Pacific Basin

Staying on course

Experienced team

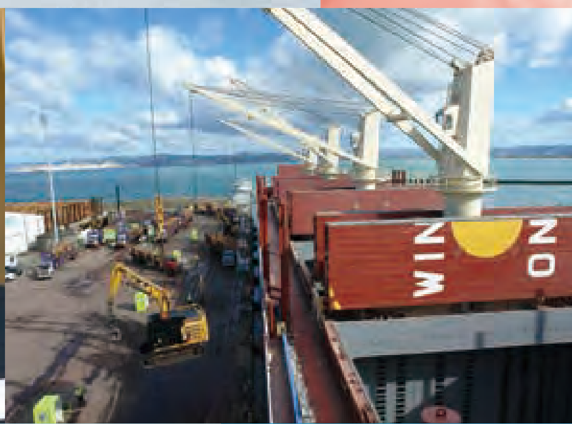
Exceptional fleet

Customers first

Annual Report 2016

Stock Code: 2343

Pacific Basin



Pacific Basin Shipping Limited

Passionate about
our customers,
our people,
our business and
our brand

With you for the long haul

This photo and front cover:
m/v Cape Nelson departing Picton, NZ
via Queen Charlotte Sound
Photo credit: Kevin Searles

What We Do

Pacific Basin has built a strong name as one of the world's leading owners and operators of modern Handysize and Supramax dry bulk ships

200+ ships

12 offices

490+ customers

Our shipping business is customer focused, providing almost 500 industrial users, traders and producers of dry bulk commodities with a high-quality, reliable and competitive freight service under spot and long-term cargo contracts.

We are headquartered and listed in Hong Kong and operate globally with a large fleet of ships trading worldwide and 330 staff in 12 key locations around the world.

Customers First

Our customer-focused business model has driven innovative customer engagement and service at a local level, solid service reliability, enhanced customer satisfaction and an excellent reputation globally.

Exceptional Fleet

We operate the world's largest Handy fleet and as good a fleet as we have ever had, equipping us for efficient trading and reliable service throughout the market cycle.

Experienced Team

Our staff operate globally with a local presence; our network of customer-facing offices ensures we create strong bonds, collaboration and trust with our customers, driving insight and knowledge back into our business so we can deliver the best service.

Our comprehensive CSR Report can be found in our online Annual Report and now also takes the form of a standalone document in the Sustainability section of our website at :

www.pacificbasin.com/en/sustainability/cr.php

An Integrated Reporting Framework

In preparing our Annual Report, CSR Report and internal management reports, we follow the International <IR> Framework of the International Integrated Reporting Council which enhances the way we think, plan and report the story of our business.

Key to navigation symbols

- Linkage to related details within the Annual Report
- Linkage to related details on our website www.pacificbasin.com
- Linkage to related details in our CSR Report
- KPI Key Performance Indicators
- Audited Information
- A glossary covering many of the terms in this document is available on our website
- +/- In our tabulated figures, positive changes represent an improving result and negative changes represent a worsening result

Contents

Business Highlights

Group

Record low dry bulk market conditions significantly undermined our ability to generate satisfactory results in 2016

We recorded a net loss of US$86.5 million and positive operating cash flows of US$49.5 million

Our Handysize daily TCE earnings outperformed the market by 34%

Our rights issue raised new capital of US$143 million net

We generated cash proceeds of US$22 million from the sale of towage and other non-core assets, and our exit from the towage sector is substantially complete

Our year-end cash position was US$269 million with net gearing of 34%

US$158 million of undrawn committed loan facilities exceeds US$119 million of remaining newbuilding capital commitments

Fleet

Our market leading Handysize and Supramax business is operating more owned ships enabling greater control and service quality

Our fleet comprises 220 dry bulk ships including 96 owned, with a further 3 owned newbuildings joining our fleet by mid-2017

We continue to operate a large number of short-term chartered ships with which we can make a margin throughout the market cycle

We have covered 44% of our Handysize and 71% of our Supramax revenue days for 2017 at US$8,200 and US$8,680 per day net respectively

We have further reduced our owned Handysize operating costs to US$3,970 per day through scale benefits and careful cost control

Outlook & Position

Dry bulk market rates improved in the fourth quarter; indices have followed their typical seasonal decline in early 2017 but are well above levels of one year ago and sentiment in the industry is recovering

However, the market continues to be oversupplied and freight earnings are still below breakeven for many shipowners

We expect continued uncertain markets in 2017 and will continue to conduct our business efficiently and safely while astutely combining ships and cargoes to maximise our margins

Positive actions taken to stay strong and competitive, generate cash, grow our owned fleet and make ourselves a leaner dry bulk company should position us well both for continued challenging market conditions and a market recovery

Strategic Model

KEY VALUE DELIVERED: Our Ability to Outperform Market TCE Earnings

Market-Leading Customer Focus & Service

Priority to build and sustain long-term customer relationships

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

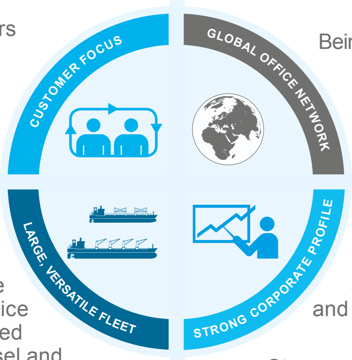
Close partnership with customers generates enhanced access to spot cargoes and long-term cargo contract opportunities of mutual benefit

Comprehensive Global Office Network

Integrated international service enhanced by experienced commercial and technical staff 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



Large Fleet & Modern Versatile Ships

Fleet scale and interchangeable high-quality ships facilitate service flexibility for customers, optimised scheduling and maximised vessel and fleet utilisation

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

Strong Corporate & Financial Profile

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

Strong cash position and track record set us apart as a preferred counterparty

Hong Kong listing, scale and balance sheet facilitate access to capital

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

Matters of Key Strategic Focus

What We're Doing to Deliver Our Strategy

- Deepening our customer relationships
- Investing in our people
- Investing in our high-quality fleet
- Safeguarding health, safety & environment
- Increasing efficiencies & reducing costs
- Enhancing corporate & financial profile
- Evolving management & governance practices

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Our Resources in Action

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Strategy Delivery & Risks

Financial Summary

	2016 US$ Million	2015 US$ Million
Results		
Revenue	**1,087.4**	1,260.3
Gross loss	**(54.3)**	(4.1)
EBITDA [1]	**22.8**	93.2
Underlying loss KPI	**(87.7)**	(27.8)
Finance costs, net	**(31.2)**	(35.3)
Loss attributable to shareholders	**(86.5)**	(18.5)
Balance Sheet		
Total assets	**2,107.2**	2,145.7
Net borrowings	**570.0**	567.6
Shareholders' equity	**1,040.8**	970.9
Total cash and deposits	**269.2**	358.4
Capital commitments	**119.1**	273.8
Cash Flows		
Operating	**49.5**	98.6
Investing	**(98.6)**	(54.9)
Financing	**18.1**	(100.4)
Per Share Data	**HK cents**	HK cents
Basic EPS [2]	**(20.4)**	(5.4)
Dividends KPI [2]	**–**	–
Operating cash flows [2]	**12**	29
Company net book value [2]	**201**	281
Share price at year end [2]	**125**	123.6
Market capitalisation at year end	**HK$5.0bn**	HK$3.3bn
Ratios		
Net profit margin	**(8%)**	(1%)
Eligible profit payout ratio	**–**	–
Return on average equity	**(9%)**	(2%)
Total shareholders' return	**1%**	(44%)
Net borrowings to net book value of property, plant and equipment KPI	**34%**	35%
Net borrowings to shareholders' equity	**55%**	59%
Interest coverage (excluding impairments)	**0.7X**	2.3X

[1] EBITDA (earnings before interest, tax, depreciation and amortisation) is our gross profit less general and administration expenses, excluding: depreciation and amortisation; exchange differences; share-based compensation; net unrealised bunker swap contract income and expenses; utilised onerous contract provisions; and net of Charter Hire Reduction adjustments.

[2] Prior year comparatives are adjusted for the June 2016 rights issue.

Chairman's Statement

Preparedness

Safeguarding our health and service delivery in testing times

Hong Kong, 28 February 2017

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

A TOUGHER YEAR IN DRY BULK

2016 was an extremely poor year for dry bulk shipping. Average market rates were even weaker than in 2015, dragged down in the first quarter by rates not seen for 45 years. Conditions improved over the remainder of the year, and sentiment in the industry is recovering.

Pacific Basin again outperformed the market in terms of vessel earnings and we generated positive operating cash flow. However, given the weak market, we produced a significant P&L net loss. Nevertheless, several positive achievements during the year have enhanced our position from which to navigate the challenging environment and capitalise on opportunities and improving market conditions.

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Our Resources in Action
Our Capitals and how we deliver on our strategy

EFFECTIVE PLATFORM FOR A SUSTAINABLE BUSINESS

We continue to take delivery of the last of our excellent newbuildings, which contribute to as good a fleet as we have ever had. From 12 offices close to our customers around the world, our teams develop systems of complementary trades through spot and long-term cargo contracts to achieve high utilisation and TCE earnings that outperform the market indices.

We pursued several initiatives including selling most of our remaining towage assets, completing a rights issue, issuing Pacific Basin shares to tonnage providers in return for a reduction in charter hire rates, committing to relocate to a more cost-efficient Hong Kong headquarters, and opening a new regional office in Brazil. Mats Berglund will elaborate on all of these initiatives in his Chief Executive's Review.

Our efforts have helped to maintain a balance sheet with total cash and deposits of US$269 million at 31 December 2016, and net gearing of 34%. They have also helped to further reduced our G&A expenses, improve our efficiencies and enhance our platform for success well beyond the current market depression.

We again received several awards in 2016 recognising the quality of our customer focus and service delivery, technical management, corporate governance and investor relations. I would like to single out the Safety Award we received at the Lloyd's List Global Awards recognising our world-class commitment to safety at sea.

We remain committed to our Handysize and Supramax focus, our effective strategy and to always look for ways to refine and improve what we do and how we do it. Staying true to our corporate values – such as dedication and teamwork, customer attention and solutions focus, responsiveness and reliability, safety and care, and integrity and accountability – is key to the longer term sustainability of our business, irrespective of market conditions.

DIVIDEND

In view of the severe dry bulk market weakness of last year, the Board recommends not to pay out a dividend for 2016.

CHANGES TO OUR BOARD

Stanley Ryan joined our Board as an Independent Non-executive Director on 5 July 2016, bringing valuable commodities-related commercial, strategic and operational experience to our Board.

Chief Financial Officer Andrew Broomhead will leave us by the end of 2017 to return with his family to the UK, and we have started the process of identifying and recruiting a suitable successor. Our Chief Technical Officer Chanakya Kocherla will be retiring at the end of April, and our technical and ship management organisation will be led by our Fleet Director, Jay K Pillai. We are very grateful to both Andrew and Charlie for their valuable contributions to the Company over many years.

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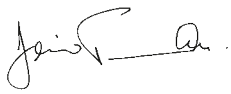
Corporate Governance
How we direct and control management in the best interests of the Company's many stakeholders

A commitment to strong corporate governance – sound internal controls, transparency and accountability to all stakeholders – continues to underpin all components of our business and seeks to enhance stakeholder confidence in Pacific Basin as a partner and a place to invest. I would like to thank our Board of Directors for their valuable contributions in all aspects of the Company's oversight in the challenging shipping and economic environment.



David Turnbull
Chairman

Chief Executive's Review

Staying on course

Outperforming in a record low dry bulk market

Hong Kong, 28 February 2017

Our CEO Mats Berglund reports on our performance in 2016 and reflects on the Company's position and strategy

FINANCIAL RESULTS

Record low dry bulk market conditions significantly undermined our ability to generate satisfactory results in 2016. Nevertheless, successful cost-reduction initiatives and the high proportion of time that our ships carry cargo helped maximise our daily earnings and margins.

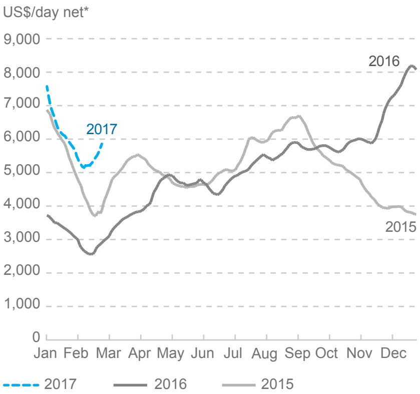
We made a net loss of US$86.5 million in 2016 (2015: US$18.5 million net loss) and positive operating cash flows of US$49.5 million (2015: US$98.6 million). Basic EPS was a negative HK20.4 cents.

PERFORMANCE OVERVIEW

Dry bulk freight market indices weakened at the start of the year and, in mid-February, registered their lowest levels since Baltic indices began in 1985. Market conditions were as poor as those of the early 1970s. The Supramax segment was especially hard hit, with market rates temporarily lower than in the Handysize segment.

Freight rates were undermined at the start of the year by the general seasonal slowdown in demand, lingering oversupply of dry bulk tonnage and reduced movements of coal. Freight earnings then improved over the remainder of the year benefitting from increased South American grain exports in the second quarter and stronger US grain exports in the second half, and growth in trades such as cement into North America. Chinese industrial activity was significantly down at the start of the year, but improvements from March onwards drove a revival in the iron ore and coal trades and minor bulks such as logs, cement and copper concentrates in the remainder of the year. However freight rates remained historically low, and conditions challenging for shipowners overall.

Handysize Market Spot Rates in 2015 – 2017



* excludes 5% commission

Source: Baltic Exchange, data as at 23 February 2017

In this difficult environment, we generated average Handysize and Supramax daily TCE earnings of US$6,630 and US$6,740 per day net, outperforming the BHSI and BSI indices by 34% and 14% respectively.

With spot market rates at such depressed levels, we have been using more short-term inward-chartered ships to supplement our owned fleet, rather than adding ships on more expensive long-term charters. Our business model and ability to source cargoes enable us to generate profits on short-term ships irrespective of whether the market is high or low.

Our TCE premium and operating margins are driven by our ability to draw on our experienced teams, global office network, strong cargo support and large fleet of high-quality substitutable ships in a way that optimises ship and cargo combinations for maximum utilisation.

Positive Initiatives

The protracted weakness in the industry has called for actions to stay strong and competitive. Our divestment of non-core businesses in recent years has enabled us to generate cash, streamline ourselves into a leaner company, and fully focus on our world-leading Handysize and Supramax dry bulk business. We have grown our owned fleet approximately threefold over the past five years as part of that refocus on dry bulk, and we are very happy with the quality and composition of the fleet we now have.

We generated sale proceeds of US$22 million for towage and other non-core assets in 2016 and have sold two further towage vessels so far in 2017. Our remaining towage assets have a net book value of approximately US$3 million and we continue to market them for sale. Our exit from the towage sector is substantially complete.

We have used the weak market to purchase a 7-year old Supramax and sell a 12-year old smaller Supramax, thereby trading up to a vessel of better design and longer life at an attractive price. We will continue to look for opportunities to purchase quality vessels and to assess attractive fleet renewal opportunities.

In May 2017, we will be relocating our headquarters from Hong Kong's central business district to Wong Chuk Hang, a newly revitalised part of Hong Kong Island. The move will result in significant cost savings while also allowing us to create a more energetic, collaborative and productive working environment. We have recently established a new commercial office in Rio de Janeiro to help grow our cargo volumes and support our many customers on the east coast of South America while enabling us to more fully cover all regions in the Atlantic.

In June we raised US$143 million (net) through a one-for-one rights issue of new shares. This served to strengthen our balance sheet and liquidity position, negate the impact of the October convertible bonds repayment and give us additional flexibility for vessel purchases.

In October, we reached an innovative agreement with ten shipowners to whom we issued US$13 million of new Pacific Basin shares as payment of existing long-term charter-hire obligations in 2017 and 2018, thereby reducing our cash outlay in these two years. We do not currently foresee doing any further such equity-linked deals.

LIQUIDITY & BALANCE SHEET

As at 31 December 2016, we had cash and deposits of US$269 million, net borrowings of US$570 million and net gearing of 34%. We remain in compliance with our loan covenants. We also had US$158 million of committed but undrawn loan facilities – mainly attractive Japanese export credit – which exceeds the US$119 million of payments due on our remaining seven Japanese newbuildings delivering in the first half of 2017.

Our cash position, the successful rights issue, our robust business model and our solid track record are all attributes that contribute to the solid balance sheet and strong corporate profile that sets us apart as a preferred, strong, reliable and safe partner for customers and other stakeholders in these weak market conditions.

STRATEGY AND POSITION

Our strategy is to be the best operator in our minor bulk shipping sphere, and to achieve premium TCE earnings through the high utilisation of quality vessels by efficiently combining minor bulk cargo trades.

This is an operationally demanding business model for which skilled and experienced staff and efficient ships really makes a difference. Minor bulk demand has more diversified geographical, cargo and customer profiles compared to the larger dry bulk segments (which are heavily dependent on iron ore shipments to China), and we leverage that diversity in our segment to achieve a laden utilisation rate of over 90% of our vessel days at sea. The cargoes we focus on – minor bulks and grain – together represent 48% of global dry bulk volumes and are expected to grow both in the short and longer term.

Many dry bulk shipowners act purely as tonnage providers by chartering out their ships on a longer-term time-charter basis. This business model is struggling as continued weak market rates have practically eliminated the demand for long-term charters and, consequently, we face more competition for cargoes from other shipowners who are trying to become ship operators. Similarly, asset-light ship operator business models are under threat from higher cost long-term inward charters, and recent bankruptcies have resulted in shippers looking increasingly closely at the creditworthiness of ship owners and operators.

We welcome such closer scrutiny and selectivity by customers, as our solid track record, balance sheet strength, cargo focus and passion for service continue to set us apart as the first choice partner for customers looking for freight cover.

Well positioned for further volatility

2017 has started stronger than last year, and we believe the worst of the current market cycle is behind us and that supply-side corrections have begun to lay the foundations for an eventual market improvement. We believe 2017 will be better than 2016. Through our cost-savings and fundraising, we have positioned ourselves to capitalise on improving market conditions ahead, but we must remain patient.

A market recovery needs lower net growth in the global dry bulk fleet. Negligible new minor bulk ship ordering and non-delivery of some existing newbuilding orders should mean significantly reduced deliveries which will help cap supply in the next few years.

Scrapping of older vessels also helps, and the enforcement of new ballast water treatment regulations from September 2017 (requiring the costly retrofit of ballast water treatment systems) may encourage ship scrapping at a time when many shipowners still find it difficult to generate breakeven earnings.

We will be complying with the ballast water management convention, and have an installation plan in place that ensures our fleet follows the implementation schedule of the new regulations. We are installing test units on two of our ships in 2017 and 2018.

In a low freight rate environment in which the global fleet is sailing at slower than normal operating speeds, increasing oil prices are a positive factor for the freight market. Higher fuel costs discourage shipowners from increasing vessel speeds when freight rates increase.

Infrastructure investment is back on the agenda in China and the USA which also bodes well for dry bulk shipping.

Positive as these potential developments are, both supply and demand factors remain uncertain – especially in view of recent and ongoing political developments in the US and Europe. We expect continued uncertain markets in 2017 and will continue to conduct our business efficiently and safely while astutely combining ships and cargoes to maximise our margins.

We have a robust business model, experienced staff, a quality fleet and strong balance sheet that position us well to navigate continued challenging market conditions, and to benefit from a market recovery. We thank you for your continued support.

Mats Berglund
Chief Executive Officer

DRY BULK MARKET OUTLOOK

Possible market drivers in the medium term

Opportunities

- Costly new environmental regulations encouraging increased ship scrapping
- Continued negligible new ship ordering and shrinking orderbook driven by the large gap between newbuilding and secondhand prices
- Periods of higher fuel oil prices encouraging continued slower ship operating speeds even when freight rates increase
- Increasing government stimulus driving greater infrastructure investment
- Environmental concerns in China encouraging shift from domestic to imported supply of resources

Threats

- Reduction in Chinese industrial growth impacting demand for dry bulk shipping
- Increased protectionism dampening trade by favouring domestic supplies over foreign imports
- Increased new ship ordering if subsidies support shipbuilding at loss-making prices
- Insufficient scrapping to offset new ship deliveries and weaker demand
- Periods of low fuel prices supporting faster ship operating speeds which increases supply

We're moving!

With effect from 4 May 2017, our headquarters will be relocated to Wong Chuk Hang, approximately 15 minutes from Hong Kong's Central business district. Our new address will be:

Pacific Basin Shipping (HK) Limited
31/F One Island South
2 Heung Yip Street
Wong Chuk Hang
Hong Kong

Market Review

Freight Market Summary

Handysize and Supramax spot market rates averaged US$4,950 and US$5,920 per day net respectively in 2016, representing a 3% and 10% decline in average earnings year on year.

Baltic dry bulk freight market indices at the start of 2016 continued to decline to 45-year lows in mid-February, undermined by a general seasonal and Chinese New Year slowdown in demand and lingering oversupply of dry bulk tonnage.

Freight earnings then improved over the remainder of the year benefitting from increased South American grain exports in the second quarter and stronger US grain exports in the second half. Chinese industrial activity was significantly down at the start of the year, but improvements from March onwards drove a revival in Chinese imports of coal, iron ore, logs, copper concentrates and other key minor bulks in the remainder of the year.

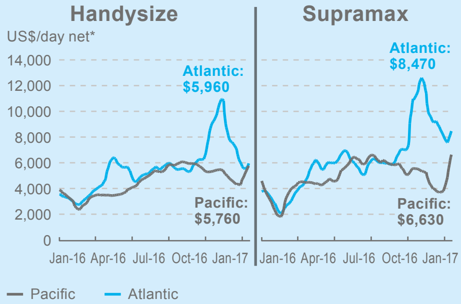
The Atlantic freight market was markedly stronger than the Pacific in the fourth quarter owing primarily to strong Atlantic grain and coal volumes.

2016 ended with the BDI over 100% up compared to the start of the year. Nevertheless, the market continues to be oversupplied and freight earnings are still below breakeven for many shipowners. Dry bulk indices have followed their typical seasonal decline in early 2017 but remain well above levels of one year ago.

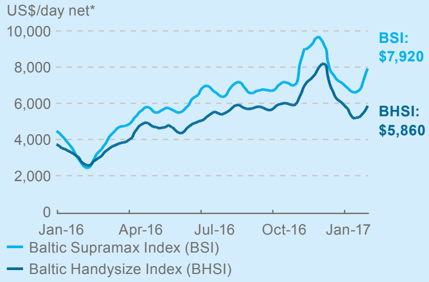
US$4,950 net ↓ -3%
Handysize 2016 average market spot rate

US$5,920 net ↓ -10%
Supramax 2016 average market spot rate

Atlantic vs Pacific Spot Rates



Baltic Handysize Index (BHSI) & Baltic Supramax Index (BSI)



* excluded 5% commission

Source: Baltic Exchange, data as at 23 February 2017

FREIGHT MARKET & OUTLOOK IMPACT SHIP VALUES

SUPPLY DRIVERS

Key Supply Developments

The global fleet of 25,000-40,000dwt Handysize and 40,000-65,000dwt Handymax ships grew 2.8% net and 4.7% net respectively in 2016 (2015: +2.7% and +7.1%), and the dry bulk fleet overall grew 2.3%.

New ship deliveries represented 5.9% of existing dry bulk capacity, which was down compared to 2015 and short of the scheduled orderbook for the year by a record 49%. Deliveries of new vessels were partly offset by increased scrapping, resulting in continued net growth in the global fleet.

All-time low freight earnings encouraged record scrapping in the first quarter, but scrapping activity reduced thereafter on improved freight market conditions resulting in the deletion of 3.6% of total dry bulk capacity and 3.1% of Handysize capacity in the year overall.

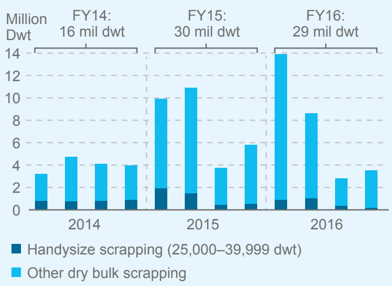
The larger vessels withdrawn from the market for idling or lay-up in the first half of the year were largely reactivated as the freight market improved.

The general oversupply was partly compounded by an increase in ship operating speeds as the market improved from mid-February, However, higher oil prices were positive for the freight market in the second half of the year as increased fuel prices encouraged slower ship speeds even when freight rates increased.

↑ 2.8%
Global Handysize capacity

↑ 2.3%
Overall dry bulk capacity

Dry Bulk Scrapping



Source: Clarksons Platou

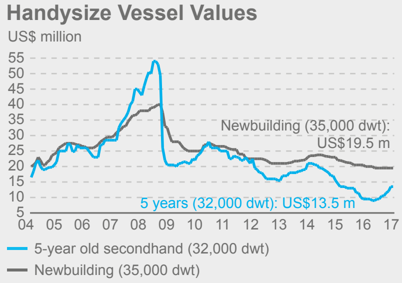
Ship Values

Declining dry bulk ship values stabilised at the end of the first quarter and have since increased on improved freight market conditions. Sale activity has returned.

Clarksons Platou currently value a benchmark five-year old secondhand Handysize at US$13.5 million, which is up 42% since a year ago. Despite the increase, secondhand values remain well below the estimated US$19.5 million benchmark newbuilding price, although no newbuildings have recently been contracted to support this. This gap continues to discourage new ship ordering which will benefit freight market fundamentals in the future.

US$13.5m ↑ 42%
Secondhand Handysize

Handysize Vessel Values



Source: Clarksons Platou, data as at 23 February 2017

VALUES & OUTLOOK IMPACT NEW SHIP ORDERING

DEMAND DRIVERS

Key Demand Developments

Clarksons Platou estimate global dry bulk cargo volumes in 2016 grew by 1.2% year on year, or 2% on a tonne-mile basis – as compared to net fleet growth of 2.3%.

2%

Overall dry bulk demand (tonne-miles)

The main positive drivers of this demand growth included a 4% increase in iron ore trade volumes mainly into China which continues to switch away from domestic iron ore sources.

Similarly, cuts in China's domestic coal output resulted in a 21% increase in Chinese coal imports. This was fully offset by coal import reductions in other markets (principally the EU area), but still contributed to improving freight market conditions in the second half of the year.

Overall minor bulk trade growth was flat in 2016. Soybean and wheat/grain trade volumes both grew 4% during the year. Cement trades grew 6% and forest products (including logs) grew 2%, but these solid improvements were offset by reductions of 1% in steel products, 3% in fertiliser, as well as an 8% reduction in bauxite and nickel ore volumes which remain impacted by Indonesian and Filipino export controls.

Seasonally strong US grain and soybean exports were key contributors to improved market conditions for our mid-sized vessels in the second half, driving Atlantic earnings to their highest levels since early 2014 and significantly outperforming Pacific earnings.

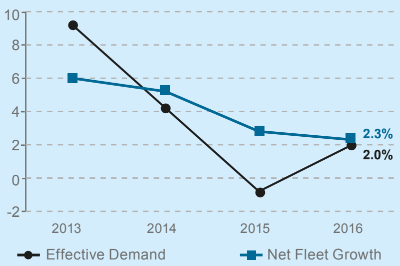
Global trade volumes – major bulks

Iron Ore	↑	4%
Coal	→	0%

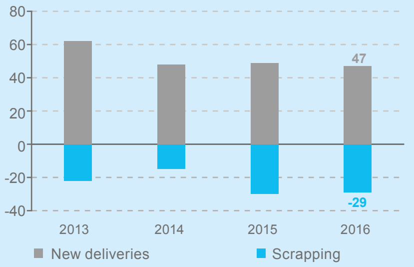
Global trade volumes – minor bulks

Cement	↑	6%
Soybean	↑	4%
Wheat/Grains	↑	4%
Bauxite & Nickel Ore	↓	8%

Dry Bulk Demand & Supply



Supply Development



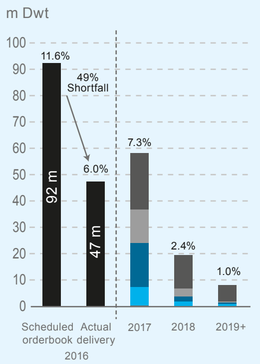
Source: Clarksons Platou, Bloomberg

Orderbook

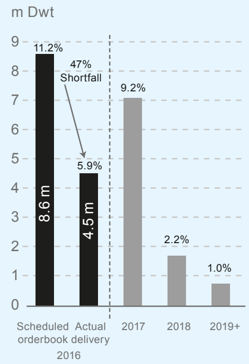
The dry bulk orderbook continued to decline to 11% from 15% a year ago. New ship ordering in 2016 amounted to a record low 1.7% of existing capacity, or 0.1% excluding 31 Valemax ore carriers dedicated to Vale's own iron ore trades.

The gap between secondhand and newbuilding prices has reduced but continues to discourage new ship ordering. The absence of new ordering and a continued orderbook delivery shortfall should result in reduced new ship deliveries in the coming years. Scheduled new ship deliveries for the year are 37% smaller than a year ago and, as less slippage is likely in 2017, we expect actual deliveries will be around 35 million deadweight tonnes.

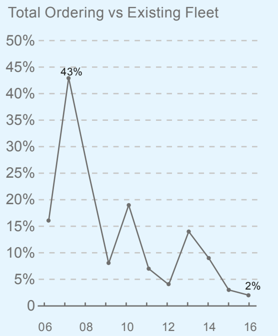
Orderbook by Year



Handysize Orderbook



Dry Bulk New Ship Ordering



Source: Clarksons Platou, as at 1 January 2017

	Orderbook as % of existing fleet	Average age	Over 20 years old	2016 scrapping (as % of fleet as at 31 Dec 2016)
Handysize (25,000–39,999 dwt)	12%	9	11%	3%
Handymax (incl. Supramax) (40,000–64,999 dwt)	10%	9	10%	2%
Panamax & Post-Panamax (65,000–119,999 dwt)	8%	9	7%	4%
Capesize (incl. VLOC) (120,000+ dwt)	14%	8	8%	4%
Total Dry Bulk > 10,000 dwt	11%	9	9%	4%

Our Performance in 2016

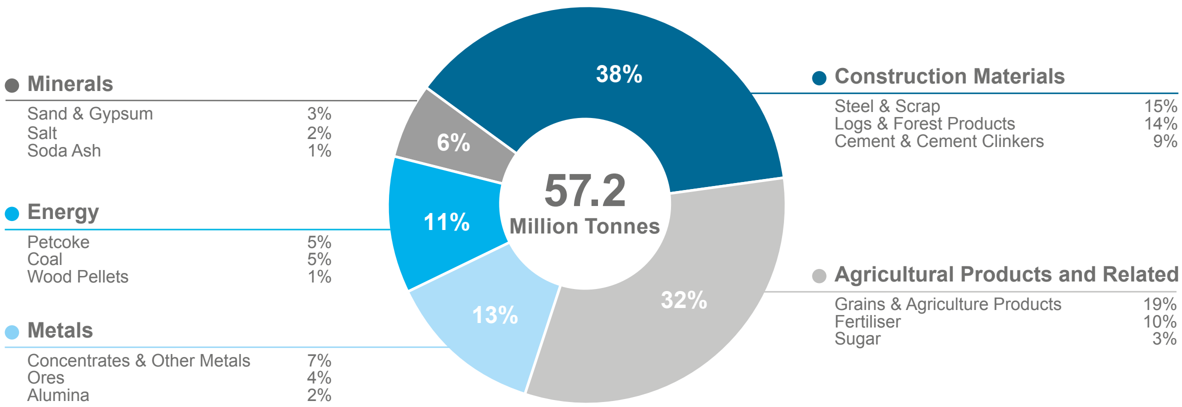
Our core dry bulk business generated a net loss of US$87.6 million (2015: net loss US$34.7 million) in a record weak year for dry bulk shipping. In the challenging market conditions, we generated daily earnings that outperformed the BHSI and BSI indices and continued to maintain good control of our vessel operating costs.

DRY BULK OPERATING PERFORMANCE

US$ Million	1H16	2H16	2016	2015	Change
Handysize Contribution	(30.2)	(6.9)	**(37.1)**	(8.4)	>-100%
Supramax Contribution	(6.8)	3.5	**(3.3)**	22.6	>-100%
Post-Panamax Contribution	2.7	2.8	**5.5**	5.5	–
Dry Bulk operating performance before overheads	(34.3)	(0.6)	**(34.9)**	19.7	>-100%
Overheads	(25.6)	(26.1)	**(51.7)**	(53.5)	+3%
Tax	(0.5)	(0.5)	**(1.0)**	(0.9)	-11%
Dry Bulk net loss	(60.4)	(27.2)	**(87.6)**	(34.7)	>-100%
Dry Bulk vessel net book value	1,577.9	1,653.4	**1,653.4**	1,577.8	+5%

+/- Note: In our tabulated figures, positive changes represent an improving result and negative changes represent a worsening result.

OUR DRY BULK CARGO VOLUMES IN 2016

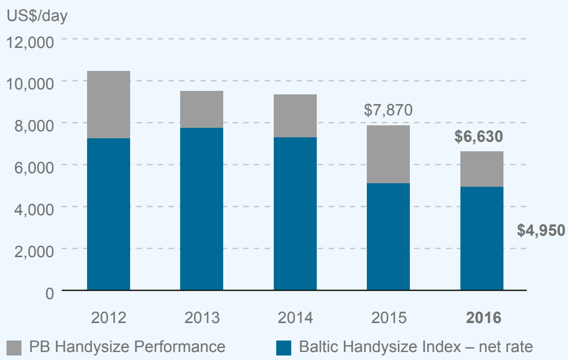


KEY PERFORMANCE INDICATORS KPI

Performance vs Market

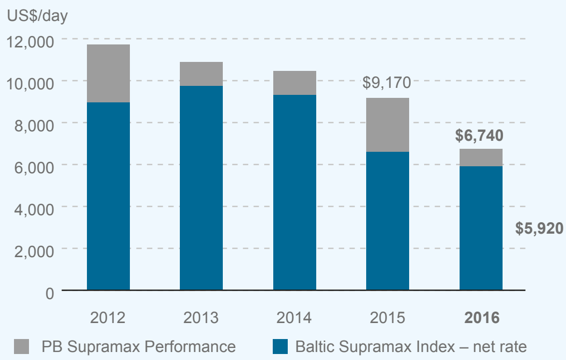
Handysize

34% outperformance compared to market



Supramax

14% outperformance compared to market

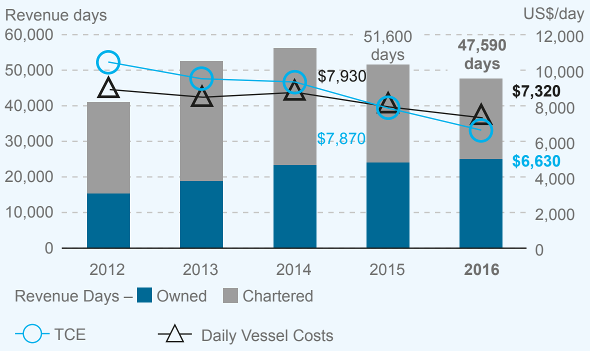


- Our 34% and 14% outperformance in 2016 compared to spot market indices reflects the value of our fleet scale and cargo book, and our ability to optimise cargo combinations and match the right ships with the right cargoes to maximise our utilisation and vessel earnings.

Profitability

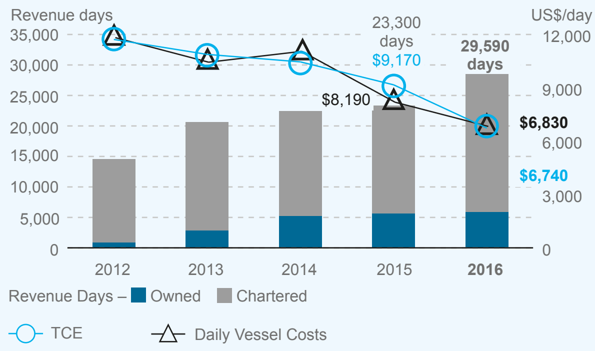
Handysize

US$(37.1)m contribution



Supramax

US$(3.3)m contribution



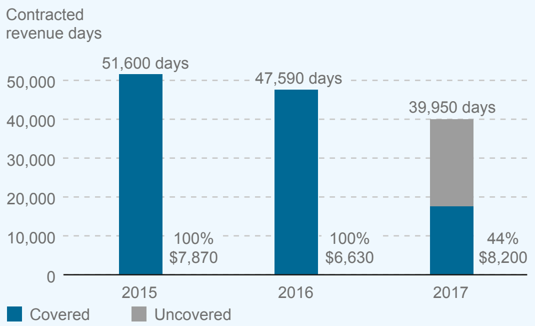
- We generated Handysize daily earnings of US$6,630 with daily costs of US$7,320 on 47,590 revenue days. Our Handysize earnings were under pressure in the historically weak market resulting in a negative Handysize contribution despite our strong premium.
- Our Supramax business generated a smaller loss than Handysize, benefitting in the weak market from its larger proportion of short-term inward chartered ships.

As part of our business model, we charter in vessels for short periods for combination with cargoes with the aim of making a margin irrespective of whether the market is high or low. In low markets as in 2016, these short-term positions generally lower our reported TCE earnings while in fact making a valuable positive contribution. If we exclude the vessel days attributable to these short-term operated ships and factor their positive margin into the TCE results of our core owned and long-term fleet, then our restated 2016 Handysize and Supramax daily earnings would improve to US$6,720 on 41,220 days and US$7,940 on 14,230 days respectively.

- We operated an average of 130 Handysize and 81 Supramax ships resulting in an 8% reduction and 27% increase in our Handysize and Supramax revenue days respectively.
- Our Handysize capacity has reduced as we redelivered expiring medium and long-term chartered vessels to gradually lower our charter-in costs, relying instead on our growing fleet of owned ships and low-cost shorter-term and index-linked charters.

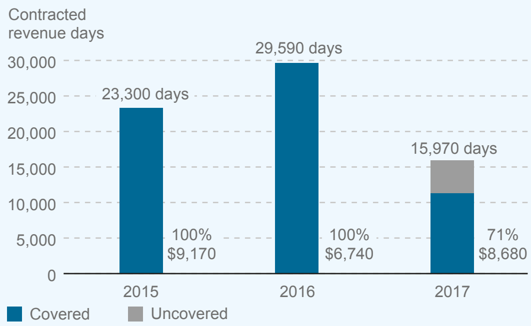
Future Earnings and Cargo Cover

Handysize



Currency: US$ per day

Supramax



Currency: US$ per day

- We have covered 44% and 71% of our 39,950 Handysize and 15,970 Supramax revenue days currently contracted for 2017 at US$8,200 and US$8,680 per day net respectively.

  (Cargo cover excludes revenue days related to inward-chartered vessels on variable, index-linked rates)
- While ship operators such as ourselves typically face significant exposure to the spot market, our contract cover provides a degree of earnings visibility.

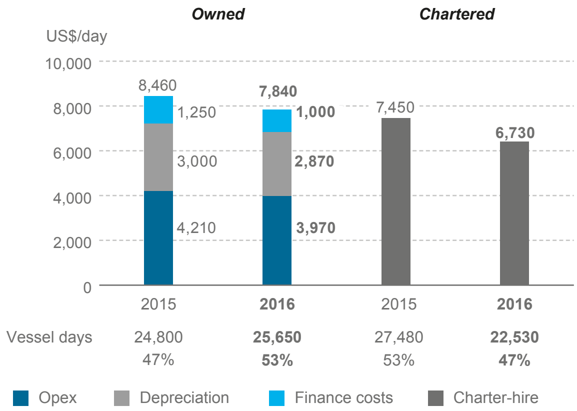
Analysis of Daily Vessel Costs

The cost of owning and operating dry bulk 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 their components and development.

Handysize Daily Vessel Costs

Blended US$7,320 (2015: US$7,930)

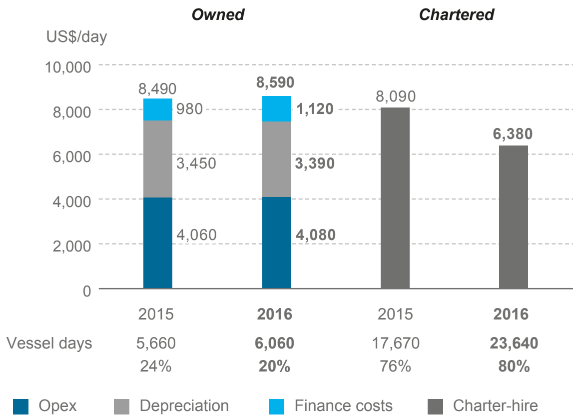
(excluding overheads)



Supramax Daily Vessel Costs

Blended US$6,830 (2015: US$8,190)

(excluding overheads)



Opex – The daily opex element of our vessel costs decreased 6% for Handysize mainly due to crewing and procurement cost efficiencies, while increasing 1% for Supramax.

Depreciation – Daily Handysize depreciation (including capitalisation of dry-docking costs) decreased due to the redelivery on expiry in December 2015 of finance leased vessels with higher depreciation costs.

Finance costs – Our owned Handysize vessels' daily P/L and cash finance costs were US$1,000 and US$790 respectively, and our Supramax daily P/L and cash finance costs were US$1,120 and US$1,030 respectively. The difference between the P/L and cash finance costs reflects the difference between the coupon and effective interest rate of our convertible bonds. Our Handysize daily finance costs reduced compared to 2015 while Supramax daily finance costs increased. This was due to the allocation of more convertible bonds interest to this vessel type as more Supramax owned newbuildings delivered.

Charter-hire – Our chartered Handysize vessels' daily P/L and cash charter-hire costs were US$6,730 and US$7,590 respectively, and our Supramax daily P/L and cash charter-hire costs were US$6,380 and US$6,720 respectively. The difference between the P/L and cash charter-hire costs reflects the write-back of onerous contract provisions made in 2014 relating to the 2016 element of our charter commitments.

Chartered-in days represented 47% and 80% of our total Handysize and Supramax vessel days respectively. Our Handysize chartered-in days decreased 18% to 22,530 days (2015: 27,480 days) while our Supramax chartered-in days increased 34% to 23,640 days (2015: 17,670 days). Our Supramax fleet benefitted in the weak market from its larger proportion of low-cost short-term chartered-in ships and the redelivery of more expensive vessels.

Daily cash cost – Our average blended owned and chartered daily cash cost excluding overheads was US$6,090 (2015: US$6,570) for our Handysize fleet and US$6,390 (2015: US$7,720) for our Supramax fleet.

Overheads – Our dry bulk direct staff overheads and office costs, along with all overheads categorised as indirect overheads, reduced to US$51.7 million (2015: US$53.5 million) in spite of operating more owned ships. Spread across our vessel days, the aggregate overheads translated into a daily cost of US$660 per ship per day (2015: US$710 per day).

The Group's total administrative expenses including our remaining towage activities amounted to US$52.9 million (2015: US$56.6 million). The year-on-year saving of US$3.7 million reflects a range of cost savings initiatives undertaken during the year.

During the year, we secured 3,050 Handysize vessel days (2015: 7,040 days) and 330 Supramax vessel days (2015: 1,240 days) via variable-rate, inward charters with rates linked to the Baltic Handysize and Supramax indices. These index-linked vessels represented 14% and 1% of our chartered Handysize and Supramax vessel days respectively.

Our fleet of owned dry bulk vessels experienced on average 2.6 days (2015: 2.2 days) per vessel unplanned technical off-hire during the year.

Page 27
Vessel Operating Lease Commitments
Analysis of our long-term, short-term and index-linked inward charter commitments

With You for the Long Haul

In this protracted challenging dry bulk market environment, we consider it all the more important to highlight:

- our financial strength and staying-power;
- our ability and willingness to stand by our commitments;
- our commodities expertise and ability to extend a world-class service and deliver our customers' cargoes safely and reliably – in good times and bad; and
- our staff's shared passion to deliver to the best of their ability and, through thick and thin, to ensure the highest possible degree of customer satisfaction.

The promise of our Pacific Basin brand, our values and our actions in good times and bad, are summed up in our tagline:

With you for the long haul

Our vision is to be the leading ship owner/operator in the dry bulk shipping space, and the first choice partner for customers and other stakeholders

www.pacificbasin.com
Company > Our Vision & Values

WHAT OUR CUSTOMERS SAY ABOUT US

"

- *Pacific Basin is everything we expect of a freight provider – we cannot find any faults in your service*
- *Your service is excellent – way above other shipping lines*
- *Pacific Basin's financial health is streets ahead of the competition*
- *Operationally you are fantastic, and your communications and service are fantastic*
- *Your performance is A1, your people have a good head on their shoulders, and you provide the flexibility we need*
- *You are great at relationships, you understand our needs for punctuality and hold cleanliness, and you get issues resolved*
- *Your team is responsive, you are really flexible, and you performance is smooth and always on time*
- *Your ops staff understand the needs of our trades, especially practicalities and documentation – that makes our lives easy*
- *You support us and are quick to rate business which is really important for us – we trust Pacific Basin, and our relationship is strong*
- *You are quick with regular itinerary updates, quick with voyage settlement, quick with solutions*
- *Operationally you are our top choice – our relationship is good and you give us great support*
- *You have a great team of sensible people who can resolve problems*

"

WHAT WE STAND FOR

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 an effective cargo and customer-focused business model with talented, team-focused people who share sensible values and a passion for delivering excellent service.

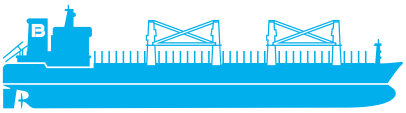
Our Business Principles

The guiding principles that dictate our behaviours and actions:

1. We are passionate about our customers, our people, our business and our brand.
2. We honour our commitments, and we value long-term relationships over short-term gain.
3. We offer a personalised, flexible, responsive and reliable service, and look for ways to make it easier to do business with us.
4. We target excellence and success through dedication and teamwork, and we see everyone in Pacific Basin as a corporate ambassador.
5. We take a sustainable business approach and promote high standards of safety and environmental stewardship.
6. We are caring, good humoured and fair, and treat everybody with dignity and respect, encouraging diversity of opinions and cultures.

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

Our Focus	Bulk Carrier Ship Types	Percentage of Global Dry Bulk Capacity	Versatility
Minor bulks with cranes	**Handysize** 25,000-39,999 dwt	10%	More Versatile
Minor bulks with cranes	**Handymax (incl. Supramax)** 40,000-64,999 dwt	24%	More Versatile
Major bulks without cranes	**Panamax & Post-Panamax** 65,000-119,999 dwt	27%	Less Versatile
Major bulks without cranes	**Capesize** 120,000+ dwt	39%	Less Versatile

Main Commodities Carried

Minor Bulks

Metals
- Ores & Concentrates
- Alumina
- Bauxite

Energy
- Coal/Coke
- Petcoke

Minerals
- Salt
- Sand & Gypsum

Agricultural Products
- Grains
- Fertiliser
- Sugar

Construction Materials
- Logs & Forest Products
- Cement & Clinker
- Steel & Scrap

Other Bulks

Major Bulks
- Iron ore
- Coal
- Grains

Few ports, few customers, few cargo types, low scope for triangulation

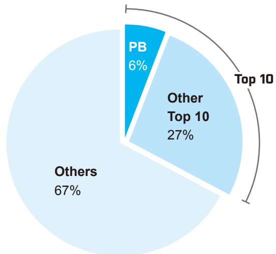
Many ports, many customers, many cargo types, high scope for triangulation

WHY WE FOCUS ON MINOR BULKS

- **More diverse customer, cargo and geographical exposure enables high utilisation**
- **A segment where scale and operational expertise make a difference**
- **Better daily TCE earnings driven by a high laden-to-ballast ratio**
- **Sound long-term demand expectations and modest historical Handysize fleet growth**

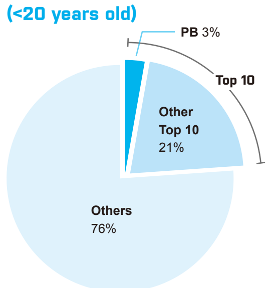
OUR MARKET SHARE

Handysize (<20 years old)



We operate approximately 6% of global 25-40,000 dwt Handysize ships of less than 20 years old

Supramax (<20 years old)



We operate approximately 3% of global 50-65,000 dwt Supramax ships of less than 20 years old

Source: Pacific Basin, Clarksons Platou

We are the world's largest Handysize owner and operator (with a significant presence also in Supramax) 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, enabling triangular trading and thus high vessel utilisation. This segment requires 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.

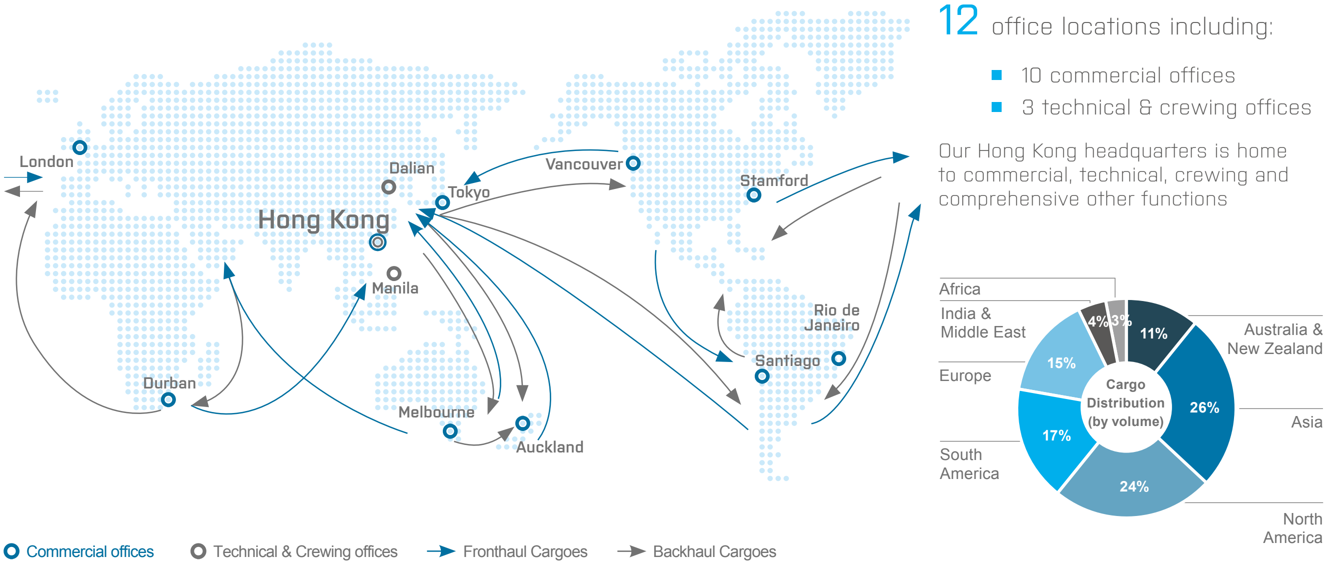
By contrast, cargo demand for large bulk carriers comprises only a few major bulk commodities controlled by a handful of cargo owners and transported through a much smaller number of ports, making them heavily dependent on relatively few trades and hence their prospects are more volatile. Their activity is typically characterised by one-way laden transportation resulting in lower utilisation.

We are focused on a particular ship segment and size, but are diversified geographically and in terms of customers and cargoes. This allows us scope to triangulate our voyages – such as by combining fronthaul and backhaul trades – and thus enhance our vessel utilisation and earnings. We do not participate in the volatile freight earnings that large bulk carriers can achieve, but we are well positioned to achieve our important aim of generating a steadier and more sustainable earnings stream with better protected earnings in the down-cycle through our business model.

Our earnings reliability is further enhanced by the fact that global Handysize capacity has experienced only 28% growth in the past 10 years relative to the much larger expansion of the major bulk fleets.

Business Review
Strategic Review
Funding
Governance
Financial Statements

OUR WORLDWIDE NETWORK AND TRADING AREAS



Our Worldwide Network

12 office locations including:

- 10 commercial offices
- 3 technical & crewing offices

Our Hong Kong headquarters is home to commercial, technical, crewing and comprehensive other functions

A FOCUSED APPROACH – OFFERING BENEFITS OF DIVERSIFICATION

- Focused on segment and size
- Diversified geographically, customer-wise and cargo-wise

- Around 500 customers globally
- Our largest customer represents only 3% of our volumes

- Our top 25 customers represent less than 40% of our volumes

OPPORTUNITIES AND CHALLENGES

General Market Characteristics

Long-term opportunities & challenges

Fragmented market

The Handysize sector is highly fragmented, but our scale sets us apart as a major freight provider able to offer reliability and flexibility for customers while benefiting from scale economies such as lower bulk purchasing costs and higher ship and fleet utilisation.

Environmental considerations and regulation

Our drive for fuel efficiency ensures that emissions concerns are aligned with our strategy, and our award-winning in-house technical operation ensures we meet all regulatory requirements and industry best practices.

Market cycles and volatility

Our business model, know-how and understanding of shipping cycles enable us to outperform throughout the cycle, manage our balance sheet, and remain a strong and reliable counterparty for our customers even in weak market conditions.

Limited supply of seafarers and shore-based talent

Our industry 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 and retain the staff we need.

Page 7
Dry Bulk Market Outlook
Possible market drivers in the medium term

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 benefit our shareholders and customers.

OUR CAPITALS – THE RESOURCES AND RELATIONSHIPS WE RELY ON

Physical Capital
Our Fleet – 226 Ships*

	Vessels in operation		Newbuildings on order		Total
	Owned	Chartered	Owned	Chartered	
Handysize	75	56	2	3	136
Supramax	20	67	1	–	88
Post-Panamax	1	1	–	–	2
Total	96	124	3	3	226

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

12 offices **10** chartering offices – positioning us close to our customers

Page 14
Understanding Our Core Market
Our worldwide network

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

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

Natural Capital
- The environmental resources (such as air, water, minerals and energy) that enable us to conduct our business

Our Vision
To be a leading ship owner/operator in the dry bulk shipping space, and the first choice partner for customers and other stakeholders

HOW WE PROTECT OR CREATE VALUE

Scale and Interchangeability
Fleet scale provides network and economic advantages

High-quality Assets
Expansion and renewal of our fleet through investment in ships of the best design and build quality

In-house Technical Operations
Integrated team of technical services and crewing managers

Considered Treasury Activity
Continuous management of financial resources and funding

Being Local
Regional offices across six continents position us near our customers

Being Global
Worldwide network of offices and trade routes

Stakeholder Engagement
Regular multi-level engagement and responsible operating practices to broaden and deepen our relationships with stakeholders

Effective Business Model & Systems
Home-grown value-accretive business model, systems, procedures, know-how and intangibles

Environmental Responsibility
Observing or exceeding regulatory requirements and industry standards on environmental impact

* data as at 31 January 2017

MATTERS OF KEY STRATEGIC FOCUS	OUTCOME
Investing in our fleet Strategic Model p.2 ■ We already operate the largest Handy fleet, and will carefully consider further acquisition opportunities at depressed prices in the continued weak market ahead ■ Our technical team strives to ensure safety and maximise availability so our ships are always operationally ready	Optimal operational ship design and efficiency Increased economies of scale and vessel utilisation Outperform p.10 Optimal scheduling and flexibility for customers Enhanced technical and service reliability for customers Customers p.2 Enhanced health and safety, quality and cost control Workplace p.46
Enhancing corporate and financial profile ■ We continue to work within our financial gearing targets, maintain the Group's financial health, and strive for best-in-class reporting, transparency and corporate stewardship	Sound financial liquidity to fund investments and meet payment obligations and covenants Optimal balance of financial capital sources benefits shareholders and enhances returns Funding p.24
Investing in our People ■ We strive to develop and motivate our teams to enhance safety, productivity, customer satisfaction and job fulfilment	Safeguarding and enhancing quality, effectiveness and availability of our teams of staff on shore and at sea Workplace p.46
Deepening our relationships ■ We are increasing customer engagement by connecting and strategising with a larger number of customers at a local level to enhance our relationships and access to cargoes	Meaningful customer partnerships and better understanding of and response to customer needs Access to comprehensive market intelligence and cargo opportunities Optimal trading (cargo combinations) and positioning of our fleet Outperform p.10
Safeguarding health & safety ■ Eliminating injury, navigation and pollution incidents through training **Evolving management & governance** ■ Refining management decision-making, risk mitigation and board governance procedures and considerations	Builds understanding, trust and support between Pacific Basin and our staff, customers, tonnage providers, suppliers, investors, financiers, communities and other stakeholders Workplace p.46 Governance p.28
Maximising vessel and fleet utilisation ■ We know how to optimally match our large fleet and cargo systems to maximise utilisation, availability and punctuality	Sector-leading service delivery Maximising vessel earnings and generating consistently respectable financial performance through the cycle Strong brand and reputation Outperform p.10
Safeguarding the environment ■ We minimise our environmental impact through continual training and environmentally efficient practices and technologies	Sector-leading efforts to minimise consumption of natural resources and impact on the environment Environment p.46

Our Mission

To be the best in our field by continuously refining our business model, our service and our conduct in everything we do

Strategy Delivery & Risks

1. INVESTING IN OUR FLEET

2016

Objectives

Manage our business for a continued weak market in the medium term and prioritise safety and staying power. Carefully consider further acquisition opportunities at depressed prices in the continued weak market ahead with which we could generate positive cash contributions even in the prevailing weak market.

Strategy delivery and performance

Having stopped buying ships in early 2014, we continued to supplement our core fleet with low-rate short-term chartered ships which contribute to our service and results even in the depressed market.

We assimilated into our fleet six of the ships we purchased at low prices before 2014. They have slotted into our cargo systems well, and have made a positive cash contribution even in the weak market.

2017

Objectives

Manage our business for continued uncertain markets in 2017 and continue to conduct our business efficiently and safely. Having positioned ourselves to capitalise on improving market conditions ahead, we will assess attractive fleet renewal opportunities.

RISK/IMPACT

Market Risk A

Adverse financial impacts include:

- earnings volatility
- cost volatility including fuel prices, interest rates and other operating expenses
- exchange rate volatility in the currencies we use

Change from last year:

RISK REDUCTION MEASURES

Earnings volatility is partially managed by securing contracts of affreightment of one year or longer. We remain focused on the Handy segments of the dry bulk sector which is where we have a strong competitive edge.

Volatile fuel costs for our long-term cargo contracts are passed through to our customers through bunker price adjustment clauses or hedged with either bunker swap contracts or forward price agreements.

Volatile and sharply reducing fuel prices mean we need to constantly reassess our optimal vessel operating speeds to maximise each voyage's contribution.

Page 69
Financial Statements Note 12
See Derivative Assets and Liabilities for our use of derivative financial instruments to manage volatility in fuel prices, interest rates and exchange rates.

Vessel Investment, Deployment and Operational Risk

Inappropriate vessel investment timing, deployment and operations may lead to an uncompetitive cost structure and reduced margins.

Vessel values vary significantly through shipping cycles, and we need competitively priced, high-quality vessels to provide our services to customers.

Change from last year:

We evaluate potential vessel investments and divestments based on relevant market information, estimated future earnings and residual values. We adopt a flexible ownership/leasing strategy that is aligned with shipping cycles, and we maintain an active fleet renewal programme by:

- securing newbuilding contracts with leading, reputable and financially viable shipbuilders;
- transacting secondhand deals with creditworthy counterparties; and
- securing long-term inward charters of modern vessels.

Our technical team and crews operate and maintain our ships under our International Safety Management (ISM) Code-compliant "Pacific Basin Management System" to assure safety and service reliability.

2. DEEPENING OUR RELATIONSHIPS

2016

Objectives

To improve the customer experience to enhance our access to cargoes, drawing on a global team and office network that is unmatched in the dry bulk sector.

Strategy delivery and performance

We served around 500 customers and carried to 57 million tonnes generating full-time employment for our 77,180 ship revenue days (2015: 74,900). Having sold substantially all our non-core activities, our management is now fully focused on our core Handysize and Supramax business. We are increasing customer engagement and through our global office network are connecting and strategising with a larger number of customers at a local level.

2017

Objectives

To increase customer engagement and partnership at a local level and further improve the customer experience by streamlining systems and processes, thereby enhancing our access to cargoes, drawing on a global team and office network that is unmatched in the dry bulk sector.

RISK/IMPACT	RISK REDUCTION MEASURES
Credit and Counterparty Risk A Default or failure of counterparties to honour their contractual obligations may cause financial losses. Counterparties include: ▪ our cargo customers ▪ ship builders, sellers and buyers ▪ derivatives counterparties ▪ banks and financial institutions **Change from last year:** ↑	Our global office network enables us to better know our counterparties. We take measures to limit our credit exposure by: ▪ transacting with a diverse range of counterparties with successful track records and sound credit ratings; ▪ actively assessing the creditworthiness of counterparties; and ▪ obtaining refund guarantees from newbuilding shipyards. Page 73 Financial Statements Note 13 Trade and Other Receivables
Customer Satisfaction and Reputation Risk Poor service can lead to loss of customers. Impaired brand value and reputation as a trusted counterparty could restrict our access to customers, cargoes, high-quality vessels, funding and talent. **Change from last year:** →	Our global office network positions us close to our customers enabling frequent customer engagement, a clear understanding of their needs and localised customer service. A large, modern, uniform fleet and comprehensive in-house technical operations enhance our ability to deliver a high-quality and reliable service. Customer engagement includes regular customer surveys to see how we can further improve customer satisfaction.
Banking Relationships Risk Poor relationships with banks may limit our funding sources. **Change from last year:** →	We have a dedicated treasury function that develops and maintains our relationships with a diverse group of reputable banks worldwide. These relationships are enhanced through regular senior management contact and consistent compliance with our loan obligations.

3. INVESTING IN OUR PEOPLE

2016

Objectives

Continue to develop and motivate our teams to enhance safety, productivity, customer satisfaction and job fulfilment.

Strategy delivery and performance

Despite the continued challenges of increased global demand for seafarers and ship managers, we successfully managed the delivery of six new ships into our owned fleet. We currently employ over 3,000 seafarers and 330 shore-based staff.

We recruited 12 dry bulk graduate trainees, hosted four officer training seminars ashore and provided external training to 48% of our shore-based staff in 2016. Investments such as these contribute to enhanced employee engagement and satisfaction.

2017

Objectives

Continue with our objectives of achieving improvements in safety performance, staff retention, productivity, customer satisfaction and job fulfilment.

RISK/IMPACT

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: ↑

RISK REDUCTION MEASURES

Our Group has a dedicated HR department which oversees organisational design, talent management, hiring and remuneration. Succession plans for senior management are regularly reviewed.

The Nomination Committee closely monitors the Board succession planning process to ensure Board continuity and diversity. We have a clear vision, mission and business principles with which to equip any potential successors to lead the business forward.

Employee Engagement Risk

We are only as good as our people and so our ability to achieve 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 grow our business and achieve our long-term goals.

Change from last year: →

Our Group HR and crewing departments are tasked with recruiting, developing and maximising engagement of staff ashore and at sea by:

- maintaining regular contact with talent representing a wide cross-section of the shipping industry, and we use diversified manning sources for seafarers;
- regularly reviewing our salary structure to ensure that it remains adequate to attract and retain the best talent;
- offering regular training for staff ashore and at sea; and
- implementing annual staff performance appraisals, incentives and other initiatives to encourage, retain and otherwise engage staff.

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Workplace & Safety
Training & Development

4. SAFEGUARDING HEALTH, SAFETY AND ENVIRONMENT

2016

Objectives

Through a continued focus on training, to substantially eliminate injury, navigation and pollution incidents, minimise our environmental impact and promote a healthy and supportive work environment at sea and ashore.

Strategy delivery and performance

We reduced our total recordable case injury frequency by 18%, and our inspection deficiency rate (related to our Safety Management System) reduced 19% in 2016. These statistics are among the best in the industry and represent the value of a specific focus on staff training.

2017

Objectives

Through training, continue with our objectives of substantially eliminating injury, navigation and pollution incidents, minimising our environmental impact and promoting a healthy and supportive work environment at sea and ashore.

RISK/IMPACT	RISK REDUCTION MEASURES
Safety Risk Inadequate safety and operational standards, piracy 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:**	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. CSR Report Page 15 Workplace & Safety Health & Safety
Environment Risk Non-compliance with emissions and other environmental legislation 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:**	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 our home-grown Right Speed Programme. We use types of fuel that comply with the relevant regulations set out by the International Maritime Organization (IMO). We have a plan in place to install treatment units on our vessels to comply with new Ballast Water Treatment regulations that take effect in late 2017. 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. We cover our risk of liability for pollution through reputable Protection & Indemnity (P&I) clubs. CSR Report Page 29 Environment
Insurance Risk Any vessel incident 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:**	Despite best efforts to ensure safe operations, incidents do happen. 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. Sufficiency of insurance cover is regularly evaluated and adjusted in line with prevailing asset values and in compliance with loan covenants and internal policies.

Business Review
Strategic Review
Funding
Governance
Financial Statements

5. ENHANCING CORPORATE & FINANCIAL PROFILE

2016

Objectives

Continue to work within our financial gearing targets, maintain the financing of the Group, and strive for best-in-class corporate stewardship, transparency and reporting, including full adoption of the latest ESG reporting guidelines issued by The Stock Exchange of Hong Kong Limited.

Strategy delivery and performance

Despite significant fleet investment in 2012/13, we still benefitted from conservative gearing and access to funding. This gives comfort to customers and shareholders alike which contributes to the strong corporate profile that makes Pacific Basin a preferred partner for many stakeholders.

In June we raised US$143 million (net) through a rights issue of new shares which strengthened our balance sheet and liquidity position, negated the impact of the October convertible bonds repayment and gave us additional flexibility for vessel purchases. Our success in completing the rights issue in a very weak market reflects investor confidence in our sector-leading business model and corporate profile.

At year end, our gearing ratio was 34% and we were in compliance with our bank covenants.

2017

Objectives

Continue to work within our financial gearing targets, maintain the financial health of the Group, and strive for best-in-class reporting, transparency and corporate stewardship.

RISK/IMPACT

Liquidity Risk A

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:

RISK REDUCTION MEASURES

Our Group's Treasury function actively manages the cash and borrowings of the Group to ensure:

- sufficient funds are available to meet our existing and future commitments;
- an appropriate level of liquidity is maintained during different stages of the shipping cycle;
- compliance with covenants relating to our borrowings and convertible bonds; and
- regular and transparent dialogues with our relationship banks are maintained.

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Financial Liabilities Summary

Capital Management Risk A

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:

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.

Page 3
Financial Summary

6. EVOLVING MANAGEMENT & GOVERNANCE PRACTICES

2016

Objectives

Refine management decision-making, risk mitigation and board governance procedures and considerations. Ensure all new recruits are trained to fully observe our risk management and governance procedures. Uphold best-in-class levels of transparency and stakeholder confidence.

Strategy delivery and performance

Our risk management team continued to raise emerging risk and control awareness amongst staff in 2016.

We were the sole recipient of a Gold Award in the mid-to-small cap category at the HKICPA's Best Corporate Governance Awards. We have adopted the latest ESG reporting guidelines issued by The Stock Exchange of Hong Kong Limited.

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News & Achievements
Our awards in 2016

2017

Objectives

Understanding our emerging risks in the changing shipping market and establish effective mitigating controls to underpin our commitment to sustainable business. We always seek to refine management decision-making, risk mitigation and board governance procedures and considerations. We strive to continue to uphold our best-in-class levels of board governance, business transparency and stakeholder confidence.

RISK/IMPACT	RISK REDUCTION MEASURES
Cyber Security Risk Our business processes rely on IT Systems particularly for daily communications ashore and at sea. Failure of a key IT systems, targeted attacks on our system, or a breach of security could result in communications breakdown and business disruption. **Change from last year:** ↑	Our IT Steering Committee chaired by our CEO oversees the Group's IT policies and procedures and ensures the Group's IT strategies meet our business needs. Our IT team works closely with the business departments to tailor effective IT systems, support, and preventive and contingency measures. We have implemented business continuity arrangements for critical IT systems and activities. Vessel hardware and systems are reviewed periodically to maximise system efficiency and security.
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:** →	Our Group is committed to good corporate governance to meet the requirements of our business and stakeholders. The Audit Committee and Risk Management Committee proactively ensure the overall corporate governance and risk management framework for the Group. Internal procedures are in place to ensure compliance with all local and international laws and regulations in the places we trade, including the comprehensive regulations enacted by the International Maritime Organization (and enforced by its member countries) and UN, US and EU sanctions legislation. The Board and relevant employees receive regular governance training to ensure a high standard of corporate governance. Page 28 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:** →	We have a dedicated investor relations function as well as policies and guidelines on information disclosure and communication with the public. We report half-yearly with quarterly trading updates, we keep the public informed of material developments guided by Corporate Governance Code best practices, and our website is updated regularly with company news and financial information. Page 47 Investor Relations

Funding

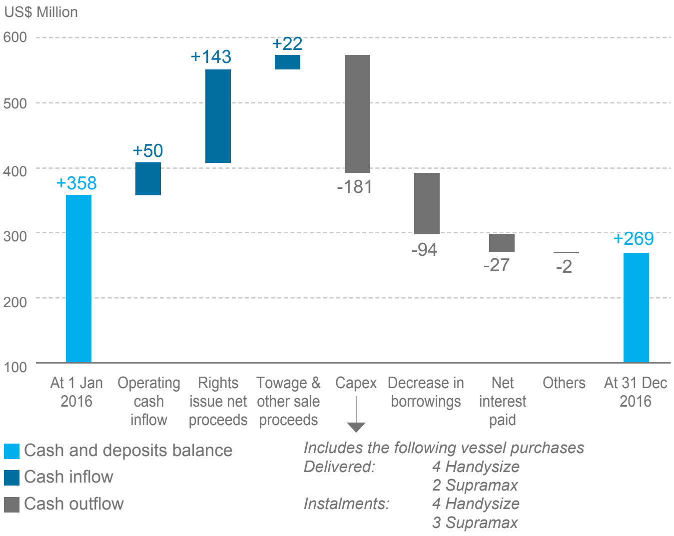
CASH FLOW AND CASH

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

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 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 appropriate over all stages of the shipping cycle.

Sources and Uses of Group Cash in 2016



Current Position and Outlook

During 2016:

- We raised US$143 million of cash, after expenses, through the issue of rights shares at the subscription price of HK$0.60 each on the basis of one rights share for every one existing share. US$124 million of such proceeds were used to repay the 2018 convertible bonds in October following the exercise by all bondholders of their right to redeem the bonds.
- Borrowings decreased by US$94 million, after:
  - The 2016 convertible bonds principal repayment of US$106 million upon its maturity in April;
  - The 2018 convertible bonds principal repayment of US$124 million in October following the exercise by all bondholders of their right to redeem the bonds;
  - Our net repayment of US$70 million of secured borrowings and revolving facilities; and
  - We drew down US$205 million in total, comprising US$171 million under our Japanese export credit facilities in respect of nine delivered newbuildings and US$34 million of borrowings on other owned vessels.
- We received sale proceeds of US$22 million for towage and other non-core assets.

As at 31 December 2016:

- The Group's cash and deposits were US$269 million reflecting a 34% net gearing ratio.
- Our undrawn committed borrowing facilities of US$158 million comprise:
  - US$140 million of Japanese export credit facilities for our newbuilding commitments of US$119 million payable over the next six months; and
  - US$18 million of other secured borrowings which were subsequently drawn down in February 2017.

Cash and Deposits

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

US$ Million	2016	2015	Change
Cash and deposits	269.1	358.3	
Restricted bank deposits – non-current	0.1	0.1	
Total cash and deposits	**269.2**	358.4	–25%
Current portion of long-term borrowings	(95.7)	(292.7)	
Long-term borrowings	(743.5)	(633.3)	
Total borrowings	**(839.2)**	(926.0)	+9%
Net borrowings	(570.0)	(567.6)	0%
Net borrowings to net book value of property, plant and equipment KPI	34%	35%	
Net borrowings to shareholders' equity	55%	59%	
Net working capital	160.6	40.8	>100%

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

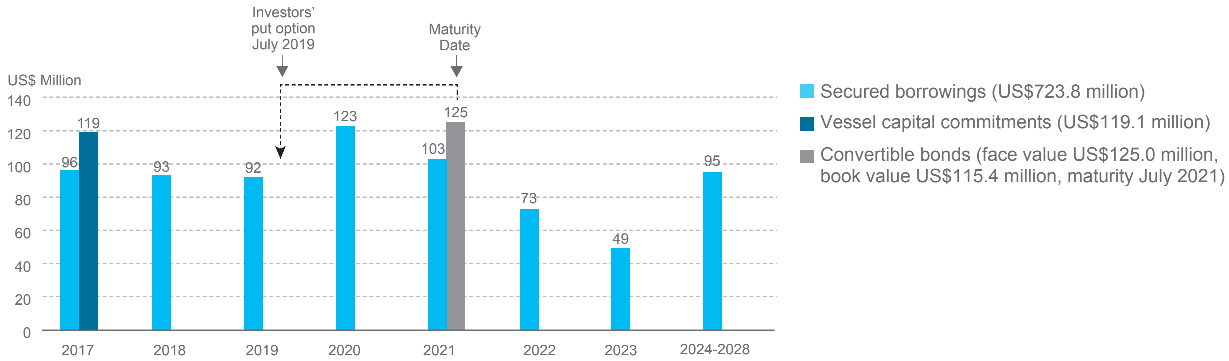
Treasury enhances Group income by investing in a mix of financial products, based on the perceived balance of risk, return and liquidity. Cash, deposits and investment products are placed with a range of leading banks, mainly in Hong Kong.

The Group's cash and deposits at 31 December 2016 comprised US$255.6 million in United States Dollars and US$13.6 million in other currencies. They are primarily placed in liquid deposits of three months or less and saving accounts. This maintains liquidity to meet the Group's vessel purchase commitments and working capital needs.

During the year, Treasury achieved a 1.0% return on the Group's cash.

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. The aggregate borrowings of the Group at 31 December 2016, which comprised secured borrowings and the liability component of convertible bonds, amounted to US$839.2 million (2015: US$926.0 million) and are denominated in United States Dollars.

Secured Borrowings – US$723.8 million (2015: US$593.5 million)

Secured borrowings are in the functional currency of the business segment to which they relate. The overall increase in secured borrowings is mainly due to the drawdowns under our Japanese export credit facilities and other borrowings, partially offset by scheduled loan amortisation.

During the year, we drew down US$171.4 million secured on nine vessels under our committed Japanese export credit facilities, leaving loans of US$139.7 million which are expected to be drawn in the first half of 2017 upon the delivery of our remaining seven newbuildings. In addition, we drew down other borrowings of US$34.1 million secured on our owned vessels during the second half of 2016 and further drew down US$18.2 million in February 2017 in respect of two owned 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 may pledge additional cash or offer other additional collateral unless the banks offer waivers for technical breaches.

As at 31 December 2016:

- The Group's secured borrowings were secured by 88 vessels with a total net book value of US$1,498.9 million and an assignment of earnings and insurances in respect of these vessels.
- Our unmortgaged vessels included two dry bulk vessels.
- The Group was in compliance with all its loans-to-asset value requirements.
- Our undrawn committed borrowing facilities were US$157.9 million, comprising US$139.7 million of Japanese export credit facilities expected to be drawn down in the first half of 2017 and US$18.2 million of other secured borrowings which were drawn down in February 2017.

P/L impact:

The increase in interest (after capitalisation) to US$22.1 million (2015: US$21.5 million) was mainly due to an increase in average secured borrowings to US$564.2 million (2015: US$525.6 million). Certain secured borrowings are subject to floating interest rates but the Group manages these exposures by using interest rate swap contracts.

Convertible Bonds – Liability Component is US$115.4 million (2015: US$332.5 million)

During the year, we fully repaid two convertible bonds, namely the 1.75% p.a. coupon 2016 convertible bonds with an outstanding principal of US$105.6 million in April upon maturity and the 1.875% p.a. coupon 2018 convertible bonds with an outstanding principal of US$123.8 million in October following the exercise by all bondholders of their right to redeem the bonds at 100% of the principal amount. The former was funded by the Group's then cash reserves, whilst the latter was funded by the cash raised through the issue of rights shares in June.

As at 31 December 2016, there remained the 3.25% p.a. coupon July 2021 convertible bonds with an outstanding principal of US$125.0 million and a liability component of US$115.4 million. As at 31 December 2015, the liability components of the 2016 convertible bonds, 2018 convertible bonds and 2021 convertible bonds were US$105.1 million, US$113.9 million and US$113.5 million respectively.

P/L impact:

The US$12.4 million (2015: US$17.1 million) interest expense of the convertible bonds is calculated at an effective interest rate of 5.2% (2015: 4.9%).

FINANCE COSTS

Finance Costs by Nature

US$ Million	Average interest rate P/L	Average interest rate Cash	Balance at 31 December 2016	Finance costs 2016	Finance costs 2015	(Increase)/ decrease
Secured borrowings						
(including realised interest rate swap costs)	3.9%	3.9%	723.8	**22.1**	21.5	(3%)
Convertible bonds (Note)	5.2%	2.5%	115.4	**12.4**	17.1	28%
	KPI 4.3%	3.4%	839.2	**34.5**	38.6	11%
Finance lease liabilities				**–**	1.0	
Unrealised interest rate swap income				**(1.6)**	(1.6)	
Other finance charges				**1.0**	1.8	
Total finance costs				**33.9**	39.8	15%
Interest coverage (calculated as EBITDA divided by total gross finance costs) KPI				**0.7x**	2.3x	

Note: The convertible bonds have a P/L cost of US$12.4 million and a cash cost of US$6.5 million.

The KPIs on which management focuses to assess the cost of borrowings are average interest rates for different types of borrowings and the Group's interest coverage (see table above).

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 interest rate cycle, using interest rate swap contracts where appropriate. During the year, US$4.4 million of interest rate swap contract costs were realised and US$1.6 million of unrealised gains arose resulting in a net US$2.8 million swap contract charge. As at 31 December 2016, 65% (2015: 84%) of the Group's long-term borrowings were on fixed interest rates. As at 31 December 2017 and 2018, we expect about 65% of the Group's existing and committed long-term borrowings will be on fixed interest rates.

DELIVERED VESSELS

As at 31 December 2016, the Group had delivered dry bulk vessels with a net book value of US$1,593 million as follows:

	Number	Average size (dwt tonnes)	Average age (years)	Average net book value (US$ Million)	Total net book value (US$ Million)
Handysize	73	32,200	9.0	15.8	1,152
Supramax	18	55,500	6.6	22.0	396
Post-Panamax	1	115,500	5.0	45.3	45

Latest estimated fair market values published by Clarksons Platou are US$13.5 million and US$15.0 million for 5-year old 32,000 dwt Handysize and 56,000 dwt Supramax vessels respectively.

VESSEL COMMITMENTS

As at 31 December 2016, the Group had vessel commitments of US$119.1 million. These vessels are scheduled to deliver to the Group between January 2017 and May 2017.

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 committed long-term borrowings.

At 31 December 2016, the Group had options to purchase 11 Handysize, 3 Supramax and 1 Post-Panamax vessels at predetermined times and prices during the period of their leases. These options are not expected to be exercised under the current market conditions.

US$ Million	Number	2017
Contracted and authorised commitments		
Handysize	4	67.5
Supramax	3	51.6
	7	119.1
Funding		
Planned drawdown of committed		
Japanese export credit facilities		139.7

VESSEL OPERATING LEASE COMMITMENTS

Vessel operating lease commitments stood at US$549.4 million (2015: US$675.4 million), comprising US$362.3 million for Handysize, US$150.5 million for Supramax and US$36.6 million for Post-Panamax.

Our Handysize operating lease committed days decreased 18% to 35,140 days (2015: 42,980 days) while our Supramax operating lease committed days decreased 11% to 13,370 days (2015: 15,010 days).

Onerous Contract Provisions

The Group wrote back US$19.5 million and US$8.2 million for Handysize and Supramax onerous contract provisions made in 2016 following the utilisation of the 2016 elements of the charters. At 31 December 2016, there remains a provision of US$40.1 million for Handysize and US$11.8 million for Supramax time charter contracts substantially expiring during a four-year period as charter rates are higher than the expected earnings during this period. The remaining provisions will be released back to the income statement in the periods in which the charter payments for these vessels are due (see adjacent table).

Year	Handysize	Supramax	US$ Million Total
2017	16.5	3.8	20.3
2018	15.4	6.8	22.2
2019	5.3	1.2	6.5
2020	2.9	–	2.9
Total	40.1	11.8	51.9

Charter Hire Reduction by issuing new shares

During the year, new shares were issued to 10 shipowners in return for a US$12.6 million reduction in charter-hire rates over a 24-month period on 10 of our existing long-term chartered ships ("Charter Hire Reduction"). The income statement still reflects the original contracted charter costs, but the cash payments in the 24 months period are reduced by the value of shares issued (see adjacent table).

Year	Handysize	Supramax	US$ Million Total
2016	0.7	0.4	1.1
2017	4.3	2.0	6.3
2018	3.6	1.6	5.2
Total	8.6	4.0	12.6

Commitments Excluding Index-linked Vessels

The following table shows the average daily charter rates both on the cash basis and P/L basis for the total vessel days of our chartered-in Handysize and Supramax vessels during their remaining operating lease terms by year. Compared to the contracted charter-hire costs, i) the cash basis reflects the reduced payments following the issue of shares for charter hire payments; and ii) the P/L basis cost reflects the reduction due to the write-back of onerous contract provisions.

	Handysize			Supramax		
		Average daily rate			Average daily rate	
Year	Vessel days	Cash basis (US$)	P/L basis (US$)	Vessel days	Cash basis (US$)	P/L basis (US$)
2017	9,800	9,400	8,150	6,210	9,450	9,150
2018	7,310	10,180	8,560	2,640	12,520	10,610
2019	6,830	10,710	9,930	2,170	13,160	12,680
2020	4,060	10,950	10,230	1,590	13,070	13,070
2021	2,900	10,870	10,870	640	12,300	12,300
2022+	4,240	11,010	11,010	120	12,500	12,500
Total	35,140			13,370		
Aggregate operating lease commitments		US$362.3m			US$150.5m	

Commitments Including Index-linked Vessels

Our fixed rate and variable rate index-linked lease commitments charged to the income statement for 2016 completed and contracted for 2017 can be analysed as follows:

	2016		**1H2017**		**2H2017**	
Handysize	Vessel Days	Average daily P/L rate (US$)	**Vessel Days**	**Average daily P/L rate (US$)**	**Vessel Days**	**Average daily P/L rate (US$)**
Long-term (> 1 year)	8,790	8,090	**4,490**	**8,210**	**4,410**	**8,300**
Short-term	10,690	6,050	**900**	**7,140**	**–**	**–**
Index-linked	3,050	5,150	**830**	**Market rate**	**550**	**Market rate**
Total	22,530	6,730	**6,220**		**4,960**	
Supramax						
Long-term (> 1 year)	3,130	10,350	**2,110**	**9,870**	**1,540**	**11,530**
Short-term	20,180	5,780	**2,560**	**7,130**	**–**	**–**
Index-linked	330	5,090	**–**	**–**	**–**	**–**
Total	23,640	6,380	**4,670**		**1,540**	

Certain long-term chartered-in vessels may be extended for short-term periods at market rates, but remain categorised as long-term charters.

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 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.

Corporate Governance

ACCOUNTABILITY

High standards of corporate governance are central to ensuring responsible direction and management of the Group and to achieving sustainable value for our investors

High standards of corporate governance are central to ensuring responsible direction and management of the Group and 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 2016, the Group 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"). The Group adopts all the recommended best practices under the Code except that the Group publishes a quarterly trading update, instead of quarterly financial results. The Board considers this format provides shareholders with the key information to assess the performance, financial position and prospects of the Group's business following on from the full year and interim results.

THE BOARD OF DIRECTORS

Board Composition and Responsibilities

As at the date of this Annual Report, the Board comprises 10 Directors (9 male, 1 female): the Chairman, three Executive Directors and six Independent Non-executive Directors ("INEDs"), which exceeds the Listing Rules 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 Group. The roles and responsibilities of each Board member are clearly set out on the Company's website and their biographical details are set out in the "Directors" section of this Annual Report.

During the year ended 31 December 2016, all Directors have provided confirmation to the Company that sufficient time and attention has been given to the Group's affairs.

All Directors have disclosed to the Company the number and nature of offices they hold in Hong Kong or overseas listed public companies or organisations and other significant commitments, as well as the identity of such 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 key to setting the strategic direction and policies of the Company and is achieved through a combination 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 21 Board members, and currently the Board comprises 10 members.

  During the last five years, the changes in the number of Executive Directors and Non-executive Directors (including INEDs) are:

	At 1 Jan 2012	Movements		At 31 Dec 2016
Executive Directors	5	+2	–3	4
Non-executive Directors	5	+2	–1	6
	10	+4	–4	10

- **Board Diversity**

  The Board believes that diversity of experience, professionally and geographically, enhances its decision-making ability. The Board has 10 experts covering the areas of shipping, commodities, accounting, corporate finance, financial services and law.

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

  The Chairman oversees the executive team and meets regularly with the CEO to discuss the operations of the Group. He has in the past provided continuity of management during periods of change, hence safeguarding long-term management leadership. The Chairman is responsible for reviewing proposed plans for the Group prior to presentation to the Board. His review focuses on the long term strategic matters such as capital structure and fleet growth as well as the more immediate operational matters related to debt levels, cash flow, cash balances, risk assessment, other required capital expenditure as well as shareholder considerations.

  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 mindset that is independent and constructively challenges management's views. Although some INEDs do not necessarily have a shipping background, their familiarity with the business over the years has enabled them to contribute to the management of the risks involved. Independence from executive management is particularly important as the Group has no controlling shareholder. 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 the long tenure of some of the INEDs does not compromise their independence but instead brings significant positive qualities as referred above. The Board, however, recognises the importance of succession to balance the mix of deep understanding of the Group's business with fresh ideas and perspectives. The Board has continued to periodically seek new INEDs to join the Board, as demonstrated in the appointments in 2014 and 2016, so as to sustain its source of independent views.

- **New INED appointment**

  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. Following such a recruitment process, Mrs. Irene Waage Basili, the first female member of the Board, joined us in May 2014 as an Independent Non-executive Director, adding diversity to the Board as well as shipping business and management expertise.

  In July 2016, Mr. Stanley Hutter Ryan also joined the Board as an Independent Non-executive Director, bringing extensive commercial, strategic and operational experience in the commodities business which is beneficial to the Group's business and development.

- **Assessment of INEDs' independence**

  The Board considers all existing INEDs bring strong independent oversight and continue to demonstrate independence. The six INEDs have given written confirmation to the Company about their independence under the Listing Rules, and the Board continues to consider them to be independent. In reaching these conclusions, each INED confirmed that they:

  1. Have demonstrated continued independent judgement which positively contributes to the development of the Company's strategy and policies;
  2. Do not receive any remuneration from the Company apart from director's fees and do not participate in the Group's staff incentive plan or pension scheme;
  3. Have not held an executive position in the Company;
  4. Do not receive remuneration from a third party in relationship to the directorship;
  5. Do not have, and have not had in recent years, any direct financial, business, family or other material relationships with the Group, its management, advisers and business;
  6. Do not hold any cross directorships or other significant links with other directors through involvement with other companies;
  7. Hold less than 1% of the common stock of the Company; and
  8. Do 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 in which the Group operates and significant changes in financial accounting standards. 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. Mr. Stanley H. Ryan received an induction upon his appointment to the Board as an INED.

Board Evaluation

The annual Board evaluation was conducted by the Chairman of the Board and by the Chairman of the Audit Committee by way of individual interviews with each Director in November 2016. This process has confirmed that the performance of the Board and its committees and individual Directors in 2016 were satisfactory and that the Board operated effectively during the year.

The Board considers that its composition and structure are appropriate to the Group's business needs, reflecting a diversity of perspectives and a desirable combination of skills and experience. Succession planning continues to be a key focus and the Board will continue to undertake appropriate recruitment having regard to the retirement plan of individual directors.

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, including the design, implementation and monitoring of the risk management and internal control systems ■ 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 analyses prepared by the management which include:

(i) monthly operations performance analysis;

(ii) periodic investment and divestment proposals relating to our vessels and equity interests; and

(iii) periodic Board meetings to evaluate management's strategic priorities. The terms of reference of these Board Committees are available on the Company's website.

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Sustainability > Corporate Governance
Board & Board Committees

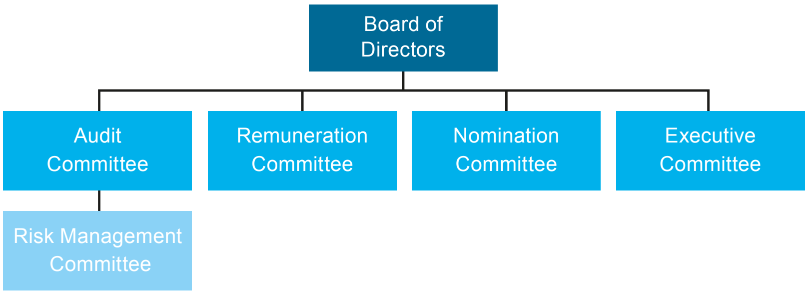
Board, Board Committee and General Meetings in 2016

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. It met in total on nine occasions during 2016 which included five additional meetings to address special businesses including the rights issue. The attendance of each Director at Board meetings, Committee meetings and general meetings are set out below.

	Annual General Meeting	Special General Meeting	Board	Audit Committee[1]	Remuneration Committee	Nomination Committee
Executive Directors						
David M. Turnbull (Chairman)	1	1	9/9			
Mats H. Berglund (Chief Executive Officer)	1	1	9/9			
Andrew T. Broomhead (Chief Financial Officer)	1	1	9/9			
Chanakya Kocherla (Chief Technical Officer)	1	1	9/9			
Independent Non-executive Directors						
Patrick B. Paul	0	1	4/9	4/4	1/1	1/1
Robert C. Nicholson	1	0	8/9	4/4	1/1	1/1
Alasdair G. Morrison	1	1	9/9	4/4	1/1	1/1
Daniel R. Bradshaw	1	0	9/9	4/4	1/1	1/1
Irene Waage Basili	0	0	7/9	4/4	0/1	0/1
Stanley H. Ryan – joined on 5 July 2016	N/A	N/A	3/3	1/2	1/1	1/1
Total no. of meetings held during the year	**1**	**1**	**9**	**4**	**1**	**1**

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

The high attendance record at the Board and Board Committee meetings in 2016 demonstrates the Directors' strong commitment to discharging their duties as directors of the Company. In the case of special Board meetings it may not always be possible for all directors to attend, but all directors views are secured in relation to the matters under discussion.



THE AUDIT COMMITTEE

Membership

Chairman: Patrick B. Paul
Members: All six 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 control 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. Develop and review the Company's policies and practices on corporate governance and make recommendations to the Board.
6. Review the independent audit process and the effectiveness of the risk management and internal audit functions.

Work Done in 2016

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

- review and discussion of the external auditors' Audit Committee Report in respect of the 2015 full year audit and the 2016 interim review;
- review of the 2015 Annual Report and accounts and the 2016 interim report and accounts with a recommendation to the Board for approval;
- review and approval of the Risk Management and risk management and internal audit work plan for 2016;
- review of the Risk Management Committee reports and consideration of the Internal Audit testing results;
- deep-dive review of the Group's treasury management and IT management;
- review of the adequacy of the Group's marine related and other insurance cover;
- review and approval of the revised bunker hedge policy;
- noting that there were no continuing connected party transactions for 2016;
- review of the crisis management procedure; and
- review and approval of the revised terms of reference of the Audit 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 six INEDs

Main Responsibilities

1. Make recommendation to the Board on the Company's policy and structure for Directors' 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 by the Board, the remuneration packages of the Executive Directors and certain higher paid employees.
3. Review and make recommendation to the Board on the terms of appointment for Directors when considered necessary.
4. Make recommendation to the Board relating to Directors 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 other equity or cash-based schemes of the Company in place from time to time, and explicit review and approve the granting of share awards to any staff members in the Group.
6. Approve the disclosure statements of the Company's policy and remuneration for Directors.
7. Ensure no Director approves his or her own remuneration. The remuneration of Non-executive Directors is determined by the Chairman and the CEO based on the responsibilities of each individual and international market practice.

Work Done in 2016

The Remuneration Committee met once during the year, together with e-mail communication, and has carried out the following:

- approval of the adjustment made to unvested share awards in accordance with the 2013 Share Award Scheme following the rights issue of the Company in June 2016;
- approval of the grant of restricted awards to certain staff members; and
- approval of the 2016 bonuses, 2017 salary review and restricted share awards for the executive directors and certain higher paid employees.

THE NOMINATION COMMITTEE

Membership

Chairman: Robert C. Nicholson

Members: All six INEDs

Main Responsibilities

1. Review the structure, size and composition (including the skills, knowledge, experience and diversity) 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 the Stock Exchange's rules and guidelines on Board composition from time to time.
3. Identify individuals suitably qualified to become Board members and select or make recommendation to the Board on the selection of individuals nominated for directorships.
4. Assess the independence of the Company's Independent Non-executive Directors.
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 Officer based on an evaluation of scope and responsibility of the position and the advice from external recruitment consultants if considered appropriate.

Work Done in 2016

The Nomination Committee held one meeting during the year. Its work included:

- approval of the proposed appointment of Mr. Stanley H. Ryan as an INED;
- review of the retirement plan of the Board; and
- review of the structure, size and composition of the Board and discussion of future recruitment criteria.

THE EXECUTIVE COMMITTEE

Membership

Chairman: Mats H. Berglund

Members: All four 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 that fall within the normal course of the business of the Group.
5. Identify and execute transactions for non-vessel marine fixed assets exceeding US$5,000,000.
6. Make decisions over loans and related guarantees.
7. Exercise the Company's general mandate to buy back shares in accordance with the parameters set by the Board and the limits approved by the shareholders.

Work Done in 2016

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

- the redemption, cancellation and withdrawal of listing of the Group's convertible bonds due 2018 following the exercise of the put option right by all bond holders and approval of the related announcements;
- convening of the special general meeting to firstly approve and proceed with the capital reorganisation, rights issue and secondly approve the specific mandate to issue shares upon conversion of the Group's convertible bonds, together with the execution of related agreements, circular, notice and announcements;
- announcement of the voting results of the annual general meeting;
- announcement of the issue of new shares to fulfill the grant of restricted awards and an adjustment to the unvested awards pursuant to the rights issue;
- issuance of new shares under the general mandate to 10 shipowners or their nominees in return for a US$13 million reduction in long-term charter-hire rates in 2017 and 2018 and the approval of the related announcements;
- amendments to certain existing bank loan agreements to reflect drawdown conditions and mechanisms;
- refinancing by way of sale and bareboat charter back;
- appointment of a new trustee under the trust deed for the administration of the Company's 2013 Share Award Scheme following the resignation of the previous trustee;
- charter-in of two Handysize vessels from third parties; and
- amendment of bank authorised signatories for the Group's bank accounts.

RISK MANAGEMENT & INTERNAL CONTROLS

Framework

The risk management and internal control system is to help the Group achieve its long-term vision and mission and business sustainability by identifying and evaluating the Group's risks and by formulating appropriate mitigating controls to protect our business, stakeholders, assets and capital. Risk management and internal control system is embedded in our business functions and we believe that it enhances long-term shareholder value. The risks of the Group are subject to and are directly linked to the Group's strategy.

The Board oversees management in the design, implementation and monitoring of the Risk Management and Internal Control System. A review of its effectiveness is conducted annually by the Risk Management Committee ("RMC") and such confirmation is provided to the Board through the Audit Committee. The primary responsibility for detailed risk identification and management lies with the respective business heads.

The RMC, 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.

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

- **Control Environment**
  Defined organisational structures are established. Authorities to operate various business functions are delegated to respective management within limits set by head office management or 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 and impacts.

- **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 the risk register 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 reviews and communications 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. Facilitate the identification of significant risks of the Group.
3. Review significant risks of the Group through an annual risk assessment with division heads.
4. Review and recommend appropriate internal controls and policies.
5. Develop an internal audit plan.
6. Manage the annual risk assessment and testing of internal controls.

Work Done in 2016

The RMC met three times during the year and reported to the Audit Committee twice on the annual risk assessment and internal control reviews. Its work in 2016 included:

- review of the Group's significant and emerging risks with division heads, particularly in relation to information technology, treasury and marine insurance;
- tighten the controls in port cost management in collaboration with the Operations team;
- strengthen the trading areas policy for the fleet in compliance with international sanctions legislations; and
- performance of the annual risk assessment by way of an online questionnaire and its review in collaboration with division heads.

Annual Assessment of Risk and Internal Controls

Risks and their respective mitigating controls, identified and updated via our internal online risk assessment questionnaire completed by senior staff members, are documented in the Group's risk register which is reviewed by the Audit Committee at least annually. This exercise enables the design of better or more suitable internal controls system.

The RMC conducts 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 operations and to enhance existing procedures and controls in line with business need and market changes. The Group has a robust mechanism of regular reporting of key business and operations to both management and the Board, a key element to a healthy risk management system.

The mitigating controls of the Group's risks are reviewed and tested periodically by the RMC, with the assistance of appropriate staff from other departments. Internal controls testing takes place annually. The frequency of testing of individual internal controls is by reference to the ranking of the underlying risk areas and the strategy of the Group. Findings and recommendations are communicated with the relevant division department heads and staff. The criteria for assessing the effectiveness of internal controls are based on whether mitigating controls have been operated and enforced throughout the period being reviewed.

The results of the annual assessment and recommendations are communicated with division heads and relevant staff managers to formulate measures to enhance or rectify any control deficiency.

Risk Management and Internal Control System Effectiveness

The RMC reports at least twice a year to the Audit Committee which continuously assesses the effectiveness of risk management and internal control system as the Group develops. The risk management and internal control systems are crucial for the fulfillment of the Group's business objectives. The Audit Committee reviews how management designs, implements and monitors the risk management and internal control systems, the findings, recommendations and follow-up procedures of the annual assessment, as well as the confirmation of the RMC on the effectiveness of the Group's risk management and internal control systems, and reports to the Board annually.

In respect of the year ended 31 December 2016, the Company has carried out a review of, and the Board has received confirmation from management on, the effectiveness of the risk management and internal control system of the Group and no significant areas of concern were identified.

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;
- Corporate Communication Policy was updated and adopted during the year;
- 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;
- has included in its Code of Conduct a strict prohibition on unauthorised use of confidential or inside information; and
- has established and implemented procedures for responding to external enquiries about the Group's affairs so that only the Executive Directors and Corporate Communications & Investor Relations General Manager 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.

DIRECTORS – REMUNERATION AND SHARE OWNERSHIP

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

Page 38
Remuneration Report

Page 41
Report of the Directors

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.

Having made specific enquiry, the Board confirms that all senior managers and staff who had been notified and provided with the Dealing Rules have complied in full with the required standards set out in the Dealing Rules during the reporting year.

AUDITORS' REMUNERATION

Remuneration paid to the Group's external auditors, for services provided for the year ended 31 December 2016 is as follows:

		US$'000
Audit	Non-audit	Total
901	81	982

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.

OUR SHAREHOLDERS

As at 31 December 2016, Pacific Basin had 500 registered shareholders of whom 431 or 86% 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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Sustainability > Corporate Governance

SHAREHOLDERS MEETING

The Company scheduled three general meetings during the reporting year.

The annual general meeting was held on 19 April 2016 with the following resolutions 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 2015;
- re-election of Directors;
- authorising the Board to fix Directors' remuneration;
- re-appointment of Messrs. PricewaterhouseCoopers as auditors for the year ended 31 December 2016 and authorising the Board to fix their remuneration;
- granting a general mandate to issue shares; and
- granting a general mandate to buy back shares.

The special general meeting originally scheduled for 23 May 2016 was adjourned to 27 May 2016 at which (1) an ordinary resolution was passed to approve the rights issue at a subscription price of HK$0.60 per share to the qualifying shareholders on the basis of one rights share for every one existing share held on the record date as contemplated under the Underwriting Agreement and the transactions contemplate thereunder as well as the Specific Mandate; and (2) a special resolution was passed to approve the capital reorganisation.

All resolutions tabled at the general meetings were voted on by poll.

www.pacificbasin.com
Investors > News & Circulars: Proxy Form
Media > FAQ: AGM 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 to companysecretary@pacificbasin.com or letter to:

Company Secretary
Pacific Basin Shipping Limited

valid until 3 May 2017:	*valid from 4 May 2017:*
7/F, Hutchison House	31/F, One Island South
10 Harcourt Road	2 Heung Yip Street
Central, Hong Kong	Wong Chuk Hang
	Hong Kong

PUBLIC FLOAT

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 97.87% of the Company's total issued share capital is held by the public.

MARKET CAPITALISATION

Year end	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Adjusted Closing Price after Rights Issue (HK$)	2.44	2.62	3.56	9.15	2.56	4.10	3.76	2.26	3.16	4.04	2.28	1.24	1.25
Market Capitalisation (US$ million)	539	591	976	2,550	796	1,400	1,280	772	1,083	1,382	782	423	647

FINANCIAL CALENDAR FOR 2017

Planned Date

28 February	2016 annual results announcement
14 March	2016 Annual Report
6 April	First quarter trading update
12 April	Annual General Meeting
28 July	2017 interim results announcement
6 October	Third quarter trading update

www.pacificbasin.com
Investors > Corporate Calendar

Our Directors

Our Board comprises ten Directors whose complementary expertise and shared commitment to responsible investment and management practices is harnessed in the best interests of our diverse shareholders and other stakeholders

David M. Turnbull
Chairman (age 61)

Mr. Turnbull joined the Pacific Basin Board as an INED in 2006 and was appointed Chairman and an Executive Director in 2008. He previously 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 at the 2017 AGM

External appointments:
Non-executive director of London-listed Green Dragon Gas and London AIM-listed Greka Drilling Limited

INED of Hong Kong-listed Wharf (Holdings) Limited

Committee membership:
Executive Committee

Mats H. Berglund
Chief Executive Officer (age 54)

Mr. Berglund joined Pacific Basin as Chief Executive Officer in 2012. He previously served with Swedish family-owned conglomerate Stena from 1986 to 2005, occupying 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 at the 2018 AGM

External appointments:
None

Committee membership:
Chairman of Executive Committee

Andrew T. Broomhead
Chief Financial Officer (age 55)

Mr. Broomhead 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 responsible for Group finance and accounting, investor relations, and corporate governance and compliance. He stepped down from Company Secretary in 2012 and will step down as CFO and Executive Director by 31 December 2017. 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, working in Asia for over 23 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

Will step down by 31 December 2017

External appointments:
Non-executive director of The Standard Club Ltd and The Standard Club Asia Ltd

Committee membership:
Executive Committee

Chanakya Kocherla
Chief Technical Officer (age 59)

Mr. Kocherla joined Pacific Basin in December 2000 as part of the Company's acquisition of Jardine Ship Management and is the Group's Chief Technical Officer, based in Hong Kong. He was appointed as an Executive Director in July 2012. Within the group, he has served as a director of several wholly owned subsidiaries and jointly owned entities of the Company with leadership positions as Managing Director of PB Maritime Services and Director, Fleet and as Group Managing Director of the Company's PB Towage division in Australasia & Middle East. He is currently responsible for operations of Pacific Basin's owned and technically managed fleet, the Group's marine insurances, newbuilding programme and sustainability. Mr. Kocherla has over 35 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)

Executive development programmes in Hong Kong, Singapore and the IMD Business School

Term of office:
Appointed Executive Director in June 2012

Retires at the conclusion of the 2017 AGM

External appointments:
None

Committee membership:
Executive Committee

Patrick B. Paul
Independent Non-executive Director (age 69)

Mr. Paul 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

Fellow of the Institute of Chartered Accountants in England and Wales

Term of office:
Appointed INED in March 2004

Current term expires at the 2018 AGM

External appointments:
INED of Hong Kong-listed Johnson Electric Holdings and The Hongkong and Shanghai Hotels

Committee membership:
Chairman of Audit Committee

Remuneration and Nomination Committees

Robert C. Nicholson

Independent Non-executive Director (age 61)

Mr. Nicholson 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 board in June 2003 and was appointed as an executive director in November 2003.

Educations & 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 2019 AGM

External appointments:
Executive director of Hong Kong-listed First Pacific Company Limited and held directorships in its subsidiaries, associates or affiliates including Metro Pacific Investments Corporation, Philex Mining Corporation and PXP Energy Corporation (all Philippines-listed)

Commissioner of Indonesia-listed PT Indofood Sukses Makmur Tbk

INED of HK-listed Lifestyle Properties Development limited

Committee membership:
Chairman of Remuneration and Nomination Committees Audit Committee

Alasdair G. Morrison

Independent Non-executive Director (age 68)

Mr. Morrison 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. He spent five years as Senior advisor to Citigroup Asia Pacific until January 2015.

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 2018 AGM

External appointments:
INED of Hong Kong-listed MTR Corporation

Senior advisor of Bain Capital Asia

Committee membership:
Audit, Remuneration and Nomination Committees

Daniel R. Bradshaw

Independent Non-executive Director (age 70)

Mr. Bradshaw has served for 38 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 senior 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 in 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 redesignated as INED in September 2010

Current term expires at the 2019 AGM

External appointments:
Non-executive director of Euronav (listed on Euronext in Brussels and NYSE)

INED of HK-listed IRC and NYSE-listed Gaslog Partners LP

Director of Kadoorie Farm & Botanic Garden Corporation, and WWF Hong Kong

Committee membership:
Audit, Remuneration and Nomination Committees

Irene Waage Basili

Independent Non-executive Director (age 49)

Mrs. Basili held various managerial positions in the shipping industry, including Western Bulk Carriers Holding ASA. From 1999 to 2007 she held positions in Wallenius Wilhelmsen Logistics, first as a manager of contracting and strategy and later as commercial director in 2004. From 2007 to 2011, Mrs. Basili served as vice president, marine business unit of Petroleum Geo Services with responsibility for fleet and marine strategy following its acquisition of Arrow Seismic ASA where she was the chief executive officer. She also served as a director of Odfjell SE from 2008 to 2014.

Education & qualifications:
Boston University: Bachelor of Business Administration degree

Term of office:
Appointed INED in May 2014

Current term expires at the 2018 AGM

External appointments:
Chief executive officer of GC Rieber Shipping and a director of Kongsberg Gruppen ASA and a director of Wilh. Wilhelmsen Holdings ASA (all listed on the Oslo Stock Exchange)

Acting CEO of Sherwater Geoservices (a marine geophysical company 50% owned by GC Rieber Shipping) since 13 October 2016 until a permanent CEO is in place

Committee membership:
Audit, Remuneration and Nomination Committees

Stanley Hutter Ryan

Independent Non-executive Director (age 55)

Mr. Ryan served with Cargill, Inc. for 25 years in executive and general management roles worldwide including as general manager of Cargill's oilseed operations, and Venezuela and Brazil refined oils businesses. He was president of Cargill's North American dressings, sauces and oils business, and managing director of Cargill's refined oils business in Europe and food ingredients business in Australasia. He was a global co-leader of Cargill's agricultural supply chain businesses and member of its global corporate center. Mr. Ryan served as an independent director at Eagle Bulk Shipping Inc. from October 2014 to June 2016 and as Eagle Bulk's interim chief executive officer from March to September 2015.

Education & qualifications:
University of Notre Dame: Bachelor's degree in Economics and Computer Applications

University of Chicago: MBA & Master of Arts degree in International Relations

Term of office:
Appointed INED on 5 July 2016

Current term expires in July 2019, subject to re-election at the 2017 AGM

External appointments:
Chief executive officer and president of Seattle-based Darigold, Inc.

Committee membership:
Audit, Remuneration and Nomination Committees

Remuneration Report

REMUNERATION REPORT

This Remuneration Report sets out the Group's remuneration policies and amounts for all staff including Executive Directors and Non-executive Directors. Pages 39 to 40 comprise the auditable part of the Remuneration Report and form an integral part of the Group's financial statements. At 31 December 2016, the Group employed a total of 331 shore-based staff (2015: 334).

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, which are competitive, consistent with market practice, and 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 of all the above mentioned factors.

Equity awards are provided through the Company's Share Award Scheme which is designed to provide Executive Directors and other employees with long-term financial benefits that are aligned to and consistent with the creation of shareholder value as an incentive and recognition for their contribution to the Group. The number of share awards granted each year is based on the value of a predetermined number of months of each awardee's basic salary divided by the prevailing share price at the time of the award. 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	Executive Directors and All staff	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 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 no more than 12 months' salary equivalent.	No
Long-term equity incentives	Awards typically vest annually over a three year period. New Awards for existing awardees are considered each year by the Remuneration Committee to maintain the incentive period, in which case they vest at the end of the third year.	No
Retirement benefit	In line with market practice	No
Fixed annual director's fee	No	Yes and in line with market practice

REMUNERATION FOR THE YEARS ENDED

31 December 2016	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	–	378	32	2	412	219	631
Mats H. Berglund	–	1,131	144	2	1,277	469	1,746
Andrew T. Broomhead[1]	–	514	82	2	598	283	881
Chanakya Kocherla[2]	–	468	59	2	529	256	785
	–	2,491	317	8	2,816	1,227	4,043
Independent Non-executive Directors							
Patrick B. Paul	97	–	–	–	97	–	97
Robert C. Nicholson	90	–	–	–	90	–	90
Alasdair G. Morrison	84	–	–	–	84	–	84
Daniel R. Bradshaw	84	–	–	–	84	–	84
Irene Waage Basili	95	–	–	–	95	–	95
Stanley H. Ryan[3]	46	–	–	–	46	–	46
	496	–	–	–	496	–	496
Five highest paid individuals:							
Total Directors' remuneration	496	2,491	317	8	3,312	1,227	4,539
Other	–	333	76	31	440	120	560
Other Employees	–	27,593	3,307	2,188	33,088	2,860	35,948
Total remuneration	496	30,417	3,700	2,227	36,840	4,207	41,047

Note:

(1) Mr. Broomhead will step down as an Executive Director by 31 December 2017.

(2) Mr. Kocherla will retire as an Executive Director at the conclusion of the annual general meeting to be held in April 2017.

(3) Mr. Ryan joined the Board as an Independent Non-executive Director on 5 July 2016.

31 December 2015	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	–	379	32	2	413	195	608
Mats H. Berglund	–	1,153	144	2	1,299	539	1,838
Andrew T. Broomhead	–	514	41	2	557	266	823
Chanakya Kocherla	–	469	39	2	510	263	773
	–	2,515	256	8	2,779	1,263	4,042
Independent Non-executive Directors							
Patrick B. Paul	102	–	–	–	102	–	102
Robert C. Nicholson	95	–	–	–	95	–	95
Alasdair G. Morrison	89	–	–	–	89	–	89
Daniel R. Bradshaw	89	–	–	–	89	–	89
Irene Waage Basili	93	–	–	–	93	–	93
	468	–	–	–	468	–	468
Five highest paid individuals:							
Total Directors' remuneration	468	2,515	256	8	3,247	1,263	4,510
Other	–	331	75	62	468	94	562
Other Employees	–	28,285	3,650	2,165	34,100	3,392	37,492
Total remuneration	468	31,131	3,981	2,235	37,815	4,749	42,564

For the year 2016, the five individuals whose emoluments were the highest in the Group were the four Executive Directors and one employee (2015: four Executive Directors and one employee). The emoluments of the one employee fell within the band of HK$4,000,001 to HK$4,500,000.

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$55,524 (2015: US$57,902).

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 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 on the grant date, 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. The Company reviews its estimates of the number of equity instruments that are expected to vest based on the non-market vesting conditions if necessary. It recognises the impact of the revision of the original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

The grant by the Company of share-based compensation to the employees of subsidiary undertakings in the Group is treated as a capital contribution by the company to the subsidiaries. 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 2016.

PRINCIPAL ACTIVITIES, ANALYSIS OF OPERATIONS, BUSINESS REVIEW AND FINANCIAL SUMMARY

The principal activity of the Company is investment holding. The Company's principal subsidiaries (set out in Note 34 to the financial statements) are engaged in the ownership and international operation of modern Handysize and Supramax dry bulk ships. In addition, the Group is engaged in the management and investment of the Group's cash and deposits through its treasury activities.

The business review of the Group for the year ended 31 December 2016 is set out on pages 1 to 12 of this Annual Report. 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. A brief introduction of the Group's Corporate Social Responsibility ("CSR") efforts for the year ended 31 December 2016 is set out in the "CSR Highlights" section of this Annual Report and a comprehensive CSR Report is available on our website.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 53. In view of the Group's reported net loss for the year ended 31 December 2016, the Board recommends not to pay out a dividend.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2016, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to US$638.1 million.

DONATIONS/SPONSORSHIPS

Charitable and other donations and sponsorships made by the Group during the year amounted to US$55,000.

SHARE CAPITAL AND PRE-EMPTIVE RIGHTS

Movements in the share capital of the Company are set out in Note 20 to the financial statements.

On 27 May 2016, the number of ordinary shares of the Company increased by 32,400,000,000 shares to 36,000,000,000 shares as a result of capital reorganisation which comprised: (1) cancellation of paid-up capital in the amount of US$0.09 on each then issued share; and (2) sub-division of each of the then unissued shares of US$0.10 each in the authorised share capital of the Company into 10 new shares of US$0.01 each; and (3) reduction of the entire amount of approximately US$604.8 million standing to the credit of the Company's share premium account.

During the year, a total of 2,068,490,156 ordinary shares were issued, of which 1,946,823,119 shares were issued on 24 June 2016 as a result of the Rights Issue which has raised US$143 million (net) for the Group, 41,688,000 shares were issued in August to fulfill the restricted share awards under the 2013 Share Award Scheme and 79,979,037 shares were issued to 10 shipowners or their nominees in return for a US$13 million reduction in long-term charter hire rates in 2017 and 2018.

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 19 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

On 12 April 2016, the Group redeemed at par and cancelled all of the remaining 10,559 units of the Group's US$230,000,000 1.75% p.a. coupon guaranteed convertible bonds due 2016 with a face value of US$10,000 per unit upon maturity. The redemption involved a cash outlay of US$105,590,000 of principal and accrued interest of US$923,913.

On 24 October 2016, the Group redeemed and cancelled the entire principal amount of US$123,800,000 1.875% p.a. coupon guaranteed convertible bonds due 2018 following the exercise of the put option by all holders of the bonds in September 2016. The redemption involved a cash outlay of US$123,800,000 of principal and accrued interest of US$1,160,623.

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

2013 SHARE AWARD SCHEME ("SAS")

The current SAS was adopted by the Board on 28 February 2013 and has an effective term of 10 years. It is a single share award scheme under which no share options can be granted.

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.

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 have the responsibility to administer the scheme in accordance with the rules of the SAS.

Maximum Number of Shares

The total number of shares which may be or already 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 401,531,327 shares as at 1 January 2017). There were 67,256,000 unvested restricted awards under the SAS which represents 1.67% of the issued share capital of the Company as at 28 February 2017.

Vesting of Awards

Awards typically vest annually over a three year period. New Awards for existing awardees are considered each year by the Remuneration Committee to maintain the incentive period, in which case they vest at the end of the third year.

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

Apart from the Awards which are to be purchased from the market for the connected persons of the Company, the number of shares to satisfy grant of Awards (if comprising new shares) can be allotted and issued by the Board by utilising the general mandate granted to them by shareholders. 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. The Remuneration Committee administers and oversees the SAS. Their review and approval is required prior to the granting of Awards to any staff members of the Group.

Awards Granted

Details of the grant of long-term incentives and the movements of the outstanding incentives during the year ended 31 December 2016 under the SAS are as follows:

History and Movement of Restricted Awards Granted

'000 shares/units	Date of first award	Total awarded	Vested to date	At 31 Dec 2016	At 1 Jan 2016	Granted [1] during the year	Vested [2] or lapsed	Vesting in July of 2017	2018	2019
Directors										
David M. Turnbull	5-Aug-08	5,934	(2,505)	3,429	1,413	2,906	(890)	694	1,242	1,493
Mats H. Berglund	1-Jun-12	12,000	(4,338)	7,662	2,985	6,387	(1,710)	1,430	2,830	3,402
Andrew T. Broomhead [3]	11-May-07	7,881	(3,404)	4,477	1,814	3,763	(1,100)	906	1,622	1,949
Chanakya Kocherla [4]	11-May-07	6,324	(2,276)	4,048	1,511	3,357	(820)	666	1,536	1,846
		32,139	(12,523)	19,616	7,723	16,413	(4,520)	3,696	7,230	8,690
Other Employees				47,640	18,686	43,176	(14,222)	10,784	17,256	19,600
				67,256	26,409	59,589	(18,742)	14,480	24,486	28,290

Notes:

(1) Following the Company's rights issue in June 2016, an adjustment was made pursuant to the rules of the 2013 Share Award Scheme. Hence, awards granted during the year comprised the annual grant as well as the adjustment for awards vesting in 2016, 2017 and 2018.

(2) Subsequent to the adjustment as described in note (1) above, a total of 16,522,000 shares vested during the year in accordance with the award vesting schedule. In addition, 1,321,000 shares lapsed due to the resignation of six employees and 899,000 shares vested due to the retirement and redundancy of two employees.

(3) Mr. Broomhead's personal interest of 4,477,000 shares are unvested restricted share awards, of which 906,000 shares will vest on 14 July 2017 and the balance of 3,571,000 shares are expected to lapse when he steps down by 31 December 2017.

(4) 4,048,000 unvested restricted share awards are expected to lapse upon Mr. Kocherla's resignation on 30 April 2017.

DIRECTORS

The Directors 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 2017 AGM
Mats H. Berglund	1 June 2012	–	–	–	1 June 2012	3 years until 2018 AGM
Andrew T. Broomhead	1 September 2010	–	–	–	1 January 2010	Steps down by 31 December 2017
Chanakya Kocherla	25 June 2012	–	–	–	25 June 2012	Retires at the conclusion of 2017 AGM
Independent Non-executive Directors						
Patrick B. Paul	25 March 2004	18 May 2004	10 June 2004	30 November 2004	–	3 years until 2018 AGM
Robert C. Nicholson	25 March 2004	18 May 2004	10 June 2004	30 November 2004	–	3 years until 2019 AGM
Alasdair G. Morrison	1 January 2008	1 January 2008	1 January 2008	1 January 2008	–	3 years until 2018 AGM
Daniel R. Bradshaw	7 April 2006	7 April 2006	7 April 2006	7 April 2006	–	3 years until 2019 AGM
Irene Waage Basili	1 May 2014	1 May 2014	1 May 2014	1 May 2014	–	3 years until 2018 AGM
Stanley H. Ryan	5 July 2016	5 July 2016	5 July 2016	5 July 2016	–	3 years until 2019 AGM

Notes:

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.

Mr. Stanley H. Ryan, an Independent Non-executive Director appointed by the Board during the year, shall retire at the 2017 annual general meeting ("AGM") in accordance with the Company's Bye-law 86(2). In addition, Messrs. David M. Turnbull, Chanakya Kocherla and Irene Waage Basili shall retire at the 2017 AGM by rotation pursuant to the Company's Bye-laws 87(1) & (2). Except for Mr. Chanakya Kocherla who does not offer himself for re-election, all retiring Directors, being eligible, offer themselves for re-election by shareholders.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming 2017 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACTS

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or its subsidiaries 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.

DIRECTOR'S INDEMNITIES

Pursuant to the Company's Bye-laws, every Director shall be entitled to be indemnified out of the assets and profits of the Company against all losses or liabilities (to the fullest extent permitted by the Companies Ordinance (Cap. 622)) which he/she may sustain or incur in or about the execution of the duties of his/her office. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of Directors are set out in the "Our Directors" 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 2016, the disclosable 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, 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	Total Share interests	Approximate percentage holding of issued share capital [2] 31-Dec-16	31-Dec-15
David M. Turnbull [1]	6,547,000	2,524,918 [3]	Long	9,071,918	0.23%	0.32%
Mats H. Berglund [1]	12,000,000	–	Long	12,000,000	0.30%	0.29%
Andrew T. Broomhead [1 & 4]	4,477,000	4,181,408	Long	8,658,408	0.22%	0.24%
Chanakya Kocherla [1]	8,825,334 [5]	–	Long	8,825,334	0.22%	0.18%
Patrick B. Paul	380,000	–	Long	380,000	less than 0.01%	less than 0.01%
Daniel R. Bradshaw	–	772,834 [6]	Long	772,834	0.02%	0.02%

Notes:

(1) Restricted share awards were granted under the 2013 Share Award Scheme and have been disclosed on page 42 of this Report.

(2) Total issued share capital of the Company was 4,015,313,275 shares as at 31 December 2016 and was 1,946,823,119 shares as at 31 December 2015.

(3) 2,524,918 shares held are in the form of convertible bonds due 2021 at nominal value of US$1 million held by a Trust named Bentley Trust (Malta) Limited, of which Mr. Turnbull is the founder.

(4) Mr. Broomhead's personal interest of 4,477,000 shares are unvested restricted share awards, of which 906,000 shares will vest on 14 July 2017 and the balance of 3,571,000 shares are expected to lapse when he steps down by 31 December 2017. 4,181,408 shares are held via Paulatim Investments Limited which is jointly owned by Mr. Broomhead and his wife.

(5) Mr. Kocherla's personal interest includes 4,048,000 unvested restricted share awards which are expected to lapse upon his resignation on 30 April 2017.

(6) 772,834 shares are held by Cormorant Shipping Limited and Goldeneye Shipping Limited of which Mr. Bradshaw is the sole shareholder.

All the interests stated above represent long positions. No short positions and shares under equity derivatives held by Directors were recorded in the register maintained by the Company under section 352 of the SFO as at 31 December 2016.

Save 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 2016, 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 [1] 31-Dec-16	31-Dec-15
Aberdeen Asset Management Plc and its Associates (together the "Group") on behalf of accounts managed by the Group	Investment manager	Long	633,239,000	15.77%	13.96%
Michael Hagn	Interest in corporation controlled	Long	268,842,846	6.70%	12.98%
Citigroup Inc.[2]	Custodian corporation & approved lending agent/ Person having a security interest/ Interest in corporation controlled	Long	237,415,922	5.91%	Not applicable

Note:

(1) The total issued share capital of the Company was 4,015,313,275 shares as at 31 December 2016 and was 1,946,823,119 shares as at 31 December 2015.

(2) The long position in shares held by Citigroup Inc. is held in the capacities of Custodian corporation/approved lending agent (relating to 207,381,040 shares), Person having a security interest (relating to 30,010,687 shares) and Interest in corporation controlled (relating to 24,195 shares).

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, as at 31 December 2016, 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 Group 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 TRANSACTIONS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year, the Group 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 2017 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, 28 February 2017

CSR Highlights

A SUSTAINABLE BUSINESS APPROACH

Our responsible actions towards stakeholders and the environment make us competitively stronger and enhance the future value of our business

As a substantial shipping business that relies on and impacts a number of resources and relationships (or "Capitals"), we recognise our stakeholder, community and environmental responsibilities which have a bearing on the long-term sustainability of our business.

Page 16
Our Resources in Action

Our Corporate Social Responsibility ("CSR") efforts are rooted in our culture, integrated into our daily operating and business practices, and driven by the key material matters that we focus on to deliver our strategy.

We have this year produced our first standalone Corporate Social Responsibility Report, which is a comprehensive CSR reference document to better satisfy the growing interest in the details of our CSR responsibilities, approach and performance. It also serves to more clearly address the amended disclosure requirements of the Environmental, Social and Governance Reporting Guide ("ESG Guide") of The Stock Exchange of Hong Kong.

We invite you to read our 2016 CSR Report which can be found within our online Annual Report and the Sustainability section of our website.

www.pacificbasin.com/en/sustainability/cr.php
CSR Report 2016

WORKPLACE

Human Capital

OUR IMPACT IN 2016

Healthy working conditions, a strong safety culture, opportunities to advance and responsible business practices are the foundations of how Pacific Basin operates.

3,000
seafarers

330
shore-based employees

OUR PERFORMANCE

87%
Seafarer retention

8
ships per Safety and Training Manager

48%
shore staff received external training

ENVIRONMENT

Natural Capital

OUR IMPACT IN 2016

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

12,000,000
nautical miles travelled

883,000
tonnes of fuel/gas oil purchased

OUR PERFORMANCE

11.0
grams of CO_2 per tonne-mile

1,028,000
tonnes of CO_2 emitted by our owned ships

7
efficient newbuilding ships joining our owned fleet in 2017

COMMUNITY

Social & Relationship Capital

OUR IMPACT IN 2016

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

716
ports across 95 countries

12
office locations worldwide

OUR PERFORMANCE

US$55,000
charitable donations and sponsorship – mainly for seafarer welfare causes

"Your crew are professional, experienced and always willing to lend a hand."

Message of appreciation from one of many ports where our ships trade

Investor Relations

CREATING SHAREHOLDERS' VALUE

We seek to provide the investment community and other stakeholders with relevant regular news about Pacific Basin so they have comprehensive information about our business, strategy and performance with which to assess the value of the Group.

In 2016, we received four awards for investor relations and corporate governance. Our 2015 Annual Report was ranked 19th globally and rated "A" by e.com (Report Watch). We received a Gold Award at HKICPA's Best Corporate Governance Awards for a second consecutive year. Our Online Annual Report also received a Gold Award at the 2015 LACP Vision Awards (in the transportation & logistics category). Last but not least, we were awarded the Platinum Award – the highest recognition – at the Asset Corporate Awards 2016 for the third consecutive year for our excellent performance in corporate governance, social and environmental responsibility and investor relations.

Social media communications continue to be an important communications channel for the Group. The development of different social media platforms facilitates communications between the Company and investors, as well as enhances our corporate brand and provides updated dry bulk market information to our global stakeholders. Our WeChat account set up last year enables us to reach out in China to more investors, customers as well as our crew members.

www.pacificbasin.com
Sustainability > Policies, Governance & Reporting
Our Shareholder Communication Policy is available on our website and is regularly reviewed to ensure its effectiveness

STAKEHOLDER ENGAGEMENT

We proactively engage with a broad range of institutional and retail investors as well as media and other interest groups.

Communication Channels – We believe that the transparency stimulated 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
- Presentations and press releases on business activities

www.pacificbasin.com/2016
Interactive online report and feedback form

Shareholder Meetings and Hotlines

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

Investor Perception Studies

We conducted an annual consultation of investors and analysts for views on our group strategy, executive management, Annual Report and our corporate communications, investor relations and CSR programmes by way of telephone and online surveys

Vessel Tours

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

Roadshows – Roadshows are conducted following earnings announcements and trading updates. In 2016, we met investors in 8 cities in North America, Europe and Asia-Pacific.

Investor Meetings – In 2016, we met 607 (2015: 594) shareholders and investors

Company Website – www.pacificbasin.com

Our corporate website is considered a key marketing medium which comprehensively covers Pacific Basin's activities and competences. English, Chinese (traditional and simplified Chinese) and Japanese versions of the site are available, covering:

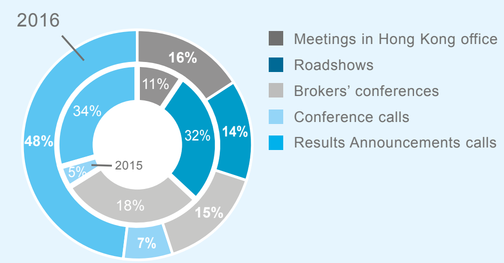
- Group profile
- Strategic and business models
- Fleet profile
- Board and senior management biographical data
- Corporate Governance, Risk Management and CSR
- Board Committees' Terms of Reference
- Financial reports and company news
- Financial information excel downloads
- Press kits
- Careers

We have recently restructured the website which includes more detailed information and easier navigation

Social Media Communications – Facebook, Twitter, LinkedIn, YouTube and WeChat

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

Type of Investor Meetings



STAKEHOLDER ENGAGEMENT continued

Communications with Sell-Side Analysts – Pacific Basin encourages active analyst coverage to help investors evaluate the Group and its opportunities and challenges. 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 Group.

Investors > Share Information > Research Coverage
Contact details of the Analysts

In the interest of saving costs, we changed our Annual Results briefing to a live webcast conference format, which enables overseas investors unable to physically attend our briefing to listen in to our presentation and ask questions.

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 a wide spectrum of shareholders and members of 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 investors.

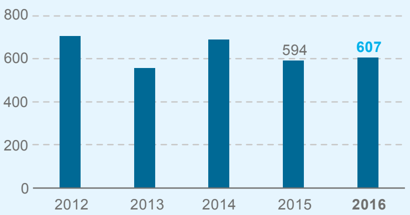
Sell-Side Analyst Engagement – Analyst coverage (as measured by the number of active research reports covering Pacific Basin) in the period is a key measure of our profile in the shipping sector.

Investor Perception Studies – We gauge feedback on our Annual Report, Investor Relations programme, corporate governance and group strategy through an annual written, online and verbal investor study.

Our 2016 Investor Perception Study shows that 87% of respondents consider Pacific Basin management to be good at articulating strategy, and 92% say we have a very high transparency in our disclosures.

Number of Investors We Met

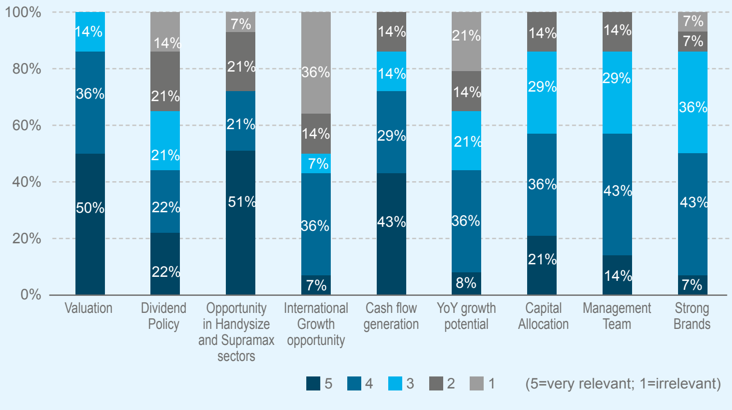
Number of investors



11 analysts
covered Pacific Basin in 2016 (2015: 13)

42 research reports
on Pacific Basin in 2016 (2015: 84)

2016 Investor Perception Feedback
Compelling Factors for Investing in Pacific Basin



KEY INVESTOR CONCERNS IN 2016

- Dry bulk market outlook – any further downside market risk especially on demand side
- Bottom of the dry bulk cycle
- Impact of the US presidential election on dry bulk shipping and global trade
- Group's funding activities and vessel commitments
- Repurchase of Convertible Bonds
- Rights issue and any further share issues or fundraising activities
- Chartered-in days and margins, vessel breakeven cost
- Any further cost saving initiatives
- M&A opportunities

SHARE AND CONVERTIBLE BOND INFORMATION

The Company's Shares and Convertible Bonds at 31 December 2016:

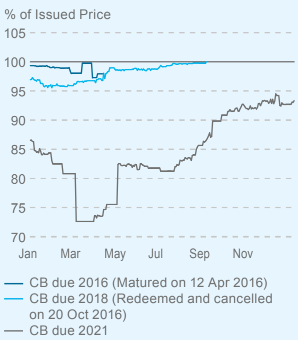
- 4,015,313,275 ordinary shares in issue, each with a par value of US$0.01
- US$125 million of 3.25% coupon Convertible Bonds due 2021

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

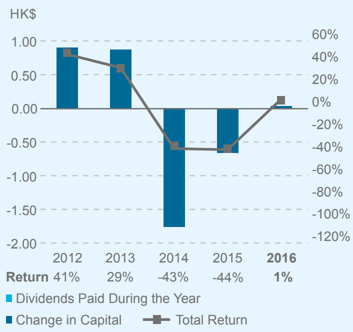
Page 35
Market Capitalisation

Our Share Price Performance vs Hang Seng Index in 2016

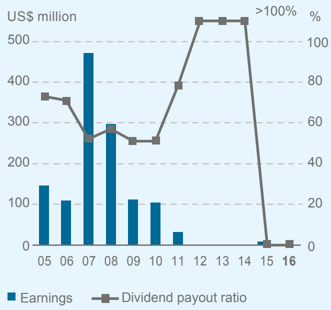
Convertible Bonds Price Performance in 2016



Total Shareholders' Return



Net Profit and Dividend Payout Ratio since 2005



DIVIDEND

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

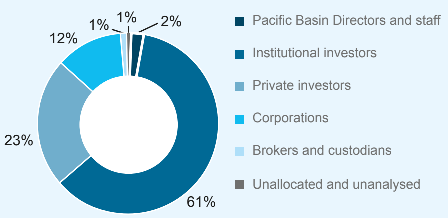
OUR SHAREHOLDERS

As at 31 December 2016, Nasdaq OMX was able to analyse the ownership of about 99.0% of the Company's share capital. Institutional Investors still accounted for the largest portion of the Company's shareholder base, owning nearly 2.4 billion shares or 60.8% of our share capital.

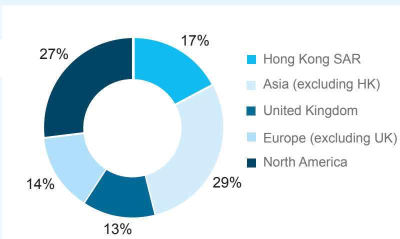
We identified 2,596 shareholders as at 31 December 2016. The actual number of investors interested in our shares is likely to be greater, as some of the shares are held through nominees, investment funds, custodians, etc. Each custodian or nominee or broker is considered as a single shareholder as below.

Shareholding	No. of Shareholders	% of Shareholders	Total Holding	% of ISC
<=500	164	6.32%	6,255	0.00%
501-1,000	32	1.23%	30,318	0.00%
1,001-100,000	732	28.20%	37,087,094	0.92%
100,001-500,000	1,099	42.33%	248,969,653	6.20%
>=500,001	569	21.92%	3,729,219,955	92.87%
Total	**2,596**	**100.00%**	**4,015,313,275**	**100.00%**

Ownership by 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 equal fund holders, as well as private investors.

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Financial Statements
Note 19(c)
Terms and details of the Convertible Bond

NO DISTINCTION BETWEEN INSTITUTIONAL INVESTORS AND RETAIL INVESTORS

We listen carefully to the views and feedback we receive from all investors. More than 61% of our shareholders are institutional investors, while 23% are private or retail investors who hold our shares through brokers and custodians. A separate Q&A and dialogue with our Board of Directors is arranged at our Annual General Meeting.

Investors calls after the results announcement are available to both institutional investors and the public.

News and Achievements

2016

January

- PB customer events in Shanghai and Santiago

February

- PB website restructured for greater customer focus and full focus on core dry bulk business

March

- “Port Pegasus” receives commendation letter from stevedores and customer on logs loading at Longview
- PB customer function in Vancouver

April

- US$143 million raised through rights issue
- PB customer event in Miami

May

- Seatrade Maritime Awards Asia 2016
  – Safety Award
- Mr. Stanley Hutter Ryan appointed INED of the Company

June

- Hong Kong Marine Department Award
  – Outstanding performance in Port State Control Inspections for 2015
- External appreciation for “Corio Bay” exceptional logs loading performance in USA
- Pacific Basin Soccer Sixes tournament, Hong Kong
- PB customer event in Hong Kong and Geneva

July

August

- LACP 2015 Vision Awards
  – 2015 Online Report – Gold (Transportation & Logistics Sector)

September

- Lloyd’s List Global Awards 2016
  – Safety Award
  – Finalist in Dry Bulk Operator of the Year category
- Report Watch Top 400 Global Annual Report e.com 2016
  – ranked 19th globally, 2nd in Hong Kong, A ranking
- PB customer function in Singapore

October

- Lloyd’s List Asia Awards 2016
  – Dry Bulk Operator of the Year
- Share issue arrangement with 10 shipowners saves Pacific Basin US$12.6 million in charter-hire cash outflows over 2 years
- External appreciation from Stevedores and ILWU for “Longview Logger” exceptional logs loading performance in USA

November

- The Asset Corporate Awards 2016
  – Platinum Award
- HKICPA Best Corporate Governance Awards 2016
  – Gold Award in Non-Hang Seng Index (Mid-to-Small Market Capitalisation) Category
- IBJ Awards 2016
  – People Development Award
- PB customer event in Tokyo, Melbourne and Auckland

December

- Jinganggu Awards
  – Best Investor Relations Management

www.pacificbasin.com
Company > Awards

Financial Statements

GROUP PERFORMANCE REVIEW

US$ Million	2016	2015	Change
Revenue	**1,087.4**	1,260.3	-14%
Bunker & port disbursement	**(555.1)**	(611.5)	+9%
Time charter equivalent earnings ("TCE")	**532.3**	648.8	-18%
Other direct costs	**(586.6)**	(652.9)	+10%
Gross loss	**(54.3)**	(4.1)	>-100%
Dry Bulk	**(87.6)**	(34.7)	>-100%
Towage	**(0.1)**	6.2	>-100%
Others	**0.0**	0.7	>-100%
Underlying loss	**(87.7)**	(27.8)	>-100%
Unrealised derivative income	**23.6**	8.8	
Sale of properties	**1.7**	–	
Vessel impairments	**(15.2)**	–	
Sale of towage assets	**(4.9)**	2.8	
Towage exchange charge	**(2.8)**	(1.5)	
Other impairments	**(1.2)**	(0.8)	
Loss attributable to shareholders	**(86.5)**	(18.5)	>-100%
EBITDA	**22.8**	93.2	-76%
Net profit margin	**(8%)**	(1%)	-7%
Return on average equity employed	**(9%)**	(2%)	-7%

+/- Note: In our tabulated figures, positive changes represent an improving result and negative changes represent a worsening result.

EBITDA (earnings before interest, tax, depreciation and amortisation) is our gross profit less general and administration expenses, excluding: depreciation and amortisation; exchange differences; share-based compensation; net unrealised bunker swap contract income and expenses; utilised onerous contract provisions; and net of Charter Hire Reduction adjustments.

The main drivers of our results in 2016 were as follows:

- Revenue decreased by 14% and cost of services reduced by 9%, mainly due to:
  - one of the weakest ever years for the dry bulk market; and
  - replacing expiring long-term chartered-in vessels with more lower cost short-term chartered-in vessels.
- Loss attributable to shareholders was mainly affected by:
  - an unrealised derivative accounting gain of US$23.6 million mainly from accounting reversal of completed prior year bunker swap contracts;
  - gains of US$1.7 million from disposal of all the China properties; offset by
  - non-cash impairments of US$15.2 million for the remaining towage vessels and one Supramax vessel that was sold after the year end; and
  - losses of US$4.9 million from disposals of towage assets and their related non-cash exchange loss of US$2.8 million. The Group maintains a foreign exchange reserve for the translation of net asset value of the Australian Dollar-denominated subsidiaries to US Dollars. At 31 December 2016, the foreign exchange reserve balance amounted to a charge of US$1.4 million. The release of this reserve to the consolidated income statement will be triggered by the sales of the remaining assets and closing down of the subsidiaries denominated in Australian Dollars.
- EBITDA was US$22.8 million (2015: US$93.2 million) contributing to a positive operating cash flow. Our cash and deposits at the year end stood at US$269.2 million (2015: US$358.4 million) with net gearing of 34% (2015: 35%).

Consolidated Balance Sheet

		As at 31 December	
	Note	**2016 US$'000**	2015 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,653,433**	1,611,000
Investment properties	7	**–**	2,400
Land use rights	8	**–**	2,686
Goodwill	9	**25,256**	25,256
Available-for-sale financial assets	11	**875**	2,135
Derivative assets	12	**969**	–
Trade and other receivables	13	**5,405**	5,559
Restricted bank deposits	14	**58**	58
		1,685,996	1,649,094
Current assets			
Inventories	15	**62,492**	50,785
Derivative assets	12	**2,831**	–
Assets held for sale	16	**5,820**	–
Trade and other receivables	13	**80,940**	87,486
Cash and deposits	14	**269,146**	358,370
		421,229	496,641
Total assets		**2,107,225**	2,145,735
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	20	**40,046**	194,480
Retained profits	21	**150,783**	213,233
Other reserves	21	**849,942**	563,225
Total equity		**1,040,771**	970,938
LIABILITIES			
Non-current liabilities			
Derivative liabilities	12	**24,860**	33,797
Long-term borrowings	19	**743,507**	633,226
Provision for onerous contracts	18	**31,564**	51,918
Trade and other payables	17	**5,856**	–
		805,787	718,941
Current liabilities			
Derivative liabilities	12	**2,899**	16,655
Trade and other payables	17	**140,625**	117,364
Current portion of long-term borrowings	19	**95,735**	292,739
Taxation payable		**1,054**	1,434
Provision for onerous contracts	18	**20,354**	27,664
		260,667	455,856
Total liabilities		**1,066,454**	1,174,797

Approved by the Board of Directors on 28 February 2017

Mats H. Berglund
Director

Andrew T. Broomhead
Director

Consolidated Income Statement

	Note	For the year ended 31 December 2016 US$'000	 2015 US$'000
Revenue	4	**1,087,371**	1,260,291
Cost of services (note)		**(1,141,696)**	(1,264,402)
Gross loss		**(54,325)**	(4,111)
General and administrative expenses (note)		**(5,749)**	(5,954)
Vessel impairments (note)		**(15,245)**	–
Other income and gains	22	**29,971**	31,576
Other expenses (note)		**(9,039)**	(3,724)
Finance income	23	**2,750**	4,469
Finance costs	23	**(33,925)**	(39,795)
Share of profits of investments accounted for using the equity method		**–**	178
Loss before taxation		**(85,562)**	(17,361)
Taxation	24	**(985)**	(1,179)
Loss attributable to shareholders		**(86,547)**	(18,540)
Basic and diluted earnings per share for loss attributable to shareholders (comparative restated) (in US cents)	26	**(2.63)**	(0.70)

Note: The sum of i) cost of services, ii) general and administrative expenses, iii) vessel impairments, and iv) other expenses is analysed in Note 5 "Expenses by Nature".

Consolidated Statement of Comprehensive Income

	For the year ended 31 December	
	2016 US$'000	2015 US$'000
Loss attributable to shareholders	**(86,547)**	(18,540)
Other comprehensive income – items that may be reclassified to income statement:		
Cash flow hedges:		
– transferred to finance costs in income statement	**3,549**	6,179
– fair value losses	**(699)**	(18,885)
Release of exchange losses/(gains) from reserves to income statement for foreign operations upon:		
– disposal of towage assets	**2,815**	–
– repayment of shareholder loans by subsidiaries	**–**	(669)
– disposal of a joint venture	**–**	(355)
Fair value losses on available-for-sale financial assets	**–**	(1,102)
Currency translation differences	**(16)**	(2,497)
Total comprehensive income attributable to shareholders	**(80,898)**	(35,869)

Consolidated Statement of Changes in Equity

		For the year ended 31 December	
	Note	**2016 US$'000**	2015 US$'000
Balance at 1 January		**970,938**	1,001,746
Rights issue, net of issuing expenses	20,21	**142,772**	–
Total comprehensive income attributable to shareholders		**(80,898)**	(35,869)
Shares issued to compensate the shipowners for Charter Hire Reduction	20,21	**12,536**	–
Derecognition of equity component upon exercise of CB redemption/buyback		**(7,966)**	(562)
Share-based compensation		**4,207**	4,749
Shares purchased by trustee of the SAS	20	**(1,809)**	(530)
Shares granted to employees in the form of restricted shares awards		**991**	–
Equity component of convertible bonds issued		**–**	13,772
Dividends paid	25	**–**	(12,368)
Balance at 31 December		**1,040,771**	970,938

Consolidated Cash Flow Statement

	Note	For the year ended 31 December 2016 US$'000	2015 US$'000
Operating activities			
Cash generated from operations	27	**51,031**	99,729
Hong Kong profits tax paid		**(694)**	(647)
Overseas taxation paid		**(816)**	(467)
Net cash generated from operating activities		**49,521**	98,615
Investing activities			
Purchase of property, plant and equipment		**(181,340)**	(146,408)
Disposal of property, plant and equipment		**16,066**	2,970
Disposal of investment properties		**5,065**	–
Disposal of joint ventures		**650**	14,400
Disposal of harbour towage business and other vessels		**–**	117,491
Disposal of assets held for sale		**–**	5,647
Decrease/(increase) in term deposits		**58,166**	(53,633)
Decrease in restricted bank deposits		**–**	1,636
Interest received		**2,750**	2,925
Loan repayment received from a joint venture		**–**	120
Net cash used in investing activities		**(98,643)**	(54,852)
Financing activities			
Drawdown of bank loans and other borrowings		**344,851**	190,682
Repayment of bank loans and other borrowings		**(209,953)**	(265,101)
Repayment of finance lease liabilities – capital element		**–**	(5,003)
Payment for redemption/buyback of convertible bonds	19(c)	**(229,390)**	(103,257)
Proceeds from issuance of convertible bond, net of issuing expenses		**–**	123,725
Proceeds from rights issue, net of issuing expenses	20,21	**142,772**	–
Payment for shares purchased by trustee of the SAS	20	**(1,809)**	(530)
Shares granted to employees in the form of restricted shares awards		**991**	–
Interest and other finance charges paid		**(29,350)**	(28,568)
Dividends paid to shareholders of the Company		**–**	(12,368)
Net cash generated from/(used in) financing activities		**18,112**	(100,420)
Net decrease in cash and cash equivalents		**(31,010)**	(56,657)
Exchange losses on cash and cash equivalents		**(48)**	(337)
Cash and cash equivalents at 1 January		**199,737**	256,731
Cash and cash equivalents at 31 December	14	**168,679**	199,737
Term deposits at 1 January	14	**158,633**	105,000
(Decrease)/increase in term deposit		**(58,166)**	53,633
Cash and deposits at 31 December	14	**269,146**	358,370

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

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 28 February 2017.

Page 4-12
Business Review & Market Review 2016

Page 100
Corporate Information
Registered Office Address

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.

Disclosure of financial risk management has been integrated into the Risk Management Section of the Annual Report. The auditable parts have been clearly marked and are listed below:

- Market Risk – Page 18
- Credit & Counterparty Risk – Page 19
- Liquidity Risk – Page 22
- Capital Management Risk – Page 22

2 BASIS OF PREPARATION

2.1 Objective and accounting standards

The objective of these consolidated financial statements is to present and explain the results of the year ended 31 December 2016 and the financial position of the Group on that date, together with comparative information.

The financial statements have been prepared in accordance with all applicable 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 amendments to standard are mandatory for the accounting period beginning 1 January 2016 and are relevant to the Group's operation.

HKAS 1 (Amendments)	Disclosure initiative
HKAS 16 and 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation
HKAS 28, HKFRS 10 and 12 (Amendments)	Investment entities: applying the consolidation exception
Annual improvement 2014	

The adoption of these amendments 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 2017. The Group was not required to adopt these New Standards in the financial statements for the year ended 31 December 2016. The New Standards that are relevant to the Group's operation are as follows:

HKAS 7 (Amendments)	Statement of cash flows
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions
HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
HKFRS 16	Leases

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

For New Standards other than HKFRS 16, the Group has also commenced an assessment of the impact of these New Standards but is not yet in a position to state whether they will have a significant impact on its operating results and financial position.

2.3 Accounting policies navigator

Accounting policies	Location
Assets held for sale	Note 16
Available-for-sale financial assets	Note 11
Borrowings	Note 19
Cash and cash equivalents	Note 14
Consolidation	
Joint operation	Note 10
Subsidiaries	Note 2.4
Contingent liabilities and contingent assets	Note 32
Convertible bonds ("CB")	Note 19(c)
Current and deferred income tax	Note 24
Derivative financial instruments and hedging activities: i) cash flow hedges, and ii) derivatives not qualifying for hedge accounting	Note 12
Dividends	Note 25
Employee benefits	Remuneration Report (p.40)
Financial assets at fair value through profit or loss	Note 12
Financial guarantee contracts	Note 31
Foreign currency translation	Note 2.5
Goodwill	Note 9
Impairment of i) investments in subsidiaries and non-financial assets, ii) available-for-sale financial assets and iii) trade and other receivables	Note 5
Inventories	Note 15
Investment properties	Note 7
Land use rights	Note 8
Offsetting financial instruments	Note 12
Operating leases where the Group is the lessor or lessee	Note 28(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 2.6
Provision for onerous contracts	Note 18
Revenue recognition for freight and charter-hire, and other revenue	Note 4
Segment reporting	Note 4
Share capital	Note 20
Trade and other receivables	Note 13
Trade payables	Note 17

The Group's principal accounting policies have been consistently applied to each of the years presented in these financial statements.

Notes to the Financial Statements continued

2 BASIS OF PREPARATION (CONTINUED)

2.4 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.

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.

2.5 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").

(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 included in cost of services" 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.

2.6 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)	Impairment of goodwill	Note 9
(e)	Provision for onerous contracts	Note 18
(f)	Income taxes	Note 24
(g)	Classification of leases	Note 28(b)

4 REVENUE AND SEGMENT INFORMATION

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

The Group manages its businesses by divisions. Reports are presented to the Board for the purpose of making strategic decisions, allocation of resources and assessing performance.

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

Accounting policy

Segment reporting

Management internally reviews and reports on the performance of the Group's material operations as a single segment. This is also the basis on which management reports to the Board.

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 Supramax vessels.

Revenues from the pools of Handysize and Supramax 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.

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

Notes to the Financial Statements continued

5 EXPENSES BY NATURE

US$'000	2016	2015
Operating lease expenses		
– vessels	333,130	374,774
– land and buildings	4,263	4,096
Port disbursements and other voyage costs	322,358	306,113
Bunkers consumed	220,546	278,279
Depreciation		
– owned vessels	97,109	91,931
– other owned property, plant and equipment	1,658	1,624
– investment properties	34	66
– leased vessels	–	6,391
Amortisation of land use rights	38	73
Employee benefit expenses including Directors' emoluments (see Remuneration Report p.39)	41,047	42,564
Provision for impairment losses		
– vessels (Note 6(d))	15,245	–
– available-for-sale financial assets	1,260	889
– trade receivables (Note 13)	424	1,934
Net (gains)/losses on bunker swap contracts (Note 12(d))	(9,895)	18,879
Lubricating oil consumed	8,924	7,901
Losses on disposal of towage assets	4,964	679
Net foreign exchange losses	3,182	2,305
Auditors' remuneration		
– audit	901	1,229
– non-audit	81	303
Losses on forward freight agreements	–	538
Net gains on forward foreign exchange contracts (Note 12(d))	–	(87)
Vessel and other expenses	126,460	133,599
The sum of the above reconciles to the following headings in the consolidated income statement. (i) "cost of services", (ii) "general and administrative expenses", (iii) "vessel impairments" and (iv) "other expenses"	1,171,729	1,274,080

Total administrative expenses

US$ Million	2016	2015
Direct overheads included in cost of services	47.2	50.6
General and administrative expenses	5.7	6.0
Total administrative expenses	52.9	56.6

The year-on-year saving of US$3.7 million in total administrative expenses reflects a range of cost savings initiatives undertaken during the year.

Operating lease expenses

The total vessel operating lease expenses of $333.1 million (2015: US$374.8 million) above include contingent lease payments amounting to US$17.4 million (2015: US$50.2 million). These relate to dry bulk vessels chartered-in on an index-linked basis.

Accounting policy – Impairment

(i) 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 (a) an asset's fair value less costs to sell and (b) the value-in-use.

The fair values of vessels and vessels under construction are 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").

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

(ii) 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.

(iii) 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 "cost of services". When a trade receivable is uncollectable, it is written off against the provision for impairment.

Notes to the Financial Statements continued

6 PROPERTY, PLANT AND EQUIPMENT

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 2016	2,000,221	46,921	1,096	4,309	9,327	32	2,061,906
Additions	22,571	157,745	–	–	1,024	–	181,340
Disposals	(38,114)	–	(491)	–	–	–	(38,605)
Write offs	(15,197)	–	–	–	(556)	–	(15,753)
Assets held for sale (Note 16)	(24,783)	–	–	–	–	–	(24,783)
Exchange differences	1,099	–	(5)	(48)	(57)	(3)	986
Reclassifications	147,406	(147,406)	–	–	–	–	–
At 31 December 2016	2,093,203	57,260	600	4,261	9,738	29	2,165,091
Accumulated depreciation and impairment							
At 1 January 2016	439,787	–	117	3,293	7,677	32	450,906
Charge for the year	97,109	–	35	560	1,063	–	98,767
Impairment for the year	15,245	–	–	–	–	–	15,245
Disposals	(18,867)	–	(93)	–	–	–	(18,960)
Write offs	(15,197)	–	–	–	(556)	–	(15,753)
Assets held for sale (Note 16)	(18,963)	–	–	–	–	–	(18,963)
Exchange differences	500	–	–	(44)	(37)	(3)	416
At 31 December 2016	499,614	–	59	3,809	8,147	29	511,658
Net book value							
At 31 December 2016	1,593,589	57,260	541	452	1,591	–	1,653,433

Estimated useful lives for the year ended 2016 and 2015	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

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 2015	1,940,704	53,259	1,172	4,627	8,774	47	2,008,583
Additions	32,372	112,985	–	116	935	–	146,408
Disposals	(69,988)	–	–	(382)	(112)	(13)	(70,495)
Write offs	(15,142)	–	–	–	(196)	–	(15,338)
Exchange differences	(7,048)	–	(76)	(52)	(74)	(2)	(7,252)
Reclassifications	119,323	(119,323)	–	–	–	–	–
At 31 December 2015	2,000,221	46,921	1,096	4,309	9,327	32	2,061,906
Accumulated depreciation and impairment							
At 1 January 2015	413,378	–	107	3,121	7,014	39	423,659
Charge for the year	98,322	–	13	594	1,015	2	99,946
Disposals	(53,069)	–	–	(382)	(103)	(7)	(53,561)
Write offs	(15,142)	–	–	–	(196)	–	(15,338)
Exchange differences	(3,702)	–	(3)	(40)	(53)	(2)	(3,800)
At 31 December 2015	439,787	–	117	3,293	7,677	32	450,906
Net book value							
At 31 December 2015	1,560,434	46,921	979	1,016	1,650	–	1,611,000

(a) As at 31 December 2016, vessel and vessel component costs include the aggregate cost and accumulated depreciation of the vessel component costs amounted to US$55,507,000 (2015: US$52,659,000) and US$27,087,000 (2015: US$25,242,000) respectively.

(b) Certain owned vessels of net book value of US$1,419,515,000 (2015: US$1,470,156,000) were pledged to banks as securities for bank loans granted to the Group (Note 19(a)(i)).

Certain owned vessels of net book value of US$79,384,000 (2015: Nil) were effectively pledged as securities to other secured borrowings (Note 19(b)) as the rights to the vessels revert to the lessors in the event of default.

(c) During the year, the Group had capitalised borrowing costs amounting to US$1,995,000 (2015: US$964,000) on qualifying assets (Note 23). Borrowing costs were capitalised at the weighted average rate of 4.3% (2015: 4.2%) of the Group's general borrowings.

(d) The impairment charge related to the remaining towage vessels (US$8,062,000) and one Supramax vessel which was sold after the year end (US$7,183,000). The recoverable amount of the impaired assets was calculated as the fair value less cost to sell. Fair value assumes a willing buyer and willing seller basis under general market conditions, and it is considered a Level 3 valuation in accordance with HKFRS 13. Please refer to Note 11 (Fair value levels) for the definition of different levels.

(e) In 2015, vessels under construction included an amount of US$31,703,000 paid by the Group in relation to vessels whose construction work had not yet commenced.

Notes to the Financial Statements continued

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Accounting policy

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

(i) 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.

(ii) Vessels under construction

Vessels under construction are stated at cost and are not subject to depreciation. All cost of services 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.

(iii) 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.

(iv) 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.

(v) 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.

(vi) 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.

(vii) 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.

(viii) 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.

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$1.6 million in the next year.

Useful lives of vessels and vessel component costs

The Group estimates the useful life of its vessels with reference to the average historical useful life of similar vessels, their expected usage, expected repair and maintenance programme, and technical or commercial obsolescence arising from changes or improvements in the shipping 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$13.4 million or increase by US$21.2 million in the next year.

Impairment of vessels and vessels under construction

The Group tests whether the carrying values 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 owned vessels for minor bulks are separated as two cash-generating units ("CGUs") (Handysize and Supramax) as the vessels within each of these CGUs are considered to be interchangeable.

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 value-in-use assessments, the applicable discount rates are 6.8% (2015: 7.9%).

- **Sensitivity analysis:**

  With all other variables held constant, increasing the discount rates by 100 basis points from the original estimate will not give rise to any impairment.

Notes to the Financial Statements continued

7 INVESTMENT PROPERTIES

US$'000	2016	2015
At 1 January	**2,400**	2,605
Depreciation	**(34)**	(66)
Disposal	**(2,330)**	–
Exchange difference	**(36)**	(139)
At 31 December	**–**	2,400
Estimated useful lives	**–**	45 years

During the year, the Group sold all its investment properties in the PRC. The investment properties are within Level 3 of the fair value scale. Please refer to Note 11 (Fair value levels) for the definition of different levels.

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 represented prepaid operating lease payments in the PRC with lease periods between 10 to 50 years. During the year, the Group sold all its land use rights relate to "Buildings" in Note 6 and "Investment Properties" in Note 7.

US$'000	2016	2015
At 1 January	**2,686**	2,894
Amortisation	**(38)**	(73)
Disposal	**(2,612)**	–
Exchange difference	**(36)**	(135)
At 31 December	**–**	2,686

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

US$'000	2016	2015
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.

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.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value-in-use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Critical accounting and estimates judgements – Impairment of goodwill

The recoverable amount of the goodwill 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 four-years outlook. Key assumptions were based on past performance, management's expectations on market development and general inflation. Cash flows beyond the fifth year 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 6.8% (2015: 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.

With all other variables held constant, increasing the discount rates by 100 basis points from the original estimate will not give rise to any impairment.

10 INTERESTS IN JOINT ARRANGEMENTS

Joint operation

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:

US$'000	2016	2015
Charter-hire income included in revenue	**4,376**	4,598
Charter-hire expenses included in cost of services	**(3,219)**	(3,390)
	1,157	1,208

Accounting policy

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.

Notes to the Financial Statements continued

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016			2015		
US$'000	Level 1	Level 3	Total	Level 1	Level 3	Total
Listed equity securities (a)	875	–	875	1,606	–	1,606
Unlisted equity securities (b)	–	–	–	–	529	529
	875	–	875	1,606	529	2,135

(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 and were fully impaired during the year. The fair values are determined with reference to the net asset values and by management's expectation.

Available-for-sale financial assets have been analysed using the valuation method outlined 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).

Accounting policy

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.

12 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;
- 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.

Derivative assets and liabilities have been analysed by valuation method. Please refer to Note 11 (Fair value levels) for the definitions of different levels. Our derivative assets and liabilities are Level 2 financial instruments.

US$'000	2016 Total	2015 Total
Derivative assets		
Derivative assets that do not qualify for hedge accounting		
Bunker swap contracts (a)	**3,800**	–
Total	**3,800**	–
Less: non-current portion of		
Bunker swap contracts (a)	**(969)**	–
Non-current portion	**(969)**	–
Current portion	**2,831**	–
Derivative liabilities		
Cash flow hedges		
Forward foreign exchange contracts (b)	**21,506**	22,314
Interest rate swap contracts (c(i))	**788**	2,831
Derivative liabilities that do not qualify for hedge accounting		
Bunker swap contracts (a)	**5,456**	23,674
Interest rate swap contracts (c(ii))	**9**	1,633
Total	**27,759**	50,452
Less: non-current portion of		
Forward foreign exchange contracts (b)	**(21,506)**	(22,314)
Interest rate swap contracts (c(i))	**(788)**	(1,811)
Interest rate swap contracts (c(ii))	**–**	(1,633)
Bunker swap contracts (a)	**(2,566)**	(8,039)
Non-current portion	**(24,860)**	(33,797)
Current portion	**2,899**	16,655

Notes to the Financial Statements continued

12 DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

(a) Bunker swap contracts

The Group enters into bunker swap contracts to manage the fluctuations in bunker prices in connection with the Group's cargo contract commitments.

Bunker swap contracts that do not qualify for hedge accounting

At 31 December 2016, the Group had outstanding bunker swap contracts to buy approximately 124,170 (2015: 114,950) metric tonnes of bunkers. These contracts expire through December 2021 (2015: December 2021).

- *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$4.0 million (2015: US$2.5 million). Future movements in bunker price will be reflected in the eventual operating results derived from the vessels, which is expected to offset such increase/decrease of the Group's profit after tax and equity in future periods.

(b) Forward foreign exchange contracts

The functional currency of most of the Group's operating companies is United States Dollar ("USD") as the majority of our transactions are denominated in this currency. Historically, a major part of our exchange rate fluctuations risk arose from the purchase of vessels denominated in non-USD currency. However this risk has significantly reduced as most of our vessel purchases are denominated in USD.

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

At 31 December 2016, the outstanding forward foreign exchange contracts held by the Group mainly consist of contracts with banks to buy Danish Kroner ("DKK") of approximately DKK 835.2 million (2015: DKK 982.4 million) and simultaneously sell approximately US$149.8 million (2015: US$176.7 million), which expire through August 2023. The Group has long-term bank borrowings denominated in DKK with maturity in August 2023. To hedge against the potential fluctuations in foreign exchange, the Group entered into these forward foreign exchange contracts with terms that match the repayment schedules of such long-term bank borrowings. These forward foreign exchange contracts qualify for hedge accounting as cash flow hedges.

(c) Interest rate swap contracts

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

- *Sensitivity analysis:*

  With all other variables held constant, if the average interest rate on net debt balance (2015: net cash balance) (after excluding borrowings subject to fixed interest rates) subject to floating interest rates, which includes cash and deposits net of unhedged secured 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 decrease/increase by approximately US$0.1 million (2015: US$1.1 million increase/decrease).

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

Effective date	Notional amount	Swap details	Expiry
For 2016 & 2015:			
30 December 2013 & 21 January 2014	US$178 million on amortising basis	USD 3-month LIBOR swapped to a fixed rate of approximately 1.9% to 2.1% per annum	Contracts expire through December 2021
For 2015:			
2 January 2007	US$20 million	USD 6-month LIBOR swapped to a fixed rate of approximately 5.6% per annum	Contracts expired in December 2016
31 March 2009	US$20 million	USD 3-month LIBOR swapped to a fixed rate of approximately 3.0% per annum	Contracts expired in March 2016

(ii) Interest rate swap contracts that do not qualify for hedge accounting

Starting on 2 January 2007, a notional amount of US$40 million has the USD 6-month LIBOR swapped to a fixed rate of approximately 5.0% per annum so long as the USD 6-month 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 USD 6-month LIBOR is above 6.0% and reverts back to the fixed rate should the USD 6-month LIBOR subsequently drop below 6.0%. This contract expired in January 2017.

(d) Analysis of derivative income and expense

During the year ended 31 December 2016, the Group recognised net derivative income of US$7.1 million, as follows:

US$ Million	Realised	Unrealised	2016	2015	Presentation in the Financial Statements:
Income					
Forward freight agreements	–	–	**–**	0.2	
Bunker swap contracts	5.6	22.5	**28.1**	26.0	
Interest rate swap contracts	–	1.6	**1.6**	1.6	
Forward foreign exchange contracts	–	–	**–**	0.3	
	5.6	24.1	**29.7**	28.1	
Expenses					
Forward freight agreements	–	–	**–**	(0.5)	
Bunker swap contracts	(17.7)	(0.5)	**(18.2)**	(44.9)	
Interest rate swap contracts	(4.4)	–	**(4.4)**	(6.5)	
Forward foreign exchange contracts	–	–	**–**	(0.2)	
	(22.1)	(0.5)	**(22.6)**	(52.1)	
Net					
Forward freight agreements	–	–	**–**	(0.3)	*Other income/Other expenses*
Bunker swap contracts	(12.1)	22.0	**9.9**	(18.9)	*Cost of services*
Interest rate swap contracts	(4.4)	1.6	**(2.8)**	(4.9)	*Finance costs*
Forward foreign exchange contracts	–	–	**–**	0.1	*General and administrative expenses*
	(16.5)	23.6	**7.1**	(24.0)	

Realised:
- *Cash settlement of contracts completed in the year*

Unrealised:
- *Contracts to be settled in future years*
- *Accounting reversal of earlier year contracts now completed*

The application of HKAS 39 “Financial Instruments: Recognition and Measurement” has the effect of shifting to the current year the estimated results of the derivative contracts that expire in future periods. On 31 December 2016 this created a net unrealised non-cash income of US$23.6 million (2015: US$8.8 million). The cash flows of these contracts will occur in future reporting years.

Notes to the Financial Statements continued

12 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.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

13 TRADE AND OTHER RECEIVABLES

US$'000	2016	2015
Non-current receivables		
Prepayments	**5,405**	5,559
Current receivables		
Trade receivables – gross	**32,960**	37,406
Less: provision for impairment	**(1,685)**	(2,749)
Trade receivables – net	**31,275**	34,657
Other receivables	**26,296**	43,117
Prepayments	**23,369**	9,712
	80,940	87,486

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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 – Trade and other receivables

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.

At 31 December 2016, the ageing of net trade receivables based on invoice date is as follows:

US$'000	2016	2015
< 30 days	**24,872**	21,824
31-60 days	**800**	3,270
61-90 days	**345**	2,988
> 90 days	**5,258**	6,575
	31,275	34,657

Movements in the provision for impairment of trade receivables are as follows:

US$'000	2016	2015
At 1 January	**2,749**	1,935
Provision for receivable impairment	**976**	2,123
Reversal of prior year overprovision	**(552)**	(189)
Total charge to income statement	**424**	1,934
Amount written off during the year	**(1,488)**	(1,120)
At 31 December	**1,685**	2,749

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 2016 and 2015, 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.

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14 CASH AND DEPOSITS

US$'000	2016	2015
Cash at bank and on hand	**50,505**	47,186
Bank deposits	**218,699**	311,242
Total cash and deposits	**269,204**	358,428
Average effective interest rate on bank deposits at year end	**1.60%**	0.84%
Average remaining maturity of bank deposits	**98 days**	68 days
Cash and cash equivalents	**168,679**	199,737
Term deposits	**100,467**	158,633
Cash and deposits	**269,146**	358,370
Restricted bank deposits included in non-current assets	**58**	58
Total cash and deposits	**269,204**	358,428

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.

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15 INVENTORIES

US$'000	2016	2015
Bunkers	**52,375**	41,128
Lubricating oil	**10,117**	9,657
	62,492	50,785

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.

16 ASSETS HELD FOR SALE

The assets held for sale comprised four towage vessels. The carrying amounts of the vessels of US$5,820,000 represented the estimated fair value less costs to sell and reclassified from property, plant and equipment (Note 6) accordingly.

Accounting policy – Assets 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.

17 TRADE AND OTHER PAYABLES

US$'000	2016	2015
Non-current payables		
Receipts in advance	**5,856**	–
Current payables		
Trade payables	**51,569**	30,566
Accruals and other payables	**51,236**	56,361
Receipts in advance	**37,820**	30,437
	140,625	117,364

At 31 December 2016, the ageing of trade payables based on due date is as follows:

US$'000	2016	2015
< 30 days	**45,327**	25,338
31-60 days	**670**	372
61-90 days	**402**	833
> 90 days	**5,170**	4,023
	51,569	30,566

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.

18 PROVISION FOR ONEROUS CONTRACTS

US$'000	2016	2015
At 1 January	**79,582**	100,906
Utilised during the year (Note 22)	**(27,664)**	(21,324)
At 31 December	**51,918**	79,582
Analysis of provisions		
Current	**20,354**	27,664
Non-current	**31,564**	51,918
	51,918	79,582

Provision for onerous contract utilised during the year was credited to other income.

Accounting policy

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.

Critical accounting estimates and judgements – Provision for onerous contracts

The Group estimates the provision for its non-cancellable operating chartered-in 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.

The expected charter revenue and freight is derived from the aggregate of (a) the amount of revenue cover provided by existing contracts of affreightment, and (b) management estimates of rates for the uncovered period by reference to current physical market rates, current trades of forward freight agreements and other relevant market information at the reporting date.

With all other variables held constant, if the expected freight rates for the uncovered chartered-in contracts increase/decrease by 5% from management estimates over the next 5 years, the provision for onerous contracts would decrease/increase by US$14 million.

19 LONG-TERM BORROWINGS

US$'000	2016	2015
Non-current		
Secured bank loans (a)	**599,102**	519,783
Other secured borrowings (b)	**29,033**	–
Unsecured convertible bonds (c)	**115,372**	113,443
	743,507	633,226
Current		
Secured bank loans (a)	**91,734**	73,684
Other secured borrowings (b)	**4,001**	–
Unsecured convertible bonds (c)	**–**	219,055
	95,735	292,739
Total long-term borrowings	**839,242**	925,965

The fair value of long-term borrowings is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments and are within Level 2 of the fair value scale. Please refer to Note 11 (Fair value levels) for the definition of different levels.

The 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.

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19 LONG-TERM BORROWINGS (CONTINUED)

(a) Secured bank loans

The Group's secured bank loans as at 31 December 2016 were secured, inter alia, by the following:

(i) Mortgages over certain owned vessels with net book values of US$1,419,515,000 (2015: US$1,470,156,000) (Note 6(b)); and

(ii) Assignment of earnings and insurances compensation in respect of the vessels.

These secured bank loans are repayable as follows:

US$'000	2016	2015
Within one year	**91,734**	73,684
In the second year	**88,944**	78,899
In the third to fifth year	**303,226**	254,381
After the fifth year	**206,932**	186,503
	690,836	593,467
Average effective interest rate at year end (before hedging)	**3.0%**	2.8%

(b) Other secured borrowings

The Group's other secured borrowings as at 31 December 2016 were in respect of five owned vessels with net book values of US$79,384,000 (2015: Nil) (Note 6(b)) which were sold and simultaneously leased back by the Group on a bareboat charter basis during the year. Under the terms of the leases, the Group has options to purchase these vessels at pre-determined timings during the lease period and is obliged to purchase these vessels upon the expiry of the respective lease. Such borrowings are effectively secured as the rights to the leased vessels revert to the lessors in the event of default.

These other secured borrowings are repayable as follows:

US$'000	2016
Within one year	**4,001**
In the second year	**4,124**
In the third to fifth year	**15,123**
After the fifth year	**9,786**
	33,034
Average effective interest rate at year end (before hedging)	**4.6%**

(c) Unsecured convertible bonds

	2016		2015	
US$'000	**Face value**	**Liability component**	Face value	Liability component
3.25% coupon due 2021	**125,000**	**115,372**	125,000	113,443
1.75% coupon due 2016 (i)	**–**	**–**	105,590	105,140
1.875% coupon due 2018 (ii)	**–**	**–**	123,800	113,915
Total	**125,000**	**115,372**	354,390	332,498

(i) On 12 April 2016, 1.75% coupon convertible bonds with an aggregate nominal value of US$105.6 million were redeemed upon maturity and cancelled at 100% of the principal amount and an equity movement of US$14.8 million credited to retained earnings was recognised.

During 2015, the same bonds with an aggregate nominal value of US$104.0 million were bought back and cancelled at a consideration of US$103.3 million including accrued interest. Losses of US$0.1 million were recognised in the income statement and an equity movement of US$14.0 million credited to retained earnings was recognised upon the derecognition of the respective liability and equity components.

(ii) All bondholders of the 1.875% coupon convertible bonds exercised their right to require the Group to redeem all their bonds on 24 October 2016. As a result, all the bonds with an aggregate nominal value of US$123.8 million were redeemed and, on the same day, cancelled at 100% of the principal amount resulting in a gain of US$0.5 million recognised in the income statement and an equity movement of US$11.4 million being credited to retained earnings.

The carrying value of convertible bonds approximate their fair values.

Key items	3.25% coupon due 2021
Issue size	US$125.0 million
Issue date	8 June 2015
Maturity date	3 July 2021 (approximately 6.1 years from issue)
Coupon – cash cost	3.25% p.a. payable semi-annually in arrears on 3 January and 3 July
Effective interest rate	5.70% charged to income statement
Redemption price	100%
Conversion price converting bonds into shares (Note)	HK$3.07 (with effect from 30 May 2016)
Conversion at bondholders' options	Any time on or after 19 July 2015
Bondholder put date for redemption at 100% of the principal amount	On 3 July 2019 (approximately 4.1 years from issue), each bondholder will have the right to require the Group to redeem all or some of the bonds. As this is an unconditional put option, accounting standards require the Group to treat the convertible bonds as falling due on the put date.
Issuer call date for redemption at 100% of the principal amount	After 3 July 2019, the Group may redeem the bonds in whole, provided that the closing price of the Company's shares is at least at a 30% premium to the conversion price then in effect for thirty consecutive trading days.

Note: The conversion price was subject to an adjustment arising from the issue of Shares by way of rights (Note 20(b)) during 2016. The conversion price was also subject to an adjustment arising from any cash dividends paid by the Company according to a pre-determined adjustment factor. Such adjustment would have become effective on the first date on which the Shares were traded ex-dividend had a dividend been declared.

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 the issuance of 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.

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20 SHARE CAPITAL

	2016 Number of shares	2016 US$'000	2015 Number of shares	2015 US$'000
Authorised	**36,000,000,000**	**360,000**	3,600,000,000	360,000
Issued and fully paid				
At 1 January	**1,945,855,119**	**194,480**	1,933,666,119	191,781
Capital reduction (a)	**–**	**(175,117)**	–	–
Rights issue (b)	**1,946,823,119**	**19,468**	–	–
Shares issued to compensate the shipowners for the Charter Hire Reduction (c)	**79,979,037**	**800**	–	–
Shares purchased by trustee of the SAS (d)	**(16,413,000)**	**(1,809)**	(1,452,000)	(530)
Shares granted to employees in the form of restricted share awards (d)	**17,951,000**	**2,173**	4,205,000	2,463
Shares issued due to the adjustment for rights issue and upon grant of restricted share awards (d)	**41,688,000**	**417**	9,846,000	985
Shares transferred back to trustee upon lapse of restricted share awards (d)	**(1,371,000)**	**(366)**	(410,000)	(219)
At 31 December	**4,014,512,275**	**40,046**	1,945,855,119	194,480

The issued share capital of the Company as at 31 December 2016 was 4,015,313,275 shares (2015: 1,946,823,119 shares). The difference from the number of shares in the table above of 801,000 (2015: 968,000) represents shares held by the trustee in relation to restricted share awards, amounting to US$107,100 (2015: US$202,700) as a debit to share capital.

(a) Capital reduction

Pursuant to a special resolution passed by the shareholders of the Company at a special general meeting held on 27 May 2016, the nominal value of each share was reduced from US$0.10 to US$0.01 by cancelling the paid up capital of US$0.09 on each share. The capital reduction took effect on 27 May 2016.

A new reserve entitled "contributed surplus" (Note 21) represents the amount of the capital reduction transferred from the share capital and share premium accounts as a result of the capital reorganisation of the Company that took effect on 27 May 2016.

Under the Company Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution, but the Company cannot make a distribution out of the contributed surplus if: (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of its assets would thereby be less than its liabilities.

(b) Rights issue

Pursuant to an ordinary resolution passed by shareholders of the Company at a special general meeting held on 27 May 2016, the shareholders approved a rights issue of 1,946,823,119 rights shares at a price of HK$0.6 each on the basis of one rights share for every existing share. The rights issue was completed on 27 June 2016.

(c) Shares issued for Charter Hire Reduction

On 31 October 2016, a total of 79,979,037 shares were issued at a price of HK$1.218 each to 10 shipowners or their nominees in return for a US$12.6 million reduction in long-term charter hire rates ("Charter Hire Reduction").

(d) Restricted share awards

Restricted share awards under the Company's 2013 Share Award Scheme ("SAS") were granted to Executive Directors and certain employees. The SAS under HKFRS is regarded as a special purpose entity of the Company.

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

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

000' shares	2016	2015
At 1 January	**26,409**	23,540
Granted	**59,639**	14,051
Vested	**(17,421)**	(10,772)
Lapsed	**(1,371)**	(410)
At 31 December	**67,256**	26,409

During the year, a total of 59,639,000 (2015: 14,051,000) restricted share awards were granted to certain employees. Following the Company's rights issue (Note (b)), an adjustment was made pursuant to the rules of the SAS. Hence, awards granted during the year comprised the annual grant as well as the adjustment for awards vesting in 2016, 2017 and 2018. The market prices of the restricted share awards on the grant date represented the fair values of those shares.

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Report of the Directors
See History and Movement of Restricted Awards Granted

The sources of the shares granted and their related movement between share capital and staff benefits reserve are as follows:

	2016		2015	
Sources of shares granted	**Number of granted shares awards**	**Related movement US$'000**	Number of granted shares awards	Related movement US$'000
Shares issued	**41,688,000**	**417**	9,012,000	901
Shares purchased by the trustee of the SAS on the Stock Exchange funded by the Company	**16,413,000**	**1,809**	1,452,000	530
Shares transferred from the trustee	**1,538,000**	**364**	3,587,000	2,017
	59,639,000	**2,590**	14,051,000	3,448

The vesting periods and grant dates of the unvested restricted share awards as at 31 December 2016 are as follows:

		Vesting periods		
Grant dates	**Number of unvested share awards**	**14 July 2017**	**14 July 2018**	**14 July 2019**
5 May 2014	9,778,000	9,778,000	–	–
13 August 2014	666,000	666,000	–	–
17 April 2015	23,858,000	1,704,000	22,154,000	–
12 August 2016	32,954,000	2,332,000	2,332,000	28,290,000
	67,256,000	14,480,000	24,486,000	28,290,000

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

21 RESERVES

US$'000	Share[a] premium	Merger[b] reserve	Convertible bonds reserve	Staff benefits reserve	Hedging reserve	Exchange reserve	Contributed surplus	Subtotal	Retained profits	Total
	Other reserves									
At 1 January 2016	604,821	(56,606)	47,920	(2,580)	(25,145)	(5,185)	–	563,225	213,233	776,458
Capital reduction (Note 20(a))	(604,821)	–	–	–	–	–	779,938	175,117	–	175,117
Rights issue, net of issuing expenses (Note 20(b))	123,304	–	–	–	–	–	–	123,304	–	123,304
Loss attributable to shareholders	–	–	–	–	–	–	–	–	(86,547)	(86,547)
Shares issued to compensate the shipowners for the Charter Hire Reduction (Note 20(c))	11,736	–	–	–	–	–	–	11,736	–	11,736
Derecognition of equity component upon CB redemption/buyback	–	–	(34,148)	–	–	–	–	(34,148)	26,182	(7,966)
Share-based compensation (see Remuneration Report)	–	–	–	4,207	–	–	–	4,207	–	4,207
Share awards granted (Note 20(d))	–	–	–	(1,257)	–	–	–	(1,257)	75	(1,182)
Shares issued due to the adjustment for rights issue and upon grant of restricted share awards (Note 20(d))	4,500	–	–	(2,757)	–	–	–	1,743	(2,160)	(417)
Share awards lapsed (Note 20(d))	–	–	–	366	–	–	–	366	–	366
Share awards fully vested	347	–	–	(347)	–	–	–	–	–	–
Cash flow hedges										
– transferred to finance costs in income statement	–	–	–	–	3,549	–	–	3,549	–	3,549
– fair value losses	–	–	–	–	(699)	–	–	(699)	–	(699)
Release of exchange reserve upon disposal of towage assets	–	–	–	–	–	2,815	–	2,815	–	2,815
Currency translation differences	–	–	–	–	–	(16)	–	(16)	–	(16)
At 31 December 2016	139,887	(56,606)	13,772	(2,368)	(22,295)	(2,386)	779,938	849,942	150,783	1,000,725

(a) Share premium mainly represents the net share issuance proceeds in excess of the nominal value credited to share capital.

(b) Merger reserve 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.

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
	Other reserves									
At 1 January 2015	604,104	(56,606)	48,755	(4,373)	(12,439)	1,102	(1,664)	578,879	231,086	809,965
Cash flow hedges										
– fair value losses	–	–	–	–	(18,885)	–	–	(18,885)	–	(18,885)
– transferred to finance costs in income statement	–	–	–	–	6,179	–	–	6,179	–	6,179
Loss attributable to shareholders	–	–	–	–	–	–	–	–	(18,540)	(18,540)
Equity component of CB issued	–	–	13,772	–	–	–	–	13,772	–	13,772
Derecognition of equity component upon exercise of CB put options	–	–	(14,607)	–	–	–	–	(14,607)	14,045	(562)
Dividends paid (Note 25)	–	–	–	–	–	–	–	–	(12,368)	(12,368)
Share-based compensation (see Remuneration Report)	–	–	–	4,749	–	–	–	4,749	–	4,749
Share awards granted (Note 20(d))	–	–	–	(2,463)	–	–	–	(2,463)	–	(2,463)
Shares issued upon grant of restricted share awards (Note 20(d))	–	–	–	(985)	–	–	–	(985)	–	(985)
Share awards lapsed (Note 20(d))	–	–	–	219	–	–	–	219	–	219
Share awards fully vested	717	–	–	273	–	–	–	990	(990)	–
Currency translation differences	–	–	–	–	–	–	(2,497)	(2,497)	–	(2,497)
Fair value losses on available-for-sale financial assets	–	–	–	–	–	(1,102)	–	(1,102)	–	(1,102)
Release of exchange reserve upon:										
– repayment of shareholder loans by subsidiaries	–	–	–	–	–	–	(669)	(669)	–	(669)
– disposal of a joint venture	–	–	–	–	–	–	(355)	(355)	–	(355)
At 31 December 2015	604,821	(56,606)	47,920	(2,580)	(25,145)	–	(5,185)	563,225	213,233	776,458

Notes to the Financial Statements continued

22 OTHER INCOME AND GAINS

US$'000	2016	2015
Utilisation of provision for onerous contracts (Note 18)	**27,664**	21,324
Gains on disposal of other property, plant and equipment	**1,188**	372
OMSA joint venture sale completion adjustments	**650**	4,610
Gains on disposal of investment properties	**469**	–
Gains on disposal of a joint venture	**–**	3,514
Write-back provision for harbour towage business	**–**	1,522
Gains on forward freight agreements (Note 12(d))	**–**	234
	29,971	31,576

23 FINANCE INCOME AND COSTS

US$'000	2016	2015
Finance income		
Bank interest income	**(2,748)**	(2,925)
Other interest income	**(2)**	(1,544)
Total finance income	**(2,750)**	(4,469)
Finance costs		
Borrowings		
Interest on secured bank loans	**19,154**	15,861
Interest on unsecured convertible bonds	**12,353**	17,149
Interest on other secured borrowings	**510**	–
Interest on finance lease liabilities	**–**	1,030
Net losses on interest rate swap contracts	**2,823**	4,893
Other finance charges	**1,080**	1,826
	35,920	40,759
Less: amounts capitalised as PP&E (Note 6(c))	**(1,995)**	(964)
Total finance costs	**33,925**	39,795
Finance costs, net	**31,175**	35,326

24 TAXATION

Shipping income from dry bulk 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	2016	2015
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2015: 16.5%)	715	665
Overseas tax, provided at the rates of taxation prevailing in the countries	319	438
Adjustments in respect of prior year	(49)	76
Tax charges	985	1,179

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	2016	2015
Loss before taxation	(85,562)	(17,361)
Add: share of profits of a joint venture	–	(178)
	(85,562)	(17,539)
Tax calculated at applicable tax rates	(14,734)	(2,146)
Income not subject to taxation	(93,435)	(118,295)
Expenses not deductible for taxation purposes	109,203	121,544
Adjustments in respect of prior year	(49)	76
Taxation charge	985	1,179
Weighted average applicable tax rate	17.2%	12.2%

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.

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 substantively 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.

Notes to the Financial Statements continued

24 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$1,054,000 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.

25 DIVIDENDS

No final dividends were declared in respect of the years ended 31 December 2016 and 2015. The 2014 final dividend of HK5 cents or US0.6 cents per share resulted in a total of US$12,368,000 being paid during 2015.

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.

26 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 SAS and unvested restricted shares (Note 20(d)).

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, excluding the shares held by the trustee of the Company's SAS but after adjusting for the number of potential dilutive ordinary shares from convertible bonds and unvested restricted shares where dilutive (Note 20(d)).

The weighted average number of shares used in the calculation of earnings per share have been adjusted for the bonus element of the rights issue following the rights issue completion in June 2016 (Note 20(b)) and the prior year comparative has also been restated to reflect such effect.

		Basic & Diluted 2016	Basic & Diluted 2015 (restated)
Loss attributable to shareholders	(US$'000)	**(86,547)**	(18,540)
Weighted average number of ordinary shares in issue	('000)	**3,285,006**	2,643,000
Earnings per share	(US cents)	**(2.63)**	(0.70)
Equivalent to	(HK cents)	**(20.44)**	(5.44)

Diluted earnings per share for the year ended 31 December 2016 and 2015 is the same as the basic earnings per share since the potential ordinary shares from convertible bonds and unvested restricted shares have anti-dilutive effect.

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of losses before taxation to cash generated from operations:

US$'000	2016	2015
Loss before taxation	(85,562)	(17,361)
Adjusted for:		
Assets and liabilities adjustments:		
Depreciation	98,801	100,012
Amortisation of land use rights	38	73
Utilisation of onerous contracts	(27,664)	(21,324)
Net unrealised gains on derivative instruments not qualified as hedges, excluding interest rate swap contracts	(22,018)	(7,224)
OMSA joint venture sale completion adjustments	(650)	(4,610)
Gain on disposal of a joint venture	–	(3,514)
Provision for impairment losses		
– Vessels	15,245	–
– Available-for-sale financial assets	1,260	889
– Trade receivables	424	1,934
Write-back provision for harbour towage business	–	(1,522)
Losses on disposal of property, plant and equipment	3,776	307
Gains on disposal of investment properties	(469)	–
Capital and funding adjustments:		
Share-based compensation	4,207	4,749
Results adjustments:		
Finance costs, net	31,175	35,326
Share of profit of a joint venture	–	(178)
Net foreign exchange losses	3,182	2,305
Profit before taxation before working capital changes	21,745	89,862
(Increase)/decrease in inventories	(11,707)	28,712
Decrease in trade and other receivables	12,764	19,326
Increase/(decrease) in trade and other payables	28,229	(38,171)
Cash generated from operations	51,031	99,729

Notes to the Financial Statements continued

28 COMMITMENTS

(a) Capital commitments

US$'000	2016	2015
Contracted but not provided for – vessel acquisitions and shipbuilding contracts	**119,054**	273,787

Capital commitments for the Group that fall due in one year or less amounted to US$119.1 million (2015: US$171.4 million).

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Vessel Commitments &
Vessel Operating Lease 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	Land and buildings	Total
At 31 December 2016			
Within one year	**157,497**	**3,612**	**161,109**
In the second to fifth year	**340,404**	**8,037**	**348,441**
After the fifth year	**51,491**	**2,268**	**53,759**
	549,392	**13,917**	**563,309**
At 31 December 2015			
Within one year	154,329	3,517	157,846
In the second to fifth year	428,331	3,458	431,789
After the fifth year	92,733	908	93,641
	675,393	7,883	683,276

The Group's operating leases for dry bulk vessels have terms ranging from less than 1 year to 10 years. Certain of the 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 vessels	Tugs	Total
At 31 December 2016			
Within one year	**22,475**	**–**	**22,475**
In the second to fifth year	**57,670**	**–**	**57,670**
After the fifth year	**29,719**	**–**	**29,719**
	109,864	**–**	**109,864**
At 31 December 2015			
Within one year	19,133	2,197	21,330
In the second to fifth year	63,619	–	63,619
After the fifth year	39,570	–	39,570
	122,322	2,197	124,519

The Group's operating leases have terms extending 15 years into the future and they mainly represent the receipts from two Post- Panamax dry bulk vessels amounting to US$103.3 million (2015: US$119.1 million).

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.

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Notes to the Financial Statements continued

29 FINANCIAL LIABILITIES SUMMARY

This note should be read in conjunction with the Liquidity Risk section on page 22. The maturity profile of the Group's financial liabilities, net-settled derivative financial instruments and gross-settled derivative financial instruments based on the remaining period from the balance sheet date to the contractual maturity date are summarised below. These represented contractual cash flows which include principal and interest elements where applicable.

	Within one year		In the second year		In the third to fifth year		After the fifth year		Total	
US$'000	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Long-term borrowings										
– Secured bank loans	**114,868**	92,812	**110,936**	97,082	**351,829**	296,333	**231,283**	200,511	**808,916**	686,738
– Other secured borrowings	**5,550**	–	**5,532**	–	**18,096**	–	**10,503**	–	**39,681**	–
– Unsecured convertible bonds	**4,063**	236,980	**4,063**	4,062	**129,063**	133,125	**–**	–	**137,189**	374,167
Derivative financial instruments										
(i) Net-settled (a)										
– Interest rate swap contracts	**923**	4,136	**238**	576	**(376)**	(211)	**–**	(43)	**785**	4,458
– Bunker swap contracts	**2,890**	15,635	**1,270**	5,057	**1,296**	2,798	**–**	184	**5,456**	23,674
(ii) Gross-settled (b)										
Forward foreign exchange contracts										
– Cash flow hedges:										
– outflow	**25,960**	24,638	**26,922**	25,873	**75,261**	72,116	**31,603**	51,833	**159,746**	174,460
– inflow	**(20,340)**	(19,636)	**(21,339)**	(20,887)	**(60,171)**	(58,687)	**(25,454)**	(42,711)	**(127,304)**	(141,921)
Net outflow	**5,620**	5,002	**5,583**	4,986	**15,090**	13,429	**6,149**	9,122	**32,442**	32,539
Current liabilities										
Trade and other payables	**102,805**	86,927	**–**	–	**–**	–	**–**	–	**102,805**	86,927

(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.

30 SIGNIFICANT RELATED PARTY TRANSACTIONS

Significant related party transactions (that do not fall under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules) carried out in the normal course of the Group's business and on an arm's length basis was the key management compensation. For the compensation of key management (including Directors' emoluments) and the accounting policy on employee benefits, please refer the Remuneration Report on page 38 to 40.

31 FINANCIAL GUARANTEES

At 31 December 2016, the Company has given corporate guarantees with maximum exposures of US$705.0 million (2015: US$666.1 million) for certain subsidiaries in respect of Group's loan facilities granted.

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.

32 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group has no contingent liabilities and contingent assets at 31 December 2016 and 2015.

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.

33 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 31 December 2016,

(a) the Group has contracted with a third party to purchase one 7-year old Supramax vessel for approximate US$12 million,

(b) the Group has contracted with a third party to sell one 12-year old smaller Supramax vessel and received net cash proceeds of approximate US$5 million, and

(c) the Group has contracted with a third party to sell one tug and received net cash proceeds of approximate US$2 million.

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34 PRINCIPAL SUBSIDIARIES

At 31 December 2016, 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 %	Principal activities
Shares held directly:				
PB Vessels Holding Limited	BVI	US$1,191,118,775	100	Investment holding
PB Management Holding Limited	BVI	US$12,313	100	Investment holding
PB Issuer (No.4) Limited	BVI	US$1	100	Convertible bond issuer
Shares held indirectly:				
Dry Bulk:				
Astoria Bay Limited	HK/Int'l	HK$1	100	Vessel chartering
Baker River Limited	HK/Int'l	HK$1	100	Vessel chartering
Baltic Sea Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Barrow Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Bass Strait Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Bell Bay Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Bernard (BVI) Limited	BVI/Int'l	US$51,001	100	Vessel owning and chartering
Bonny Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Bright Cove Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Cape York Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Champion Bay Limited	BVI/Int'l	US$1	100	Vessel chartering
Cherry Point Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Chiloe Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Columbia River Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Corio Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Cramond Island Limited	HK	HK$1	100	Vessel owning
Delphic Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Eaglehill Trading Limited 鷹峯貿易有限公司	HK/Int'l	HK$1	100	Vessel owning and chartering
Eastern Cape Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Elizabay Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Elizabeth Castle Limited	BVI/Int'l	US$1	100	Vessel chartering
Elizabeth River Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Esperance Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Everclear Shipping (BVI) Limited	BVI/Int'l	US$31,001	100	Vessel owning and chartering
Finest Solution Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Francesca Shipping (BVI) Limited	BVI/Int'l	US$30,001	100	Vessel owning and chartering
Future Sea Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Gold River Vessel Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Good Shape Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Hainan Island Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Helen Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Honey Island Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Illovo River Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Imabari Logger Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Impression Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Incheon Bay Limited	HK	HK$1	100	Vessel owning
Indian Ocean Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Indigo Lake Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Isabela Island Limited	HK	HK$1	100	Vessel owning
Jamaica Bay Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
James Bay Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Jericho Beach Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Jervis Bay Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Jiangmen Trader Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Judith Shipping (BVI) Limited	BVI/Int'l	US$38,001	100	Vessel owning and chartering
Jules Point Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Jumeirah Beach Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Kaiti Hill Limited	HK/Int'l	HK$1	100	Vessel owning and chartering

Company	Place of incorporation/ operation [3]	Issued and fully paid share capital	Interest held %	Principal activities
Kanda Logger Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Key West Shipping Limited	HK	HK$1	100	Vessel owning
Kodiak Island Limited	HK	HK$1	100	Vessel owning
Kultus Cove Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Labrador Shipping (BVI) Limited	BVI/Int'l	US$38,001	100	Vessel owning and chartering
Lake Stevens Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Liberty Vessel Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Longview Logger Limited	HK/Int'l	HK$1	100	Vessel chartering
Luzon Strait Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Marsden Point Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Matakana Island Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Mega Fame Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Mount Adams Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Mount Aso Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Mount Baker Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Mount Hikurangi Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Mount Rainier Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Mount Seymour Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Newman Shipping (BVI) Limited	BVI/Int'l	US$26,001	100	Vessel owning and chartering
Nobal Sky Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Oak Bay Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Olive Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Orange River Shipping Limited	HK/Int'l	HK$1	100	Vessel chartering
Osaka Bay Limited	HK	HK$1	100	Vessel owning
Otago Bay Limited	HK	HK$1	100	Vessel owning
Otago Harbour Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Othello Shipping (BVI) Limited	BVI/Int'l	US$26,593	100	Vessel owning and chartering
Oyster Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering Limited	BVI/Int'l	US$10	100	Vessels chartering
Pacific Basin Chartering (No. 1) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 2) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 3) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 4) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 5) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 6) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 7) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 8) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 9) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 10) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Port Alberni Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Port Alfred Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Port Alice Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Port Angeles Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Port Botany Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Puget Sound Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Supreme Effort Group Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Swan River Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Tampa Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Uhland Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Verner Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
West Bay Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
White Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Zhoushan Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering

Notes to the Financial Statements continued

34 PRINCIPAL SUBSIDIARIES (CONTINUED)

Company	Place of incorporation/ operation [3]	Issued and fully paid share capital	Interest held %	Principal activities
Others:				
Pacific Basin Agencies Limited 太平洋航運代理有限公司	HK/Int'l	HK$10	100	Holding company of Japan branch
Pacific Basin Supramax Limited	HK	HK$10	100	Provision of ship management and ocean shipping services
Pacific Basin Handymax (UK) Limited	England & W	GBP1	100	Ship management services
Pacific Basin Handysize Limited	BVI/HK	US$10	100	Provision of ship management and ocean shipping services
Pacific Basin Handysize (HK) Limited	HK	HK$10	100	Provision of ship management and ocean shipping services
Pacific Basin (UK) Limited	England & W	GBP2	100	Shipping consulting services
Pacific Basin Shipping (Australia) Pty Ltd[1]	Australia	AUD1	100	Shipping consulting services
Pacific Basin Shipping (Canada) Limited	BC, Canada	1 common share without par value	100	Shipping consulting services
Pacific Basin Shipping (Chile) Limitada	Chile, Santiago	Chilean pesos equivalent to US$6,000	100	Shipping consulting services
Pacific Basin Shipping (HK) Limited 太平洋航運（香港）有限公司	HK	HK$20	100	Ship agency services
Pacific Basin Shipping Middle East DMCC[1]	Dubai Multi Commodities Centre	AED500,000	100	Shipping consulting services
Pacific Basin Shipping (New Zealand) Limited	New Zealand	100 shares without par value	100	Shipping consulting services
Pacific Basin Shipping (South Africa) Pty Ltd[1]	Republic of South Africa	120 shares without par value	100	Shipping consulting services
Pacific Basin Shipping (UK) Limited	England & W	GBP2	100	Shipping consulting services
Pacific Basin Shipping (USA) Inc.	USA	US$1,000	100	Shipping consulting services
PB Commerce Limited	BVI/HK	US$1	100	Investment holding
PB Maritime Personnel Inc.[1]	The Philippines	PHP$17,300,000	100	Crewing services
PB Offshore (No. 2) Limited	Cook/Int'l	US$10	100	Tug owning and chartering
PB Progress Limited	Cook/Int'l	US$2	100	Tug owning and chartering
PB Towage (No. 4) Limited	Cook/Int'l	US$2	100	Tug owning and chartering
PB Towage (No. 5) Limited	Cook/Int'l	US$2	100	Tug owning and chartering
PB Towage Middle East Limited	Cook/Int'l	US$2	100	Ship management services
PBS Corporate Secretarial Limited	HK	HK$10	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	Agency and ship 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$6,067,000 (2015: US$5,951,000 profit) and US$556,000 gain (2015: US$462,000 loss) respectively.

(2) The subsidiary is wholly foreign-owned enterprise established in the PRC, with registered capital fully paid up by the Group.

(3) Under the place of incorporation/operation, "BVI" represents "The British Virgin Islands", "Cook" represents "The Cook Islands", "England & W" represents "England and Wales", "HK" represents "Hong Kong" and "Int'l" represents "International".

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balance Sheet of the Company

	Note	As at 31 December 2016 US$'000	 2015 US$'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**1,321,582**	1,320,620
Current assets			
Prepayments and other receivables		**89**	72
Amounts due from subsidiaries		**288,015**	141,155
Cash and cash equivalents		**67**	36
		288,171	141,263
Total assets		**1,609,753**	1,461,883
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	20	**40,046**	194,480
Retained profits		**638,064**	635,938
Other reserves		**917,457**	602,241
Total equity		**1,595,567**	1,432,659
LIABILITIES			
Current liabilities			
Accruals and other payables		**398**	666
Amounts due to subsidiaries		**13,788**	28,558
Total liabilities		**14,186**	29,224

Approved by the Board of Directors on 28 February 2017

Mats H. Berglund
Director

Andrew T. Broomhead
Director

Notes to the Financial Statements continued

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(b) Reserve movement of the Company

US$'000	Other reserves: Share premium	Other reserves: Staff benefits reserve	Other reserves: Contributed surplus	Subtotal	Retained profits	Total
At 1 January 2016	**604,821**	**(2,580)**	**–**	**602,241**	**635,938**	**1,238,179**
Capital reduction (Note 20(a))	**(604,821)**	**–**	**779,938**	**175,117**	**–**	**175,117**
Rights issue, net of issuing expenses (Note 20(b))	**123,304**	**–**	**–**	**123,304**	**–**	**123,304**
Shares issued due to the adjustment for rights issue and upon grant of restricted share awards (Note 20(d))	**4,500**	**(2,757)**	**–**	**1,743**	**(2,160)**	**(417)**
Shares issued to compensate the shipowners for the Charter Hire Reduction (Note 20(c))	**11,736**	**–**	**–**	**11,736**	**–**	**11,736**
Share-based compensation (see Remuneration Report)	**–**	**4,207**	**–**	**4,207**	**–**	**4,207**
Share awards granted (Note 20(d))	**–**	**(1,257)**	**–**	**(1,257)**	**75**	**(1,182)**
Share awards lapsed (Note 20(d))	**–**	**366**	**–**	**366**	**–**	**366**
Share awards fully vested	**347**	**(347)**	**–**	**–**	**–**	**–**
Loss attributable to shareholders	**–**	**–**	**–**	**–**	**4,211**	**4,211**
At 31 December 2016	**139,887**	**(2,368)**	**779,938**	**917,457**	**638,064**	**1,555,521**
At 1 January 2015	604,104	(4,373)	–	599,731	651,206	1,250,937
Dividends paid (Note 25)	–	–	–	–	(12,368)	(12,368)
Share-based compensation (see Remuneration Report)	–	4,749	–	4,749	–	4,749
Share awards granted (Note 20(d))	–	(2,463)	–	(2,463)	–	(2,463)
Share awards lapsed (Note 20(d))	–	219	–	219	–	219
Share awards fully vested	717	273	–	990	(990)	–
Shares issued upon grant of restricted share awards (Note 20(d))	–	(985)	–	(985)	–	(985)
Loss attributable to shareholders	–	–	–	–	(1,910)	(1,910)
At 31 December 2015	604,821	(2,580)	–	602,241	635,938	1,238,179

Loss attributable to shareholders of US$4,211,000 (2015: US$1,910,000) is dealt with in the financial statements of the Company.

Independent Auditor's Report

To the shareholders of Pacific Basin Shipping Limited

(incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of Pacific Basin Shipping Limited ("PBSL" or the "Company") and its subsidiaries (the "Group") set out on pages 52 to 94, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended,
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Carrying value of dry bulk vessels
- Provision for onerous contracts

Independent Auditor's Report continued

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Carrying value of dry bulk vessels *Refer to note 6 to the consolidated financial statements.* As at 31 December 2016, the Group has a large fleet of dry bulk vessels, totalling US$1,651 million. The owned vessels for minor bulks are separated as two Cash-Generating Units ("CGUs") (Handysize and Supramax) as the vessels within each of these CGUs are considered to be interchangeable. The net asset value of the Group at 31 December 2016 is more than its market capitalisation. This factor, together with the challenging market conditions, are considered as indicators of impairment. Management has therefore performed an impairment assessment of the Group's dry bulk vessels. The carrying value of the dry bulk vessels is supported by value-in-use calculations which are based on future discounted cash flows of each CGU. Management concluded that the dry bulk vessels were not impaired based on the results of the assessment which involved significant judgements, including forecast utilisation, daily time charter equivalent ("TCE") rates, inflation rates and discount rates applied to the future cash flows.	We evaluated management's impairment assessment by assessing the valuation methodology, the future discounted cash flows used in the value-in-use model and the process by which they are drawn up, including comparing them to the latest Board of Directors approved budgets, and assessing the underlying assumptions, including: ■ the forecast daily TCE rates were compared with long term historical actual results and published external industry forecasts; ■ the inflation rates of operating expenses and general and administrative expenses were compared with economic forecasts; ■ the forecast utilisation rates were compared with historical actual results; ■ the discount rate was assessed with our specialist knowledge of discount rates for the industry and with comparable organisations; ■ we evaluated the reasonableness of historical budgets and forecasts, this includes, comparing the forecast utilisation, charter rates and operating expenses used in the prior year value-in-use model against the actual performance of the business in the current year; ■ we performed sensitivity analyses over the assumptions set out above by reference to our knowledge of the business and industry. We found the Group's judgements and assumptions used in the impairment assessment to be reasonable based on the available evidence.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Provision for onerous contracts *Refer to note 18 to the consolidated financial statements.* The Group has entered into a number of charter-in contracts and is therefore committed to significant future lease payments. A provision should be made for future lease obligations where the cost of those obligations exceeds the economic benefits expected to be received under the lease. Following the market downturn, the market freight rate remains at a low level and management therefore performed an assessment of the Group's charter-in contracts to identify any onerous contracts that may require provisioning. The onerous contracts are assessed on a fleet basis. The charter-in dry bulk fleet has been separated as 2 sub-categories, namely Handysize and Supramax, as the vessels within each of these sub-categories are considered to be interchangeable. Management compared the expected future cash inflows against the committed costs under the operation of the charter-in contracts, and concluded that as at 31 December 2016, an onerous contracts provision of US$52 million was required and fully provided for. The conclusion is based on significant judgements including economic benefits expected under the contracts, calculated using expected daily TCE rates and utilisation rates for the remaining period of the charter term to determine future cash inflows.	Our procedures performed to assess the provision for onerous contracts included: ■ Checking the completeness of the lease commitments list, which is used to compile the onerous contract assessment, by reference to charter hire expense of the chartered in vessels charged to the income statement in the current year. ■ Agreeing details of the charter-in contracts on the lease commitments list, such as the charter hire rate and charter-in period, to the charter-in contracts on a sample basis. ■ Assessing the reasonableness of key assumptions, including TCE rates and utilisation rates as used in the impairment assessment of the dry bulk vessels. ■ Checking the calculation of the resulting provision, based on the difference between expected future cash inflows and committed costs. We found the Group's judgements and assumptions used in the onerous contract assessment to be reasonable based on the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report continued

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Gayle Donohue.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28 February 2017

Group Financial Summary

US$'000		2016	2015	2014	2013	2012
Results						
Continuing operations						
Revenue		**1,087,371**	1,260,291	1,718,454	1,708,792	1,443,086
Gross (loss)/profit		**(54,325)**	(4,111)	(39,624)	55,097	85,315
(Loss)/profit before taxation		**(85,562)**	(17,361)	(278,525)	11,026	53,845
Taxation		**(985)**	(1,179)	(1,217)	(1,168)	(1,624)
(Loss)/profit for the year		**(86,547)**	(18,540)	(279,742)	9,858	52,221
Discontinued operations						
Loss for the year		**–**	–	(5,222)	(8,335)	(210,693)
Eligible (loss)/profit attributable to shareholders		**(86,547)**	(18,540)	(284,964)	1,523	(158,472)
Balance Sheet						
Total assets		**2,107,225**	2,145,735	2,307,516	2,537,446	2,470,275
Total liabilities		**(1,066,454)**	(1,174,797)	(1,305,770)	(1,233,152)	(1,138,254)
Total equity		**1,040,771**	970,938	1,001,746	1,304,294	1,332,021
Net borrowings		**570,038**	567,537	636,319	551,163	178,013
Total cash and deposits		**269,204**	358,428	363,425	486,062	753,458
Cash Flows						
From operating activities		**49,521**	98,615	93,652	98,142	148,737
From investment activities of which		**(98,643)**	(54,852)	(131,683)	(114,186)	(247,600)
gross investment in vessels		**(181,340)**	(146,408)	(194,472)	(456,497)	(188,295)
From financing activities		**18,112**	(100,420)	(112,536)	36,773	110,181
Other Data						
Basic EPS [2]	US cents	**(3)**	(1)	(15)	0.1	(8)
Dividends per share [1 & 2]	US cents	**–**	–	1	1	1
Eligible profit payout ratio [2]		**–**	–	>100%	>100%	>100%
Operating cash flows per share [2]	US cents	**2**	4	5	5	8
Company net book value per share [2]	US cents	**26**	36	52	67	69
Dividends	US$'000	**–**	–	12,368	12,385	12,397

1 No final dividend is proposed for 2016.

2 "Other Data" for the years ended 31 December 2012 to 2014 is extracted from the Group Financial Summary in our Annual Reports of those years. No retrospective adjustments for the June 2016 rights issue were made to such information.

www.pacificbasin.com
Investors > Financial Summaries & Downloads
Group financial summaries since listing

Corporate Information

Board of Directors and Principal Board Committees

	Position	Executive Committee	Audit Committee	Remuneration and Nomination Committees
Executive Directors				
Mr. David M. Turnbull	Chairman	M		
Mr. Mats H. Berglund	Chief Executive Officer	C		
Mr. Andrew T. Broomhead	Chief Financial Officer	M		
Mr. Chanakya Kocherla	Chief Technical Officer	M		
Independent Non-executive Directors				
Mr. Patrick B. Paul			C	M
Mr. Robert C. Nicholson			M	C
Mr. Alasdair G. Morrison			M	M
Mr. Daniel R. Bradshaw			M	M
Mrs. Irene Waage Basili			M	M
Mr. Stanley H. Ryan			M	M

C – Chairman M – Member

Page 36 – Our Directors: Directors' Biographies

Principal Place of Business

Valid until 3 May 2017:
7/F, Hutchison House
10 Harcourt Road, Central
Hong Kong
tel: + 852 2233 7000 fax: + 852 2865 2810

Valid from 4 May 2017:
31/F, One Island South
2 Heung Yip Street
Wong Chuk Hang
Hong Kong

Registered Address

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Offices Worldwide

Hong Kong, Dalian, Durban, Manila, Tokyo, Auckland, Melbourne, London, Stamford, Santiago, Rio de Janeiro 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

Company Secretary

Ms. Mok Kit Ting, Kitty, CPA
e-mail: companysecretary@pacificbasin.com

Listing Venue & Listing Date

The Stock Exchange of Hong Kong Limited
14 July 2004

Public and Investor Relations

The Company
e-mail: ir@pacificbasin.com
tel: +852 2233 7000
fax: +852 2110 0171

Auditors

PricewaterhouseCoopers

Solicitors

Herbert Smith Freehills
Vincent T.K. Cheung, Yap & Co.

Stock Code

Stock Exchange: 2343.HK
Bloomberg: 2343 HK
Reuters: 2343.HK

Total Shares in Issue

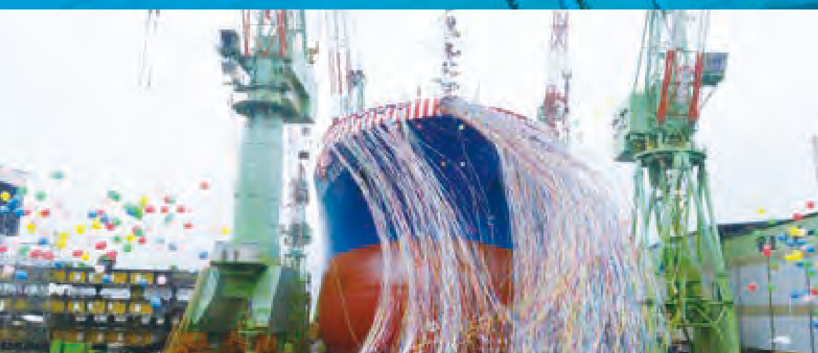
4,015,313,275 as at 31 December 2016

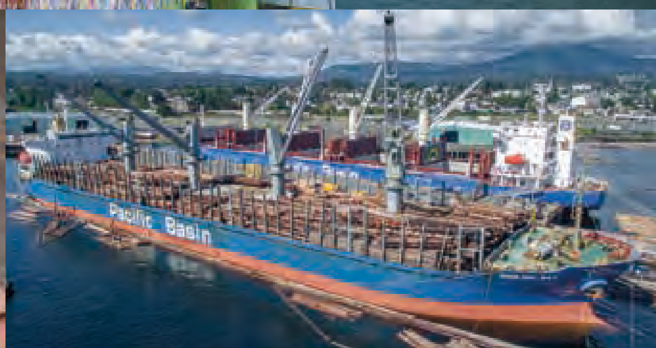
Website

http://www.pacificbasin.com

Social Media Channels

Facebook, Twitter, LinkedIn, YouTube and WeChat



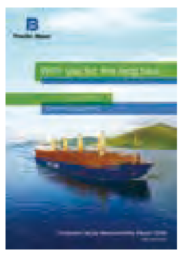


2016 Online Annual Report

Both reports are now available at
www.pacificbasin.com/ar2016

Please send us your feedback
via our online feedback form

2016 CSR Report



Pacific Basin Shipping Limited

Pacific Basin

New headquarters office location from 4 May 2017:

31/F, One Island South
2 Heung Yip Street
Wong Chuk Hang
Hong Kong

Telephone: +852 2233 7000
Facsimile: +852 2865 2810

www.pacificbasin.com

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