Pacific Basin

Robust Business Model
Versatile Fleet
Dedicated Team

Annual Report 2018

Stock Code: 2343

Business Highlights

GROUP

We recorded significantly stronger results in 2018 due to better dry bulk market conditions and initiatives we took to position ourselves for a recovery

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We booked an EBITDA of US$216 million and net profit of

US$72 million

The Board recommends a final dividend per share of

HK3.7 cents

giving full-year dividends of HK6.2 cents

Our Handysize and Supramax TCE earnings outperformed the market indices by

22% **and** 12%

We closed revolving credit and term loan facilities amounting to

US$365 million

Our year-end cash position was

US$342 million

with net gearing of 34%

FLEET

We acquired seven modern vessels including four funded 50% by issuing shares, and have sold one older vessel

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We currently own 111 ships and, including chartered vessels, we typically operate over 200 ships overall

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We have covered 44% and 63% of our Handysize and Supramax revenue days for 2019 at US$9,370 and US$10,570 per day net respectively

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Our blended Handysize and Supramax vessel operating expenses averaged US$3,850 per day and we maintain a competitive cost structure overall, primarily through scale benefits and good cost control

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OUTLOOK

The US-China trade conflict has undermined dry bulk sentiment and compounded the seasonal market weakness in early 2019

However, the seasonal recovery is now underway and global dry bulk trade is expected to continue to grow in 2019, though at a slower pace

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We expect to see increased volatility in 2019 influenced by uncertainty about the trade conflict, but also by environmental regulations contributing to tighter supply

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We see upside in secondhand vessel values and continue to look opportunistically at attractive secondhand ship acquisitions

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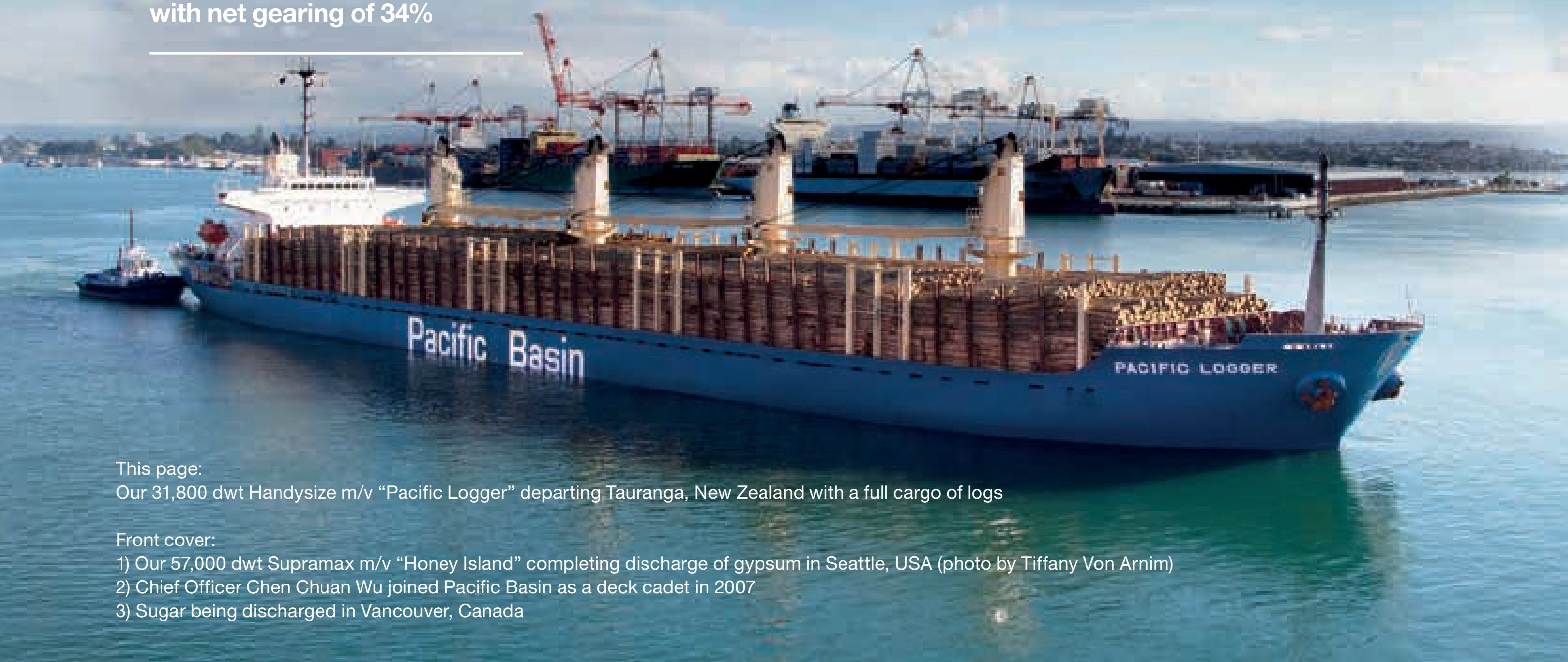
Our robust cargo-focused business model, large owned fleet, healthy cash position and competitive cost structure position us well for the future



This page:
Our 31,800 dwt Handysize m/v "Pacific Logger" departing Tauranga, New Zealand with a full cargo of logs

Front cover:
1) Our 57,000 dwt Supramax m/v "Honey Island" completing discharge of gypsum in Seattle, USA (photo by Tiffany Von Arnim)
2) Chief Officer Chen Chuan Wu joined Pacific Basin as a deck cadet in 2007
3) Sugar being discharged in Vancouver, Canada

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 over 3,800 seafarers and 336 shore staff in 12 key locations around the world.

Our Fleet

(as at 31 January 2019)

	Vessels in operation Owned[1]	Long-term Chartered	Short-term Chartered[2]	Total	Total Capacity (million DWT) Owned[1]	Average Age Owned[1]
Handysize	83	19	30	132	2.72	10
Supramax	27	7	49	83	1.53	6
Post-Panamax	1	1	0	2	0.12	7
Total	**111**	**27**	**79**	**217**	**4.37**	**9**

[1] An additional 2 vessels purchased and 1 sold during the period are scheduled to deliver by end March 2019

[2] Average number of short-term and index-linked vessels operated in January 2019

CSR Report

Our comprehensive CSR Report can be found in our online Annual Report and now also takes the form of a standalone document in the Sustainability section of our website at:
www.pacificbasin.com/en/sustainability/csr.php

An Integrated Reporting Framework

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

Key to navigation symbols

- Linkage to related details within the Annual Report
- Linkage to related details on our website www.pacificbasin.com
- Linkage to related details in our CSR Report
- KPI High-level KPIs (Key Performance Indicators)
- Audited Information

Strategic Model

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 any time 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.

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

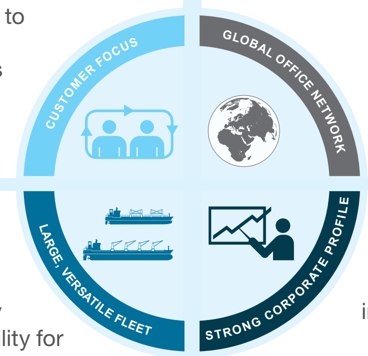
Close partnership with customers generates enhanced access to spot cargoes and long-term cargo contract opportunities of mutual benefit

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

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Our Resources in Action

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Strategy Delivery & Risks

Financial Summary

US$72.3m
Net Profit

+US$68.7m YoY

US$215.8m
EBITDA[1]

+US$82.0m YoY

US$341.8m
Cash Position 31 December 2018

+US$97.1m YoY

HK6.2¢
Full-year Dividends per share

+HK6.2¢ YoY

	2018 US$ Million	2017 US$ Million
Results		
Revenue	1,591.6	1,488.0
Total Time-Charter Equivalent ("TCE") Earnings	881.1	786.5
EBITDA [1]	215.8	133.8
Underlying profit KPI	72.0	2.2
Profit attributable to shareholders	72.3	3.6
Balance Sheet		
Total assets	2,366.2	2,231.6
Total cash and deposits	341.8	244.7
Net borrowings	619.3	636.3
Shareholders' equity	1,231.2	1,161.1
Capital commitments	70.2	32.3
Cash Flows		
Operating	189.5	124.7
Investing	(116.8)	(123.6)
Financing	30.0	56.8
Net increase in cash and cash equivalents excluding term deposits	102.7	57.9
Per Share Data	HK cents	HK cents
Basic EPS	12.9	0.7
Full-year Dividends KPI	6.2	–
Operating cash flows	33.8	23.8
Shareholders' equity	213	204
Share price at year end	149	169
Market capitalisation at year end	HK$6.8bn	HK$7.5bn
Ratios		
Net profit margin	5%	1%
Return on average equity	6%	1%
Total shareholders' return	(10%)	35%
Net borrowings to net book value of owned vessels KPI	34%	35%
Net borrowings to shareholders' equity	50%	55%
Interest cover (excluding impairments) KPI	6.0X	3.7X

[1] EBITDA (earnings before interest, tax, depreciation and amortisation) is 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; utilisation and write-back of onerous contract provisions; and Charter Hire Reduction adjustments.

Chairman's Statement

A Solid Performance All Round for Pacific Basin

It is fulfilling to report that Pacific Basin delivered a strong performance in 2018. Having pursued several positive initiatives in recent years to position ourselves for the dry bulk market recovery, the Company generated significantly larger operating cash flows and our strongest earnings since 2010.

Usual seasonal weakness at the start of 2019 has been further undermined by the US-China trade dispute and Chinese coal import restrictions, casting uncertainty over the strength of dry bulk demand. On the positive side, the fundamentals for our minor bulk segment look encouraging, but we are bracing ourselves for increased freight market volatility in 2019. As we have shown before, Pacific Basin has what it takes to navigate such turbulence adeptly.

2018 Final Dividend

In view of our return to a meaningful level of profitability, the Board recommends a final dividend of HK3.7 cents per share (2017: nil). Combined with the HK2.5 cents interim dividend distributed in August, this represents 50% of our net profit for the full year (excluding disposal gains), consistent with our dividend policy.

Effective Platform for a Sustainable Business

Exceptional Fleet and Robust Business Model

We added several modern secondhand vessels to our world-leading fleet of minor bulk ships in 2018 and sold one older, smaller ship. Planning for the future, we aim to gradually grow and renew our Handysize and Supramax fleets further, including by trading up our smaller, older ships to larger, newer vessels with longer life at attractive prices.

The scale of our fleet and uniform design of our interchangeable ships enable our experienced colleagues in 12 offices to provide the most reliable freight service to our cargo customers around the world, while combining our ships and cargoes to achieve high laden utilisation and TCE earnings that outperform the market indices. Our fleet scale and versatility, global coverage, ship operating and cargo expertise and customer focus sit at the heart of our business model.

Competitive Funding, Healthy Balance Sheet and Competitive Cost Structure

Four of the ships we acquired in 2018 were in aggregate 50% funded by issuing shares in a transaction that is accretive to our earnings per share. Other fundraising initiatives included closing competitive revolving credit and term loan facilities amounting to US$365 million.

These initiatives all contribute to our competitive P&L breakeven levels and further enhance our funding flexibility, operating cash flow, EBITDA and balance sheet strength. Our cash position increased to US$342 million at 31 December 2018 with net gearing of 34% (net debt to net book value of our owned fleet).

We continue to maintain good control of our daily vessel operating expenses and G&A overheads with efficiencies across our business, reinforcing our platform for success in the years ahead.

World-class Industry Reputation, Excellent Team, Sensible Values

We again received several awards in 2018, including Lloyd's List's Dry Bulk Operator of the Year award and the International Bulk Journal's Customer Care Award. These recognise our commitment to quality operations, fleet growth, a superior customer experience and a truly customer-focused infrastructure and business model.

Underpinning this reputation is an exceptional team of executives, staff and ships' crews whose experience and passion for delivering excellent service help drive us towards our vision of being the first choice partner for customers and other stakeholders.

We take a thoughtful approach to how we run our business and care for our customers and employees. Our business is people-driven, so success hinges on strong relationships with customers, suppliers and other business partners.

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With you for the long haul

We continued to invest intelligently in staff training and development, which resulted in excellent safety performance at sea, enhanced productivity ashore, and leadership development that is the backbone of our strong succession planning.

Experienced Board and Strong Governance

Our Chief Financial Officer Peter Schulz joined our Board as an Executive Director in July 2018, and the Board now comprises three Executive Directors and six Independent Non-executive Directors with a broad range of commercial, strategic, operational, legal, financial and accounting experience and strong shipping and commodities expertise.

Our 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.

Robust Strategy and Well-Positioned for the Future

We remain committed to our Handysize and Supramax focus, our effective strategy and to always refining and improving our fleet and how we do business. Staying true to our corporate mission and values – such as through 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.

We embrace and have prepared well for the recent raft of environmental regulations to impact shipping including the Ballast Water Management Convention, IMO 2020 sulphur cap and IMO's ambitious strategy to significantly reduce total greenhouse gas emissions from shipping. We have an excellent team to lead and roll out our preparations, and are well-equipped to adapt and cope both practically and financially with compliance and new technology.

We remain well positioned to capitalise on opportunities in the minor bulk segment, more of which could emerge from the volatility that is expected this year.

The Company is in good financial health, has a proven business model and a large competitive fleet with a low cost base. It has the excellent people, governance structure, strategies, systems and reputation that are key to enhancing our already competitive market position.

On behalf of the Board, I thank our loyal customers, suppliers, staff and other stakeholders for their valued support of Pacific Basin.

David Turnbull
Chairman

Hong Kong, 28 February 2019

Chief Executive's Review

Leveraging our larger owned fleet and competitive cost structure to generate a strong result

Much Improved Financial Results

Dry bulk freight market conditions improved again in 2018 and our much larger owned fleet, TCE outperformance and competitive cost structure have positioned us well for this recovery, enabling us to record significantly stronger results for the year.

We made a net profit of US$72 million in 2018 (2017: US$3.6 million) and EBITDA of US$216 million (2017: US$134 million). Basic EPS was a positive HK12.9 cents.

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Financial Statements

Market Recovery Continued

The Handysize and Supramax freight market continued to strengthen in 2018.

Clarksons Research estimates minor bulk tonne-mile demand to have grown 5.3%, benefitting from increased trades in bauxite, nickel ore, copper concentrate, logs and forestry products and other minor bulks in which we specialise.

Significantly reduced newbuilding deliveries and only 2.4% net growth in the global Handysize and Supramax fleets helped to support a healthier demand-supply balance despite minimal scrapping in the improved freight earnings environment.

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Market Review

The larger ship segments were disadvantaged by stagnant global tonne-mile demand for grain, soybean and iron ore, resulting in only 1.2% growth in major bulk demand.

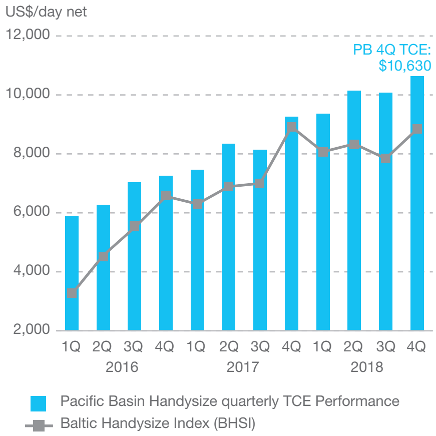
General market sentiment was challenged by the US-China trade uncertainties from mid-year, in particular in the fourth quarter when seasonal strong cargo flows of US grain and soybean to China failed to materialise. 2019 has started weaker than the last two years with a more pronounced Chinese New Year dip, compounded by the trade conflict, Chinese restrictions on coal imports and iron ore infrastructure disruptions in Brazil that undermined sentiment further. However, the seasonal recovery is now underway.

Pacific Basin Continues to Outperform

We engage directly with industrial users, traders and producers of dry bulk commodities for whom we carry cargo under spot and fixed-rate multi-shipment cargo contracts. This differentiates us from many shipowners who charter out their vessels on a time-charter basis as tonnage providers.

We generated average Handysize and Supramax daily TCE earnings of US$10,060 and US$12,190 per day net in 2018, outperforming the BHSI and BSI indices by 22% and 12% respectively.

PB Handysize TCE Performance



Source: Pacific Basin, Baltic Exchange

Our ship operating expenses ("Opex") of US$3,850 per day and general and administrative ("G&A") overheads of US$740 per day are also very competitive compared to many of our peers.

Our TCE premium and competitive costs are driven by our ability to draw on our experienced commercial and technical teams, global office network, strong cargo support and large fleet of high-quality interchangeable ships in ways that optimise ship and cargo combinations for maximum utilisation and by generating scale benefits and other efficiencies from good systems and strict cost control.

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Our Performance

Positive Growth Initiatives

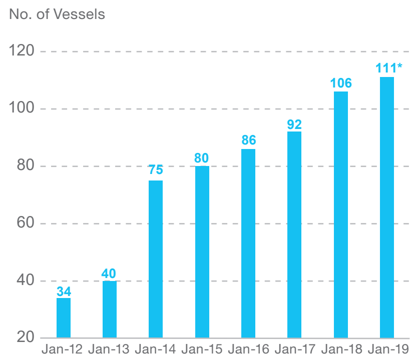
As announced in May 2018, we committed to purchase four modern vessels for US$88.5 million in a 50% equity-funded transaction that enhances our operating cash flow, EBITDA and balance sheet strength, lowers our P&L breakeven levels, and is accretive to our earnings per share.

We also acquired for cash one secondhand Handysize and one Supramax in April and August 2018 respectively. At the end of 2018, we committed to purchase a Supramax for delivery by the end of March 2019 and we sold an older, small Handysize, thereby trading up to a larger vessel with longer life at an attractive price.

These transactions have increased our owned fleet to 111 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, positioning us well for the market recovery. Including chartered vessels, we operated an average of 224 ships in 2018.

Pacific Basin Owned Dry Bulk Fleet



* An additional 2 vessels purchased and 1 sold during the period are scheduled to deliver by end March 2019

As at 31 January 2019

We also continue to invest in state of the art systems with our most notable projects being the development of digital solutions for greater efficiencies and better commercial and operational optimisation and decisions.

Strengthening Balance Sheet

In June, we closed a US$325 million reducing revolving credit facility with a syndicate of eight leading international banks, and in November we closed another US$40 million bilateral term loan facility. These facilities refinance or extend existing facilities secured over a total of 69 of our owned ships at a competitive interest cost of LIBOR plus 1.5%. They extend our overall amortisation profile and further enhance our funding flexibility with access to long-term committed funding at an attractive cost which contributes to our competitive vessel P&L breakeven levels.

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Funding – Cash flow, cash, etc

As at 31 December 2018, we had cash and deposits of US$342 million and net borrowings of US$619 million, which is 34% of the net book value of our owned vessels at the year end.

Environmental Regulations Impacting Vessel Investment Decisions

Pacific Basin continues to assess and plan for three major environmental regulations high on the industry agenda.

The Ballast Water Management Convention requires ballast water treatment systems (BWTS) to be fitted on ships during routine dockings between 2019 and 2024. 14 of our owned ships are now fitted with BWTS, and we have arranged to retrofit our remaining 97 owned vessels with a system based on filtration and electrocatalysis by the end of 2022.

The IMO 2020 global 0.5% sulphur limit takes effect on 1 January 2020, and shipowners will have to comply either by using more expensive low-sulphur fuel, or by continuing to burn heavy fuel oil in combination with installing exhaust gas cleaning systems or "scrubbers". We expect the majority of the global dry bulk fleet, especially smaller vessels such as our Handysize ships, will comply by using low-sulphur fuel.

Some owners of larger vessels with higher fuel consumption, including some Supramaxes, are planning to install scrubbers. As we cannot risk being competitively disadvantaged, we are well prepared and have arrangements in place with repair yards and scrubber makers to install scrubbers on our owned Supramax vessels. These arrangements include fitting and testing scrubbers to gain experience early and to evaluate the equipment both technically and operationally.

Whichever compliance method owners adopt, we believe that the IMO 2020 regulations will reduce capacity in the short term to the benefit of the freight market, as vessels burning more expensive low-sulphur fuel will operate at more economic slower speeds, and vessels to be retrofitted with scrubbers will be withdrawn from the market for several weeks for scrubber installation.

In April 2018, the IMO announced an ambitious strategy to cut total greenhouse gas emissions from shipping by at least 50% by 2050 (compared to 2008) and improve average CO_2 efficiency by at least 40% by 2030 and 70% by 2050. The easiest first step to decrease carbon emissions is to reduce speed, but our view is that these new IMO targets will in due course lead to the development of new fuels, engine technology and vessel designs that are not available or practical today.

Combined, we believe that these regulations will discourage new ship ordering in the short and medium term until new, lower-emissions ship designs become available. We expect these new environmental regulations to be positive for the supply-demand balance and benefit larger, stronger companies with high quality fleets that are better positioned to adapt and cope both practically and financially with compliance and new technology.

Market Outlook

The IMF recently adjusted its 2019 global economic growth forecast down to 3.5%, citing rising trade protectionism and instability in emerging markets as well as a slowdown in Europe. However, this still represents a healthy level of growth which, widely-spread geographically, continues to bode well for minor bulk demand.

Supply is expected to be kept in check as many shipowners in our segments refrain from ordering new ships. Clarksons Research estimates combined Handysize and Supramax net capacity growth of 2.0% for 2019 against 4.3% growth in minor bulk tonne-mile demand.

The trade conflict between the United States and China has resulted in import tariffs on a wide range of goods traded between the two countries and has undermined sentiment. Affected goods include US agricultural products, primarily soybean, as well as forest products and cement. However, our cargo diversity and cargo book provide some insulation from these protectionist actions and, despite the weaker US-China trade, minor bulk freight rates were mostly stronger through 2018 compared to corresponding periods in 2017.

A resolution between the United States and China could provide the dry bulk market with a boost, while a protracted trade conflict could further undermine global GDP growth and consequently overall trade and dry bulk demand.

We expect to see increased volatility in 2019, influenced by uncertainty about the trade conflict and slower economic growth, but also by compliance preparations for the 2020 sulphur cap leading to tighter supply. New environmental regulations like this disrupt existing supply and discourage fleet growth.

Well Positioned for the Future

The gap between newbuilding and secondhand prices remains large and we still see upside in secondhand vessel values. We will continue to grow by looking opportunistically at good quality secondhand ship acquisitions as prices are still historically attractive, resulting in reasonable breakeven levels and shorter payback times. We will also consider opportunities to trade up by selling smaller, older ships and buying larger, younger secondhand ships with longer life at attractive prices.

Our robust customer-focused business model, high laden utilisation, global office network, experienced people, larger owned fleet and competitive cost structure position us well for the future.

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

We have a truly global business and office network and, with our headquarters in Hong Kong, we are geographically well positioned to maintain leadership particularly in Asia's growing minor bulk shipping sector.

Towards the end of 2018, Pacific Basin won Dry Bulk Operator of the Year at the Lloyd's List Global Awards and the Customer Care Award at the International Bulk Journal's IBJ Awards. These awards specifically acknowledged our commitment to quality operations, our fleet growth and our commitment to placing customers at the focal point of our business, striving to provide them with a superior experience, and investing in a truly customer-focused infrastructure and business model. The awards are 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, all of whom we acknowledge for the part they play in our success.

We thank all our stakeholders for your continued support.

Mats Berglund
Chief Executive Officer

Hong Kong, 28 February 2019

Dry Bulk Outlook Possible market drivers in the medium term

Opportunities

- Continued strong industrial growth and infrastructure investment in emerging markets and China, boosted by economic stimulus, enhancing demand for dry bulk shipping
- Easing of US-China trade tariffs and restrictions resulting in improved sentiment and dry bulk trade activity
- Environmental policy in China encouraging shift from domestic to imported supply of resources
- Limited newbuilding ordering and deliveries supporting tighter supply in the medium term
- Environmental maritime regulations encouraging increased ship scrapping from current minimal levels and discouraging new ship ordering
- Supply contraction due to slower operating speed of ships burning more expensive low-sulphur fuel and time out of service for ships installing scrubbers to meet the IMO 2020 sulphur cap
- Expanding thermal coal imports into emerging south and south-east Asian countries

Threats

- Slowing global economic growth affecting the trade in dry bulk commodities
- 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
- Escalating trade disputes impacting global GDP growth, weakening sentiment and undermining dry bulk demand
- Excessive new ship ordering if the price gap between newbuilding and secondhand ships closes
- Periods of low fuel prices supporting faster ship operating speeds which increases supply
- Iron ore infrastructure disruptions in Brazil impacting global iron ore tonne-mile trade flows

Market Review

Freight Market Summary

US$8,270 net

+14%

Handysize 2018 average market spot rate

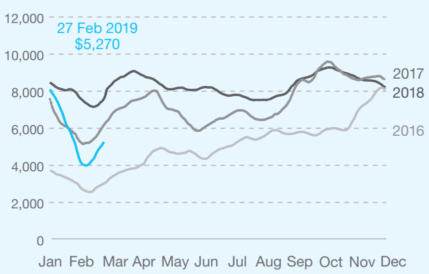
US$10,910 net

+23%

Supramax 2018 average market spot rate

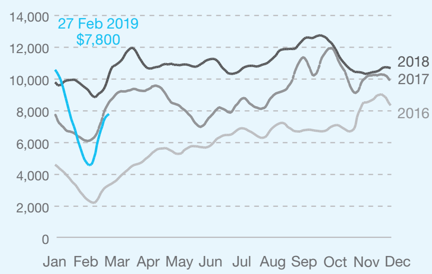
Handysize Market Spot Rates in 2016-2019

US$/day net*



Supramax Market Spot Rates in 2016-2019

US$/day net*



* excludes 5% commission

Source: Baltic Exchange (BHSI 28,000 dwt, BSI 58,000 dwt), data as at 27 February 2019

Freight rates for our minor bulk ship types in 2018 continued to recover from the cyclical low in 2016, supporting the strongest annual average index rates since 2011. Average Handysize and Supramax spot market rates improved 14% and 23% to US$8,270 and US$10,910 per day net respectively.

The market followed a similar pattern as in 2017, but less volatile and at a higher level for the first three quarters, starting with the usual seasonal decline, recovery after Chinese New Year, peaking in October and softening thereafter.

Minor bulk market strength was driven by an improving supply-demand balance with tonne-mile demand growing 5.3% year on year compared to only 2.4% net fleet growth despite historically low scrapping. Fuel prices continued their upward trend until October, encouraging slower average ship operating speeds which contributed to tighter supply. However, this trend reversed and speeds increased with the sharp drop in fuel prices late in the year.

2019 has started weaker than the last two years with a more pronounced Chinese New Year dip and is likely to see greater volatility. However, the seasonal recovery is now underway.

FREIGHT MARKET & OUTLOOK IMPACT SHIP VALUES

Key Supply Developments

SUPPLY DRIVERS

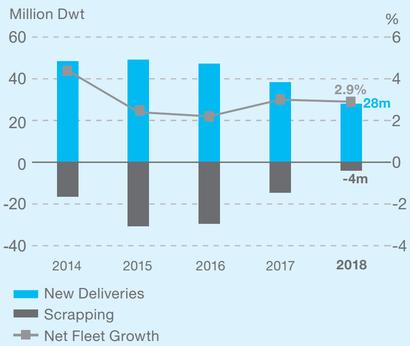
+2.4% 1.2% YOY

Global minor bulk capacity 2018

+2.9% 0.1% YOY

Total dry bulk capacity 2018

Dry Bulk Supply Development



Source: Clarksons Research, data as at 1 January 2019

Global dry bulk net fleet growth in 2018 was largely unchanged at 2.9% year on year due to reduced newbuilding deliveries and much reduced scrapping because of the improved freight market. Now close to zero, scrapping cannot reduce any further and will potentially increase due to the growing number of old vessels and the increasing burden of environmental regulation.

Growth in the dry bulk fleet was concentrated in the larger Panamax and Capesize segments in which capacity expanded 3.2% compared to 2.8% in 2017. The global fleet of Handysize and Supramax ships in which we specialise grew slower in 2018 at 2.4% compared to 3.6% in 2017.

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, if fuel prices decrease. Similarly, effective supply can tighten if fuel prices increase and ships slow down.

Ship Values

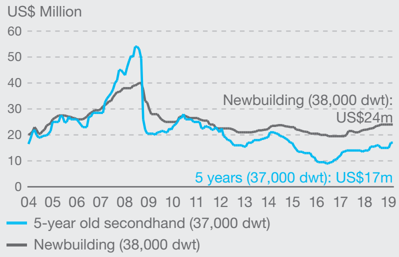
US$17.0m

+21%

Secondhand Handysize YOY

Improved freight market conditions supported sale and purchase activity and increased vessel values. Clarksons Research currently values a benchmark five year old Handysize bulk carrier (now defined as 37,000 dwt) and a benchmark 58,000 dwt Supramax both at US$17 million. Handysize newbuilding prices have increased 8% since February 2018 to US$24 million.

Handysize Vessel Values



Source: Clarksons Research, data as at 22 February 2019

VALUES & OUTLOOK IMPACT NEW SHIP ORDERING

Key Demand Developments

Clarksons Research estimates total dry bulk tonne-mile demand growth in 2018 of 2.9% year on year – slower than a year ago mainly due to stagnant global demand for grain, soybean and iron ore, offset by healthy 5.3% growth in non-grain minor bulk demand. Chinese imports of eight key minor bulk plus grain commodities grew by 8.2%, but Chinese steel export volumes reduced by 8% as strong domestic demand provided less incentive for export.

DEMAND DRIVERS

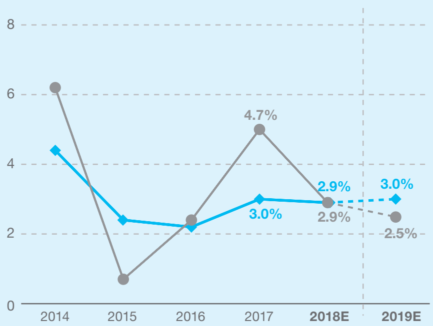
The trade in iron ore (in which we have negligible involvement) remained flat as some Chinese steel-making shifted towards recycling more scrap instead of processing iron ore. Infrastructure disruptions in Brazil have impacted iron ore exports in early 2019.

Global coal trades in 2018 are estimated to have grown by 3.3% due to increased US exports and Asian imports, particularly to India and China, although Chinese coal import restrictions undermined the coal trade towards the end of the year.

Stagnant growth in the global grain trades was partly due to unfavourable weather conditions and the US-China trade dispute. US and Brazilian grain exports supported healthy demand in the first half of the year, while second-half trade flows – particularly US soybean exports – were affected by the Chinese import tariffs.

Total Dry Bulk Demand & Supply

% YOY



	2017	2018E	2019E
Tonne-mile Demand			
Total Dry Bulk	4.7%	2.9%	2.5%
Minor Bulk	5.0%	5.3%	4.3%
Net Fleet Growth			
Total Dry Bulk	3.0%	2.9%	3.0%
Handysize/Supramax	3.6%	2.4%	2.0%

Source: Clarksons Research, data as at February 2019

+2.9% ↓ 1.8% YOY

Total dry bulk demand 2018 (tonne-mile)

Global trade volumes – major bulks

Iron Ore	→	–
Coal	↑	3%
Grain (including Soybean)	→	–

Global trade volumes – minor bulks

Nickel Ore	↑	30%
Manganese Ore	↑	18%
Cement	↑	12%
Bauxite & Alumina	↑	10%
Forest Products	↑	2%
Steel Products	→	–
Sugar	↓	7%

Source: Clarksons Research, data as at February 2019

Scheduled Orderbook

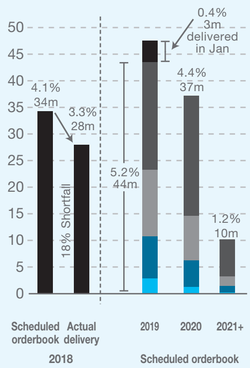
New ship ordering activity in 2018 remained concentrated in the larger Panamax, Capesize and very large ore carrier segments where ordering reduced to 4.9% of the global fleet. New orders for our type of smaller Handysize and Supramax vessels remained more limited at 2.1%.

New ship ordering is expected to reduce further in 2019, discouraged by the continued gap between newbuilding and secondhand prices as well as uncertainty over upcoming environmental regulations and their impact on future vessel designs.

The combined Handysize and Supramax orderbook stands at 6.5%.

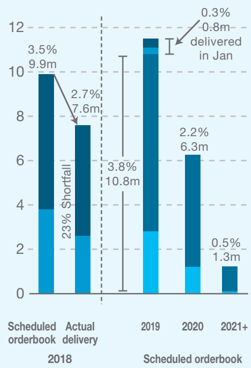
Total Dry Bulk Orderbook by Year

Million Dwt



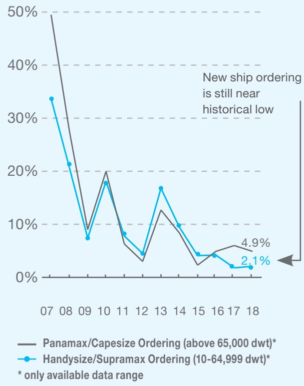
Handysize & Supramax Combined Orderbook

Million Dwt

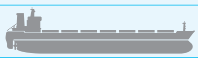
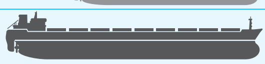


Dry Bulk New Ship Ordering

Total Ordering vs Existing Fleet
% of Fleet (Dwt)



Source: Clarksons Research, data as at February 2019

		ORDERBOOK AS % OF EXISTING FLEET	AVERAGE AGE	OVER 20 YEARS OLD	2018 SCRAPPING AS % OF 1 JANUARY 2019 EXISTING FLEET
	Handysize (25,000–41,999 dwt)	5%	10	11%	0.4%
	Supramax (formerly Handymax) (42,000–64,999 dwt)	7%	10	8%	0.3%
	Panamax & Post-Panamax (65,000–119,999 dwt)	10%	10	8%	0.1%
	Capesize (incl. VLOC) (120,000+ dwt)	16%	9	6%	0.9%
	Total Dry Bulk > 10,000 dwt	11%	10	8%	0.5%

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Our Performance

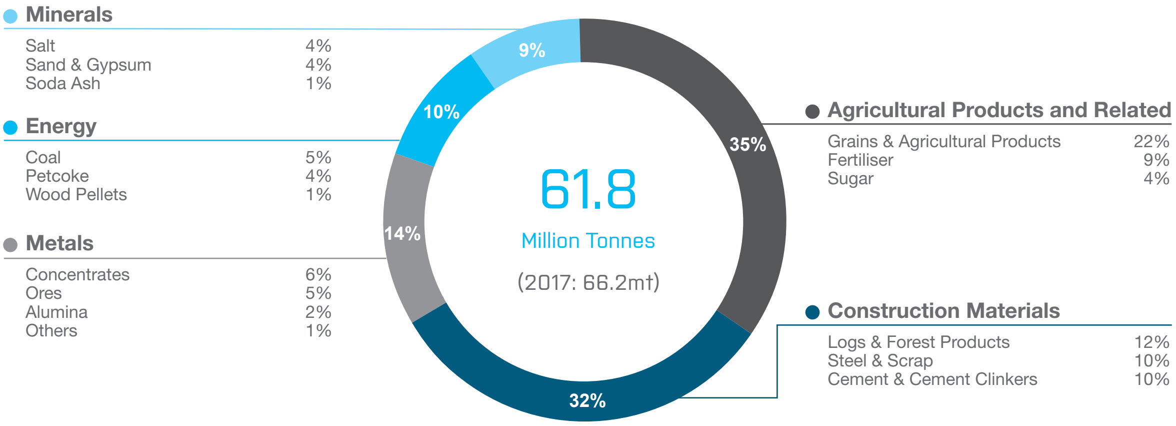
Our business generated an underlying profit of US$72.0 million (2017: US$2.2 million) in a markedly better year for dry bulk shipping. In the improved market conditions, we generated daily earnings that outperformed the BHSI and BSI indices and continued to maintain good control of our vessel operating costs.

Operating Performance

US$ Million	1H18	2H18	2018	2017	Change
Handysize contribution	38.4	47.1	**85.5**	31.4	>+100%
Supramax contribution	15.8	26.3	**42.1**	19.8	>+100%
Post-Panamax contribution	2.7	2.8	**5.5**	5.5	–
Operating performance before overheads	56.9	76.2	**133.1**	56.7	>+100%
G&A overheads	(28.4)	(31.4)	**(59.8)**	(54.4)	-10%
Tax and other	(0.5)	(0.8)	**(1.3)**	(0.1)	>-100%
Underlying profit	28.0	44.0	**72.0**	2.2	>+100%
Vessel net book value	1,815.1	1,801.9	**1,801.9**	1,791.5	+1%

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

OUR CARGO VOLUMES IN 2018

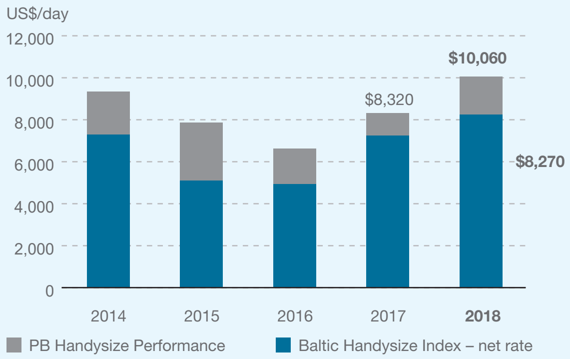


Key Performance Indicators KPI

Performance vs Market

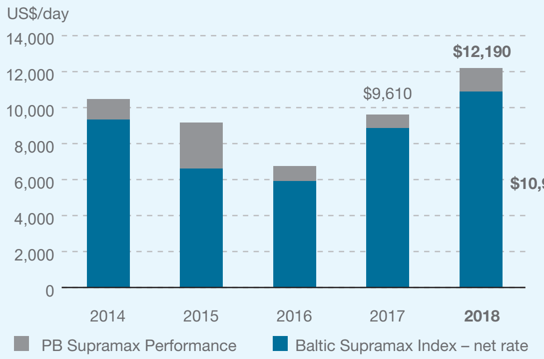
Handysize

22% outperformance compared to market



Supramax

12% outperformance compared to market

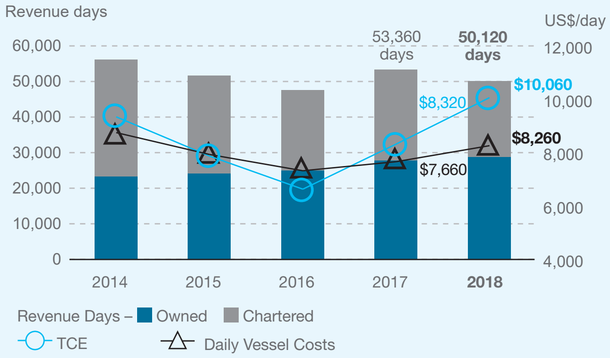


- Our outperformance in 2018 compared to spot market indices reflects the value of our fleet scale and cargo book, and our ability to optimise cargo combinations and match the right ships with the right cargoes to maximise our utilisation and vessel earnings.

Profitability

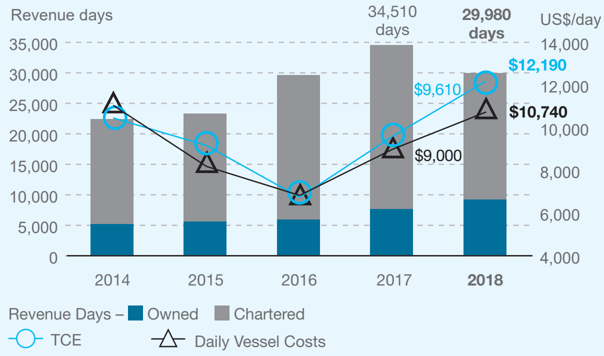
Handysize

US$85.5m contribution



Supramax

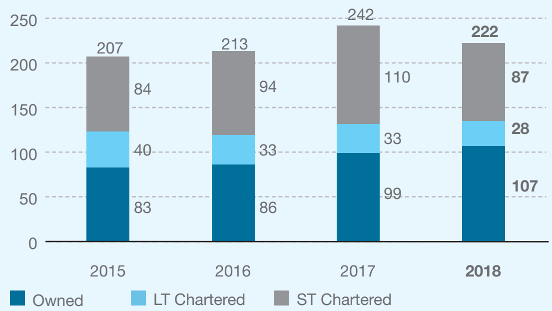
US$42.1m contribution



- We generated Handysize daily earnings of US$10,060 with daily costs of US$8,260 on 50,120 revenue days. We generated Supramax daily earnings of US$12,190 with daily costs of US$10,740 on 29,980 revenue days.
- Both our Handysize and Supramax contributions increased significantly year on year. This improvement is due to better markets, continued outperformance and strong cost control leading to increasing profits from our larger owned fleet, as freight rates were well above our competitive owned vessel break-even levels.
- We operated an average of 139 Handysize and 83 Supramax ships in 2018 resulting in 6% and 13% reductions in our Handysize and Supramax revenue days. This reflects an increase in our owned fleet, offset primarily by fewer short-term chartered-in Supramax ships, mainly due to lower Chinese steel export volumes.

Pacific Basin Fleet Development

Annual Average No. of Handysize and Supramax Ships Operated



As at 31 December 2018, our owned Handysize and Supramax stood at 82 and 27 respectively

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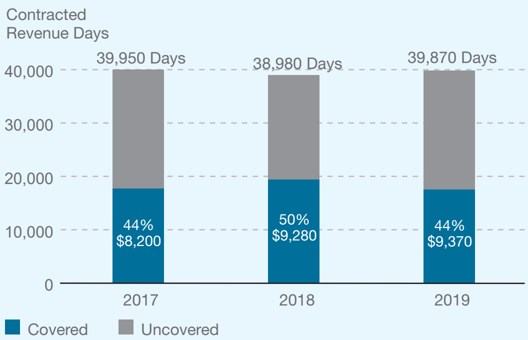
Financial Statement Note 6
Net Book Value of our owned vessels

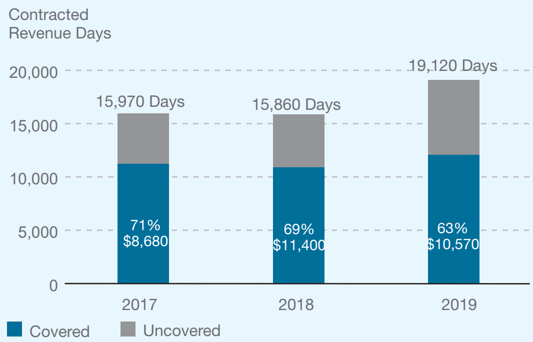
Future Earnings and Cargo Cover

Handysize



US$ per day; as at mid-February

Supramax



US$ per day; as at mid-February

- We have covered 44% and 63% of our 39,870 Handysize and 19,120 Supramax revenue days currently contracted for 2019 at US$9,370 and US$10,570 per day net respectively (cargo cover excludes revenue days related to inward-chartered vessels on variable, index-linked rates).

  For comparison the graphs show the level of cover we had secured as at the same time in February in recent years.
- While ship operators such as ourselves typically face significant exposure to the spot market, our contract cover provides a degree of earnings visibility.

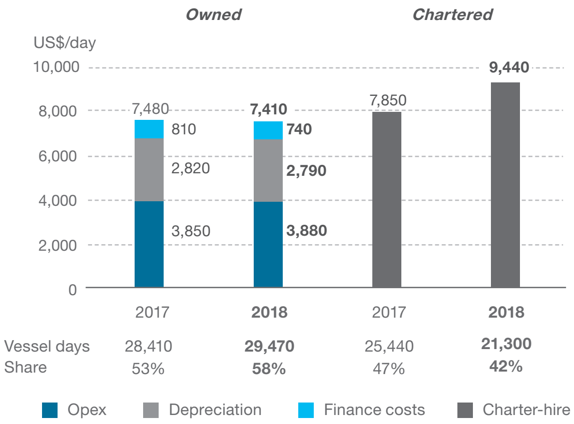
Daily Vessel Costs and Commitments

The cost of owning and operating dry bulk ships is the largest 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

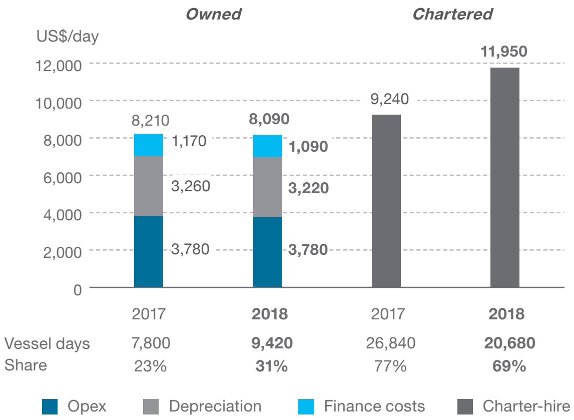
Handysize

Blended US$8,260 (2017: US$7,660)
(excluding G&A overheads)



Supramax

Blended US$10,740 (2017: US$9,000)
(excluding G&A overheads)



Operating expenses – The daily operating expenses ("Opex") remained substantially unchanged at very competitive levels as a result of scale benefits and procurement cost efficiencies.

Our fleet of owned vessels experienced on average 1.2 days (2017: 1.0 days) of unplanned technical off-hire per vessel.

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$740 and US$680 respectively for Handysize and US$1,090 and US$1,000 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.

Charter-hire – Due to the stronger market in 2018, our chartered vessels' daily P/L and cash charter-hire costs increased to US$9,440 and US$9,880 respectively for Handysize, and US$11,950 and US$12,050 respectively for Supramax. The difference between the P/L and cash charter-hire costs mainly reflects the release of onerous contract provisions previously made in relation to our 2018 charter commitments.

	Long-term (>1 year)	Short-term	Index-linked	Total
Handysize				
Vessel days	7,450	13,250	600	21,300
Average daily P/L rate	8,600	9,960	8,380	9,440
Supramax				
Vessel days	2,820	16,770	1,090	20,680
Average daily P/L rate	11,530	12,100	10,790	11,950

Daily cash cost – Excluding non-cash elements of the above as well as G&A overheads, our average blended owned and chartered daily cash cost was US$6,790 (2017: US$6,360) and US$9,770 (2017: US$8,310) for our Handysize fleet and Supramax fleet respectively.

General and administrative ("G&A") overheads – Our total G&A overheads amounted to US$59.8 million (2017: US$54.4 million). Spread across all our vessel days, these total G&A overheads translated into a daily cost of US$740 (2017: US$600) per ship, comprising US$950 per day for owned ships and US$540 per day for chartered-in ships. The year-on-year increase is due primarily to an increase in our staffing overheads combined with a smaller total fleet comprising fewer chartered-in ships partly offset by a larger owned fleet.

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Financial Statements Note 5
Expenses by Nature
Analysis of our costs including general and administrative overheads

Vessel Operating Lease Commitments

As at 31 December 2018, our future vessel operating lease commitments stood at US$317.1 million (2017: US$396.5 million), comprising US$206.3 million for Handysize, US$95.6 million for Supramax and US$15.2 million for Post-Panamax.

Our Handysize operating lease committed days decreased 24% to 20,040 days (2017: 26,340 days) while our Supramax operating lease committed days decreased 11% to 7,620 days (2017: 8,590 days).

Commitments Excluding Index-linked Vessels

The table below shows the average daily charter rates for our chartered-in Handysize and Supramax vessels during their remaining operating lease terms by year.

	Handysize						Supramax					
	Long-term (> 1 year)		Short-term		Total		Long-term (> 1 year)		Short-term		Total	
Year	Vessel days	Average rate	Vessel days	Average rate	Vessel days	Average rate	Vessel days	Average rate	Vessel days	Average rate	Vessel days	Average rate
1H 2019	3,590	10,260	910	10,240	4,500	10,250	1,090	13,170	2,960	12,010	4,050	12,320
2H 2019	3,350	10,160	60	11,260	3,410	10,180	1,080	13,210	210	11,410	1,290	12,920
2019	6,940	10,210	970	10,310	7,910	10,220	2,170	13,190	3,170	11,970	5,340	12,460
2020	4,020	10,420	–	–	4,020	10,420	1,560	13,030	–	–	1,560	13,030
2021	3,130	10,150	–	–	3,130	10,150	590	12,240	–	–	590	12,240
2022	2,490	9,920	–	–	2,490	9,920	130	12,500	–	–	130	12,500
2023	1,470	10,620	–	–	1,470	10,620	–	–	–	–	–	–
2024+	1,020	11,310	–	–	1,020	11,310	–	–	–	–	–	–
Total	19,070		970		20,040		4,450		3,170		7,620	

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 rates linked to the Baltic Handysize and Supramax indices (as applicable). 80 index-linked Supramax days are currently committed for 2019.

Following the adoption of new accounting standard HKFRS 16 "Leases" on 1 January 2019, charter-in operating leases of longer than 12 months will be accounted for on balance sheet as right-of-use assets and lease liabilities.

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Financial Statements Note 2
New accounting standard – HKFRS 16 "Leases"

Onerous Contract Provisions

The Group released onerous contract provisions of US$16.1 million to the income statement following the utilisation of 2018 elements of the charters. Due to our expectation that future vessel earnings will be higher than the cost of our time-charter commitments, the remaining provisions of US$12.7 million were written back to the income statement in 2018.

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Financial Statements Note 16
Onerous Contract Provisions

Charter Hire Reduction by Issuing New Shares in 2016

In 2016, new shares were issued to 10 shipowners in return for a reduction in charter-hire rates on 10 of our long-term chartered ships ("Charter Hire Reduction") over a 24-month period. This arrangement ended in 2018. Under the arrangement, the income statement reflected the original contracted charter costs, but the cash payments were reduced by the value of the shares issued. The cash reduction amounted to US$4.7 million in 2018.

Vessel Capital Commitments

As at 31 December 2018, the Group had commitments of US$44.8 million for three vessels. One of these vessels was delivered in January 2019 (resulting in 111 owned ships as per our fleet table on page 1), one delivered in February and the remaining vessel will be delivered by the end of March 2019.

As at 31 December 2018, the Group had options to purchase 7 Handysize, 2 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.

US$ Million	Number	Total
Handysize	1	17.2
Supramax	2	27.6
	3	44.8

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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, the sale and purchase of vessels, and the 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 our Group's commitments and an appropriate level of liquidity is maintained during different stages of the shipping cycle.

Over the long term, we aim to maintain a consolidated net gearing of no greater than 50% – defined as the ratio of net borrowings to net book value of owned vessels – which we believe is appropriate over all stages of the shipping cycle.

Developments

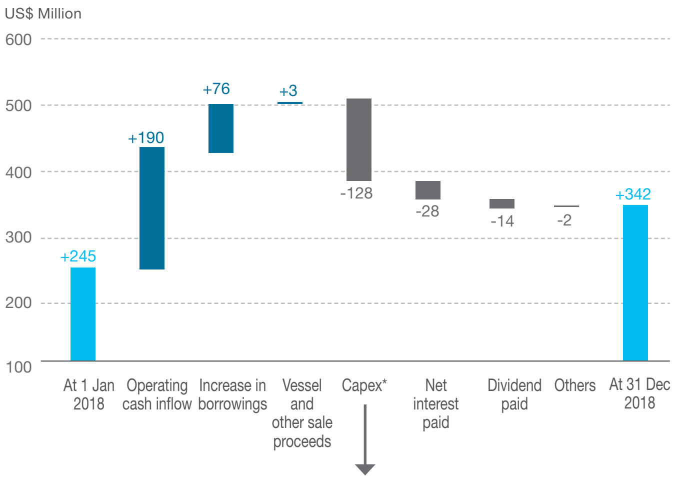
During 2018:

- Our operating cash inflow further improved to US$189.5 million, as compared with US$72.1 million in the first half of 2018 and US$124.7 million in the full year 2017 on the back of better dry bulk market conditions.
- In June we closed a new US$325.0 million syndicated 7-year reducing revolving credit facility secured against 41 previously mortgaged vessels and 9 unmortgaged vessels at an interest cost of LIBOR plus 1.5%. The facility refinanced 6 existing committed loan facilities and raised an additional US$136.0 million in available funding. Upon closing, the facility was fully drawn.
- In November we extended an existing term loan by an additional US$40.0 million at an interest cost of LIBOR plus 1.5% secured by the same 19 vessels under the original facility.
- Including the effects of refinancing, our secured borrowings increased by US$75.7 million in cash after we drew down net US$185.3 million under new committed loan facilities while making net repayments of US$109.6 million.
- We incurred capital expenditure of US$127.9 million:
  - (a) we paid US$20.8 million cash for a Supramax newbuilding resale in January;
  - (b) we purchased a secondhand Handysize for a cash payment of US$12.2 million in April;
  - (c) we committed in May to purchase one secondhand Supramax, one secondhand Handysize, one Supramax newbuilding resale and one Handysize newbuilding resale for a total consideration of US$88.5 million which was funded by way of i) the issue of new shares to the ship sellers equivalent to US$44.3 million, and ii) a cash payment of US$44.2 million of which US$39.3 million was paid in 2018 and the balance US$4.9 million was paid in early 2019;
  - (d) we purchased a secondhand Supramax for a cash payment of US$16.4 million in August; and
  - (e) we paid US$39.2 million for routine dry dockings, including the initial installation of ballast water treatment systems and other costs.

As at 31 December 2018:

- The Group's cash and deposits were US$341.8 million reflecting a 34% net gearing ratio.
- Our unmortgaged vessels comprise eight vessels (including two vessels delivered in early 2019 and one to be delivered by the end of March 2019) with an aggregate estimated market value of approximately US$147 million.
- Our committed banking facilities were fully drawn.

Sources and Uses of Group Cash in 2018



Includes the following vessel purchases

Delivered – secondhand:	*2 Handysize*
	1 Supramax
Delivered – resales:	*2 Supramax*
Instalment:	*1 Handysize*
	1 Supramax

Installation of ballast water treatment systems

* excluding Capex of US$18 million funded by equity

Cash and Deposits

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

US$ Million	2018	2017	Change
Cash and deposits	**341.8**	244.7	+40%
Current portion of long-term borrowings	**(223.7)**	(104.1)	
Long-term borrowings	**(737.4)**	(776.9)	
Total borrowings	**(961.1)**	(881.0)	-9%
Net borrowings	**(619.3)**	(636.3)	+3%
Net borrowings to shareholders' equity	**50%**	55%	
Net borrowings to net book value of owned vessels KPI	**34%**	35%	
Net working capital	**140.4**	136.8	+3%

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.

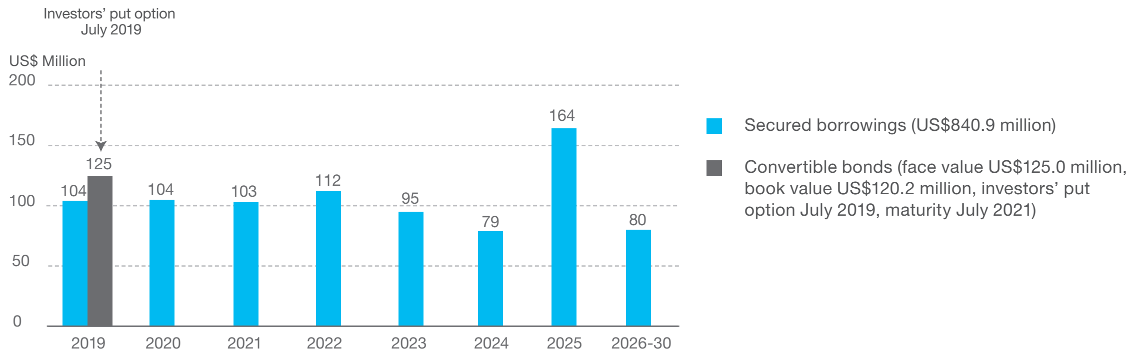
Treasury enhances Group income by investing in a mix of financial products, based on the perceived balance of risk, return and liquidity. Cash, deposits and investment products are placed with a range of leading banks, mainly in Hong Kong.

The Group's cash and deposits at 31 December 2018 comprised US$339.2 million in United States Dollars and US$2.6 million in other currencies. They are primarily placed in liquid deposits of three months or less and saving accounts. This maintains liquidity to meet the Group's vessel purchase commitments and working capital needs.

During the year, Treasury achieved a 2.3% return on the Group's cash.

Borrowings

Schedule of Repayments of Borrowings



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 2018, which comprised secured borrowings and the liability component of convertible bonds, amounted to US$961.1 million (2017: US$881.0 million) and are denominated in United States Dollars.

Secured Borrowings – US$840.9 million (2017: US$763.3 million)

The overall increase in secured borrowings is mainly due to the drawdowns under our committed loan facilities, partially offset by scheduled loan amortisation.

During the year, we drew down all our remaining committed loan facilities.

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 2018:

- The Group's secured borrowings were secured by 105 vessels with a total net book value of US$1,688.5 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:

A decrease in interest to US$28.4 million (2017: US$29.1 million) was mainly due to a decrease in average secured borrowings to US$701.3 million (2017: US$794.9 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$120.2 million (2017: US$117.7 million)

As at 31 December 2018 and 31 December 2017, there remained the 3.25% p.a. coupon July 2021 convertible bonds with an outstanding principal of US$125.0 million and a prevailing conversion price of HK$3.03, whose bondholders have the option to put the bonds at 100% of the principal amount back to the Company in July 2019.

The Company has sufficient liquidity to fully repay the bonds should the bondholders exercise their put option.

P/L impact:

The US$6.5 million (2017: US$6.4 million) interest expense of the convertible bonds is calculated at an effective interest rate of 5.7% (2017: 5.7%).

Finance Costs

Finance Costs by Nature

US$ Million	Average interest rate P/L	Average interest rate Cash	Balance at 31 December 2018	Finance costs 2018	Finance costs 2017	(Increase)/ decrease
Secured borrowings (including realised interest rate swap costs)	4.0%	4.0%	840.9	**28.4**	29.1	3%
Convertible bonds (Note)	5.7%	3.3%	120.2	**6.5**	6.4	(2%)
	KPI 4.2%	KPI 3.9%	961.1	**34.9**	35.5	2%
Other finance charges				**1.0**	0.5	
Total finance costs				**35.9**	36.0	0%
Interest cover (calculated as EBITDA divided by total gross finance costs)				KPI **6.0X**	3.7x	

Note: The convertible bonds have a P/L cost of US$6.5 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 cover (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$0.2 million of interest rate swap contract income were realised. As at 31 December 2018, 58% (2017: 65%) of the Group's long-term borrowings were on fixed interest rates. As at 31 December 2019 and 2020, we expect about 51% and 43% respectively of the Group's existing long-term borrowings will be on fixed interest rates.

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

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
About Us > Vision and Values

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

What Our Customers Say About Us

"

- *Pacific Basin provides the flexibility, punctuality and counterparty health that we consider important*
- *You are very pragmatic and, when required, flexible and competitive; I am very comfortable with the business and relationship between us*
- *We appreciate the quality of your ships and ship management, and your guys are fantastic with information updates and resolution of issues*
- *Pacific Basin is genuinely a combined unit that works well together, with motivated people and good teamwork*
- *You are a top professional owner who is trust-worthy, responsive and knows our business well*
- *Your vessels are good, and I like the quality and reliability you offer and the good people at PB*
- *Your team is cooperative, collaborative, and generally quick; you are good at collaborating to resolve issues*
- *You guys have a good and fast understanding of our requests, and are motivated and give us good support*
- *Operationally your service is fantastic, outstanding, and I like dealing directly with you guys because you sort things out*
- *I do almost all my business through PB, and your guys are getting to the stage where they know what I need before I ask for it*

"

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

Business Review
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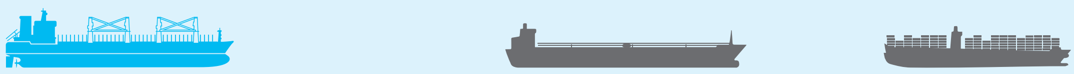
Understanding Our Core Market

The Dry Bulk Sector

Other Mainstream Shipping Sectors



Bulk Carriers for dry bulk commodities

Tankers for oil, gas & chemicals

Containerships for containerised goods

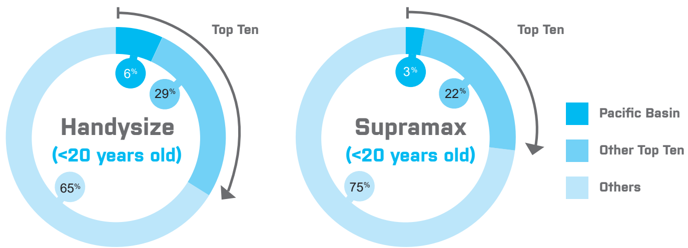
Our Focus	Bulk Carrier Ship Types	Percentage of Global Dry Bulk Capacity	Versatility	Main Commodities Carried
Minor Bulks with cranes	**Handysize** 25,000–41,999 dwt	10%	More Versatile	**Minor Bulks**: Ores, Coal/Coke, Sugar, Concentrates, Petcoke, Logs/Forest Products, Alumina, Salt, Cement & Clinker, Bauxite, Sand & Gypsum, Scrap, Grains, Fertiliser, Steel
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**: Grains, Coal, Iron Ore
Major Bulks without cranes	**Capesize and larger** 120,000+ dwt	39%	Less Versatile	

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 6% of global 25-42,000 dwt Handysize ships of less than 20 years old

We operate approximately 3% of global 42-65,000 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.

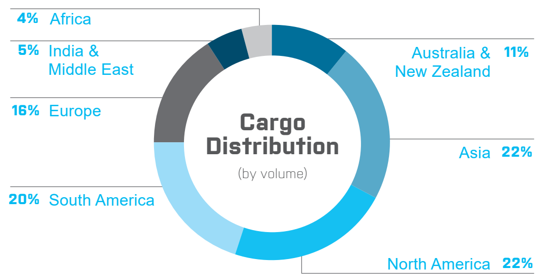
Our earnings reliability is further enhanced by the fact that global Handysize capacity has experienced only 27% growth in the past 10 years relative to the much larger expansion of the major bulk fleets.

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 propel us towards our vision and benefit our shareholders and customers

Our capitals – the resources and relationships we rely on

Physical Capital

Our Fleet – 217 Ships*

	Vessels in operation		Total
	Owned[1]	Chartered	
Handysize	83	49	132
Supramax	27	56	83
Post-Panamax	1	1	2
Total	111	106	217

Human Capital

Optimal combination of people, competencies, capabilities and experience

3,800 seafarers & **336** staff ashore

Page 19 Understanding Our Core Market
Our Worldwide Network

Our Global Office Network

12 offices, including **10** chartering/commercial offices

positioning us close to our customers

Social Capital 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

Our Vision

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

How we create or protect value

High-quality Ships

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

Scale and Interchangeability

Fleet scale provides network and economic advantages

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

* data as at 31 January 2019
[1] An additional 2 vessels purchased and 1 sold during the period are scheduled to deliver by end March 2019

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.22

- We already operate the largest Handysize fleet, and will carefully consider further opportunities to acquire quality Handysize and Supramax vessels which easily fit into our operating model and further improve our scale and ability to optimise our performance
- 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

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.29

Investing in Our People

p.23

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

Deepening Our Relationships

p.24

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

Outcome

Safeguarding and enhancing quality, effectiveness and availability of our teams of staff on shore and at sea Workplace p.29

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

Our Mission

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

Safeguarding Health & Safety

p.25

Eliminating injury, navigation and pollution incidents through training

Evolving Management & Governance Practices

p.26

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

Outcome

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

Workplace p.29
Governance p.31
Investors p.49

Maximising Efficiencies and Controlling Costs

p.27

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

Outcome

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

Enhancing Corporate and Financial Profile

p.28

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

Outcome

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.14
Investors p.49

Safeguarding the Environment

p.25

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

Outcome

Sector-leading efforts to minimise consumption of natural resources and impact on the environment Environment p.29

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Strategy Delivery and Risks

1. Investing in Our Fleet

2018

Objectives

Manage our business for a continued market recovery in 2018, continue to conduct our business efficiently and safely, and assess attractive secondhand ship acquisition opportunities.

Strategy Delivery and Performance

In 2018, we purchased seven modern ships, five of which have already delivered into our fleet. These acquisitions (and the sale of 1 older vessel) have increased our owned fleet to 111 ships on the water, grown the proportion of our owned versus chartered ships, and helped to maintain our competitive owned vessel daily break-even levels. We have reduced our chartered in fleet to about 50% of our total fleet, relying more on our growing fleet of owned ships supplemented by short-term and index-linked charters.

2019

Objectives

Manage our business for a more volatile market, 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 low, resulting in reasonable break-even levels and shorter payback times. We do not intend to order newbuildings in the medium term, and will continue to prepare our fleet to comply with upcoming environmental regulations.

Risk/Impact[1]

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: ↑

Mitigating Measures

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.

We have also used bunker swap contracts to lock in the prevailing future fuel price spread between low and high sulphur fuel for a portion of the estimated fuel consumption on some Supramax vessels that will be fitted with scrubbers.

The Group constantly reviews optimal vessel operating speeds to maximise each voyage's contribution.

Page 69
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 a 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.

Failure to adequately maintain vessels could jeopardise crew safety and lead to vessel down-time, impacting vessel schedules and service disruption.

Change from last year: →

The Group evaluates 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 pursue an active fleet growth and/or renewal programme by:

- acquiring secondhand vessels from quality shipowners;
- securing newbuilding contracts with leading, reputable and financially viable shipbuilders; 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.

CSR Report Page 15
Pacific Basin Management System

[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

2018

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 five modern ships into our owned fleet in 2018. We currently employ over 3,800 seafarers and 336 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 2018 in our highest ever retention figures: 95% for our officers at sea, and 90% for our staff ashore.

CSR Report Page 24
Workplace & Safety
Diversity & Equal Opportunity

2019

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 may 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's dedicated HR department oversees organisational design, talent management, recruitment 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 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

2018

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 2018, we carried 62 million tonnes (2017: 66mt) for over 500 customers, generating full-time employment for our 80,100 ship revenue days (2017: 87,870). Through our global network of 12 regional offices and an expansive customer engagement programme, we are connecting with a larger number of customers at a local level.

2019

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 owners ▪ 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, including a self-developed mobile search tool and systematic daily screening, to ensure the Group complies with international sanctions legislation; and ▪ obtaining refund guarantees from newbuilding shipyards. Page 72 Financial Statements Note 11 Trade and Other Receivables
Customer Satisfaction and Reputation Risk Poor service may lead to impaired brand value and reputation as a trusted counterparty, which 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 direct and 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 surveys and regular telephone or face-to-face contact to see how we can further improve customer satisfaction.
Banking Relationships Risk Poor loan administration and 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 through regular senior management contact.

4. Safeguarding Health, Safety And Environment

2018

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 maintained our Lost Time Injury Frequency of 0.82 to equal our best LTIF result in 13 years, and our external Port State Control inspection deficiency rate improved by 2% to 0.53. These statistics are among the best in the industry and represent the value of a specific focus on staff training.

CSR Report Page 17
Workplace & Safety
Health & Safety Performance in 2018

2019

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.

Our high quality 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 the types of fuel that comply with the relevant regulations set out by the International Maritime Organization (IMO).

All our vessels comply with regulations set out by the IMO and coastal states, including Ballast Water Management (BWM) Convention and 2020 Global Sulphur Limits, EU CO_2 MRV regulations, etc.

We promote a proactive safety culture by way of safety risk assessments to mitigate risk in critical tasks on board. Through our 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

Vessel incidents 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.

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5. Evolving Management & Governance Practices

2018

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 2018.

We received a Special Mention 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 30
News and Achievements
Our awards in 2018

2019

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 heavily on IT systems (including cloud based) and daily communications ashore and at sea. Failure of a key IT system, 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 appropriate and effective IT solutions, support, and preventive and contingency measures. We have formalised business continuity arrangements for critical IT systems and arrange drills to manage a total IT systems shut down. We also carry commercial crime insurance to cover financial loss due to cyber-crimes. We regularly evaluate cloud-service providers' internal controls and request them to provide independent assurance reports. 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:** →	The 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 comprehensive regulations enacted by the International Maritime Organization (and enforced by its member countries) and international sanctions legislation. Our commitment to anti-bribery practices and high standards of corporate governance has been certified by TRACE, and is underscored by our admission as a member of the Maritime Anti-Corruption Network (MACN). 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 publish financial reports or trading updates quarterly and 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

2018

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 maintained competitive daily vessel operating expenses of US$3,850 in 2018 without impacting maintenance or safety primarily through scale benefits and other efficiencies. Our total G&A overheads increased by 10% 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 21%.

Page 12
Daily Vessel Costs and Commitments

2019

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

Operational Efficiency Risk

Poor internal systems, processes, communications and management could adversely impact our business and undermine our operational efficiency.

Change from last year:

Mitigating Measures

The Group's top down approach ensures its performance and strategic objectives (including efficiency objectives) are communicated to all staff through organisation-wide staff meetings, information dissemination via intranet and seasonal team building events. We have also established a clear and robust organisation 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
- Outsourcing certain operational functions where appropriate 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 assess business opportunities. Our 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

2018

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 June, we closed a US$325 million 7-year reducing revolving credit facility secured over 50 of our owned ships and in November we closed a US$40 million term loan facility, thus enhancing our operating cash flow, EBITDA and balance sheet.

At year end, our gearing ratio was 34% (net borrowings to net book value of our owned fleet) and we were in compliance with our bank covenants.

2019

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 A

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

Change from last year:

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 A

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

Change from last year:

Page 24
Strategy Delivery and Risks
Deepening our Relationship – Banking relationships risk

To ensure an optimal capital structure taking into account, we conduct regular reviews on:

- 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, at a pay out ratio of a minimum of 50% of eligible profits for the year, with the remainder of the profits retained as capital for future use.

Our Board of Directors monitors closely the ratio of interest cover, net borrowings to net book value of owned vessels, 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.

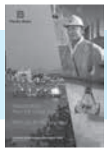
Our Corporate Social Responsibility ("CSR") efforts are rooted in our culture, integrated into our daily operating and business practices, and driven by the key material matters that we focus on to deliver our strategy.

We have this year produced our third 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 2018 CSR Report which can be found in the Sustainability section of our website and incorporated in our online Annual Report.

Page 20
Our Resources in Action

www.pacificbasin.com/en/sustainability/csr.php
CSR Report 2018



Workplace

Human Capital

OUR IMPACT IN 2018

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

3,800
seafarers

336
shore-based employees

OUR PERFORMANCE

86%
seafarer retention

8
ships per Safety & Training Manager

46%
shore staff received external training

Environment

Natural Capital

OUR IMPACT IN 2018

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

11,600,000
nautical miles travelled

868,000
tonnes of fuel/gas oil purchased

OUR PERFORMANCE

10.90
grams of CO_2 per tonne-mile

1.39m
tonnes of CO_2 emitted by our owned fleet

5
efficient modern ships joined our owned fleet in 2018

Community

Social & Relationship Capital

OUR IMPACT IN 2018

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.

793
ports across 104 countries

12
office locations worldwide

OUR PERFORMANCE

US$84,000
charitable donations and sponsorship – mainly for seafarer welfare causes

"Your skilled crew demonstrated responsibility and safety awareness, making for smooth cargo loading"

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

News and Achievements

2018

Jan

- Delivery of 'Goodwyn Island'
- 2017 Jinganggu Awards
  - Most Valued mid-to-small market cap Listed Company
- 2018 China Listed Company IR Innovation Outstanding IR Awards
  - Best Investor Relations Officer Award
  - Best Investor Relations Case Study Award

Feb

- Pacific Basin announces return to profitability in 2017 annual results

Mar

- PB Auckland office celebrates 10th anniversary

Apr

- Seatrade Maritime Awards Asia 2018
  - Finalist for Fuel Efficiency Award
  - Finalist for Ship Manager Award
  - Finalist for Ship Owner/Operator Award
- Pacific Basin joins membership of Maritime Anti-Corruption Network (MACN)

May

- Hong Kong Marine Department Awards
  - "Outstanding Performance Award" in Port State Control Inspections in 2017
- Port of Vancouver's EcoAction Program – 2017 Blue Circle Award
- HKIRA 4th Investor Relations Awards
  - Best IR Company (small cap)
  - Best IR by CEO (Mats Berglund) (small cap)
  - Best IR by CFO (Peter Schulz) (small cap)
- Analyst Day
- 4-ship acquisition funded by combined share issue and share placement

Jun

- PB closed a US$325 million secured revolving credit facility
- Delivery of 'Mount Taranaki' and 'Pearl Island'
- Investor Day

Jul

- Pacific Basin announces US$31m interim net profit and first dividend payment since May 2015
- Peter Schulz appointed Executive Director
- Institutional Investor 2018 All-Asia Executive Team Awards (Transportation sector)
  - Honored Company including:
    - Best CFO
    - Best IR Professional
    - Best Corporate Governance

Aug

- IR Magazine Global Awards
  - Shortlisted for IR Magazine Global Top 50 in "Best in sector: Industrials" category

Sep

- Delivery of 'Penguin Island'
- ShipTek 2018 Hong Kong Summit
  - Ship Owner of the Year
  - Maritime Personality of the Year (PB Director, Fleet)
- Lloyd's List Asia Pacific Awards 2018
  - Deal of the Year (5-ship acquisition financed by share issue and share placement)
- Hong Kong ESG Reporting Awards
  - Best ESG Report – Mid-cap

Oct

- Global Best Annual Reports 2018 – e.com Report Watch
  - Our 2017 Annual Report was rated A- and outstanding in areas of risk and management
- 2018 Jinyi Jiang
  - Most Valued Stock traded under the Shenzhen-Hong Kong Connect Scheme
- Delivery of 'Ince Point'

Nov

- Pacific Basin closes new bilateral US$40 million senior secured term loan facility
- IBJ Awards (International Bulk Journal)
  - Customer Care Award
- Lloyd's List Global Awards
  - Dry Bulk Operator of the Year
- HKICPA Best Corporate Governance Awards 2018
  - Special Mention Non-Hang Seng Index Category (mid-cap)
- IR Magazine Awards – Greater China 2018
  - Best financial reporting (small to mid-cap)
- 'Black Forest' achieved zero defects in AMSA port state control inspection at over 15 years of age
- PB hosts 7th annual Pacific Basin Soccer Sixes

Dec

- The Asset Corporate Awards
  - The Asset Corporate Awards 2018 – Platinum Award

2019

Corporate Governance

Accountability

We conduct our business with high standards of corporate governance to ensure responsible direction and management of the Group and to achieve sustainable value for our shareholders and other stakeholders

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 2018, the Group has complied with all code provisions of the Code as set out in Appendix 14 of the Rules Governing the Listing of the Securities on the Stock Exchange (the "Listing Rules"). 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 nine Directors (eight male, one female): the Chairman, two Executive Directors and six Independent Non-executive Directors ("INEDs"). The number of INEDs exceeds the Listing Rules requirement that INEDs shall represent at least one-third of the Board. The Board of Directors has expertise in the areas of shipping, commodities, accounting, corporate finance, financial services and law and 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 "Our Directors" 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 companies or organisations and other significant commitments, as well as the identity of such public companies or organisations. During the year ended 31 December 2018, 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 ("AGM") 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 22 Board members, and currently the Board comprises 9 members.

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

	At 1 Jan 2014	Movements		At 31 Dec 2018
Executive Directors	5	-3	+1	3
Non-executive Directors	4	–	+2	6
	9	-3	+3	9

Board Diversity

The Board recognises the importance of diversity in its composition to bring significant benefits in enhancing its decision-making ability. Diversity incorporates a number of different aspects, such as industry and professional experiences, gender, age and cultural and educational background.

The Board Diversity Policy was formalised and adopted in August 2013, which forms an important principle in the nomination of directors.

In May 2014, we appointed Mrs. Irene Waage Basili, adding shipping, business and management expertise to the Board. In July 2016, Mr. Stanley Hutter Ryan joined the Board bringing us extensive commercial, strategic and operational experience in the commodities business.

In August 2017, Mr. Peter Schulz was appointed to assume the role of Chief Financial Officer. He was further appointed as an Executive Director in July 2018, bringing with him valuable experience in banking, M&A and corporate finance.

Separate Formalised Roles for the Chairman and Chief Executive Officer

The Chairman oversees the executive team and meets regularly with the CEO on 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 the 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 timely dissemination of appropriate information to the Board members to enable their active contribution 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.

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 in compliance with Rule 3.13 of the Listing Rules, and the Board continues to consider them to be independent.

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 their possession of 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 as well as add to the diversity of the skills and perspectives of the Board. 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 and will continue to periodically seek new INEDs to join the Board so as to sustain its source of independent views.

INED Appointment

The Nomination Committee applied the nomination criteria and principles of appointment according to the Company's Nomination Policy and the Board Diversity Policy in identifying people suitably qualified to become Board members.

The appointment of Mrs. Basili and Mr. Ryan as INEDs in 2014 and 2016 respectively demonstrated such commitment by the Company.

Mr. Bradshaw has informed the Board that he will retire at the conclusion of the 2020 AGM and has offered himself for re-election at the 2019 AGM to serve the Board until conclusion of the 2020 AGM. The Nomination Committee has commenced the process of identifying new independent director candidates.

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 of Hong Kong, updates on the industries and the markets in which the Group operates as well as updates on 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. During the year, Mr. Peter Schulz received an induction upon his appointment to the Board as an Executive Director.

Board Evaluation

The annual Board evaluation was conducted by the Chairman of the Board and the Chairman of the Audit Committee by way of individual interviews with each Director. This process has confirmed that all Board members devoted sufficient time performing their duties and that the performance of the Board and its committees and individual Directors in 2018 were satisfactory and the Board operated effectively during the year.

The Board considers that its composition and structure are appropriate to the Group's business needs, reflecting a diversity of perspectives and a desirable combination of skills and experience. Succession planning continues to receive close monitoring and 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 and its primary responsibilities are to:

- 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
- Assess the achievement of targets set by the Board periodically
- 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. The terms of reference of these Board Committees are available on the Company's website.

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 asset investment and divestment proposals; and

(iii) periodic Board meetings to evaluate management's strategic priorities.

Board, Board Committee and General Meetings in 2018

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 focusing on business strategy, operational issues and financial performance. The attendance of each Director at Board meetings, Committee meetings and general meeting in 2018 are set out below. The Board continued to record healthy attendance at Board and Board Committee meetings demonstrating strong commitment of the Directors in discharging their duties.

	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			
Peter Schulz (Chief Financial Officer) – appointed as Director on 30 July 2018	1	1/1			
Independent Non-executive Directors					
Patrick B. Paul	1	4/4	4/4	1/1	1/1
Robert C. Nicholson	0	4/4	3/4	1/1	1/1
Alasdair G. Morrison	1	4/4	4/4	1/1	1/1
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 in 2018	**1**	**4**	**4**	**1**	**1**

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

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 2018

The Audit Committee held four meetings during the year, all of which were joined by representatives of the Company's external auditors. Its work included:

- review and discussion of the external auditor's Audit Committee Report in respect of the 2017 full year audit and the 2018 interim review;
- review of the 2017 Annual Report and accounts and the 2018 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 2018 and the testing results and the effectiveness of the risk management and internal control systems of the Group;
- deep-dive review of the Group's operational areas including safety management and voyage operations;
- review of the adequacy of the Group's marine related and other insurance covers;
- endorsement of management's proposal to declare an interim dividend for 2018 of HK2.5 cents per share for recommendation to the Board;
- review of the updated accounting standards, including HKFRS 15 (Revenue from Contracts with Customers) and HKFRS 16 (Leases);
- review of compliance with transfer pricing regulations under the OECD's Base Erosion and Profit Shifting Action Plan;
- review of adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting, internal audit and financial reporting functions; and
- review of the terms of reference of the Audit Committee.

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 the 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 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 review and approve the granting of share awards to any staff members of the Group.
6. Approve the disclosure statements of the Company's policy and remuneration for Directors.

Work Done in 2018

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

- approval of the 2018 year-end bonuses, 2019 salary review and on-going restricted share awards for the Executive Directors and certain higher paid employees; and
- approval of the grant of restricted awards to certain staff members.

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 2018

The Nomination Committee held one meeting during the year and has carried out the following:

- review of the structure, size and composition of the Board;
- review of the retirement plan and succession plan of the Board; and
- review and note the Listing Rules amendments in relation to INEDs to take effect on 1 January 2019.

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 purchases, sales, and sale and charter back of vessels.
3. Identify and execute transactions for long-term charters and cargo contracts with duration exceeding 5 years.
4. Identify and execute bunker physical contracts and bunker swap contracts with duration exceeding 5 years.
5. Identify and execute transactions for non-vessel marine fixed assets exceeding US$5 million.
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 2018

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

- purchase of four vessels at an aggregate price of US$88.5 million, of which approximately half was settled by the issuance of new shares to ship sellers under general mandate and the rest in cash;
- announcement of the issue of new shares to fulfil the grant of restricted awards to employees;
- closing the US$325 million 7-year reducing revolving credit facility for the refinancing of 50 of the Group's owned vessels;
- closing a US$40 million bilateral term loan facility;
- disposal of one secondhand Handysize vessel;
- purchase of two secondhand Supramax and one secondhand Handysize vessels;
- enter into long term charter-in contract of one Handysize newbuilding with purchase option;
- announcement of the conversion price adjustment of the Group's convertible bonds due 2021; and
- announcement of the voting results of the AGM.

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 overseen 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 behaviours 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, Director of Risk, 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 2018

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:

- audit and review internal controls based on the audit plan;
- perform annual risk assessment by way of an online questionnaire and review the input in collaboration with division heads;
- review the Group's significant and emerging risk with division heads;
- report by way of deep dive review to the Audit Committee the management of voyage operations, safety management and marine insurance;
- tighten the procurement controls of the Ship Management system;
- strengthen the measure on counterparty due diligence particularly in managing sanctions risks exposure;
- strengthen the anti-bribery policy for all shore-based employees and seafarers to further bolster the Company's anti-corruption culture. The Company was admitted as a member of the Maritime Anti-Corruption Network (MACN);
- formalise the business continuity policy to manage the risks of business disruption in the event of a shutdown of essential IT systems; and
- review the impact and compliance with relevant new/updated rules and regulations such as the data protection regulation of the EU.

Annual Assessment of Risk and Internal Controls

The Group carries out an annual risk assessment by way of an online questionnaire completed by senior staff members with the objective to improve the design and the effectiveness of the Group's internal controls. Any changes in risk profile and related mitigating measures, new risks and other proposal in risk management are evaluated and documented in the Group's risk register. The impact of risks, mitigants and recommendations are communicated to the relevant business divisions.

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 underlying risk areas and the strategy of the Group. The Group adopts a peer review format in its annual testing of internal controls by appointing appropriate staff members auditing selected controls of departments other than their own.

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.

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 business operations and to enhance existing procedures and controls in line with business needs 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.

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.

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With You for the Long Haul
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Survey Feedback

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 risk assessment and internal controls testing, as well as the Group's risk register and 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 2018, the Board, with confirmation from management, considered the risk management and internal control systems effective and adequate. No significant areas of concern were identified.

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.
- We follow 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.
- It 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.
- It 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 those senior managers and staff who are more likely to be in possession of unpublished inside information or other relevant Group information based on the Model Code (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 2018 is as follows:

Audit	Non-audit	US$'000 Total
858	89	947

Our Shareholders

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

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Investor Relations
Our shareholding structure

Shareholder Communications Policy

The Company has established a Shareholder Communications Policy with the objective 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.

www.pacificbasin.com
Sustainability > Corporate Governance

Shareholders Meeting

The Company held one general meeting during the reporting year on 17 April 2018, 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 2017;
- re-election of Directors;
- authorising the Board to fix Directors' remuneration;
- re-appointment of Messrs. PricewaterhouseCoopers as auditor for the year ended 31 December 2018 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.

www.pacificbasin.com
Investors > News: 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 98.33% of the Company's total issued share capital is held by the public.

Planned Financial Calendar in 2019

28 February	2018 annual results announcement
12 March	2018 Annual Report
11 April	First quarter trading update
12-17 April	Book closure for determining entitlement to attend and vote at the AGM
17 April	Annual General Meeting
Applicable if 2018 final dividend is payable:	
18 April	Last day of dealings in shares with entitlement to 2018 final dividend
23 April	Ex-dividend date
24 April by 4:30 pm HK time	Deadline for lodging transfers for entitlement to 2018 final dividend
25 April	Book closure & 2018 final dividend record date
7 May	2018 final dividend payment date
31 July	2019 interim results announcement
Applicable if 2019 interim dividend is payable:	
9 August	Last day of dealings in shares with entitlement to 2019 interim dividend
12 August	Ex-dividend date
13 August by 4:30 pm HK time	Deadline for lodging transfers for entitlement to 2019 interim dividend
14 August	Book closure & 2019 interim dividend record date
23 August	2019 interim dividend payment date
14 October	Third quarter trading update

Our Directors

Executive Directors

1 David M. Turnbull (age 63)

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 Greka Drilling Limited (previously London AIM-listed) between February 2011 and to October 2017 and London-listed G3 Exploration Limited between July 2006 and July 2018.

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:
INED of Hong Kong-listed The Wharf (Holdings) Limited

Committee membership:
Executive Committee

2 Mats H. Berglund (age 56)

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: an Economist (Civilekonom) degree

Advanced Management Program at Harvard Business School in 2000

Term of office:
Appointed Executive Director in June 2012

Current term expires at the 2021 AGM

External appointments:
Executive Committee member of the Hong Kong Shipowners Association
INED of New York-listed Ardmore Shipping Corporation

Committee membership:
Chairman of Executive Committee

3 Peter Schulz (age 46)

Chief Financial Officer

Mr. Schulz joined Pacific Basin as the Group's Chief Financial Officer in August 2017 and was appointed Executive Director on 30 July 2018. He is responsible for the Group's 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. Prior to joining Pacific Basin, 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

Erasmus University Rotterdam School of Management: International Marketing and International Business

Term of office:
Appointed Executive Director on 30 July 2018

Current term expires on 29 July 2021, subject to re-election at the 2019 AGM

External appointments:
None

Committee membership:
Executive Committee

Independent Non-executive Directors

4 Patrick B. Paul (age 71)
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 2021 AGM

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

Committee membership:
Chairman of Audit Committee

Remuneration and Nomination Committees

5 Robert C. Nicholson (age 63)
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 Hong Kong-listed First Pacific Company Limited's board in June 2003 and served as an executive director from November 2003 to December 2018. He was also an independent non-executive director of Hong Kong-listed Lifestyle Properties Development Limited between August 2013 and 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:
Director of 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

Our Board comprises nine 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

6 Alasdair G. Morrison (age 70)
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 and was an independent non-executive director of the Hong Kong-listed MTR Corporation from July 2010 to May 2018.

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 2021 AGM

External appointments:
Senior advisor of Bain Capital Asia

Committee membership:
Audit, Remuneration and Nomination Committees

7 Daniel R. Bradshaw (age 72)
Independent Non-executive Director

Mr. Bradshaw is a senior consultant at Mayer Brown (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

8 Irene Waage Basili (age 50)
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 Holding ASA (both listed on the Oslo Stock Exchange)

Chief executive officer of Shearwater Geoservices.

Committee membership:
Audit, Remuneration and Nomination Committees

9 Stanley H. Ryan (age 57)
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 of Economics and Computer Applications degree

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

Remuneration Report

Introduction

The Group's remuneration policies and amounts for all employees including Executive Directors and Non-executive Directors are set out in this report. Information on 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 336 shore-based staff (2017: 335) at 31 December 2018 and approximately 3,800 seafarers (2017: 3,400) 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.

Discretionary equity awards by way of restricted share 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, role and responsibilities of the individual eligible participant and approved by the Remuneration Committee.

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.

Key components of remuneration are set out below.

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 Executive Directors and other employees are expected to be no more than 12 months' salary equivalent	No
Long-term equity award	Discretionary awards are determined based on the performance, role and responsibilities of eligible participants. 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 2018 and 2017 Ⓐ

31 December 2018	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	–	375	95	2	472	251	723
Mats H. Berglund	–	1,044	520	2	1,566	578	2,144
Peter Schulz[1]	–	495	250	2	747	476	1,223
	–	1,914	865	6	2,785	1,305	4,090
Independent Non-executive Directors							
Patrick B. Paul	102	–	–	–	102	–	102
Robert C. Nicholson	96	–	–	–	96	–	96
Alasdair G. Morrison	89	–	–	–	89	–	89
Daniel R. Bradshaw	89	–	–	–	89	–	89
Irene Waage Basili	95	–	–	–	95	–	95
Stanley H. Ryan	100	–	–	–	100	–	100
	571	–	–	–	571	–	571
Total Directors' remuneration	571	1,914	865	6	3,356	1,305	4,661
Other Employees	–	127,720[2]	6,932	2,945	137,597	3,960	141,557
Total remuneration	571	129,634	7,797	2,951	140,953	5,265	146,218

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[3]	–	524	–	1	525	(167)	358
Chanakya Kocherla[4]	–	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[1]	–	208	40	1	249	178	427
Other Employees	–	120,112[2]	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. Schulz was appointed Chief Financial Officer on 21 August 2017 and further appointed as an Executive Director on 30 July 2018. The above represents his remuneration for the full year.

(2) Salaries of Other Employees includes crew wages and other related costs of US$97.8 million (2017: US$90.7 million), which are classified as cost of services in the income statement.

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

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

For the year 2018, the five individuals whose emoluments were the highest in the Group were the three Executive Directors and two employees (2017: two Executive Directors and three employees). The emoluments of the highest paid individuals who are not Executive Directors are set out below and fell within the following bands.

	2018 US$'000	2017 US$'000
Salaries	693	906
Bonuses	374	255
Pension	174	130
Total Payable	1,241	1,291
Share-based compensation	445	518
Total payable and charged	1,686	1,809

Emolument bands	2018	2017
HK$3,500,001 to HK$4,000,000	–	1
HK$5,000,001 to HK$5,500,000	–	2
HK$6,000,001 to HK$6,500,000	1	–
HK$6,500,001 to HK$7,000,000	1	–

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 of share-based compensation by the Company 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 the 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 2018.

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 2018 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 2018 is set out in the "CSR Highlights" section of this Annual Report and a comprehensive 2018 CSR Report is available on our website.

Results

The results of the Group for the year are set out in the consolidated income statement on page 54.

Dividend

In view of the Group's performance and current financial position, the Board has recommended the payment of a final dividend of HK3.7 cents per share for the year ended 31 December 2018. When this proposed dividend is aggregated with the interim dividend of HK2.5 cents per share declared on 27 July 2018, the total payout of HK6.2 cents per share represents approximately 50% of the Group's profits for the year ended 31 December 2018, which is in line with the dividend policy of paying out at least 50% of net profits excluding disposal gains for the full year.

The proposed final dividend for 2018 of HK3.7 cents per share will be considered at the 2019 AGM to be held on 17 April 2019.

Distributable Reserves

Distributable reserves of the Company at 31 December 2018, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to US$619.7 million.

Donations/Sponsorships

Charitable and other donations and sponsorships made by the Group during the year amounted to US$84,000.

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 90,896,012 ordinary shares were issued. (i) 21,150,000 shares were issued in April 2018 to fulfil the Company's 2018 restricted awards under the 2013 Share Award Scheme; and (ii) an aggregate of 69,746,012 shares were issued to two sellers in June and October 2018 respectively as partial consideration upon delivery of two vessels into Pacific Basin's ownership pursuant to the contracts entered into by the Company for the acquisition of four vessels agreed and as disclosed in May 2018. An aggregate of 101,014,125 shares were issued to the other two sellers in January and February 2019 respectively as partial consideration upon the delivery of their vessels to the Group.

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.

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 453,316,711 shares as at 1 January 2019). There were 75,088,000 unvested restricted awards under the SAS which represents 1.62% of the issued share capital of the Company as at 28 February 2019.

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 2018 under the SAS are as follows:

'000 shares/units	Date of first award	Total awarded	Vested to date	At 31 Dec 2018	At 1 Jan 2018	Granted during the year[1]	Vested and/or lapsed[2]	2019[3]	2020	2021
Directors										
David M. Turnbull	5-Aug-08	8,704	(4,441)	4,263	4,325	1,180	(1,242)	1,493	1,590	1,180
Mats H. Berglund	1-Jun-12	18,391	(8,598)	9,793	9,855	2,768	(2,830)	3,402	3,623	2,768
Peter Schulz	21-Aug-17	4,611	(1,147)	3,464	3,443	1,168	(1,147)	1,147	1,149	1,168
		31,706	(14,186)	17,520	17,623	5,116	(5,219)	6,042	6,362	5,116
Other Employees				59,410	56,383	22,982	(19,955)	21,029	20,748	17,633
				76,930	74,006	28,098	(25,174)	27,071	27,110	22,749

Notes:

(1) The closing price of the shares of the Company immediately before the grant of 28,098,000 shares on 1 March 2018 was HK$2.18.

(2) According to the vesting schedule, 1,747,000 shares were vested in January 2018 and 20,941,000 shares were vested in July 2018. In addition, 1,887,000 shares lapsed due to the resignation of three employees and 599,000 shares vested due to the redundancy of one employee.

(3) 1,842,000 shares were vested in January 2019.

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, CEO	1 June 2012	–	–	–	C 1 June 2012	3 years until 2021 AGM
Peter Schulz, CFO	30 July 2018	–	–	–	21 August 2017	3 years until 29 July 2021, subject to re-election at the 2019 AGM
Independent Non-executive Directors						
Patrick B. Paul	25 March 2004	C 18 May 2004	10 June 2004	30 November 2004	–	3 years until 2021 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 2021 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

C represents Chairman of the Board Committee

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.

During the year, the Board appointed Mr. Peter Schulz as an Executive Director who shall retire at the 2019 AGM in accordance with the Company's Bye-law 86(2). In addition, Messrs. Robert C. Nicholson, Daniel R. Bradshaw and Stanley H. Ryan shall retire at the 2019 AGM by rotation pursuant to the Company's Bye-laws 87(1) & (2). All retiring Directors, being eligible, offer themselves for re-election. Mr. Bradshaw has informed the Board that he will retire at the conclusion of the 2020 AGM and has offered himself for re-election at the 2019 AGM to serve the Board until conclusion of the 2020 AGM. The Nomination Committee has commenced the process of identifying new independent director candidates.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming 2019 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 the Directors are set out in the "Our Directors" section of this Annual Report.

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

At 31 December 2018, 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 31 Dec 2018	31 Dec 2017
David M. Turnbull [1]	9,317,000	2,524,918[2]	Long	11,841,918	0.26%	0.24%
Mats H. Berglund [1]	17,391,000	0	Long	17,391,000	0.38%	0.35%
Peter Schulz [1]	4,611,000	129,000[3]	Long	4,740,000	0.10%	not applicable
Patrick B. Paul	380,000	0	Long	380,000	less than 0.01%	less than 0.01%
Daniel R. Bradshaw	0	772,834[4]	Long	772,834	0.02%	0.02%

Notes:

(1) Restricted share awards were granted under the SAS and have been disclosed on page 46 of this Report.

(2) 2,524,918 shares held are in the form of convertible bonds due 2021 at nominal value of US$1m held by a Trust named Bentley Trust (Malta) Limited.

(3) 129,000 shares are held by Mr. Schulz in the capacity of beneficiary of a trust.

(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 2018.

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 2018, 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	
				31 Dec 2018	31 Dec 2017
Aggregated of Standard Life Aberdeen plc affiliated investment management	Investment manager	Long	356,382,000	7.86%	12.95%
JPMorgan Chase & Co.[1]	Interest of corporation controlled/Investment manager/ Person having a security interest/ Approved Lending Agent	Long Short	280,546,368 53,440,290	6.18% 1.17%	Not applicable Not applicable
Citigroup Inc.[2]	Personal having a security interest in shares/Interest of corporation controlled/ Approved Lending Agent	Long Short	250,286,805 4,251,340	5.52% 0.09%	6.16% 0.17%

Notes:

(1) The long position in shares held by JPMorgan Chase & Co. is held in the capacities of Interest of corporation controlled (relating to 60,251,546 shares), Investment manager (relating to 44,032,613), Person having a security interest (relating to 1,051,193 shares) and Approved lending agent (relating to 175,211,016 shares).

(2) The long position in shares held by Citigroup Inc. is held in the capacities of Person having a security interest (relating to 18,434,359 shares), Interest of corporation controlled (relating to 17,657,757 shares) and Approved lending agent (relating to 214,194,689 shares).

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, as at 31 December 2018, 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 2019 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 2019

Investor Relations

Creating Value for Shareholders

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

In May 2018, we held our Pacific Basin Analyst Day in Dalian, China, combining senior management presentations with a shipyard visit to introduce 13 sell-side analysts to a routine dry-docking of a Pacific Basin vessel. In June, we repeated the same for our Investors at an Investor Day exclusively organised by one of our key relationship banks.

We completed a website revamp in April 2018 to better connect with our customers and other stakeholders and tie-in with our integrated reporting. The new website is responsive to tablet and mobile devices, allowing easier navigation and access to our latest information from anywhere and at any time. Social media continues to be an important communications channel for the Group. The development of different social media platforms facilitates communications between the Company and investors, and enhances our corporate brand and provides updated dry bulk market information to our global stakeholders.

During the year, we received fifteen awards for investor relations and corporate governance including Best IR Company, Best IR by CEO (Mats Berglund), and Best IR by CFO (Peter Schulz) in our region and sector. Additionally, we were shortlisted among the IR Magazine Global Top 50 in the “Best in sector: Industrials” category.

We are grateful for all these votes of confidence cast by the investment community in recognition of our commitment to transparent and responsible business practices and accountability to our shareholders.

www.pacificbasin.com
About Us > Awards

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/ar2018
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, bankers, press and guests are organised during vessel port calls, dry-dockings 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

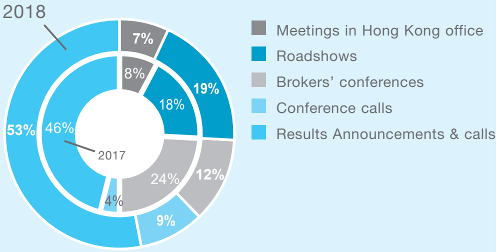
Company news, video clips, photos and events news are published through our social media sites

Roadshows – Roadshows are conducted following results announcements and trading updates. In 2018, we met investors in 15 cities in North America, Europe, Australia and Asia-Pacific.

Investor Meetings – In 2018, we met 1,088 (2017: 1,014) 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. Analyst Days, 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. During the period, two new brokers initiated reporting on Pacific Basin.

Type of Investor Meetings



www.pacificbasin.com
Investors > Shareholder 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.

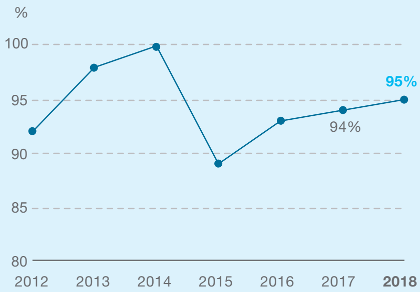
Our 2018 Investor Perception Study showed that 95% of respondents consider Pacific Basin management to be good at articulating strategy, and all respondents agreed that we effectively communicate management's plans to address the Company's strategic challenges.

Key Investor Concerns in 2018

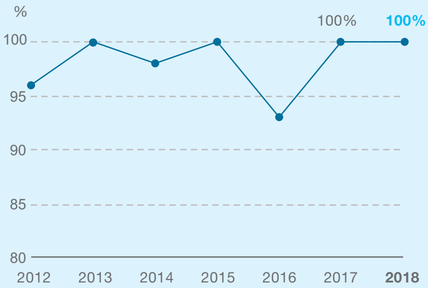
- Impact of US and Chinese tariffs on dry bulk trade and on the Company's performance
- Impact of new environmental regulations on shipping and our strategy to address them
- Demand and supply balance
- Freight rate seasonality and sustainability
- Sensitivity and earnings cover guidance
- Scope for further cost savings

Feedback extracted from 2018 Investor Perception Study:

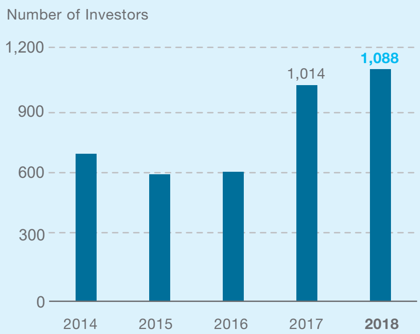
Setting and following through on Pacific Basin's long-term strategy



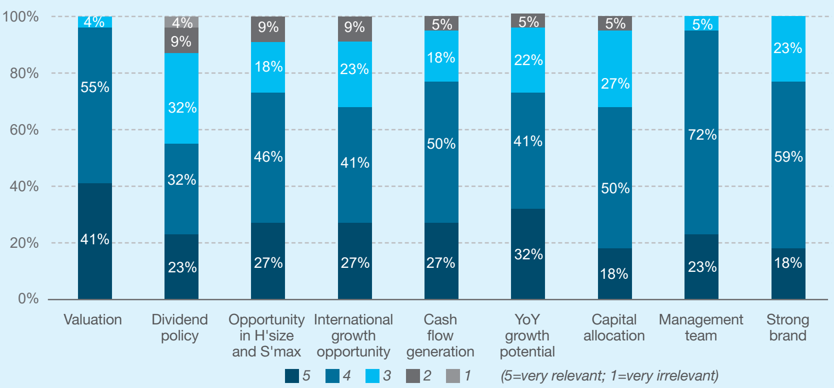
Effectively communicating management's plans to address strategic challenges



Number of Investors We Meet



Compelling Factors for Investing in Pacific Basin



10 analysts covered Pacific Basin in 2018 (2017: 9)

66 research reports on Pacific Basin in 2018 (2017: 58)

Share and Convertible Bond Information

The Company's Shares and Convertible Bonds in issue at 31 December 2018:

- 4,533,167,114 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. As at 31 December 2018, around 1% of our stock was held via the Connect channel.

Our Share Price Performance vs Hang Seng Index in 2018

Convertible Bonds Due 2021 Price Performance in 2018

Net Profit and Dividend Payout Ratio since listing

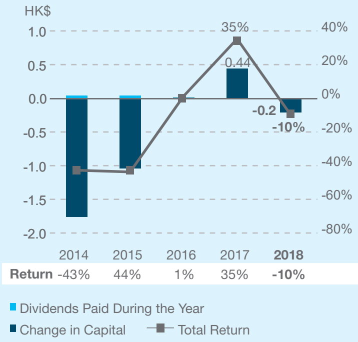
Page 95
Market Capitalisation

Shareholder Return and Dividend

We return value to our shareholders by way of both appreciation in share price and dividends. In 2018, our total shareholders' return was -10%.

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

Total Shareholders' Return

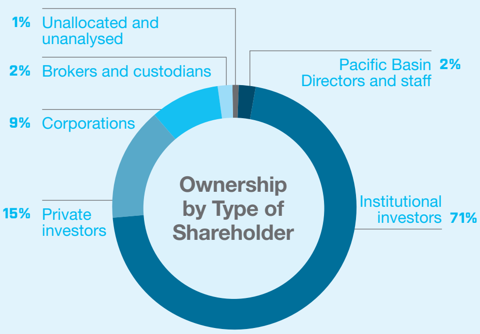


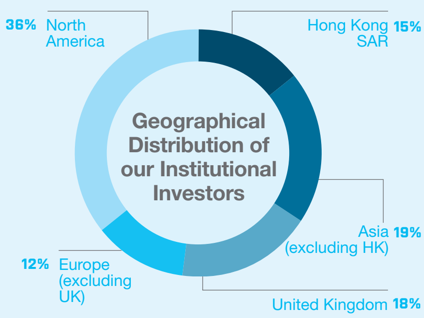
Our Shareholders

As at 31 December 2018, Nasdaq was able to analyse the ownership of about 99.2% of the Company's share capital. Institutional Investors still accounted for the largest portion of the Company's shareholder base, owning nearly 3.24 billion shares or 71% of our share capital.

We identified 2,462 shareholders as at 31 December 2018. The actual number of investors interested in our shares is likely to be greater, as some of the shares are held through nominees, investment funds, custodians, etc. Each custodian or nominee or broker is considered as a single shareholder as below.

Shareholding	No. of Shareholders	% of Shareholders	Total Holding	% of ISC
<=500	160	6.50%	3,782	0.00%
501-1,000	35	1.41%	33,319	0.00%
1,001-100,000	610	24.78%	30,030,857	0.66%
100,001-500,000	1,001	40.66%	232,107,683	5.12%
>=500,001	656	26.65%	4,270,991,473	94.22%
Total	**2,462**	**100.00%**	**4,533,167,114**	**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.

We Welcome Both Institutional Investors and Retail Investors

We listen carefully to the views and feedback we receive from all investors. About 71% of our shareholders are institutional investors, while 15% 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. An archive of calls and transcripts is available on our website.

Group Performance Review

US$ Million	Note	2018	2017	Change*
Revenue		**1,591.6**	1,488.0	+7%
Bunker, port disbursement & other voyage costs		**(710.5)**	(701.5)	-1%
Time-charter equivalent ("TCE") earnings	1	**881.1**	786.5	+12%
Owned vessel costs				
Operating expenses	2	**(149.7)**	(139.3)	-7%
Depreciation	3	**(114.5)**	(107.6)	-6%
Net finance costs	4	**(32.4)**	(32.3)	–
Charter costs	5	**(451.4)**	(451.0)	–
Operating performance before overheads		**133.1**	56.3	>+100%
Total G&A overheads	6	**(59.8)**	(54.4)	-10%
Taxation and others		**(1.3)**	0.3	>-100%
Underlying profit		**72.0**	2.2	>+100%
Unrealised derivative (expenses)/income	7	**(11.7)**	5.4	
Write-back of onerous contract provisions	8	**12.7**	–	
Distribution from Muchalat investment	9	**1.6**	–	
Write-off of loan arrangement fees	10	**(1.6)**	–	
Impairments and sales of vessels	11	**(0.7)**	(1.3)	
Office relocation costs		**–**	(1.4)	
Towage exchange loss		**–**	(1.3)	
Profit attributable to shareholders		**72.3**	3.6	>+100%
EBITDA	12	**215.8**	133.8	+61%
Net profit margin		**5%**	1%	+4%
Return on average equity employed		**6%**	1%	+5%

* In our tabulated figures, positive changes represent an improving result and negative changes represent a worsening result.

EBITDA (earnings before interest, tax, depreciation and amortisation) is 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; utilisation and write-back of onerous contract provisions; and Charter Hire Reduction adjustments.

Pages 53 to 90 comprise the audited financial statements

Notes

1. Total time-charter equivalent ("TCE") earnings increased by 12%, reflecting a continued market recovery.
2. Total operating expenses of our owned vessels increased by 7% as our owned fleet expanded, but our daily vessel costs remained substantially unchanged at very competitive level as a result of scale benefits and continued cost control.
3. Depreciation of our owned vessels increased by 6% as our owned fleet expanded, but with slightly reduced daily cost principally due to the addition of lower cost acquisitions.
4. Net finance costs were substantially unchanged.
5. Charter costs net of the release of onerous contract provisions were substantially unchanged.
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 expense from bunker swap contracts as at the year end was a result of a significant drop in oil and bunker prices.
8. Due to the improved market outlook, the balance of onerous contracts provisions for future years was fully written-back.
9. A distribution was received from our associate Muchalat relating to its disposal of assets before liquidation. Our investment in this associate had previously been fully impaired.
10. Loan arrangement fees were written off upon termination of loans refinanced by a new revolving credit facility.
11. The impairment relates to the disposal of one of our older Handysize vessels which will be delivered to her new owner in 2019.
12. EBITDA increased substantially as a result of the stronger freight market in 2018. Our cash and deposits at the year end stood at US$341.8 million (2017: US$244.7 million) with net gearing of 34% (2017: 35%).

Financial Statements

Consolidated Balance Sheet

	Note	As at 31 December 2018 US$'000	 2017 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,807,672**	1,797,587
Goodwill	7	**25,256**	25,256
Derivative assets	10	**1,745**	1,233
Trade and other receivables	11	**8,900**	5,254
Available-for-sale financial assets	9	**–**	569
Restricted bank deposits	12	**58**	58
		1,843,631	1,829,957
Current assets			
Inventories	13	**85,488**	71,774
Derivative assets	10	**214**	4,834
Assets held for sale	14	**6,450**	–
Trade and other receivables	11	**88,679**	80,275
Cash and deposits	12	**341,744**	244,636
Tax receivable		**–**	116
		522,575	401,635
Total assets		**2,366,206**	2,231,592
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	18	**45,205**	43,554
Retained profits	19	**202,262**	154,387
Other reserves	19	**983,742**	963,194
Total equity		**1,231,209**	1,161,135
LIABILITIES			
Non-current liabilities			
Derivative liabilities	10	**9,912**	5,790
Long-term borrowings	17	**737,377**	776,876
Provision for onerous contracts	16	**–**	12,731
Trade and other payables	15	**5,537**	10,203
		752,826	805,600
Current liabilities			
Derivative liabilities	10	**7,374**	772
Trade and other payables	15	**150,559**	143,878
Current portion of long-term borrowings	17	**223,716**	104,092
Taxation payable		**522**	–
Provision for onerous contracts	16	**–**	16,115
		382,171	264,857
Total liabilities		**1,134,997**	1,070,457

Approved by the Board of Directors on 28 February 2019

Mats H. Berglund
Director

Peter Schulz
Director

Consolidated Income Statement

		For the year ended 31 December	
	Note	**2018 US$'000**	2017 US$'000
Revenue	4, 8	**1,591,564**	1,488,019
Cost of services	5, 8	**(1,507,705)**	(1,463,311)
Gross profit		**83,859**	24,708
Indirect general and administrative overheads	5	**(6,003)**	(5,310)
Other income and gains	20	**30,459**	20,431
Other expenses	5	**(2,416)**	(4,226)
Finance income	21	**3,513**	3,651
Finance costs	21	**(35,866)**	(35,998)
Profit before taxation		**73,546**	3,256
Tax (charges)/credits	22	**(1,262)**	354
Profit attributable to shareholders		**72,284**	3,610
Earnings per share for profit attributable to shareholders (in US cents)			
Basic earnings per share	24(a)	**1.64**	0.09
Diluted earnings per share	24(b)	**1.61**	0.09

Consolidated Statement of Comprehensive Income

	For the year ended 31 December	
	2018 US$'000	2017 US$'000
Profit attributable to shareholders	**72,284**	3,610
Other comprehensive income Items that may be reclassified to income statement		
Cash flow hedges:		
– transferred to income statement	**4,346**	(10,356)
– fair value (losses)/gains	**(5,744)**	12,656
Currency translation differences	**(669)**	771
Release of exchange losses from reserves to income statement for disposal of towage assets	**–**	1,306
Items that may not be reclassified to income statement		
Fair value losses on financial assets at fair value through other comprehensive income/available-for-sale financial assets	**(275)**	(306)
Total comprehensive income attributable to shareholders	**69,942**	7,681

Consolidated Statement of Changes in Equity

	Note	For the year ended 31 December 2018 US$'000	2017 US$'000
Balance at 1 January		**1,161,135**	1,040,771
Change in accounting policy		**(8,784)**	–
Restated		**1,152,351**	1,040,771
Total comprehensive income attributable to shareholders		**69,942**	7,681
Shares issued as Vessel Consideration Shares, net of issuing expenses	18(a)	**18,076**	46,074
Dividend paid	23	**(14,315)**	–
Share-based compensation		**5,265**	4,301
Shares purchased by trustee of the SAS	18(b)	**(110)**	(1,233)
Shares issued for new share placement, net of issuing expenses	18(c)	**–**	37,630
Exchange adjustment to reserve		**–**	25,849
Unclaimed dividends forfeited		**–**	62
Balance at 31 December		**1,231,209**	1,161,135

Consolidated Cash Flow Statement

	Note	For the year ended 31 December 2018 US$'000	2017 US$'000
Operating activities			
Cash generated from operations	25(a)	**190,174**	125,601
Hong Kong profits tax paid		**(207)**	(555)
Overseas taxation paid		**(412)**	(306)
Net cash generated from operating activities		**189,555**	124,740
Investing activities			
Purchase of property, plant and equipment	25(c)	**(127,924)**	(219,857)
Disposal of property, plant and equipment		**597**	9,617
Decrease in term deposits		**5,096**	82,871
Interest received		**3,513**	3,651
Distribution from Muchalat investment		**1,582**	–
Disposal of financial assets at fair value through other comprehensive income/ available-for-sale financial assets		**294**	158
Net cash used in investing activities		**(116,842)**	(123,560)
Financing activities			
Drawdown of bank loans and other borrowings	25(b)	**634,074**	188,601
Repayment of bank loans and other borrowings	25(b)	**(558,410)**	(136,929)
Interest and other finance charges paid		**(31,260)**	(31,310)
Dividend paid	23	**(14,315)**	–
Payment for shares purchased by trustee of the SAS	18(b)	**(110)**	(1,233)
Proceeds from new share placement, net of issuing expenses	18(c)	**–**	37,630
Net cash generated from financing activities		**29,979**	56,759
Net increase in cash and cash equivalents		**102,692**	57,939
Exchange (losses)/gains on cash and cash equivalents		**(488)**	422
Cash and cash equivalents at 1 January		**227,040**	168,679
Cash and cash equivalents at 31 December	12	**329,244**	227,040
Term deposits at 1 January	12	**17,596**	100,467
Decrease in term deposits		**(5,096)**	(82,871)
Cash and deposits at 31 December	12	**341,744**	244,636

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 2019.

Pages 4-13
Business Review
2018 Performance & Market Review

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 22
  - Credit and Counterparty Risk – Page 24
  - Liquidity Risk – Page 28
  - Capital Management Risk – Page 28
- Employee benefits 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 2018 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 basis, except for certain financial assets and liabilities (including derivative instruments) and assets held for sale, which are carried at fair value.

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

2.2 Impact of new accounting policies

The following new standards are mandatory for the accounting period beginning on or after 1 January 2018 and are relevant to the Group's operation.

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 2.2(a) below. Other new standards that became effective in this accounting period do not have any impact on the Group's accounting policies and do not require any adjustments.

Certain new and amended standards and improvements to HKFRS ("New Standards") have been issued but are not yet effective for the accounting period beginning on 1 January 2018. The new standard that is relevant to the Group's operation is as follows:

HKFRS 16	Leases

The Group has concluded its assessment of the impact of these New Standards. Key changes are expected from HKFRS 16. 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 net of non-lease component will be replaced by a combination of depreciation and interest expenses. Interest expenses will be calculated by reference to the interest rates implicit in the leases (or the lessee's incremental borrowing rate if the interest rates cannot be readily determined) and will produce a constant periodic rate of interest on the remaining balance of the lease liabilities, both of which will reduce over time. Charter-in contracts of less than 12 months, representing over 50% of our existing charter-in fleet, will not be affected.

Management has concluded to separately account for the lease component (i.e. bareboat charter) and the non-lease component (i.e. technical management services) in a time charter contract. Consideration of the lease component and non-lease component is allocated with reference to the stand-alone market prices which is benchmarked against market data available from the industry reports.

2 Basis of preparation (continued)

2.2 Impact of new accounting policies (continued)

(a) Changes in accounting policies

(i) Impact on the Group's financial statement

Following the adoption of new standards as disclosed above, the Group has elected to use a modified retrospective approach for transition. The reclassifications and the adjustments arising from the new standards are therefore not restated in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018. Please refer to Notes 2(a)(ii) and 2(a)(iii) for detailed explanations.

The table below shows the adjustments recognised in the opening balances of each individual financial statement line item. Line items that were not affected by the changes have not been included.

Balance Sheet (extract)

US$'000	31 December 2017 (as previously reported)	HKFRS 15 (Note(a)(ii))	HKFRS 9 (Note (a)(iii))	1 January 2018 (restated)
Non-current assets				
FVOCI[1]	–	–	569	569
AFS[2]	569	–	(569)	–
Current assets				
Trade and other receivables – current	80,275	(8,784)	–	71,491
Equity				
Retained profits	154,387	(8,784)	1,619	147,222
Other reserves	963,194	–	(1,619)	961,575

1 "FVOCI" stands for "financial assets at fair value through other comprehensive income".

2 "AFS" stands for "available-for-sale financial assets".

(ii) HKFRS 15 "Revenue from contracts with customers"

With the adoption of HKFRS 15, the Group's recognition basis of freight income from voyage charter has changed from "discharge to discharge" to "loading to discharge".

The Group has elected to use a modified retrospective approach for transition which allows the Group to recognise the cumulative effects as an adjustment to the opening balances of retained profits and trade and other receivables as at 1 January 2018 with the exemption to restate comparative figures as shown in Note 2(a)(i).

The amount by which each financial statement line item is affected by the application of HKFRS 15 as compared to HKAS 18 (previously in effect) is as follows:

Balance Sheet (extract)

	As at 31 December 2018		
US$'000	Before adoption of HKFRS 15	Effects of adopting HKFRS 15	As reported
Trade and other receivables – current	98,852	(10,173)	88,679
Retained profits	212,435	(10,173)	202,262

Income Statement (extract)

	For the year ended 31 December 2018		
US$'000	Before adoption of HKFRS 15	Effects of adopting HKFRS 15	As reported
Revenue	1,592,953	(1,389)	1,591,564

The adoption of HKFRS 15 has no impact to the net cash flow from operating, investing and financing activities on the consolidated cash flow statement.

(iii) HKFRS 9 "Financial Instruments"

Financial assets at fair value through other comprehensive income ("FVOCI")

The Group has elected to present changes in the fair value of its listed equity securities (previously classified as available-for-sale financial assets ("AFS")) (Note 9) in other comprehensive income as they are neither held for trading nor contingent consideration in business combination under HKFRS 9.

Under this election, only qualifying dividends are recognised in profit or loss unless they clearly represent recovery of a part of the cost of the investment. Changes in fair value are recognised in other comprehensive income and never recycled to profit or loss. If the asset is derecognised, the cumulative gain or loss is reclassified to retained profits.

As permitted under HKFRS 9, the Group has elected for exemption to restate its comparatives. As a result, the comparatives continue to be accounted as available-for-sale while its opening balances were reclassified to fair value through other comprehensive income with no adjustments on carrying amount on the date of initial adoption (i.e. 1 January 2018) as shown in Note 2(a)(i).

Trade and other receivables

The Group's impairment methodology and classification are aligned with the expected credit loss requirements of HKFRS 9. No adjustments are therefore required.

Derivatives and hedging activities

Forward foreign exchange contracts and interest rate swap contracts continued to qualify as cash flow hedges under HKFRS 9. The Group's risk management strategies and hedging documentation are aligned with the requirements of HKFRS 9. No adjustments are therefore required.

2.3 Accounting policies navigator

Accounting policies	Location
Assets held for sale	Note 14
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 other comprehensive income ("FVOCI")/ available-for-sale financial assets ("AFS")	Note 9
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 and ii) 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 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 Basis of preparation (continued)

2.4 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. In each acquisition case, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The financial information of subsidiaries has been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investments. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

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

2.5 Foreign currency translation

(a) Functional and presentation currency

The financial statements are presented in United States Dollars, which is the Company's functional and the Group's presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in "direct 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 FVOCI/AFS are included in the investment valuation reserve.

(c) Group companies

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

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

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

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

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

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

2.6 Provisions

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

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

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

3 Critical accounting estimates and judgements

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

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

Critical Accounting Estimates and Judgements		Location
(a)	Residual values of property, plant and equipment	Note 6
(b)	Useful lives of vessels and vessel component costs	Note 6
(c)	Impairment of vessels and vessels under construction	Note 6
(d)	Impairment of goodwill	Note 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 considers 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 charter. Revenue from a voyage charter is recognised over time, which is determined on a time proportion method of the voyage.

The Group's recognition basis of freight income from voyage charters has changed from "discharge to discharge" to "loading to discharge". Please refer to Note 2(a)(ii) for the changes in accounting policy.

(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	2018	2017
Vessel – related expenses		
Operating lease expenses - vessels	**467,527**	471,259
Port disbursements and other voyage costs	**337,609**	361,265
Bunker consumed	**382,706**	338,507
Depreciation - owned vessels	**114,537**	107,603
Employee benefit expenses (Note)	**97,829**	90,747
Vessel operating expenses	**41,373**	38,499
Lubricating oil consumed	**10,523**	10,095
Net losses/(gains) on bunker swap contracts	**1,796**	(5,815)
Provision for impairment losses - trade receivables (Note 11)	**–**	2,022
	1,453,900	1,414,182
General and administrative overheads		
Employee benefit expenses including directors' emoluments (Note)	**48,389**	43,386
Operating lease expenses - land and buildings	**3,136**	3,312
Depreciation - other PP&E	**1,798**	1,684
Auditors' remuneration		
– audit	**858**	823
– non-audit	**89**	70
Net foreign exchange (gains)/losses	**(43)**	137
Other general and administrative expenses	**5,581**	5,027
	59,808	54,439
Other expenses		
Write-off of loan arrangement fees	**1,623**	–
Provision/(write-back) for impairment losses		
– vessels	**705**	–
– other receivables	**(7)**	112
– assets held for sale	**–**	830
Realised losses on forward freight agreements	**58**	48
Losses on disposal of PP&E	**37**	539
Office relocation costs	**–**	1,391
Towage exchange loss	**–**	1,306
	2,416	4,226
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"	**1,516,124**	1,472,847

Note: Total employee benefit expenses amounted to US$146.2 million (2017: US$134.1 million) (See Remuneration report p. 43), comprising crew wages and other costs of US$97.8 million (2017: US$90.7 million) included in cost of services.

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

US$ Million	2018	2017
Direct G&A overheads included in cost of services	**53.8**	49.1
Indirect G&A overheads	**6.0**	5.3
Total G&A overheads	**59.8**	54.4

Operating lease expenses

The total vessel operating lease expenses of US$467.5 million (2017: US$471.3 million) above include contingent lease payments amounting to US$16.8 million (2017: US$20.8 million). These relate to the vessels chartered-in on an index-linked basis.

Accounting policy – Impairment

(i) Impairment of investments and non-financial assets

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

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

The value-in-use of the vessels represents estimated future cash flows from the continuing use of the vessels. For the purposes of assessing impairment, assets are grouped into the lowest levels at which there are separately identifiable cash flows. This level is described as a cash-generating unit ("CGU").

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

(ii) Impairment of 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	Buildings	Leasehold improve-ments	Furniture, fixtures and equipment	Motor vehicles	Total
Cost						
At 1 January 2018	**2,368,609**	**646**	**4,674**	**10,529**	**30**	**2,384,488**
Additions	132,110	–	949	1,197	–	134,256
Disposals	–	(652)	(53)	(72)	–	(777)
Write offs	(18,638)	–	(439)	(2,216)	–	(21,293)
Transfer to assets held for sale (Note 14)	(17,170)	–	–	–	–	(17,170)
Exchange differences	–	6	(57)	(74)	(2)	(127)
At 31 December 2018	**2,464,911**	**–**	**5,074**	**9,364**	**28**	**2,479,377**
Accumulated depreciation and impairment						
At 1 January 2018	**577,095**	**38**	**1,117**	**8,621**	**30**	**586,901**
Charge for the year	114,537	1	750	1,047	–	116,335
Impairment charge (d)	705	–	–	–	–	705
Disposals	–	(39)	(46)	(58)	–	(143)
Write offs	(18,638)	–	(439)	(2,216)	–	(21,293)
Transfer to assets held for sale (Note 14)	(10,720)	–	–	–	–	(10,720)
Exchange differences	–	–	(29)	(49)	(2)	(80)
At 31 December 2018	**662,979**	**–**	**1,353**	**7,345**	**28**	**671,705**
Net book value						
At 31 December 2018	**1,801,932**	**–**	**3,721**	**2,019**	**–**	**1,807,672**

(a) As at 31 December 2018, vessel component costs included the aggregate cost and accumulated depreciation of US$62,045,000 (2017: US$59,630,000) and US$31,606,000 (2017: US$29,683,000) respectively.

(b) Certain owned vessels of net book value of US$1,581,652,000 (2017: US$1,518,309,000) were pledged to banks as securities for bank loans granted to the Group.

Certain owned vessels of net book value of US$100,352,000 (2017: US$107,441,000) 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 no capitalised borrowing costs (2017: US$373,000) on qualifying assets (Note 21). Borrowing costs were capitalised at the weighted average rate of 4.2% for 2017 of the Group's general borrowings.

(d) The impairment charge of US$705,000 related to a Handysize vessel which was contracted in 2018 to be sold in 2019. The recoverable amount of the impaired asset was calculated as the fair value less cost to sell.

(e) The average net book values of Handysize, Supramax and Post-Panamax vessels were US$14,700,000, US$21,300,000 and US$41,300,000 respectively.

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 2018 and 2017	Vessels: 25 years Vessel component costs: estimated period to the next drydocking	50 years	4 to 6 years or the remaining lease period if shorter	3 to 5 years	4 to 5 years

6 Property, plant and equipment (continued)

Accounting policy

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

(i) Vessels and vessel component costs

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

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

(ii) Vessels under construction

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

(iii) Borrowing costs

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

(iv) Other property, plant and equipment

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

(v) Subsequent expenditure

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

(vi) Depreciation

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

(vii) Residual values and useful lives

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

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

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

(viii) Gains or losses on disposal

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

Critical accounting estimates and judgements

Residual values of property, plant and equipment

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

- **Sensitivity analysis:**

  With all other variables held constant, if the residual value increases/decreases by 10% from management estimates, the depreciation expense would decrease/increase by US$2.2 million in the next year.

Useful lives of vessels and vessel component costs

The Group estimates the useful life of its vessels by 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$17.0 million or increase by US$29.2 million in the next year.

Impairment of vessels and vessels under construction

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

The owned 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 7.3% (2017: 6.4%).

- **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	2018	2017
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 7.3% (2017: 6.4%) 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	2018	2017
Charter-hire income included in revenue	4,614	4,600
Charter-hire expenses included in cost of services	(3,389)	(3,388)
	1,225	1,212

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 Financial assets at fair value through other comprehensive income ("FVOCI") and available-for-sale financial assets ("AFS")

		FVOCI	AFS
US$'000	Fair value level	2018	2017
Listed equity securities (a)	Level 1	–	569

(a) Listed equity securities represent the Group's investment in Greka Drilling Limited, a company listed on the London AIM market. During the year, the Group sold its shares in Greka Drilling as part of its long-standing initiative to dispose of non-core activities. The shares were sold at US$294,000 and the cumulative loss of US$2,200,000 was reclassified to retained profits.

The financial assets were reclassified from AFS to FVOCI following the adoption of HKFRS 9 on 1 January 2018. Please refer to Note 2(a)(iii) for the change in accounting policy.

The 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

FVOCI are financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. FVOCI are not designated as financial assets at fair value through profit or loss.

Assets in this category are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets and are subsequently measured at fair value. Changes in the fair value are recognised in other comprehensive income.

Dividends on FVOCI instruments continue to be recognised in the income statement as other income when the Group's right to receive payments is established. Interest on FVOCI securities calculated using the effective interest method is recognised in the income statement as part of finance income.

On derecognition, the accumulated gains and losses are reclassified to retained profits. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value.

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 using the derivatives summarised below together with their respective fair value levels.

Derivatives	Fair value levels
Interest rate swap contracts	Level 2
Forward foreign exchange contracts	Level 2
Bunker swap contracts	Level 2
Forward freight agreements	Level 1

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

	31 December 2018		31 December 2017	
US$'000	**Assets**	**Liabilities**	Assets	Liabilities
Non-current portion				
Cash flow hedges				
Interest rate swap contracts (a)	**1,055**	**(563)**	432	–
Forward foreign exchange contracts (b)	**21**	**(7,948)**	–	(4,706)
Derivative assets that do not qualify for hedge accounting				
Bunker swap contracts (c)	**669**	**(1,401)**	801	(1,084)
Non-current portion – total	**1,745**	**(9,912)**	1,233	(5,790)
Current portions				
Derivative liabilities that do not qualify for hedge accounting				
Bunker swap contracts (c)	**214**	**(7,374)**	4,834	(748)
Forward freight agreements (d)	**–**	**–**	–	(24)
Current portion – total	**214**	**(7,374)**	4,834	(772)
Total	**1,959**	**(17,286)**	6,067	(6,562)

(a) Interest rate swap contracts

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

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.

Effective date	Notional amount	Swap details	Expiry
2018			
December 2018	US$40 million on amortising basis	USD 6-month LIBOR swapped to a fixed rate of approximately 3.0% per annum	Contract expires in June 2025
December 2018	US$5 million on bullet basis	USD 3-month LIBOR swapped to a fixed rate of approximately 2.9% per annum	Contract expires in June 2025
*June 2018	US$69 million on amortising basis	USD 3-month LIBOR swapped to a fixed rate of approximately 2.0% per annum	Contract expires in December 2020
2018 & 2017			
December 2013	US$48 million on amortising basis	USD 3-month LIBOR swapped to a fixed rate of approximately 2.1% per annum	Contract expires in December 2021
February 2017	US$9 million on amortising basis	USD 1-month LIBOR swapped to a fixed rate of approximately 1.8% per annum	Contract expires in January 2022
2017			
*January 2014	US$130 million on amortising basis	USD 3-month LIBOR swapped to a fixed rate of approximately 1.9% per annum	Contract restructured in June 2018

* The US$130 million interest rate swap contract was restructured in June 2018 (with respective notional amount US$69 million).

- **Sensitivity analysis:**

  With all other variables held constant, if the average interest rate on the net debt balance as at 31 December 2018 (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 (2017: US$0.4 million).

10 Derivative assets and liabilities (continued)

(b) Forward foreign exchange contracts

All our forward foreign exchange contracts qualify for hedge accounting as cash flow hedges

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.

At 31 December 2018, the outstanding forward foreign exchange contracts held by the Group mainly consist of contracts with banks to buy Danish Kroner ("DKK") of approximately DKK 554.4 million (2017: DKK 692.6 million) and simultaneously sell approximately US$99.0 million (2017: US$123.9 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.

(c) Bunker swap contracts

None of our bunker swap contracts qualify for hedge accounting

The Group enters into bunker swap contracts for fuel oil and marine gas oil to mainly manage the fluctuations in bunker prices in connection with the Group's cargo contract commitments. We have also used bunker swap contracts to lock in the prevailing future fuel price spread between low and high sulphur fuel for a portion of the estimated fuel consumption on some Supramax vessels that will be fitted with scrubbers. 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.

At 31 December 2018, the Group had outstanding bunker swap contracts as follows:

Contract Type	Fuel Type	Quantity (tons)	Average deal price (US$)	Expiry through
2018				
Buy	Fuel oil	135,228	352	December 2022
Buy	Marine gas oil	10,511	591	December 2021
Sell	Marine gas oil	27,480	566	December 2022
2017				
Buy	Fuel oil	119,607	327	December 2021
Buy	Marine gas oil	11,095	544	December 2021

- **Sensitivity analysis:**

  With all other variables held constant, if the average forward fuel oil 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$4.0 million (2017: US$4.3 million). With all other variables held constant, if the average forward marine gas oil 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 decrease/increase by approximately US$1.2 million (2017: US$0.6 million).

(d) Forward freight agreements

None of our forward freight agreements qualify for hedge accounting

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

At 31 December 2018, the Group had no outstanding forward freight agreements. At 31 December 2017, the Group had outstanding forward freight agreements as follows:

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

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

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.

11 Trade and other receivables

US$'000	2018	2017
Non-current		
Prepayments	–	54
Deposit on vessels purchased	8,900	5,200
	8,900	5,254
Current		
Trade receivables – gross	44,565	47,038
Less: provision for impairment	–	(2,368)
Trade receivables – net	44,565	44,670
Other receivables	22,253	25,850
Prepayments	21,861	9,755
	88,679	80,275

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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 2018, the ageing of net trade receivables based on invoice date is as follows:

US$'000	2018	2017
< 30 days	35,057	34,188
31-60 days	3,609	3,749
61-90 days	1,899	742
> 90 days	4,000	5,991
	44,565	44,670

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

US$'000	2018	2017
At 1 January	2,368	1,685
Provision for impairment, net	–	2,022
Amount written off during the year	(2,368)	(1,339)
At 31 December	–	2,368

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 2018 and 2017, 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	2018	2017
Cash at bank and on hand	23,299	25,522
Bank deposits	318,503	219,172
Total cash and deposits	341,802	244,694
Average effective interest rate on bank deposits at year end	3.29%	2.06%
Average remaining maturity of bank deposits	61 days	25 days
Cash and cash equivalents	329,244	227,040
Term deposits	12,500	17,596
Cash and deposits	341,744	244,636
Restricted bank deposits included in non-current assets	58	58
Total cash and deposits	341,802	244,694

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

Accounting policy – Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

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Funding
Cash flow and cash

13 Inventories

US$'000	2018	2017
Bunkers	73,168	60,228
Lubricating oil	12,320	11,546
	85,488	71,774

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 one Handysize vessel. Its carrying amount of US$6,450,000 represented the estimated fair value less costs to sell and reclassified from property, plant and equipment (Note 6) accordingly.

Accounting policy

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	2018	2017
Non-current		
Receipts in advance	**5,537**	10,203
Current		
Trade payables	**54,530**	56,554
Accruals and other payables	**58,300**	52,271
Receipts in advance (a)	**37,729**	35,053
	150,559	143,878

(a) Receipts in advance included amounts received in relation to cargo contracts to be completed of US$32.7 million (2017: US$30.0 million).

At 31 December 2018, the ageing of trade payables based on due date is as follows:

US$'000	2018	2017
< 30 days	**49,930**	50,729
31-60 days	**1,125**	290
61-90 days	**157**	221
> 90 days	**3,318**	5,314
	54,530	56,554

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	2018	2017
At 1 January	**28,846**	51,918
Utilised during the year (Note 20)	**(16,115)**	(20,273)
Write-back for the year (Note 20)	**(12,731)**	–
Settled during the year	**–**	(2,799)
At 31 December	**–**	28,846
Analysis of provisions		
Current	**–**	16,115
Non-current	**–**	12,731
	–	28,846

Utilisation and write-back of provision for onerous contracts during the year were 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.

17 Long-term borrowings

US$'000	2018	2017
Non-current		
Secured bank loans (a)	**703,114**	619,177
Other secured borrowings (b)	**34,263**	39,989
Unsecured convertible bonds (c)	**–**	117,710
	737,377	776,876
Current		
Secured bank loans (a)	**97,809**	98,529
Other secured borrowings (b)	**5,726**	5,563
Unsecured convertible bonds (c)	**120,181**	–
	223,716	104,092
Total long-term borrowings	**961,093**	880,968

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.

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 2018 were secured, inter alia, by the following:

(i) Mortgages over certain owned vessels with net book values of US$1,588,102,000 (2017: US$1,518,309,000); and

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

These secured bank loans are repayable as follows:

US$'000	2018	2017
Within one year	**97,809**	98,529
In the second year	**97,809**	97,798
In the third to fifth year	**286,275**	314,997
After the fifth year	**319,030**	206,382
	800,923	717,706
Average effective interest rate at year end (before hedging)	**4.0%**	3.3%

(b) Other secured borrowings

The Group's other secured borrowings as at 31 December 2018 were in respect of seven (2017: seven) owned vessels with net book values of US$100,352,000 (2017: US$107,441,000) (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	2018	2017
Within one year	**5,726**	5,563
In the second year	**7,035**	5,726
In the third to fifth year	**23,614**	21,749
After the fifth year	**3,614**	12,514
	39,989	45,552
Average effective interest rate at year end (before hedging)	**4.9%**	4.5%

(c) Unsecured convertible bonds

US$'000	2018 Face value	2018 Liability component	2017 Face value	2017 Liability component
3.25% coupon due 2021	**125,000**	**120,181**	125,000	117,710

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$3.03 (with effect from 9 August 2018)
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 cash dividends paid by the Company according to a pre-determined adjustment factor. Such adjustment became effective on the first date on which the Shares were traded ex-dividend.

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.

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

	2018 Number of shares	2018 US$'000	2017 Number of shares	2017 US$'000
Authorised	**36,000,000,000**	**360,000**	36,000,000,000	360,000
Issued and fully paid				
At 1 January	**4,436,939,102**	**43,554**	4,014,512,275	40,046
Shares issued as Vessel Consideration Shares (a)	**69,746,012**	**697**	216,903,274	2,169
Shares issued upon grant of restricted share awards (b)	**21,150,000**	**212**	23,115,000	231
Shares granted to employees in the form of restricted share awards (b)	**6,948,000**	**1,190**	11,607,000	2,325
Shares transferred back to trustee upon lapse of restricted share awards (b)	**(1,887,000)**	**(338)**	(10,925,000)	(1,853)
Shares purchased by trustee of the SAS (b)	**(377,000)**	**(110)**	(5,213,000)	(1,233)
Shares issued for new share placement (c)	**–**	**–**	186,939,553	1,869
At 31 December	**4,532,519,114**	**45,205**	4,436,939,102	43,554

The issued share capital of the Company as at 31 December 2018 was 4,533,167,114 shares (2017: 4,442,271,102 shares). The difference from the number of shares in the table above of 648,000 (2017: 5,332,000) represents shares held by the trustee in relation to restricted share awards, amounting to US$126,900 (2017: US$869,100) as a debit to share capital.

(a) Shares issued as Vessel Consideration Shares

On 14 May 2018, the Group entered into contracts for the acquisition of four vessels at a total purchase consideration of US$88.5 million funded by a combination of: (i) the issue of 170,760,137 shares at an issue price of HK$2.036 per shares ("Vessel Consideration Shares") amounting to US$44.3 million to the sellers; and (ii) cash of US$44.2 million. In 2018, an aggregate of 69,746,012 shares were issued upon the delivery of two vessels to the Group and, in January and February 2019, an aggregate of 101,014,125 shares were issued upon the delivery of the remaining two vessels to the Group.

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Report to the Directors
Share Capital and Pre-emptive Rights

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$1.660 per shares ("Vessel Consideration Shares") amounting to US$46.1 million to the sellers; and (ii) cash of US$58.5 million. The shares were issued by end of 2017 upon the delivery of the vessels to the Group.

(b) 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.

18 Share capital (continued)

(b) Restricted share awards (continued)

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

000' shares	2018	2017
At 1 January	**74,006**	67,256
Granted	**28,098**	34,722
Vested	**(23,287)**	(17,047)
Lapsed	**(1,887)**	(10,925)
At 31 December	**76,930**	74,006

Out of the 76,930,000 unvested restricted share awards as at 31 December 2018 and according to the vesting schedule, 27,071,000 shares, 27,110,000 shares and 22,749,000 shares will be vested on 14 July 2019, 14 July 2020 and 14 July 2021 respectively.

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Movement of Restricted Awards Granted

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$1.7 (2017: HK$1.5).

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

	2018		2017	
Sources of shares granted	Number of granted shares awards	Related movement US$'000	Number of granted shares awards	Related movement US$'000
Shares issued	**21,150,000**	**212**	23,115,000	231
Shares purchased by the trustee of the SAS on the Stock Exchange funded by the Company	**377,000**	**110**	5,213,000	1,233
Shares transferred from the trustee	**6,571,000**	**1,080**	6,394,000	1,092
	28,098,000	**1,402**	34,722,000	2,556

(c) 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 in 2017 set out in Note (a) above.

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 2018	**224,567**	**(56,606)**	**13,772**	**(3,716)**	**5,854**	**(306)**	**(309)**	**779,938**	**963,194**	**154,387**	**1,117,581**
Change in accounting policy (Note 2.2(a)(i))	–	–	–	–	–	(1,619)	–	–	(1,619)	(7,165)	(8,784)
Restated total equity at 1 January 2018	224,567	(56,606)	13,772	(3,716)	5,854	(1,925)	(309)	779,938	961,575	147,222	1,108,797
Profit attributable to shareholders	–	–	–	–	–	–	–	–	–	72,284	72,284
Shares issued as Vessel Consideration Shares, net of issuing expenses (Note 18(a))	17,379	–	–	–	–	–	–	–	17,379	–	17,379
Dividend paid (Note 23)	–	–	–	–	–	–	–	–	–	(14,315)	(14,315)
Cash flow hedges											
– transferred to income statement	–	–	–	–	4,346	–	–	–	4,346	–	4,346
– fair value losses	–	–	–	–	(5,744)	–	–	–	(5,744)	–	(5,744)
Share-based compensation (see Remuneration Report)	–	–	–	5,265	–	–	–	–	5,265	–	5,265
Share awards granted (Note 18(b))	–	–	–	(461)	–	–	–	–	(461)	(729)	(1,190)
Share awards lapsed (Note 18(b))	–	–	–	338	–	–	–	–	338	–	338
Shares issued upon grant of restricted share awards (Note 18(b))	5,347	–	–	(5,559)	–	–	–	–	(212)	–	(212)
Share awards fully vested	2,658	–	–	(2,658)	–	–	–	–	–	–	–
Currency translation differences	–	–	–	–	–	–	(669)	–	(669)	–	(669)
Fair value losses on FVOCI	–	–	–	–	–	(275)	–	–	(275)	–	(275)
Derecognition of FVOCI	–	–	–	–	–	2,200	–	–	2,200	(2,200)	–
At 31 December 2018	**249,951**	**(56,606)**	**13,772**	**(6,791)**	**4,456**	**–**	**(978)**	**779,938**	**983,742**	**202,262**	**1,186,004**

(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. 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.

19 Reserves (continued)

US$'000	Other reserves: 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
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, net of issuing expenses (Note 18(a))	43,905	–	–	–	–	–	–	–	43,905	–	43,905
Share issued for new share placement, net of issuing expenses (Note 18(c))	35,761	–	–	–	–	–	–	–	35,761	–	35,761
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
Share-based compensation (see Remuneration Report)	–	–	–	4,301	–	–	–	–	4,301	–	4,301
Share awards granted (Note 18(b))	–	–	–	(1,411)	–	–	–	–	(1,411)	(914)	(2,325)
Share awards lapsed (Note 18(b))	–	–	–	1,853	–	–	–	–	1,853	–	1,853
Shares issued upon grant of restricted share awards (Note 18(b))	5,014	–	–	(5,245)	–	–	–	–	(231)	–	(231)
Share awards fully vested	–	–	–	(846)	–	–	–	–	(846)	846	–
Profit attributable to shareholders	–	–	–	–	–	–	–	–	–	3,610	3,610
Release of exchange losses upon disposal of towage assets	–	–	–	–	–	–	1,306	–	1,306	–	1,306
Currency translation differences	–	–	–	–	–	–	771	–	771	–	771
Fair value losses on AFS	–	–	–	–	–	(306)	–	–	(306)	–	(306)
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

20 Other income and gains

US$'000	2018	2017
Utilisation of provision for onerous contracts (Note 16)	**16,115**	20,273
Write-back of provision for onerous contracts (Note 16)	**12,731**	–
Distribution from Muchalat investment	**1,582**	–
Gains on forward freight agreements	**31**	–
Disposal gains on available-for-sale financial assets	**–**	158
	30,459	20,431

21 Finance income and costs

US$'000	2018	2017
Finance income		
Bank interest income	**(3,511)**	(3,651)
Other interest income	**(2)**	–
Total finance income	**(3,513)**	(3,651)
Finance costs		
Interest on Borrowings		
Secured bank loans	**26,343**	26,375
Unsecured convertible bonds	**6,534**	6,400
Other secured borrowings	**2,154**	2,149
Net (gains)/losses on interest rate swap contracts	**(187)**	919
Other finance charges	**1,022**	528
	35,866	36,371
Less: amounts capitalised as PP&E (Note 6(c))	**–**	(373)
Total finance costs	**35,866**	35,998
Finance costs, net	**32,353**	32,347

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 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	2018	2017
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2017: 16.5%)	726	323
Overseas tax, provided at the rates of taxation prevailing in the countries	410	348
Adjustments in respect of prior year	126	(1,025)
Tax charges/(credits)	1,262	(354)

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	2018	2017
Profit before taxation	73,546	3,256
Tax calculated at applicable tax rates	12,676	642
Income not subject to taxation	(152,929)	(125,759)
Expenses not deductible for taxation purposes	141,389	125,788
Adjustments in respect of prior year	126	(1,025)
Tax charges/(credits)	1,262	(354)
Weighted average applicable tax rate	17.2%	19.7%

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. In the case of some transactions we entered into, the ultimate tax determination and tax classification may still be uncertain, requiring significant judgement to be used in determining the provision for income taxes. Where the eventual tax outcome of such cases is different from the amounts that are currently recorded, such differences will impact our income tax provision in future periods in which such determination is made.

23 Dividends

	2018			2017		
	HK cents per share	US cents per share	US$'000	HK cents per share	US cents per share	US$'000
Interim dividend	**2.5**	**0.3**	**14,315**	–	–	–
Proposed final dividend	**3.7**	**0.5**	**22,018**	–	–	–
	6.2	**0.8**	**36,333**	–	–	–
Interim dividend paid during the year	**2.5**	**0.3**	**14,315**	–	–	–

The proposed final dividend is subject to the approval of the shareholders at the Annual General Meeting on 17 April 2019.

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 ("EPS")

(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(b)).

		2018	2017
Profit attributable to shareholders	(US$'000)	**72,284**	3,610
Weighted average number of ordinary shares in issue	('000)	**4,397,925**	4,079,791
Basic earnings per share	(US cents)	**1.64**	0.09
Equivalent to	(HK cents)	**12.88**	0.69

(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(b)).

		2018	2017
Profit attributable to shareholders	(US$'000)	**72,284**	3,610
Weighted average number of ordinary shares in issue	('000)	**4,397,925**	4,079,791
Adjustment for calculation of diluted EPS relating to unvested restricted shares	('000)	**84,222**	80,542
Weighted average number of ordinary share for diluted EPS	('000)	**4,482,147**	4,160,333
Diluted earnings per share	(US cents)	**1.61**	0.09
Equivalent to	(HK cents)	**12.64**	0.68

25 Notes to the consolidated cash flow statement

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

US$'000	2018	2017
Profit before taxation	73,546	3,256
Adjusted for		
Assets and liabilities adjustments		
Depreciation and amortisation	116,335	109,287
Utilisation of provision for onerous contracts	(16,115)	(20,273)
Write-back of provision for onerous contracts	(12,731)	–
Net unrealised losses/(gains) on derivative instruments not qualified as hedges	11,669	(5,434)
Charter Hire Reduction	4,743	6,158
Provision/(write-back) for impairment losses		
– vessels	705	–
– other receivables	(7)	112
– trade receivables	–	2,022
– assets held for sale	–	830
Write-off of loan arrangement fees	1,623	–
Distribution from Muchalat investment	(1,582)	–
Losses on disposal of PP&E	37	539
Towage exchange loss	–	1,306
Disposal gains on available-for-sale financial assets	–	(158)
Capital and funding adjustments		
Share-based compensation	5,265	4,301
Results adjustments		
Finance costs, net	32,353	32,347
Net foreign exchange (gains)/losses	(43)	135
Profit before taxation before working capital changes	215,798	134,428
Increase in inventories	(13,715)	(9,282)
Increase in trade and other receivables	(14,029)	(12,123)
Increase in trade and other payables	2,120	12,578
Cash generated from operations	190,174	125,601

(b) Reconciliation of long-term borrowings

US$'000	2018	2017
At 1 January	880,968	839,242
Cash flows		
– Drawdown of bank loans and other borrowings	634,074	188,601
– Repayment of bank loans and other borrowings	(558,410)	(136,929)
– Convertible bond coupon payment	(4,063)	(4,063)
Foreign exchange adjustments	(1,782)	(9,779)
Other non-cash movements		
– Loan arrangement fee movement	3,772	(2,504)
– Accrued convertible bond coupon	6,534	6,400
At 31 December	961,093	880,968

(c) Significant non-cash transactions

For details regarding non-cash transactions relating to the purchase of vessels by issuing new shares, please refer to Note 18(a).

26 Commitments

(a) Capital commitments

US$'000	2018	2017
Contracted but not provided for – vessel acquisitions and vessel equipment contracts	**70,247**	32,335

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Vessel Operating Lease Commitments and Vessel Capital Commitments

(b) Operating lease commitments

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	Vessels	Land and buildings	Total
At 31 December 2018			
Within one year	**153,999**	**2,261**	**156,260**
In the second to fifth year	**151,644**	**8,236**	**159,880**
After the fifth year	**11,502**	**408**	**11,910**
	317,145	**10,905**	**328,050**
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

The Group's operating leases for vessels have terms ranging from less than 1 year to 10 years (2017: 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.

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26 Commitments (continued)

(b) Operating lease commitments (continued)

(ii) The Group as the lessor – receipts

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

US$'000	2018	2017
At 31 December 2018		
Within one year	**32,408**	32,294
In the second to fifth year	**38,253**	47,579
After the fifth year	**16,560**	23,130
	87,221	103,003

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 vessels amounting to US$70.7 million (2017: US$86.6 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 28. 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	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Long-term borrowings										
– Secured bank loans	**131,144**	124,930	**126,350**	121,813	**347,644**	361,565	**349,683**	238,556	**954,821**	846,864
– Other secured borrowings	**7,784**	7,186	**8,825**	7,171	**26,730**	24,541	**3,638**	13,231	**46,977**	52,129
– Unsecured convertible bonds	**129,063**	4,063	**–**	4,063	**–**	133,125	**–**	–	**129,063**	141,251
Derivative financial instruments										
(i) Net-settled (a)										
– Interest rate swap contracts	**(544)**	7	**(221)**	117	**244**	(584)	**41**	3	**(480)**	(457)
– Bunker swap contracts	**7,374**	748	**354**	653	**1,047**	431	**–**	–	**8,775**	1,832
– Forward freight agreement	**–**	24	**–**	–	**–**	–	**–**	–	**–**	24
(ii) Gross-settled (b)										
Forward foreign exchange contracts										
– Cash flow hedges:										
– outflow	**24,839**	25,114	**25,093**	26,003	**55,768**	67,646	**–**	13,215	**105,700**	131,978
– inflow	**(21,238)**	(22,431)	**(21,671)**	(23,277)	**(48,487)**	(61,009)	**–**	(12,040)	**(91,396)**	(118,757)
Net outflow	**3,601**	2,683	**3,422**	2,726	**7,281**	6,637	**–**	1,175	**14,304**	13,221
Current liabilities										
Trade and other payables	**112,830**	108,825	**–**	–	**–**	–	**–**	–	**112,830**	108,825

(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 comprised only key management compensation. For the compensation of key management (including Directors' emoluments) and the accounting policy on employee benefits, please refer to the Remuneration Report on pages 42 to 44.

29 Financial guarantees

As at 31 December 2018, the Company has given corporate guarantees with maximum exposures of US$828.5 million (2017: US$734.0 million) for certain subsidiaries in respect of the 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 as at 31 December 2018 and 2017.

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.

31 Principal subsidiaries

As at 31 December 2018, 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
Gharapuri Island Limited	HK	HK$1	100	Vessel owning
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/Int'l	HK$1	100	Vessel owning and chartering
Grande 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
Ince Point 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
Iwagi Island Limited	HK	HK$1	100	Vessel owning
Jamaica Bay Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
James Bay Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Jericho Beach Limited	BVI/Int'l	US$1	100	Vessel owning and chartering

Company	Place of incorporation/ operation [3]	Issued and fully paid share capital	Interest held %	Principal activities
Jervis Bay Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Jiangmen Trader Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Judith Shipping (BVI) Limited	BVI/Int'l	US$38,001	100	Vessel owning and chartering
Jules Point Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Jumeirah Beach Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Kaiti Hill Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
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
Mount Taranaki 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
Pearl 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
Penguin 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

31 Principal subsidiaries (continued)

Company	Place of incorporation/ operation [3]	Issued and fully paid share capital	Interest held %	Principal activities
Swan River Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Tampa Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Uhland Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Verner Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
West Bay Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
White Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Zhoushan Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
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 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$5,945,000 (2017: US$5,784,000) and US$416,000 profit. (2017: US$73,000 loss) respectively.

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

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

32 Balance sheet and reserve movement of the company
(a) Balance Sheet of the Company

	Note	As at 31 December 2018 US$'000	2017 US$'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**1,323,176**	1,321,861
Current assets			
Prepayments and other receivables		**143**	80
Amounts due from subsidiaries		**378,567**	372,141
Cash and cash equivalents		**107**	19
		378,817	372,240
Total assets		**1,701,993**	1,694,101
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	18	**45,205**	43,554
Retained profits		**619,698**	635,921
Other reserves		**1,023,098**	1,000,789
Total equity		**1,688,001**	1,680,264
LIABILITIES			
Current liabilities			
Accruals and other payables		**225**	69
Amounts due to subsidiaries		**13,767**	13,768
Total liabilities		**13,992**	13,837

Approved by the Board of Directors on 28 February 2019.

Mats H. Berglund
Director

Peter Schulz
Director

32 Balance sheet and reserve movement of the company (continued)

(b) Reserve movement of the Company

US$'000	Other reserves: Share premium	Other reserves: Staff benefits reserve	Other reserves: Contributed surplus	Other reserves: Subtotal	Retained profits	Total
At 1 January 2018	**224,567**	**(3,716)**	**779,938**	**1,000,789**	**635,921**	**1,636,710**
Share issued as Vessel Consideration Shares, net of issuing expenses (Note 18(a))	**17,379**	**–**	**–**	**17,379**	**–**	**17,379**
Dividend paid (Note 23)	**–**	**–**	**–**	**–**	**(14,315)**	**(14,315)**
Share-based compensation (see Remuneration Report)	**–**	**5,265**	**–**	**5,265**	**–**	**5,265**
Share awards granted (Note 18(b))	**–**	**(461)**	**–**	**(461)**	**(729)**	**(1,190)**
Share awards lapsed (Note 18(b))	**–**	**338**	**–**	**338**	**–**	**338**
Share issued upon grant of restricted shares awards (Note 18(b))	**5,347**	**(5,559)**	**–**	**(212)**	**–**	**(212)**
Share awards fully vested	**2,658**	**(2,658)**	**–**	**–**	**–**	**–**
Loss attributable to shareholders	**–**	**–**	**–**	**–**	**(1,179)**	**(1,179)**
At 31 December 2018	**249,951**	**(6,791)**	**779,938**	**1,023,098**	**619,698**	**1,642,796**
At 1 January 2017	139,887	(2,368)	779,938	917,457	638,064	1,555,521
Share issued as Vessel Consideration Shares, net of issuing expenses (Note 18(a))	43,905	–	–	43,905	–	43,905
Shares issued for new share placement, net of issuing expenses	35,761	–	–	35,761	–	35,761
Share-based compensation (see Remuneration Report)	–	4,301	–	4,301	–	4,301
Share awards granted (Note 18(b))	–	(1,411)	–	(1,411)	(914)	(2,325)
Share awards lapsed (Note 18(b))	–	1,853	–	1,853	–	1,853
Share issued upon grant of restricted shares awards (Note 18(b))	5,014	(5,245)	–	(231)	–	(231)
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

Loss attributable to shareholders of US$1,179,000 (2017: US$2,137,000) 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 2018;
- 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 2018, 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 KEY AUDIT MATTER
Carrying value of dry bulk vessels *Refer to note 6 to the consolidated financial statements* As at 31 December 2018, the Group has a fleet of dry bulk vessels, totalling US$1,802 million. The owned 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 2018 is more than its market capitalisation. This is considered as indicator 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 KEY AUDIT 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. Provision for onerous contacts has been made in prior years for the Group's charter-in contracts where the cost of those obligations exceeds the economic benefits expected to be received under the lease. Following the market recovery, management therefore performed a re-assessment of the Group's charter-in contracts to identify any onerous contracts that may still require provisioning. The onerous contracts are assessed on a fleet basis. The charter-in dry bulk fleet has been separated as two 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 2018, an onerous contracts provision is no longer required. 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 evaluate management's assessment of the need for a 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 calculations including 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 John J. Ryan.

PricewaterhouseCoopers

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28 February 2019

Group Financial Summary

US$'000		2018	2017	2016	2015	2014
Results						
Continuing operations						
Revenue		**1,591,564**	1,488,019	1,087,371	1,260,291	1,718,454
EBITDA		**215,848**	133,822	22,826	93,208	82,175
Profit/(loss) for the year		**72,284**	3,610	(86,547)	(18,540)	(279,742)
Discontinued operations						
Loss for the year		**–**	–	–	–	(5,222)
Underlying profit/(loss)		**71,968**	2,163	(87,669)	(27,778)	(55,501)
Eligible profit/(loss) attributable to shareholders		**72,284**	3,610	(86,547)	(18,540)	(284,964)
Balance Sheet						
Total assets		**2,366,206**	2,231,592	2,107,225	2,145,735	2,307,516
Total liabilities		**(1,134,997)**	(1,070,457)	(1,066,454)	(1,174,797)	(1,305,770)
Total equity		**1,231,209**	1,161,135	1,040,771	970,938	1,001,746
Total cash and deposits		**341,802**	244,694	269,204	358,428	363,425
Net borrowings		**619,291**	636,274	570,038	567,537	636,319
Cash Flows						
From operating activities		**189,555**	124,740	49,521	98,615	93,652
From investment activities of which		**(116,842)**	(123,560)	(98,643)	(54,852)	(131,683)
gross investment in vessels		**(127,924)**	(219,857)	(181,340)	(146,408)	(194,472)
From financing activities		**29,979**	56,759	18,112	(100,420)	(112,536)
Net increase/(decrease) in cash and cash equivalents excluding term deposits		**102,692**	57,939	(31,010)	(56,657)	(150,567)
Other Data [2]						
Basic EPS	US cents	**1.6**	0.1	(3)	(1)	(15)
Dividends per share [1]	US cents	**0.8**	–	–	–	0.6
Eligible profit payout ratio		**50%**	–	–	–	>100%
Operating cash flows per share	US cents	**4.3**	3.1	1.5	3.7	4.9
Equity per share	US cents	**27.2**	26.1	25.9	36.3	51.7
Full-year dividends	US$'000	**36,333**	–	–	–	12,368
Closing price at year end	HK$	**1.49**	1.69	1.25	1.24	2.28
Market capitalisation at year end	US$'000	**863,000**	960,000	647,000	423,000	782,000

1 The 2018 dividends include the interim dividend of HK2.5 cents per share and the proposed final dividend of HK3.7 cents per share.

2 "Other Data" for the year ended 31 December 2014 is extracted from our 2014 Annual Report. No retrospective adjustments for the June 2016 rights issue were made to those information except for the closing price at year end.

www.pacificbasin.com
Investors > Financial Highlights
Historical Financial Summary

Corporate Information

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

Share Registrar
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Wanchai, Hong Kong
tel: +852 2862 8555 fax: +852 2865 0990
e-mail: hkinfo@computershare.com.hk

Company Secretary
Ms. Mok Kit Ting, Kitty, CPA
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Listing Venue & Listing Date
The Stock Exchange of Hong Kong Limited
14 July 2004

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

Auditors
PricewaterhouseCoopers

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

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

Total Shares in Issue
4,533,167,114 as at 31 December 2018

Website
https://www.pacificbasin.com

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

2018 CSR Report

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2018 Online Annual Report


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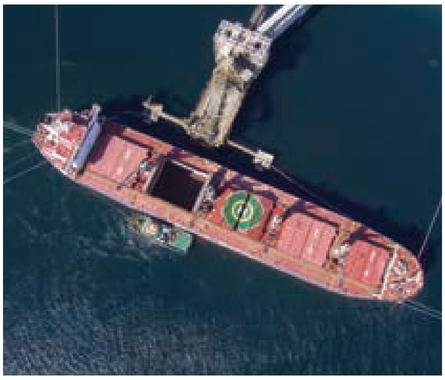


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