 Index in view of market pressures to increase ship operating speeds in improving freight markets.

* Going forward, we will track and report our CO_2 Index as calculated using the new industry-standard ship Energy Efficiency Operational Indicator (EEOI) which introduces more variables into the equation for greater statistical relevance. Applying the new formula, we generated a CO_2 Index of 8.02 in 2013, and this is the figure against which we will measure our performance next year.

Environmental Pollution

- Our bulk carrier fleet achieved zero incidence of environmental pollution.
- This performance is indicative of the pro-active culture of safety and quality on our ships, our Pacific Basin Management System which prescribes strict system controls and procedural safeguards to prevent fuel spillage, and our officers' professional response to incidents at sea.
- Target for 2014 and all years: to always achieve zero pollution incidents

ADDITIONAL ENVIRONMENTAL PERFORMANCE INDICATORS

Below are environmental metrics that quantify other material emissions, discharges and impacts from our operations. We have tracked these for several years and they are standard outputs in our industry.

	Unit	2013	2012
Emissions			
At Sea			
Chlorofluorocarbons (“CFCs”)	kg/month	2.91	1.42
On Shore			
CO_2 (emissions from headquarter office activities*)	metric tonnes	1,269	1,260#
Energy and Fuel Consumption			
At Sea			
Heavy fuel oil (purchased)	metric tonnes	716,000	583,600
Low sulphur fuel oil (purchased)	metric tonnes	69,500	33,200
Marine gas oil & marine diesel (purchased)	metric tonnes	11,500	10,100
Waste			
Garbage landed	m^3/month	13.78	2.61
Garbage discharged to sea	m^3/month	5.39	3.76
Engine room bilge water discharged to sea	m^3/month	8.71	10.10
Sludge incinerated	m^3/month	2.53	3.21

* Emissions from our headquarter office consumption and activities include emissions from staff commuting and business air travel, air conditioning, lighting and computer and office equipment, as well as paper and fresh water consumption (audit period: July 2012 to June 2013)

Restated to a comparable basis for 2013

In addition to the consumption of carbon-based fuel, the primary environmental impacts of seaborne transportation services are emissions and discharges. At sea and in port, these outputs are substantially all regulated and compliance is enforced across international, regional and local laws and jurisdictions.

Underpinning the structure of our operations is the Pacific Basin Management System (PBMS), an integral system designed to measure and continually improve every aspect of fleet operations.

Enhanced engine maintenance and fewer leaks have resulted in reduced bilge water discharge, and cleaner fuel and lower fuel consumption have resulted in a reduced sludge incineration. The increase in the release of Chlorofluorocarbons was mainly caused by the one-off breakdown of refrigeration machinery resulting in accidental escape of CFCs. The significant increase in reported garbage landed is due to the inclusion of log bark cargo residues in our 2013 measurements. This is inconsistent with our previous practice, and we will revert to our previous methodology in 2014 onwards.

Progress ashore

Across our offices, there are environmental elements that are within our control and others that are not. We do what we reasonably can to minimise our footprint ashore and we seek to improve awareness of environmental issues and how we try to tackle them by distributing data and audit findings.

Pacific Basin was again awarded a Silver Label – and a higher score year on year – from the WWF’s Low-carbon Office Operation Programme that measures and tracks outputs and energy consumption from our headquarters in Hong Kong.

An independent audit of our environmental performance determined that our office in Hong Kong (the workplace of 48% of our shore-based staff) produced carbon emissions of 1,269 metric tonnes or approximately 8 tonnes CO_2e per employee for the 2012/2013 audit year.

This performance overall is substantially unchanged from the previous year as reductions in our electricity and paper consumption were offset by an increase in our business travel. This increased business travel related mainly to various short-term projects and our technical and safety teams’ travel to and from our fast-growing fleet of ships.

Our initiatives pursued in 2013 are likely to result in an improvement in our 2014 performance. Our staff numbers are growing and, in Hong Kong in particular, we are expanding our office space. New office space is being outfitted and equipped with environmental considerations in mind such as the use of energy efficient T5 lights and 30% fewer lights per unit area than we have used previously.

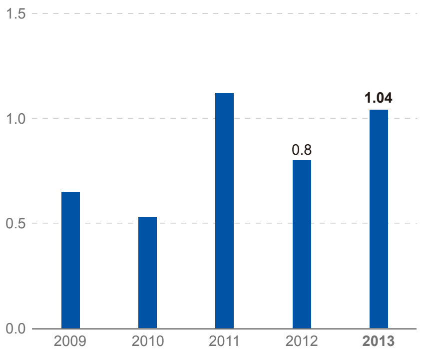
Workplace & Operating Practices

The health, safety and behaviour of our employees underlies every aspect of how we operate, and are driven by policies, procedures, a culture of teamwork and efforts to continually improve how we conduct ourselves in our business at sea and onshore. Providing healthy work conditions, a safe and supportive environment and opportunities to advance and develop within the Company are key to the well-being and fulfilment of our staff and the success of Pacific Basin.

KEY PERFORMANCE INDICATORS KPI

External Inspection Deficiency Rate

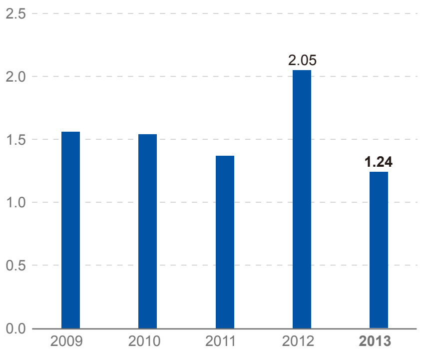
1.0 deficiencies ▲30%



- Our average deficiencies per inspection increased 30% to 1.04
- Our zero regulatory deficiencies frequency was 71% (2012: 75%).
- While less good than in 2012, these results remain among the best in the industry, especially considering the increasing proportion of our activity in the Far East where defects are typically raised in larger numbers and registered even if subsequently proven to be in order.
- We train our staff through a programme of safety and maintenance practices which we call "zero defects in external checks through good self-checking" by "22 crew, 22 owners™".
- Target for 2014: To achieve an inspection deficiency rate of less than 1.0 by maintaining our ships to a very high standard (as assessed by external Port State Control (PSC) inspections)

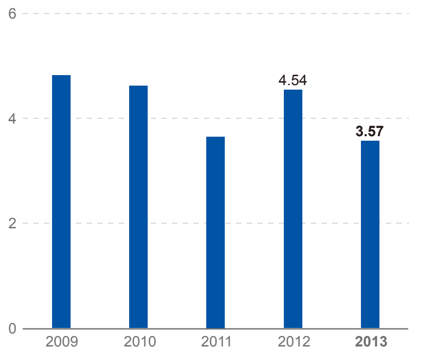
Lost Time Injury Frequency (LTIF)*

1.2 ▼40%



Total Recordable Case Frequency (TRCF)*

3.6 ▼21%



- Our "lost time injuries" frequency (LTIF) reduced 40% year on year, as such injuries decreased from a total 19 in 2012 to 15 in 2013 despite the increased number of ships we operate.
- Our total recordable case frequency (TRCF) reduced 21% to 3.57.
- Our safety performance was enhanced by efforts to rectify increased slips, trips and falls in 2012 through a campaign on personal safety including safety circulars to our ships, 5 training seminars ashore and an increase from 4 to 6 training superintendents deployed across our fleet. We have 12 Safety/Training Managers in total.
- Target for 2014: To substantially eliminate our injury incidents and to better our best LTIF result of 0.85 in 2007.

* LTIF is a principal measure of safety performance and is the number of lost time injuries (where the injured party misses at least 8 hours work) per man-hour worked multiplied by 1,000,000. TRCF measures the number of all recordable injuries per million man hours.

www.pacificbasin.com
about us > corporate social responsibility > workplace
details on workplace engagement including working conditions, health & safety, development & training, diversity & equal opportunity and responsible business practices

> "It is important that the shipowner is willing to be a consistent, reliable and timely performer… Pacific Basin is top of our list."

HEALTH & SAFETY

We put safety first and publish clear policies and procedures for our ship and shore staff to follow. Our Pacific Basin Management System is a key element in capturing performance and provides a mechanism for us to analyse failures when they do occur.

Total injuries and injury frequency on our ships were down in 2013 despite a significant increase in the number of ships we operated. Most were relatively minor slips, trips and falls, but one unfortunate and sad accident resulted in a crew member losing a leg after being struck by a log being loaded despite standing in a designated protected position. Following the incident we circulated safety bulletins to our crew guiding them to keep well clear of loading areas.

We launched a campaign on personal safety and the need to avoid complacency in even the most routine tasks. In addition to issuing safety circulars to all our ships, hosting five training seminars ashore and increasing the number of training superintendents we deploy across our fleet, we instigated other initiatives such as a competition among our ship officers to propose the most effective, innovative ideas for reducing complacency, accidents and near-misses. We also cooperated with Cardiff University's Seafarers International Research Centre of whose researchers sailed on two of our vessels to conduct research into safety and complacency on board.

High-performance teamwork at Pacific Basin is vital to our success. In addition to high crew standards, managers in our shore-based technical operations are former ships' Masters and Chief Engineers. This encourages a culture where problems are shared openly and where officers can rely on the very best, consistent support from ashore.

We promote concepts such as learning from Other People's Mistakes (OPM) and we invest in non-standard measures to reduce risk such as the simple "3W" risk assessment prior to every task on board and the effective management of crew rest hours.

We encourage near-miss reporting which in 2013 accounted for 676 reports (2012: 743) through which officers and crew described safety incidents and near-misses – however minor – that could have occurred and which were the basis for valuable advice to our seafarers on avoiding similar occurrences in the future.

Our workplace safety, health and engagement metrics follow best practices as defined by the industry and our peers. Shipping is a highly regulated industry and Pacific Basin meets all minimum requirements and in some cases exceeds requirements determined by local, regional and industry mandates and customer expectations.

Employee Retention		Training	
Shore Staff	Seafarers	Shore Staff	Seafarers
84% retention (2012: 92%)	81% officer (2012: 78%) 76% overall (2012: 72%)	32% received external training (2012: 51%)	5 training seminars (2012: 5)
Shore staff under Long Term Incentive Scheme: 37% (2012: 40%)		6 ships per Safety/Training Manager for pre-joining and on board training 3 officer cadets per ship	

Our implementation of the Pacific Basin Management System ashore and at sea conforms to the mandatory International Safety Management (ISM) Code and a number of voluntary management standards as certified by Lloyd's Register Quality Assurance (LRQA), including:

- **ISO 9001:2008**
  for our quality management system
- **ISO 14001:2004**
  for our environmental management system
- **OHSAS 18001:2007**
  for our occupational health & safety management system

RECRUITMENT, TRAINING & DEVELOPMENT

Investment in the development and training of our staff at sea and ashore is key to maximising our crew safety and productivity, and to motivating and retaining our people.

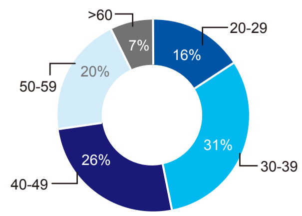
In 2013, our crewing department stepped up its recruitment and induction of new seafarers and our Human Resources team worked closely with all parts of our business ashore in employing new staff to manage our rapidly expanding fleet. The quality of our network and employer brand have been key to attracting high-quality personnel. Among our shore-based recruits are 12 young staff members who represent our largest ever dry bulk trainee intake.

We implemented a 360° feedback programme in which several senior executives' strengths, weaknesses and developmental needs were reviewed by superiors, subordinates and peers to offer executives different perspectives on their performance and useful additional tools with which to enhance their professional and personal development. We intend to extend the programme to a wider group of senior executives in the future. In addition, we increased our cross-functional training activity to provide our specialist staff with deeper and more valuable introductions to the functions and key challenges and considerations of other units within the Company.

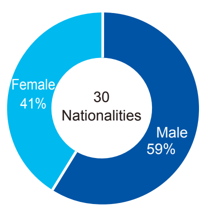
ADDITIONAL WORKPLACE METRICS (as at 31 Dec 2013)

Distribution (Shore Staff)

Age distribution

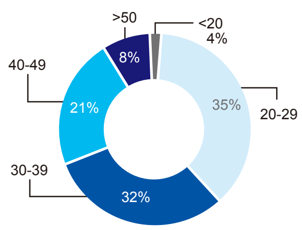


Gender

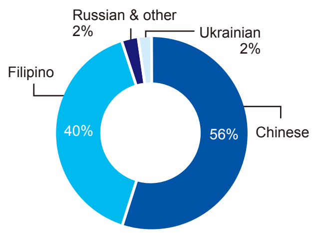


Distribution (Seafarers - Pacific Basin Dry Bulk)

Age distribution



Nationality



Community

Employees throughout Pacific Basin are encouraged to get involved in the communities in which they and Pacific Basin are active or reside, and to participate in groups and associations related to aspects of the shipping industry. In particular we support – and promote the need to support – the welfare of seafarers whose lives at sea are not easy and who give so much to the business of shipping.

We also encourage employees to participate in activities and causes that promote physical health and well-being.

- From sponsored races to ambassadorial roles for good causes, Pacific Basin raised US$80,000 in 2013 for causes that benefit those around us.
- Within the shipping industry, Pacific Basin takes an active role in discussion on legislation, regulation and operational changes where we believe we can affect the right kind of change.
- We are members of the Baltic and International Maritime Council (BIMCO), the International Association of Dry Cargo Shipowners (Intercargo) and the Hong Kong Shipowners Association (HKSOA).
- In 2013, our Chief Executive Officer joined the Executive Committee of the Hong Kong Shipowners Association, our Fleet Director was appointed Chairman of the Asia Safety & Loss Advisory Committee of the Standard P&I Club, and we were appointed to the European Committee of The Safety and Loss Advisory board of Standard P&I Club.
- Our Human Resources Director is an Asian Ambassador of the Sailor's Society – an organisation we support on account of our particular interest in the welfare of seafarers and their dependents globally.
- In 2013, we funded a third scholarship at Hong Kong Polytechnic University where two students are currently pursuing a bachelor's degree in International Shipping and Transport Logistics under our sponsorship. The first recipient of our scholarship has recently commenced employment at Pacific Basin.

The Fair Winds Charter which we signed up to in January 2013 has been extended for another year. Through this voluntary scheme, we and other ship operators undertake to switch to low-sulphur (0.5%) fuel when our ships are berthed in Hong Kong. The charter is expected to result in reduced sulphur emissions in Hong Kong while also prompting government efforts to further improve emissions control in Hong Kong and in the Pearl River Delta.

In January 2014, the initiative met with positive progress when Hong Kong's chief executive announced that a draft bill mandating the low-sulphur switch could be enacted in 2014 for implementation in 2015. The Charter seeks to encourage inter-governmental talks over an emission control area that covers not just our home town of Hong Kong but southern China's entire Pearl River Delta region.

www.pacificbasin.com
about us > corporate social responsibility > community

Our People

Strong collegial bonds

Hernan Vergara
Chief Engineer
m/v "Columbia River"

I was Chief Engineer on board Pacific Basin's first full-Filipino crewed vessel in 2006 and have served with the Company ever since. I have encountered challenging situations along the way, which have been made easier by the good, trusting relationship I have with my capable teammates at sea, our colleagues ashore and our customers.

Supporting each other, and working as a team to make almost anything possible in the running and maintenance of our machinery, we strive for a common goal: to operate the vessel safely and efficiently.

While the ships and machinery we operate are subject to wear and tear, I believe the strong personal relationships forged with my colleagues have the ability to stand the test of time – and even strengthen over time. This is because they are founded on honesty, integrity and mutual respect, which to me is priceless.

One of Pacific Basin's core values resonates especially strongly with me: we operate with the highest standards of diligence and care, with the highest priority accorded to ensure safety. This principle combined with the constructive feedback I receive and the challenges that our industry throw at us inspire me to continually improve my abilities through research and study.

I value the tailored support and the technical and operational resources that we regularly receive from our shore-based colleagues which, combined with experience and constant learning, contribute significantly to advancement and fulfilment in the workplace.

Most fulfilling of all is the sense of accomplishment as a team. It takes a team to be successful, and I am grateful for being a part of the Pacific Basin team.

Governance

Enhancing stakeholder trust through solid governance

Kitty Mok
Director of Risk, Group Company Secretary

After several years in an accounting role at Pacific Basin, I became closely involved in the formalisation of our Corporate Governance and Risk Management functions in 2005. This was a significant development for me, as I would now become concerned with questions about what, why and how we monitor and manage our business activities and the associated risks, and how we communicate these both internally and to our external stakeholders. This would have been a much more daunting project were it not for the culture of openness and team spirit at Pacific Basin, and the support of an experienced and understanding Board of directors.

My role requires that I work closely with the Board to safeguard the Company's assets, business and people. This involves building and maintaining an appropriate risk culture within the Group, and working closely with our departments to ensure that they have established meaningful policies and controls. Our risk management team offers itself as a mirror to help our various functional units monitor compliance and reflect on their performance against relevant policies and controls.

I find my role extremely rewarding due to the need for regular interaction with colleagues from all departments and functions. I enjoy being involved in wide-ranging business issues and procedures, and I gain much fulfilment from my contribution to the constant and successful evolution of our processes and strengthening of our risk management culture to better meet the needs of our business.

I am proud of what Pacific Basin have achieved in this respect – and our efforts have been recognised in the shipping and governance communities both locally and internationally – but we must never become complacent. I look forward to the challenge of meeting or exceeding ever-evolving corporate governance standards, with a promise to our investors and other stakeholders to remain diligent in everything we do.

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Risk Management

RISK MANAGEMENT

The role of risk management is to help the Group achieve its long-term vision and mission by identifying and tracking the Group's risks and by formulating appropriate mitigating measures to protect our business, stakeholders, assets and capital. Risk management is embedded in our business functions and we believe that it enhances long-term shareholder value.

Our business is exposed to varied risks, which are summarised in the following pages.

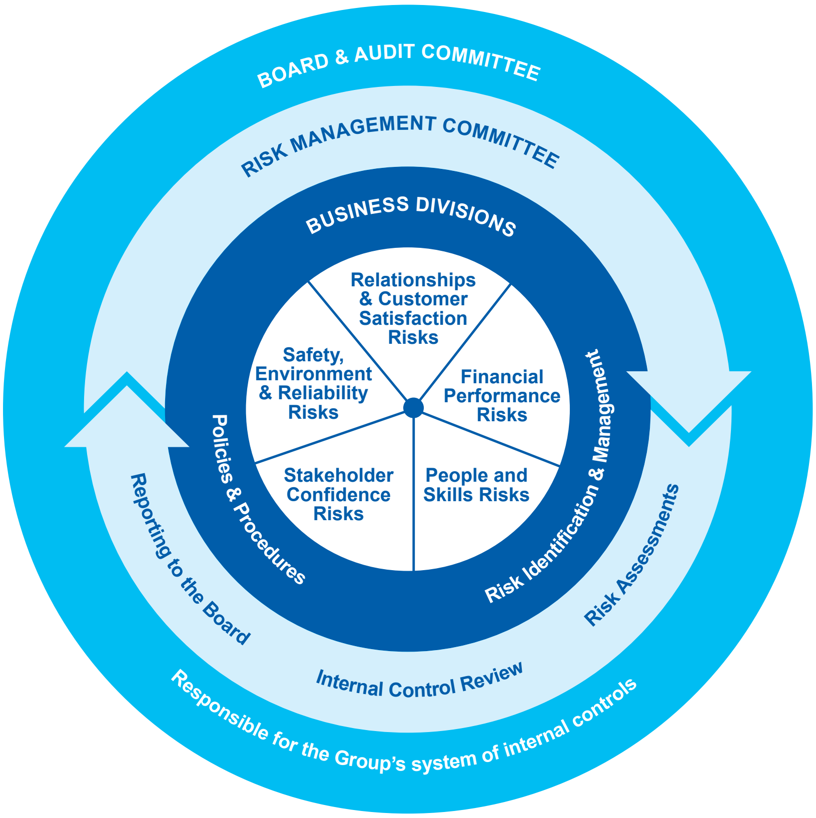
RISK IDENTIFICATION AND OVERSIGHT STRUCTURE

The Board has overall responsibility for the assessment and management of risks and for the Group's system of internal controls. The primary responsibility for detailed risk identification and management lies with the respective business heads.

The Risk Management Committee, reporting to the Audit Committee, is responsible for strengthening the Group's risk management culture, ensuring the overall framework of risk management is comprehensive and responsive to changes in the business, and managing the internal audit function. It regularly reviews the completeness and accuracy of risk assessments, risk reporting and the adequacy of risk mitigation efforts.

Annual assessments are carried out to identify, assess and manage risks. Identified risks and the corresponding mitigation measures are documented in the risk register.

The Risk Management Committee held regular meetings during the year to review the status and findings of the risk management activities, discuss new risks identified and assess their related mitigation measures.



Symbols in Risk Management section

No change in risk level

Increased in risk level

Page 61
Risk Management & Internal Controls

PRINCIPAL RISKS

The Group categorises the diverse range of risks we face under headings driven by our Capitals and the key matters on which we focus.

RISKS TO FINANCIAL PERFORMANCE

RISKS/IMPACTS	RISK REDUCTION MEASURES
Market Risk Adverse financial impacts include: • earnings volatility from our dry bulk and towage vessels; • cost volatility including fuel prices, interest rates and other operating expenses; and • exchange rate volatility from the currencies we use. **CHANGE FROM LAST YEAR:** Page 106 Derivative Assets and Liabilities	**Earnings volatility** • We secure contracts of affreightment of a year or longer for our dry bulk business and long-term charter contracts for our offshore project towage business to stabilise our main sources of earnings. **Cost volatility** • Fuel represents a significant portion of our costs, and fluctuations in fuel prices would impact our financial results. We manage this risk by passing on certain incremental costs to our customers for long term cargo contracts as well as entering into bunker swap contracts to manage short term bunker price volatility. • Interest rates in relation to our interest-bearing bank loans can be volatile. We manage this in part by maintaining a balanced portfolio of floating and fixed interest rate loans. **Exchange rate volatility** • The functional currency of most of the Group's operating companies is the United States Dollar (USD) as the majority of our transactions are denominated in this currency. Historically, a major part of our exchange rate fluctuations risk arose from the purchase of vessels in non-USD denominated currency. However this risk has significantly reduced as most of our vessel purchases are denominated in USD. We also use derivative financial instruments to manage volatility in dry bulk freight rates, fuel prices, interest rates and exchange rates.
Vessel Investment and Deployment Risk Inappropriate vessel investment timing, practice and deployment may lead to an uncompetitive cost structure and reduced margins. The value of our vessels may vary significantly through shipping cycles, and we need competitively priced and high quality vessels to provide our services to customers. **CHANGE FROM LAST YEAR:**	We evaluate potential investments and divestments based on relevant market information, estimated future earnings and residual values to maximise returns to shareholders. We adopt a flexible ownership/leasing strategy that is aligned with shipping cycles, and we consider maintaining an active fleet renewal programme by: • securing newbuilding contracts with leading, reputable and financially viable newbuilding shipyards; • transacting secondhand deals with creditworthy counterparties; and • actively engaging in long-term charter-in of dry bulk vessels.

RISKS/IMPACTS	RISK REDUCTION MEASURES
Credit and Counterparty Risk Default or failure of counterparties to honour their contractual obligations may cause financial losses. These counterparties include: • dry bulk and towage chartering counterparties; • vessel sellers; • newbuilding shipyards; • derivative counterparties; • banks and financial institutions; • joint venture partners; and • vessel buyers. **CHANGE FROM LAST YEAR:** Page 111 Trade and Other Receivables	Our global network of offices positions us close to our counterparties allowing us to better know them, thus minimising the risk of counterparty failure. In addition, we take measures to limit our credit exposure by: • securing a diversified profile of counterparties with successful track records and sound credit ratings; • actively assessing the creditworthiness of counterparties; and • obtaining refund guarantees from newbuilding shipyards. The management of trade receivables and our credit policy are set out in the Financial Statements section.
Insurance Risk Any vessel accident could endanger our crew, adversely affect the strength of our brand and reputation and result in service disruption and significant costs. **CHANGE FROM LAST YEAR:** Page 47 Health & Safety	We implemented measures to ensure safe operations across our companies and fleets which have positively impacted our performance in safety. However, accidents do happen, and so we place insurance cover at competitive rates through marine insurance products, including hull and machinery, war risk, protection and indemnity, freight demurrage and defense cover, etc. Sufficiency of insurance cover is regularly evaluated and adjusted in line with prevailing asset values and in compliance with loan covenants and internal policies.
Liquidity Risk Insufficient financial resources (such as bank borrowing facilities) may negatively impact the Group's ability to meet its payment obligations as they fall due. **CHANGE FROM LAST YEAR:** Page 127 Financial Liabilities Summary	The Group's Treasury function actively manages the cash and borrowings of the Group within the scope of the Treasury policy to ensure: • sufficient funds are available to meet our existing and future commitments; • compliance with covenants relating to bank loans, finance leases and convertible bonds; • an appropriate level of liquid investment is maintained during different stages of the shipping cycle; and • the Treasury policy is reviewed and in line with business requirements.

"Your staff are professional, and we think you structure your teams well which allows for good decision-making and makes it easy to do business with you."

RISKS/IMPACTS	RISK REDUCTION MEASURES
Capital Management Risk Weakness in our financial management capability and insufficient capital could impact (i) our ability to operate as a going concern, (ii) our ability to provide adequate returns to shareholders, and (iii) other stakeholders' ability and willingness to support the Group. CHANGE FROM LAST YEAR: Page 1 Financial Summary	We conduct regular reviews to ensure an optimal capital structure taking into account: • future capital requirements and capital efficiency; • prevailing and projected profitability; • projected operating cash flows; and • projected capital expenditure and expectations for strategic investment opportunities. Our dividend policy is to distribute regular dividends to shareholders and to pay out a minimum of 50% of eligible profits for the year, with the remainder of the profits retained as capital for future use. Our Board of Directors monitors closely the ratio of net borrowings to net book value of property, plant and equipment, and the ratio of net borrowings to shareholders' equity.

RISKS TO RELATIONSHIPS AND CUSTOMER SATISFACTION

RISKS/IMPACTS	RISK REDUCTION MEASURES
Customer Satisfaction and Reputation Risk Poor service could lead to loss of customers. Adverse impacts to our brand value and reputation as a trusted counterparty may restrict our access to customers, cargoes, high quality vessels, funding and talent. CHANGE FROM LAST YEAR:	Our global office network positions us closer to our customers enabling a clear understanding of their needs and first-rate, localised customer service. A large, modern, uniform fleet and a comprehensive in-house technical operations function enhances our ability to deliver a high-quality and reliable service. Frequent customer engagement enables enhanced customer satisfaction. Such engagement includes regular customer surveys to see how we can elevate the quality of our service.
Banking Relationships Risk Poor relationships with banks may limit our funding sources. CHANGE FROM LAST YEAR:	We have a dedicated treasury function tasked with developing and maintaining relationships with a diverse group of reputable banks worldwide. These relationships are maintained and augmented through regular senior management contact and consistent compliance with our loan obligations.

RISKS TO PEOPLE AND SKILLS

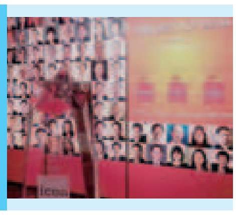
RISKS/IMPACTS	RISK REDUCTION MEASURES
Succession Risk Inadequate succession planning could lead to prolonged executive searches, disruption to our strategic momentum and the business, and undermine stakeholder confidence in the Group. CHANGE FROM LAST YEAR:	The Group has a dedicated HR department which oversees organisational design, talent management, hiring and remuneration. Succession plans for senior management are regularly reviewed. The Group closely monitors the Board succession planning process through its Nomination Committee so as to ensure Board continuity and diversity. The Group has a clear vision, mission and business principles to ensure that any potential successors are equipped to lead the business forward.

RISKS/IMPACTS	RISK REDUCTION MEASURES
Employee Engagement Risk We are only as good as our people and so our ability to move towards our vision depends on the effectiveness of our staff both ashore and at sea. Loss of key staff or an inability to attract, train or retain staff could affect our ability to achieve our long-term goals and expand our business. **CHANGE FROM LAST YEAR:** ↑ Due to expansion of other shipping companies seeking to attract our staff Page 47 Recruitment, Training & Development	Group HR and Crewing departments are tasked with recruiting and maximising engagement of staff ashore and at sea. • We use diversified manning sources for seafarers. • We maintain regular contact with talent available within a wide cross section of the shipping industry. • We regularly review our salary structure to ensure that it remains adequate to attract the best talent. • We offer regular training for staff ashore and at sea. • We implement annual staff performance appraisals, incentives and other HR initiatives to encourage, retain and otherwise engage staff. This includes a 360 degree feedback process for certain executive directors and senior staff to further promote professional and personal development.

RISKS TO STAKEHOLDER CONFIDENCE

RISKS/IMPACTS	RISK REDUCTION MEASURES
Corporate Governance Risk Inadequate corporate governance measures may adversely impact the diligence, integrity and transparency of our risk assessment, decision-making and reporting processes and undermine stakeholder confidence. **CHANGE FROM LAST YEAR:** → Page 56 Corporate Governance	The Group is committed to good corporate governance to meet the needs and requirements of the business and its stakeholders. The Audit Committee and the Risk Management Committee proactively ensure the overall corporate governance and risk management framework for the Group. The Board and relevant employees receive regular training on corporate governance matters to ensure a high standard of corporate governance.
Investor Relations Risk An ineffective investor relations function or inadequate transparency in our external communications could undermine stakeholder confidence in our Group. **CHANGE FROM LAST YEAR:** → Page 77 Investor Relations	The Group has a dedicated investor relations function as well as policies and guidelines on communication and disclosure of information to the public. Our website is updated regularly with company news and financial information.


"CSR and corporate governance helps the multiple. Pacific Basin trades at a premium in part due to corporate governance."



RISKS TO SAFETY, ENVIRONMENT AND RELIABILITY

RISKS/IMPACTS	RISK REDUCTION MEASURES
Safety Risk Piracy, inadequate safety and operational standards and other causes of accidents may lead to loss of life, severe damage to property and our vessels, and impact the Group's reputation among seafarers, customers and other stakeholders. **CHANGE FROM LAST YEAR:** Page 47 Health & Safety	Our commitment to the safe operation of our ships is manifested through a proactive system ashore and at sea – the Pacific Basin Management System – enhanced by well-conceived training and maintenance programmes and innovative initiatives to ensure our vessels are in good condition and in all respects safe to trade. The high quality of our attention to safety is evidenced by an excellent safety record and our several safety-related awards in recent years.
Environmental Risk Non-compliance with environmental emissions and standards may result in financial loss and significant damage to our brand and the long-term sustainability of our business. **CHANGE FROM LAST YEAR:** Page 44 Environment	**Emissions mitigation** We are at the forefront of efforts in our sector to mitigate emissions through initiatives to improve engine performance and hull and propulsion hydrodynamics, and to adopt fuel-efficient operational measures such as through our home-grown Right Speed Programme. Commercial pressure to increase vessel speed as the market recovers may increase our emissions but with no change in risk to our compliance status and financial performance. **Pollution liability** We promote a proactive safety culture across our fleet involving safety risk assessments to mitigate risk in critical tasks on board. Through our safety training, we seek to eradicate the risk of accidents that lead to pollution and related penalties, costs and adverse publicity. In addition, we cover our risk of liability for pollution through membership of reputable Protection & Indemnity (P&I) clubs.
Vessels and Systems Risk The strength of our operational performance depends on the effective deployment of our vessels and the reliability of our systems and technology. Failure to operate and utilise reliable vessels, equipment and systems could result in vessel down-time, service disruption and communications breakdown. **CHANGE FROM LAST YEAR:**	**Vessels operational risk** We operate high-quality vessels built by reputable shipyards which we maintain to a high standard under our ISM Code compliant "Pacific Basin Management System" to assure safety and reliability of service. **Systems risk** Regular meetings of our IT Steering Committee to oversee the Group's IT policies and procedures ensure that our IT strategies are met. Preventive or contingency measures are in place to minimise the risk of system failures and to promptly address system breakdowns. Our IT team works closely with the business teams to enhance understanding of the business need in order to provide useful and meaningful IT support. They receive regular technical training and our general staff are regularly updated of IT policies and system upgrades.

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Corporate Governance

High standards of corporate governance are central to achieving sustainable value for our investors. In setting our standards, the Board considers the needs and requirements of the business, its stakeholders and the Corporate Governance Code (the "Code") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Throughout the year ended 31 December 2013, the Group has complied with all code provisions of the Code as set out in Appendix 14 of the Rules Governing the Listing of the Securities on the Stock Exchange (the "Listing Rules"), inclusive of the adoption of a Board Diversity Policy on 1 August 2013. The Group continues to adopt the recommended best practices under the Code. However, there are certain areas where full implementation of best practice is not considered appropriate, namely:

- The Group provides a quarterly trading update, instead of publishing quarterly financial results, to enable its shareholders to assess its performance, financial position and prospects. The Group believes a trading update gives its shareholders the key information to assess the development of its business on a quarterly basis; and
- Remuneration of members of the Company's senior management are shown on an aggregate basis instead of on an individual and named basis as disclosure is considered commercially sensitive.

THE BOARD OF DIRECTORS

Board Composition and Responsibilities

As at the date of this Annual Report, the Board comprises the Chairman, four Executive Directors and four Independent Non-executive Directors ("INEDs"), which is in compliance with the Listing Rule requirement that INEDs shall represent at least one-third of the Board.

The Board of Directors is collectively responsible for directing and supervising the affairs of the Company. The roles and responsibilities of each Board member are clearly set out and are available on the Company's website and their biographical details are set out in the "Directors and Senior Management" section of this Annual Report.

During the year ended 31 December 2013, each Director has provided confirmation to the Company that he has given sufficient time and attention to the affairs of the Company. Each Director has disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, as well as the identity of the public companies or organisations.

In accordance with the Company's Bye-laws, at each annual general meeting one-third of the Directors for the time being (rounded up if the number is not a multiple of three) shall retire from office by rotation on the basis that every Director should retire at least once every three years.

An effective Board is a key to setting the strategic direction and policies of the Company. To achieve this, the Board thought needs stimulating with a balance of fresh perspectives and a long-term understanding of shipping cycles. We lay out below some of the important criteria in achieving an effective Board:

- **Dynamic Board composition**

  Since listing in 2004, there have been a total of 19 Board members, and currently the Board comprises 9 members. The table below shows the changes in the number of Executive Directors and Non-executive Directors (including INEDs) in the last five years:

	At 1 Jan 2009	Movements		At 31 Dec 2013
Executive Directors	6	-4	+3	**5**
Non-executive Directors	4	0	0	**4**
	10	-4	+3	**9**

- **Separate formalised roles for the Chairman and CEO**

  The chairman oversees the executive team and discusses the daily affairs of the company with the CEO. He has in the past provided continuity of management during unexpected absences, hence safeguarding long term management leadership. The chairman is responsible for reviewing proposed plans for the company prior to presentation to the Board. His review takes into account long term goals and fleet growth combined with more immediate matters related to debt levels, cash flow, cash balances, risk assessment, other required capital expenditure and shareholder requirements.

  The CEO carries out day to day management and execution of the Group's activities and strategic initiatives. He formulates and proposes Group strategy and policy to the Board. He also ensures appropriate information is provided regularly so that Board members can actively contribute to the Group's development.

- **Executive Directors commitment to the business activities of the Group**

  The Executive Directors are required to devote all of their active or contracted business time to the business and affairs of the Group and are not permitted to engage in any other business which is in competition with that of the Group.

- **Role of the INEDs**

  The INEDs play a key role in protecting shareholders' interests. They bring a broad range of financial, regulatory and commercial experience and skills to the Board, and enhance the effective strategic management of the Group through independent, constructive and informed contributions. The INEDs provide a long term view of the business development through shipping cycles and offer views that go beyond the short term market movements.

- **INEDs' period of office**

  The Board selects INEDs based on their ability to contribute to the affairs of the Group, and of overriding importance is that each INED possesses a mind-set that is independent and constructively challenges the Group's views. INEDs are not required to have a shipping background as, with time on the Board, they become familiar with the specific risks of shipping and better able to exercise their independent judgement when the Board debates strategy. Independence from executive management is particularly important as the Group has no controlling shareholder; hence continuity of the INEDs provides stability to the Board decision-making process, compensating for any turnover in the executive management team. The Board believes that it is not appropriate to apply an arbitrary period of service beyond which a director is no longer considered independent. However, the Board will periodically seek new INEDs to join the Board so as to sustain its source of independent views.

- **New INED appointments**

  In recognition of the importance in identifying people with relevant experience for the Group, the Chairman and the Nomination Committee engage international search firms to identify suitable candidates when needed. The Nomination Committee acknowledges the importance of diversity within the Board in terms of nationality, industry experience, background and gender.

- **Assessment of INEDs' independence**

  The Company considers each of the INEDs to be independent and to satisfy the Listing Rules requirements for independence. The four INEDs have given written confirmation to the Company that they remain independent. In reaching these conclusions, the following points are considered and confirmed for each INED:

  – Has demonstrated continued independent judgement which positively contributes to the development of the Company's strategy and policies;

  – Has not held an executive position in the Company;

  – Does not receive any remuneration from the Company apart from director's fees and does not participate in the Group's staff incentive plan or pension scheme;

  – Does not receive remuneration from a third party in relationship to the directorship;

  – Does not have, and has not had in recent years, any direct financial, business, family or other material relationships with the Group, its management, advisers and business;

  – Does not hold any cross directorships or other significant links with other directors through involvement with other companies;

  – Holds less than 1% of the common stock of the Company; and

  – Does not serve as a director or employee of a significant competitor of the Group.

Directors' Continuous Professional Development

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills as required by the Code. With the assistance of the Company Secretary, all Directors receive updates on legal, compliance and regulatory issues as directors of a Hong Kong-listed company, as well as updates on the industries and the markets the Group operates in and significant changes in financial accounting standards, all of which were presented at one of the Board meetings during the year. Relevant training courses and reading materials were also identified by the Company during the year and records of training of all Directors have been provided to the Company Secretary.

Board Evaluation

The Board carried out its second self-evaluation of performance in November 2013, focusing on a number of key factors. It followed up on matters arising from the last evaluation and Directors were invited to express their views on effectiveness. The Board considers that its operation has been effective but the Directors are mindful of the challenges ahead with succession planning continuing to be a key focus.

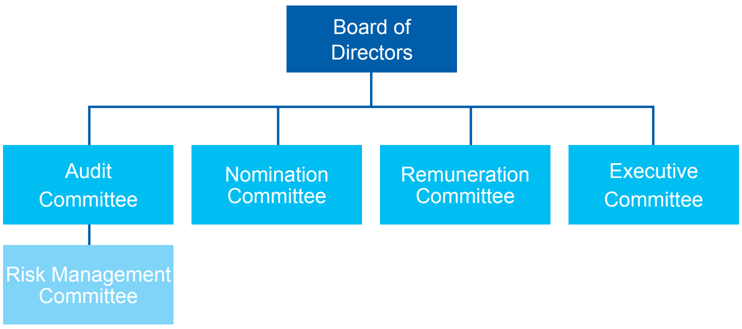
STRATEGIC REVIEW
BUSINESS REVIEW
FUNDING
CSR REPORT
GOVERNANCE
FINANCIAL STATEMENTS

The Board and its members' responsibilities

Primary Responsibilities	• Accountable to the shareholders of the Company • Development of the Group's long-term corporate strategies and broad policies • Approve budgets and business plans • Approve acquisition or disposal of investments and assets in particular those that require shareholders' notification or approval under the Listing Rules • Oversee the management of the Group • Prepare accounts and financial statements of the Group • Evaluate the performance of the Group • Lead corporate governance best practice • Periodically assess the achievement of targets set by the Board • Oversee matters that may involve a conflict of interest of a substantial shareholder or a Director
Delegates to	• Board Committees: detailed evaluation of certain responsibilities (outlined later in this section) • Executive Directors: oversight of the Group's business operations; implementation of strategies laid down by the Board; and the making of day-to-day operating decisions

Board Committees

The Board has established Audit, Remuneration and Nomination Committees in accordance with the Code and all members of these three Board Committees are INEDs. The Board also operates through an Executive Committee to streamline the decision-making process of the Company in certain circumstances. Decisions made by the Board and the Board Committees are based on detailed analysis prepared by the management which includes: (i) monthly performance analysis; (ii) periodic investment and divestment proposals relating to our vessels and equity interests; and (iii) periodic Board meetings to evaluate management strategic priorities. The terms of reference of these Board Committees are available on the Company's website.



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about us > corporate responsibilities > corporate governance
Board & Board Committees

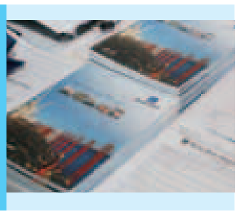
Board, Board Committee Meetings and Annual General Meeting in 2013

The meetings schedule of the Directors and Board Committees is planned a year in advance in order to facilitate participation by all members of the Board and Board Committees. The Board has four regular meetings annually to discuss business strategy, operational issues and financial performance and it met in total on four occasions during 2013. The attendance of each Director at Board meetings, Committee meetings and the AGM are set out below.

	AGM	Board	Audit Committee[1]	Remuneration Committee	Nomination Committee
Executive Directors					
David M. Turnbull	1	4/4			
Mats H. Berglund	1	4/4			
Jan Rindbo	0	4/4			
Andrew T. Broomhead	1	4/4			
Chanakya Kocherla	0	4/4			
Wang Chunlin (until 19 April 2013)	0	1/1			
Independent Non-executive Directors					
Patrick B. Paul	1	4/4	4/4	2/2	3/3
Robert C. Nicholson	1	4/4	4/4	2/2	3/3
Alasdair G. Morrison	1	4/4	4/4	2/2	3/3
Daniel R. Bradshaw	1	4/4	4/4	2/2	3/3
Total no. of meetings held during the year	**1**	**4**	**4**	**2**	**3**

[1] *Representatives of the external auditor participated in three out of four of the Audit Committee meetings held*

"You seek to solve issues quickly and to mutual satisfaction."



THE AUDIT COMMITTEE

Membership

Chairman: Patrick B. Paul

Members: All four INEDs

Main Responsibilities

1. review the financial statements and oversee the financial reporting process to ensure the balance, transparency and integrity of published financial information;
2. review the effectiveness of the Group's financial controls, internal controls and risk management system;
3. review the work of the Risk Management Committee;
4. review the Group's process for monitoring compliance with the laws and regulations affecting financial reporting;
5. supervise corporate governance;
6. develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; and
7. review the independent audit process and the effectiveness of the internal audit functions.

Work Done in 2013

The Audit Committee held four meetings during the year. Its work included the following:

- review of the external auditors' reports to the Audit Committee in respect of the 2012 full year audit and 2013 interim review;
- review of the 2012 Annual Report and annual results announcement and the 2013 interim report with a recommendation to the Board for approval;
- review of the confirmation of independence of all INEDs;
- review of the Risk Management Committee reports and consideration of the internal audit requirements;
- review of the adequacy of the Group's marine related insurance cover;
- review of the updated Corporate Communications Policy and the Board Diversity Policy with a recommendation to the Board for approval;
- review and consideration of the new accounting standard relating to bunker hedging and its commercial effectiveness;
- review of the external auditors' Audit Strategy Memorandum for the year 2013;
- review of the Group's tax position;
- review of connected party transactions for 2013; and
- annual review of the terms of reference of the Risk Management Committee.

During the year, the Audit Committee met the external auditors once without the presence of management.

THE REMUNERATION COMMITTEE

Membership

Chairman: Robert C. Nicholson

Members: All four INEDs

Main Responsibilities

1. make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and desirability of performance-based remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
2. determine, through authority delegated from the Board, the remuneration packages of the Executive Directors, senior management and certain higher paid employees;
3. review and make recommendations to the Board on the terms of appointment for Directors when considered necessary;
4. make recommendations to the Board relating to Directors and senior management to ensure fair (and not excessive) compensation payments and appropriate arrangements after considering contractual entitlements, in the case of any loss or termination of office or appointment and dismissal or removal for misconduct;
5. administer and oversee the Company's 2013 Share Award Scheme and 2004 Long Term Incentive Scheme and other equity or cash based schemes of the Company in place from time to time, and review and approve the granting of restricted awards to any staff members of the Group;
6. approve the disclosure statements of the Company's policy and remuneration for Directors and senior management; and
7. ensure that no Director is involved in deciding his own remuneration. The remuneration of Non-executive Directors is determined by the Chairman and CEO based on the responsibilities of each individual and a review of international market practice.

Work Done in 2013

The Remuneration Committee met twice during the year. Its work included the following:

- approval of the grant of restricted awards to Executive Directors and employees;
- approval of an incentive plan for certain staff members; and
- annual assessment of the performance of Executive Directors, senior management and certain higher paid employees and approval of their year-end bonuses and annual salary adjustments for 2013.

THE NOMINATION COMMITTEE

Membership

Chairman: Robert C. Nicholson

Members: All four INEDs

Main Responsibilities

1. review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendation on any proposed changes to the Board to complement the Group's corporate strategy;
2. report to the Board on compliance with Hong Kong Stock Exchange's board composition rules and guidelines from time to time;
3. identify, select or make recommendations to the Board individuals suitably qualified to become Board members;
4. assess the independence of the Company's INEDs;
5. make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive based on an evaluation of scope and responsibility of the position and the advice from external recruitment consultants if considered appropriate.

Work Done in 2013

The Nomination Committee held three meetings during the year. Its work included the following:

- review of succession planning documents covering key positions within the senior management of the Company;
- review of the existing structure, size and composition of the INED group and the Board as a whole with reference to business requirements, strategy of the Company and Stock Exchange regulations;
- implementation of the Board Diversity Policy adopted by the Board on 1 August 2013;
- approval of the appointment of an additional INED and engagement of a recruitment consultancy firm to identify suitable candidate;
- assessment of the independence of each INED; and
- review of the Board composition.

THE EXECUTIVE COMMITTEE

Membership

Chairman: Mats H. Berglund

Members: All five Executive Directors

Main Responsibilities

1. identify and execute transactions within the parameters approved by the Board;
2. identify and execute the sale and purchase of vessels;
3. identify and execute transactions for long-term inward charters;
4. set cargo cover levels which are within the normal course of the business of the Group;
5. identify and execute transactions for non-vessel marine fixed assets exceeding US$5 million;
6. approve certain new loans and guarantees; and
7. exercise the Company's general mandate to repurchase shares in accordance with the parameters set by the Board and the limits approved by the shareholders.

Work Done in 2013

The Executive Committee considered a range of business matters based on detailed analysis submitted by management including the following:

- acquisition of a number of handysize and handymax vessels that did not require announcement under the Listing Rules;
- approval of a number of long-term dry bulk cargo contracts;
- approval of long-term charters of a number of handysize and handymax newbuildings;
- acquisition of two secondhand twin screw tugs and four barges and entering into contract for deployment in lightering transhipment operations;
- approval of four secured loan facilities of US$314m in aggregate for the purpose of financing the acquisition of dry bulk newbuildings and secondhand ships;
- approval of announcements on the conversion price adjustment in respect of the Group's 1.75% coupon Convertible Bonds due 2016 and the 1.875% coupon Convertible Bonds due 2018; and
- approval of the entry of a settlement agreement to unwind a non-core investment of the Group.

"We are confident that you are not opportunistically in and out of the market… You demonstrate long-term consistency."

RISK MANAGEMENT & INTERNAL CONTROLS

Framework

The Board has the overall responsibility for the Group's system of internal controls and the assessment and management of risks. The Audit Committee takes the lead role in assessing the internal controls through reviewing the work of the Group's Risk Management Committee ("RMC") which is also responsible for managing the internal audit function.

The RMC, with the assistance of appropriate staff from various departments, conducts an annual cycle of regular meetings with division heads and managers from the headquarters and regional offices so as to keep abreast of issues and new risks that are embedded in the business and operations. This forms the basis of devising the range of internal control reviews to be carried out during each year and evaluating and recommending updated controls. The work ensures that division heads and managers are provided with feedback following the assessment of the risks and controls of their respective areas. Staff are well informed of new guidelines and company policies via the Company's intranet.

The Group has in place an internal control framework that is consistent with the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework which has the following five components:

- **Control Environment**

  Defined organisational structures are established. Authority to operate various business functions is delegated to respective management within limits set by head office management or the Executive Directors. The Board meets on a regular basis to discuss and agree business strategies, plans and budgets prepared by individual business units. The performance of the Group is reported to the Board on a monthly basis.

- **Risk Assessment**

  The Group identifies, assesses and ranks the risks that are most relevant to the Group's success according to their likelihood, financial consequence and reputational impact.

- **Control Activities**

  Policies and procedures are set for each business function which includes approvals, authorisation, verification, recommendations, performance reviews, asset security and segregation of duties.

- **Information and Communication**

  The Group documents operational procedures of all business units. The risks identified and their respective control procedures are documented in risk registers by the RMC and reviewed by the Audit Committee at least annually.

- **Monitoring**

  The Group adopts a control and risk self-assessment methodology, continuously monitoring its business risks by way of internal review and communication of key control procedures to employees.

The Risk Management Committee

Membership

Chairman: Mats H. Berglund

Members: CFO, Company Secretary, Risk and Internal Audit Manager

Main Responsibilities

1. strengthen the Group's risk management culture;
2. actively identify and review significant risks of the Group through an annual review with division heads;
3. review and recommend appropriate internal controls and policies;
4. develop an internal audit plan; and
5. manage the annual review and testing of internal controls.

Work Done in 2013

The Risk Management Committee met three times during the year. Its work included the following:

- assessment and review of risks for the Group;
- review of the results of internal control testing;
- report to the Audit Committee twice on annual risk assessment and internal control review and testing; and
- review of the composition of Risk Management Committee and its terms of reference.

The system of internal controls is designed to provide reasonable, but not absolute, assurance against human error, material misstatement, losses, damages and fraud.

Annual Assessment

Activities, procedures, existing controls and new controls to be implemented are documented in the risk registers. The existence and effectiveness of the existing control procedures are tested with a frequency determined by reference to the risk ranking of each individual risk area. All control procedures of significant risks are tested annually and others are reviewed or examined periodically.

The criteria for assessing the effectiveness of internal controls are based on whether the documented control processes have operated throughout the period being reviewed, and identifying whether there are any control weaknesses. The Risk and Internal Audit Manager, on behalf of the RMC, coordinates the annual testing of control procedures in respect of all significant Group risks with findings reported to the RMC and the Audit Committee. This work is carried out by the Risk and Internal Audit Manager with the assistance of appropriate staff members from various departments who test the controls of functions other than their own.

Internal Control System Effectiveness

The activities of the RMC are reviewed at least twice a year by the Audit Committee who continuously assesses the internal audit requirements as the Group develops. The internal control system is designed for the identification and management of risks that are significant to the fulfilment of the Group's business objectives. The Audit Committee reviews the findings and the opinion of the RMC on the effectiveness of the Group's system of internal control and reports to the Board annually.

In respect of the year ended 31 December 2013, the Board has reviewed the internal control system of the Group and no significant areas of concern were identified.

STAKEHOLDER SURVEYS

We conducted annual customer and investor surveys during the year which generated feedback that we are acting on to further enhance the quality of our service and our investor relations and corporate governance practices.

DISCLOSURE OF INSIDE INFORMATION

With respect to the procedures and internal controls for the handling and dissemination of inside information:

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Future Commission in June 2012;
- the Corporate Communications Policy was revised during the year;
- the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website;
- the Group has included in its Code of Conduct a strict prohibition on unauthorised use of confidential or inside information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the CEO, Chief Operating Officer, Chief Financial Officer, Group Managing Director, PB Towage and Corporate Communications & Investor Relations Officers are authorised to communicate with parties outside the Group.

DIRECTORS' SECURITIES TRANSACTIONS

The Board of Directors has adopted the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 of the Listing Rules (the "Model Code"). The Board confirms that, having made specific enquiry, the Directors have complied in full with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions during the year.

SENIOR MANAGEMENT AND STAFF'S SECURITIES TRANSACTIONS

The Company has adopted rules for senior managers and those staff who are more likely to be in possession of unpublished inside information or other relevant Group information based on the Model Code for Securities Transactions by Directors (the "Dealing Rules"). These senior managers and staff have been individually notified and provided with a copy of the Dealing Rules.

No incidence of non-compliance by these senior managers and staff was noted by or reported to the Company during the year.

DIRECTORS AND SENIOR MANAGEMENT – REMUNERATION AND SHARE OWNERSHIP

Details of the remuneration and share ownership of the Directors and senior management are contained in the "Remuneration Report" and "Report of the Directors" sections of this Annual Report.

AUDITORS' REMUNERATION

Remuneration paid to the Group's external auditors, for services provided for the year ended 31 December 2013 is as follows:

		US$'000
Audit	Non-audit	Total
1,226	1,424	2,650

The Group engaged its external auditors for the performance of due diligence procedures in relation to exploring exit options for the towage business. The fee of US$1,232,000 has been included under non-audit fee. The Board considered that such due diligence (i) is typical in any sale transaction, and (ii) serves as a useful compliance tool. In addition, the Board considers the choice of professional firm to undertake this type of work on a case by case basis. On this particular assignment, appointing the Group's external auditors was considered most time and cost-effective.

OUR SHAREHOLDERS

As at 31 December 2013, Pacific Basin had 413 registered shareholders of whom 354 or 85.71% have their registered addresses in Hong Kong.

SHAREHOLDER COMMUNICATIONS POLICY

The Company has established a Shareholder Communications Policy with the objectives of enabling shareholders to exercise their rights in an informed manner and to allow shareholders and the investment community to engage actively with the Company. The Board of Directors has the responsibility to review the Policy regularly to ensure its effectiveness. Details of the Policy can be found on the Company's website.

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policies & documents

SHAREHOLDERS MEETING

During the year, the Company held one general meeting with shareholders, namely the Annual General Meeting, at the Hong Kong Maritime Museum, Central Ferry Pier No. 8, Hong Kong on 19 April 2013. The following resolutions, all voted on by polls, were passed and approved:

- receipt and adoption of the audited financial statements and the Reports of the Directors and Auditors for the year ended 31 December 2012;
- declaration of final dividend of HK 5 cents per share for the year ended 31 December 2012;
- re-election of Directors;
- fixing of the remuneration of the Directors by the Board;
- re-appointment of Messrs. PricewaterhouseCoopers as auditors for the year ended 31 December 2013 and authorising the Board to fix their remuneration;
- general mandate to issue shares;
- general mandate to repurchase shares; and
- grant specific mandate to issue shares to satisfy Awards pursuant to the 2013 Share Award Scheme.

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media > FAQ
Annual General Meeting and Shareholders' Questions

SHAREHOLDERS' RIGHTS

Should shareholders wish to call a special general meeting, this must be convened according to the Company's Bye-laws, which state in summary:

- Shareholders holding not less than one-tenth of the paid up capital of the Company can, in writing to the Board or the Secretary of the Company, request a special general meeting to be called by the Board so as to carry out any business specified in such request.
- The signed written request, which should specify the purpose of the meeting, should be delivered to the Company's registered office in Hong Kong. The meeting will be held within two months after receiving the request. If the Board fails to start convening such meeting within twenty-one days of receiving the request, the shareholders themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

Shareholders who have any questions for the Board may send an e-mail or letter to:

Company Secretary
Pacific Basin Shipping (HK) Ltd.
7th Floor, Hutchison House
10 Harcourt Road
Central, Hong Kong
E-mail: companysecretary@pacificbasin.com

PUBLIC FLOAT

As at the date of this Annual Report, based on information that is publicly available to the Company and within the knowledge of the Directors, approximately 98% of the Company's total issued share capital is held by the public.

MARKET CAPITALISATION

Year end	2005	2006	2007	2008	2009	2010	2011	2012	2013
Closing price (HK$)	3.6	4.9	12.58	3.52	5.63	5.17	3.11	4.35	5.55
Market Capitalisation (US$ mil)	591	976	2,550	796	1,400	1,280	772	1,083	1,382

FINANCIAL CALENDAR FOR 2014

Planned Date

27 February	2013 annual results announcement
14 March	2013 Annual Report
15 April	First quarter trading update
16 April	2014 Annual General Meeting
22 April	Last day of dealings in shares with entitlement to 2013 final dividend
23 April	Ex-dividend date
24 April	4.30pm HK time Deadline for lodging transfers for entitlement to 2013 final dividend
25 April	Book closure date & 2013 final dividend record date
9 May	2013 final dividend payment date
31 July	2014 interim results announcement
12 August	Last day of dealings in shares with entitlement to 2014 interim dividend
13 August	Ex-dividend date
14 August	4.30pm HK time Deadline for lodging transfers for entitlement to 2014 interim dividend
15 August	Book closure date & 2014 interim dividend record date
28 August	2014 interim dividend payment date
14 October	Third quarter trading update

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investor relations > corporate calendar
Corporate Calendar

Directors & Senior Management

BOARD OF DIRECTORS

David M. Turnbull age 58

Chairman

Biography:

David spent 30 years with the Swire Group where he held various senior management positions. He was chairman of Swire's Hong Kong-listed companies Swire Pacific, Cathay Pacific Airways and Hong Kong Aircraft Engineering Company.

Education & qualifications:

Cambridge University: Master of Arts degree in Economics

Term of office:

Appointed INED in May 2006

Appointed Chairman in January 2008 and Executive Director in July 2008

Current term expires in May 2014 or at the 2014 AGM

External appointments:

Non-executive director of Green Dragon Gas and Greka Drilling (both London AIM listed)

INED of Hong Kong-listed Sands China and The Wharf (Holdings) Limited

Committee membership:

Executive Committee

Mats Berglund age 51

Chief Executive Officer

Biography:

Mats joined Swedish family-owned conglomerate Stena in 1986. From 1986 to 2005, he occupied managerial and leadership positions in various Stena group shipping businesses in Sweden and the USA including group controller of Stena Line, vice president and chief financial officer of both Concordia Maritime and StenTex (a Stena-Texaco joint venture), president of StenTex, and vice president and president of Stena Rederi AB (Stena's parent company for all shipping activities). From 2005 to 2011, he was senior vice president and head of Crude Transportation, for New York-listed Overseas Shipholding Group. Between March 2011 and May 2012, he served as chief financial officer and chief operating officer at Chemoil Energy, a Singapore-listed global trader of marine fuel products.

Education & qualifications:

Gothenburg University Business School: a "Civilekonom" degree (equivalent to MBA in Business and Finance)

Advanced Management Program at Harvard Business School in 2000

Term of office:

Appointed Executive Director in June 2012

Current term expires in May 2015 or at the 2015 AGM

External appointments:

None

Committee membership:

Executive Committee

Jan Rindbo age 39

Chief Operating Officer

Biography:

Jan joined Pacific Basin in 2001 under secondment from TORM to head Pacific Basin's chartering and commercial operations. He became fully employed by the Group in 2004 and was appointed Chief Operating Officer in January 2010 with responsibility for the Company's dry bulk activities including asset management (sale and purchase) and the technical and commercial operations of the Group's dry bulk fleet. Jan spent seven years with Danish ship owning and operating group TORM (listed in Copenhagen and on NASDAQ) for whom he served in Denmark, Hong Kong and the USA.

Education & qualifications:

Naestved Business College, Denmark

International Executive Development programme at INSEAD

Managing Global Virtual Teams at INSEAD

Term of office:

Appointed Executive Director in April 2007

Current term expires at the 2015 AGM

External appointments:

None

Committee membership:

Executive Committee

Andrew T. Broomhead age 52

Chief Financial Officer

Biography:

Andrew joined Pacific Basin in 2003 as the Group's Chief Financial Officer and Company Secretary. He was appointed as an Executive Director in September 2010 with responsibility for Group finance and accounting, investor relations, corporate governance and compliance and IT. He relinquished the position of Company Secretary in July 2012. Andrew has previously worked with Deloitte, Haskins & Sells, Samuel Montagu, International Finance Corporation, Bakrie Investindo and Sanwa International Finance. He has been based in the UK, USA, Singapore, Indonesia and Hong Kong, and has worked in Asia for over 20 years.

Education & qualifications:

Cambridge University: Master of Arts degree in Natural Sciences

Fellow of both the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales

Breakthrough Programme for Senior Executives at IMD Business School

Term of office:

Appointed Executive Director in September 2010

Current term expires at the 2016 AGM

External appointments:

None

Committee membership:

Executive Committee

BOARD OF DIRECTORS

Chanakya Kocherla age 56

Group Managing Director, PB Towage

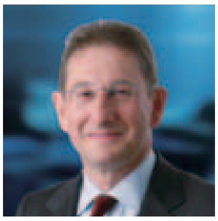
Biography:
Charlie joined Pacific Basin in December 2000 as part of the Company's acquisition of Jardine Ship Management and, since 2010, is Group Managing Director of the Company's PB Towage division. He was previously Managing Director of PB Maritime Services and Director, Fleet - responsible for operations of Pacific Basin's owned and technically managed fleet (including technical operations, manning and training, quality, health, safety and the environment, and newbuildings). He has also served as a director of several wholly owned subsidiaries and jointly owned entities of the Company. Charlie has over 30 years' experience in the shipping industry, including 14 years at sea and experience with several ship types both at sea and ashore.

Education & qualifications:
Directorate of Marine Engineering Training, India: Marine Engineer
College of Maritime Studies, Southampton, UK: Certificate of Competency (Motor)
Various executive development programmes in Hong Kong, Singapore and the IMD Business School

Term of office:
Appointed Executive Director in June 2012
Current term expires in June 2015 or at the 2015 AGM

External appointments:
None

Committee membership:
Executive Committee



Robert C. Nicholson age 58

Independent Non-executive Director

Biography:
Robin was a senior partner of Reed Smith Richards Butler where he established the corporate and commercial department. He then served as a senior advisor to the board of directors of PCCW Limited. He joined First Pacific Company Limited's (First Pacific) board in June 2003 and was appointed as an executive director of First Pacific in November 2003.

Education & qualifications:
University of Kent
Qualified as a solicitor in England and Wales and in Hong Kong

Term of office:
Appointed INED in March 2004
Current term expires at the 2016 AGM

External appointments:
Executive director of First Pacific and held non-primary directorships in its subsidiaries or associates including Metro Pacific Investments Corporation, Philex Mining Corporation, and Philex Petroleum Corporation, executive chairman of Forum Energy plc, commissioner of PT Indofood Sukses Makmur Tbk.
INED of Lifestyle Properties Development Limited

Committee membership:
Chairman of Remuneration and Nomination Committees
Member of Audit Committee

Patrick B. Paul age 66

Independent Non-executive Director

Biography:
Patrick served with PricewaterhouseCoopers for 33 years, during which time he held a number of senior management positions in Hong Kong, including chairman and senior partner of the firm for seven years.

Education & qualifications:
Oxford University: Master of Arts degree
Chartered accountant

Term of office:
Appointed INED in March 2004
Current term expires at the 2015 AGM

External appointments:
INED of Johnson Electric Holdings
INED of The Hongkong and Shanghai Hotels

Committee membership:
Chairman of Audit Committee
Member of Remuneration and Nomination Committees

BOARD OF DIRECTORS

Alasdair G. Morrison age 65

Independent Non-executive Director

Biography:
Alasdair served with the Jardine Matheson Group for 28 years holding various senior positions including that of group managing director. He then moved to Morgan Stanley where he was a managing director and then chairman of Morgan Stanley Dean Witter Asia, and chairman and chief executive officer of Morgan Stanley Asia.

Education & qualifications:
Cambridge University: Master of Arts degree
Program for Management Development at Harvard Business School

Term of office:
Appointed INED in January 2008
Current term expires at the 2015 AGM

External appointments:
Senior advisor to Citigroup Asia Pacific
Non-executive director of MTR Corporation
Member of the Financial Services Development Council, HKSAR

Committee membership:
Audit, Remuneration and Nomination Committees

Daniel R. Bradshaw age 67

Independent Non-executive Director

Biography:
Daniel has served for 35 years with Johnson, Stokes and Master (now Mayer Brown JSM) as a solicitor, partner, head of the firm's shipping practice and now as a consultant. He was vice chairman of the Hong Kong Shipowners Association, a member of the Hong Kong Port and Maritime Board and the Hong Kong Maritime Industry Council.

Education & qualifications:
Victoria University of Wellington (New Zealand): Bachelor of Laws and a Master of Laws
Admitted as a solicitor in England and Hong Kong

Term of office:
Appointed Non-executive Director and Deputy Chairman in April 2006
Stood down as Deputy Chairman in January 2008 and was re-designated as INED in September 2010
Current term expires at the 2014 AGM

External appointments:
Director on the boards of Euronav, IRC, Kadoorie Farm & Botanic Garden Corporation, WWF Hong Kong and Greenship Offshore Manager Pte. Ltd.

Committee membership:
Audit, Remuneration and Nomination Committees

SENIOR MANAGEMENT

Charles G. Maltby age 42

Managing Director, UK; Director, Handymax

Biography:
Charles joined Pacific Basin in London in 2005 to expand the Company's Handymax activities. He is now responsible for the Group's combined dry cargo business in the Atlantic, as well as the global Handymax and Post-Panamax business. He began his shipping career with Mobil Shipping before joining the chartering team of BHP Transport. Following three years in Australia as senior chartering officer responsible for Handysize and Handymax chartering, he returned to London in 2000 to take up a senior Capesize and Panamax chartering position and, in 2001, moved to The Hague to establish the Handysize and Handymax chartering and trading desk for BHP Billiton.

Education & qualifications:
University of Plymouth (UK): BSc in Maritime Business
Advanced Management Programme at INSEAD
Member of the Institute of Chartered Shipbrokers

Morten H. Ingebrigtsen age 52

Director, Asset Management

Biography:
Morten joined Pacific Basin in Hong Kong in January 1989 and re-joined the current Pacific Basin in 1999. He is in charge of the Group's vessel asset management and newbuilding activities. He started his career with major Norwegian shipping group Wilh. Wilhelmsen where he gained experience in the sale and purchase of ships, new project analysis (for bulk carrier and tanker projects) and investor liaison.

Education & qualifications:
Norwegian School of Management: Masters degree in General Business

Remuneration Report

This Remuneration Report sets out the Group's remuneration policies and amounts for all staff including Executive Directors, Non-executive Directors and senior management. Pages 68 to 70 comprise the auditable part of the Remuneration Report and form an integral part of the Group's financial statements.

At 31 December 2013, the Group employed a total of 372 full time, shore-based staff (2012: 327).

GROUP'S REMUNERATION POLICY

The Board, through the Remuneration Committee, seeks to attract and retain staff with the skills, experience and qualifications needed to manage and grow the business successfully. We achieve this by providing remuneration packages, including bonuses, that are competitive, consistent with market practice, and that reward performance and align employees and shareholders' interests.

When considering remuneration adjustments and annual bonuses, the Board makes reference to the prevailing market conditions, local market practice, the levels of emolument of existing staff of the Company and, very importantly, the performance of individuals and the market demand for their skills. The business of shipping is highly cyclical. It is inappropriate to impose straight financial measures for both salary adjustments and bonus determination as to do so would likely generate meaningless results and potentially damaging consequences. The Board seeks to obtain a balance amongst all the above mentioned factors.

Equity awards are provided through the Company's Share Award Scheme which is designed to provide Executive Directors, senior management and other employees with long-term financial benefits that are aligned to and consistent with increasing shareholder value as an incentive and recognition for their contribution to the Group. The Board has not granted, and currently has no intention to grant any equity awards to Independent Non-executive Directors as they administer the scheme at their sole discretion.

The Group's principal retirement benefit scheme is the Mandatory Provident Fund Scheme, a defined contribution scheme provided under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those staff employed under the jurisdiction of the Hong Kong Employment Ordinance. Other locations provide pension contributions in line with the local regulations.

Below sets out the key components of remuneration:

Key remuneration components	All staff and senior management	Executive Directors	Non-executive Directors
Fixed base salary	Salaries are reviewed annually. Prevailing market conditions and local market practice, as well as the individual's role, duties, experience, responsibilities and performance are taken into account when assessing salaries.		No
Annual discretionary cash bonus	Bonuses are determined based on the overall performance of the individual and the Group. Bonuses for Executive Directors and senior management are assessed by the Remuneration Committee and those of all other staff are assessed by the Chief Executive Officer. Bonuses to Directors and employees are expected to be equivalent to no more than 12 months' salary.		No
Long term equity incentives	Awards typically vest annually over a three year period. New Awards are considered each year by the Remuneration Committee to maintain the incentive period.		No
Retirement benefit	In line with market practice.		No
Fixed annual director's fee	No	No	Yes

REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2013

	Directors' fee US$'000	Salaries US$'000	Bonuses US$'000	Pension US$'000	Total payable US$ '000	Share-based compensation US$'000	Total payable and charged US$'000
Executive Directors							
David M. Turnbull	–	364	125	2	491	213	704
Mats Berglund	–	1,029	650	1	1,680	709	2,389
Jan Rindbo	–	563 [1]	400	1	964	297	1,261
Andrew T. Broomhead	–	470	250	2	722	329	1,051
Chanakya Kocherla	–	494	250	63	807	199	1,006
Wang Chunlin [2]	–	348	721	70	1,139	(297) [2]	842
	–	3,268	2,396	139	5,803	1,450	7,253
Independent Non-executive Directors							
Robert C. Nicholson	90	–	–	–	90	–	90
Patrick B. Paul	96	–	–	–	96	–	96
Alasdair G. Morrison	83	–	–	–	83	–	83
Daniel R. Bradshaw	83	–	–	–	83	–	83
	352	–	–	–	352	–	352
Total Directors' remuneration	352	3,268	2,396	139	6,155	1,450	7,605
Senior Management	–	537	255	125	917	331	1,248
Other Employees	–	32,272	5,195	2,584	40,051	3,948	43,999
Total remuneration	352	36,077	7,846	2,848	47,123	5,729	52,852

Note:

(1) Includes a director's fee of US$96,000.

(2) Mr. Wang retired as an Executive Director upon the conclusion of the 2013 AGM on 19 April 2013. 1,284,000 share awards lapsed resulting in a credit to the income statement.

The five individuals whose emoluments were the highest in the Group include five Executive Directors (2012: five Executive Directors).

During the year, the Group did not pay the Directors any inducement to join or upon joining the Group. No Directors waived or agreed to waive any emoluments during the year.

The median salary of employees excluding the Chief Executive Officer during the year was US$58,000 (2012: US$58,500).

Certain Other Employees benefit from a profit sharing arrangement amounting to approximately US$1,029,000 (2012: US$3,160,000). This amount combined with the above total remuneration forms the total employee benefit expenses as presented in Note 5 to the financial statements.

REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2012

	Directors' fee US$'000	Salaries US$'000	Bonuses US$'000	Pension US$'000	Total payable US$ '000	Share-based compensation US$'000	Total payable and charged US$'000
Executive Directors							
David M. Turnbull	–	364	137	2	503	200	703
Mats Berglund [1]	–	632	350	–	982	442	1,424
Jan Rindbo	–	542 [2]	300	1	843	341	1,184
Andrew T. Broomhead	–	470	225	2	697	241	938
Wang Chunlin	–	364	106	35	505	248	753
Chanakya Kocherla [3]	–	480	300	95	875	109	984
Klaus Nyborg [4]	–	149	452	–	601	(644) [4]	(43)
	–	3,001	1,870	135	5,006	937	5,943
Non-executive Directors							
Richard M. Hext [5]	10	–	–	–	10	–	10
Independent Non-executive Directors							
Robert C. Nicholson	90	–	–	–	90	–	90
Patrick B. Paul	96	–	–	–	96	–	96
Alasdair G. Morrison	83	–	–	–	83	–	83
Daniel R. Bradshaw	83	–	–	–	83	–	83
	362	–	–	–	362	–	362
Total Directors' remuneration	362	3,001	1,870	135	5,368	937	6,305
Senior Management	–	525	167	108	800	287	1,087
Other Employees	–	26,404	4,790	2,010	33,204	3,444	36,648
Total remuneration	362	29,930	6,827	2,253	39,372	4,668	44,040

Note:

(1) Mr. Berglund was appointed as Executive Director and Chief Executive Officer on 1 June 2012.

(2) Includes a director's fee of US$96,000.

(3) Mr. Kocherla was appointed as Executive Director on 25 June 2012. The remuneration in the above table represents his remuneration for the whole of 2012.

(4) Mr. Nyborg resigned on 15 March 2012 and 2,124,000 share awards lapsed resulting in a credit to the income statement.

(5) Mr. Hext resigned on 9 March 2012.

ACCOUNTING POLICIES ON EMPLOYEE BENEFITS

Bonuses

The Group recognises a liability and expense for bonuses when there is a contractual or constructive obligation or where there is a past practice that created a constructive obligation.

Retirement Benefit Obligations

- **Mandatory Provident Fund Scheme**

  The Group operates the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds.

  Under the MPF scheme, the employer and its employees are each required to make regular mandatory contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000. The Group also makes voluntary contribution in addition. The Group's contributions to the scheme are expensed as incurred. When employees leave the scheme prior to the full vesting of the employer's voluntary contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

- **Other defined contribution Schemes**

  The Group also operates a number of defined contribution retirement schemes outside Hong Kong in accordance with local statutory requirements. The assets of these schemes are generally held in separate administered funds and are generally funded by payments from employees and by the relevant group companies.

  The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to contributions being fully vested.

Share-Based Compensation

The Group operates an equity-settled, share-based compensation scheme. Restricted share awards and share options are recognised as an expense in the income statement with a corresponding credit to reserves, based on the fair value of the shares.

The total amount to be expensed is calculated by reference to the fair value of the equity instruments granted, excluding the impact of any non-market vesting conditions (for example, requirement of an employee to remain in employment for a specified time period). The number of equity instruments that are expected to vest takes into account non-market assumptions, including expectations of an employee remaining in the Group during the vesting period. The total amount expensed is charged through the vesting period. At each balance sheet date, the Company reviews its estimates of the number of equity instruments that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision of the original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

In respect of share options, the proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts when the share options are exercised.

The grant by the Company of share-based compensation to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to fair value of the shares on the grant date is recognised over the vesting period as an increase in investment in subsidiary undertakings, with a corresponding credit to equity in the Company's account. In the accounts of the subsidiaries, such fair value is recognised as an expense in the income statement with corresponding credit to reserve.

Report of the Directors

The Directors have pleasure in submitting their report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES, ANALYSIS OF OPERATIONS AND FINANCIAL SUMMARY

The principal activity of the Company is investment holding. The Company's principal subsidiaries (set out in Note 38 to the financial statements) are engaged in the ownership and international operation of modern Handysize and Handymax dry bulk ships and the provision of harbour and offshore towage services in Australasia. In addition, the Group is engaged in the management and investment of the Group's cash and deposits through its treasury activities. A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in the "Group Financial Summary" section of this Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 85. Taking into consideration the Group's performance, operating cash flow and current financial position, the Directors have recommended the payment of a final dividend of HK 5 cents per share for the year ended 31 December 2013. No interim dividend was declared.

The proposed final dividend for 2013 of HK 5 cents per share will be considered at the 2014 Annual General Meeting scheduled for 16 April 2014.

RESERVES AND DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2013, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to US$666.5 million.

Movements in the reserves of the Group and of the Company are set out in Note 24 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to US$80,000.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group are set out in Note 6 to the financial statements.

SHARE CAPITAL AND PRE-EMPTIVE RIGHTS

Movements in the share capital of the Company are set out in Note 23 to the financial statements. There is no provision for pre-emptive rights under the Company's Bye-laws and there is no restriction against such rights under Bermuda Law.

CONVERTIBLE BONDS

Details of the convertible bonds issued by the Group are set out in Note 22 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Other than for satisfying restricted awards granted under the Company's 2013 Share Award Scheme as disclosed below, neither the Company nor any of its subsidiaries has, during the year, purchased, sold or redeemed any of the share capital or convertible bonds of the Company.

2013 SHARE AWARD SCHEME ("SAS") AND 2004 LONG TERM INCENTIVE SCHEME ("LTIS")

The LTIS adopted in 2004 is due to expire in July 2014. On 28 February 2013, the Board adopted the SAS, which is a single share award scheme under which no share options can be granted, to replace the LTIS. The Board has further resolved not to make any further grants of share options or share awards under the LTIS. However, all unvested awards granted under the LTIS shall remain valid until they fully vest in July 2015 or lapse in accordance with the rules of the LTIS.

Purpose and Eligible Participants of the SAS

The SAS enables the Company to grant share awards or unit awards ("Awards") to eligible participants, being principally executive Directors and employees, as an incentive and recognition for their contribution to the Group. The SAS incentivises performance of participants by linking part of their remuneration to the achievement of the Group. The value offered is related to job grade and contribution to the management of the business. Since the adoption of the SAS, the Board has not granted, and currently has no intention to grant, any Awards to Independent Non-executive Directors as they administer the scheme at their sole discretion in accordance with the rules of the SAS.

Maximum Number of Shares

The total number of shares which may be or have been issued by the Company or transferred to the trustee of the SAS in satisfaction of the Awards granted under the SAS must not, in aggregate, exceed 10% of the issued share capital of the Company as at the first date of each financial year during the term of the SAS (equivalent to 193,657,711 shares as at 1 January 2014). There were 400,000 outstanding share options and 27,810,000 unvested restricted awards under the SAS and LTIS which represents 1.46% of the issued share capital of the Company as at 27 February 2014.

Limit for Each Eligible Participant

The maximum number of shares which may be subject to an Award or Awards at any one time shall not in aggregate exceed (i) 1% of the issued share capital of the Company as at the first date of the relevant financial year of the Company for any specific eligible participant; and (ii) 0.1% of the issued share capital of the Company as at the first date of the relevant financial year of the Company for any Independent Non-executive Director.

New Shares to be issued

The number of shares to satisfy Awards granted (if comprising of new shares) shall be allotted and issued by the Board by obtaining a separate shareholders' approval in a general meeting of the Company or utilising the general mandate granted to them by shareholders. The Board has resolved that it is in the best interests of the Company and the shareholders as a whole to seek from 2014 onwards a specific mandate from its shareholders in a general meeting for the issue of new shares to satisfy share awards with an annual cap of no more than 1% (previously no more than 2%) of the issued share capital of the Company as at the first date of each financial year during the term of the SAS, renewable by the shareholders annually in a general meeting. A specific mandate has been granted to the Company by the shareholders in the Company's 2013 annual general meeting held on 19 April 2013, pursuant to which the Company may issue a maximum of 38,731,542 new shares (equivalent to 2% of the total issued share capital of the Company as at 1 January 2013) to satisfy Awards. The Company will apply to the Stock Exchange for permission to list and to deal in those new shares to be issued as soon as practicable after any grant of awards.

Procedure of Granting Restricted Awards

The Board entered into a trust deed to appoint a trustee to administer Awards under the SAS and to constitute a trust to hold property transferred by the Company to the trustee (which shall include cash or Shares) in order to satisfy grants of Awards. At the direction of the Board, the trustee shall either subscribe for new shares at the relevant benchmarked price as stipulated in the Listing Rules from the Company or acquire existing shares in the market in accordance with the rules of the SAS.

Basis of Determining the Exercise Price of Share Options under the LTIS

The exercise price payable on exercise of the share options under the LTIS shall be determined by the Board and notified to each grantee. The exercise price shall not be less than the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of that share option, which must be a business day; (ii) the average of the closing prices per share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of that share option; and (iii) the nominal value of the shares. All notices to exercise share options shall be accompanied by a remittance for the full amount of the subscription price for the shares in respect of which the notice is given.

Life of the Schemes

The SAS has an effective term of 10 years from 28 February 2013. The LTIS expires in July 2014.

Awards Granted

Details of the grant of long term incentives and the movements of the outstanding incentives during the year ended 31 December 2013 under both the SAS and the LTIS on a combined basis are as follows:

(i) History and Movement of Restricted Awards Granted

'000 shares/units	Date of first award	Total awarded	Vested to date	At 31 December 2013	At 1 January 2013	Granted during the period	Vested or lapsed[2]	Vesting in July of 2014	2015	2016
Directors										
David M. Turnbull	05-Aug-08	2,060	(963)	1,097	965	445	(313)	352	300	445
Mats H. Berglund	01-Jun-12	3,483	(876)	2,607	2,628	855	(876)	876	876	855
Jan Rindbo	11-May-07	4,221	(2,112)	2,109	1,885	672	(448)	503	934	672
Andrew T. Broomhead	11-May-07	2,854	(1,163)	1,691	1,445	550	(304)	377	764	550
Chanakya Kocherla	11-May-07	1,866	(771)	1,095	868	410	(183)	257	428	410
Wang Chunlin (retired)	09-Mar-06	3,176	(1,892)	–	1,284	–	(1,284)[1]	–	–	–
		17,660	(7,777)	8,599	9,075	2,932	(3,408)	2,365	3,302	2,932
Senior Management		3,713	(1,935)	1,778	1,566	556	(344)	449	773	556
Other Employees				17,433	14,975	7,904	(5,446)	4,336	7,022	6,075
				27,810	25,616	11,392	(9,198)	7,150	11,097	9,563

Note:

1. 1,284,000 shares lapsed following Mr. Wang's retirement on 19 April 2013.
2. 688,000 shares vested due to the passing away of two employees, 140,000 shares vested due to contract termination of an employee and 1,008,000 shares lapsed due to resignation of nine employees during the year.

The closing price of the shares of the Company immediately before the grant of 11,392,000 restricted awards on 15 March 2013 was HK$4.80.

(ii) Share Options and Share Valuation under the LTIS

Share options were granted on 14 July 2004 under the LTIS at an exercise price of HK$2.50 per share. 400,000 share options of Other Employees were fully vested and not exercised as at 31 December 2013. The fair value of HK$0.834 per share option is based on a report using the binomial option pricing model for the exercise period from 14 July 2005 to 13 July 2014.

Note: Key assumptions included an expected dividend yield of 8% per annum, volatility of the Company's share price of 50% per annum, a risk-free rate of interest of 4% and 4.1% per annum on the respective grant dates, that the employees will exercise their share options if the share price is 100% above the exercise price, and an expected rate of leaving service of eligible employees after the vesting date of 0.4% per annum.

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2013 Share Award Scheme

Save as disclosed above, no right to subscribe for the securities of the Company or its associated corporations within the meaning of the Securities and Futures Ordinance (the ''SFO''), has been granted by the Company to, nor have any rights been exercised by, any person during the year.

DIRECTORS

The Directors[1] who held office up to the date of this Annual Report are set out below:

	Date of appointment to :					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Executive Committee	Terms of appointment
Executive Directors						
David M. Turnbull	17 May 2006	–	–	–	1 July 2008	3 years until 2014 AGM
Mats H. Berglund	1 June 2012	–	–	–	1 June 2012	3 years until 31 May 2015 or 2015 AGM
Jan Rindbo	1 April 2007	–	–	–	23 January 2008	3 years until 2015 AGM
Andrew T. Broomhead	1 September 2010	–	–	–	1 January 2010	3 years until 2016 AGM
Chanakya Kocherla	25 June 2012	–	–	–	25 June 2012	3 years until 24 June 2015 or 2015 AGM
Wang Chunlin (retired)	1 September 2006	–	–	–	1 September 2006	Retired at 2013 AGM
Independent Non-executive Directors						
Patrick B. Paul	25 March 2004	18 May 2004	10 June 2004	30 November 2004	–	3 years until 2015 AGM
Robert C. Nicholson	25 March 2004	18 May 2004	10 June 2004	30 November 2004	–	3 years until 2016 AGM
Alasdair G. Morrison	1 January 2008	1 January 2008	1 January 2008	1 January 2008	–	3 years until 2015 AGM
Daniel R. Bradshaw	7 April 2006	7 April 2006	7 April 2006	7 April 2006	–	3 years until 2014 AGM

Notes: (1) Pursuant to the Company's Bye-law 87(1), at each annual general meeting one-third of the Directors for the time shall retire from office by rotation, provided that every Director shall be subject to retirement at least once every three years.

Messrs. David M. Turnbull, Jan Rindbo and Daniel R. Bradshaw shall retire at the 2014 AGM by rotation pursuant to the Company's Bye-laws 87(1) & (2) and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming 2014 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out in the "Directors and Senior Management" section of this Annual Report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2013, the discloseable interests and short positions of each Director and the Chief Executive in shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the SFO, which: (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO, or (b) were required to be entered in the register maintained by the Company under Section 352 of the SFO, or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name of Director	Personal interest	Corporate or Family interests / Trust & similar interests	Long / Short position	Number of underlying Shares under equity derivatives	Total Share interests	Approximate percentage of the issued share capital of the Company 2013	2012
David M. Turnbull[1]	1,559,000	3,621,873[2]	Long	–	5,180,873	0.27%	0.24%
Mats H. Berglund[1]	3,904,651[3]	–	Long	–	3,904,651	0.20%	0.16%
Jan Rindbo[1]	5,162,370	–	Long	–	5,162,370	0.27%	0.23%
Andrew T. Broomhead[1]	1,995,000	2,309,528[4]	Long	–	4,304,528	0.22%	0.19%
Chanakya Kocherla[1]	2,388,667	–	Long	–	2,388,667	0.12%	0.10%
Patrick B. Paul	120,000	–	Long	–	120,000	less than 0.01%	less than 0.01%
Daniel R. Bradshaw	–	386,417[5]	Long	–	386,417	0.02%	0.02%

1. *Restricted share awards were granted under the 2013 Share Award Scheme and have been disclosed on page 72 in this Report.*
2. *3,621,873 shares are in the form of convertible bonds due 2016 at nominal value of US$3,350,000, held by a Trust named Bentley Trust (Malta) Limited, of which Mr. Turnbull is the founder.*
3. *Mr. Berglund's interest includes 421,651 shares held in the form of convertible bonds due 2016 at nominal value of US$390,000.*
4. *2,309,528 shares are held via Paulatim Investments Limited which is jointly owned by Mr. Broomhead and his wife, of which 1,297,387 shares are in the form of convertible bonds due 2016 at nominal value of US$1,200,000 and 316,437 shares are in the form of convertible bonds due 2018 at nominal value of US$200,000.*
5. *Mr. Bradshaw is a shareholder holding 100% and 50% of the issued share capital, respectively, of Cormorant Shipping Limited and Goldeneye Shipping Limited. He beneficially owns 353,241 shares via Cormorant Shipping Limited and is taken to be interested in the 33,176 shares held by Goldeneye Shipping Limited.*

All the interests stated above represent long positions. No short positions were recorded in the register maintained by the Company under section 352 of the SFO as at 31 December 2013.

Saved as disclosed, at no time during the year was the Company, its subsidiaries, or its associated companies a party to any arrangement to enable the Directors and Chief Executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2013, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name	Capacity / Nature of interest	Long / Short Position	Number of Shares	Approximate percentage of the issued share capital of the Company 2013	2012
Aberdeen Asset Management Plc and its Associates (together the "Group") on behalf of accounts managed by the Group	Investment manager	Long	307,284,000	15.87%	16.02%
Canadian Forest Navigation Co. Ltd./ Compagnie De Navigation Canadian Forest Ltee.[1]	Beneficial owner and Interest in corporation controlled	Long	252,703,500	13.05%	13.05%
Michael Hagn	Interest in corporation controlled	Long	252,703,500	13.05%	13.05%
Mihag Holding Ltd.	Interest in corporation controlled	Long	252,703,500	13.05%	13.05%
Total Investments Inc.	Interest in corporation controlled	Long	103,256,654	5.33%	5.33%
Total Banking Corporation	Beneficial owner	Long	103,256,654	5.33%	5.33%
JP Morgan Chase & Co.[2]	Beneficial owner, Investment manager and Custodian corporation/ approved lending agent	Long Short Lending Pool	117,389,743 1,000,000 96,664,854	6.06% 0.05% 4.99%	6.99% 0.23% 5.89%
Mondrian Investment Partners Limited	Investment manager	Long	115,813,000	5.98%	6.01%

(1) The shares held by Canadian Forest Navigation Co. Ltd./Compagnie De navigation Canadian Forest Ltee are held in the capacities of Beneficial owner (relating to 149,446,846 shares) and Interest in corporation controlled (relating to 103,256,654 shares).

(2) The long position in shares held by JP Morgan Chase & Co. is held in the capacities of Beneficial owner (relating to 14,689,800 shares), Investment manager (relating to 6,035,089 shares) and Custodian corporation/approved lending agent (relating to 96,664,854 shares).

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, as at 31 December 2013, no other person (other than a Director or Chief Executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register required to be kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 30% of its goods and services to its five largest customers and purchased less than 30% of its goods and services from its five largest suppliers.

CONNECTED TRANSACTION

During the year, the Group had no connected transaction that was subject to the Listing Rules' reporting requirements for disclosure in this Annual Report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year, the Company has been fully compliant with all code provisions of the Corporate Governance Code as contained in Appendix 14 of the Listing Rules. Please also refer to the Corporate Governance Report of this Annual Report.

AUDIT AND REMUNERATION COMMITTEES

Details of the audit and remuneration committees are set out in the Corporate Governance Report of this Annual Report.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming 2014 AGM.

PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the Directors as at the date of this Annual Report, the Company has complied with the Listing Rules requirement to have at least 25% of the Company's total issued share capital held by the public.

By Order of the Board

Mok Kit Ting, Kitty
Company Secretary
Hong Kong, 27 February 2014

Investor Relations

INVESTOR RELATIONS AND CORPORATE COMMUNICATIONS

Transparent reporting on our operations and performance is key to the credibility of our public reporting and investor relations activities. We are therefore committed to keeping the market informed of relevant Company information, allowing both existing and potential shareholders to evaluate our business, our performance and our prospects. We believe this commitment to communicating with the public not only augments investors' understanding of our Company and its development, but ultimately also enhances shareholder value. Our Shareholder Communications Policy is available on our website and is regularly reviewed to ensure its effectiveness.

In 2013, in addition to 4 awards won by the Group for commercial ship operating, technical ship operations and safety, we received 10 Investor Relations and Corporate Governance awards from investor relations and corporate governance publications and organisations. Most notably, IR Magazine awarded our IR team with a silver ranking in the Global Top 50 and the runner-up award among small cap companies (of less than US$5bn) at the Global Top 50 Awards 2013.

STAKEHOLDER ENGAGEMENT

At a broad level, the Company proactively engages with institutional and retail investors as well as media and other interest groups. In 2013, we launched our first Online Annual Report and we revamped our website to better reach out to both our investors, customers and other stakeholders, and to tie in with our 2012 integrated reporting. We conducted expanded investor perception studies covering our IR programme and reporting.

www.pacificbasin.com/ar2013
Online Annual Report 2013

COMMUNICATION CHANNELS - We believe that the transparency encouraged by active stakeholder engagement builds recognition of our brand and ultimately enhances shareholder value. We facilitate engagement through the following channels:

FINANCIAL REPORTING

- Annual and Interim Reports
- Online Annual Report
- Voluntary quarterly trading updates
- Press releases on business activities

SHAREHOLDER MEETINGS AND HOTLINES

- Group and one-on-one meetings
- Shareholder hotline and e-mail:
  Tel: +852 2233 7000
  E-mail: ir@pacificbasin.com

VESSEL TOURS

Ship visits for analysts, investors, press and guests are organised during vessel port calls or at ship naming ceremonies

Introducing our first ever integrated online report

Our HTML-based online annual report offers our stakeholders an alternative format for accessing our annual report with downloadable data in an environmentally-friendly manner that a growing number of people find more convenient. This initiative reflects another evolution in the transparency and accessibility of our reporting which are key to the credibility of our investor relations activities.

Advantages of our online report:

√ Downloadable financial data tables and other information in spreadsheet format

√ Hyperlinks to key supporting figures, breakdown analyses and further explanations

√ Linkage facilitates logical flow and easy access within the integrated report

√ Environmentally-friendly medium

INVESTOR PERCEPTION STUDIES

We consulted investors and analysts for feedback on our group strategy, executive management team, Annual Report and our corporate communications, investor relations and CSR programmes by way of telephone and online surveys

SOCIAL MEDIA COMMUNICATIONS

Company news, video clips, photos and events are published through social media sites

COMPANY WEBSITE

www.pacificbasin.com

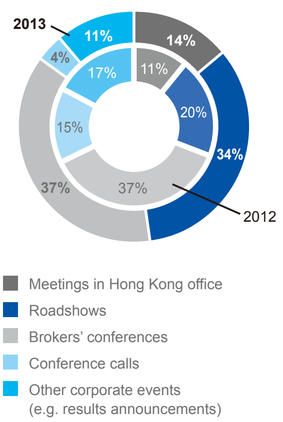
Our corporate website and external communications now complement our intergraded reporting format. Information includes:

- Profiles of Group's main businesses
- Fleet profile
- Board and senior management biographical data
- Corporate Governance, Risk Management and CSR
- Board Committees' Terms of Reference
- Financial information Excel downloads
- Press kits

ROADSHOW – Roadshows are conducted every quarter following earnings results and trading updates. In 2013, we met investors in 14 cities in North America, Europe and Asia-Pacific.

INVESTOR MEETINGS – In 2013, we met 558 (2012: 707) shareholders and investors through the following means:

Type of Investor Meetings



KPIs measuring Investor Relations performance KPI

Investor Engagement

Our share capital is held by a diverse range of institutional, private and corporate investors, so we consider it important to make ourselves accessible to shareholders and the investment community to enhance their understanding of our business. The number of investor contacts during a year is the key measure of our engagement with them.

Number of Investors We Meet

Sell-Side Analyst Engagement

Maintaining a significant number of active research reports covering Pacific Basin is a key measure of our profile in the shipping sector.

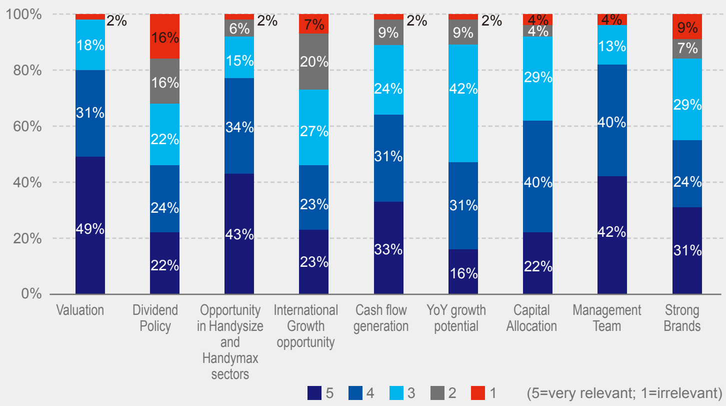
21 Analysts covered Pacific Basin in 2013 (2012: 22)

>120 Research reports on Pacific Basin in 2013 (2012: >160)

19 Analysts attended our 2013 Analyst Day (2012: 23)

Investor Perception Studies are conducted annually to gauge perception of our Annual Report and our Investor Relations programme and group strategy.

Feedback extracted from the 2013 Investor Perception Study
Compelling factors for investing in Pacific Basin

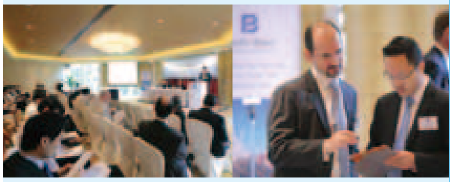


Other factor: Focus; NAV appreciation opportunity over the next 2-3 years.

COMMUNICATIONS WITH SELL-SIDE ANALYSTS – Pacific Basin encourages active analyst coverage to help investors evaluate the Company and its opportunities and issues. Analysts' briefings, meetings and conference calls are arranged with management from time to time especially after results announcements. A significant number of key brokers publish reports on the Company.

An Analyst Day was held in May at our Hong Kong office. In an open dialogue between analysts and management we shared our views on the industry, important accounting considerations, as well as reviewing Company developments described in the 2012 Annual Report and 2013 first quarter trading update. We answered questions about business strategy as well as our CSR approach. We also invited our COO, our Head of the Handymax operations and the Head of the Asset Management to share their views on the dry bulk market.

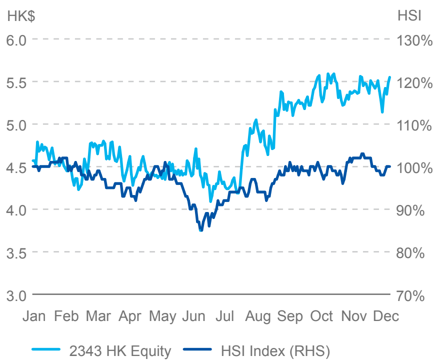
www.pacificbasin.com
investor relations > financial disclosure
Analyst Day presentation



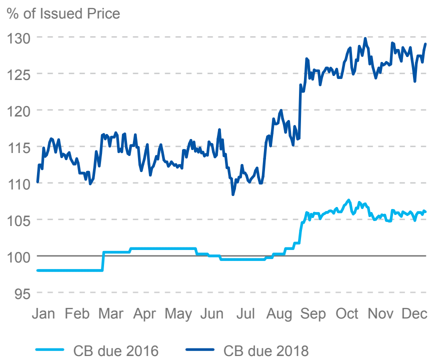
"We have seen improvement in the past $1^1/_2$ years in your reporting and in your alerts distribution which are quick…"

SHARE AND CONVERTIBLE BOND INFORMATION

Our Share Price Performance vs Hang Seng Index in 2013



Convertible Bonds Price Performance in 2013

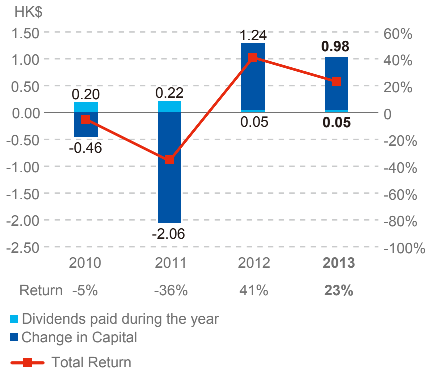


As at 31 December 2013, the Company had outstanding Shares and Convertible Bonds as follows:

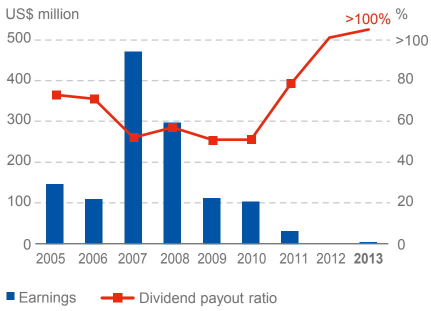
- 1,936,577,119 ordinary shares in issue, each with a par value of US$0.10
- US$230 million of 1.75% coupon Convertible Bonds due 2016
- US$124 million of 1.875% coupon Convertible Bonds due 2018

The Company's Shares are a constituent member of the Hang Seng sub index series and the MSCI Index series.

Total Shareholders' Return



Net Profit and Dividend Payout Ratio since 2005



www.pacificbasin.com
investor relations > share information
Dividend history

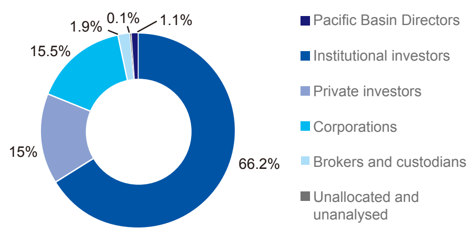
DIVIDEND

Our dividend policy is to pay out at least 50% of our annual attributable profit (excluding disposal gains).

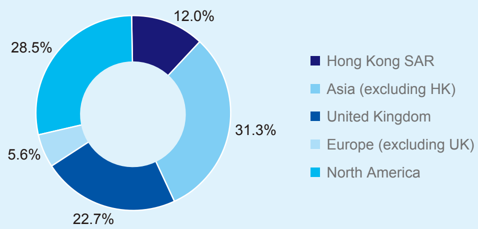
OUR SHAREHOLDERS

As at 31 December 2013, Nasdaq OMX was able to analyse the ownership of about 99% of the Company's share capital. Institutional Investors still accounted for the largest portion of the Company's shareholder base, owning nearly 1.3 billion shares or 65.5% of our share capital.

Type of Shareholders



Geographical Distribution of our Institutional Investors



OUR BONDHOLDERS

Our bondholders comprise a range of institutional investors including portfolio fund managers, fixed income, mutual and equity fund holders, as well as private investors.

Page 115 & 116
See financial statements Note 22(c) for the terms and details of the Convertible Bonds

News and Achievements

2013

Jan

- The Asset Corporate Awards 2012
  - Gold Awards for Financial Performance, Corporate Governance, Social Responsibility, Environmental Responsibility, and Investor Relations
- Delivery of first of our new generation of enhanced, full-efficient 37,000 dwt Handysize ships from JNS Shipyard
- Awarded Silver Label by WWF's Low-Carbon Office Operation Programme (LOOP)

March

- Launch of new corporate website
- First Online Annual Report

April

- Secured US$85.2 million Japanese Export Credit Financing
- Corporate Governance Asia – Excellence Recognition Awards
  - Best Investor Relations – HK
  - Best CSR – Asia

May

- HK Marine Department Awards 2013
  - Unicon Award: Best Performing Ship Management Company in Port State Control Inspection

June

- Seatrade Asia Awards 2013
  - Bulk Operator Award
- Corporate Governance Asia – Recognition Awards - The Best of Asia
  - Icon Award for Corporate Governance

July

- Institutional Investor Asia Executive Awards
  - Best CFOs – Transportation (Sell Side) – Andrew Broomhead
  - Best IR Professionals – Transportation (Sell Side) – Emily Lau
  - Best Investor Relations – 2nd Place
- Top 400 Global Annual Reports – e.com Report Watch
  - Our 2012 Annual Report ranked 71 globally; Top 2 in HK with B+ score.

Aug

- Secured US$50.9 million Japanese Export Credit Financing

Oct

- Lloyd's List Global Awards 2013
  - Ship Operator Award

Nov

- IBJ Awards 2013
  - Safety in Bulk Handling Award
- IR Magazine Global Top 50 Awards 2013
  - Best Investor Relations – Silver Global Top 50
  - Runner-up: Global Small-Cap (<$5bn)

Dec

- IR Magazine Awards 2013 – Greater China
  - Best Investor Relations in Transport Award
  - Short-listed in Best Investor Relations Officer – Emily Lau

Jan 2014

- Dubai office established

Financial Statements

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GROUP PERFORMANCE REVIEW

US$ Million	2013	2012	Change
Revenue	1,708.8	1,443.1	+18%
Direct costs	(1,653.7)	(1,357.8)	-22%
Gross profit	55.1	85.3	-35%
Segment net profit	36.0	78.0	-54%
Treasury	(4.4)	(6.1)	+28%
Discontinued operations – RoRo	(0.5)	(12.1)	+96%
Indirect general and administrative expenses	(15.5)	(12.0)	-29%
Underlying profit	15.6	47.8	-67%
Unrealised derivative income/(expenses)	1.8	(3.3)	+155%
RoRo exchange loss & vessel impairment	(7.8)	(198.6)	+96%
Expenses relating to exercising 10 finance lease purchase	(15.3)	–	-100%
Towage exchange gain	5.1	–	+100%
Others	2.1	(4.4)	+134%
Profit/(loss) attributable to shareholders	1.5	(158.5)	+101%
EBITDA (excluding RoRo vessel impairment)	130.4	145.1	-10%
Net profit margin	0%	-11%	+11%
Return on average equity employed	0%	-11%	+11%

The main drivers of our results in 2013 were as follows:

- Revenue grew 18% mainly due to increases in our Handysize and Handymax revenue days.
- Direct costs grew 22% mainly due to increases in i) bunkers and port disbursements; ii) charter-hire expenses; and iii) staff costs, all attributable to the growth of our dry bulk fleet.
- Segment net profit was down mainly due to a weak second half PB Towage result.
- Indirect general and administrative expenses increased 29% mainly due to professional costs related to exploring a possible sale of PB Towage.
- Underlying profit was down due to decreased dry bulk and towage segment net profits, and was less impacted by losses from discontinued RoRo operations than in 2012.
- Result attributable to shareholders turned to a profit in 2013 from a loss in 2012 mainly due to a US$190.0 million RoRo vessels impairment in 2012.
- EBITDA amounted to US$130.4 million (2012: US$145.1 million) contributing to a positive operating cash flow and healthy cash and deposits at the year end of US$486.1 million (2012: US$753.5 million).

Segment Net Profit

US$ Million	2013	2012	
Pacific Basin Dry Bulk	26.1	39.3	Page 20
PB Towage	10.5	37.5	Page 27
All other segments	(0.6)	1.2	
Segment net profit	36.0	78.0	

Segments

Management analyses the Group's performance in two shipping-related reporting segments:

- Pacific Basin Dry Bulk
- PB Towage

Non-segment activities mainly comprise:

- Treasury
- PB RoRo, which was reclassified as a discontinued operation following the sale of the vessels in September 2012 with forward delivery

Underlying Profit

Includes:

- Segment results
- Treasury results
- Discontinued operations
- Indirect general and administrative expenses

Excludes:

- Disposal gains and losses, and impairments
- Unrealised non-cash portion of results from derivative instruments relating to future periods

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Financial Statement Note 5
General and administration expenses
and other expenses

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Financial Statement Note 4
Segment information

STRATEGIC REVIEW
BUSINESS REVIEW
FUNDING
CSR REPORT
GOVERNANCE
FINANCIAL STATEMENTS

Consolidated Balance Sheet

	Note	As at 31 December 2013 US$'000	2012 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,622,297**	1,270,202
Investment properties	7	**2,675**	2,675
Land use rights	8	**2,971**	3,767
Goodwill	9	**25,256**	25,256
Interests in joint ventures	11(a)	**26,650**	22,118
Investments in associates	12	**1,332**	1,332
Available-for-sale financial assets	13	**4,894**	4,729
Derivative assets	14	**13,175**	5,075
Trade and other receivables	15	**65,975**	58,039
Restricted bank deposits	16	**1,269**	50,192
Other non-current assets	17	**5,917**	5,322
		1,772,411	1,448,707
Current assets			
Inventories	18	**104,006**	79,102
Derivative assets	14	**2,238**	1,747
Trade and other receivables	15	**142,374**	106,044
Restricted bank deposits	16	**1,593**	70,148
Cash and deposits	16	**483,200**	633,118
		733,411	890,159
Assets of discontinued operations classified as held for sale	20(a)	**31,624**	131,409
		765,035	1,021,568
Total assets	4(b)	**2,537,446**	2,470,275
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	23	**193,237**	193,605
Retained profits	24	**526,582**	537,456
Other reserves	24	**584,475**	600,960
Total equity		**1,304,294**	1,332,021

	Note	As at 31 December 2013 US$'000	2012 US$'000
LIABILITIES			
Non-current liabilities			
Derivative liabilities	14	**18,779**	22,684
Long term borrowings	22	**708,660**	853,651
		727,439	876,335
Current liabilities			
Derivative liabilities	14	**4,580**	2,449
Trade and other payables	19	**166,475**	174,884
Current portion of long term borrowings	22	**328,565**	77,820
Taxation payable		**1,985**	2,509
Provision for onerous contracts	21	**656**	–
		502,261	257,662
Liabilities of discontinued operations classified as held for sale	20(a)	**3,452**	4,257
		505,713	261,919
Total liabilities	4(b)	**1,233,152**	1,138,254
Net current assets		**259,322**	759,649
Total assets less current liabilities		**2,031,733**	2,208,356

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See Note 4(b) for balance sheet segment information

Approved by the Board of Directors on 27 February 2014

Mats H. Berglund
Director

Andrew T. Broomhead
Director

Balance Sheet of the Company

	Note	As at 31 December 2013 US$'000	2012 US$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	10	**828,853**	835,918
Current assets			
Prepayments and other receivables		**140**	136
Amounts due from subsidiaries	10	**642,136**	974,839
Cash and cash equivalents	16	**23**	17
		642,299	974,992
Total assets		**1,471,152**	1,810,910
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	23	**193,237**	193,605
Retained profits	24	**666,548**	680,359
Other reserves	24	**596,322**	596,739
Total equity		**1,456,107**	1,470,703
LIABILITIES			
Current liabilities			
Accruals and other payables		**117**	182
Amounts due to subsidiaries	10	**14,928**	340,025
Total liabilities		**15,045**	340,207
Net current assets		**627,254**	634,785
Total assets less current liabilities		**1,456,107**	1,470,703

Approved by the Board of Directors on 27 February 2014

Mats H. Berglund
Director

Andrew T. Broomhead
Director

Consolidated Income Statement

	Note	For the year ended 31 December 2013 US$'000	2012 US$'000
Continuing operations			
Revenue	4(a)	**1,708,792**	1,443,086
Direct costs	4(a), 5	**(1,653,695)**	(1,357,771)
Gross profit		**55,097**	85,315
General and administrative expenses	4(a), 5	**(17,558)**	(14,286)
Other income and gains	25	**8,735**	2,644
Other expenses	5	**(4,375)**	(4,095)
Finance costs, net	26	**(37,443)**	(18,474)
Share of profits less losses of joint ventures	11	**5,028**	5,508
Share of profits less losses of associates	12	**1,542**	(2,767)
Profit before taxation		**11,026**	53,845
Taxation	27	**(1,168)**	(1,624)
Profit for the year		**9,858**	52,221
Discontinued operations			
Loss for the year	20(b)	**(8,335)**	(210,693)
Profit/(loss) attributable to shareholders		**1,523**	(158,472)
Dividends	29	**12,490**	12,397
Earnings per share for profit/(loss) attributable to shareholders (in US cents)			
Basic earnings per share	30(a)		
From continuing operations		**0.51**	2.70
From discontinued operations		**(0.43)**	(10.90)
From profit/(loss) attributable to shareholders		**0.08**	(8.20)
Diluted earnings per share	30(b)		
From continuing operations		**0.51**	2.70
From discontinued operations		**(0.43)**	(10.69)
From profit/(loss) attributable to shareholders		**0.08**	(7.99)

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See Note 4(a) for income statement segment information

Consolidated Statement of Comprehensive Income

	For the year ended 31 December 2013 US$'000	2012 US$'000
Profit/(loss) attributable to shareholders	**1,523**	(158,472)
Other comprehensive income – items that may be reclassified to profit or loss:		
Currency translation differences	**(31,113)**	(402)
Release of exchange (gain)/loss from reserve for foreign operations upon:		
– disposal of property, plant and equipment (Note 20(c))	**8,331**	8,183
– repayment of shareholder loans by subsidiaries	**(5,146)**	–
– disposal of a joint venture	**–**	(3,131)
Cash flow hedges:		
– fair value gains/(losses)	**7,126**	(3,231)
– transferred to finance costs in income statement	**4,569**	5,608
Fair value gains/(losses) on available-for-sale financial assets	**165**	(5,587)
Total comprehensive income attributable to shareholders	**(14,545)**	(157,032)

Consolidated Statement of Changes in Equity

	Note	For the year ended 31 December 2013 US$'000	2012 US$'000
Balance at 1 January		**1,332,021**	1,484,915
Total comprehensive income attributable to shareholders		**(14,545)**	(157,032)
Dividends paid	29	**(12,397)**	(12,479)
Shares purchased by trustee of the LTIS & SAS	23	**(6,514)**	(7,369)
Share-based compensation		**5,729**	4,668
Equity component of convertible bonds issued		**–**	19,318
Balance at 31 December		**1,304,294**	1,332,021

Consolidated Cash Flow Statement

	Note	For the year ended 31 December 2013 US$'000	2012 US$'000
Operating activities			
Cash generated from operations	31	**99,593**	150,053
Hong Kong profits tax paid		**(664)**	(168)
Overseas taxation paid		**(787)**	(1,148)
Net cash from operating activities		**98,142**	148,737
Investing activities			
Purchase of property, plant and equipment		**(458,360)**	(190,028)
Disposal of property, plant and equipment		**3,133**	–
Disposal of RoRo vessels		**54,920**	13,708
Payment for other non-current assets		**(5,917)**	(5,322)
Decrease/(increase) in term deposits		**167,616**	(22,616)
Decrease/(increase) in restricted bank deposits		**117,473**	(100,395)
Purchase of a joint venture		**(17,999)**	–
Dividends received from a joint venture		**9,585**	972
Loan repayment received from joint ventures		**205**	957
Disposal of a joint venture		**–**	22,502
Interest received		**7,328**	16,742
Disposal of notes receivable and structured notes		**15,000**	13,219
Purchase of notes receivable and structured notes		**(15,000)**	–
Receipt of finance lease receivables – capital element		**5,175**	1,618
Disposal of subsidiaries		**2,655**	1,226
Purchase of available-for-sale financial assets		**–**	(1,576)
Refund of available-for-sale financial assets		**–**	1,393
Net cash used in investing activities		**(114,186)**	(247,600)
Financing activities			
Drawdown of bank loans		**287,491**	118,269
Repayment of bank loans		**(59,071)**	(60,791)
Interest and other finance charges paid		**(44,272)**	(33,250)
Repayment of finance lease liabilities – capital element		**(128,464)**	(17,049)
Dividends paid to shareholders of the Company		**(12,397)**	(12,479)
Payment for shares purchased by trustee of the LTIS & SAS	23	**(6,514)**	(7,369)
Proceeds from issuance of convertible bonds, net of issuing expenses		**–**	122,850
Net cash from financing activities		**36,773**	110,181
Net increase in cash and cash equivalents		**20,729**	11,318
Cash and cash equivalents at 1 January		**390,502**	378,501
Exchange (loss)/gains on cash and cash equivalents		**(3,031)**	683
Cash and cash equivalents at 31 December	16	**408,200**	390,502
Term deposits at 31 December	16	**75,000**	242,616
Cash and deposits at 31 December	16	**483,200**	633,118

Notes to the Financial Statements

1 INTRODUCTION

1.1 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, and towage services to the harbour and offshore sectors in Australia and New Zealand. In addition, the Group is engaged in the management and investment of the Group's cash and deposits through its treasury activities.

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 financial statements have been approved for issue by the Board of Directors on 27 February 2014.

1.2 Presentation of the notes to the financial statements

The notes to the financial statements in this report are placed in order of significance to aid an understanding of the key drivers of the financial position of the Group, whilst maintaining the grouping of notes between income statement and balance sheet where appropriate.

Information relating to a specific financial statement line item has been brought together in one note. Hence:–

Principal Accounting Policies

are not shown separately but are included in the note or sections of this Annual Report for that item. They have been highlighted with this grey background. A navigation table is presented in Note 2.3.

Critical Accounting Estimates and Judgements

are not shown separately but are included in the note or sections of this Annual Report for that item. They have been highlighted with this white background with frame. A navigation table is presented in Note 3.

Financial risk management has been integrated into the Risk Management Section. The auditable parts have been clearly marked and are listed below:

- Market Risks (P.51)
- Credit & Counterparty Risk (P.52)
- Liquidity Risk (P.52)
- Capital Management Risk (P.53)

2 BASIS OF PREPARATION

2.1 Objective and accounting standards

The objective of these consolidated financial statements is to explain the results of the year ended 31 December 2013 and the financial position of the Group on that date, together with comparative information.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these financial statements are listed under Note 3.

2.2 Impact of new accounting policies

The following new standards, amendments and improvements to standard are mandatory for the accounting period beginning 1 January 2013 and are relevant to the Group's operation.

HKAS 1 (Amendments)	Presentation of financial statements
HKAS 27 (Amendments)	Separate financial statements
HKAS 28 (Revised 2013)	Associates and joint ventures
HKFRS 7 (Amendments)	Financial instruments: Disclosures
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurements
HKFRS 10, 11 and 12 (Amendments)	Transition guidance
Annual Improvement 2011	

The adoption of these new standards, amendments and improvements to standard does not result in any substantial change to the Group's accounting policies.

Certain new and amended standards, and improvements to HKFRS ("New Standards") are mandatory for accounting period beginning after 1 January 2014. The Group was not required to adopt these New Standards in the financial statements for the year ended 31 December 2013. Such New Standards that are relevant to the Group's operation are as follows:

HKAS 32 (Amendment)	Financial instruments: Presentation
HKAS 36 (Amendment)	Impairment of assets
HKFRS 9	Financial instruments
HK(IFRIC) 21	Levies

The Group has already commenced an assessment of the impact of these New Standards but is not yet in a position to state whether they would have a significant impact on its operating results and financial position.

2 BASIS OF PREPARATION (continued)

2.3 Accounting policies navigator

Accounting policies	Location
Assets and liabilities of discontinued operations classified as held for sale	Note 20
Available-for-sale financial assets	Note 13
Borrowings	Note 22
Cash and cash equivalents	Note 16
Consolidation	
Associates	Note 12
Joint ventures	Note 11(a)
Joint operation	Note 11(b)
Subsidiaries	Note 10
Contingent liabilities and contingent assets	Note 36
Convertible bonds	Note 22(c)
Current and deferred income tax	Note 27
Derivative financial instruments and hedging activities: i) cash flow hedges, and ii) derivatives not qualifying for hedge accounting	Note 14
Dividends	Note 29
Employee benefits	Remuneration Report (P.70)
Finance leases where the Group is the lessee	Note 22(a)
Financial assets at fair value through profit or loss	Note 14
Financial guarantee contracts	Note 35
Foreign currency translation	Note 2.4
Goodwill	Note 9
Impairment of investments in subsidiaries, joint ventures and associates, non-financial assets, available-for-sale financial assets and trade and other receivables	Note 5
Inventories	Note 18
Investment properties	Note 7
Land use rights	Note 8
Loans and receivables	Note 15
Operating leases where the Group is the lessor or lessee	Note 32(b)
Property, plant and equipment ("PP&E") including: i) vessels and vessel component costs, ii) vessels under construction, iii) borrowing costs, iv) other property, plant and equipment, v) subsequent expenditure, vi) depreciation, vii) residual value and useful lives, and viii) gains or losses on disposal	Note 6
Provisions	Note 2.5
Provision for onerous contracts	Note 21
Revenue recognition for freight and charter-hire, and other revenue	Note 4
Segment reporting	Note 4
Share capital	Note 23
Trade and other receivables	Note 15
Trade payables	Note 19

The Group's principal accounting policies have been consistently applied to each of the years presented in these financial statements. Certain comparative figures have been reclassified to conform to the current year's presentation.

Notes to the Financial Statements continued

2 BASIS OF PREPARATION (continued)

2.4 Foreign currency translation

(a) Functional and presentation currency

The financial statements are presented in United States Dollars, which is the Company's functional and the Group's presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Major business segment with non-US Dollar functional currencies is PB Towage Segment: Australian Dollars, New Zealand Dollars and United States Dollars

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in "direct overheads" or "general and administrative expenses" of the income statement, except when deferred in equity as qualifying cash flow hedges.

Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities classified as available-for-sale are included in the investment valuation reserve.

(c) Group companies

The results and financial position of each of the Group entities (none of which has the currency of a hyperinflationary economy) whose functional currency is different from the presentation currency is translated into the presentation currency as follows:

(i) assets and liabilities are translated at the closing rate on the balance sheet date;

(ii) income and expenses are translated at the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of other comprehensive income.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

When a foreign operation is partially or totally disposed of, exchange differences that were recorded in equity are reclassified to the consolidated income statement.

2.5 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that carry a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are listed below with references to the locations of these items in the notes to the financial statements.

Critical Accounting Estimates and Judgements	Location
(a) Residual values of property, plant and equipment	Note 6
(b) Useful lives of vessels and vessel component costs	Note 6
(c) Impairment of vessels and vessels under construction	Note 6
(d) Income taxes	Note 27
(e) Classification of leases	Note 32(b)

4 SEGMENT INFORMATION

The Group manages its businesses by divisions. Reports are presented to the heads of divisions as well as the Board for the purpose of making strategic decisions, allocation of resources and assessing performance. The reportable operating segments in this note are consistent with how information is presented to the heads of divisions and the Board.

The Group's revenue is primarily derived from the provision of dry bulk shipping services internationally, and towage services to the harbour and offshore sectors in Australia and New Zealand.

"Treasury" manages the Group's cash and borrowings.

Geographical segment information is not presented as the Directors consider that the nature of the provision of shipping services, which are carried out internationally, preclude a meaningful allocation of operating profit to specific geographical segments.

Accounting policy – Segment reporting

Management's approach to internal review and reporting to the heads of divisions and the Board is used as the basis for preparing segment information of the Group's material operating segments.

Accounting policy – Revenue recognition

Revenue comprises the fair value of the consideration for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

(i) Freight and charter-hire

The Group generates revenue from shipping activities, the principal sources of which are derived from the pools of Handysize and Handymax vessels.

Revenues from the pools of Handysize and Handymax vessels are derived from a combination of time charters and voyage charters. Revenue from a time charter is recognised on a straight-line basis over the period of the lease. Revenue from a voyage charter is recognised on a percentage-of-completion basis, which is determined on a time proportion method of the voyage.

(ii) Other revenue

Maritime management services income is recognised when the services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

Finance lease interest income is recognised over the term of the lease using the net investment method, based on a constant periodic rate of return.

Dividend income is recognised when the right to receive payment is established.

Notes to the Financial Statements continued

4 SEGMENT INFORMATION (continued)

(a) Income statement segment information

For the year ended 31 December 2013 US$'000	Pacific Basin Dry bulk	PB Towage	All Other Segments	Total Segments	Unallocated Treasury	Unallocated PB RoRo	Unallocated Others	Total	Reclass-ification	Per Financial Statements
Continuing operations										
Revenue	1,599,373	107,988	593	1,707,954	–	–	(370)	1,707,584	1,208	1,708,792
Freight and charter-hire	1,599,373[1]	100,423	–	1,699,796	–	–	(370)[1]	1,699,426	1,208[1]	1,700,634
Maritime management services	–	7,565	593	8,158	–	–	–	8,158	–	8,158
Bunker & port disbursements	(863,858)[2]	(4,128)	–	(867,986)	–	–	192[2]	(867,794)	867,794[2]	–
Time charter equivalent earnings	735,515									
Direct costs	(688,635)	(97,266)	–	(785,901)	–	–	–	(785,901)	(867,794)	(1,653,695)
Bunker & port disbursements	–	–	–	–	–	–	–	–	(867,794)[2]	(867,794)
Charter-hire expenses for vessels	(488,781)	(11,199)	–	(499,980)	–	–	–	(499,980)	–	(499,980)
Vessel operating costs	(91,712)	(54,284)	–	(145,996)	–	–	–	(145,996)	–	(145,996)
Depreciation of vessels	(68,139)	(12,737)	–	(80,876)	–	–	–	(80,876)	–	(80,876)
Direct overheads	(40,003)	(19,046)	–	(59,049)	–	–	–	(59,049)	–	(59,049)
Gross profit	46,880	6,594	593	54,067	–	–	(178)	53,889	1,208	55,097
General and administrative expenses	–	–	–	–	(2,059)	–	(15,499)[3]	(17,558)	–	(17,558)
Other income and expenses	–	(132)	–	(132)	–	–	5,700[4]	5,568	(1,208)[1]	4,360
Finance costs, net	(20,825)	(931)	–	(21,756)	(2,337)	–	(13,350)[5]	(37,443)	–	(37,443)
Share of profits of joint ventures	–	5,028	–	5,028	–	–	–	5,028	–	5,028
Share of profits less losses of associates	–	–	–	–	–	–	1,542[7]	1,542	–	1,542
Profit/(loss) before taxation	26,055	10,559	593	37,207	(4,396)	–	(21,785)	11,026	–	11,026
Taxation	–	(97)	(1,071)	(1,168)	–	–	–	(1,168)	–	(1,168)
Profit/(loss) for the year	26,055	10,462	(478)	36,039	(4,396)	–	(21,785)	9,858	–	9,858
Discontinued operations										
Loss for the year	–	–	–	–	496	(500)	(8,331)[6]	(8,335)	–	(8,335)
Profit/(loss) attributable to shareholders	26,055	10,462	(478)	36,039	(3,900)	(500)	(30,116)	1,523	–	1,523

Note 1: Net unrealised forward freight agreement benefits and expenses are under "Unallocated Others". Net realised benefits and expenses are under "Pacific Basin Dry Bulk". For the presentation of the financial statements, realised and unrealised benefits and expenses are reclassified to other income and expenses. The related derivative assets and liabilities are under "Unallocated Others".

Note 2: Net unrealised bunker swap contract benefits and expenses are under "Unallocated Others". Net realised benefits and expenses are under "Pacific Basin Dry Bulk". For the presentation of the financial statements, bunkers & port disbursements are reclassified to direct costs. The related derivative assets and liabilities are under "Unallocated Others".

Note 3: "Unallocated Others" represents mainly corporate overheads. Direct overheads in "All Other Segments" were reclassified to general and administrative expenses under "Unallocated Others" following the wind-down of certain non-core operations.

Note 4: "Unallocated Others" mainly represents the exchange gain released from reserve arising from the repayment of equity shareholder loans by PB Towage amounting to US$5.1 million (2012: Nil).

For the year ended 31 December 2012 US$'000	Pacific Basin Dry Bulk	PB Towage	All Other Segments	Total Segments	Unallocated			Total	Reclass-ification	Per Financial Statements
					Treasury	PB RoRo	Others			
Continuing operations										
Revenue	1,292,417	149,516	805	1,442,738	–	–	214	1,442,952	134	1,443,086
Freight and charter-hire	1,292,417[1]	140,409	–	1,432,826	–	–	214[1]	1,433,040	134[1]	1,433,174
Maritime management services	–	9,107	805	9,912	–	–	–	9,912	–	9,912
Bunkers & port disbursements	(679,285)[2]	(3,582)	–	(682,867)	–	–	(3,969)[2]	(686,836)	686,836[2]	–
Time charter equivalent earnings	613,132									
Direct costs	(558,927)	(112,008)	–	(670,935)	–	–	–	(670,935)	(686,836)	(1,357,771)
Bunkers & port disbursements	–	–	–	–	–	–	–	–	(686,836)[2]	(686,836)
Charter-hire expenses for vessels	(400,152)	(12,150)	–	(412,302)	–	–	–	(412,302)	–	(412,302)
Vessel operating costs	(74,580)	(68,372)	–	(142,952)	–	–	–	(142,952)	–	(142,952)
Depreciation of vessels	(48,910)	(13,864)	–	(62,774)	–	–	–	(62,774)	–	(62,774)
Direct overheads	(35,285)	(17,622)	–[3]	(52,907)	–	–	–	(52,907)	–	(52,907)
Gross profit	54,205	33,926	805	88,936	–	–	(3,755)	85,181	134	85,315
General and administrative expenses	–	–	–	–	(2,289)	–	(11,997)[3]	(14,286)	–	(14,286)
Other income and expenses	–	–	51	51	32	–	(1,400)	(1,317)	(134)[1]	(1,451)
Finance costs, net	(14,930)	(953)	741	(15,142)	(3,781)	–	449[5]	(18,474)	–	(18,474)
Share of profits less losses of joint ventures	–	5,384	124	5,508	–	–	–	5,508	–	5,508
Share of profits less losses of associates	–	–	233	233	–	–	(3,000)[7]	(2,767)	–	(2,767)
Profit/(loss) before taxation	39,275	38,357	1,954	79,586	(6,038)	–	(19,703)	53,845	–	53,845
Taxation	–	(880)	(744)	(1,624)	–	–	–	(1,624)	–	(1,624)
Profit/(loss) for the year	39,275	37,477	1,210	77,962	(6,038)	–	(19,703)	52,221	–	52,221
Discontinued operations										
Loss for the year	–	–	–	–	–	(12,112)	(198,581)[6]	(210,693)	–	(210,693)
Profit/(loss) attributable to shareholders	39,275	37,477	1,210	77,962	(6,038)	(12,112)	(218,284)	(158,472)	–	(158,472)

Note 5: "Unallocated Others" represents net unrealised interest rate swap contract benefits of US$2.0 million (2012: US$0.4 million) which was offset by a break cost relating to the repayment of the finance lease liabilities upon the exercise of ten purchase options under finance leases amounting to US$15.3 million (2012: Nil).

Note 6: "Unallocated Others" in 2013 represents the release from foreign exchange reserve amounting to US$8.3 million (2012: US$8.2 million) in relation to three (2012: two) RoRo vessels whose bareboat charters to the purchaser commenced in 2013. The amount for 2012 also included the impairment charge of US$190.0 million of the RoRo vessels (see also Note 20).

Note 7: "Unallocated Others" in 2013 mainly represents the write-back of impairment charge (2012: impairment charge of US$3.0 million) on the Gold River Marine Terminal project.

Notes to the Financial Statements continued

4 SEGMENT INFORMATION (continued)

(b) Balance Sheet segment information

At 31 December 2013 US$'000	Pacific Basin Dry Bulk	PB Towage	All Other Segments	Total Segments	Unallocated Treasury	Unallocated PB RoRo	Unallocated Others	Per Financial Statements
Total assets	1,654,865	243,693	12,542	1,911,100	579,309	31,624	15,413 [1,2]	2,537,446
Including:								
Property, plant and equipment	1,436,312	183,035	2,950	1,622,297	–	–	–	1,622,297
– Include additions to PP&E	442,147	14,350	1,863	458,360	–	–	–	458,360
Interests in joint ventures	–	26,650	–	26,650	–	–	–	26,650
– Include additions to interest in a joint venture	–	17,999	–	17,999	–	–	–	17,999
Investments in associates	–	–	1,332	1,332	–	–	–	1,332
Total cash and deposits	–	15,361	120	15,481	470,581	–	–	486,062
Total liabilities	1,160,396	39,788	882	1,201,066	12,065	3,452	16,569 [1,2]	1,233,152
Including:								
Long term borrowings	1,015,012	22,213	–	1,037,225	–	–	–	1,037,225

- Vessels delivered & under construction
- Goodwill

- Properties

- Group unallocated cash
- RoRo receivables

- Derivative assets

- Gold River Marine Terminal, Canada

- OMSA
- Bunker tanker, N.Z.

- Bank loans
- Convertible bonds
- Finance lease liabilities

- Bank loans

- Derivative liabilities

At 31 December 2012 US$'000	Pacific Basin Dry Bulk	PB Towage	All Other Segments	Total Segments	Unallocated Treasury	Unallocated PB RoRo	Unallocated Others	Per Financial Statements
Total assets	1,292,280	271,829	20,009	1,584,118	744,584	131,409	10,164 [1,2]	2,470,275
Including:								
Property, plant and equipment	1,056,981	207,777	5,444	1,270,202	–	–	–	1,270,202
– Include additions to PP&E	170,677	3,574	1,733	175,984	–	19,366	–	195,350
Interests in joint ventures	–	18,777	–	18,777	–	–	3,341	22,118
Investments in associates	–	–	1,332	1,332	–	–	–	1,332
Total cash and deposits	50,088	23,500	64	73,652	679,761	–	45	753,458
Total liabilities	437,013	55,276	1,597	493,886	617,827	4,257	22,284 [1,2]	1,138,254
Including:								
Long term borrowings	301,272	31,079	–	332,351	599,120	–	–	931,471

5 EXPENSES BY NATURE

US$'000	2013	2012
Bunkers consumed	540,210	445,275
Operating lease expenses		
– vessels	499,980	412,302
– land and buildings	4,978	3,730
Port disbursements and other voyage costs	326,391	245,202
Depreciation		
– owned vessels	69,966	50,845
– leased vessels	10,910	11,929
– other owned property, plant and equipment	1,737	1,612
– investment properties	67	65
Amortisation of land use rights	113	115
Employee benefit expenses including Directors' emoluments (see Remuneration Report)	53,881	47,200
Lubricating oil consumed	6,697	5,931
Losses on forward freight agreements	3,718	2,619
Net exchange losses	2,160	592
Provision for impairment losses		
– Trade receivables	1,530	1,801
– Available-for-sale financial assets	–	1,400
Provision for onerous contracts	656	–
Auditors' remuneration		
– audit	1,226	1,731
– non-audit	1,424	506
Net (gains)/losses on forward foreign exchange contracts	(481)	482
Net losses/(gains) on bunker swap contracts	279	(4,566)
Vessel and other expenses	150,186	147,381
Total of (i) "direct costs", (ii) "general and administrative expenses" and (iii) "other expenses"	1,675,628	1,376,152

Total administrative expenses

Administrative expenses can be broken down as follow:

US$' Million	2013	2012
Direct overheads	59.0	52.9
General and administrative expenses	17.6	14.3
Total administrative expenses	76.6	67.2

The increase of US$6.1 million in direct overheads was primarily in relation to the expanded dry bulk business activities. The increase of US$3.3 million in general and administrative expenses was primarily due to professional costs related to exploring exit options for the Towage business.

These excluded expenses in relation to the RoRo operations as this has been reclassified as part of the loss for the year on discontinued operations.

Operating lease expenses

Contingent lease payments made amounted to US$116.5 million (2012: US$64.9 million). These related to dry bulk vessels chartered-in on an index-linked basis.

Depreciation

Owned vessels depreciation of US$50.8 million in 2012 excludes an amount of US$7.9 million in relation to the RoRo vessels as this has been reclassified as part of the loss for the year on discontinued operations. There is no depreciation for RoRo vessels in 2013.

Other expenses

Movements in the fair value and payments for forward freight agreements amounted to US$3.7 million (2012: US$2.6 million). Taking into account the movements in fair value and receipts of US$2.5 million (2012: US$2.5 million) included in other income, the net movement in the fair value and payments for forward freight agreements resulted in an expense of US$1.2 million (2012: US$0.1 million).

Notes to the Financial Statements continued

5 EXPENSES BY NATURE (continued)

Accounting policy – Impairment

Impairment of investments and non-financial assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation but are tested annually for impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In assessing whether there is any indication that an asset may be impaired, internal and external sources of information are considered. If any such indication exists, the recoverable amount of the asset is assessed. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, being the higher of (i) an asset's fair value less costs to sell and (ii) the value-in-use.

The fair value of vessels and vessels under construction is determined either by the market valuation or by independent valuers.

The value-in-use of the vessels represents estimated future cash flows from the continuing use of the vessels. For the purposes of assessing impairment, assets are grouped into the lowest levels at which there are separately identifiable cash flows. This level is described as a cash-generating unit ("CGU"). The way in which assets are grouped to form a CGU and the related cash flows associated with the CGU may in certain circumstances affect whether an impairment loss is recorded. Generally, the larger the grouping of assets and the broader the grouping of independent cash flows, the less likely it is that an impairment loss will be recorded as reductions in one cash inflow are more likely to be compensated by increases in other cash inflows within the same CGU.

Assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each balance sheet date.

Impairment of available-for-sale financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset, or a group of financial assets, is impaired. In the case of equity security classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity securities are not reversed through the consolidated income statement.

Impairment of trade and other receivables

A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect the amount due according to the original terms of that receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within "direct costs". When a trade receivable is uncollectable, it is written off against the provision for impairment.

6 PROPERTY, PLANT AND EQUIPMENT

	Group						
US$'000	Vessels and vessel component costs	Vessels under construction	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
Cost							
At 1 January 2013	1,361,478	183,572	3,264	3,876	8,172	234	1,560,596
Additions	267,134	189,363	–	1,195	666	2	458,360
Disposals	(4,052)	–	(1,954)	–	–	–	(6,006)
Write offs	(11,365)	–	–	–	(178)	–	(11,543)
Transfer from other non-current assets	5,322	–	–	–	–	–	5,322
Exchange differences	(31,617)	–	(79)	(245)	(173)	(3)	(32,117)
Reclassification	343,831	(343,831)	–	–	–	–	–
At 31 December 2013	1,930,731	29,104	1,231	4,826	8,487	233	1,974,612
Accumulated depreciation and impairment							
At 1 January 2013	281,000	–	415	3,238	5,532	209	290,394
Charge for the year	80,876	–	92	382	1,254	9	82,613
Disposals	(1,665)	–	(425)	–	–	–	(2,090)
Write offs	(11,365)	–	–	–	(178)	–	(11,543)
Exchange differences	(6,896)	–	8	(83)	(88)	–	(7,059)
At 31 December 2013	341,950	–	90	3,537	6,520	218	352,315
Net book value							
At 31 December 2013	1,588,781	29,104	1,141	1,289	1,967	15	1,622,297

Estimated useful lives for the year ended 2013 and 2012	Dry bulk vessels: 25 years Towage vessels: 30 years Vessel component costs: estimated period to the next drydocking Vessels under construction: N/A	50 years	4 to 5 years or the remaining lease period if shorter	3 to 5 years	4 to 5 years	

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6 PROPERTY, PLANT AND EQUIPMENT (continued)

	Group						
US$'000	Vessels and vessel component costs	Vessels under construction	Buildings	Leasehold improve-ments	Furniture, fixtures and equipment	Motor vehicles	Total
Cost							
At 1 January 2012	1,669,357	184,888	3,237	3,650	7,226	216	1,868,574
Additions	46,698	141,597	–	268	1,451	14	190,028
Disposal	–	–	–	(15)	(333)	–	(348)
Disposal of subsidiaries	–	–	–	(88)	(224)	–	(312)
Write off	(6,930)	–	–	–	–	–	(6,930)
Transfer from other non-current assets	4,400	–	–	–	–	–	4,400
Transfer to assets held for sale	(496,934)	–	–	–	–	–	(496,934)
Exchange differences	1,974	–	27	61	52	4	2,118
Reclassification	142,913	(142,913)	–	–	–	–	–
At 31 December 2012	1,361,478	183,572	3,264	3,876	8,172	234	1,560,596
Accumulated depreciation and impairment							
At 1 January 2012	315,212	19,961	314	3,001	4,731	170	343,389
Charge for the year	70,647	–	98	285	1,192	37	72,259
Impairment charge	190,398	–	–	–	–	–	190,398
Disposals	–	–	–	(15)	(269)	–	(284)
Disposal of subsidiaries	–	–	–	(79)	(174)	–	(253)
Transfer to assets held for sale	(312,710)	–	–	–	–	–	(312,710)
Write off	(6,930)	–	–	–	–	–	(6,930)
Exchange differences	4,422	–	3	46	52	2	4,525
Reclassification	19,961	(19,961)	–	–	–	–	–
At 31 December 2012	281,000	–	415	3,238	5,532	209	290,394
Net book value							
At 31 December 2012	1,080,478	183,572	2,849	638	2,640	25	1,270,202

(a) Vessels and vessel component costs include:

	2013		2012	
US$'000	**Aggregate cost**	**Accumulated depreciation**	Aggregate cost	Accumulated depreciation
Vessel component costs	**57,374**	**(28,318)**	43,593	(26,596)
Vessels and vessel component costs under finance leases	**53,591**	**(28,570)**	241,699	(85,683)

(b) Certain owned vessels of net book value of US$1,225,336,000 (2012: US$697,086,000) were pledged to banks as securities for bank loans granted to certain subsidiaries of the Group (Note 22(b)(i)).

(c) Vessels under construction includes an amount of US$23,138,000 (2012: US$2,949,000) paid by the Group in relation to vessels whose construction work had not yet commenced.

(d) During the year, the Group had capitalised borrowing costs amounting to US$3,305,000 (2012: US$3,642,000) on qualifying assets (Note 26). Borrowing costs were capitalised at the weighted average rate of 3.2% of the Group's general borrowings.

Accounting policies – Property, plant and equipment

Please refer to Note 5 for the accounting policy on impairment and Note 22(a) for that on finance leased fixed assets.

Vessels and vessel component costs

Vessels are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition for its intended use. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of vessels.

Vessel component costs include the cost of major components which are usually replaced or renewed at drydockings. The assets are stated at cost less accumulated depreciation and accumulated impairment losses. The Group subsequently capitalises drydocking costs as they are incurred.

Vessels under construction

Vessels under construction are stated at cost and are not subject to depreciation. All direct costs relating to the construction of vessels, including borrowing costs (see below) during the construction period, are capitalised as cost of vessels. When the assets concerned are brought into use, the costs are transferred to vessels and vessel component costs and depreciated in accordance with the policy on depreciation.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Other property, plant and equipment

Other property, plant and equipment, comprising buildings, leasehold improvements, furniture, fixtures and equipment and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is either included in the carrying amount of the assets or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the expenditure will accrue to the Group and such expenditure can be measured reliably. The carrying amount of a replaced part is written off. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation

Depreciation of property, plant and equipment is calculated using straight-line method to allocate their cost to their residual values over their remaining estimated useful lives.

Residual values and useful lives

The residual values of the Group's assets are defined as the estimated amounts that the Group would obtain from disposal of the assets, after deducting the estimated costs of disposals, as if the assets were already of the age and in the conditions expected at the end of their useful lives.

Useful lives of the Group's vessels and vessel component costs are defined as the period over which they are expected to be available for use by the Group.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains or losses on disposal

Gains or losses on disposal are determined by comparing the proceeds with the carrying amounts and are recognised in the income statement.

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6 PROPERTY, PLANT AND EQUIPMENT (continued)

Critical accounting estimates and judgements –

Residual values of property, plant and equipment

The Group estimates residual values of its vessels by reference to the lightweight tonnes of the vessels and the average demolition steel price of similar vessels in the Far East market and Indian Sub-Continent market.

- *Sensitivity analysis:*

With all other variables held constant, if the residual value increases/decreases by 10% from management estimates, the depreciation expense would decrease/increase by US$1.2 million in the next year.

Useful lives of vessels and vessel component costs

The Group estimates useful life of its vessels by reference to the average historical useful life of similar class of vessels, their expected usage, expected repair and maintenance programme, and technical or commercial obsolescence arising from changes or improvements in the vessel market.

The Group estimates the useful life of its vessel component costs by reference to the average historical periods between drydocking cycles of vessels of similar age, and the expected usage of the vessel until its next drydock.

- *Sensitivity analysis:*

With all other variables held constant, if the useful lives increase/decrease by 3 years from management estimates, the depreciation expense would decrease by US$10.8 million or increase by US$15.2 million in the next year.

Impairment of vessels and vessels under construction

The Group tests whether the carrying value of vessels and vessels under construction have suffered any impairment in accordance with the accounting policy on impairment of investments and non-financial assets (note 5). In assessing the indicators of potential impairment, internal and external sources of information such as reported sale and purchase prices, market demand and general market conditions are considered. In assessing the fair market value and value-in-use, the information above as well as market valuations from leading, independent and internationally recognised shipbroking companies are considered.

The value-in-use of the vessels is an assessment of assumptions and estimates of vessel future earnings and appropriate discount rates to derive the present value of those earnings. The discount rates used are based on the industry sector risk premium relevant to the CGU and the applicable gearing ratio of the CGU.

For the 2013 PB Towage value-in-use assessment, the applicable discount rate is 7.2% (2012: 8.1%).

- *Sensitivity analysis:*

With all other variables held constant, increasing the discount rates of PB Towage by 1% from the original estimate will not give rise to any impairment.

7 INVESTMENT PROPERTIES

	Group	
US$'000	**2013**	2012
At 1 January	**2,675**	2,734
Depreciation	**(67)**	(65)
Exchange difference	**67**	6
At 31 December	**2,675**	2,675
Estimated useful lives	**45 years**	45 years

The investment properties were valued at 31 December 2013 by an independent qualified valuer on the basis of market value. The fair value of the investment properties was approximately US$4,310,000 (2012: US$4,192,000).

Accounting policy

Investment properties comprising mainly buildings are held for a combination of rental yields and capital appreciation. Investment properties are stated initially at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate their costs to their residual values over their estimated useful lives. The residual values and useful lives of investment properties are reviewed, and adjusted if appropriate, at each balance sheet date.

Please refer to Note 5 for the accounting policy on impairment.

8 LAND USE RIGHTS

The Group's interest in land use rights represents prepaid operating lease payments in the PRC with lease periods between 10 to 50 years. The land use rights related to "Buildings" in Note 6 & "Investment Properties" in Note 7.

	Group	
US$'000	2013	2012
At 1 January	**3,767**	3,874
Amortisation	**(113)**	(115)
Exchange difference	**82**	8
Disposal	**(765)**	–
At 31 December	**2,971**	3,767

Accounting policy

The upfront prepayments made for land use rights are expensed in the income statement on a straight line basis over the period of the lease or, when there is impairment, are recognised in the income statement immediately.

Please refer to Note 5 for the accounting policy on impairment.

9 GOODWILL

	Group	
US$'000	2013	2012
At 1 January/31 December	**25,256**	25,256

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

The recoverable amount of Pacific Basin Dry Bulk to which the goodwill relates has been determined based on a value-in-use calculation over its useful life. The calculation is based on a one-year budget and a further two-year outlook. Key assumptions were based on past performance, management's expectations on market development and general inflation. Cash flows beyond the three year period are extrapolated assuming zero growth and no material change in the existing scope of business, business environment and market conditions. The discount rate applied to the cash flow projections is 7.4% (2012: 7.9%) reflecting the Group's cost of capital.

Based on the assessment performed, no impairment provision against the carrying value of goodwill is considered necessary.

Accounting policy

Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity being sold. It is tested annually for impairment in accordance with the accounting policy on impairment in Note 5. Impairment losses on goodwill are not reversible.

10 SUBSIDIARIES

	Company	
US$'000	2013	2012
Non-current assets		
Unlisted investments, at cost	**828,853**	835,918
Current assets		
Amounts due from subsidiaries	**642,136**	974,839
Current liabilities		
Amounts due to subsidiaries	**(14,928)**	(340,025)

The amounts due from and to subsidiaries are unsecured, non-interest bearing and repayable on demand.

The carrying values of amounts due from and to subsidiaries approximate their fair values due to the short-term maturities of these assets and liabilities.

Details of principal subsidiaries of the Group as at 31 December 2013 are set out in Note 38.

Accounting policy – Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Notes to the Financial Statements continued

10 SUBSIDIARIES (continued)

Accounting policy – Consolidation (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. In each acquisition case, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The financial information of subsidiaries has been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investments. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Please refer to Note 5 for the accounting policy on impairment.

11 INTERESTS IN JOINT ARRANGEMENTS

(a) Joint ventures

	Group	
US$'000	**2013**	2012
Share of net assets	**18,505**	18,892
Goodwill	**5,133**	–
Equity loan to a joint venture *(Note)*	**3,012**	3,226
	26,650	22,118

Note: The equity loan to Seafuels Limited is unsecured, non-interest bearing, and has no fixed repayment terms. The Group does not plan to request for the repayment in the foreseeable future.

An analysis of the Group's effective share of assets, liabilities, revenue and expenses of the joint ventures, which is mainly contributed by OMSA, is set out below:

	Group	
US$'000	**2013**	2012
Assets		
Non-current assets	**10,444**	10,103
Current assets	**38,590**	35,421
	49,034	45,524
Liabilities		
Non-current liabilities	**(11,834)**	(8,939)
Current liabilities	**(18,695)**	(17,693)
	(30,529)	(26,632)
Net assets	**18,505**	18,892

US$'000	**2013**	2012
Revenue	**146,276**	107,521
Expenses	**(141,248)**	(102,013)
Share of results	**5,028**	5,508

There are no contingent liabilities relating to the Group's interests in joint ventures, and there are no contingent liabilities or commitments of the joint ventures themselves.

11 INTERESTS IN JOINT ARRANGEMENTS (continued)

(a) Joint ventures (continued)

Accounting policy – Joint ventures

A joint ventures is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Interests in joint ventures are accounted for in the consolidated financial statements using the equity method of accounting and are initially recognised at cost. The Group's interests in joint ventures include goodwill (net of any accumulated impairment losses) identified on acquisition.

The Group's share of its joint ventures' post-acquisition profits or losses is recognised in the consolidated income statement and its share of post-acquisition reserves is recognised in other comprehensive income based on the relevant profit sharing ratios.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint ventures that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that results from the purchase of assets by the Group from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss. The financial information of joint ventures has been adjusted where necessary to ensure consistency with the policies adopted by the Group.

Please refer to Note 5 for the accounting policy on impairment.

Details of the principal joint ventures of the Group held indirectly by the Company at 31 December 2013 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid up share capital	Interest in ownership/ voting power/ profit sharing	Principal activities
PB Towage:				
Offshore Marine Services Alliance Pty Ltd ("OMSA")	Australia	300 shares of AUD1 each	50%	Towage logistic services
Seafuels Limited	New Zealand	100 shares of NZD1 each	50%	Bunker tanker owning and chartering

(b) Joint operation

In 2013, the Group had a contractual arrangement with a third party to share equally the operating result associated with the chartering of a vessel (joint operation). The amounts of income and expenses recognised in respect of the Group's interest in the joint operation are as follow:

	Group	
US$'000	**2013**	2012
Charter-hire income included in revenue	**4,593**	4,604
Charter-hire expenses included in direct costs	**(3,384)**	(3,386)
	1,209	1,218

Accounting policy – Joint operation

A joint operation is a contractual arrangement whereby the Group and other parties combine their operations, resources and expertise to undertake an economic activity in which each party takes a share of the revenue and costs in the economic activity, such a share being determined in accordance with the contractual arrangement.

The assets that the Group controls and liabilities that the Group incurs in relation to the joint operation are recognised in the consolidated balance sheet on an accrual basis and classified according to the nature of the item. The expenses that the Group incurs and its share of income that it earns from the joint operations are included in the consolidated income statement.

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12 INVESTMENTS IN ASSOCIATES

US$'000	Group 2013	2012
Share of net assets	1,332	1,332

An analysis of the Group's effective share of assets, liabilities, revenue and expenses of the associates is set out below:

US$'000	Group 2013	2012
Assets		
Non-current assets	4,478	4,478
Current assets	351	351
	4,829	4,829
Liabilities		
Non-current liabilities	(1,933)	(1,933)
Current liabilities	(1,564)	(1,564)
	(3,497)	(3,497)
Net assets	1,332	1,332

	2013	2012
Revenue	–	725
Expenses	–	(492)
Share of results	–	233

Group's total share of results of associates of US$1,542,000 profit (2012: US$2,767,000 loss) mainly represents the write-back of impairment charge (2012: impairment charge of US$3,000,000) on the Gold River Marine Terminal project.

Accounting policy – Associates

An associate is an entity over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment losses) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in other comprehensive income based on the relevant profit sharing ratios. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The financial information of the associates has been adjusted where necessary to ensure consistency with the policies adopted by the Group.

Please refer to Note 5 for the accounting policy on impairment.

Details of the principal associate of the Group held indirectly by the Company at 31 December 2013 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid up share capital	Interest in ownership/ voting power/ profit sharing	Principal activities
All Other Segments:				
Muchalat Industries Limited	BC, Canada	120 Class A common shares of CAD1 each	44.2%	Gold River Marine Terminal operation

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group					
	2013			2012		
US$'000	**Level 1**	**Level 3**	**Total**	Level 1	Level 3	Total
Listed equity securities *(Note a)*	**4,365**	**–**	**4,365**	4,200	–	4,200
Unlisted equity securities *(Note b)*	**–**	**529**	**529**	–	529	529
	4,365	**529**	**4,894**	4,200	529	4,729

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

(b) Unlisted equity securities represent the Group's investment in an unlisted renewable energy equity fund.

Available-for-sale financial assets have been analysed by valuation method as above and the levels are defined as follows:

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).

Changes in Level 3 financial instruments, unlisted equity securities, for the year ended 31 December 2013 are as follows:

US$'000	**2013**	2012
At 1 January	**529**	1,747
Additions	**–**	1,576
Return of capital	**–**	(1,394)
Impairment charge	**–**	(1,400)
At 31 December	**529**	529

Accounting policy – Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories under financial assets. They are included in non-current assets unless management intends to dispose of them within twelve months from the balance sheet date.

Assets in this category are initially recognised at fair value plus transaction costs and are subsequently carried at fair value. Gains and losses arising from changes in the fair value are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are released to the income statement.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of finance income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other substantially similar instruments, and discounted cash flow analysis.

Please refer to Note 5 for the accounting policy on impairment.

Notes to the Financial Statements continued

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 by way of:

- forward freight agreements ("FFA");
- bunker swap contracts;
- interest rate swap contracts; and
- forward foreign exchange contracts.

Amongst the derivative assets and liabilities held by the Group, the fair values of forward foreign exchange contracts, interest rate swap contracts and bunker swap contracts are quoted by dealers at the balance sheet date. The forward freight agreements are traded through a clearing house and its fair value is determined using forward freight rates at the balance sheet date. The rest of the derivative assets and liabilities are over-the-counter derivatives which are not traded in an active market.

Derivative assets and liabilities have been analysed by valuation method. Please refer to Note 13 Fair value levels for the definitions of different levels.

	Group					
		2013			2012	
US$'000	Level 1	Level 2	Total	Level 1	Level 2	Total
Derivative assets						
Cash flow hedges						
Forward foreign exchange contracts *(Note a(i))*	–	12,638	12,638	–	4,447	4,447
Interest rate swap contracts *(Note d(i))*	–	177	177	–	–	–
Derivative assets that do not qualify for hedge accounting						
Forward foreign exchange contracts *(Note a(ii))*	–	–	–	–	6	6
Bunker swap contracts *(Note b)*	–	1,386	1,386	–	2,273	2,273
Forward freight agreements *(Note c)*	1,212	–	1,212	96	–	96
Total	1,212	14,201	15,413	96	6,726	6,822
Less: non-current portion of						
Forward foreign exchange contracts *(Note a(i))*	–	(12,638)	(12,638)	–	(4,447)	(4,447)
Interest rate swap contracts *(Note d(i))*	–	(177)	(177)	–	–	–
Bunker swap contracts *(Note b)*	–	(360)	(360)	–	(628)	(628)
Non-current portion	–	(13,175)	(13,175)	–	(5,075)	(5,075)
Current portion	1,212	1,026	2,238	96	1,651	1,747
Derivative liabilities						
Cash flow hedges						
Forward foreign exchange contracts *(Note a(i))*	–	8,954	8,954	–	5,014	5,014
Interest rate swap contracts *(Note d(i))*	–	6,508	6,508	–	10,190	10,190
Derivative liabilities that do not qualify for hedge accounting						
Forward foreign exchange contracts *(Note a(ii))*	–	–	–	–	488	488
Bunker swap contracts *(Note b)*	–	1,275	1,275	–	2,354	2,354
Forward freight agreements *(Note c)*	1,666	–	1,666	180	–	180
Interest rate swap contracts *(Note d(ii))*	–	4,956	4,956	–	6,907	6,907
Total	1,666	21,693	23,359	180	24,953	25,133
Less: non-current portion of						
Forward foreign exchange contracts *(Note a)*	–	(6,772)	(6,772)	–	(4,894)	(4,894)
Interest rate swap contracts *(Note d(i))*	–	(6,501)	(6,501)	–	(9,974)	(9,974)
Bunker swap contracts *(Note b)*	–	(551)	(551)	–	(909)	(909)
Interest rate swap contracts *(Note d(ii))*	–	(4,955)	(4,955)	–	(6,907)	(6,907)
Non-current portion	–	(18,779)	(18,779)	–	(22,684)	(22,684)
Current portion	1,666	2,914	4,580	180	2,269	2,449

(a) Forward foreign exchange contracts

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

The Group has long term bank borrowings denominated in Danish Kroner ("DKK") with maturity in August 2023. To hedge against the potential fluctuations in foreign exchange, the Group entered into forward foreign exchange contracts with terms that match the repayment schedules of such long term bank borrowings. These forward foreign exchange contracts qualify for hedge accounting as cash flow hedges.

At 31 December 2013, the Group had outstanding forward foreign exchange contracts with banks to buy approximately DKK 1,290.3 million (2012: DKK 1,442.7 million) and simultaneously sell approximately US$233.0 million (2012: US$260.8 million), which expire through August 2023.

At 31 December 2013, the Group had outstanding forward foreign exchange contracts with banks to buy approximately US$129.1 million (2012: US$181.1 million) and simultaneously sell approximately EUR 100.0 million (2012: EUR 140.0 million) for the sale proceeds of our four (2012: six) RoRo vessels that are denominated in Euros. These contracts expire through December 2015.

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

At 31 December 2012, the Group had outstanding forward foreign exchange contracts with banks to buy approximately US$79.6 million and simultaneously sell approximately EUR 60.7 million for our cash that was denominated in Euros. These contracts expired in 2013.

- *Sensitivity analysis:*

With all other variables held constant, if the currencies of Non-Functional Currency Items had weakened/strengthened by 3% against United States Dollars, the Group's profit after tax and equity would have been decreased/increased by US$0.6 million (2012: US$2.3 million) mainly as a result of translation of cash and deposits denominated in Australian Dollars.

(b) Bunker swap contracts

The Group enters into bunker swap contracts to manage the fluctuations in bunker prices in connection with the Group's cargo contract commitments.

At 31 December 2013, the Group had outstanding bunker swap contracts to buy approximately 171,600 (2012: 201,150) metric tonnes of bunkers. These contracts expire through December 2018 (2012: December 2017).

- *Sensitivity analysis:*

With all other variables held constant, if the average forward bunker rate on the bunker swap contracts held by the Group at the balance sheet date had been 10% higher/lower, the Group's profit after tax and equity would increase/decrease by approximately US$10.2 million (2012: US$12.1 million). Future movements in bunker price will be reflected in the eventual operating results derived from the vessels, which would offset such increase/decrease of the Group's profit after tax and equity.

(c) Forward freight agreements

The Group enters into forward freight agreements as a method of managing its exposure to both its physical tonnage and cargo with regard to its Handysize and Handymax vessels.

At 31 December 2013, the Group had outstanding forward freight agreements as follows:

Contract Type	Index[1]	Quantity (days)	Contract Daily Price (US$)	Expiry thru
For 2013				
Buy	**BHSI**	**360**	**8,750**	**December 2014**
Sell	**BHSI**	**120**	**8,500 to 8,550**	**March 2014**
Buy	**BSI**	**420**	**9,900 to 12,300**	**December 2014**
Sell	**BSI**	**810**	**8,500 to 12,750**	**December 2014**
For 2012				
Buy	BSI	90	9,000	March 2013
Sell	BSI	135	6,950 to 9,250	March 2013

[1] *"BSI" represents "Baltic Supramax Index" and "BHSI" represents "Baltic Handysize Index".*

- *Sensitivity analysis:*

With all other variables held constant, if the average forward freight rate on FFA contracts held by the Group at the balance sheet date had been 20% higher/lower, the Group's profit after tax and equity would decrease/increase by approximately US$0.5 million (2012: approximately US$0.1 million). Future movements in charter rates will be reflected in the eventual operating revenue derived from the vessels, which would offset such decrease/increase of the Group's profit after tax and equity.

Notes to the Financial Statements continued

14 DERIVATIVE ASSETS AND LIABILITIES (continued)

(d) Interest rate swap contracts

The Group has bank borrowings exposed to floating interest rates. In order to hedge against the fluctuations in interest rates related to the bank borrowings, the Group entered into interest rate swap contracts with banks to manage exposure to 3-month and 6-month floating rate LIBOR, and 3-month floating Bank Bill Swap Reference Rate ("BBSW").

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

Effective date	Notional amount	Swap details	Expiry
For 2013			
28 March 2013 & 30 April 2013	A$5.4 million	3-month floating rate BBSW swapped to a fixed rate of approximately 3.2% per annum	Contracts expire through April 2014
30 December 2013 & 21 January 2014	US$178.1 million on amortising basis	3-month floating rate LIBOR swapped to a fixed rate of approximately 1.9% to 2.1% per annum	Contracts expire through December 2021
For 2013 & 2012			
2 January 2007	US$20 million	6-month floating rate LIBOR swapped to a fixed rate of approximately 5.6% per annum	Contract expires in January 2017
31 March 2009	US$100 million	3-month floating rate LIBOR swapped to fixed rates of approximately 2.9% to 3.0% per annum	Contracts expire through March 2016
For 2012			
30 June 2009	A$19 million	3-month floating rate BBSW swapped to a fixed rate of approximately 5.2% per annum	Contract expired in June 2013

(ii) Interest rate swap contracts that do not qualify for hedge accounting

Effective from 2 January 2007, a notional amount of US$40 million with the 6-month floating rate LIBOR swapped to a fixed rate of approximately 5.0% per annum so long as the 6-month floating rate LIBOR remains below the agreed cap strike level of 6.0%. This fixed rate switches to a discounted floating rate (discount is approximately 1.0%) for the 6-month fixing period when the prevailing 6-month floating rate LIBOR is above 6.0% and reverts back to the fixed rate should the 6-month floating rate LIBOR subsequently drop below 6.0%.

This contract expires in January 2017.

- *Sensitivity analysis:*

With all other variables held constant, if the average interest rate on net cash balance subject to floating interest rates, which includes cash and deposits net of unhedged bank loans, held by the Group at the balance sheet date had been 50 basis point higher/lower, the Group's profit after tax and equity would increase/decrease by approximately US$1.9 million (2012: US$3.4 million).

During the year ended 31 December 2013, the Group recognised net derivative expense of US$4.8 million, as follows:

US$ Million	Realised	Unrealised	2013	2012
Income				
Forward freight agreements	1.1	1.4	**2.5**	2.5
Bunker swap contracts	2.2	2.2	**4.4**	25.0
Interest rate swap contracts	–	2.0	**2.0**	0.4
Forward foreign exchange contracts	–	0.5	**0.5**	–
	3.3	6.1	**9.4**	27.9
Expenses				
Forward freight agreements	(1.9)	(1.8)	**(3.7)**	(2.6)
Bunker swap contracts	(2.7)	(2.0)	**(4.7)**	(20.4)
Interest rate swap contracts	(5.8)	–	**(5.8)**	(5.4)
Forward foreign exchange contracts	–	–	**–**	(0.5)
	(10.4)	(3.8)	**(14.2)**	(28.9)

Presentation in the Segment Information:	Net	Realised	Unrealised	2013	2012	Presentation in the Financial Statements:
Revenue	Forward freight agreements	(0.8)	(0.4)	**(1.2)**	(0.1)	*Revenue* *Bunkers & port disbursements* *Direct costs* *Other income/Other expenses*
Bunkers & port disbursements	Bunker swap contracts	(0.5)	0.2	**(0.3)**	4.6	
Direct costs *Other income/Other expenses*						
Finance costs	Interest rate swap contracts	(5.8)	2.0	**(3.8)**	(5.0)	*Finance costs*
General and administration	Forward foreign exchange contracts	–	0.5	**0.5**	(0.5)	*General and administration*
Profit for the year		(7.1)	2.3	**(4.8)**	(1.0)	*Profit for the year*

Realised:
- *Cash settlement of contracts completed in the year*
- *Included in segment results*

Unrealised:
- *Contracts to be settled in future years*
- *Accounting reversal of earlier year contracts now completed*
- *Not part of segment results*

The application of HKAS 39 "Financial Instruments: Recognition and Measurement" has the effect of shifting to this year the estimated results of these derivative contracts that expire in future periods. In 2013 this created a net unrealised non-cash benefit of US$2.3 million (2012: expense of US$3.8 million). The cash flows of these contracts will occur in future reporting years.

Notes to the Financial Statements continued

14 DERIVATIVE ASSETS AND LIABILITIES (continued)

Accounting policy – Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Derivatives are classified as current and non-current assets according to their respective settlement dates.

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement, and are subsequently remeasured at their fair values. Gains and losses arising from changes in the fair values are included in the other income or other expenses in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

In the cash flow statement, financial assets held for trading are presented within "operating activities" as part of changes in working capital.

Derivative financial instruments and hedging activities

The method of recognising the resulting gain or loss arising from changes in fair value for derivative financial instruments depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as cash flow hedges.

The Group documents at the inception of the transaction the relationship between the hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting the changes in fair values or cash flows of the hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months after the balance sheet date. A trading derivative is classified as a current asset or liability.

(i) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income and expenses.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. The deferred amounts are ultimately recognised in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recycled when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in equity is immediately transferred to the income statement.

(ii) Derivatives not qualifying for hedge accounting

Derivative instruments that do not qualify for hedge accounting are accounted for as financial assets and liabilities at fair value through profit or loss. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

Bunker swap contracts and forward freight agreements do not qualify for hedge accounting mainly because the contract periods, which are in calendar months, do not coincide with the periods of the physical contracts. The terms of one of the interest rate swap contracts also did not qualify for hedge accounting.

15 TRADE AND OTHER RECEIVABLES

US$'000	Group 2013	2012
Non-current receivables		
Other receivables from disposal of RoRos *(Note a)*	**65,975**	58,039
Total	**65,975**	58,039
Current receivables		
Finance lease receivables – gross	**–**	5,392
Less: unearned finance lease income	**–**	(217)
Finance lease receivables – net	**–**	5,175
Trade receivables – gross	**46,949**	40,765
Less: provision for impairment	**(2,286)**	(1,331)
Trade receivables – net *(Note b)*	**44,663**	39,434
Other receivables	**45,220**	37,687
Other receivables from disposal of RoRos *(Note a)*	**34,932**	1,699
Prepayments	**16,939**	21,103
Amounts due from joint ventures	**620**	946
Total	**142,374**	106,044

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Credit & counterparty risk

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

Trade and other receivables are mainly denominated in United States Dollars.

Accounting policy – Loan receivables, trade and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Trade and other receivables in the balance sheet are classified as loans and receivables.

Loans and receivables are recognised initially at fair value, plus transaction costs incurred. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Trade receivables mainly represent freight and charter- hire receivables which are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment.

Please refer to Note 5 for the accounting policy on impairment.

(a) Other receivables from disposal of RoRos

The current and non-current balances represent the net sale proceeds for the three (2012: two) RoRo vessels that have commenced their bareboat charters to the purchaser. The non-current element of the other receivable will have been repaid by December 2015. These balances represent the fair value based on their cash flows discounted at a borrowing rate of 6%. The discount rate represents the Euro borrowing rate at inception including the appropriate credit spread (see also Note 20).

(b) Trade receivables

At 31 December 2013, the ageing of net trade receivables based on invoice date is as follows:

US$'000	Group 2013	2012
< 30 days	**27,500**	27,468
31-60 days	**6,029**	5,257
61-90 days	**3,888**	1,547
> 90 days	**7,246**	5,162
	44,663	39,434

Movements in the provision for impairment of trade receivables are as follows:

US$'000	Group 2013	2012
At 1 January	**1,331**	615
Provision for receivable impairment	**2,704**	1,925
Reversal of prior year overprovision	**(1,174)**	(124)
Total charge to income statement	**1,530**	1,801
Provision written off during the year	**(575)**	(1,085)
At 31 December	**2,286**	1,331

Credit policy

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.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of international customers.

As at 31 December 2013 and 2012, net trade receivables are all past due but not impaired as no customer is expected to have significant financial difficulty. All other items within trade and other receivables do not contain past due or impaired assets.

Notes to the Financial Statements continued

16 CASH AND DEPOSITS

US$'000	Group 2013	2012
Cash at bank and on hand	**90,637**	166,296
Bank deposits	**395,425**	587,162
Total cash and deposits	**486,062**	753,458
Effective interest rate on bank deposits at year end	**1.41%**	1.87%
Average remaining maturity of bank deposits	**74 days**	72 days
Cash and cash equivalents	**408,200**	390,502
Term deposits	**75,000**	242,616
Cash and deposits	**483,200**	633,118
Restricted bank deposits included in non-current assets *(Note)*	**1,269**	50,192
Restricted bank deposits included in current assets *(Note)*	**1,593**	70,148
Total cash and deposits	**486,062**	753,458

Note: The balances were held as securities with banks in relation to certain performance guarantees. Balances in 2012 included US$6,000,000 were held as collateral for certain bank loans.

As at 31 December 2013, the Company had cash at bank of US$23,000 (2012: US$17,000).

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.

Accounting policy – Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

17 OTHER NON-CURRENT ASSETS

US$'000	Group 2013	2012
Prepayments for acquisition of vessels	**5,917**	5,322

Other non-current assets are denominated in United States Dollars. Please refer to Note 5 for the accounting policy on impairment.

18 INVENTORIES

US$'000	Group 2013	2012
Bunkers	**95,817**	74,602
Lubricating oil	**8,189**	4,500
	104,006	79,102

Accounting policy

Inventories are stated at the lower of cost and net realisable value, as estimated by the management. Costs are calculated on a first-in first-out basis.

19 TRADE AND OTHER PAYABLES

US$'000	Group 2013	2012
Trade payables	**76,094**	67,197
Accruals and other payables	**55,839**	62,914
Receipts in advance	**34,542**	40,970
Amounts due to joint ventures (unsecured, non-interest bearing and repayable on demand)	**–**	3,803
	166,475	174,884

At 31 December 2013, the ageing of trade payables based on due date is as follows:

US$'000	Group 2013	2012
< 30 days	**70,982**	61,970
31-60 days	**1,072**	213
61-90 days	**157**	829
> 90 days	**3,883**	4,185
	76,094	67,197

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

Trade and other payables are mainly denominated in United States Dollars.

Accounting policy – Trade payables

Trade payables mainly represent freight and charter- hire payables which are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

20 ASSETS AND LIABILITIES OF DISCONTINUED OPERATIONS CLASSIFIED AS HELD FOR SALE

In September 2012, the Group entered into an agreement to sell six RoRo vessels. The assets and liabilities related to the RoRo business have been presented as "held for sale". In October 2012, two RoRo vessels commenced their bareboat charters and in February 2013, three RoRo vessels commenced their bareboat charters. The disposal transaction will be fully completed when the remaining one RoRo vessel commences its bareboat charter which is expected to be in March 2014.

(a) Assets and liabilities of discontinued operations

US$'000	2013	2012
Assets held for sale *(Note)*	**31,166**	128,078
Inventory	**31**	240
Other current assets	**427**	3,091
Assets of discontinued operations classified as held for sale	**31,624**	131,409
Trade and other payable	**(3,446)**	(4,219)
Other current liabilities	**(6)**	(38)
Liabilities of discontinued operations classified as held for sale	**(3,452)**	(4,257)
Net assets	**28,172**	127,152

Note: 2013 figures relate to one (2012: four) RoRo vessel which had not commenced its bareboat charter as at 31 December 2013.

(b) Analysis of the result of the discontinued operations

US$'000	2013	2012
Operating results Revenue	**6,577**	23,215
Direct costs *(Note)*	**(7,057)**	(30,798)
Gross profit	**(480)**	(7,583)
Finance costs, net	**–**	(4,162)
Share of profit less losses of joint ventures and associates	**(12)**	(324)
Tax	**(8)**	(43)
	(500)	(12,112)
RoRo vessel impairment	**–**	(190,398)
RoRo exchange loss	**(7,835)**	(8,183)
	(8,335)	(210,693)

Note: Direct costs in 2012 included the depreciation charges for RoRo vessels US$7,900,000. Depreciation ceased from the sale agreement date in 2012 and hence there is no depreciation for RoRo vessels in 2013.

(c) Cumulative expense recognised in other comprehensive income relating to discontinued operations

US$'000	2013	2012
Release of exchange reserve	**(8,331)**	(8,183)

(d) The net cash flows attributable to the discontinued operations

US$'000	2013	2012
Operating cash flows	**1,652**	3,055
Investing cash flows	**–**	(19,366)
Financing cash flows	**–**	(9,132)
	1,652	(25,443)

Accounting policy – Assets and liabilities of discontinued operations classified as held for sale

Assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group's business which represents a separate operations, or it is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The operations and cash flows of a discontinued operation should be clearly distinguished from the rest of the Group.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets constituting the discontinued operation.

21 PROVISION FOR ONEROUS CONTRACTS

US$'000	2013
At 1 January	**–**
Charge for the year	**656**
At 31 December	**656**

Accounting policy – Provision for onerous contracts

A provision for onerous contracts is recognised where the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received under them. The Group estimates the provision for its non-cancellable operating lease contracts in relation to the Group's chartered-in vessels on a fleet basis for each type of vessel by calculating the difference between the total charter revenue and freight expected to be earned and the total value of future charter payments the Group is obligated to make for the remaining term of the chartered-in contracts.

Notes to the Financial Statements continued

22 LONG TERM BORROWINGS

US$'000	Group 2013	2012
Non-current		
Finance lease liabilities *(Note a)*	**18,289**	133,146
Secured bank loans *(Note b)*	**582,968**	405,516
Convertible bonds *(Note c)*	**107,403**	314,989
	708,660	853,651
Current		
Finance lease liabilities *(Note a)*	**4,680**	18,287
Secured bank loans *(Note b)*	**107,438**	59,533
Convertible bonds *(Note c)*	**216,447**	–
	328,565	77,820
Total long term borrowings	**1,037,225**	931,471

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.

Long term borrowings are mainly denominated in United States Dollars.

Accounting policy – Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least twelve months after the balance sheet date.

(a) Finance lease liabilities

The Group purchased ten vessels in 2013 by exercising purchase options on ten finance leases for ten chartered vessels. The consolidated balance sheet of the Group continues to show the same net carrying value of the ten vessels which are depreciated over their remaining useful lives in the same manner as when they were on finance leases.

At 31 December 2013, the Group leased three vessels under finance leases. Under the terms of the leases, the Group has options to purchase these vessels at any time throughout the charter periods. Leases liabilities are effectively secured as the right to the leased vessels revert to the lessors in event of default.

The gross liabilities, future finance charges and net liabilities under finance leases as at 31 December 2013 are as follows:

US$'000	Group 2013	2012
Gross liabilities under finance leases		
Within one year	**6,091**	28,080
In the second year	**19,318**	28,085
In the third to fifth year	**–**	124,586
	25,409	180,751
Less: future finance charges on finance leases	**(2,440)**	(29,318)
	22,969	151,433
Average effective interest rates on finance lease liabilities	**6.6%**	6.8%

US$'000	Group 2013	2012
Net liabilities under finance leases		
Within one year	**4,680**	18,287
In the second year	**18,289**	19,588
In the third to fifth year	**–**	113,558
	22,969	151,433
Fair value of the finance lease liabilities	**23,931**	157,093

Accounting policy – Finance lease: where the Group is the lessee

Leases of assets where the lessee has substantially all the risks and rewards of ownership of such assets are classified as finance leases.

Where the Group is the lessee, finance leased assets are capitalised at the commencement of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The finance lease liabilities are included in current and non-current borrowings. The finance charges are expensed in the income statement over the lease periods so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets accounted for as finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(b) Secured bank loans

The bank loans as at 31 December 2013 were secured, inter alia, by the following:

(i) Mortgages over certain owned vessels with net book values of US$1,225,336,000 (2012: US$697,086,000) (Note 6(b));

(ii) Assignment of earnings and insurances compensation in respect of the vessels;

(iii) Fixed and floating charges over all of the assets of certain subsidiaries of the Group's towage business; and

(iv) No cash and deposits (2012: US$60,000,000) (Note 16).

The Group's bank loans are repayable as follows:

	Group	
US$'000	2013	2012
Within one year	107,438	59,533
In the second year	165,475	60,384
In the third to fifth year	182,819	229,162
After the fifth year	234,674	115,970
	690,406	465,049
Average effective interest rate of bank loans (before hedging)	2.6%	3.0%

(c) Convertible bonds

	Group			
	2013		2012	
US$'000	Face value	Liability component	Face value	Liability component
1.75% coupon due 2016	230,000	216,447	230,000	210,584
1.875% coupon due 2018	123,800	107,403	123,800	104,405
Total	353,800	323,850	353,800	314,989

(i) Convertible bonds – 1.75% coupon convertible bonds due 2016

Issue size	US$230 million
Issue date	12 April 2010
Maturity date	12 April 2016 (6 years from issue)
Coupon – cash cost	1.75% p.a. payable semi-annually in arrears on 12 April and 12 October
Effective interest rate	4.70% charged to income statement
Redemption Price	100%
Conversion Price into shares	HK$7.18 (with effect from 24 April 2013) (Note)
Conversion at bondholders' options	(i) until 11 January 2014, conversion can only take place if the closing price of the Company's shares is at least at a 20% premium to the conversion price then in effect for five consecutive trading days. (ii) After 11 January 2014 conversion can take place at any time at no premium.
Bondholder put date and price	On 12 April 2014 (4 years from issue), each bondholder will have the right to require the Group to redeem all or some of the bonds at 100% of the principal amount. As this is an unconditional put option, the convertible bonds are required to assume to fall due on the put date according to the accounting standards.
Issuer call date and price	On or after 12 April 2014, the Group may redeem the bonds in whole at a redemption price equal to 100% of their principal amount if 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 is subject to an adjustment arising from the 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.

Notes to the Financial Statements continued

22 LONG TERM BORROWINGS (continued)

(c) Convertible bonds (continued)

(ii) Convertible bonds – 1.875% coupon convertible bonds due 2018

Issue size	US$123.8 million
Issue date	22 October 2012
Maturity date	22 October 2018 (6 years from issue)
Coupon – cash cost	1.875% p.a. payable semi-annually in arrears on 22 April and 22 October
Effective interest rate	5.17% charged to income statement
Redemption Price	100%
Conversion Price into shares	HK$4.90 (with effect from 24 April 2013) (Note)
Conversion at bondholders' options	Bondholders may exercise the conversion right at anytime on or after 2 December 2012.
Bondholder put date and price	On 22 October 2016 (4 years from issue), each bondholder will have the right to require the Group to redeem all or some of the bonds at 100% of the principal amount. As this is an unconditional put option, the convertible bonds are required to assume to fall due on the put date according to the accounting standard.
Issuer call date and price	On or after 22 October 2016, the Group may redeem the bonds in whole at a redemption price equal to 100% of their principal amount if 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 is subject to an adjustment arising from the 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.

Accounting policy – Convertible bonds

Convertible bonds are accounted for as the aggregate of (i) a liability component and (ii) an equity component.

At initial recognition, the fair value of the liability component of the convertible bonds is determined using a market interest rate for an equivalent non-convertible bond. The remainder of the proceeds is allocated to the conversion option as an equity component, recognised in other comprehensive income.

Transaction costs associated with issuing the convertible bonds are allocated to the liability and equity components in proportion to the allocation of proceeds. The liability component is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity.

23 SHARE CAPITAL

	2013		2012	
	Number of shares of US$0.1 each	US$'000	Number of shares of US$0.1 each	US$'000
Authorised	3,600,000,000	360,000	3,600,000,000	360,000
Issued and fully paid **At 1 January**	1,936,049,119	193,605	1,936,576,305	193,658
Shares purchased by trustee of the LTIS & SAS *(Note a)*	(10,692,000)	(6,514)	(13,955,186)	(7,369)
Shares transferred to employees upon granting of restricted share awards *(Note a)*	11,392,000	6,584	16,129,000	7,586
Shares transferred back to trustee upon lapse of restricted share awards *(Note a)*	(2,292,000)	(438)	(2,701,000)	(270)
At 31 December	**1,934,457,119**	**193,237**	1,936,049,119	193,605

The issued share capital of the Company as at 31 December 2013 was 1,936,577,119 shares (2012: 1,936,577,119 shares). The difference from the number of shares in the table above of 2,120,000 (2012: 528,000) shares are held by the trustee, amounting to US$420,400 (2012: US$52,800) as a debit to share capital.

23 SHARE CAPITAL (continued)

(a) Restricted share awards

Restricted share awards under the Company's Long Term Incentive Scheme ("LTIS") and 2013 Share Award Scheme ("SAS") adopted on 28 February 2013 were granted to Executive Directors, senior management and certain employees. The LTIS and SAS under HKFRS is regarded as a special purpose entity of the Company.

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

000' shares	2013	2012
At 1 January	**25,616**	20,518
Granted	**11,392**	16,129
Vested	**(6,906)**	(8,330)
Lapsed	**(2,292)**	(2,701)
At 31 December	**27,810**	25,616

During the year, a total of 11,392,000 (2012: 16,129,000) restricted share awards were granted to certain employees. The market prices of the restricted share awards on the grant date represented the fair values of those shares.

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

Sources of shares granted	2013 Number of granted shares awards	2013 Related movement US$'000	2012 Number of granted shares awards	2012 Related movement US$'000
Shares purchased by the trustee of the LTIS & SAS on the Stock Exchange funded by the Company	**10,692,000**	**6,514**	13,955,186	7,369
Shares transferred from the shares held by trustee	**700,000**	**70**	2,173,814	217
	11,392,000	**6,584**	16,129,000	7,586

The vesting periods and grant dates of the unvested restricted share awards are as follows:

Date of grant	Number of unvested share awards	Vesting periods: 14 July 2014	Vesting periods: 14 July 2015	Vesting periods: 14 July 2016
20 May 2011	4,456,000	4,456,000	–	–
1 June 2012	10,797,000	1,362,000	9,435,000	–
22 June 2012	257,000	257,000	–	–
28 September 2012	1,617,000	515,000	1,102,000	–
15 March 2013	10,683,000	560,000	560,000	9,563,000
	27,810,000	7,150,000	11,097,000	9,563,000

Accounting policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

Where any group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax) is included in equity.

Notes to the Financial Statements continued

23 SHARE CAPITAL (continued)

(b) Share options

55,500,000 share options under the LTIS were granted to Executive Directors, senior management and certain employees on 14 July 2004 at an exercise price of HK$2.5 per share. They were fully vested on 14 July 2007 and will expire on 14 July 2014. At 31 December 2013 and 2012, all of the 400,000 outstanding share options were exercisable. There was no movement in the number of share options outstanding during the year.

24 RESERVES

	Group									
	Other reserves									
US$'000	Share[a] premium	Merger[b] reserve	Convertible bonds reserve	Staff benefits reserve	Hedging reserve	Investment valuation reserve	Exchange reserve	Subtotal	Retained profits	Total
At 1 January 2013	599,846	(56,606)	51,620	(3,107)	(9,055)	1,705	16,557	600,960	537,456	1,138,416
Release of exchange reserve upon:										
– disposal of PP&E	–	–	–	–	–	–	8,331	8,331	–	8,331
– repayment of shareholder loans by subsidiaries	–	–	–	–	–	–	(5,146)	(5,146)	–	(5,146)
Fair value losses on available-for-sale financial assets	–	–	–	–	–	165	–	165	–	165
Cash flow hedges										
– fair value losses	–	–	–	–	7,126	–	–	7,126	–	7,126
– transferred to finance costs in income statement	–	–	–	–	4,569	–	–	4,569	–	4,569
Currency translation differences	–	–	–	–	–	–	(31,113)	(31,113)	–	(31,113)
Profit attributable to shareholders	–	–	–	–	–	–	–	–	1,523	1,523
Share-based compensation (see Remuneration Report)	–	–	–	5,729	–	–	–	5,729	–	5,729
Shares fully vested	2,204	–	–	(2,204)	–	–	–	–	–	–
Shares transferred upon granting and lapse of restricted share awards *(Note 23)*	–	–	–	(6,146)	–	–	–	(6,146)	–	(6,146)
Dividends paid *(Note 29)*	–	–	–	–	–	–	–	–	(12,397)	(12,397)
At 31 December 2013	602,050	(56,606)	51,620	(5,728)	2,640	1,870	(11,371)	584,475	526,582	1,111,057
Representing:										
2013 proposed final dividend									12,490	
Others									514,092	
Retained profits at 31 December 2013									526,582	

24 RESERVES (continued)

	Group									
	Other reserves									
US$'000	Share[a] premium	Merger[b] reserve	Convertible bonds reserve	Staff benefits reserve	Hedging reserve	Investment valuation reserve	Exchange reserve	Subtotal	Retained profits	Total
At 1 January 2012	597,124	(56,606)	32,302	2,207	(11,432)	7,292	11,907	582,794	708,463	1,291,257
Release of exchange reserve upon disposal of:										
– PP&E	–	–	–	–	–	–	8,183	8,183	–	8,183
– a joint venture	–	–	–	–	–	–	(3,131)	(3,131)	–	(3,131)
Fair value losses on available-for-sale financial assets	–	–	–	–	–	(5,587)	–	(5,587)	–	(5,587)
Cash flow hedges										
– fair value losses	–	–	–	–	(3,231)	–	–	(3,231)	–	(3,231)
– transferred to finance costs in income statement	–	–	–	–	5,608	–	–	5,608	–	5,608
Currency translation differences	–	–	–	–	–	–	(402)	(402)	–	(402)
Loss attributable to shareholders	–	–	–	–	–	–	–	–	(158,472)	(158,472)
Share-based compensation (see Remuneration Report)	–	–	–	4,668	–	–	–	4,668	–	4,668
Equity component of convertible bonds issued	–	–	19,318	–	–	–	–	19,318	–	19,318
Shares fully vested	2,722	–	–	(2,666)	–	–	–	56	(56)	–
Shares transferred upon granting and lapse of restricted share awards *(Note 23)*	–	–	–	(7,316)	–	–	–	(7,316)	–	(7,316)
Dividends paid *(Note 29)*	–	–	–	–	–	–	–	–	(12,479)	(12,479)
At 31 December 2012	599,846	(56,606)	51,620	(3,107)	(9,055)	1,705	16,557	600,960	537,456	1,138,416
Representing: 2012 final dividend									12,397	
Others									525,059	
Retained profits at 31 December 2012									537,456	

(a) Share premium mainly represents the net issuance proceeds in excess of the nominal value of shares issued credited to share capital.

(b) Merger reserve of the Group represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the Company's shares issued pursuant to the transfer of PB Vessels Holding Limited and its subsidiaries into the Company through an exchange of shares prior to the listing of the shares of the Company on the Stock Exchange in 2004.

Notes to the Financial Statements continued

24 RESERVES (continued)

	Company				
	Other reserves				
US$'000	Share Premium	Staff benefits reserve	Subtotal	Retained profits	Total
At 1 January 2013	**599,846**	**(3,107)**	**596,739**	**680,359**	**1,277,098**
Profit attributable to shareholders *(Note 28)*	**–**	**–**	**–**	**(1,414)**	**(1,414)**
Share-based compensation (see Remuneration Report)	**–**	**5,729**	**5,729**	**–**	**5,729**
Shares transferred upon granting and lapse of restricted share awards *(Note 23)*	**–**	**(6,146)**	**(6,146)**	**–**	**(6,146)**
Share fully vested	**2,204**	**(2,204)**	**–**	**–**	**–**
Dividends paid *(Note 29)*	**–**	**–**	**–**	**(12,397)**	**(12,397)**
At 31 December 2013	**602,050**	**(5,728)**	**596,322**	**666,548**	**1,262,870**
Representing:					
2013 proposed final dividend				**12,490**	
Others				**654,058**	
Retained profits as at 31 December 2013				**666,548**	
At 1 January 2012	597,124	2,207	599,331	695,977	1,295,308
Loss attributable to shareholders *(Note 28)*	–	–	–	(3,083)	(3,083)
Share-based compensation	–	4,668	4,668	–	4,668
Shares transferred upon granting and lapse of restricted share awards *(Note 23)*	–	(7,316)	(7,316)	–	(7,316)
Share fully vested	2,722	(2,666)	56	(56)	–
Dividends paid *(Note 29)*	–	–	–	(12,479)	(12,479)
At 31 December 2012	599,846	(3,107)	596,739	680,359	1,277,098
Representing:					
2012 final dividend				12,397	
Others				667,962	
Retained profits as at 31 December 2012				680,359	

25 OTHER INCOME AND GAINS

US$'000	2013	2012
Gains		
Exchange gains on repayment of shareholder loans by subsidiaries	**5,146**	–
Gains on forward freight agreements	**2,510**	2,485
Gains on disposal of subsidiaries	**554**	127
Gains on disposal of property, plant and equipment	**525**	–
Reversal of fair value loss of structured notes	**–**	32
	8,735	2,644

26 FINANCE INCOME AND COSTS

US$'000	2013	2012
Finance income		
Bank interest income	(7,109)	(16,045)
Finance lease interest income	(217)	(1,435)
Other interest income	(7,353)	–
Total finance income	(14,679)	(17,480)
Finance costs		
Borrowings wholly repayable within five years		
Interest on bank loans	4,951	5,178
Interest on finance leases	5,830	11,034
Interest on convertible bonds	15,227	9,623
Borrowings not wholly repayable within five years		
Interest on bank loans	9,692	7,639
Interest on convertible bonds	–	1,003
Other finance charges *(Note)*	15,934	142
Net losses on interest rate swap contracts	3,793	4,977
	55,427	39,596
Less: amounts capitalised *(Note 6(d))*	(3,305)	(3,642)
Total finance costs	52,122	35,954
Finance costs, net	37,443	18,474

Note: Other finance charges included the break costs relating to the repayment of the finance lease liabilities upon the exercise of ten purchase options under finance leases amounting to US$15.3 million (2012: Nil).

27 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. Shipping income from towage and non-shipping income is subject to tax at prevailing rates in the countries in which these businesses operate.

The amount of taxation charged/(credited) to the consolidated income statement represents:

US$'000	2013	2012
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2012: 16.5%)	641	476
Overseas tax, provided at the rates of taxation prevailing in the countries	720	1,389
Overprovision of prior year	(193)	(241)
	1,168	1,624

Decrease in taxation charged in 2013 was mainly due to the reduction in taxable profit from PB Towage.

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of rates prevailing in the countries in which the Group operates, as follows:

US$'000	2013	2012
Profit before taxation	11,026	53,845
Less: share of profits less losses of joint ventures	(5,028)	(5,508)
Add: share of profits less losses of associates	(1,542)	2,767
	4,456	51,104
Tax calculated at applicable tax rates	63	4,846
Income not subject to taxation	(108,810)	(105,902)
Expenses not deductible for taxation purposes	107,739	104,614
Tax losses incurred/(utilised) for which no deferred income tax asset was recognised	2,369	(1,693)
Overprovision of prior year	(193)	(241)
Taxation charge	1,168	1,624
Weighted average applicable tax rate	1.4%	9.5%

The Group has not recognised deferred income tax assets of US$10,951,000 (2012: US$8,581,000) in respect of tax losses amounting to US$36,503,000 (2012: US$28,604,000). These tax losses have no expiry date.

Notes to the Financial Statements continued

27 TAXATION (continued)

Critical accounting estimates and judgements – Income taxes

The Group is subject to income taxes in certain jurisdictions. There are transactions entered into where the ultimate tax determination and tax classification may be uncertain. Significant judgement is required in determining the provision for income taxes. The current provision in the balance sheet for income tax of US$1,985,000 represents management's estimates of the most likely amount of tax expected to be paid to the taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the provision for income tax in the period in which such determination is made.

Accounting policy – Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, joint ventures and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Accounting policy – Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

28 LOSS ATTRIBUTABLE TO SHAREHOLDERS

US$1,414,000 (2012: US$3,083,000) of loss attributable to shareholders is dealt with in the financial statements of the Company.

29 DIVIDENDS

	2013			2012		
	HK cents per share	**US cents per share**	**US$'000**	HK cents per share	US cents per share	US$'000
Proposed final dividend	**5.0**	**0.6**	**12,490**	5.0	0.6	12,397
Dividend paid during the year	**5.0**	**0.6**	**12,397**	5.0	0.6	12,479

The proposed final dividend is subject to the approval of the shareholders at the Annual General Meeting on 16 April 2014.

Accounting policy

Dividend distributions to the Company's shareholders are recognised as liabilities in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or Directors, where appropriate.

The dividend declared after the year end is not reflected as a dividend payable in the financial statements of that year, but will be reflected as an appropriation of retained profits for the following year.

30 EARNINGS PER SHARE

(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 year, excluding the shares held by the trustee of the Company's LTIS and SAS (Note 23(a)).

		2013	2012
Profit from continuing operations	(US$'000)	9,858	52,221
Loss from discontinued operations	(US$'000)	(8,335)	(210,693)
Profit/(loss) attributable to shareholders	(US$'000)	1,523	(158,472)
Weighted average number of ordinary shares in issue	('000)	1,935,299	1,932,750
Basic earnings per share			
– continuing operations	(US cents)	0.51	2.70
– discontinued operations	(US cents)	(0.43)	(10.90)
	(US cents)	0.08	(8.20)
Equivalent to			
– continuing operations	(HK cents)	3.95	20.96
– discontinued operations	(HK cents)	(3.34)	(84.57)
	(HK cents)	0.61	(63.61)

(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 year after adjusting for the number of potential dilutive ordinary shares from convertible bonds and share options (Note 23(b)) but excluding the shares held by the trustee of the Company's LTIS and SAS (Note 23(a)).

		2013	2012
Profit from continuing operations	(US$'000)	9,858	52,221
Interest expense on convertible bonds	(US$'000)	–	1,003
Profit used to determine diluted earnings per share	(US$'000)	9,858	53,224
Loss from discontinued operations	(US$'000)	(8,335)	(210,693)
Profit/(loss) attributable to shareholders	(US$'000)	1,523	(157,469)
Weighted average number of ordinary shares in issue	('000)	1,935,299	1,932,750
Adjustment for:			
– assumed conversion of convertible bonds	('000)	–	37,538
– share options	('000)	191	137
Weighted average number of ordinary shares for diluted earnings per share	('000)	1,935,490	1,970,425
Diluted earnings per share			
– continuing operations	(US cents)	0.51	2.70
– discontinued operations	(US cents)	(0.43)	(10.69)
	(US cents)	0.08	(7.99)
Equivalent to			
– continuing operations	(HK cents)	3.95	20.96
– discontinued operations	(HK cents)	(3.34)	(82.96)
	(HK cents)	0.61	(62.00)

Notes to the Financial Statements continued

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to cash generated from operations:

	Group	
US$'000	2013	2012
Profit/(loss) before taxation	2,699	(156,805)
Adjusted for:		
Assets and liabilities adjustments:		
Depreciation	82,680	72,324
Amortisation of land use rights	113	115
Provision for impairment losses		
– Trade receivables	1,530	1,801
– Property, plant and equipment	–	190,398
– Available-for-sale financial assets	–	1,400
Provision for onerous contracts	656	–
Gains on disposal of subsidiaries	(554)	(127)
Gains on disposal of PP&E	(525)	–
Net unrealised (gains)/losses on derivative instruments not qualified as hedges, excluding interest rate swap contracts	(304)	4,237
Fair value changes on structured notes	–	(32)
Capital and funding adjustments:		
Share-based compensation	5,729	4,668
Results adjustments:		
Finance costs, net	37,443	22,636
Share of profits less losses of joint ventures	(5,016)	(5,185)
Share of profits less losses of associates	(1,542)	2,767
RoRo exchange loss	8,331	8,183
Towage exchange gain	(5,146)	–
Exchange differences	1,759	592
Profit before taxation before working capital changes	127,853	146,972
Increase in inventories	(24,798)	(12,488)
Increase in trade and other receivables	(14,814)	(5,437)
Increase in trade and other payables	11,352	21,006
Cash generated from operations	99,593	150,053

32 COMMITMENTS

(a) Capital commitments

US$'000	Group 2013	2012
Contracted but not provided for – vessel acquisitions and shipbuilding contracts	**339,360**	201,171
Authorised but not contracted for – vessel acquisitions and shipbuilding contracts	**139,750**	34,700
	479,110	235,871

Capital commitments for the Group that fall due in one year or less amounted to US$114.6 million (2012: US$215.0 million).

As at 31 December 2013 and 2012, the Company had no capital commitments.

(b) Commitments under operating leases

Accounting policy – Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Critical accounting estimates and judgements – Classification of leases

The Group classifies its leases into either finance leases or operating leases taking into account of the spirit, intention, and application of HKAS 17 "Leases".

Management assesses the classification of leases by taking into account the market conditions at the inception of the lease, the period of the lease and the probability of exercising purchase options, if any, attached to the lease. For those leases that would not transfer ownership of the assets to the Group at the end of the lease term, and that it is not reasonably certain that the purchase options, if any, attached to the arrangements would be exercised, they are being treated as operating leases.

(i) The Group as the lessee – payments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

US$'000	Dry bulk vessels	Tugs	Vessels total	Land and buildings	Total
At 31 December 2013					
Within one year	**161,211**	**7,170**	**168,381**	**4,467**	**172,848**
In the second to fifth year	**474,783**	**455**	**475,238**	**10,516**	**485,754**
After the fifth year	**210,459**	**–**	**210,459**	**1,707**	**212,166**
	846,453	**7,625**	**854,078**	**16,690**	**870,768**
At 31 December 2012					
Within one year	135,753	2,525	138,278	3,508	141,786
In the second to fifth year	295,360	475	295,835	3,339	299,174
After the fifth year	139,046	–	139,046	324	139,370
	570,159	3,000	573,159	7,171	580,330

Notes to the Financial Statements continued

32 COMMITMENTS (continued)

(b) Commitments under operating leases (continued)

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

The leases have varying terms ranging from less than 1 year to 11 years. Certain of these leases have escalation clauses, renewal rights and purchase options.

Accounting policy – Operating leases: where the Group is the lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease periods.

(ii) The Group as the lessor – receipts

The Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

US$'000	Dry bulk[a] vessels	Tugs	Vessels total	Investment properties	Total
At 31 December 2013					
Within one year	**19,327**	**7,381**	**26,708**	**–**	**26,708**
In the second to fifth year	**63,619**	**2,594**	**66,213**	**–**	**66,213**
After the fifth year	**71,401**	**–**	**71,401**	**–**	**71,401**
	154,347	**9,975**	**164,322**	**–**	**164,322**
At 31 December 2012					
Within one year	19,426	17,571	36,997	89	37,086
In the second to fifth year	63,619	1,852	65,471	–	65,471
After the fifth year	87,295	–	87,295	–	87,295
	170,340	19,423	189,763	89	189,852

(a) Operating lease commitments of the Group as the lessor for dry bulk vessels mainly included the commitments from two Post-Panamax vessels of US$150.9 million (2012: US$166.8 million).

The Group's operating leases are for terms ranging from less than 1 year to 16 years.

Accounting policy – Operating leases: where the Group is the lessor

When the Group leases out assets under operating leases, the assets are included in the balance sheet and, where applicable, are depreciated in accordance with the Group's depreciation policies as set out in Note 6 Property, plant and equipment. Revenue arising from assets leased out under operating leases is recognised on a straight-line basis over the lease periods.

33 FINANCIAL LIABILITIES SUMMARY

This note should be read in conjunction with the liquidity risk in Governance – Risk Management Section on P.52.

Maturity profile of the Group's financial liabilities, net-settled derivative financial instruments and gross-settled derivative financial instruments, representing contractual cash flows which include principal and interest elements where applicable, based on the remaining period from the balance sheet date to the contractual maturity date.

US$'000	Within one year 2013	Within one year 2012	In the second year 2013	In the second year 2012	In the third to fifth year 2013	In the third to fifth year 2012	After the fifth year 2013	After the fifth year 2012	Total 2013	Total 2012
Long term borrowings										
– Gross liabilities under finance leases	**6,091**	28,080	**19,318**	28,085	**–**	124,586	**–**	–	**25,409**	180,751
– Secured bank loans	**127,247**	74,098	**183,464**	73,682	**229,261**	253,845	**264,883**	130,949	**804,855**	532,574
– Convertible bonds	**6,346**	6,346	**6,346**	6,346	**362,777**	243,001	**–**	126,121	**375,469**	381,814
Derivative financial instruments										
(i) Net-settled *(Note a)*										
– Interest rate swap contracts	**7,412**	5,678	**5,095**	5,339	**3,430**	6,213	**1,575**	–	**17,512**	17,230
– Bunker swap contracts	**725**	1,446	**340**	492	**210**	416	**–**	–	**1,275**	2,354
– Forward freight agreements	**1,666**	180	**–**	–	**–**	–	**–**	–	**1,666**	180
(ii) Gross-settled *(Note b)*										
Forward foreign exchange contracts										
– Cash flow hedges:										
– outflow	**60,950**	127,392	**124,532**	93,213	**77,657**	177,234	**98,995**	123,949	**362,134**	521,788
– inflow	**(63,362)**	(127,126)	**(131,695)**	(94,127)	**(80,416)**	(180,121)	**(110,431)**	(131,459)	**(385,904)**	(532,833)
Net outflow/(inflow)	**(2,412)**	266	**(7,163)**	(914)	**(2,759)**	(2,887)	**(11,436)**	(7,510)	**(23,770)**	(11,045)
Current liabilities										
Trade and other payables	**131,933**	133,914	**–**	–	**–**	–	**–**	–	**131,933**	133,914

(a) Net-settled derivative financial instruments represent derivative liabilities whose terms result in settlement by a netting mechanism, such as settling the difference between the contract price and the market price of the financial liabilities.

(b) Gross-settled derivative financial instruments represent derivative assets or liabilities which are not settled by the above mentioned netting mechanism.

The Company was not exposed to any individual significant liquidity risk in 2013 and 2012.

Notes to the Financial Statements continued

34 SIGNIFICANT RELATED PARTY TRANSACTIONS

Significant related party transactions carried out in the normal course of the Group's business and on an arm's length basis were as follows:

(a) Sales of services

US$'000	2013	2012
Charter-hire income received from OMSA *(Note i)*	26,564	27,142
Management service fee received from OMSA *(Note ii)*	8,118	7,800

(i) The Group leased out certain vessels to OMSA, a joint venture.

(ii) The Group performed technical and other management services to OMSA.

(b) Key management compensation

For the key management compensation (including senior management's and Directors' emoluments) and the accounting policy on employee benefits, please refer the Remuneration Report on P.67 to P.70.

35 FINANCIAL GUARANTEES

At 31 December 2013, the Company has given corporate guarantees with maximum exposures of US$671.2 million (2012: US$440.7 million) for certain subsidiaries of Pacific Basin Dry Bulk and PB Towage segments in respect of loan facilities granted to the subsidiaries.

Accounting policy

Financial guarantee contracts are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary holder of the guarantee (i.e. the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised at their fair values, and subsequently measured at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount required to be settled by the guarantor in respect of the financial guarantee contracts at the balance sheet date.

36 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company has no contingent liabilities and contingent assets at 31 December 2013 and 2012.

Accounting policy

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

Contingent liabilities are not recognised but are disclosed in the notes to the financial statements when an outflow of economic resources is probable, a provision is recognised.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

37 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 31 December 2013, the Group has contracted with third parties to acquire one Handysize and one Handymax vessels for a total consideration of approximately US$45.4 million.

Page 35
Total Group vessel commitments

38 PRINCIPAL SUBSIDIARIES

At 31 December 2013, the Company has direct and indirect interests in the following principal subsidiaries:

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held 2013 %	Interest held 2012 %	Principal activities
Shares held directly:					
Others:					
PB Vessels Holding Limited	BVI	701,118,775 shares of US$1 each	100	100	Investment holding
PB Management Holding Limited	BVI	12,313 shares of US$1 each	100	100	Investment holding
PB Issuer (No. 2) Limited	BVI	1 share of US$1	100	100	Convertible bond issuer
PB Issuer (No. 3) Limited	BVI	1 share of US$1	100	100	Convertible bond issuer
Shares held indirectly:					
Pacific Basin Dry Bulk:					
Astoria Bay Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Baker River Limited	HK/Int'l	1 share of HK$1	100	–	Vessel owning and chartering
Baltic Sea Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Barrow Shipping Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Bass Strait Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Bell Bay Shipping Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Bernard (BVI) Limited	BVI/Int'l	5,100,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Bonny Shipping Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Bright Cove Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Cape York Shipping Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Champion Bay Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Cherry Point Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Chiloe Shipping Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Corio Bay Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Delphic Shipping (BVI) Limited	BVI/Int'l	100 shares of US$0.01 each	100	100	Vessel owning and chartering
Eaglehill Trading Limited 鷹峯貿易有限公司	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Eastern Cape Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Elizabay Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Elizabeth Castle Limited	BVI/Int'l	1 share of US$1	100	100	Vessel chartering
Elizabeth River Limited	HK/Int'l	1 share of HK$1	100	–	Vessel owning and chartering
Esperance Bay Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Everclear Shipping (BVI) Limited	BVI/Int'l	3,100,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Finest Solution Limited	HK/Int'l	1 share of HK$1	100	–	Vessel owning and chartering
Francesca Shipping (BVI) Limited	BVI/Int'l	3,000,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Future Sea Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Gold River Vessel Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Good Shape Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Hainan Island Limited	HK	1 share of HK$1	100	–	Vessel owning
Helen Shipping (BVI) Limited	BVI/Int'l	100 shares of US$0.01 each	100	100	Vessel owning and chartering
Imabari Logger Limited	BVI	1 share of US$1	100	100	Vessel owning
Impression Bay Limited	HK	1 share of HK$1	100	–	Vessel owning
Indigo Lake Limited	HK	1 share of HK$1	100	–	Vessel owning
Jamaica Bay Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
James Bay Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Jericho Beach Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Jervis Bay Shipping Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Jiangmen Trader Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Judith Shipping (BVI) Limited	BVI/Int'l	3,800,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Jules Point Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Jumeirah Beach Limited	HK	1 share of HK$1	100	–	Vessel owning
Kaiti Hill Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Kanda Logger Limited	HK	1 share of HK$1	100	–	Vessel owning
Key West Shipping Limited	HK	1 share of HK$1	100	–	Vessel owning

Notes to the Financial Statements continued

38 PRINCIPAL SUBSIDIARIES (continued)

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held 2013 %	Interest held 2012 %	Principal activities
Kodiak Island Limited	HK	1 share of HK$1	100	–	Vessel owning
Kultus Cove Limited	HK	1 share of HK$1	100	–	Vessel owning
Labrador Shipping (BVI) Limited	BVI/Int'l	3,800,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Lake Stevens Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Liberty Vessel Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Luzon Strait Shipping (BVI) Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Matakana Island Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Mega Fame Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Mount Adams Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Mount Aso Limited	HK	1 share of HK$1	100	–	Vessel owning
Mount Baker Shipping Limited	HK/Int'l	1 share of HK$1	100	–	Vessel owning and chartering
Mount Hikurangi Limited	HK/Int'l	1 share of HK$1	100	–	Vessel owning and chartering
Mount Rainier Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Mount Seymour Limited	HK	1 share of HK$1	100	–	Vessel owning
Newman Shipping (BVI) Limited	BVI/Int'l	2,600,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Nobal Sky Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Oak Bay Shipping Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Olive Bay Limited	HK	1 share of HK$1	100	–	Vessel owning
Orange River Shipping Limited	HK	1 share of HK$1	100	–	Vessel owning
Osaka Bay Limited	HK	1 share of HK$1	100	–	Vessel owning
Otago Bay Limited	HK	1 share of HK$1	100	–	Vessel owning
Othello Shipping (BVI) Limited	BVI/Int'l	2,659,300 shares of US$0.01 each	100	100	Vessel owning and chartering
Oyster Bay Limited	HK	1 share of HK$1	100	–	Vessel owning
Pacific Basin Chartering Limited	BVI/Int'l	10 shares of US$1 each	100	100	Vessels chartering
Pacific Basin Chartering (No. 1) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Pacific Basin Chartering (No. 2) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Pacific Basin Chartering (No. 3) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Pacific Basin Chartering (No. 4) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Pacific Basin Chartering (No. 5) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Pacific Basin Chartering (No. 6) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Pacific Basin Chartering (No. 7) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Pacific Basin Chartering (No. 8) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Pacific Basin Chartering (No. 9) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Pacific Basin Chartering (No. 10) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Pacific Basin Chartering (No. 11) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 12) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 13) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Port Alberni Limited	HK/Int'l	1 share of HK$1	100	–	Vessel owning and chartering
Port Alfred Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Port Alice Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Port Angeles Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Port Botany Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Puget Sound Limited	HK/Int'l	1 share of HK$1	100	–	Vessel owning and chartering
Supreme Effort Group Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Swan River Limited	HK/Int'l	1 share of HK$1	100	–	Vessel owning and chartering
Tampa Bay Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Uhland Shipping (BVI) Limited	BVI/Int'l	100 shares of US$0.01 each	100	100	Vessel owning and chartering
Verner Shipping (BVI) Limited	BVI/Int'l	100 shares of US$0.01 each	100	100	Vessel owning and chartering
West Bay Shipping Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
White Bay Limited	HK/Int'l	1 share of HK$1	100	–	Vessel owning and chartering
Zhoushan Shipping Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held 2013 %	Interest held 2012 %	Principal activities
PB Towage:					
AMS Salvage and Towage Pty. Ltd.	Aus	100 shares of A$1 each	100	100	Tugs owning and chartering
PB Maritime Services (Australia) Pty. Ltd.	Aus	1 shares without par value	100	100	Ship management services
PB Offshore (No.2) Limited	Cook/Int'l	10 shares of US$1 each	100	100	Tug owning and chartering
PB Pearl Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug & barge owning and chartering
PB Pride Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug & barge owning and chartering
PB Progress Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug owning and chartering
PB Sea-Tow Asia Pte. Ltd.	Singapore	1 share of US$1	100	100	Tugs chartering
PB Sea-Tow (Australia) Pty Ltd	Aus	1 share of A$1	100	100	Ship management services
PB Sea-Tow (BVI) Limited	BVI/Int'l	1 share of US$1	100	100	Ship management services
PB Sea-Tow Crewing (NZ) Limited	New Zealand	1 share without par value	100	100	Crew management services
PB Sea-Tow Niugini Pte. Ltd.	Singapore	1 share of S$1	100	100	Tugs chartering and operation
PB Sea-Tow (NZ) Limited	New Zealand	1 share without par value	100	100	Ship management services
PB Sea-Tow Operations (NZ) Limited	New Zealand	1 share without par value	100	100	Ship management services
PB Towage (No.1) Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug owning and chartering
PB Towage (No.2) Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug owning and chartering
PB Towage (No.3) Limited	Cook/Int'l	2 shares of US$1 each	100	100	Barges owning and chartering
PB Towage (No.4) Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug owning and chartering
PB Towage (No.5) Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tugs owning and chartering
PB Towage Asset (No.1) Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug owning and chartering
PB Towage Asset (No.2) Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug owning and chartering
PB Towage Assets #3 Pty Ltd	Aus	1 share of A$1	100	100	Tugs owning and chartering
PB Towage Assets #4 Pty Ltd	Aus	1 share of A$1	100	100	Tugs owning and chartering
PB Towage Assets Holdings Pty Ltd	Aus	1 share of A$1	100	100	Tug owning and chartering
PB Towage Australia (Onslow) Pty Ltd	Aus	1 share of A$1	100	100	Tug owning and chartering
PB Towage (Australia) Holdings Pty Ltd	Aus	57,589,338 shares of A$1 each	100	100	Tugs owning and chartering
PB Towage (Australia) Pty Ltd	Aus	1,390,100 shares of A$2.34 each	100	100	Ship management services
PB Towage Middle East Limited	Cook/Int'l	2 shares of US$1 each	100	100	Ship management services
PB RoRo:					
Dover Sole Limited	BVI/Int'l	1 share of US$1	100	100	Vessel chartering
Gibraltar Strait Limited	BVI/Int'l	1 share of US$1	100	100	Vessel chartering
Prospect Number 59 Limited	E&W	1 share of GBP1	100	100	Vessel chartering
Prospect Number 60 Limited	E&W	1 share of GBP1	100	100	Vessel chartering
Others:					
Asia Pacific Capital Developments Limited 亞太資本發展有限公司	HK	1 share of HK$1	100	100	Property holding
Pacific Basin Agencies Limited 太平洋航運代理有限公司	HK/Int'l	1 share of HK$1	100	100	Holding company of Japan branch
Pacific Basin Handymax Limited	HK	1 share of HK$1	100	100	Ship management services
Pacific Basin Handymax (UK) Limited	E&W	1 share of GBP1	100	100	Ship management services
Pacific Basin Handysize Limited	BVI/HK	10 shares of US$1 each	100	100	Ship management services
Pacific Basin Handysize (HK) Limited	HK	1 share of HK$1	100	100	Ship management services
Pacific Basin Handysize (UK) Limited	E&W	2 shares of GBP1 each	100	100	Ship management services

Notes to the Financial Statements continued

38 PRINCIPAL SUBSIDIARIES (continued)

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held 2013 %	Interest held 2012 %	Principal activities
Pacific Basin Shipping (Australia) Pty Ltd[1]	Aus	1 share of A$1	100	100	Shipping consulting services
Pacific Basin Shipping (Canada) Limited	BC, Canada	1 common share without par value	100	100	Shipping consulting services
Pacific Basin Shipping (Chile) Limitada	Chile, Santiago	Chilean pesos equivalent to US$6,000 (registered capital)	100	100	Shipping consulting services
Pacific Basin Shipping, Denmark ApS	Denmark	800 shares of DKK100 each	100	100	Shipping consulting services
Pacific Basin Shipping (Germany) GmbH	Germany	1 share of EUR25,000	100	100	Shipping consulting services
Pacific Basin Shipping (HK) Limited 太平洋航運（香港）有限公司	HK	2 shares of HK$10 each	100	100	Ship agency services
Pacific Basin Shipping Middle East DMCC[1]	Dubai Multi Commodities Centre (DMCC)	500 shares of AED1,000 each	100	100	Shipping consulting services
Pacific Basin Shipping (New Zealand) Limited[1]	New Zealand	100 shares without par value	100	100	Shipping consulting services
Pacific Basin Shipping (South Africa) Pty Ltd	Republic of South Africa	120 shares without par value	100	100	Shipping consulting services
Pacific Basin Shipping (UK) Limited	E&W	2 shares of GBP1 each	100	100	Shipping consulting services
Pacific Basin Shipping (USA) Inc.	USA	100 shares of US$10 each	100	100	Ship management services
PB Commerce Limited	BVI/HK	1 share of US$1	100	100	Investment holding
PB Maritime Personnel Inc.[1]	The Philippines	1,730,000 shares of PHP10 each	100	100	Crewing services
PBS Corporate Secretarial Limited	HK	1 share of HK$1	100	100	Secretarial services
Taihua Shipping (Beijing) Limited[1 & 2] 太華船務（北京）有限公司	PRC	US$4,000,000 (registered capital)	100	100	Ship agency and management services

(1) The financial statements of these subsidiaries have not been audited by PricewaterhouseCoopers. The aggregate net assets and net results for the year attributable to the shareholders of the Group amounted to approximately US$8,356,000 (2012: US$12,574,000) and US$521,000 loss (2012: US$45,000 profit) respectively.

(2) These subsidiaries are wholly foreign-owned enterprises established in the PRC, with registered capital fully paid up by the Group.

(3) Under the place of incorporation/operation, "Aus" represents "Australia", "BVI" represents "The British Virgin Islands", "Cook" represents "The Cook Islands", "E&W" represents "England and Wales", "HK" represents "Hong Kong" and "Int'l" represents "International".

Independent Auditor's Report

To the Shareholders of Pacific Basin Shipping Limited

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pacific Basin Shipping Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 82 to 132, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Pricewaterhousecoopers

Certified Public Accountants

Hong Kong, 27 February 2014

Group Financial Summary

US$'000		2013	2012	2011	2010	2009
Results						
Continuing operations						
Revenue		1,708,792	1,443,086	1,312,789	1,268,542	950,477
Gross profit		55,097	85,315	108,437	159,329	152,796
Profit before taxation		11,026	53,845	122,758	104,791	112,001
Taxation		(1,168)	(1,624)	(178)	(453)	(1,723)
Profit for the year		9,858	52,221	122,580	104,338	110,278
Discontinued operations[1]						
Loss for the year		(8,335)	(210,693)	(90,598)	–	–
Eligible profit/(loss) attributable to shareholders		1,523	(158,472)	31,982	104,338	112,800
Balance Sheet						
Total assets		2,537,446	2,470,275	2,431,752	2,555,388	2,469,893
Total liabilities		(1,233,152)	(1,138,254)	(946,837)	(1,010,497)	(1,014,326)
Total equity		1,304,294	1,332,021	1,484,915	1,544,891	1,455,567
Net borrowings/(cash)		551,163	178,013	160,818	156,029	(229,084)
Total cash and deposits		486,062	753,458	618,221	703,437	1,105,662
Cash Flows						
From operating activities		98,142	148,737	159,361	198,577	145,337
From investment activities of which		(114,186)	(247,600)	(103,443)	(462,154)	(177,776)
gross investment in vessels		(456,497)	(188,295)	(167,592)	(540,612)	(279,543)
From financing activities		36,773	110,181	(166,322)	(96,532)	55,718
Other Data						
Basic EPS	US cents	0.1	(8)	2	5	6
Dividends per share[2]	US cents	1	1	1	3	3
Eligible profit payout ratio		>100%	>100%	78%	51%	51%
Cash flows from operating activities per share	US cents	5	8	8	10	8
Net book value per share	US cents	67	69	77	80	76
Dividends	US$'000	12,490	12,397	24,895	53,441	57,184

1 *The financial information for the years ended 31 December 2009 and 2010 was extracted from the Group Financial Summary in its Annual Reports of those years. No retrospective restatement for the discontinued operations of 2013 was made to such information.*

2 *The 2013 dividends represent the proposed final dividend of HK 5 cents per share.*

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Group financial summaries since listing

Corporate Information

Board of Directors

Executive Directors
Mr. David M. Turnbull (Chairman)
Mr. Mats H. Berglund (Chief Executive Officer)
Mr. Jan Rindbo (Chief Operating Officer)
Mr. Andrew T. Broomhead (Chief Financial Officer)
Mr. Chanakya Kocherla

Independent Non-executive Directors
Mr. Patrick B. Paul
Mr. Robert C. Nicholson
Mr. Alasdair G. Morrison
Mr. Daniel R. Bradshaw

Page 64
Directors & Senior Management Biographies

Principal Board Committees

Executive Committee
Mr. Mats H. Berglund (Chairman)
Mr. David M. Turnbull
Mr. Jan Rindbo
Mr. Andrew T. Broomhead
Mr. Chanakya Kocherla

Audit Committee
Mr. Patrick B. Paul (Chairman)
Mr. Robert C. Nicholson
Mr. Alasdair G. Morrison
Mr. Daniel R. Bradshaw

Remuneration and Nomination Committees
Mr. Robert C. Nicholson (Chairman)
Mr. Patrick B. Paul
Mr. Alasdair G. Morrison
Mr. Daniel R. Bradshaw

Principal Place of Business
7th Floor, Hutchison House
10 Harcourt Road, Central
Hong Kong
tel: + 852 2233 7000 fax: +852 2865 2810

Registered Address
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Offices World Wide
Hong Kong, Beijing, Dalian, Durban, Manila, Tokyo, Auckland, Newcastle, Sydney, Melbourne, Fremantle, Dubai, London, Stamford, Santiago and Vancouver

Share Registrar
Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong
tel: + 852 2862 8555 fax: + 852 2865 0990
e-mail: hkinfo@computershare.com.hk

Auditors
PricewaterhouseCoopers

Solicitors
Mayer Brown JSM
Herbert Smith Freehills
Vincent T.K. Cheung, Yap & Co.

Company Secretary
Ms. Mok Kit Ting, Kitty, CPA
e-mail: companysecretary@pacificbasin.com

Website
http://www.pacificbasin.com

Listing Venue / Listing Date
The Stock Exchange of Hong Kong Limited
(the "Stock Exchange") / 14 July 2004

Stock Code
Stock Exchange: 2343.HK
Bloomberg: 2343 HK
Reuters: 2343.HK

Public and Investor Relations
The Company
e-mail: ir@pacificbasin.com
tel: + 852 2233 7000 fax: +852 2110 0171

Total Shares In Issue
1,936,577,119 as at 31 December 2013

Notes

Pacific Basin

Pacific Basin Shipping Limited

7/F, Hutchison House,
10 Harcourt Road,
Central, Hong Kong

Telephone: +852 2233 7000
Facsimile: +852 2865 2810

www.pacificbasin.com

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