Pacific Basin

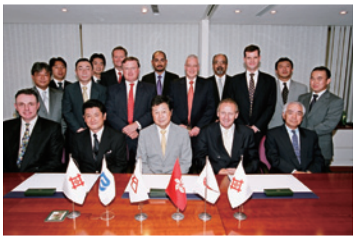
EXPERIENCED TEAM
EXCEPTIONAL FLEET
CUSTOMERS FIRST

Annual Report 2017

Stock Code: 2343

1987

1994



30 years

With you for the long haul

2004

2017

Lloyd's List
Global Awards 2017

Company of the Year

With you for the long haul

The front cover photo is of our m/v "Imabari Logger" during sea trials in Japan's Inland Sea. She is an excellent example of a modern, efficient vessel equipped for versatility. Her 30-ton cranes enable self-loading and discharging in regions lacking cargo-handling infrastructure, her log stanchions allow her to carry a full cargo of logs both in cargo holds and on deck, and her handy proportions allow her access to ports restricted by shallow water, locks, narrow channels and tight river bends. She is capable of carrying a broad range of cargo types including the major bulks, minor bulks and break-bulk and project cargo.

What We Do

Pacific Basin has built a strong name as a world leading owner and operator of modern Handysize and Supramax dry bulk ships

Our shipping business is customer focused, providing over 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. Our team comprises about 3,400 seafarers and 335 shore staff in 12 key locations around the world.

200+ Ships

12 Offices

500+ Customers

Exceptional Fleet

We operate the world's largest fleet of interchangeable high-quality Handysize and Supramax ships, equipping us for efficient trading and reliable service anytime and anywhere.

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.

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.

CSR Report

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

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

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
- CSR Linkage to related details in our CSR Report
- A Audited Information (outside Financial Statements)
- KPI Key Performance Indicators

Business Highlights

Group

Significantly better dry bulk market conditions supported a much improved and positive net result in 2017

We recorded a net profit of US$3.6 million and EBITDA of US$133.8 million, a year-on-year improvement of US$90 million and US$111 million respectively

Our Handysize daily TCE (time-charter equivalent) earnings increased 25% and outperformed the market index by 15%

We took delivery of our final newbuildings and recommenced secondhand acquisitions

Our innovative combination of a share issue and private placement enabled us to grow our fleet with 5 modern ships while strengthening our balance sheet

Our year-end cash position was US$245 million with net gearing of 35%

By the year end, we had fully drawn down our remaining long tenor Japanese export credit and other committed facilities

Fleet

Our last 7 newbuildings delivered in the first half of the year

We purchased 8 modern ships at still historically low asset values

Our owned fleet expanded to 105 ships on the water by year end, and one additional vessel joined in early 2018

We continue to supplement our core fleet with short-term chartered ships with which we typically make a margin throughout the market cycle

Including chartered ships, we operated an average of 241 dry bulk vessels overall in 2017

We have covered 50% of our Handysize and 69% of our Supramax revenue days for 2018 at US$9,280 and US$11,400 per day net respectively

We have further reduced our owned vessel operating expenses to US$3,840 per day primarily through scale benefits and good cost control

Outlook & Position

The general market improvement since early 2016 is encouraging, and supply and demand fundamentals are now more positive

We are cautiously optimistic for a continued market recovery albeit with some volatility along the way

A positive global economic and commodity demand outlook and lower newbuilding deliveries bode well for dry bulk in the medium term, but threats include the potential for reduced Chinese coal and ore imports, excessive new ship ordering and higher ship operating speeds

Our healthy cash and net gearing positions enhance our ability to take advantage of opportunities and attract cargo as a strong partner

We will continue to look at good quality secondhand ship acquisition opportunities as prices are still historically low

We do not intend to order newbuildings in the medium term, and will watch technological and regulatory developments closely

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

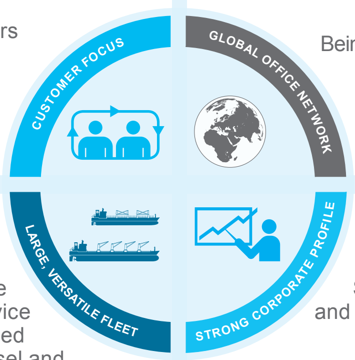
Close partnership with customers generates enhanced access to spot cargoes and long-term cargo contract opportunities of mutual benefit

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 & 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 and Reduce Risks

Page 18
Our Resources in Action

Financial Summary

	2017 US$ Million	2016 US$ Million
Results		
Revenue	**1,488.0**	1,087.4
Total Time-Charter Equivalent ("TCE") Earnings	**786.5**	532.0
EBITDA [1]	**133.8**	22.8
Underlying profit/(loss) KPI	**2.2**	(87.7)
Profit/(loss) attributable to shareholders	**3.6**	(86.5)
Balance Sheet		
Total assets	**2,231.6**	2,107.2
Net borrowings	**636.3**	570.0
Shareholders' equity	**1,161.1**	1,040.8
Total cash and deposits	**244.7**	269.2
Capital commitments	**20.8**	119.1
Cash Flows		
Operating	**124.7**	49.5
Investing	**(123.6)**	(98.6)
Financing	**56.8**	18.1
Net increase/(decrease) in cash and cash equivalents excluding term deposits	**57.9**	(31.0)
Per Share Data	**HK cents**	HK cents
Basic EPS	**0.7**	(20.4)
Dividends KPI	**–**	–
Operating cash flows	**23.8**	12
Company net book value	**204**	201
Share price at year end	**169**	125
Market capitalisation at year end	**HK$7.5bn**	HK$5.0bn
Ratios		
Net profit margin	**1%**	(8%)
Return on average equity	**1%**	(9%)
Total shareholders' return	**35%**	1%
Net borrowings to net book value of property, plant and equipment KPI	**35%**	34%
Net borrowings to shareholders' equity	**55%**	55%
Interest coverage (excluding impairments) KPI	**3.7X**	0.7X

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

Chairman's Statement

Confidence and opportunity in improving market conditions

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

A BETTER YEAR IN DRY BULK

2017 was a markedly better year for dry bulk shipping compared to 2016, but that improvement was from an extremely low base. There is still some way to go before the dry bulk market sees sustained healthy freight earnings, but supply and demand fundamentals are now more positively balanced and we are cautiously optimistic for a continued market recovery albeit with some volatility along the way.

The improved market conditions and our continued outperformance of the market in terms of vessel earnings enabled Pacific Basin to generate significantly larger operating cash flows and our first positive P&L net result since 2013.

We expect several positive initiatives and developments of 2017 to benefit our Company in 2018 and beyond, enhancing our position from which to capitalise on opportunities and improved market conditions ahead.

EFFECTIVE PLATFORM FOR A SUSTAINABLE BUSINESS

We took delivery of the last of our owned newbuildings and purchased several high-quality modern vessels to further enhance our world-leading fleet of minor bulk ships. The scale of our fleet and uniform design of our interchangeable ships enable our teams in 12 offices to provide the most reliable freight cover to our customers around the world while combining our ships and cargoes to achieve high laden utilisation and TCE earnings that outperform the market indices.

We concluded our exit from the towage business, opened a new commercial office in Brazil, relocated our Hong Kong headquarters to a better and more cost-efficient office, and rolled-out our new integrated ship management software. We also pursued an innovative fundraising (comprising consideration shares and cash raised through a private placement) to purchase five vessels while enhancing our operating cash flow and balance sheet strength. Mats Berglund will elaborate on all of these initiatives in his Chief Executive's Review.

Our initiatives helped to maintain a balance sheet with total cash and deposits of US$245 million at 31 December 2017 and net gearing of 35% (net debt divided by net book value of our owned fleet). Important cost saving initiatives helped to further reduce our daily vessel operating expenses, and improve our efficiencies enhancing our platform for success in the improving market ahead.

We again received several awards in 2017 recognising the quality of our customer focus and service delivery, technical management, corporate governance and investor relations. I would like to single out the Company of the Year award we received at the Lloyd's List Global Awards which recognised our performance and healthy balance sheet under difficult market circumstances, a high level of customer satisfaction, and innovative financing.

We remain committed to our Handysize and Supramax focus, our effective strategy and to always refining and improving how we do our business. Staying true to our corporate mission and values – such as through 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 small net profit in 2017, the Board recommends not to pay a dividend for 2017 (2016: nil). However, we continue to target a pay-out ratio of at least 50% of net profits excluding disposal gains once we return to a more meaningful level of profitability.

CHANGES TO OUR BOARD

Chanakya Kocherla and Andrew Broomhead retired in April and August 2017 stepping down from their Executive Director roles and their respective positions as Chief Technical Officer and Chief Financial Officer. Our technical and ship management organisation has since been led by our Fleet Director, and Peter Schulz joined us in August as our new Chief Financial Officer and a member of the Company's Executive Committee.

Our Board currently comprises two Executive Directors and six Independent Non-executive Directors who bring a broad range of commercial, strategic, operational, legal, financial and accounting experience and a strong shipping and commodities expertise to our Board. I would like to thank our Board of Directors for their valuable contributions in all aspects of the Company's oversight.

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 thank all our stakeholders for their valued support of our Company.

David Turnbull
Chairman

Hong Kong, 28 February 2018

Chief Executive's Review

On course to benefit from continuing recovery ahead

Our CEO Mats Berglund reports on our performance in 2017 and reflects on the Company's position and strategy

FINANCIAL RESULTS

Dry bulk freight market conditions improved significantly in 2017 from a historically low base in 2016 which, combined with our high laden utilisation and competitive cost structure, enabled us to record a much improved and positive net result.

We made a net profit of US$3.6 million in 2017 (2016: US$86.5 million net loss) and EBITDA of US$133.8 million (2016: US$22.8 million). Basic EPS was a positive HK0.7 cents.

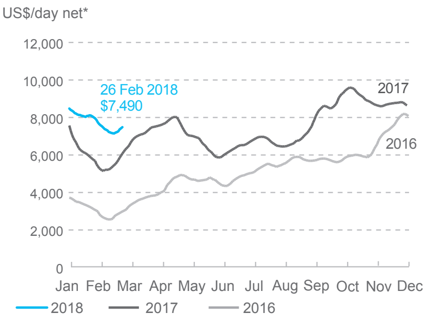
PERFORMANCE OVERVIEW

Improved But Still Challenging Market Conditions

Freight market indices in 2017 followed a similar seasonal pattern as in 2016, although at a significantly higher level. The market improvement was largely demand driven with stronger seaborne trade growth apparent across most dry bulk cargo categories.

Stronger Chinese industrial activity drove robust growth in coal and iron ore imports and, more importantly for us, in the trade in minor bulks. Global grain trade expanded more than expected primarily due to record South American grain export volumes. Longer trade distances also supported stronger global dry bulk seaborne tonne-mile demand which Clarksons Research estimate to have grown 5.1% in 2017.

Handysize Market Spot Rates in 2016 – 2018



* excludes 5% commission

Source: Baltic Exchange, data as at 26 February 2018

The improved earnings environment resulted in much reduced scrapping which, combined with new ship deliveries, led to total dry bulk fleet net growth of 3.0% and 3.6% in the global Handysize and Supramax fleets.

Despite the gradual improvement, the market remained challenging during most of 2017 with average annual freight rates at historically weak levels.

Pacific Basin Outperforms

We generated average Handysize and Supramax daily TCE earnings of US$8,320 and US$9,610 per day net, outperforming the BHSI and BSI indices by 15% and 8% respectively.

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 interchangeable ships in a way that optimises ship and cargo combinations for maximum utilisation.

Positive Initiatives

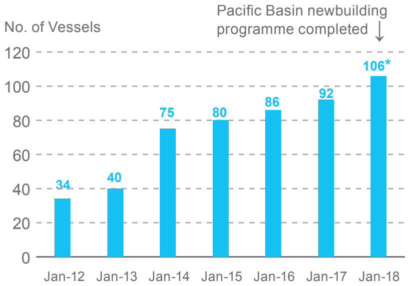
In the first half of the year, we completed our owned vessel newbuilding programme with the delivery of seven newbuildings of modern, efficient designs which we committed to build in 2013. We used the still historically low asset values to purchase two high quality secondhand Handysize vessels. We also purchased a secondhand Supramax and sold an older, smaller Supramax, thereby trading up to a vessel of better design and longer life at an attractive price.

In August, we committed to acquire five modern, efficient dry bulk vessels funded by a combination of (a) new Pacific Basin shares issued to the sellers, (b) cash raised through a share placement, and (c) cash from our existing cash resources. This innovative transaction enabled immediate equity financing and enhances our operating cash flow, EBITDA and balance sheet. Four of the five vessels delivered into our fleet by year end, and the fifth joined in January 2018.

These latest acquisitions have increased our owned fleet to 106 ships on the water, grown the proportion of our owned versus chartered ships (especially in Supramax), and reduced our owned vessel daily break-even levels.

We have grown our owned fleet more than threefold since 2012 as part of our refocus on dry bulk and our divestment of non-core businesses. Including chartered vessels, we operated an average of 241 ships overall in 2017 and currently operate about 220 ships.

Pacific Basin Owned Dry Bulk Vessels



* Including one Supramax ship delivered on 9 January 2018

We completed the sale of our final tug during the third quarter of 2017, thereby concluding our exit from our non-core towage activity.

Our new commercial office in Rio de Janeiro has contributed valuable new business since it was established early in 2017 to help grow our cargo volumes and support our many customers on the east coast of South America while enabling us to cover more fully all regions in the Atlantic.

In May, we relocated our headquarters to Wong Chuk Hang, about 15 minutes from Hong Kong's Central business district. We now benefit from a better, more energised, collaborative and productive office with a markedly lower rent.

We continue to invest in state of the art systems with our most notable project being the on-going implementation of our new integrated ship management software.

In August, Pacific Basin became an eligible stock for southbound trading under the Shenzhen-Hong Kong Stock Connect programme effective from September, which helps to enhance our profile in the mainland Chinese capital markets. We hope that this will contribute to more interest in and trading liquidity of our stock in the long term.

In September, Pacific Basin won the Company of the Year award at the Lloyd's List Global Awards. To be named the best shipping company in the world is a great honour and welcomed recognition of both our seagoing and shore staff's combined contributions that drive us towards our vision of being the first choice partner for customers and other stakeholders.

LIQUIDITY & BALANCE SHEET

As at 31 December 2017, we had cash and deposits of US$245 million with our final newbuildings all paid for and delivered, except for one resale that joined our fleet in January 2018. We drew down our remaining long tenor Japanese export credit and other committed facilities following the delivery of our newbuildings resulting in net borrowings of US$636 million, which is 35% of the net book value of our owned vessels at the year end. After paying for the vessel that delivered in January, we have 10 unmortgaged ships.

Our solid balance sheet and strong corporate profile combine with our robust business model and track record to set us apart as a preferred, strong, reliable and safe partner for customers, finance providers and other stakeholders.

STRATEGY AND POSITION

Well Positioned For a Continued Gradual Recovery

The general market improvement since early 2016 is encouraging and, with supply and demand fundamentals now more positive, we are cautiously optimistic for a continued market recovery albeit with some volatility along the way.

The outlook for favourable global GDP growth bodes well for dry bulk demand, and supply is expected to be kept in check by the continued gap between newbuilding and secondhand prices and the uncertain impact of new regulations on ship designs, both of which cause many shipowners in our segments to refrain from ordering new ships.

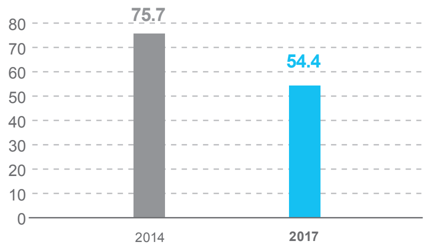
Tonne-mile demand growth of 5.1% in 2017 was higher than expected, but even if growth slows in 2018, we expect it will still exceed supply thus supporting further improvement in the demand-supply balance.

Potential negative factors include a possible reduction in China's difficult-to-predict coal imports and, on the supply side, the risk of excessive new ordering and increased ship operating speeds. Continued commodity demand growth, scrapping of older and poorly designed ships, and limited ordering are required for a further improved market balance.

We continue to achieve cost savings without impacting maintenance or safety. Primarily through scale benefits and other efficiencies, we have gradually reduced our daily vessel operating expenses by 12% since 2014 to US$3,840 in 2017, and we have reduced our total G&A overheads by 28% to US$54 million over the same period despite operating a larger fleet.

Annual Group G&A Overheads

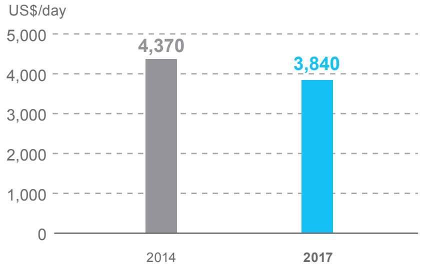
US$ million



Daily Vessel Operating Expenses

(combined Handysize and Supramax)

US$/day



This has helped us reduce the current breakeven level on our owned Handysize and Supramax ships to about US$8,300 and US$9,100 per day respectively after G&A overheads (see page 12).

We are well positioned for a recovering market and, based on our current fleet and commitments, a change of US$1,000 per day in annual average TCE market rates would be expected to change our net results by about US$35-40 million per year.

Our healthy cash and net gearing positions enhance our ability to take advantage of opportunities to grow our business and attract cargo as a strong partner. We will continue to look at good quality secondhand ship acquisition opportunities as prices are still historically low, resulting in reasonable break-even levels and shorter payback times.

We do not intend to order newbuildings in the medium term, and will watch technological and regulatory developments closely. There remains extra capacity in the existing global fleet through potentially higher operating speed, and the market does not need more newbuildings. What we shipowners need is a more reasonable level of profitability. Moreover, today's newbuildings offer only limited efficiency benefits over good quality Japanese-built secondhand ships and, in our view, the risk and payback time for newbuildings is currently excessive due to several uncertainties in our market, including:

(i) how best to comply with the global sulphur emissions cap from 2020;

(ii) which ballast water treatment system to install (see CSR Report page 2);

(iii) questions about the future price, types and availability of fuel;

(iv) potential additional new regulations regarding, for example, NO_X and CO_2 emissions; and

(v) faster and potentially more significant technological developments in the longer term.

These uncertainties, the attraction of low secondhand prices and new accounting rules requiring time charters to be capitalised from 2019 are discouraging new ship ordering in our segment.

We welcome stricter environmental regulation, but we do not think sulphur scrubbers are an effective solution technically or environmentally, and we much prefer a mandate for everyone to burn cleaner fuel and the level playing field this would create. A further consequence of a global adoption of low sulphur fuel is that its higher cost will prevent ship operating speeds from increasing, contributing to lower emissions and a better supply-demand balance.

The extra capex investment for ballast water treatment systems (and potentially for scrubbers) and the higher cost of low sulphur fuel will penalise the oldest and worst performing ships, potentially driving such ships to demolition.

Overall, we believe these new regulations will be positive for the supply-demand balance and benefit larger, stronger companies with high quality fleets that are better positioned to adapt and to cope practically and financially with compliance.

We will continue to focus on our world-leading Handysize and Supramax dry bulk business where our strategy is to be the best operator maximising our fleet's utilisation and TCE earnings by leveraging all the key attributes of our business model. Minor bulk shipping demand is characterised by diversified geographical, cargo and customer profiles. This, combined with our large fleet of interchangeable ships and worldwide office network, allows for the combination of cargoes to achieve higher laden utilisation, which is exactly our strategy and how we can deliver value over market earnings.

We have a robust business model, experienced staff, a quality fleet and strong balance sheet that position us well to navigate and benefit from a recovering market.

We thank all our stakeholders for your continued support.

Mats Berglund
Chief Executive Officer

Hong Kong, 28 February 2018

DRY BULK OUTLOOK Possible market drivers in the medium term

OPPORTUNITIES

- Strong industrial growth and infrastructure investment in China and beyond enhancing demand for dry bulk shipping
- Positive and widely spread growth outlook for all major economic areas
- Continued strong grain demand primarily for animal feed due to shift towards meat-based diet
- Environmental policy in China encouraging shift from domestic to imported supply of resources
- Lower newbuilding deliveries in the medium term and continued low new ship ordering and shrinking orderbook
- Environmental regulations encouraging ship scrapping
- Periods of higher fuel oil prices encouraging slower ship operating speeds which decreases supply

THREATS

- Reduction in Chinese industrial growth and investments impacting demand for dry bulk shipping
- Environmental policy in China encouraging greater shift to renewable energy, possibly impacting coal imports
- Increased protectionism dampening trade by favouring domestic supplies over foreign imports
- Excessive new ship ordering if the price gap between newbuilding and secondhand ships closes
- Reduced scrapping due to improved market conditions may be insufficient to offset new ship deliveries
- Periods of low fuel prices supporting faster ship operating speeds which increases supply

Market Review

Freight Market Summary

Dry bulk freight market conditions improved significantly in 2017 from a historically low base in 2016. Handysize and Supramax spot market rates averaged US$7,250 and US$8,880 per day net respectively in 2017, representing a substantial 46% and 52% improvement in average earnings year on year.

Following a similar pattern as in 2016, although at a significantly higher level, freight market indices experienced a short seasonal decline at the start of the year, recovery after Chinese New Year and a general strengthening thereafter. Handysize and Supramax spot market earnings in the fourth quarter reached their highest since early 2014.

Against the backdrop of reduced scrapping and increased fleet growth, the market improvement in 2017 was largely demand driven with stronger seaborne trade growth apparent across most dry bulk cargo categories. Stronger Chinese industrial activity drove robust growth in both major and minor bulks, and record South American grain exports underpinned stronger than expected global grain trades.

As significant as the improved market conditions are, the dry bulk market overall in 2017 was still in the bottom third of the 33 years since the dry bulk index began.

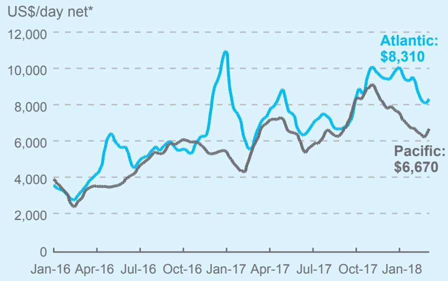
US$7,250 net ⬆ 46%

Handysize 2017 average market spot rate

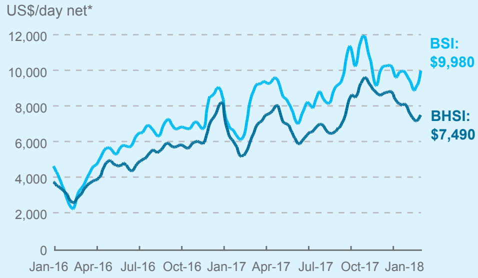
US$8,880 net ⬆ 52%

Supramax 2017 average market spot rate

Atlantic vs Pacific Spot Rates – Handysize



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



* excludes 5% commission

Source: Baltic Exchange, data as at 26 February 2018

FREIGHT MARKET & OUTLOOK IMPACT SHIP VALUES

Key Supply Developments

SUPPLY DRIVERS

The global fleet of 25,000-41,999 dwt Handysize and 42,000-64,999 dwt Supramax ships grew 2.6% and 4.1% net respectively in 2017, and overall dry bulk capacity expanded 3.0% (2016: +2.2%) as much reduced scrapping outweighed the benefit of fewer newbuilding deliveries.

As expected due to the declining orderbook, newbuilding deliveries reduced to 4.7% of existing dry bulk capacity, the lowest level since 2003.

Scrapping reduced to 1.7% of existing dry bulk capacity and 1.6% of Handysize capacity due to the markedly improved freight market conditions.

The freight market improvement despite increased net fleet growth indicates that the recovery was demand-driven.

Even so, continued scrapping of older and poorly designed ships and limited ordering are required for further improved market conditions to be sustained.

The global dry bulk fleet continues to operate at below full speed, so there remains potential for effective tonnage supply to increase without adding new ships to the fleet.

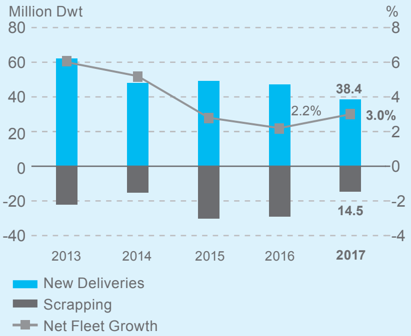
⬆ 2.6%

Global Handysize capacity

⬆ 3.0%

Overall dry bulk capacity

Dry Bulk Supply Development



Source: Clarksons Research, Bloomberg

Reflecting recent evolutions in ship design and the composition of the global geared bulk carrier fleet, we now refer to the Handymax, Supramax and Ultramax segments more generally as "Supramax" (as is the common practice in commercial shipping parlance), and we now consider 42,000 dwt as the cut-off between Handysize and Supramax.

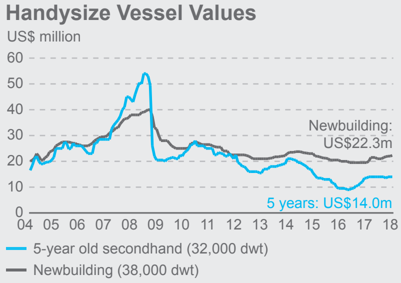
Ship Values

Improved freight market conditions have supported sale and purchase activity and increased vessel values. Clarksons Research currently values a benchmark five year old Handysize bulk carrier at US$14.0 million – up 4% since the start of 2017. Newbuilding prices have increased 14% since the start of 2017 to US$22.3 million.

The gap between newbuilding and secondhand prices (and uncertainties over future design parameters) continues to discourage new ship ordering which will continue to benefit freight market fundamentals in the future.

VALUES & OUTLOOK IMPACT NEW SHIP ORDERING

Handysize Vessel Values



Source: Clarksons Research, data as at 26 February 2018

DEMAND DRIVERS

Key Demand Developments

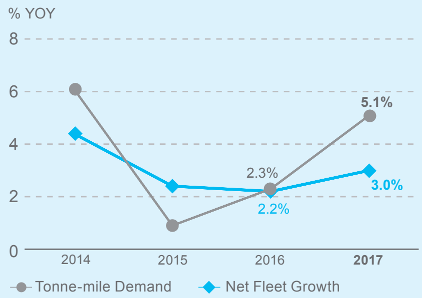
Clarksons Research estimate dry bulk shipping tonne-mile demand in 2017 grew by 5.1% year on year (4.0% on a cargo volume basis), outweighing supply growth of 3.0% and significantly improving on demand growth of 2.3% in 2016 and 0.9% in 2015.

Stronger seaborne trade growth was apparent across most dry bulk cargo categories. In particular, stronger Chinese industrial activity drove robust growth in coal and iron ore imports and, more importantly for us, in the trade in minor bulks.

Global grain trade expanded more than expected primarily due to record South American grain export volumes. US coal exports improved strongly having bottomed out in 2016, and strong Atlantic exports overall drove Atlantic earnings to significantly outperform Pacific earnings during all four quarters of 2017. Longer trade distances also supported stronger global dry bulk seaborne tonne-mile demand.

Earnings in the Pacific peaked in October and declined in the fourth quarter, impacted by the onset of the northern hemisphere winter and Chinese anti-pollution measures taken to limit industrial output in advance of the National Congress.

Dry Bulk Demand & Supply



2017 Overall dry bulk demand

+5.1% (tonne-miles)

Global trade volumes – major bulks	
Iron Ore	↑ 4%
Coal	↑ 5%

Global trade volumes – minor bulks	
Bauxite & Alumina	↑ 14%
Soybean	↑ 13%
Scrap Steel	↑ 10%
Fertiliser	↑ 7%
Agribulks	↑ 6%
Wheat/Grains	↑ 4%
Forest Products	↑ 3%
Steel Products	↓ 3%
Cement	↓ 4%
Total grains and minor bulks	↑ 3%

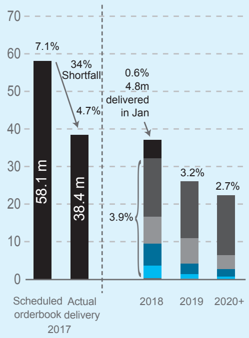
Source: Clarksons Research, as at 1 February 2018

Scheduled Orderbook

The overall dry bulk orderbook stands at 9.8% compared to 9.5% a year ago, and the combined Handysize and Supramax orderbook has reduced to 5.7%, its lowest since the 1990s. New ship ordering in 2017 increased from a very low base in 2016. Most new orders were for larger Capesize and Kamsarmax ships. New ordering for Handysize and Supramax vessels remains at historically low levels, which bodes well for a better market balance ahead. Total dry bulk scheduled deliveries for 2018 are 37% smaller than a year ago, and actual deliveries are expected to be around 26 million deadweight tonnes compared to 38 million in 2017.

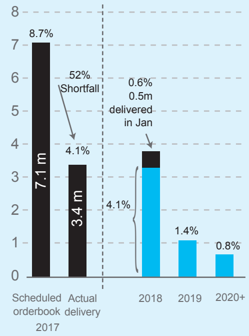
Orderbook by Year

Million Dwt



Handysize Orderbook by Year

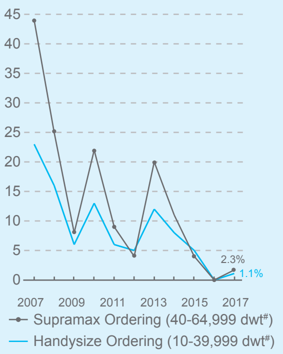
Million Dwt



Dry Bulk New Ship Ordering

Total Ordering vs Existing Fleet

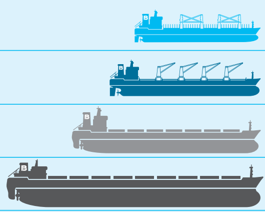
% of Fleet (Dwt)



only available data range

We now refer to the Handymax, Supramax and Ultramax segments more generally as "Supramax", and we now consider 42,000 dwt as the cut-off between Handysize and Supramax.

Source: Clarksons Research, as at 1 February 2018



	ORDERBOOK AS % OF EXISTING FLEET	AVERAGE AGE	OVER 20 YEARS OLD	2017 SCRAPPING AS % OF 1 JANUARY 2018 EXISTING FLEET
Handysize (25,000–41,999 dwt)	6.3%	10	11%	1.6%
Supramax (formerly Handymax) (42,000–64,999 dwt)	5.5%	9	7%	1.5%
Panamax & Post-Panamax (65,000–119,999 dwt)	8.2%	9	6%	1.6%
Capesize (incl. VLOC) (120,000+ dwt)	15.0%	8	6%	2.0%
Total Dry Bulk > 10,000 dwt	9.8%	10	7%	1.8%

Our Performance in 2017

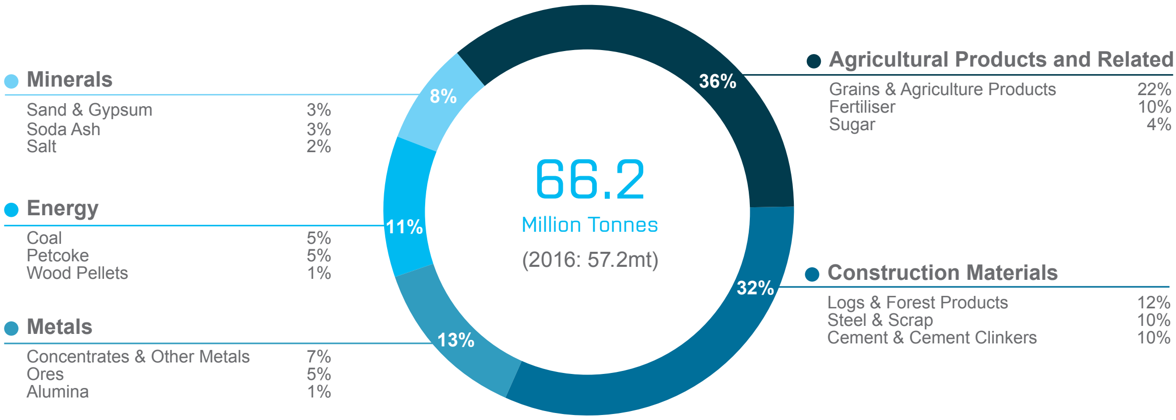
Our core dry bulk business generated a net profit of US$2.6 million (2016: net loss US$87.6 million) in a markedly better year for dry bulk shipping. In the improved but still challenging market conditions, we generated daily earnings that outperformed the BHSI and BSI indices and continued to maintain good control of our vessel operating costs.

Dry Bulk Operating Performance

US$ Million	1H17	2H17	2017	2016	Change
Handysize contribution	7.8	23.6	**31.4**	(37.1)	>+100%
Supramax contribution	9.1	10.7	**19.8**	(3.3)	>+100%
Post-Panamax contribution	2.7	2.8	**5.5**	5.5	–
Dry bulk operating performance before overheads	19.6	37.1	**56.7**	(34.9)	>+100%
Overheads and tax	(25.9)	(28.2)	**(54.1)**	(52.7)	-3%
Dry bulk net profit/(loss)	(6.3)	8.9	**2.6**	(87.6)	>+100%
Dry bulk vessel net book value	1,756.6	1,791.5	**1,791.5**	1,650.8	+9%

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

OUR DRY BULK CARGO VOLUMES IN 2017



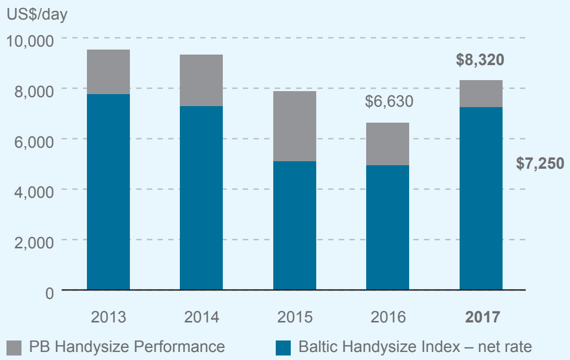
Key Performance Indicators

KPI

Performance vs Market

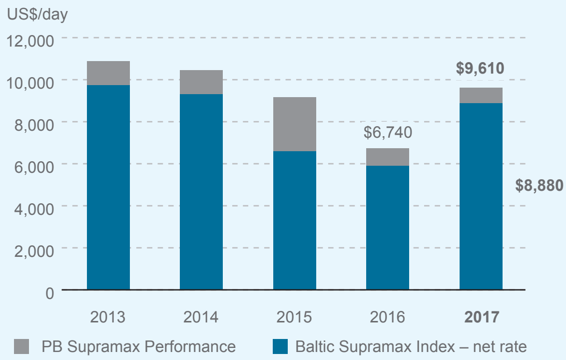
Handysize

15% outperformance compared to market



Supramax

8% outperformance compared to market

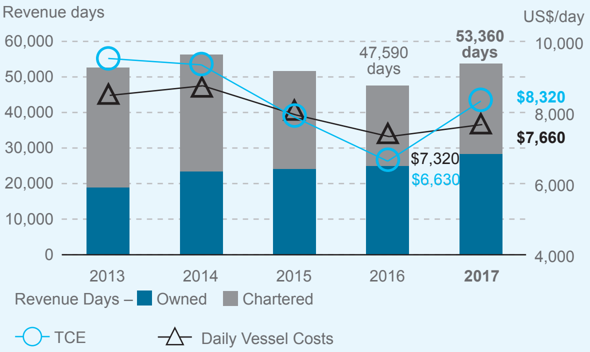


- Our outperformance in 2017 compared to spot market indices reflects the value of our fleet scale and cargo book, and our ability to optimise cargo combinations and match the right ships with the right cargoes to maximise our utilisation and vessel earnings.

Profitability

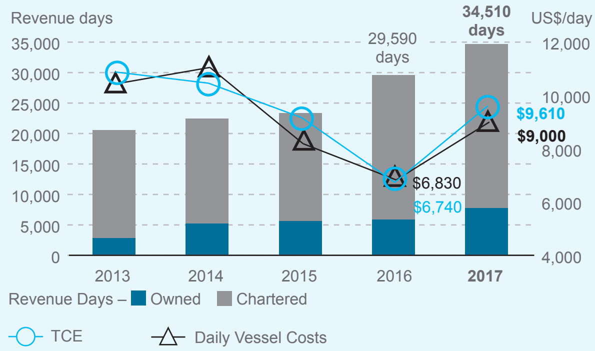
Handysize

US$31.4m contribution



Supramax

US$19.8m contribution



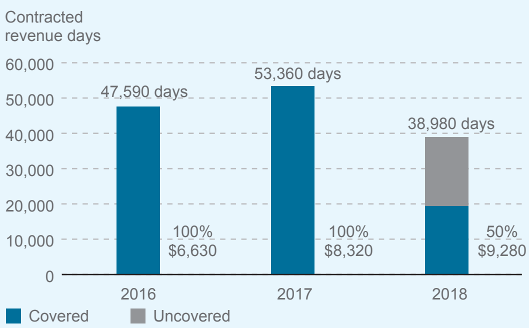
- We generated Handysize daily earnings of US$8,320 with daily costs of US$7,660 on 53,360 revenue days. We generated Supramax daily earnings of US$9,610 with daily costs of US$9,000 on 34,510 revenue days.
- Our Handysize and Supramax contributions returned to positive territory as we leveraged our business model to outperform in the improved but still challenging market.

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, 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 this short-term operating activity and factor their positive margin into the TCE results of our core fleet, then our restated 2017 Handysize and Supramax daily earnings would improve to US$8,410 on 44,750 days and US$10,100 on 19,640 days respectively.

- We operated an average of 146 Handysize and 95 Supramax ships resulting in 12% and 17% increases in our Handysize and Supramax revenue days year on year.
- During the year, we redelivered expiring long-term chartered vessels to gradually lower our charter-in costs, relying instead on our growing fleet of owned ships supplemented by shorter-term and index-linked charters.

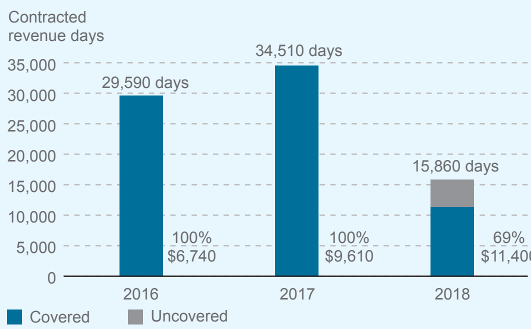
Future Earnings and Cargo Cover

Handysize



US$ per day; as at 23 February 2018

Supramax



US$ per day; as at 23 February 2018

- We have covered 50% and 69% of our 38,980 Handysize and 15,860 Supramax revenue days currently contracted for 2018 at US$9,280 and US$11,400 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.

Daily Vessel Costs and Commitments

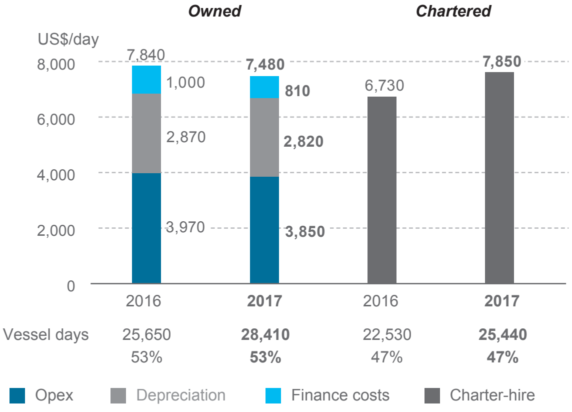
The cost of owning and operating dry bulk ships is the major component of our Group's total costs, and our ability to maintain good control of our "daily vessel costs" has a significant bearing on our operating margins and our financial performance overall. We provide below a short analysis of our daily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

Vessels' Daily P/L Costs

Handysize

Blended US$7,660 (2016: US$7,320)

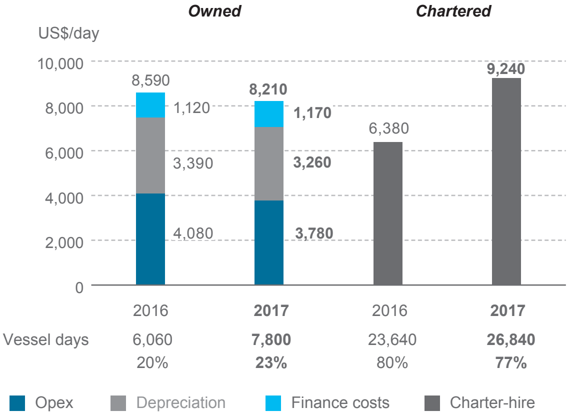
(excluding overheads)



Supramax

Blended US$9,000 (2016: US$6,830)

(excluding overheads)



Operating expenses – The daily operating expenses ("Opex") element of our vessel costs decreased 3% for Handysize and 7% for Supramax mainly due to scale benefits and procurement cost efficiencies.

Our fleet of owned dry bulk vessels experienced on average 1.0 day (2016: 2.6 days) of unplanned technical off-hire per vessel during the year.

Depreciation – Our depreciation costs (including capitalisation of dry-docking costs) were slightly reduced principally due to the addition of lower cost acquisitions.

Finance costs – Our owned vessels' daily P/L and cash finance costs were US$810 and US$750 respectively for Handysize and US$1,170 and US$1,080 respectively for Supramax. The difference between the P/L and cash finance costs reflects the difference between the effective interest and coupon rate of our convertible bonds. Our Handysize daily finance costs reduced compared to 2016 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 vessels delivered.

Charter-hire – Our chartered vessels' daily P/L and cash charter-hire costs were US$7,850 and US$8,330 respectively for Handysize, and US$9,240 and US$9,310 respectively for Supramax. The difference between the P/L and cash charter-hire costs mainly reflects the write-back of onerous contract provisions previously made in relation to our 2017 charter commitments.

Chartered-in days represented 47% and 77% of our total Handysize and Supramax vessel days respectively. Their respective chartered-in days increased 13% to 25,440 days (2016: 22,530 days) and 14% to 26,840 days (2016: 23,640 days).

During the year, we secured 1,560 Handysize vessel days (2016: 3,050 days) and 960 Supramax vessel days (2016: 330 days) via variable-rate, inward charters with rates linked to the Baltic Handysize and Supramax indices. These index-linked vessels represented 6% and 4% of our chartered Handysize and Supramax vessel days respectively.

Daily cash cost – Excluding non-cash elements of the above and overheads, our average blended owned and chartered daily cash cost was US$6,360 (2016: US$6,090) for our Handysize fleet and US$8,310 (2016: US$6,390) for our Supramax fleet.

General and administrative ("G&A") overheads – Our dry bulk direct staff overheads and office costs, along with all overheads categorised as indirect overheads, amounted to US$53.5 million (2016: US$51.7 million). Spread across all our vessel days, these aggregate G&A overheads translated into a daily cost of US$600 (2016: US$660) per ship per day, comprising US$840 per day for owned ships and US$450 per day for chartered-in ships.

The Group's total G&A overheads (including those of our remaining towage activities) amounted to US$54.4 million (2016: US$52.9 million), with the year-on-year increase of US$1.5 million attributable primarily to an increase in our staffing overheads as the owned fleet expanded.

Page 61
Expenses by Nature
Analysis of our costs including general and administrative overheads

Vessel Operating Lease Commitments

Vessel operating lease commitments stood at US$396.5 million (2016: US$549.4 million), comprising US$269.2 million for Handysize, US$105.4 million for Supramax and US$21.9million for Post-Panamax.

Our Handysize operating lease committed days decreased 25% to 26,340 days (2016: 35,140 days) while our Supramax operating lease committed days decreased 36% to 8,590 days (2016: 13,370 days).

Onerous Contract Provisions

The Group released onerous contract provisions of US$20.3 million to the income statement following the utilisation of 2017 elements of the charters. At 31 December 2017, there remains a provision of US$28.8 million for time charter contracts substantially expiring during the next three-year period as charter-hire costs 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).

			US$ Million
Year	Handysize	Supramax	Total
2018	12.2	3.9	16.1
2019	7.1	2.7	9.8
2020	1.6	1.3	2.9
Total	20.9	7.9	28.8

Page 73
Financial Statements Notes on Onerous Contract Provisions

Charter Hire Reduction by Issuing New Shares

New shares were issued to 10 shipowners in 2016 in return for a reduction in charter-hire rates over a 24-month period on 10 of our long-term chartered ships ("Charter Hire Reduction"). The income statement still reflects the original contracted charter costs, but the cash payments in the 24-month period are reduced by the value of the shares issued. In 2017, the cash reduction amounted to US$6.2 million (2016: US$0.9 million), and for 2018, it is expected to be US$4.7 million.

Commitments Excluding Index-linked Vessels

The following table shows the average daily charter rates both on a cash basis and P/L basis for our chartered-in Handysize and Supramax vessels during their remaining operating lease terms by year as at 31 December 2017. Compared to the contracted charter-hire costs, i) the cash basis cost reflects the reduced payments following the Charter Hire Reduction; and ii) the P/L basis cost reflects the reduction due to the write-back of onerous contract provisions.

	Handysize			Supramax		
		Average daily rate (US$)			Average daily rate (US$)	
Year	Vessel days	Cash basis	P/L basis	Vessel days	Cash basis	P/L basis
2018	8,260	9,860	8,730	4,140	11,530	11,020
2019	6,720	10,320	9,270	2,170	13,160	11,940
2020	4,020	10,470	10,070	1,560	13,030	12,150
2021	3,130	10,220	10,220	590	12,240	12,240
2022	2,180	9,960	9,960	130	12,500	12,500
2023+	2,030	11,160	11,160	-	-	-
Total	26,340			8,590		
Aggregate operating lease commitments		US$269.2m			US$105.4m	

Commitments Including Index-linked Vessels

As at 31 December 2017, our fixed rate and variable rate index-linked lease commitments for 2017 (completed) and 2018 (contracted) can be analysed as follows:

	2017		**1H2018**		**2H2018**	
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)	9,300	8,010	**3,710**	**8,550**	**3,790**	**8,850**
Short-term	14,580	7,770	**760**	**9,020**	**–**	**–**
Index-linked	1,560	7,690	**380**	**Market rate**	**10**	**Market rate**
Total	25,440	7,850	**4,850**		**3,800**	
Supramax						
Long-term (>1 year)	2,840	11,670	**1,400**	**11,700**	**1,170**	**11,650**
Short-term	23,040	8,940	**1,570**	**9,940**	**–**	**–**
Index-linked	960	9,180	**410**	**Market rate**	**20**	**Market rate**
Total	26,840	9,240	**3,380**		**1,190**	

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

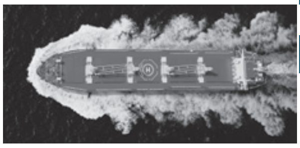
Index-linked vessel operating lease commitments refer to leases with market-linked variable charter rates. The variable charter rates are linked to the Baltic Handysize and Supramax indices (as applicable) and adjusted to reflect differences in the vessels' characteristics compared to Baltic indices reference vessels.

News and Achievements

2017

Jan

- 4 newbuilding vessels delivered – 'Isabela Island', 'Otago Bay', 'Cramond Island' and 'Key West'



Feb

- Recommenced secondhand vessel acquisitions with purchase of 1 Supramax in Feb and 7 further vessels during the year
- 1 secondhand vessel delivered – 'Paqueta Island'

Mar

- 2 newbuilding vessels delivered – 'Incheon Bay' and 'Kodiak Island'
- 1 secondhand vessel delivered – 'Olympia Logger'

Apr

- Marine Money Awards
  - Equity Follow-on' Deal of the Year (for our US$151m rights issue)
  - Innovation' Deal of the Year (for our issue of shares to satisfy operating lease obligations)

- Delivery of our 7th newbuilding in 2017, completing our owned vessel newbuilding programme
- Annual General Meeting

May

- Pacific Basin's Hong Kong headquarters relocates to One Island South in Wong Chuk Hang
- 1 newbuilding vessel delivered – 'Osaka Bay'

Jun

- Hong Kong Marine Department Award
  - Outstanding Performance in Port State Control Inspections in 2016
- Seatrade Awards 2017 - CSR Award
- Our 100th owned vessel 'Osaka Bay' takes HK Shipping Registry to 110 million GT
- HKIRA Investor Relations Awards
  - Certificate of Excellence
- 1 secondhand vessel delivered – 'Shakespeare Bay'

Seatrade Awards

Jul

- Institutional Investor 2017 All-Asia Awards – (Transportation sector) Most Honored Company including:
  - Best CFO
  - Best Investor Relations Programme
- 2017 Seatrade Awards
  - CSR Award
- LACP 2016 Vision Awards
  - 2016 Online Report - Gold (Transportation & Logistics Sector)
- First installation of ballast water treatment system on our owned ships

Aug

- Combined share issue and share placement funds 5-ship acquisition
- 1 secondhand vessel delivered – 'Pelican Island'
- PB is included in the Hang Seng Stock Connect Hong Kong Index (HSHKI)

恒生指數
HANG SENG INDEXES

Sep

- Lloyd's List Global Awards 2017 - Company of the Year

- PB included in Shenzhen-Hong Kong Stock Connect programme
- 2 secondhand vessels delivered – 'Sharp Island' and 'Cooper Island'
- Sale of our last tug concluded our exit from non-core towage activity

Oct

- PB becomes TRACE certified for commitment to anti-bribery, responsible business practice, transparency and corporate governance

TRACE CERTIFIED

Nov

- HKICPA Corporate Governance Awards 2017
  - Gold Award in Non-Hang Seng Index (Medium Market Cap) Category

- Pacific Basin Soccer Sixes Tournament, HK
- International Bulk Journal Awards 2017 - Safety Award
- 1 secondhand vessel delivered – 'Ipanema Beach'

Dec

- The Asset Corporate Awards 2017
  - Platinum Award
  - Best Investor Relations Team Award
- IR Magazine Awards - Greater China 2017
  - Certificate of Excellence

2018

With You for the Long Haul

We strive to be the first choice partner for customers with a priority to build and sustain long-term relationships. In a cyclical industry like ours, that means offering to customers several key Pacific Basin advantages beyond the scale and quality of our fleet and the reach of our network, such as:

- 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
- 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 dry bulk shipping, and the first choice partner for customers and other stakeholders

www.pacificbasin.com
Company > Our Vision & Values

What Our Customers Say About Us

- *You are great at being flexible and able to supply the right ship at right time to fit our changing needs*
- *Your chartering team has gone above and beyond, and their support has helped us secure difficult trades*
- *Pacific Basin is first class – you are responsive, timely, and you solve issues and take a customer approach*
- *Pacific Basin is a strategic partner and we are very satisfied and can rely on you: you are very competitive for us on rates, have a good grasp of our industry and you always look to improve*
- *You rate business quickly and your ships are very punctual*
- *You were really cooperative, friendly and instrumental in helping us work through issues with our new shore-based equipment – other owners would not have been so understanding*
- *Operationally your performance is faultless, you guys handle things exceptionally*
- *Your fleet fits the bill for our logs trade and you make a big effort to be proactive on your ships' readiness and equipment condition*
- *You are very reliable, and we have full trust in Pacific Basin as "class one" freight provider and counterparty*
- *We appreciate that you always support our special requests, such as upsizing cargoes*

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

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

Tankers for oil, gas & chemicals

Containerships for containerised goods

	Bulk Carrier Ship Types	Percentage of Global Dry Bulk Capacity	Versatility
Our Focus – Minor Bulks with cranes	**Handysize** 25,000–41,999 dwt	10%	More Versatile
Our Focus – Minor Bulks with cranes	**Supramax** (formerly Handymax) 42,000–64,999 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

- Ores & Concentrates
- Grains
- Alumina
- Fertiliser
- Bauxite
- Sugar
- Coal/Coke
- Logs/Forest Goods
- Petcoke
- Cement & Clinker
- Salt
- Steel
- Sand & Gypsum
- Scrap

Major Bulks

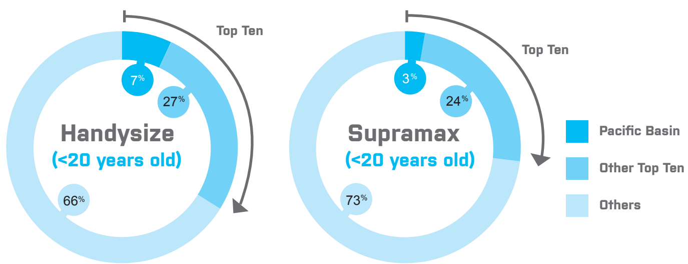
- Grains
- Coal
- Iron Ore

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



We operate approximately 7% of global 25-42,000 dwt Handysize ships of less than 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 Research

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.

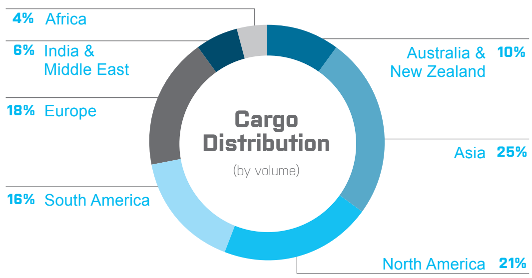
Our earnings reliability is further enhanced by the fact that global Handysize capacity has experienced only 27% growth in the past 10 years relative to the much larger expansion of the major bulk fleets.

Our Worldwide Network and Trading Areas

12 office locations include:

- 10 commercial offices
- 3 technical & crewing offices

Our Hong Kong headquarters is home to commercial, technical, crewing and all central functions.



A Focused Approach – Offering Benefits of Diversification

Focused on segment and size	Diversified geography, customers and cargoes	500+ customers globally	Our largest customer represents only 3% of our volumes	Our top 25 customers represent 35% of our volumes

Opportunities and 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 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 – 222 Ships*

	Vessels in operation		Total
	Owned	Chartered	
Handysize	80	59	139
Supramax	25	56	81
Post-Panamax	1	1	2
Total	106	116	222

Human Capital

Optimal combination of people, competencies, capabilities and experience

3,400 seafarers &
335 staff ashore

Our Global Office Network

12 offices
10 chartering offices
positioning us close to our customers

Page 17 Understanding Our Core Market
Our Worldwide Network

Social and Relationship Capital

Responsible relationships within and between our communities, stakeholder groups and other networks

- Partner-customers
- Suppliers
- Regulators and policy makers
- Local communities
- Investors
- Finance providers

Intellectual Capital

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

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

Natural Capital

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

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 taking care of our vessels and our seafarers

Team Productivity

Investment in crew and staff training and wellbeing

Being Local

Regional offices across six continents position us near our customers

Being Global

Worldwide network of offices and trade routes facilitates comprehensive market intel and global solutions for customers

Stakeholder Engagement & Wellbeing

Regular multi-level engagement and responsible operating practices to broaden and deepen our relationships with stakeholders and enhance their wellbeing through good corporate social responsibility

Effective Business Model & Systems

Home-grown value-accretive business model, systems, procedures, know-how, efficiency focus, cost-consciousness and intangibles

Considered Treasury Activity

Continuous management of financial resources and funding

Environmental Responsibility

Observing or exceeding regulatory requirements and industry standards on environmental impact

Our Vision

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

* data as at 31 January 2018

This spread and the following Strategy Delivery & Risks pages follow closely the categorisation of capitals and their flow through the value creation process as recommended by the International Integrated Reporting Council in its International <IR> Framework

MATTERS OF KEY STRATEGIC FOCUS

Strategic Model p.2

Investing in Our Fleet

p.20

- We already operate the largest Handy fleet, and will carefully consider further opportunities to acquire quality vessels which easily fit into our operating model
- We are increasing the proportion of owned ships in our fleet to reduce our average daily vessel costs, and facilitate greater control
- Our technical team strives to ensure safety and maximise availability so our ships are always operationally ready

Investing in Our People

p.21

We strive to develop and motivate our teams to enhance safety, productivity, customer satisfaction and job fulfilment

Deepening Our Relationships

p.22

We are increasing customer engagement by connecting with a larger number of customers at a local level to enhance our relationships and increase our access to cargoes

Safeguarding Health & Safety

p.23

Eliminating injury, navigation and pollution incidents through training

Evolving management & governance practices

p.24

Refining management decision-making, risk mitigation and board governance procedures and considerations

Maximising Efficiencies and Reducing Costs

p.25

We know how to optimally match our large fleet and cargo systems to maximise utilisation, availability and punctuality, and we leverage our scale and other efficiencies to control our vessel opex and G&A costs

Enhancing Corporate and Financial Profile

p.26

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

Safeguarding the Environment

p.23

We minimise our environmental impact through continual training and environmentally efficient practices and technologies

Our Mission

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

OUTCOME

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.27

Safeguarding and enhancing quality, effectiveness and availability of our teams of staff on shore and at sea Workplace p.27

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

Builds understanding, trust and support between Pacific Basin and our staff, customers, tonnage providers, suppliers, investors, financiers, communities and other stakeholders

Workplace p.27
Governance p.31
Investors p.49

Sector-leading service delivery

Maximising vessel earnings, minimising costs without impacting safety, and generating consistently respectable financial performance through the cycle

Strong brand and reputation Outperform p.10

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.28
Investors p.49

Sector-leading efforts to minimise consumption of natural resources and impact on the environment Environment p.27

Strategy Delivery and Risks

1. Investing in Our Fleet

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.

Strategy Delivery and Performance

In 2017, we purchased 8 modern ships at still historically low values, and took delivery of our final 7 newbuildings ordered in 2013. All have slotted into our cargo systems well. These acquisitions have increased our owned fleet to 106 ships on the water, grown the proportion of our owned versus chartered ships, and reduced our owned vessel daily break-even levels. We redelivered expiring long-term chartered ships to gradually lower our charter-in costs, relying instead on our growing fleet of owned ships supplemented by shorter-term and index-linked charters.

2018

Objectives

Manage our business for a continued market recovery albeit with some volatility along the way, and continue to conduct our business efficiently and safely.

We will continue to look at good quality secondhand Handysize and Supramax ship acquisition opportunities as prices are still historically low, resulting in reasonable break-even levels and shorter payback times. We do not intend to order newbuildings in the medium term, and will watch technological and regulatory developments closely.

Risk/Impact[1]	Mitigating Measures
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:** ↓	Earnings volatility is partially managed by securing contracts of affreightment of one year or longer. We remain focused on the Handysize and Supramax 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 68 Financial Statements Note 10 Derivative Assets and Liabilities for our use of derivative financial instruments to manage volatility in freight rates, 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.

[1] The risks, impact and mitigating measures in this Strategy Delivery and Risks section are consistent with the Group's risk register taking into account the outcome of the annual risk assessment by way of an online questionnaire in collaboration with division heads.

2. Investing in Our People

2017

Objectives

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

Strategy Delivery and Performance

Despite the challenges of increased global demand for seafarers and ship managers, we successfully managed the delivery of 14 newbuilding and secondhand ships into our owned fleet in 2017. We currently employ approximately 3,400 seafarers and 335 shore-based staff whom we strive to provide with a healthy, safe and supportive work environment and opportunities to develop and advance within the Company. Our investment in our people contributes to enhanced employee engagement and satisfaction, as reflected in 2017 in our highest ever retention figures: 94% for our officers at sea, and 87% for our staff ashore.

2018

Objectives

Continue with our permanent objectives of achieving improvements in safety performance, staff retention, productivity, job fulfilment and customer satisfaction and, more broadly, to achieve our vision to be a leading ship owner/operator in dry bulk shipping and the first choice partner for our stakeholders.

Risk/Impact	Mitigating Measures
Succession Risk Inadequate succession planning could lead to prolonged executive searches, disruption to our strategic momentum and the business, and undermine stakeholder confidence in the Group. **Change from last year:** ⬆	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. CSR Report Page 19 Workplace & Safety Training & Development

3. Deepening Our Relationships

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.

Strategy Delivery and Performance

In 2017, we carried 66 million tonnes (2016: 57mt) for over 500 customers, generating full-time employment for our 87,870 ship revenue days (2016: 77,180). We established a new office in Rio de Janeiro to help support our many South America customers and, having completed our exit from our non-core towage activities, our management is now fully focused on our core Handysize and Supramax business. Through our global office network, we are connecting with a larger number of customers at a local level.

2018

Objectives

To further improve the customer experience through regular customer engagement and close partnership at a local level, making it easier to do business with us, and drawing on a global team and office network that is unmatched in the dry bulk sector, in return enhancing our access to cargoes.

Risk/Impact	Mitigating 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; ▪ performing sanction checks on counterparties to identify any matches with restricted parties list from the US Office of Foreign Assets Control, the EU Common Foreign and Security Policy and the UK Treasury; and ▪ obtaining refund guarantees from newbuilding shipyards. Page 72 Financial Statements Note 11 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.

4. Safeguarding Health, Safety And Environment

2017

Objectives

Through training, continue 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.

Strategy Delivery and Performance

Through our proactive Safety Management System, innovative proprietary initiatives and significant investment in seafarer training, we reduced our Lost Time Injury Frequency by 13% to achieve our lowest ever LTIF result of 0.82, and our external Port State Control inspection deficiency rate improved by 27% to 0.54. These statistics are among the best in the industry and represent the value of a specific focus on staff training.

2018

Objectives

Through continued investment in training, systems, procedures and technology, to substantially eliminate injury, navigation and pollution incidents, minimise our environmental impact and promote a healthy and supportive work environment at sea and ashore.

Risk/Impact	Mitigating 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). Ballast water treatment equipment will be fitted on our vessels to comply with IMO and coastal states' Ballast Water Management (BWM) Convention that entered into force on 8 September 2017. We formulate measures to comply with the 2020 global sulphur limits set by the IMO. We have also enhanced our Ship Management System to comply with the Monitoring, Reporting and Verification regulation (MRV) by European Commission. 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 pollution liability 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.

5. Evolving Management & Governance Practices

2017

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 2017.

We received a Gold Award in the medium market capitalisation 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.

Page 14
News and Achievements
Our awards in 2017

2018

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	Mitigating Measures
IT 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. We also entered into commercial crime insurance policy to cover financial loss due to cyber-crimes. 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, UK and EU sanctions legislation. The Board and relevant employees receive regular governance training to ensure a high standard of corporate governance. Page 31 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 49 Investor Relations

6. Maximising Efficiencies & Controlling Costs

2017

Objectives

Continue careful costs control and, where possible, cost reduction by leveraging our scale and reputation as a safe counterparty. Explore scope for more efficient scheduling and trading of our fleet and cargo matching. Gradually renew our fleet with ships of modern, efficient designs well suited for our trades.

Strategy Delivery and Performance

We reduced further our daily vessel operating expenses to US$3,840 in 2017 without impacting maintenance or safety primarily through scale benefits and other efficiencies. Our total G&A overheads increased by 3% year on year due to increased staffing overheads ashore and at sea as our owned fleet expanded. However, since 2014, we have gradually reduced our daily vessel opex by 12% and our total G&A overheads by 28%.

We relocated our headquarters to Hong Kong's southern district in May 2017 and now benefit from a better, more productive office with a markedly lower rent.

Page 12
Daily Vessel Costs and Commitments

2018

Objectives

Despite expectations of a stronger freight market, continue careful costs control and, where possible, cost reduction by leveraging our scale and reputation as a safe counterparty. Explore scope for more efficient scheduling and trading of our ships and optimal matching of our large fleet and cargo systems to maximise utilisation, availability and punctuality. Gradually renew our fleet with ships of modern, efficient designs well suited for our trades.

Risk/Impact	Mitigating Measures
Operational Efficiency Risk Poor internal systems, processes, communications and management could adversely impact our business and undermine our operational efficiency. **Change from last year:** →	The Group's top down approach ensures our performance and strategic objectives (including efficiency objectives) are communicated to all staff through: regular town-hall meetings and memos to staff; management meetings to evaluate performance, formulate operations and cost management strategy, and optimise performance; and a clear and robust organisation and reporting structure that supports our business needs. Other key measures to enhance efficiency include: ▪ Regular review and upgrade of IT systems, evaluation and procurement of new software, applications and hardware to ensure alignment with the business environment and requirements and promote effective system integrations across our operations; ▪ Appropriate documentation of business policies and procedures to ensure process consistency and best practices; ▪ Proper vendor vetting procedures to ensure the stable and sustainable supply of services and goods; and ▪ Where appropriate, certain operational functions are outsourced to third party providers, allowing our own resources to be more effectively deployed.
Cost Management Risk Failure to manage costs effectively and sensibly could result in financial losses, misallocation of resources, safety issues, business disruption, customer dissatisfaction, supplier alienation and loss of opportunities. **Change from last year:** →	Active resource planning and costs estimation are carried out by business departments to expedite their work scope and to assess business opportunities. We implement cost management measures that are in line with our strategy to maximise efficiency and reduce cost without jeopardising our stakeholder satisfaction, corporate reputation and operational safety. Approval mechanisms are in place across business departments to ensure expenditures are scrutinised and approved by authorised persons. Variances from resource planning and cost estimations are regularly monitored to enable effective optimisation of business performance and cost efficiency.

7. Enhancing Corporate & Financial Profile

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.

Strategy Delivery and Performance

We continue to maintain conservative gearing and benefit from access to capital generated through operations, debt, convertible bonds and equity. 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 August, our simultaneous issue of consideration shares and cash raised through a share placement enabled immediate 80% equity financing for our acquisition of 5 modern dry bulk ships, thus enhancing our operating cash flow, EBITDA and balance sheet.

At year end, our gearing ratio was 35% (net borrowings to net book value of our owned fleet) and we were in compliance with our bank covenants.

2018

Objectives

Continue to manage our financial resources and funding, and to work within our financial gearing targets, maintain the financial health of the Group drawing on our access to capital, and strive for best-in-class reporting, transparency and corporate stewardship.

Risk/Impact

Liquidity Risk Ⓐ

Insufficient financial resources (such as bank borrowing facilities) may negatively impact the Group's ability to meet its payment obligations as they fall due.

Change from last year: ↓

Mitigating 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.

Page 84
Financial Statements Note 27
Financial Liabilities Summary

Capital Management Risk Ⓐ

Weakness in our financial management capability and insufficient capital could impact (i) our ability to operate as a going concern, (ii) our ability to provide adequate returns to shareholders, and (iii) other stakeholders' ability and willingness to support the Group.

Change from last year: →

Page 22
Deepening our Relationship
Banking relationships risk

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 dividends to shareholders, where circumstance permits, at a pay out ratio of 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

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.

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 second 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 2017 CSR Report which can be found in the Sustainability section of our website and incorporated in our online Annual Report.

Page 18
Our Resources in Action

www.pacificbasin.com/en/sustainability/cr.php
CSR Report 2017

Workplace

Human Capital

OUR IMPACT IN 2017

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

3,400
seafarers

335
shore-based employees

OUR PERFORMANCE

87%
seafarer retention

8
ships per Safety & Training Manager

47%
shore staff received external training

Environment

Natural Capital

OUR IMPACT IN 2017

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

12,100,000
nautical miles travelled

1,007,000
tonnes of fuel/gas oil purchased

OUR PERFORMANCE

10.75
grams of CO_2 per tonne-mile

1,313,000
tonnes of CO_2 emitted by our owned ships

7
efficient newbuilding ships joined our owned fleet in 2017

Community

Social & Relationship Capital

OUR IMPACT IN 2017

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.

823
ports across 106 countries

12
office locations worldwide

OUR PERFORMANCE

US$58,000
charitable donations and sponsorship – mainly for seafarer welfare causes

"A job well done by all your crew with excellent cooperation for a safe and successful loading"

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

Business Review
Strategic Review
Funding
Governance
Financial Statements

Funding

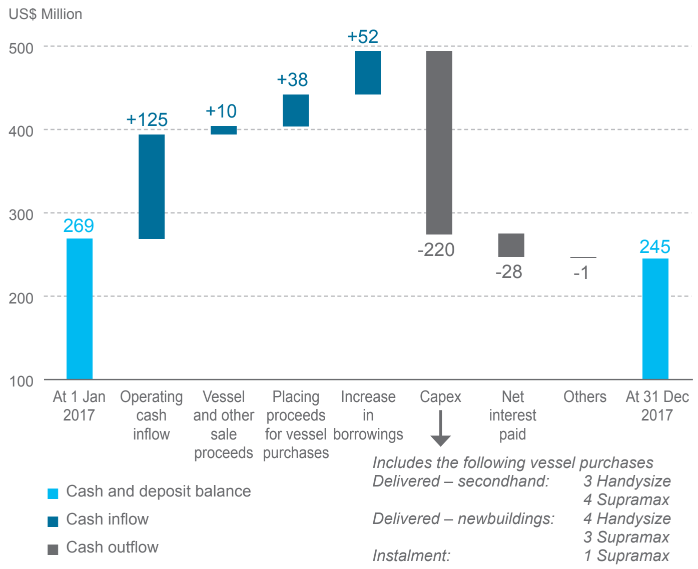
Cash Flow and Cash

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, sale and purchases of dry bulk vessels 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 2017



Overview of 2017 and Current Position

During 2017:

- Our operating cash inflow further improved to US$125 million, as compared with US$48 million in the first half 2017 and US$50 million in full year 2016 on the back of an improving dry bulk market conditions.
- Borrowings increased by US$52 million, after:
  - We drew down US$158 million, comprising US$140 million under our Japanese export credit facilities in respect of seven delivered newbuildings to fund the capital commitments of US$119 million, and US$18 million of other borrowings on two existing vessels; and
  - We repaid US$106 million of secured borrowings, net of the voluntary prepayment and drawdown of our revolving facilities during the year.
- In August, we committed to the purchase of one secondhand Handysize, three secondhand Supramax and one resale Supramax newbuilding for a total consideration of US$105 million, which was funded by way of i) the issue of new shares to the ship sellers equivalent to US$46 million; ii) the placement of new shares to institutional investors, raising net cash proceeds of US$38 million; and iii) cash payment of US$21 million.

As at 31 December 2017:

- The Group's cash and deposits were US$245 million reflecting a 35% net gearing ratio.
- Our unmortgaged vessels comprise ten dry bulk vessels (including the resale Supramax newbuilding which delivered to us in January 2018) with an aggregate market value of approximately US$173 million.
- Our committed banking facilities were fully drawn.

Cash and Deposits

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

US$ Million	**2017**	2016	Change
Cash and deposits	**244.7**	269.2	-9%
Current portion of long-term borrowings	**(104.1)**	(95.7)	
Long-term borrowings	**(776.9)**	(743.5)	
Total borrowings	**(881.0)**	(839.2)	-5%
Net borrowings	**(636.3)**	(570.0)	-12%
Net borrowings to shareholders' equity	**55%**	55%	
Net borrowings to net book value of property, plant and equipment KPI	**35%**	34%	
Net working capital	**136.8**	160.6	-15%

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 and structured notes.

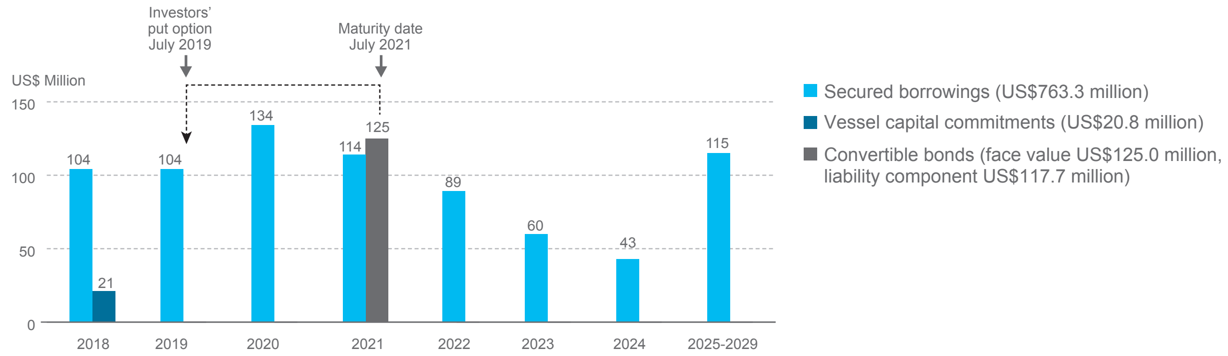
Treasury enhances Group income by investing in a mix of financial products, based on the perceived balance of risk, return and liquidity. Cash, deposits and investment products are placed with a range of leading banks, mainly in Hong Kong.

The Group's cash and deposits at 31 December 2017 comprised US$236.9 million in United States Dollars and US$7.8 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 working capital needs.

During the year, Treasury achieved a 1.6% 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 2017, which comprised secured borrowings and the liability component of convertible bonds, amounted to US$881.0 million (2016: US$839.2 million) and are mainly denominated in United States Dollars.

Secured Borrowings – US$763.3 million (2016: US$723.8 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 all our remaining committed loan facilities, which comprise our Japanese export credit facilities of US$139.7 million secured on seven newbuildings which were delivered in the first half of 2017 and other borrowings of US$18.2 million in respect of two existing 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 2017:

- The Group's secured borrowings were secured by 96 vessels with a total net book value of US$1,625.8 million and an assignment of earnings and insurances in respect of these vessels.
- The Group was in compliance with all its loans-to-asset value requirements.

P/L impact:

The increase in interest (after capitalisation) to US$29.1 million (2016: US$22.1 million) was mainly due to an increase in average secured borrowings to US$794.9 million (2016: US$564.2 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$117.7 million (2016: US$115.4 million)

As at 31 December 2017 and 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 the prevailing conversion price of HK$3.07.

P/L impact:

The US$6.4 million (2016: US$12.4 million) interest expense of the convertible bonds is calculated at an effective interest rate of 5.7% (2016: 5.2%).

Business Review
Strategic Review
Funding
Governance
Financial Statements

Finance Costs

Finance Costs by Nature

US$ Million	Average interest rate P/L	Average interest rate Cash	Balance at 31 December 2017	Finance costs 2017	Finance costs 2016	(Increase)/ decrease
Secured borrowings (including realised interest rate swap costs)	3.6%	3.6%	763.3	**29.1**	22.1	(32%)
Convertible bonds (Note)	5.7%	3.3%	117.7	**6.4**	12.4	48%
	KPI 3.9%	KPI 3.6%	881.0	**35.5**	34.5	(3%)
Unrealised interest rate swap income				**–**	(1.6)	
Other finance charges				**0.5**	1.0	
Total finance costs				**36.0**	33.9	(6%)
Interest coverage (calculated as EBITDA divided by total gross finance costs)				KPI **3.7x**	0.7x	

Note: The convertible bonds have a P/L cost of US$6.4 million and a cash cost of US$4.1 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, all our interest rate swap contracts qualified for hedge accounting as cash flow hedges and US$0.9 million of interest rate swap contract costs were realised. As at 31 December 2017, 65% (2016: 65%) of the Group's long-term borrowings were on fixed interest rates. As at 31 December 2018 and 2019, we expect about 65% of the Group's existing long-term borrowings will be on fixed interest rates.

Delivered Vessels

As at 31 December 2017, the Group operated owned dry bulk vessels with a net book value of US$1,792 million as follows:

	Number	Average size (dwt tonnes)	Average age (years)	Average net book value (US$ Million)	Total net book value (US$ Million)
Handysize	80	32,600	9.3	15.3	1,222
Supramax	24	56,200	6.1	21.9	527
Post-Panamax	1	115,500	6.0	43.3	43

Latest estimated fair market values published by Clarksons Research are US$14.0 million and US$17.5 million for 5-year old 32,000 dwt Handysize and 56,000 dwt Supramax vessels respectively.

Vessel Capital Commitments

As at 31 December 2017, the Group had commitments of US$20.8 million for one Supramax vessel, which delivered to the Group in January 2018.

As at 31 December 2017, the Group had options to purchase 10 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 current market conditions.

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

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 2017, 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 8 Directors (7 male, 1 female): the Chairman, one Executive Director 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 and Senior Management" section of this Annual Report.

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. During the year ended 31 December 2017, all Directors have given sufficient time and attention to the Group's affairs. 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 8 members.

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

	At 1 Jan 2013	Movements	At 31 Dec 2017
Executive Directors	6	-4	2
Non-executive Directors	4	+2	6
	10	-2	8

- **Board Diversity**

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

- **Separate Formalised Roles for the Chairman and Chief Executive Officer**

  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.

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, adding diversity to the Board as well as shipping business and management expertise. Mr. Stanley Hutter Ryan also joined us in July 2016, 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 total issued share capital 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 reading materials were also identified by the Company during the year and records of training of all Directors have been provided to the Company Secretary.

Board Evaluation

The 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 2017. This process has confirmed that the performance of the Board and its committees and individual Directors in 2017 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 is an area that will be closely monitored. The Board will undertake appropriate recruitment having regard to the retirement plan of individual directors.

The Board and its members' responsibilities

The Board is accountable to the shareholders of the Company, with primary responsibilities including:

- Develop 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

The Board delegates certain responsibilities to Board Committees outlined below. Executive Directors are delegated authority to oversee 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.

Board, Board Committee and General Meetings in 2017

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. The attendance of each Director at Board meetings, Committee meetings and general meeting are set out below. The high attendance record at the Board and Board Committee meetings in 2017 demonstrates the Directors' strong commitment to discharging their duties as directors of the Company.

www.pacificbasin.com Sustainability > Corporate Governance Board & Board committees	Annual General Meeting	Board	Audit[1] Committee	Remuneration Committee	Nomination Committee
Executive Directors					
David M. Turnbull (Chairman)	1	4/4			
Mats H. Berglund (Chief Executive Officer)	1	4/4			
Andrew T. Broomhead (Chief Financial Officer) – resigned in August 2017	1	3/3			
Chanakya Kocherla (Chief Technical Officer) – resigned in April 2017	0	1/1			
Independent Non-executive Directors					
Patrick B. Paul	0	4/4	4/4	1/1	1/1
Robert C. Nicholson	1	3/4	4/4	1/1	1/1
Alasdair G. Morrison	1	4/4	4/4	0/1	0/1
Daniel R. Bradshaw	1	4/4	4/4	1/1	1/1
Irene Waage Basili	0	4/4	4/4	1/1	1/1
Stanley H. Ryan	0	4/4	4/4	1/1	1/1
Total no. of meetings held during the year	**1**	**4**	**4**	**1**	**1**

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

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 of 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 2017

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

- review and discussion of the external auditor's Audit Committee Report in respect of the 2016 full year audit and the 2017 interim review;
- review of the 2016 Annual Report and accounts and the 2017 interim report and accounts with a recommendation to the Board for approval;
- review of the Risk Management Committee reports including the internal audit work plan for 2017 and the testing results;
- deep-dive review of the Group's Dry Bulk business management and crew management;
- review of the adequacy of the Group's marine related and other insurance covers;
- review and approval of the revised FFA policy;
- review of the aggregate short term charter-in exposure authorisation limits and time charter-in commitments;
- review of compliance with transfer pricing regulations under the OECD's Base Erosion and Profit Shifting Action Plan;
- review of the updated accounting standards, including HKFRS15 and HKFRS16; and
- noting that there were no continuing connected party transactions for 2017.

During the year, the Audit Committee met the external auditor 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.

Work Done in 2017

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

- approval of the grant of restricted awards to certain staff members; and
- approval of the 2017 bonuses, 2018 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 recommendation 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 2017

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

- review of the retirement plan of the Board; and
- review of the structure, size and composition of the Board.

The Executive Committee

Membership

Chairman: Mats H. Berglund

Members: Chairman, Chief Executive Officer, Chief Financial Officer and two senior executives

Main Responsibilities

1. Identify and execute transactions within the parameters approved by the Board.
2. Identify and execute vessel purchases and vessel sales, and sale and charter back of vessels.
3. Identify and execute transactions for long-term charters and cargo contracts exceeding 5 years.
4. Identify and execute bunker physical contracts and bunker swap contracts exceeding 5 years.
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 issue new shares or buy back shares in accordance with the parameters set by the Board and the limits approved by the shareholders.

Work Done in 2017

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

- the issuance of new shares under general mandate to ship sellers and through a share placement as partial consideration for the acquisition of five vessels under the authority granted by the Board;
- forfeiture of unclaimed dividends of HK$487,000 since the IPO up to and including dividends for the year ended 31 December 2010;
- announcement of the issue of new shares to fulfill the grant of restricted awards to employees;
- entering into of a 7-year contract of affreightment;
- the purchase of one secondhand Supramax and the sale of one older Supramax;
- appointment of the new Chief Financial Officer as the Group's authorised representative to operate all loan facilities and sign all documents in relation thereto;
- announcement of the voting results of the annual general meeting;
- amendment of bank signing authority for the Group's bank accounts; and
- announcement of the change of the principal place of business of the Company.

Risk Management & Internal Controls

The Group's risk governance structure is based on a "Three Lines of Defense" model, with oversight and directions from the Board and Audit committee.

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 Systems, which are designed to manage rather than eliminate the risk of failure to achieve business objectives, and to provide reasonable but not absolute assurance against material misstatement or loss. A review of its effectiveness is conducted annually by the Risk Management Committee ("RMC") and reported 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.

As the first line of defense, individual business units identify operational risks, develop and implement respective controls. These activities are monitored and evaluated by division heads and relevant staff managers, and are oversighted by the RMC as the second line of defense. As the third line, internal / external reviews are regularly conducted and reported to the Audit Committee charged with the role to ensure that the enterprise risk management arrangements and structures are appropriate and effective.

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) Enterprise Risk Management (ERM) - Integrated Framework and has the following five components:

- **Governance and Culture**

  The Group has defined organisation tone to reinforce enterprise risk management culture, including ethical values, desired behaviors and risk appetite. Sound organisational structure is established to delegate business functions to respective business units within limits set by head office management or Executive Directors in the pursuit of the Group's strategy and business objective.

- **Strategy and Objective-setting**

  The Board meets on a regular basis to discuss and agree on business strategies, plans and budgets prepared by individual business units. The board considers business context and risk implications while establishing the strategies to ensure that the Group's strategies align, support and integrate with the defined vision and mission.

- **Performance**

  The Group identifies, assesses and prioritises the risks that are most relevant to the Group's success according to their likelihood and impacts. Based on risk assessment, mitigation plans are developed and implemented by individual business units. The result of this process is summarised and reported to the Board annually.

- **Review and Revision**

  The Group continuously reviews the Group's risk framework in light of substantial changes and pursues improvements of enterprise risk management.

- **Information, Communication, and Reporting**

  The Group encourages obtaining and sharing information, from both internal and external sources, which flows up, down and across the Group. Information systems, channels and reporting tools are established to support enterprise risk management communications in the Group.

The Risk Management Committee

Membership

Chairman: Mats H. Berglund

Members: Chief Financial Officer, Director of Chartering, 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 2017

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 included:

- review of the Group's significant and emerging risks with division heads, particularly in relation to Dry Bulk business management, crew management and marine insurance;
- tightening of the controls in bunker consumption and port cost management in collaboration with the operations team;
- strengthening of the due diligence policy on counterparties in compliance with international sanctions legislations;
- performance of the annual risk assessment by way of an online questionnaire and its review in collaboration with division heads; and
- review and analysis of the impacts of new/updated industry rules and regulations.

Annual Assessment of Risk and Internal Controls

Risks and their respective mitigating controls, identified and updated via our annual 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.

We also conduct an annual customer and investor surveys which generate feedback that we act on to further enhance the quality of our service and our investor relations and corporate governance practices.

Page 15
With You for the Long Haul
Page 50
Investor Relations
Survey Feedback

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 performance 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. 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. With the assistance of appropriate staff members from other departments, internal controls testing on the selected controls takes place annually.

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.

Findings and recommendations are communicated with the relevant division heads and staff to formulate measures to enhance or rectify any control deficiency.

Effectiveness of the Risk Management and Internal Control Systems

The RMC reports at least twice a year to the Audit Committee which regularly assesses the effectiveness of risk management and internal control systems as the Group develops. Such systems are crucial for the fulfillment of the Group's business objectives. The Audit Committee reviews how management designs, implements and monitors those systems, the findings, recommendations and follow-up procedures of the annual assessment, as well as management's confirmation 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 2017, the Board, with confirmation from management, considered the risk management and internal control systems effective and adequate. No significant areas of concern were identified.

Business Review
Strategic Review
Funding
Governance
Financial Statements

HANDLING INSIDE INFORMATION

The Group adopts 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;
- follows a corporate communication policy to govern communication with third parties and, in particular, 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 do so;
- 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; and
- stipulates in its Code of Conduct a strict prohibition on unauthorised use of confidential or inside information.

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.

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 fully complied with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions during the year.

SENIOR MANAGEMENT AND STAFF'S SECURITIES TRANSACTIONS

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

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

AUDITORS' REMUNERATION

Remuneration paid to the Group's external auditor, for services provided for the year ended 31 December 2017 is as follows:

		US$'000
Audit	Non-audit	Total
823	70	893

OUR SHAREHOLDERS

Details of shareholder type and shareholding can be found on page 51 of this Annual Report.

Page 51
Investor Relations
Our shareholding structure

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 held one general meeting during the reporting year which was the annual general meeting held on 12 April 2017, at which the following resolutions were passed and approved:

- receipt and adoption of the audited financial statements and the Reports of the Directors and Auditor for the year ended 31 December 2016;
- re-election of Directors;
- authorising the Board to fix Directors' remuneration;
- re-appointment of Messrs. PricewaterhouseCoopers as auditor for the year ended 31 December 2017 and authorising the Board to fix their remuneration;
- granting a general mandate to issue shares; and
- granting a general mandate to buy back shares.

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

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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 are encouraged to maintain direct communication with the Company and if they have any questions for the Board, they may send an e-mail to *companysecretary@pacificbasin.com* or a letter to:

Company Secretary
Pacific Basin Shipping Limited
31/F One Island South
2 Heung Yip Road
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 98.26% of the Company's total issued share capital is held by the public.

Planned Financial Calendar for 2018

28 February	2017 annual results announcement
13 March	2017 Annual Report
12 April	First quarter trading update
17 April	Annual General Meeting
27 July	2018 interim results announcement
12 October	Third quarter trading update

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Investors > Corporate Calendar

Our Directors and Senior Management

Our Board comprises eight 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

Executive Directors

1 David M. Turnbull (age 62)

Chairman

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 and was a non-executive director of London AIM-listed Greka Drilling Limited between February 2011 to October 2017.

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 2020 AGM

External appointments:
Non-executive director of London-listed G3 Exploration Limited

INED of Hong Kong-listed Wharf (Holdings) Limited

Committee membership:
Executive Committee

2 Mats H. Berglund (age 55)

Chief Executive Officer

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

Independent Non-executive Directors

3 Patrick B. Paul (age 70)
Independent Non-executive Director

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

INED of House of Fraser Group Ltd.

Committee membership:
Chairman of Audit Committee

Remuneration and Nomination Committees

4 Robert C. Nicholson (age 62)
Independent Non-executive Director

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. He was an independent non-executive director of Hong Kong-listed Lifestyle Properties Development Limited between August 2013 to May 2017.

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 holds 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

Committee membership:
Chairman of Remuneration and Nomination Committees

Audit Committee

5 Alasdair G. Morrison (age 69)
Independent Non-executive Director

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

6 Daniel R. Bradshaw (age 71)
Independent Non-executive Director

Mr. Bradshaw is a senior consultant at Mayer Brown JSM (formerly known as Johnson, Stokes & Master) where he served as a solicitor, partner and head of the shipping practice since 1978. 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 Hong Kong-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

7 Irene Waage Basili (age 49)
Independent Non-executive Director

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 and acted as the chief executive officer of GC Rieber Shipping from March 2011 to April 2017 (both listed on the Oslo Stock Exchange).

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

Term of office:
Appointed INED in May 2014

Current term expires at the 2020 AGM

External appointments:
Director and deputy chairman of Kongsberg Gruppen ASA and a director of Wilh. Wilhelmsen Holdings ASA (both listed on the Oslo Stock Exchange)

Chief executive officer of Sherwater Geoservices after serving as acting chief executive officer for about 6 months.

Committee membership:
Audit, Remuneration and Nomination Committees

8 Stanley Hutter Ryan (age 55)
Independent Non-executive Director

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 in July 2016

Current term expires in July 2019

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

Senior advisor of Mckinsey & Company

Committee membership:
Audit, Remuneration and Nomination Committees

Chief Financial Officer

9 Peter Schulz (age 45)
Chief Financial Officer

Mr. Schulz joined Pacific Basin as the Group's Chief Financial Officer in August 2017. He is responsible for Group finance and accounting, investor relations, risk management and corporate governance and compliance. He has a banking background having served from 1996 to 2012 in various M&A and corporate finance roles in Stockholm, London and Hong Kong with SEB, Dresdner Kleinwort, ABN AMRO/RBS and Royal Bank of Canada. Most recently, he served as chief financial officer of BW Pacific Limited, a product tanker company based in Singapore.

Education & qualifications:
Stockholm School of Economics: Master of Science in Economics and Business Administration (major in Finance).

Erasmus University Rotterdam School of Management: exchange program in International Marketing and International Business

Term of office:
Appointed Chief Financial Officer in August 2017

External appointments:
None

Committee membership:
Executive Committee

Remuneration Report

Introduction

This Remuneration Report sets out the Group's remuneration policies and amounts for all employees including Executive Directors and Non-executive Directors. Pages 43 to 44 comprise the audited parts of the Remuneration Report and form an integral part of the Group's financial statements. The Group employed a total of 335 shore-based staff (2016: 331) at 31 December 2017 and approximately 3,400 seafarers (2016: 3,000) during the year.

Group's Remuneration Policy

The Board, through the Remuneration Committee, seeks to attract and retain personnel 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.

The Board has taken into consideration a number of relevant factors when considering remuneration adjustments and annual bonuses, such as making reference to the prevailing market conditions, local market practice, salaries paid by comparable companies, the levels of emolument of existing staff of the Company, job responsibilities, duties and scope, 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 performance of the individual eligible participant and approved by the Remuneration Committee. 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 Employees	Non-executive Directors
Fixed Based Salary:	Salaries are reviewed annually taking into account prevailing market conditions and local market practice, as well as the individual's role, duties, experience, responsibilities and performance	No
Annual discretionary cash Bonus:	Discretionary cash 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 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	No
Retirement benefit	In line with local legislation and market practice	No
Fixed annual director's fee	No	In line with market practice

Remuneration for the Years Ended 2016 and 2017

31 December 2017	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	–	377	47	2	426	243	669
Mats H. Berglund	–	1,082	216	2	1,300	547	1,847
Andrew T. Broomhead[1]	–	524	–	1	525	(167)	358
Chanakya Kocherla[2]	–	157	–	1	158	(371)	(213)
	–	2,140	263	6	2,409	252	2,661
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	94	–	–	–	94	–	94
Stanley H. Ryan	94	–	–	–	94	–	94
	543	–	–	–	543	–	543
Total Directors' remuneration	543	2,140	263	6	2,952	252	3,204
Senior Management							
Peter Schulz[3]	–	208	40	1	249	178	427
Other Employees	–	120,112[4]	4,175	2,344	126,631	3,871	130,502
Total remuneration	543	122,460	4,478	2,351	129,832	4,301	134,133

Note:

(1) Mr. Broomhead stepped down as an Executive Director on 20 August 2017.

(2) Mr. Kocherla retired as an Executive Director on 12 April 2017.

(3) Mr. Schulz was appointed Chief Financial Officer on 21 August 2017.

(4) Salaries of Other Employees includes crew wages and other related costs of US$90.7 million (2016: US$83.6 million), which are classified as cost of services in the income statement.

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	–	514	82	2	598	283	881
Chanakya Kocherla	–	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[5]	46	–	–	–	46	–	46
	496	–	–	–	496	–	496
Total Directors' remuneration	496	2,491	317	8	3,312	1,227	4,539
Other Employees	–	111,546[4]	3,383	2,219	117,148	2,980	120,128
Total remuneration	496	114,037	3,700	2,227	120,460	4,207	124,667

Note:

(5) Mr. Ryan was appointed as an Independent Non-executive Director on 5 July 2016.

For the year 2017, the five individuals whose emoluments were the highest in the Group were the two current Executive Directors and three employees (2016: four Executive Directors and one employee). The emoluments of the highest paid individuals who are not Executive Directors are set out below and fell within the following bands.

	2017 US$'000	2016 US$'000
Salaries	906	333
Bonuses	255	76
Pension	130	31
Total Payable	1,291	440
Share-based compensation	518	120
Total payable and charged	1,809	560

Emolument bands	2017	2016
HK$3,500,001 to HK$4,000,000	1	–
HK$4,000,001 to HK$4,500,000	–	1
HK$5,000,001 to HK$5,500,000	2	–

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.

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 2017.

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 31 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 2017 is set out on pages 1 to 13 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 2017 is set out in the "CSR Highlights" section of this Annual Report and a comprehensive 2017 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 54. In view of the Group's small profit for the year ended 31 December 2017, the Board recommends not to pay out a dividend.

Distributable Reserves

Distributable reserves of the Company at 31 December 2017, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to US$635.9 million.

Donations/Sponsorships

Charitable and other donations and sponsorships made by the Group during the year amounted to US$58,000.

Share Capital and Pre-emptive Rights

Movements in the share capital of the Company are set out in Note 18 to the financial statements.

During the reporting year, a total of 426,957,827 ordinary shares were issued including 23,115,000 shares issued on 17 March 2017 to fulfil the Company's 2017 restricted awards under the 2013 Share Award Scheme. The balance comprises shares issued to placees and four ship sellers as partial funding and consideration for the acquisition of five vessels agreed in August. The placees were issued 186,939,553 shares on 10 August 2017 pursuant to a placing agreement which raised cash of US$37.6 million. The four ship sellers were issued an aggregate of 216,903,274 shares during the period from August to November 2017 upon delivery of the vessels into Pacific Basin's ownership.

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 17(c) to the financial statements.

Purchase, Sale or Redemption of Securities

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

2013 Share Award Scheme ("SAS")

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 444,227,110 shares as at 1 January 2018). There were 71,558,000 unvested restricted awards under the SAS which represents 1.61% of the issued share capital of the Company as at 28 February 2018.

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 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.

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 history and movements of the outstanding incentives during the year ended 31 December 2017 under the SAS are as follows:

'000 shares/units	Date of first award	Total awarded	Vested to date	At 31 Dec 2017	At 1 Jan 2017	Granted during the year[3]	Vested and/or lapsed[4]	2018	2019	2020
Directors										
David M. Turnbull	5-Aug-08	7,524	(3,199)	4,325	3,429	1,590	(694)	1,242	1,493	1,590
Mats H. Berglund	1-Jun-12	15,623	(5,768)	9,855	7,662	3,623	(1,430)	2,830	3,402	3,623
Andrew T. Broomhead [1]	11-May-07	7,881	(4,310)	–	4,477	–	(4,477)	–	–	–
Chanakya Kocherla [2]	11-May-07	6,324	(2,276)	–	4,048	–	(4,048)	–	–	–
		37,352	(15,553)	14,180	19,616	5,213	(10,649)	4,072	4,895	5,213
Senior Management										
Peter Schulz	21-Aug-17	3,443	–	3,443	–	3,443	–	1,147	1,147	1,149
Other Employees				56,383	47,640	26,066	(17,323)	18,129	18,316	19,938
				74,006	67,256	34,722	(27,972)	23,348	24,358	26,300

Notes:

(1) 906,000 shares were vested to Mr. Broomhead on 14 July 2017 according to the annual vesting schedule, and the balance of 3,571,000 shares lapsed when he stepped down on 20 August 2017.

(2) 4,048,000 unvested restricted share awards lapsed upon Mr. Kocherla's resignation on 12 April 2017.

(3) The closing price of the shares of the Company immediately before the grant of: 30,443,000 restricted awards on 17 March 2017 was HK$1.80; 836,000 restricted awards on 26 May 2017 was HK$1.56; and 3,443,000 restricted awards on 21 August 2017 was HK$1.85.

(4) A total of 12,948,000 shares vested during the year in accordance with the award vesting schedule. In addition, 4,099,000 shares vested due to the retirement and redundancy of four employees and 3,306,000 shares lapsed due to the resignation of three employees.

Directors

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

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Executive Committee	Terms of Appointment
Executive Directors						
David M. Turnbull, Chairman	17 May 2006	–	–	–	1 July 2008	3 years until 2020 AGM
Mats H. Berglund	1 June 2012	–	–	–	C 1 June 2012	3 years until 2018 AGM
Independent Non-executive Directors						
Patrick B. Paul	25 March 2004	C 18 May 2004	10 June 2004	30 November 2004	–	3 years until 2018 AGM
Robert C. Nicholson	25 March 2004	18 May 2004	C 10 June 2004	C 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 2020 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 being shall retire from office by rotation, provided that every Director shall be subject to retirement at least once every three years.

C *represents Chairman of the Board Committee*

Messrs. Mats H. Berglund, Patrick B. Paul and Alasdair G. Morrison shall retire at the 2018 AGM by rotation pursuant to the Company's Bye-laws 87(1) & (2). All retiring Directors, being eligible, offer themselves for re-election.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming 2018 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 and Senior Management" section of this Annual Report.

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation

At 31 December 2017, 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 17	31 Dec 16
David M. Turnbull [1]	8,137,000	2,524,918 [3]	Long	10,661,918	0.24%	0.23%
Mats H. Berglund [1]	15,623,000	–	Long	15,623,000	0.35%	0.30%
Patrick B. Paul	380,000	–	Long	380,000	less than 0.01%	less than 0.01%
Daniel R. Bradshaw	–	772,834 [4]	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 46 of this Report.

(2) The total issued share capital of the Company was 4,442,271,102 shares as at 31 December 2017 and was 4,015,313,275 shares as at 31 December 2016.

(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.

(4) 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 2017.

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 2017, 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 17	31 Dec 16
Aggregate of Standard Life Aberdeen plc affiliated investment management [2]	Investment manager	Long	575,420,000	12.95%	15.77%[2]
Citigroup Inc.[3]	Person having a security interest/Interest in corporation controlled/ Custodian corporation & approved lending agent	Long Short	273,581,408 7,390,419	6.16% 0.17%	5.91% Not applicable

Notes:

(1) The total issued share capital of the Company was 4,442,271,102 shares as at 31 December 2017 and was 4,015,313,275 shares as at 31 December 2016.

(2) Standard Life Aberdeen plc was formed in August 2017 as a result of the merger of Standard Life plc and Aberdeen Asset Management plc, the latter held 15.77% of the total issued share capital of the Company as at 31 December 2016.

(3) The long position in shares held by Citigroup Inc. is held in the capacities of Person having a security interest (relating to 6,059,075 shares), Interest in corporation controlled (relating to 7,128,150 shares) and Approved lending agent (relating to 260,394,183 shares).

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, as at 31 December 2017, 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, Remuneration, Nomination, Executive and Risk Management Committees

Details of the audit, remuneration, nomination, executive and risk management committees are set out in the Corporate Governance Report of this Annual Report.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming 2018 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 2018

Investor Relations

Creating Shareholders' Value

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

On 4 September, Pacific Basin was selected as an eligible stock for Southbound Trading under the Shenzhen-Hong Kong Stock Connect programme, and for inclusion in the Hang Seng Stock Connect Hong Kong Index. This Southbound Trading mechanism will help to enhance our profile in the mainland Chinese capital markets, and potentially enlarge our shareholder base in China. As at 31 December 2017, 1.2% of our stock was held via the Shenzhen-Hong Kong Stock Connect channel.

Social media communications continue to be an important communications channel for the Group. The development of different social media platforms especially WeChat and Facebook facilitates communications between the Company and investors, and enhances our corporate brand and provides updated dry bulk market information to our global stakeholders. We are also revamping our corporate website to better target our customers and other stakeholders and tie-in with our integrated reporting. The new website will be responsive to tablet and mobile devices to allow easier navigation and access to our latest information from anywhere and at anytime.

During the year, we received seven awards for investor relations and corporate governance. We were recognised by Institutional Investors (II) Magazine's 2017 All-Asia Executive Team Awards as a 'Most Honored' Company, and in the Best CFO and Best IR Professional category (both buy-side investors and sell-side analysts). Investors voted our website and investor relations programme as one of the best in the Transportation category. We received a Gold Award at HKICPA's Best Corporate Governance Awards for a third consecutive year. Our Online Annual Report received a Gold Award at the 2016 LACP Vision Awards (in the transportation & logistics category). Last but not least, we received the Best IR Team award and the Platinum Award (the highest recognition) at the Asset Corporate Awards 2017 for the fourth consecutive year for our excellent performance in corporate governance, social and environmental responsibility and investor relations.

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 several channels:

Financial Reporting

- Annual and Interim Reports
- Online Annual Report
- Quarterly trading updates
- Presentations and press releases on business activities

www.pacificbasin.com/ar2017
Interactive Online Annual 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 feedback on our group strategy, executive management team, reporting 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

Company Website – www.pacificbasin.com

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

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

Social Media Communications

Facebook, Twitter, LinkedIn, YouTube and WeChat

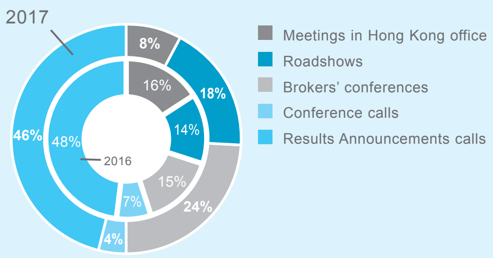
Company news, video clips, photos and events news are published through our social media sites

Roadshows – Roadshows are conducted following results announcements and trading updates. In 2017, we met investors in 12 cities in North America, Europe and Asia-Pacific.

Investor Meetings – In 2017, we met 1,014 (2016: 607) shareholders and investors.

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.

Type of Investor Meetings



www.pacificbasin.com
Investors > Share Information > Research Coverage
Contact Details of the Analysts

KPIs Measuring Investor Relations Performance

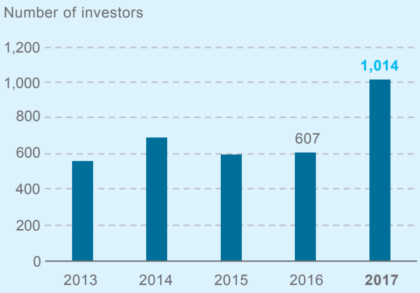
KPI

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 investor community to enhance their understanding of our business. The number of investor contacts during a year is a key measure of our engagement with investors.

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

Our 2017 Investor Perception Study shows that 94% of respondents consider Pacific Basin management to be good at articulating strategy, and 94% say we have a very high transparency in our disclosures.

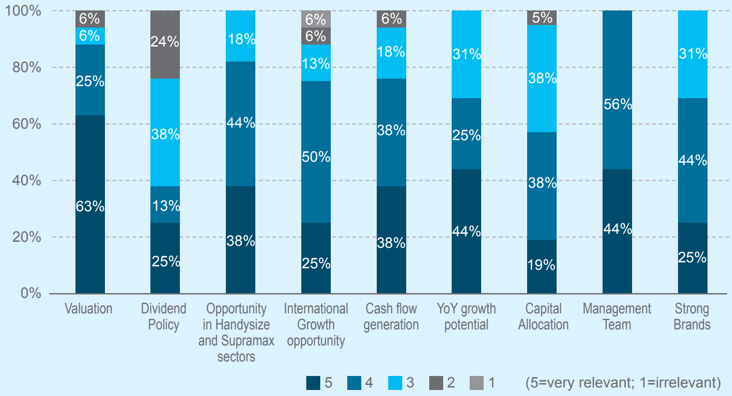
Number of Investors We Meet



9 analysts
covered Pacific Basin in 2017 (2016: 11)

58 research reports
on Pacific Basin in 2017 (2016: 42)

Feedback extracted from 2017 Investor Perception Study
Compelling Factors for Investing in Pacific Basin



Key Investor Concerns in 2017

- Sustainability of the dry bulk recovery
- Demand and supply balance
- Impact of ballast water treatment regulations and low sulphur emission regulation
- Latest ship transaction and any further ship acquisition plans
- Use of share for asset acquisitions
- Chartered-in days and cost of the vessels
- Any further cost saving initiatives

Share and Convertible Bond Information

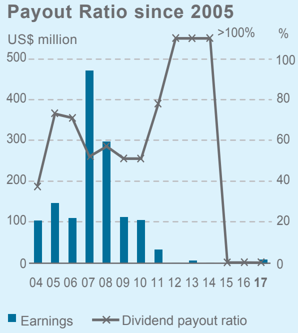
The Company's Shares and Convertible Bonds in issue at 31 December 2017:
- 4,442,271,102 ordinary shares, each with a par value of US$0.01
- US$125 million of 3.25% coupon Convertible Bonds due 2021

Our stock is a constituent member of the Hang Seng sub index series and the MSCI Index series, and it is eligible for Southbound Trading under the Shenzhen-Hong Kong Stock Connect programme.

Our Share Price Performance vs Hang Seng Index in 2017

Convertible Bonds Due 2021 Price Performance in 2017

Net Profit and Dividend Payout Ratio since 2005



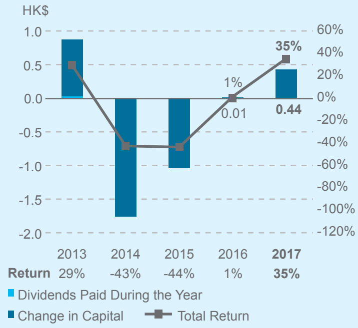
Page 95
Market Capitalisation

Shareholder Return and Dividend

we return value to our shareholders by way of both appreciation in share price and dividends. In 2017, our total shareholders' return was 35%

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

Total Shareholders' Return

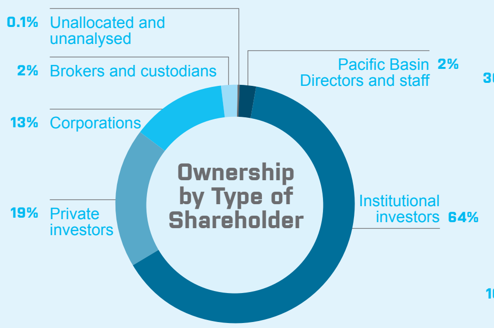


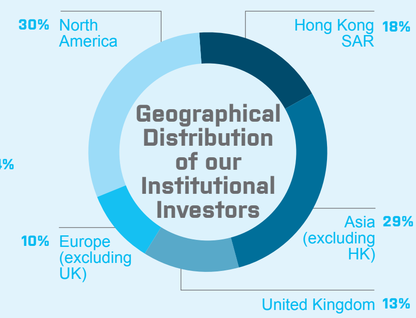
Our Shareholders

As at 31 December 2017, Nasdaq OMX was able to analyse the ownership of about 99.9% of the Company's share capital. Institutional Investors still accounted for the largest portion of the Company's shareholder base, owning nearly 2.84 billion shares or 64% of our share capital.

We identify 2,722 shareholders as at 31 December 2017. The actual number of investors interested in our share's 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	148	5.44%	4,030	0.00%
501-1,000	36	1.32%	34,283	0.00%
1,001-100,000	695	25.53%	35,559,446	0.80%
100,001-500,000	1,188	43.64%	268,000,470	6.03%
>=500,001	655	24.07%	4,138,672,873	93.17%
Total	**2,722**	**100.00%**	**4,442,271,102**	**100.00%**





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.

No Distinction Between Institutional Investors and Retail Investors

We listen carefully to the views and feedback we receive from all investors. About 64% of our shareholders are institutional investors, while 19% 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 for the benefit of any investors who choose to attend.

Live webcast and audio calls of our results announcements are streamed on our website, enabling overseas investors, media and the public to listen in to our presentations and ask questions. Archive of calls and transcripts is available on our website.

Financial Statements

Group Performance Review

US$ Million	Note	**2017**	2016	Change
Revenue		**1,488.0**	1,087.4	+37%
Bunker, port disbursement & other voyage costs		**(701.5)**	(555.4)	-26%
Time-charter equivalent ("TCE") earnings	1	**786.5**	532.0	+48%
Owned vessel costs				
Operating expenses	2	**(139.3)**	(130.9)	-6%
Depreciation	3	**(107.6)**	(97.1)	-11%
Net finance costs	4	**(32.3)**	(32.8)	+2%
Charter costs	5	**(451.0)**	(305.5)	-48%
Operating performance before overheads		**56.3**	(34.3)	>+100%
Total G&A overheads	6	**(54.4)**	(52.9)	-3%
Taxation		**0.4**	(1.0)	>+100%
Others		**(0.1)**	0.5	>-100%
Underlying profit/(loss)		**2.2**	(87.7)	>+100%
Unrealised derivative income	7	**5.4**	23.6	
Office relocation costs	8	**(1.4)**	–	
Vessel impairments	9	**(0.8)**	(15.2)	
Sales of towage vessels	9	**(0.5)**	(4.9)	
Towage exchange loss	9	**(1.3)**	(2.8)	
Other impairments and disposals		**–**	(1.2)	
Sales of properties		**–**	1.7	
Profit/(loss) attributable to shareholder		**3.6**	(86.5)	>+100%
EBITDA	10	**133.8**	22.8	>+100%
Net profit margin		**1%**	(8%)	+9%
Return on average equity employed		**1%**	(9%)	+10%

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

Notes

1. Total time-charter equivalent ("TCE") earnings increased by 48%, mainly due to the significantly improved market conditions in 2017 from a historically low level in 2016.
2. Total operating expenses of our owned vessels increased by 6% as our owned fleet expanded, but our daily vessel costs reduced primarily through scale benefits and continued cost control.
3. Depreciation of our owned vessels increased by 11% as our owned fleet expanded, but with lower daily cost principally due to the addition of lower cost acquisitions.
4. Net finance costs were substantially unchanged.
5. Charter costs include the write-back of the onerous contract provisions. The costs increased by 48% owing to the increased chartered days and higher charter rates as a result of improving market conditions.
6. The increase in total G&A overheads was attributable primarily to an increase in staff-related costs as our owned fleet expanded.
7. An unrealised derivative income from bunker swap contracts was as a result of increase in oil and bunker prices.
8. The one-off office relocation costs related to the relocation of the Hong Kong headquarters to a better and more cost-efficient office.
9. The sale of remaining towage assets resulted in a capital loss and the release of their related non-cash exchange loss from reserves to the income statement. This concluded our complete exit from the towage business.
10. EBITDA substantially increased mainly due to the significantly improved market conditions in 2017. Our cash and deposits at the year end stood at US$244.7 million (2016: US$269.2 million) with net gearing of 35% (2016: 34%).

US$ Million	**2017**				2016			
	Dry Bulk	**Towage**	**Others**	**Total**	Dry Bulk	Towage	Others	Total
Operating performance before overheads	**56.7**	**(0.6)**	**0.2**	**56.3**	(34.9)	1.1	(0.5)	(34.3)
Total G&A overheads	**(53.5)**	**(0.9)**	**–**	**(54.4)**	(51.7)	(1.2)	–	(52.9)
Taxation	**(0.6)**	**1.0**	**–**	**0.4**	(1.0)	–	–	(1.0)
Others	**–**	**–**	**(0.1)**	**(0.1)**	–	–	0.5	0.5
Underlying profit/(loss)	**2.6**	**(0.5)**	**0.1**	**2.2**	(87.6)	(0.1)	–	(87.7)
Other exceptions	**–**	**–**	**1.4**	**1.4**	–	–	1.2	1.2
Profit/(loss) attributable to shareholder	**2.6**	**(0.5)**	**1.5**	**3.6**	(87.6)	(0.1)	1.2	(86.5)

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

Pages 53 to 90 comprise the audited financial statements

Consolidated Balance Sheet

	Note	As at 31 December 2017 US$'000	2016 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,797,587**	1,653,433
Goodwill	7	**25,256**	25,256
Available-for-sale financial assets	9	**569**	875
Derivative assets	10	**1,233**	969
Trade and other receivables	11	**5,254**	5,405
Restricted bank deposits	12	**58**	58
		1,829,957	1,685,996
Current assets			
Inventories	13	**71,774**	62,492
Derivative assets	10	**4,834**	2,831
Assets held for sale	14	**–**	5,820
Trade and other receivables	11	**80,275**	80,940
Cash and deposits	12	**244,636**	269,146
Tax receivable		**116**	–
		401,635	421,229
Total assets		**2,231,592**	2,107,225
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	18	**43,554**	40,046
Retained profits	19	**154,387**	150,783
Other reserves	19	**963,194**	849,942
Total equity		**1,161,135**	1,040,771
LIABILITIES			
Non-current liabilities			
Derivative liabilities	10	**5,790**	24,860
Long-term borrowings	17	**776,876**	743,507
Provision for onerous contracts	16	**12,731**	31,564
Trade and other payables	15	**10,203**	5,856
		805,600	805,787
Current liabilities			
Derivative liabilities	10	**772**	2,899
Trade and other payables	15	**143,878**	140,625
Current portion of long-term borrowings	17	**104,092**	95,735
Taxation payable		**–**	1,054
Provision for onerous contracts	16	**16,115**	20,354
		264,857	260,667
Total liabilities		**1,070,457**	1,066,454

Approved by the Board of Directors on 28 February 2018

David M. Turnbull
Director

Mats H. Berglund
Director

Consolidated Income Statement

	Note	For the year ended 31 December 2017 US$'000	2016 US$'000
Revenue	4, 8	**1,488,019**	1,087,371
Cost of services	5, 8	**(1,463,311)**	(1,141,696)
Gross profit/(loss)		**24,708**	(54,325)
Indirect general and administrative overheads	5	**(5,310)**	(5,749)
Other income and gains	20	**20,431**	29,971
Other expenses	5	**(4,226)**	(24,284)
Finance income	21	**3,651**	2,750
Finance costs	21	**(35,998)**	(33,925)
Profit/(loss) before taxation		**3,256**	(85,562)
Tax credits/(charges)	22	**354**	(985)
Profit/(loss) attributable to shareholders		**3,610**	(86,547)
Basic and diluted earnings per share for profit/(loss) attributable to shareholders (in US cents)	24	**0.09**	(2.63)

Consolidated Statement of Comprehensive Income

	For the year ended 31 December 2017 US$'000	2016 US$'000
Profit/(loss) attributable to shareholders	**3,610**	(86,547)
Other comprehensive income – items that may be reclassified to income statement:		
Cash flow hedges:		
– transferred to income statement	**(10,356)**	3,549
– fair value gains/(losses)	**12,656**	(699)
Release of exchange losses from reserves to income statement for disposal of towage assets	**1,306**	2,815
Currency translation differences	**771**	(16)
Fair value losses on available-for-sale financial assets	**(306)**	–
Total comprehensive income attributable to shareholders	**7,681**	(80,898)

Consolidated Statement of Changes in Equity

	Note	For the year ended 31 December 2017 US$'000	2016 US$'000
Balance at 1 January		**1,040,771**	970,938
Shares issued as Vessel Consideration Shares, net of issuing expenses	18(a)	**46,074**	–
Shares issued for new share placement, net of issuing expenses	18(b)	**37,630**	–
Exchange adjustment to reserve		**25,849**	–
Total comprehensive income attributable to shareholders		**7,681**	(80,898)
Share-based compensation		**4,301**	4,207
Shares purchased by trustee of the SAS	18(c)	**(1,233)**	(1,809)
Shares granted to employees in the form of restricted shares awards		**–**	991
Unclaimed dividends forfeited		**62**	–
Rights issue, net of issuing expenses	18(e)	**–**	142,772
Shares issued to compensate shipowners for Charter Hire Reduction	18(f)	**–**	12,536
Derecognition of equity component upon CB redemption		**–**	(7,966)
Balance at 31 December		**1,161,135**	1,040,771

Consolidated Cash Flow Statement

	Note	For the year ended 31 December 2017 US$'000	2016 US$'000
Operating activities			
Cash generated from operations	25(a)	**125,601**	51,031
Hong Kong profits tax paid		**(555)**	(694)
Overseas taxation paid		**(306)**	(816)
Net cash generated from operating activities		**124,740**	49,521
Investing activities			
Purchase of property, plant and equipment		**(219,857)**	(181,340)
Disposal of vessels and other PP&E		**9,617**	16,066
Disposal of available-for-sale financial assets		**158**	–
Disposal of investment properties		**–**	5,065
Disposal of joint ventures		**–**	650
Decrease in term deposits		**82,871**	58,166
Interest received		**3,651**	2,750
Net cash used in investing activities		**(123,560)**	(98,643)
Financing activities			
Drawdown of bank loans and other borrowings	25(b)	**188,601**	344,851
Repayment of bank loans and other borrowings	25(b)	**(136,929)**	(209,953)
Proceeds from new share placement, net of issuing expenses	18(b)	**37,630**	–
Payment for shares purchased by trustee of the SAS	18(c)	**(1,233)**	(1,809)
Payment for redemption of convertible bonds		**–**	(229,390)
Proceeds from rights issue, net of issuing expenses	18(e)	**–**	142,772
Shares granted to employees in the form of restricted shares awards		**–**	991
Interest and other finance charges paid		**(31,310)**	(29,350)
Net cash generated from financing activities		**56,759**	18,112
Net increase/(decrease) in cash and cash equivalents		**57,939**	(31,010)
Exchange gains/(losses) on cash and cash equivalents		**422**	(48)
Cash and cash equivalents at 1 January		**168,679**	199,737
Cash and cash equivalents at 31 December	12	**227,040**	168,679
Term deposits at 1 January	12	**100,467**	158,633
Decrease in term deposits		**(82,871)**	(58,166)
Cash and deposits at 31 December	12	**244,636**	269,146

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 2018.

Page 4-15
Business Review & Market Review 2017

Page 96
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 the following items has been integrated into other sections of the Annual Report. The audited parts have been clearly marked and are listed below:

- Financial risk management in Risk Management section
  - Market Risk – Page 20
  - Credit and Counterparty Risk – Page 22
  - Liquidity Risk – Page 26
  - Capital Management Risk – Page 26
- Employee benefit expense in Remuneration Report – Pages 43-44

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 2017 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 amendment to standard is mandatory for the accounting period beginning 1 January 2017 and are relevant to the Group's operation.

HKAS 7 (Amendments)	Statement of cash flows

The adoption of this amendment 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 2018. The Group was not required to adopt these New Standards in the financial statements for the year ended 31 December 2017. The New Standards that are relevant to the Group's operation are as follows:

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

Notes to the Financial Statements continued

2 BASIS OF PREPARATION (CONTINUED)

The Group has commenced an assessment of the impact of these New Standards. Key changes are expected from HKFRS 15 and 16. Under HKFRS 15, the recognition basis for freight income will change from "discharge to discharge" to "loading to discharge". The Group has performed a preliminary assessment and does not expect the impact to be significant. According to HKFRS 16, 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 15 and 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 14
Available-for-sale financial assets	Note 9
Borrowings	Note 17
Cash and cash equivalents	Note 12
Consolidation	
Joint operation	Note 8
Subsidiaries	Note 2.4
Contingent liabilities and contingent assets	Note 30
Convertible bonds ("CB")	Note 17(c)
Current and deferred income tax	Note 22
Derivative financial instruments and hedging activities: i) cash flow hedges, and ii) derivatives not qualifying for hedge accounting	Note 10
Dividends	Note 23
Employee benefits	Remuneration Report (p.44)
Financial assets at fair value through profit or loss	Note 10
Financial guarantee contracts	Note 29
Foreign currency translation	Note 2.5
Goodwill	Note 7
Impairment of i) investments and non-financial assets, ii) available-for-sale financial assets and iii) trade and other receivables	Note 5
Inventories	Note 13
Offsetting financial instruments	Note 10
Operating leases where the Group is the lessor or lessee	Note 26(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 16
Revenue recognition for freight and charter-hire, and other revenue	Note 4
Segment reporting	Note 4
Share capital	Note 18
Trade and other receivables	Note 11
Trade payables	Note 15

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

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 G&A overheads included in cost of services" or "indirect G&A overheads" 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.

Notes to the Financial Statements continued

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 7
(e)	Provision for onerous contracts	Note 16
(f)	Income taxes	Note 22
(g)	Classification of leases	Note 26(b)

4 REVENUE AND SEGMENT INFORMATION

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

Geographical segment information is not presented as the management consider that the nature of our 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 services rendered 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 Handysize and Supramax vessels.

Revenues from 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.

5 EXPENSES BY NATURE

US$'000	2017	2016
Operating lease expenses		
– vessels	471,259	333,130
– land and buildings	3,312	4,263
Port disbursements and other voyage costs	361,265	322,358
Bunkers consumed	338,507	220,546
Depreciation		
– owned vessels	107,603	97,109
– other owned property, plant and equipment	1,684	1,658
– investment properties	–	34
Amortisation of land use rights	–	38
Employee benefit expenses including Directors' emoluments (Note) (see Remuneration Report p.43)	134,133	124,667
Provision for impairment losses		
– trade receivables (Note 11)	2,022	424
– assets held for sale	830	–
– other receivables	112	–
– vessels	–	15,245
– available-for-sale financial assets	–	1,260
Net gains on bunker swap contracts (Note 10(e))	(5,815)	(9,895)
Lubricating oil consumed	10,095	8,924
Losses on disposal of vessels and other PP&E	539	4,964
Net foreign exchange losses	1,441	3,182
Auditors' remuneration		
– audit	823	901
– non-audit	70	81
Losses on forward freight agreements (Note 10(e))	50	–
Vessel and other expenses	43,526	42,840
Office relocation costs	1,391	–
The sum of the above reconciles to the following headings in the consolidated income statement. (i) "cost of services", (ii) "indirect general and administrative overheads" and (iii) "other expenses"	1,472,847	1,171,729

Note: Employee benefit expenses comprise crew wages and other costs of US$90.7 million (2016: US$83.6 million), which are included in cost of services. The comparative figures have been recategorised to conform to the current year's presentation.

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

US$ Million	2017	2016
Direct G&A overheads included in cost of services	49.1	47.2
Indirect G&A overheads	5.3	5.7
Total G&A overheads	54.4	52.9

Operating lease expenses

The total vessel operating lease expenses of US$471.3 million (2016: US$333.1 million) above include contingent lease payments amounting to US$20.8 million (2016: US$17.4 million). These relate to dry bulk vessels chartered-in on an index-linked basis.

Impairment of assets held for sale

The impairment charge of US$830,000 related to the two remaining towage vessels which were sold during the year (Note 14). The recoverable amount of the impaired assets was calculated as the fair value less cost to sell. Fair value assumed a willing buyer and willing seller basis under general market conditions, and it was considered a Level 3 valuation in accordance with HKFRS 13. Please refer to Note 9 (Fair value levels) for the definition of different levels.

Notes to the Financial Statements continued

5 EXPENSES BY NATURE (CONTINUED)

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 a provision for impairment 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.

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 2017	**2,093,203**	**57,260**	**600**	**4,261**	**9,738**	**29**	**2,165,091**
Additions	133,371	119,884	–	3,978	1,398	–	258,631
Disposals	(17,975)	–	–	(3,603)	(628)	–	(22,206)
Write offs	(17,134)	–	–	–	(29)	–	(17,163)
Exchange differences	–	–	46	38	50	1	135
Reclassifications	177,144	(177,144)	–	–	–	–	–
At 31 December 2017	**2,368,609**	**–**	**646**	**4,674**	**10,529**	**30**	**2,384,488**
Accumulated depreciation and impairment							
At 1 January 2017	**499,614**	**–**	**59**	**3,809**	**8,147**	**29**	**511,658**
Charge for the year	107,603	–	4	634	1,046	–	109,287
Disposals	(12,988)	–	–	(3,386)	(582)	–	(16,956)
Write offs	(17,134)	–	–	–	(29)	–	(17,163)
Exchange differences	–	–	(25)	60	39	1	75
At 31 December 2017	**577,095**	**–**	**38**	**1,117**	**8,621**	**30**	**586,901**
Net book value							
At 31 December 2017	**1,791,514**	**–**	**608**	**3,557**	**1,908**	**–**	**1,797,587**

Estimated useful lives for the year ended 2017 and 2016	Vessels and vessel component costs / Vessels under construction	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles
	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 6 years or the remaining lease period if shorter	3 to 5 years	4 to 5 years

Business Review
Strategic Review
Funding
Governance
Financial Statements

Notes to the Financial Statements continued

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 14)	(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 14)	(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

(a) As at 31 December 2017, vessel component costs included the aggregate cost and accumulated depreciation of US$59,630,000 (2016: US$55,507,000) and US$29,683,000 (2016: US$27,087,000) respectively.

(b) Certain owned vessels of net book value of US$1,518,309,000 (2016: US$1,419,515,000) were pledged to banks as securities for bank loans granted to the Group (Note 17(a)(i)).

Certain owned vessels of net book value of US$107,441,000 (2016: US$79,384,000) were effectively pledged as securities to other secured borrowings (Note 17(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$373,000 (2016: US$1,995,000) on qualifying assets (Note 21). Borrowing costs were capitalised at the weighted average rate of 4.2% (2016: 4.3%) of the Group's general borrowings.

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.

Notes to the Financial Statements continued

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Critical accounting estimates and judgements

Residual values of property, plant and equipment

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

- **Sensitivity analysis:**

  With all other variables held constant, if the residual value increases/decreases by 10% from management estimates, the depreciation expense would decrease/increase by US$1.9 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$15.5 million or increase by US$25.3 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 minor bulk vessels 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 6.4% (2016: 6.8%).

- **Sensitivity analysis:**

  With all other variables held constant, increasing the discount rates by 100 basis points or reducing the estimates of future vessel earnings by US$500 per day from the original estimate would not give rise to any impairment.

7 GOODWILL

US$'000	2017	2016
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 6.4% (2016: 6.8%) 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.

8 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	2017	2016
Charter-hire income included in revenue	**4,600**	4,376
Charter-hire expenses included in cost of services	**(3,388)**	(3,219)
	1,212	1,157

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.

9 AVAILABLE-FOR-SALE FINANCIAL ASSETS

US$'000	Valuation method	2017	2016
Listed equity securities (a)	Level 1	**569**	875

(a) Listed equity securities represent the Group's investment in Greka Drilling Limited, a company listed on the London AIM market.

Available-for-sale financial assets have been analysed by valuation method. Please see below for the definition of different levels of fair value.

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.

Notes to the Financial Statements continued

10 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.

Among the derivative assets and liabilities held by the Group are forward foreign exchange contracts, interest rate swap contracts and bunker swap contracts, the fair values of which are quoted by dealers at the balance sheet date. The forward freight agreements are traded through a clearing house and its fair value is determined using forward freight rates at the balance sheet date.

Derivative assets and liabilities have been analysed by the valuation method. Please refer to Note 9 (Fair value levels) for the definitions of different levels. Our derivative assets and liabilities are Level 1 and Level 2 financial instruments.

	31 December 2017			31 December 2016		
US$'000	Level 1	Level 2	Total	Level 1	Level 2	Total
Derivative assets						
Cash flow hedges						
Interest rate swap contracts (d(i))	–	432	432	–	–	–
Derivative assets that do not qualify for hedge accounting						
Bunker swap contracts (a)	–	5,635	5,635	–	3,800	3,800
Forward freight agreements (b)	–	–	–	–	–	–
Total	–	6,067	6,067	–	3,800	3,800
Less: non-current portion of						
Interest rate swap contracts (d(i))	–	(432)	(432)	–	–	–
Bunker swap contracts (a)	–	(801)	(801)	–	(969)	(969)
Non-current portion	–	(1,233)	(1,233)	–	(969)	(969)
Current portion	–	4,834	4,834	–	2,831	2,831
Derivative liabilities						
Cash flow hedges						
Forward foreign exchange contracts (c)	–	4,706	4,706	–	21,506	21,506
Interest rate swap contracts (d(i))	–	–	–	–	788	788
Derivative liabilities that do not qualify for hedge accounting						
Bunker swap contracts (a)	–	1,832	1,832	–	5,456	5,456
Forward freight agreements (b)	24	–	24	–	–	–
Interest rate swap contracts (d(ii))	–	–	–	–	9	9
Total	24	6,538	6,562	–	27,759	27,759
Less: non-current portion of						
Forward foreign exchange contracts (c)	–	(4,706)	(4,706)	–	(21,506)	(21,506)
Interest rate swap contracts (d(i))	–	–	–	–	(788)	(788)
Bunker swap contracts (a)	–	(1,084)	(1,084)	–	(2,566)	(2,566)
Non-current portion	–	(5,790)	(5,790)	–	(24,860)	(24,860)
Current portion	24	748	772	–	2,899	2,899

(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 2017, the Group had outstanding bunker swap contracts to buy approximately 130,702 (2016: 124,170) metric tonnes of bunkers. These contracts expire through December 2021 (2016: 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 would increase/decrease by approximately US$4.9 million (2016: US$4.0 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 freight agreements

The Group enters into forward freight agreements as a method of managing its exposure to both its physical tonnage and cargo commitments with regard to its Handysize and Supramax vessels.

Forward freight agreements that do not qualify for hedge accounting

At 31 December 2017, the Group had outstanding forward freight agreements as follows:

Contract Type	Index[1]	Quantity (days)	Contract daily price (US$)	Expiry through
For 2017:				
Sell	BHSI	180	8,500	December 2018

[1] "BHSI" stands for "Baltic Handysize Index".

- **Sensitivity analysis:**

  With all other variables held constant, if the average forward freight rate on FFA contracts held by the Group at the balance sheet date had been 20% higher/lower, the Group's profit after tax and equity would decrease/increase by approximately US$0.3 million (2016: nil). Future movements in charter rates will be reflected in the eventual operating revenue derived from the vessels, which would offset such decrease/increase of the Group's profit after tax and equity.

(c) 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 2017, the outstanding forward foreign exchange contracts held by the Group mainly consist of contracts with banks to buy Danish Kroner ("DKK") of approximately DKK 692.6 million (2016: DKK 835.2 million) and simultaneously sell approximately US$123.9 million (2016: US$149.8 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.

(d) 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 the net debt balance as at 31 December 2017 (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$0.4 million (2016: US$0.1 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 2017:			
February 2017	US$9 million on amortising basis	USD 1-month LIBOR swapped to a fixed rate of approximately 1.8% per annum	Contract expires in January 2022
For 2017 & 2016:			
December 2013 & 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

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

As at 31 December 2016, the Group had an outstanding interest rate swap contract with a notional amount of US$40 million under which the 6-month floating rate LIBOR was swapped to a fixed rate of approximately 5.0% per annum so long as the 6-month floating rate LIBOR remains below the agreed cap strike level of 6.0%. This fixed rate switches to a discounted floating rate (discount is approximately 1.0%) for the 6-month fixing period when the prevailing 6-month floating rate LIBOR is above 6.0% and reverts back to the fixed rate should the 6-month floating rate LIBOR subsequently drop below 6.0%. This contract expired in January 2017.

Notes to the Financial Statements continued

10 DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

(e) Analysis of derivative gain and loss

During the year ended 31 December 2017, the Group recognised net derivative gains of US$4.7 million, as follows:

US$'000	Realised	Unrealised	**2017**	2016	Presentation in the Financial Statements:
Gains					
Forward freight agreements	–	–	**–**	–	
Bunker swap contracts	6,555	7,841	**14,396**	28,060	
Interest rate swap contracts	–	9	**9**	1,624	
	6,555	7,850	**14,405**	29,684	
Losses					
Forward freight agreements	(26)	(24)	**(50)**	–	
Bunker swap contracts	(6,198)	(2,383)	**(8,581)**	(18,165)	
Interest rate swap contracts	(928)	–	**(928)**	(4,447)	
Forward foreign exchange contracts	(137)	–	**(137)**	–	
	(7,289)	(2,407)	**(9,696)**	(22,612)	
Net					
Forward freight agreements	(26)	(24)	**(50)**	–	*Other expenses*
Bunker swap contracts	357	5,458	**5,815**	9,895	*Cost of services*
Interest rate swap contracts	(928)	9	**(919)**	(2,823)	*Finance costs*
Forward foreign exchange contracts	(137)	–	**(137)**	–	*Cost of services*
	(734)	5,443	**4,709**	7,072	

Realised:
- *Settlement of contracts completed in the year*

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

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.

(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.

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.

Notes to the Financial Statements continued

11 TRADE AND OTHER RECEIVABLES

US$'000	2017	2016
Non-current		
Prepayments	54	5,405
Deposit on vessel purchased	5,200	–
	5,254	5,405
Current		
Trade receivables – gross	47,038	32,960
Less: provision for impairment	(2,368)	(1,685)
Trade receivables – net	44,670	31,275
Other receivables	25,850	26,296
Prepayments	9,755	23,369
	80,275	80,940

Page 22
Strategy Delivery and Risks
Credit and Counterparty Risk

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

Trade and other receivables are mainly denominated in United States Dollars.

Accounting policy – Trade 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 2017, the ageing of net trade receivables based on invoice date is as follows:

US$'000	2017	2016
< 30 days	34,188	24,872
31-60 days	3,749	800
61-90 days	742	345
> 90 days	5,991	5,258
	44,670	31,275

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

US$'000	2017	2016
At 1 January	1,685	2,749
Provision for impairment, net	2,022	424
Amount written off during the year	(1,339)	(1,488)
At 31 December	2,368	1,685

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 and therefore all trade receivables are past due.

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 2017 and 2016, 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.

12 CASH AND DEPOSITS

US$'000	2017	2016
Cash at bank and on hand	25,522	50,505
Bank deposits	219,172	218,699
Total cash and deposits	244,694	269,204
Average effective interest rate on bank deposits at year end	2.06%	1.60%
Average remaining maturity of bank deposits	25 days	98 days
Cash and cash equivalents	227,040	168,679
Term deposits	17,596	100,467
Cash and deposits	244,636	269,146
Restricted bank deposits included in non-current assets	58	58
Total cash and deposits	244,694	269,204

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.

Page 28
Funding
Cash flow and cash

13 INVENTORIES

US$'000	2017	2016
Bunkers	60,228	52,375
Lubricating oil	11,546	10,117
	71,774	62,492

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.

14 ASSETS HELD FOR SALE

The assets held for sale comprised four towage vessels in 2016. 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. During the year, all the remaining towage vessels were sold.

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.

15 TRADE AND OTHER PAYABLES

US$'000	2017	2016
Non-current		
Receipts in advance	**10,203**	5,856
Current		
Trade payables	**56,554**	51,569
Accruals and other payables	**52,271**	51,236
Receipts in advance	**35,053**	37,820
	143,878	140,625

At 31 December 2017, the ageing of trade payables based on due date is as follows:

US$'000	2017	2016
< 30 days	**50,729**	45,327
31-60 days	**290**	670
61-90 days	**221**	402
> 90 days	**5,314**	5,170
	56,554	51,569

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.

16 PROVISION FOR ONEROUS CONTRACTS

US$'000	2017	2016
At 1 January	**51,918**	79,582
Utilised during the year (Note 20)	**(20,273)**	(27,664)
Settled during the year	**(2,799)**	–
At 31 December	**28,846**	51,918
Analysis of provisions		
Current	**16,115**	20,354
Non-current	**12,731**	31,564
	28,846	51,918

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$11 million.

17 LONG-TERM BORROWINGS

US$'000	2017	2016
Non-current		
Secured bank loans (a)	**619,177**	599,102
Other secured borrowings (b)	**39,989**	29,033
Unsecured convertible bonds (c)	**117,710**	115,372
	776,876	743,507
Current		
Secured bank loans (a)	**98,529**	91,734
Other secured borrowings (b)	**5,563**	4,001
	104,092	95,735
Total long-term borrowings	**880,968**	839,242

Please refer to Note 25(b) for reconciliation of long-term borrowings.

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 9 (Fair value levels) for the definition of different levels.

The long-term borrowings are mainly denominated in United States Dollars.

Notes to the Financial Statements continued

17 LONG-TERM BORROWINGS (CONTINUED)

Accounting policy – Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least twelve months after the balance sheet date.

(a) Secured bank loans

The Group's secured bank loans as at 31 December 2017 were secured, inter alia, by the following:

(i) Mortgages over certain owned vessels with net book values of US$1,518,309,000 (2016: US$1,419,515,000) (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	2017	2016
Within one year	**98,529**	91,734
In the second year	**97,798**	88,944
In the third to fifth year	**314,997**	303,226
After the fifth year	**206,382**	206,932
	717,706	690,836
Average effective interest rate at year end (before hedging)	**3.3%**	3.0%

(b) Other secured borrowings

The Group's other secured borrowings as at 31 December 2017 were in respect of seven (2016: five) owned vessels with net book values of US$107,441,000 (2016: US$79,384,000) (Note 6(b)) which were sold and simultaneously leased back by the Group on a bareboat charter basis. Under the terms of the leases, the Group has options to purchase these vessels at pre-determined timings during the lease period and is obliged to purchase these vessels upon the expiry of the respective lease. Such borrowings are effectively secured as the rights to the leased vessels revert to the lessors in the event of default.

These other secured borrowings are repayable as follows:

US$'000	2017	2016
Within one year	**5,563**	4,001
In the second year	**5,726**	4,124
In the third to fifth year	**21,749**	15,123
After the fifth year	**12,514**	9,786
	45,552	33,034
Average effective interest rate at year end (before hedging)	**4.5%**	4.6%

(c) Unsecured convertible bonds

US$'000	2017 Face value	2017 Liability component	2016 Face value	2016 Liability component
3.25% coupon due 2021	**125,000**	**117,710**	125,000	115,372

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 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 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.

18 SHARE CAPITAL

	2017 Number of shares	2017 US$'000	2016 Number of shares	2016 US$'000
Authorised	**36,000,000,000**	**360,000**	36,000,000,000	360,000
Issued and fully paid				
At 1 January	**4,014,512,275**	**40,046**	1,945,855,119	194,480
Shares issued as Vessel Consideration Shares (a)	**216,903,274**	**2,169**	–	–
Shares issued for new share placement (b)	**186,939,553**	**1,869**	–	–
Shares issued upon grant of restricted share awards (c)	**23,115,000**	**231**	–	–
Shares granted to employees in the form of restricted share awards (c)	**11,607,000**	**2,325**	17,951,000	2,173
Shares transferred back to trustee upon lapse of restricted share awards (c)	**(10,925,000)**	**(1,853)**	(1,371,000)	(366)
Shares purchased by trustee of the SAS (c)	**(5,213,000)**	**(1,233)**	(16,413,000)	(1,809)
Capital reduction (d)	**–**	**–**	–	(175,117)
Rights issue (e)	**–**	**–**	1,946,823,119	19,468
Shares issued to compensate the shipowners for the Charter Hire Reduction (f)	**–**	**–**	79,979,037	800
Shares issued due to the adjustment for rights issue and upon grant of restricted share awards (c)	**–**	**–**	41,688,000	417
At 31 December	**4,436,939,102**	**43,554**	4,014,512,275	40,046

The issued share capital of the Company as at 31 December 2017 was 4,442,271,102 shares (2016: 4,015,313,275 shares). The difference from the number of shares in the table above of 5,332,000 (2016: 801,000) represents shares held by the trustee in relation to restricted share awards, amounting to US$869,100 (2016: US$107,100) as a debit to share capital.

(a) Shares issued as Vessel Consideration Shares

On 2 August 2017, the Group entered into contracts for the acquisition of five vessels at a total purchase consideration of US$104.6 million funded by a combination of: (i) the issue of 216,903,274 shares at an issue price of HK$1.66 per share ("Vessel Consideration Shares") to the ship sellers amounting to US$46.1 million; (ii) the issue of 186,939,553 shares (see note (b) below) to placees pursuant to a placing agreement entered into on the same date raising cash of US$37.6 million; and (iii) existing cash resources. The shares issued to the ship sellers were made during the period from August to November 2017 upon delivery of the vessels into the ownership of the Group.

(b) Share placement

Pursuant to a placing agreement dated 2 August 2017, the Company issued 186,939,553 shares on 10 August 2017 with nominal value of US$0.01 each, at a price of HK$1.59 per share representing a discount of approximately 7.56% to the closing price of HK$1.72 per share as quoted on the Stock Exchange on 2 August 2017, being the date of the placing agreement. The proceeds of the placing, net of issuing expenses of approximately US$0.4 million, amounted to US$37.6 million (or HK$293.8 million) or HK$1.57 net per share. The placing was fully underwritten by a placing agent to more than six independent individual, corporate, institutional or other professional investors. The funds raised were used to finance a portion of the cash consideration of the acquisition of five vessels set out in Note (a) above.

(c) 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.

Notes to the Financial Statements continued

18 SHARE CAPITAL (CONTINUED)

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

000' shares	2017	2016
At 1 January	**67,256**	26,409
Granted	**34,722**	59,639
Vested	**(17,047)**	(17,421)
Lapsed	**(10,925)**	(1,371)
At 31 December	**74,006**	67,256

The market prices of the restricted share awards on the grant date represented the fair values of those shares. The weighted average fair value of restricted share awards granted during the year was HK$1.50 (2016: HK$0.93).

Following the Company's rights issue in 2016 (Note (e) below), an adjustment was made to all outstanding awards in accordance with the rules of the SAS. Hence, awards granted in 2016 comprised the annual grant as well as the adjustment for awards vesting in 2016, 2017 and 2018.

Page 45-46
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:

	2017		2016	
Sources of shares granted	**Number of granted shares awards**	**Related movement US$'000**	Number of granted shares awards	Related movement US$'000
Shares issued	**23,115,000**	**231**	41,688,000	417
Shares purchased by the trustee of the SAS on the Stock Exchange funded by the Company	**5,213,000**	**1,233**	16,413,000	1,809
Shares transferred from the trustee	**6,394,000**	**1,092**	1,538,000	364
	34,722,000	**2,556**	59,639,000	2,590

(d) Capital reduction in 2016

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 has resulted in a "contributed surplus" of US$779,938,000 recognised in reserves, representing the amount of capital reduction transferred out of the share capital and share premium accounts (note 19(c)).

(e) Rights issue in 2016

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

(f) Shares issued for Charter Hire Reduction in 2016

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

Accounting policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares 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.

For equity-settled share-based payment transactions (other than services from employee and other similar services detailed on page 44), the increase in equity is measured as the fair value of the goods or services received. If the fair value of the goods or services received cannot be reliably estimated, the increase in equity would be measured, indirectly, by reference to the fair value of the equity instruments granted.

19 RESERVES

US$'000	Share[a] premium	Merger[b] reserve	Convertible bonds reserve	Staff benefits reserve	Hedging reserve	Investment valuation reserve	Exchange reserve	Contributed[c] surplus	Subtotal	Retained profits	Total
	Other reserves										
At 1 January 2017	139,887	(56,606)	13,772	(2,368)	(22,295)	–	(2,386)	779,938	849,942	150,783	1,000,725
Shares issued as Vessel Consideration Shares (Note 18(a))	43,905	–	–	–	–	–	–	–	43,905	–	43,905
Share issued for new share placement, net of issuing expenses (Note 18(b))	35,761	–	–	–	–	–	–	–	35,761	–	35,761
Profit attributable to shareholders	–	–	–	–	–	–	–	–	–	3,610	3,610
Share-based compensation (see Remuneration Report)	–	–	–	4,301	–	–	–	–	4,301	–	4,301
Shares issued upon grant of restricted share awards (Note 18(c))	5,014	–	–	(5,245)	–	–	–	–	(231)	–	(231)
Share awards granted (Note 18(c))	–	–	–	(1,411)	–	–	–	–	(1,411)	(914)	(2,325)
Share awards lapsed (Note 18(c))	–	–	–	1,853	–	–	–	–	1,853	–	1,853
Share awards fully vested	–	–	–	(846)	–	–	–	–	(846)	846	–
Cash flow hedges											
– exchange adjustment to reserve	–	–	–	–	25,849	–	–	–	25,849	–	25,849
– transferred to income statement	–	–	–	–	(10,356)	–	–	–	(10,356)	–	(10,356)
– fair value gains	–	–	–	–	12,656	–	–	–	12,656	–	12,656
Fair value losses on available-for-sale financial assets	–	–	–	–	–	(306)	–	–	(306)	–	(306)
Release of exchange reserve upon disposal of towage assets	–	–	–	–	–	–	1,306	–	1,306	–	1,306
Currency translation differences	–	–	–	–	–	–	771	–	771	–	771
Unclaimed dividends forfeited	–	–	–	–	–	–	–	–	–	62	62
At 31 December 2017	224,567	(56,606)	13,772	(3,716)	5,854	(306)	(309)	779,938	963,194	154,387	1,117,581

(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.

(c) Contributed surplus 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 (Note 18(d)). 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.

Notes to the Financial Statements continued

19 RESERVES (CONTINUED)

US$'000	Other reserves								Retained profits	Total
	Share[a] premium	Merger[b] reserve	Convertible bonds reserve	Staff benefits reserve	Hedging reserve	Exchange reserve	Contributed[c] surplus	Subtotal		
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 18(d))	(604,821)	–	–	–	–	–	779,938	175,117	–	175,117
Rights issue, net of issuing expenses (Note 18(e))	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 18(f))	11,736	–	–	–	–	–	–	11,736	–	11,736
Derecognition of equity component upon CB redemption	–	–	(34,148)	–	–	–	–	(34,148)	26,182	(7,966)
Share-based compensation (see Remuneration Report)	–	–	–	4,207	–	–	–	4,207	–	4,207
Share awards granted (Note 18(c)	–	–	–	(1,257)	–	–	–	(1,257)	75	(1,182)
Shares issued due to the adjustment for rights issue and upon grant of restricted share awards (Note 18(c))	4,500	–	–	(2,757)	–	–	–	1,743	(2,160)	(417)
Share awards lapsed (Note 18(c))	–	–	–	366	–	–	–	366	–	366
Share awards fully vested	347	–	–	(347)	–	–	–	–	–	–
Cash flow hedges										
– transferred to 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

20 OTHER INCOME AND GAINS

US$'000	2017	2016
Utilisation of provision for onerous contracts (Note 16)	20,273	27,664
Disposal gains on available-for-sale financial assets	158	–
Gains on disposal of other property, plant and equipment	–	1,188
OMSA joint venture sale completion adjustments	–	650
Gains on disposal of investment properties	–	469
	20,431	29,971

21 FINANCE INCOME AND COSTS

US$'000	2017	2016
Finance income		
Bank interest income	(3,651)	(2,748)
Other interest income	–	(2)
Total finance income	(3,651)	(2,750)
Finance costs		
Interest on Borrowings		
Secured bank loans	26,375	19,154
Unsecured convertible bonds (Note 25(b))	6,400	12,353
Other secured borrowings	2,149	510
Net losses on interest rate swap contracts	919	2,823
Other finance charges	528	1,080
	36,371	35,920
Less: amounts capitalised as PP&E (Note 6(c))	(373)	(1,995)
Total finance costs	35,998	33,925
Finance costs, net	32,347	31,175

Notes to the Financial Statements continued

22 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. Income from towage and non-shipping activities are 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	**2017**	2016
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2016: 16.5%)	**323**	715
Overseas tax, provided at the rates of taxation prevailing in the countries	**348**	319
Adjustments in respect of prior year	**(1,025)**	(49)
Tax (credits)/charges	**(354)**	985

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	**2017**	2016
Profit/(loss) before taxation	**3,256**	(85,562)
Tax calculated at applicable tax rates	**642**	(14,734)
Income not subject to taxation	**(125,759)**	(93,435)
Expenses not deductible for taxation purposes	**125,788**	109,203
Adjustments in respect of prior year	**(1,025)**	(49)
Tax (credits)/charges	**(354)**	985
Weighted average applicable tax rate	**19.7%**	17.2%

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.

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. 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.

23 DIVIDENDS

No final dividends were declared in respect of the years ended 31 December 2017 and 2016.

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.

24 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the shares held by the trustee of the Company's SAS and unvested restricted shares (Note 18(c)).

The weighted average number of shares used in the calculation of 2016 earnings per share was adjusted for the bonus element of the rights issue completed in June 2016 (Note 18(e)).

		2017	2016
Profit/(loss) attributable to shareholders	(US$'000)	**3,610**	(86,547)
Weighted average number of ordinary shares in issue	('000)	**4,079,791**	3,285,006
Basic earnings per share	(US cents)	**0.09**	(2.63)
Equivalent to	(HK cents)	**0.69**	(20.44)

(b) Diluted earnings per share

Diluted earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, 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 18(c)).

		2017	2016
Profit/(loss) attributable to shareholders	(US$'000)	**3,610**	(86,547)
Weighted average number of ordinary shares in issue	('000)	**4,079,791**	3,285,006
Adjustment for calculation of diluted EPS relating to unvested restricted shares	('000)	**80,542**	–
Weighted average number of ordinary share for diluted EPS	('000)	**4,160,333**	3,285,006
Diluted earnings per share	(US cents)	**0.09**	(2.63)
Equivalent to	(HK cents)	**0.68**	(20.44)

Diluted earnings per share for the year ended 31 December 2016 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.

Notes to the Financial Statements continued

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profits/(losses) before taxation to cash generated from operations:

US$'000	2017	2016
Profit/(loss) before taxation	3,256	(85,562)
Adjusted for:		
Assets and liabilities adjustments:		
Depreciation and amortisation	109,287	98,839
Utilisation of onerous contracts	(20,273)	(27,664)
Net unrealised gains on derivative instruments not qualified as hedges, excluding interest rate swap contracts	(5,434)	(22,018)
Charter Hire Reduction	6,158	927
Provision for impairment losses		
– trade receivables	2,022	424
– assets held for sale	830	–
– other receivables	112	–
– vessels	–	15,245
– available-for-sale financial assets	–	1,260
Release of exchange reserve upon disposal of towage assets	1,306	2,815
Losses on disposal of vessels and other PP&E	539	3,776
Disposal gains on available-for-sale financial assets	(158)	–
OMSA joint venture sale completion adjustments	–	(650)
Gains on disposal of investment properties	–	(469)
Capital and funding adjustments:		
Share-based compensation	4,301	4,207
Results adjustments:		
Finance costs, net	32,347	31,175
Net foreign exchange losses	135	367
Profit before taxation before working capital changes	134,428	22,672
Increase in inventories	(9,282)	(11,707)
(Increase)/decrease in trade and other receivables	(12,123)	11,837
Increase in trade and other payables	12,578	28,229
Cash generated from operations	125,601	51,031

(b) Reconciliation of long-term borrowings:

US$'000	2017
At 1 January	839,242
Cash flows:	
– Drawdown of bank loans and other borrowings	188,601
– Repayment of bank loans and other borrowings	(136,929)
– Convertible bond coupon payment	(4,063)
Foreign exchange adjustments	(9,779)
Other non-cash movements:	
– Loan arrangement fee movement	(2,504)
– Accrued convertible bond coupon	6,400
At 31 December	880,968

(c) Significant non-cash transaction

Please refer to Note 18(a) for the non-cash transaction relating the purchase of vessels by issuing of new shares.

26 COMMITMENTS

(a) Capital commitments

US$'000	2017	2016
Contracted but not provided for – vessel acquisitions and shipbuilding contracts	20,800	119,054

Capital commitments for the Group that fall due in one year or less amounted to US$20.8 million (2016: US$119.1 million).

Page 13 and 30
Vessel Operating Lease Commitments and Vessel Capital Commitments

(b) Commitments under operating leases

Accounting policy – Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Critical accounting estimates and judgements – Classification of leases

The Group classifies its leases into either finance leases or operating leases taking into account of the spirit, intention, and application of HKAS 17 "Leases".

Management assesses the classification of leases by taking into account the market conditions at the inception of the lease, the period of the lease and the probability of exercising purchase options, if any, attached to the lease. For those leases that would not transfer ownership of the assets to the Group at the end of the lease term, and that it is not reasonably certain that the purchase options, if any, attached to the arrangements would be exercised, they are being treated as operating leases.

(i) The Group as the lessee – payments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

US$'000	Dry bulk vessels	Land and buildings	Total
At 31 December 2017			
Within one year	**135,808**	**2,420**	**138,228**
In the second to fifth year	**238,012**	**7,892**	**245,904**
After the fifth year	**22,643**	**470**	**23,113**
	396,463	**10,782**	**407,245**
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

The Group's operating leases for dry bulk vessels have terms ranging from less than 1 year to 10 years (2016: 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.

Notes to the Financial Statements continued

26 COMMITMENTS (CONTINUED)

(ii) The Group as the lessor – receipts

The Group had future aggregate minimum lease receipts under non-cancellable operating leases for dry bulk vessels as follows:

US$'000	2017	2016
At 31 December 2017		
Within one year	**32,294**	22,475
In the second to fifth year	**47,579**	57,670
After the fifth year	**23,130**	29,719
	103,003	109,864

The Group's operating leases have terms ranging from less than 1 year to 15 years and they mainly represent the receipts from two Post- Panamax dry bulk vessels amounting to US$86.6 million (2016: US$103.3 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.

27 FINANCIAL LIABILITIES SUMMARY

This note should be read in conjunction with the Liquidity Risk section on page 26. 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	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Long-term borrowings										
– Secured bank loans	**124,930**	114,868	**121,813**	110,936	**361,565**	351,829	**238,556**	231,283	**846,864**	808,916
– Other secured borrowings	**7,186**	5,550	**7,171**	5,532	**24,541**	18,096	**13,231**	10,503	**52,129**	39,681
– Unsecured convertible bonds	**4,063**	4,063	**4,063**	4,063	**133,125**	129,063	**–**	–	**141,251**	137,189
Derivative financial instruments										
(i) Net-settled (a)										
– Interest rate swap contracts	**7**	923	**117**	238	**(584)**	(376)	**3**	–	**(457)**	785
– Bunker swap contracts	**749**	2,890	**653**	1,270	**430**	1,296	**–**	–	**1,832**	5,456
(ii) Gross-settled (b)										
Forward foreign exchange contracts										
– Cash flow hedges:										
– outflow	**25,114**	25,960	**26,003**	26,922	**67,646**	75,261	**13,215**	31,603	**131,978**	159,746
– inflow	**(22,431)**	(20,340)	**(23,277)**	(21,339)	**(61,009)**	(60,171)	**(12,040)**	(25,454)	**(118,757)**	(127,304)
Net outflow	**2,683**	5,620	**2,726**	5,583	**6,637**	15,090	**1,175**	6,149	**13,221**	32,442
Current liabilities										
Trade and other payables	**108,825**	102,805	**–**	–	**–**	–	**–**	–	**108,825**	102,805

(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.

28 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 42 to 44.

29 FINANCIAL GUARANTEES

At 31 December 2017, the Company has given corporate guarantees with maximum exposures of US$734.0 million (2016: US$705.0 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.

30 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group has no contingent liabilities and contingent assets at 31 December 2017 and 2016.

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.

Notes to the Financial Statements continued

31 PRINCIPAL SUBSIDIARIES

At 31 December 2017, 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
Cooper Island 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/Int'l	HK$1	100	Vessel owning and chartering
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 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
Goodwyn Island Limited	HK	HK$1	100	Vessel owning
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/Int'l	HK$1	100	Vessel owning and chartering
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
Ipanema Beach Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Isabela Island Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
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

Company	Place of incorporation/ operation [3]	Issued and fully paid share capital	Interest held %	Principal activities
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
Kanda Logger Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Key West Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Kodiak Island Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
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 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
Olympia Logger 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/Int'l	HK$1	100	Vessel owning and chartering
Otago Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
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
Paqueta Island Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pelican Island 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
Shakespeare Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Sharp Island Limited	HK/Int'l	HK$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

Notes to the Financial Statements continued

31 PRINCIPAL SUBSIDIARIES (CONTINUED)

Company	Place of incorporation/ operation [3]	Issued and fully paid share capital	Interest held %	Principal activities
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
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 (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 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$5,784,000 (2016: US$6,067,000) and US$73,000 loss (2016: US$556,000 gain) 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".

32 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balance Sheet of the Company

	Note	As at 31 December 2017 US$'000	2016 US$'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**1,321,861**	1,321,582
Current assets			
Prepayments and other receivables		**80**	89
Amounts due from subsidiaries		**372,141**	288,015
Cash and cash equivalents		**19**	67
		372,240	288,171
Total assets		**1,694,101**	1,609,753
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	18	**43,554**	40,046
Retained profits		**635,921**	638,064
Other reserves		**1,000,789**	917,457
Total equity		**1,680,264**	1,595,567
LIABILITIES			
Current liabilities			
Accruals and other payables		**69**	398
Amounts due to subsidiaries		**13,768**	13,788
Total liabilities		**13,837**	14,186

Approved by the Board of Directors on 28 February 2018

David M. Turnbull
Director

Mats H. Berglund
Director

Notes to the Financial Statements continued

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

(b) Reserve movement of the Company

	Other reserves					
US$'000	Share premium	Staff benefits reserve	Contributed surplus	Subtotal	Retained profits	Total
At 1 January 2017	**139,887**	**(2,368)**	**779,938**	**917,457**	**638,064**	**1,555,521**
Share issued as Vessel Consideration Shares (Note 18(a))	**43,905**	**–**	**–**	**43,905**	**–**	**43,905**
Shares issued for new share placement, net of issuing expenses (Note 18(b))	**35,761**	**–**	**–**	**35,761**	**–**	**35,761**
Share-based compensation (see Remuneration Report)	**–**	**4,301**	**–**	**4,301**	**–**	**4,301**
Share issued upon grant of restricted shares awards (Note 18(c))	**5,014**	**(5,245)**	**–**	**(231)**	**–**	**(231)**
Share awards granted (Note 18(c))	**–**	**(1,411)**	**–**	**(1,411)**	**(914)**	**(2,325)**
Share awards lapsed (Note 18(c))	**–**	**1,853**	**–**	**1,853**	**–**	**1,853**
Share awards fully vested	**–**	**(846)**	**–**	**(846)**	**846**	**–**
Loss attributable to shareholders	**–**	**–**	**–**	**–**	**(2,137)**	**(2,137)**
Unclaimed dividends forfeited	**–**	**–**	**–**	**–**	**62**	**62**
At 31 December 2017	**224,567**	**(3,716)**	**779,938**	**1,000,789**	**635,921**	**1,636,710**
At 1 January 2016	604,821	(2,580)	–	602,241	635,938	1,238,179
Capital reduction (Note 18(d))	(604,821)	–	779,938	175,117	–	175,117
Rights issue, net of issuing expenses (Note 18(e))	123,304	–	–	123,304	–	123,304
Shares issued due to the adjustment for rights issue and upon grant of restricted share awards (Note 18(c))	4,500	(2,757)	–	1,743	(2,160)	(417)
Shares issued to compensate the shipowners for the Charter Hire Reduction (Note 18(f))	11,736	–	–	11,736	–	11,736
Share-based compensation (see Remuneration Report)	–	4,207	–	4,207	–	4,207
Share awards granted (Note 18(c))	–	(1,257)	–	(1,257)	75	(1,182)
Share awards lapsed (Note 18(c))	–	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

Loss attributable to shareholders of US$2,137,000 (2016: US$4,211,000) 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 53 to 90, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- 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 2017, 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

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 2017, the Group has a large fleet of dry bulk vessels, totalling US$1,792 million. The owned minor bulk vessels are separated into 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 2017 is more than its market capitalisation. This factor, together with the challenging market conditions, are considered as indicators of possible 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 16 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 2017, an onerous contracts provision of US$29 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.

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28 February 2018

Group Financial Summary

US$'000		2017	2016	2015	2014	2013
Results						
Continuing operations						
Revenue		**1,488,019**	1,087,371	1,260,291	1,718,454	1,708,792
EBITDA		**133,822**	22,826	93,208	82,175	118,223
Profit/(loss) for the year		**3,610**	(86,547)	(18,540)	(279,742)	9,858
Discontinued operations						
Loss for the year		**–**	–	–	(5,222)	(8,335)
Eligible profit/(loss) attributable to shareholders		**3,610**	(86,547)	(18,540)	(284,964)	1,523
Balance Sheet						
Total assets		**2,231,592**	2,107,225	2,145,735	2,307,516	2,537,446
Total liabilities		**(1,070,457)**	(1,066,454)	(1,174,797)	(1,305,770)	(1,233,152)
Total equity		**1,161,135**	1,040,771	970,938	1,001,746	1,304,294
Net borrowings		**636,274**	570,038	567,537	636,319	551,163
Total cash and deposits		**244,694**	269,204	358,428	363,425	486,062
Cash Flows						
From operating activities		**124,740**	49,521	98,615	93,652	98,142
From investment activities of which		**(123,560)**	(98,643)	(54,852)	(131,683)	(114,186)
gross investment in vessels		**(219,857)**	(181,340)	(146,408)	(194,472)	(456,497)
From financing activities		**56,759**	18,112	(100,420)	(112,536)	36,773
Net increase/(decrease) in cash and cash equivalents excluding term deposits		**57,939**	(31,010)	(56,657)	(150,567)	20,729
Other Data						
Basic EPS [2]	US cents	**0.1**	(3)	(1)	(15)	0.1
Dividends per share [1 & 2]	US cents	**–**	–	–	1	1
Eligible profit payout ratio [2]		**–**	–	–	>100%	>100%
Operating cash flows per share [2]	US cents	**3**	2	4	5	5
Company net book value per share [2]	US cents	**26**	26	36	52	67
Dividends	US$'000	**–**	–	–	12,368	12,385
Closing price at year end [2]	HK$	**1.69**	1.25	1.24	2.28	4.04
Market capitalisation at year end	US$'000	**960,000**	647,000	423,000	782,000	1,382,000

1 No final dividend is proposed for 2017.

2 "Other Data" for the years ended 31 December 2013 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 except for the closing price at year end.

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

Corporate Information

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Company Secretary
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Listing Venue & Listing Date
The Stock Exchange of Hong Kong Limited
14 July 2004

Public and Investor Relations
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Auditors
PricewaterhouseCoopers

Solicitors
Vincent T.K. Cheung, Yap & Co.

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

Total Shares in Issue
4,442,271,102 as at 31 December 2017

Website
http://www.pacificbasin.com

Social Media Channels
Facebook, Twitter, LinkedIn, YouTube and WeChat

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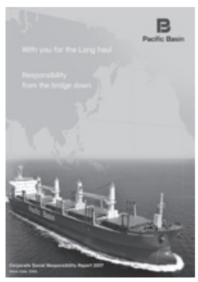


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