Pacific Basin

Robust Business Model
Versatile Fleet
Dedicated Team

Annual Report 2019

Stock Code: 2343

Business Highlights

GROUP

2019 was a volatile and weaker year for dry bulk shipping, but we continued to perform well relative to the market

Our Handysize and Supramax TCE earnings outperformed market indices by

41% **and** 24%

We secured two revolving credit facilities, repaid and issued new convertible bonds achieving a lower coupon, and issued new shares as part payment for four ships, further enhancing our balance sheet and liquidity position

Our year-end available liquidity amounted to

US$383m

with net gearing of 35%

(net borrowings to net book value of owned vessels)

FLEET

We took delivery of eight modern vessels and sold two older ships in 2019 – Three further deliveries and one sale will increase our owned fleet to 117 ships by end April 2020

Including chartered ships, we operated an average of 229 Handysize and Supramax ships overall

We have covered 42% and 60% of our Handysize and Supramax vessel days for 2020 at US$8,910 and US$11,390 per day net respectively

Our blended vessel operating expenses averaged US$4,080 per day and we maintain a competitive cost structure overall

OUTLOOK

2019 saw higher net fleet growth than expected due to almost no newbuilding delivery shortfall compared to the scheduled orderbook. We expect heavy deliveries of mostly larger ships to continue in first half 2020, but net fleet growth should reduce thereafter, especially in our segments

Further scrubber retrofitting will continue to take large ships out of service for several weeks, and lower optimal operating speeds due to higher low-sulphur fuel prices could mitigate supply growth in 2020 and beyond

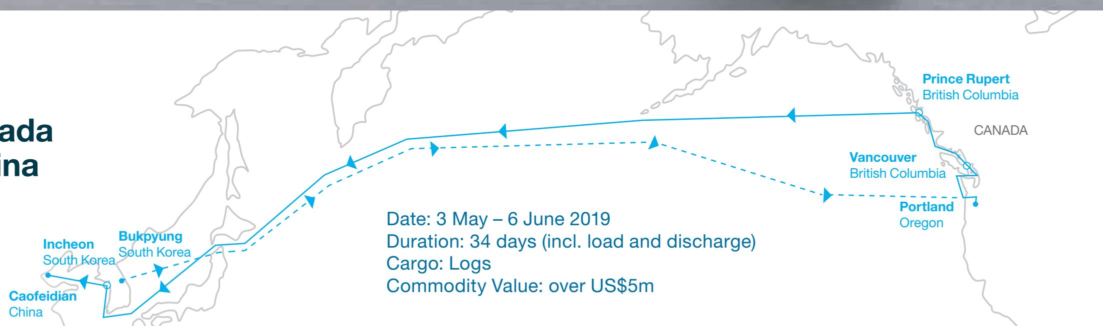
2020 has started with seasonal weakness compounded by reduced Chinese demand and disrupted logistics caused by actions to contain the Coronavirus. How this develops further is very difficult to predict, but catch-up demand and stimulus should trigger a rebound once the virus is under control and Chinese activity returns

Overall minor bulk demand remains healthy in the longer term and we will continue our strategic plan to opportunistically acquire good quality secondhand ships and trade up some of our smaller, older ships

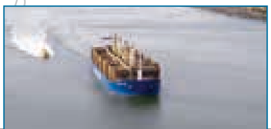
Voyage in Focus

m/v Imabari Logger carrying logs from Canada to South Korea and China

Photos in this Annual Report follow our owned 37,500 dwt Handysize vessel "Imabari Logger" which in May 2019 arrived in Portland to discharge a cement cargo from Bukpyung and made a short ballast voyage to Vancouver and Prince Rupert where she loaded logs for shipping to Incheon and Caofeidian. This valuable combination of fronthaul and backhaul shipments is how we achieve high laden utilisation and outperform market indices.

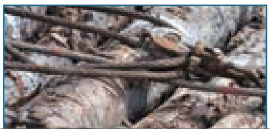


Date: 3 May – 6 June 2019
Duration: 34 days (incl. load and discharge)
Cargo: Logs
Commodity Value: over US$5m



Imabari Logger is a versatile ship designed to carry logs and a wide range of bulk and breakbulk cargoes

The ship was crewed by 22 Chinese seafarers under the leadership of Captain Yang Ji Chen



Carrying logs requires a ship fitted with stanchions and lashing equipment, and a well-trained, safety-conscious crew

Financial Summary

We booked an EBITDA of US$230.7m and net profit of
US$25.1m
US$47.2m YoY

The Board recommends a dividend per share of
HK2.1cents
HK4.1cents YoY

Our cash position at year end was
US$200.2m
US$141.6m YoY

	2019 US$ Million	2018 US$ Million
Results		
Revenue	1,585.9	1,591.6
Total Time-Charter Equivalent ("TCE") Earnings	865.7	881.1
EBITDA [1]	230.7[2]	215.8
Underlying profit KPI	20.5	72.0
Profit attributable to shareholders	25.1	72.3
Cash Flows		
Operating	217.0[2]	189.5
Investing	(143.9)	(116.8)
Financing	(202.1)	30.0
Net change in cash and cash equivalents excluding term deposits	(129.0)	102.7
Balance Sheet		
Total assets	2,394.2	2,366.2
Total cash and deposits	200.2	341.8
Net borrowings	662.9	619.3
Shareholders' equity	1,275.9	1,231.2
Capital commitments	59.8	70.2
Per Share Data	HK cents	HK cents
Basic EPS	4.3	12.9
Dividend KPI	2.1	6.2
Operating cash flows	37.3	33.8
Shareholders' equity	212	213
Share price at year end	164	149
Market capitalisation at year end	HK$7.7bn	HK$6.8bn
Ratios		
Net profit margin	2%	5%
Return on average equity	2%	6%
Total shareholders' return	13%	(10%)
Net borrowings to net book value of owned vessels KPI	35%	34%
Net borrowings to shareholders' equity	52%	50%
Interest cover KPI	5.4X[2]	6.0X

[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; and net unrealised derivative income and expenses.

[2] Following the adoption of the new accounting standard HKFRS 16 "Leases", all chartered-in contracts with a term of over 12 months have been recognised as right-of-use asset and lease liabilities on the balance sheet. As a result a significant portion of the charter-hire expenses have been replaced by depreciation and interest expenses which materially changes the presentation of key performance measures and ratios such as EBITDA, operating cash flow and interest coverage, as the Group has adopted HKFRS 16 "Leases" using the modified retrospective approach from 1 January 2019 without restating comparative figure.

EBITDA, operating cash flow and interest coverage for the year presented before the financial impact of HKFRS 16 "Leases" are US$184.9 million, US$173.9 million and 4.9X respectively.

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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

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 3,900 seafarers and 345 shore staff in 12 key locations around the world.

Our Fleet

(as at 31 January 2020)

	Vessels in operation			Total	Total Capacity (million DWT)	Average Age
	Owned[1, 2]	Long-term Chartered	Short-term Chartered[3]		Owned	Owned
Handysize	81	17	19	117	2.68	11.8
Supramax	34	6	41	81	1.95	8.5
Post-Panamax	1	1	0	2	0.12	9.0
Total	**116**	**24**	**60**	**200**	**4.75**	**10.8**

1 Including 1 vessel we committed to purchase in 2019 that delivered in January 2020
2 Excluding an additional 2 vessels purchased and 1 sold that are scheduled to deliver by end April 2020
3 Average number of short-term and index-linked vessels operated in January 2020

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Average number of Handysize and Supramax ships operated in 2019

Page 71 and 80
Financial Statements Note 11 & 20
Net book value of our owned vessels and assets held for sale as at 31 December 2019

CSR Report 2019

Our comprehensive CSR Report can be found as 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.

Strategic Model

~200 Ships

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.

12 Offices

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.

500+ Customers

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

What We're Doing to Deliver Our Strategy

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Our Resources in Action

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Strategy Delivery & Risks

CSR Highlights

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

We are a substantial shipping business that draws on and impacts the resources and relationships we rely on to create and protect value.

As a large player in our sector with an ambitious vision for the future, we recognise our responsibility to the long-term sustainability of our business. We believe that many of the responsible actions we take – our commitment to Corporate Social Responsibility (CSR) – make us competitively stronger and enhance our financial performance, our reputation and the sustainability and future value of our business.

These responsibilities and relationships are components of the key material matters we focus on to deliver our strategic objectives. Our active approach to CSR is therefore rooted in our culture and, governed by our policies and systems, integrated into our daily business behaviour and operating practices.

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Our Resources in Action

We invite you to read our CSR Report 2019 which can be found in the Sustainability section of our website.

Group Facts

Operating about 200 versatile and interchangeable ships worldwide

Over **3,900 staff** at sea

345 shore-based staff in 12 key locations

Headquartered and listed in **Hong Kong**

Customer Focus

Over **500 customers** – industrial users, traders and producers of dry bulk commodities

Spot and long-term freight contracts

Diverse cargoes – grains & agricultural products, logs & forest products, steel & scrap, cement, fertiliser, metal concentrates, etc

Customer and cargo diversification enables triangular trading and high utilisation

Awards

Lloyd's List Asia Pacific Awards 2019
Excellence in Dry Bulk Shipping

International Bulk Journal Awards 2019
People Development Award

Hong Kong Marine Department Awards
Outstanding Performance in PSC Inspections

Dry Bulk Segment

Handysize
25,000-41,999 dwt

Supramax
42,000-64,999 dwt

In a highly fragmented market, we operate about 6% and 3% of global Handysize and Supramax ships of less than 20 years old

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Understanding Our Core Market

What we stand for

- Our customers, our people and our brand
- Honouring our commitments
- Long-term relationships over short-term gain
- Personalised, flexible, responsive and reliable service
- Ease of doing business with us
- Excellence through dedication and teamwork
- A sustainable business approach
- Safety and environmental stewardship
- Care, good humour, fairness and respect

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With you for the long haul

Safety First

Our day-to-day priority remains on safety of life, ships and the environment. We invest heavily in training and challenge our teams to focus on what really matters and do the right things at all times. Safety comes first!

Lost Time Injury Frequency

0.71

lost-time injuries per million man-hours

Our 2019 LTIF is low by industry standards, 13% better year on year and our lowest LTIF since 2004

We support our industry's ambitious goals to:

- improve the global fleet's carbon efficiency by 40% by 2030*
- reduce total greenhouse gas emissions by 50% by 2050*

* These goals are minimum targets and relative to 2008

We have joined the Getting To Zero Coalition

90% Laden vs Ballast

We are among the most carbon-efficient companies in our segment partly because our ships are laden with cargo over 90% of the time. That is a significant advantage compared to most similar ships which spend much more time in ballast.

Other Information

Fleet in operation
229
Handysize & Supramax Ships (annual average)

Cargo Volumes
67.1m
Metric tonnes

Global Network
12
Offices

Ports Called
768/110
Ports & Countries

Distance Travelled
11.8m
Nautical Miles

Crew Employed
3,900+
Seafarers

Shore Staff
345
Staff

Staff Training
45%
Received external training

Seafarer Retention
87%
Overall crew retention

Sponsorship & Charity
85,000
USD

Total Recordable Injury Frequency
1.56
Injuries per million man-hours

Lost Time Injury Frequency
0.71
Injuries per million man-hours

Inspection Deficiency Rate
0.74
per PSC inspection

Pollution Incidents
0
Incidents

Fuel Consumed
0.45m
Metric tonnes (owned fleet)

Fuel Consumed
0.86m
Metric tonnes (owned + chartered)

CO_2 Emitted
1.41m
Metric tonnes (owned fleet)

CO_2 Index (EEOI)
10.49
Grams CO_2 /tonne-mile

As the world decarbonises, Pacific Basin will continue to carry the non-fossil fuel commodities that will be the mainstay of global seaborne trade

CSR
www.pacificbasin.com/en/sustainability/csr.php
CSR Report 2019

Chairman's Statement

Pacific Basin has what it takes to navigate turbulence adeptly. Leveraging our excellent platform and staying true to our corporate mission and values ensures the long-term sustainability of our business.

A Solid Performance in a Challenging Market

2019 was a volatile and weak year for dry bulk shipping. It was also a year in which the Company invested heavily to prepare for new environmental regulations. Consequently, we produced a lower profit compared to 2018, but we continued to perform well relative to the market.

2019 Dividend

The Board recommends a dividend of HK2.1 cents per share for 2019 (2018: HK 6.2 cents) representing 51% of our net profit for the full year, consistent with our dividend policy.

Effective Platform for a Sustainable Business

Robust Business Model and Exceptional Fleet

The scale of our fleet and uniform design of our interchangeable and versatile ships enable our experienced colleagues to provide the most reliable freight service to our cargo customers around the world. Our fleet scale and uniformity, complemented by our ship operating and cargo expertise, also enable us to combine our ships and cargoes to achieve high laden utilisation and TCE earnings that outperform the market indices.

We added several modern secondhand vessels to our world-leading fleet of minor bulk ships in 2019. We will continue our strategy of growing and renewing our owned fleet with larger, high-quality secondhand Handysize and Supramax acquisitions, while avoiding contracting newbuildings due to their high price and uncertainty over new environmental regulations.

Rising to Greater Environmental Challenges

As has been our approach with new environmental regulations in the past, we prepared well and early to comply with the Ballast Water Management Convention and the more challenging IMO 2020 global 0.5% sulphur limit, which we managed without any major unplanned service disruption.

Looking ahead, the IMO's greenhouse gas (GHG) reduction goals represent an even greater challenge. Improving the global fleet's carbon efficiency by at least 40% by 2030 (relative to 2008) and then halving our industry's total GHG emissions by 2050 will require major decarbonisation initiatives and the research and development necessary to roll out the world's first commercially viable deep-sea zero-emission ships by as early as the end of this decade. We have joined the recently formed Getting to Zero Coalition of over 100 companies committed to exploring how to achieve that ambitious goal.

Until more detailed regulations are introduced and until zero-emission fuels and technologies are ready for use in dry bulk shipping, we will continue as we have done to invest in modern, fuel-efficient, secondhand Japanese-built ships, energy-efficiency technologies and other fuel optimisation initiatives that reduce our emissions.

We are well-equipped with an excellent team and good financial health to adapt and cope both practically and financially with compliance and new technology. I invite you to read more on this important topic in our CSR Report 2019.

CSR Report 2019 CSR

Experienced Board and Strong Governance

Dr. Kirsi Tikka joined our Board as a new Independent Non-executive Director on 2 September 2019. Her extensive experience will help us to assess new environmental regulations, sustainability initiatives and technologies, including new ship and engine designs as well as new fuels and propulsion technologies as we prepare ourselves for an increasingly decarbonised future.

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.

Competitive Funding, Healthy Balance Sheet and Competitive Cost Structure

In 2019, we part-funded some of our vessel acquisitions by issuing shares, we arranged new revolving credit facilities and we issued new convertible bonds, each illustrating the valuable access we have to diverse sources of external funding at the most competitive cost in our industry.

These funding initiatives all contribute to our competitive P&L breakeven levels and further enhance our balance sheet and liquidity position so as to support the strategic expansion and renewal of our Supramax and Handysize 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 2019, including Lloyd's List Asia Pacific's award for Excellence in Dry Bulk Shipping, the International Bulk Journal's People Development Award, and Seatrade Asia and Marine Money's Deal of the Year Award. These awards specifically acknowledged our focus on our customers and on investment in our people, their safety and the sustainability and growth of our business. We also won a number of Environmental Social Governance awards recognising our continued commitment to good corporate governance, investor relations and Corporate Social Responsibility.

Underpinning our reputation is an exceptional team of executives, staff and ships' crews whose experience and dedication to 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.

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

Weathering Hong Kong and PRC Challenges

Stakeholders have asked how our business has been affected by the Hong Kong protests of the past nine months and the Novel Coronavirus outbreak that has caused major disruption in China since January 2020. Other than occasional, localised disruption to our Hong Kong staff's commute to and from work, sometimes requiring staff to work from home, the protests have thankfully had substantially no effect on business in our headquarters (located outside the Central business district) or on our global operations.

We are managing the current Coronavirus situation cautiously to mitigate risk to our staff. We have banned non-essential staff travel within China as well as into and out of China, and our China-based staff are following safe health practices prescribed by the Chinese central government. Staff returning from China are required to work from home for two weeks before returning to their offices. Particularly careful planning is required for our ships calling at Chinese ports and for our crews joining and disembarking ships. We will continue to take the necessary precautions to keep everyone safe while ensuring our business continues largely uninterrupted.

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.

2020 will likely be a year characterised by initial challenges and continued volatility. As we have shown before, Pacific Basin has what it takes to navigate any such turbulence adeptly. We have the excellent people, business model, fleet, financial health, governance structure, strategies, systems and reputation that position us well for the future and 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 your valued support of Pacific Basin.

David Turnbull

Chairman

Hong Kong, 27 February 2020

Chief Executive's Review

We have an efficient fleet and a sustainable customer-focused business that is competitive at every level

Financial Results

We made a net profit of US$25.1 million in 2019 (2018: US$72.3 million), an underlying profit of US$20.5 million (2018: US$72.0 million) and EBITDA of US$230.7 million (2018: US$215.8 million). Basic EPS was a positive HK4.3 cents.

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Financial Statements

Our results benefited from our TCE earnings outperformance, enlarged owned fleet and competitive cost structure, but were adversely affected by weaker dry bulk market conditions and more off-hire than normal, especially in the second half of the year, due to scrubber installations and a record number of dry-dockings.

Demand Disruption and Larger than Expected Fleet Growth Drove Market Volatility

2019 started weaker than the previous two years with a more pronounced Chinese New Year dip, followed by a recovery to multi-year high rates in September before softening towards the year end. Annual average Baltic Handysize and Supramax spot market indices were 17% and 13% lower year on year.

Clarksons Research recently adjusted their estimates for dry bulk demand down and net fleet growth up. They now estimate minor bulk tonne-mile demand growth in 2019 to have reduced to 2.1% compared to 5.1% in 2018 while the global Handysize and Supramax fleet grew faster at 3.1%.

The global dry bulk fleet overall grew faster than expected at 3.9% net compared to 2.9% in 2018. Unusually, there was almost no shortfall in newbuilding deliveries compared to the scheduled orderbook, and deliveries were greater in the second half of the year. Combined with minimal scrapping, this caused net fleet growth to increase contributing to the market weakness in the final quarter.

Following infrastructure and weather-related disruptions in the first half of the year, the third quarter benefited from catch-up exports with strong volumes of both iron ore from Brazil and grain from East Coast South America and the Black Sea.

In the fourth quarter, the market weakened partly because ship owners undercut each other, anxious to secure employment necessary to use up high-sulphur fuel before the year-end IMO 2020 deadline. The US-China trade war and unfavourable US weather caused a shift in major grain trades away from the United States in favour of Brazil and Argentina, which contributed to a third quarter rather than fourth quarter market peak.

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Market Review

2020 has started poorly, with the seasonal Chinese New Year dip compounded and prolonged by reduced demand and disrupted logistics caused by actions to contain the Coronavirus.

Competitive on Every Level

While our average Handysize and Supramax daily TCE earnings of US$9,630 and US$11,720 per day net were down 4% year on year, our outperformance over the BHSI and BSI indices increased to 41% and 24% respectively.

Our ship operating expenses ("Opex") of US$4,080 per day, general and administrative ("G&A") overheads of US$730 per day and favourable financing costs of US$770 per day remain well controlled and are also very competitive compared to most of our peers.

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Our Performance

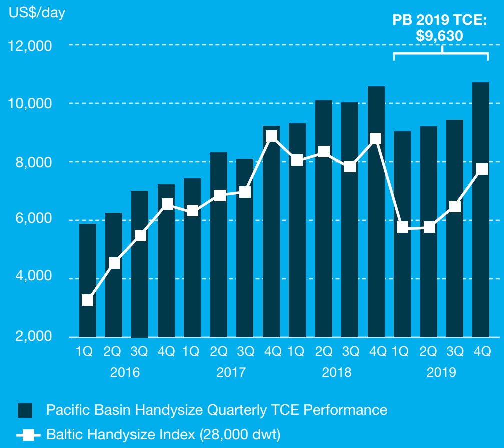
Our earnings and cost competitiveness is supported by a robust business model that we have refined over many years

The premium we generate over index earnings is driven by harnessing 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. As a result, our ships are laden with cargo over 90% of the time. Our cost competitiveness comes primarily from scale benefits and other efficiencies we generate through good systems and strict cost control.

Executing our Fleet Growth Strategy

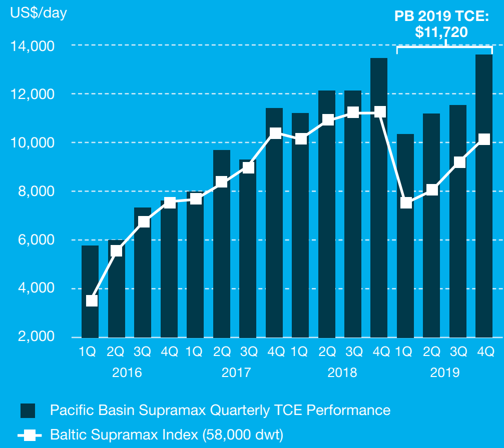
We continue to grow our owned fleet with larger, high-quality secondhand acquisitions, focusing especially on Supramax ships of over 57,000 dwt. This is because the proportion of owned ships in our Supramax fleet is still small, larger ships enjoy greater upside in stronger markets, and since we believe that size creep and pressure to lower transportation costs and emissions per tonne-mile will continue to drive this segment.

PB Handysize TCE Performance



Source: Baltic Exchange, Pacific Basin

PB Supramax TCE Performance

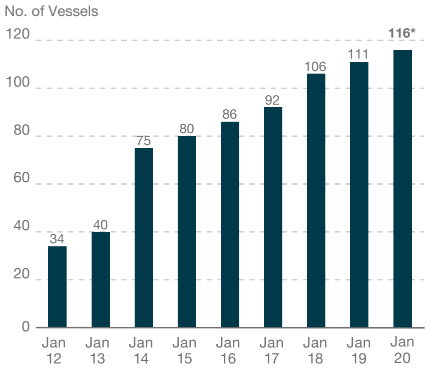


In Handysize, we already have a favourable mix of owned versus chartered ships, but we are growing our carrying capacity by opportunistically trading up our smaller, older Handysize ships to younger and larger units of over 36,000 dwt resulting in an even more efficient fleet with greater longevity.

Consistent with this strategy, in 2019 we took delivery of eight modern secondhand vessels – two Handysize and six Supramax – and sold two older smaller Handysize vessels. A further three ships we committed to purchase in 2019 – one Handysize and two Supramax – are scheduled to deliver into our fleet and a further sold Handysize will exit our fleet by the end of April 2020.

These transactions will increase our owned fleet to 117 ships and grow the proportion of our owned versus chartered ships, especially in Supramax. Including chartered ships, we operated an average of 229 Handysize and Supramax ships overall in 2019.

Pacific Basin Owned Dry Bulk Fleet



* An additional 2 vessels purchased and 1 sold are scheduled to deliver by end April 2020

Over the long term, we see upside in secondhand values and our buying focus remains on secondhand Japanese-built ships for their good quality and value.

We are still avoiding contracting newbuildings with old technology due to their high price, low return, and because of the uncertainty over new environmental regulations and their impact on future vessel designs and technology.

The number of ships we have on long-term charter continues to reduce – from 61 at the end of 2012 to around 18 on average for 2020 – as we replace them with owned ships and short-term chartered ships typically on one-year charters or less.

Strong Balance Sheet with Diverse Funding Sources

We have access to diverse sources of external funding, ranging from bank loans to equity and convertible bonds, all of which we tapped during the year.

Our access to capital and cost of capital represent a significant advantage, as our fleet is financed through long-term facilities at the most competitive cost in our industry

In May we closed a US$115 million syndicated 7-year reducing revolving credit facility secured against ten of our previously unmortgaged ships, raising fresh capital at a competitive interest cost of LIBOR plus 1.35%. In November we closed a new unsecured US$50 million short-term revolving credit facility at an interest cost of LIBOR plus 0.75%. These facilities further enhance our funding flexibility and reinforce our already competitive vessel break-even levels.

Four of the vessels we committed to purchase in 2019 have been 33% funded by the issuance of new shares to the ship sellers. This part-equity funding enhances our operating cash flow, EBITDA and competitive strength, and these ships-for-shares deals are accretive to our earnings per share.

In the third quarter, after most bond holders exercised their redemption rights, we repaid in full and cancelled all US$125 million of our convertible bonds due in 2021. We subsequently issued new convertible bonds, due in 2025 and with a lower coupon, to raise approximately US$175 million to further enhance our balance sheet and liquidity position so as to support the strategic expansion and renewal of our Supramax and Handysize fleet.

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Funding
Cash flow, cash, borrowings, etc

As at 31 December 2019, we had cash, deposits and undrawn facilities of US$383 million and net borrowings of US$663 million, which is 35% of the net book value of our owned vessels at the year end.

Environmental Regulations Impacting Vessel Speed and Investment Decisions

2020 Global Sulphur Limit

The IMO 2020 global 0.5% sulphur limit took effect on 1 January 2020 and the majority of the global dry bulk fleet, especially smaller vessels such as our Handysize ships, are complying by using low-sulphur fuel. Including chartered-in ships, about 85% of our overall fleet complies by using low-sulphur fuel, and our ships have made the switch without any major unplanned operational disruption, as we prepared thoroughly by cleaning our fuel tanks, securing availability of good quality compliant fuel, and training our crews to ensure compliance and seamless service delivery to our customers.

The higher price of low-sulphur fuel reduces ships' optimal operating speeds, and this has been evident in early 2020.

As Supramax vessels consume more bunkers than Handysize vessels, we chose a balanced approach to how we comply, took early actions to prepare for the expected volatility in fuel prices in early 2020 and installed exhaust gas scrubbers on a majority of our owned Supramax vessels allowing these ships to burn cheaper heavy fuel oil. In early February, we completed our scrubber retrofit programme with scrubbers successfully fitted and operational on 28 of our 35 owned Supramaxes. Having scrubbers on about 15% of our approximately 200 operated ships provides us some optionality in how we manage our fuel needs to comply with the new rules.

Based on the fuel price spreads seen in early 2020, our scrubber-fitted ships are making a significant contribution to our earnings.

Ballast Water Management

To comply with the Ballast Water Management Convention, 53 of our owned ships are now fitted with ballast water treatment systems (BWTS), and we have arranged to retrofit our remaining owned Handysize and Supramax vessels by the end of 2022.

Decarbonisation and shipping's moon-shot ambition

Pacific Basin supports IMO's ambitious greenhouse gas (GHG) reduction goals, and we are among the most carbon-efficient companies in our segment partly because our ships are laden with cargo for over 90% of our vessel days. That is a significant advantage compared to the average owner of similar ships which spend much more time in ballast.

Additionally, we invest in fuel-efficient secondhand Japanese-built ships, energy-efficiency technologies and other fuel optimisation initiatives that reduce our emissions, such as propeller boss cap fins, non hub-vortex propellers, rudder bulbs and Mewis ducts. Independently and through the recently formed Getting to Zero Coalition, we continue to actively monitor, assess and support the development of other evolving technologies and initiatives, including new low-carbon and zero-carbon technologies with a view to adopting those which eventually prove effective and commercially viable. However, the technologies and bunkering infrastructure required to meet IMO's long-term goals are not yet available and this will take time to develop.

In the short term, what the industry can and should do to improve profitability and reduce GHG emissions is to slow down existing ships and refrain from ordering new ships with old technology

Longer term, we believe that increased regulations and these technical challenges will benefit larger, stronger companies that can cope better both technically and financially. As the world decarbonises, Pacific Basin will continue to carry the non-fossil fuel commodities that will be the mainstay of global seaborne trade.

Market Outlook

In January, the IMF projected global growth to increase from 2.9% in 2019 to 3.3% in 2020 and 3.4% in 2021, citing a boost in market sentiment by tentative signs that manufacturing activity and global trade are bottoming out, a broad-based shift toward accommodative monetary policy, intermittent favourable news on US-China trade negotiations, and diminished fears of a no-deal Brexit.

Questions remain about rising geopolitical tensions and further worsening of relations between the United States and its trading partners, but trade tensions with China have subsided since the recent Phase One trade agreement which should support improved agricultural product exports and could be a catalyst for stronger dry bulk demand.

POSSIBLE MARKET DRIVERS IN THE MEDIUM TERM

OPPORTUNITIES

- Slower operating speed of ships burning more expensive low-sulphur fuel and reduced supply due to continuing scrubber installations
- Limited new ship ordering and deliveries due to uncertainty over environmental regulations and future vessel designs, leading to tighter supply
- Increased scrapping of poor quality and poorly designed tonnage facing onerous environmental regulations and expensive maintenance and upgrade costs
- New trade deals and easing of US-China trade tensions resulting in improved sentiment and dry bulk activity
- Industrial growth and infrastructure investment in South East Asia and other emerging markets, further boosted by economic stimulus in China

THREATS

- Slowing global economic growth especially in China, compounded by the Coronavirus outbreak, affecting the trade in dry bulk commodities
- Too many newbuilding deliveries in first half 2020, combined with continued minimal scrapping
- Periods of low fuel prices supporting faster ship operating speeds which increases supply
- Environmental concerns and policy encouraging a greater shift towards renewable energy and away from coal
- Tariffs and protectionism driving local production at the expense of global trade

Further normalisation of ore exports from Brazil and Australia following last year's infrastructure and weather disruptions is expected to support stronger dry bulk demand as the year progresses, coinciding with agricultural export seasons and resilient minor bulk demand.

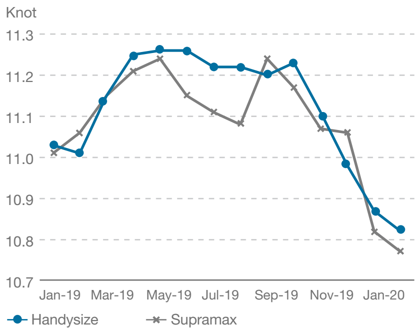
However, these factors are currently overshadowed by the negative effects on China and the world economy of efforts to contain the Coronavirus. While we do not know how long the outbreak will last, we do expect to see a rebound and stronger rates driven by catch-up demand and stimulus activity once the outbreak is contained.

Furthermore, heavy newbuilding deliveries of primarily larger ship types in the first half of this year are putting pressure on the overall dry bulk market. However, according to Clarksons, new ship ordering was down by 45% in 2019 which should help to reduce the orderbook. The orderbook is smaller for our segments, and minor bulk continues to drive dry bulk demand.

Clarksons estimates minor bulk tonne-mile demand to grow 2.5% in 2020 and 3.0% in 2021, while the combined Handysize and Supramax fleet is expected to grow around 1.9% net for 2020 and 0.5% net for 2021.

Notwithstanding increased newbuilding deliveries, especially early in the year, the market should benefit from further fleet inefficiencies. Many larger ships will continue to be taken out of service for scrubber retrofits, and the majority of the world's dry bulk vessels (especially in our segments) will increasingly sail at reduced optimal operating speeds – as has already been evident early in the year – due to the higher price of low sulphur fuel. This will mitigate effective supply growth in 2020 and beyond, and uncertainty over new environmental regulations and the gap between newbuilding and secondhand prices should discourage new ship ordering.

Handysize and Supramax Global Average Speed



Source: AXS

Well Positioned for the Future

For Pacific Basin, 2019 was a year heavily influenced by investments and preparations for new environmental regulations, including scrubber installations, optimisation programmes, a record number of dry-dockings and continued acquisitions of quality secondhand ships – all serving to set us up for what we believe will be stronger markets in the longer term.

We will continue to pursue our fleet growth and renewal strategy.

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

We strengthened our balance sheet, and our healthy cash and net gearing enhance our ability to ride out any challenging periods ahead and take advantage of opportunities to grow our business and attract cargo as a strong partner

We continue to strive 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. Having navigated a difficult decade including a 45-year low in 2016, and despite the current turbulence, we are looking forward to a new and much better decade ahead for dry bulk shipping!

Mats Berglund

Mats Berglund
Chief Executive Officer

Hong Kong, 27 February 2020

Market Review

Both demand and supply look better in our segments

Freight Market Summary

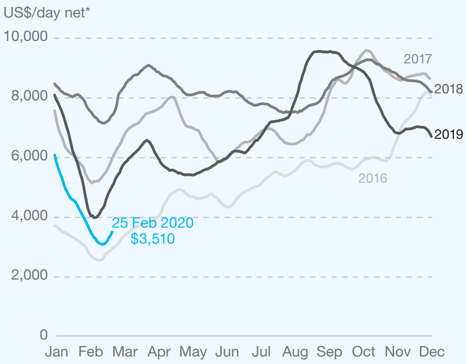
US$6,830 net ⬇ 17%

Handysize 2019
average market spot rate

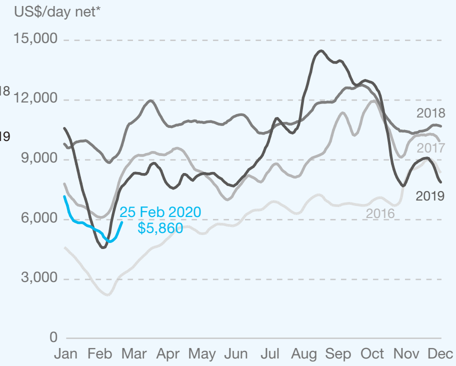
US$9,450 net ⬇ 13%

Supramax 2019
average market spot rate

Handysize Market Spot Rates in 2016–2020



Supramax Market Spot Rates in 2016–2020



* Indices exclude 5% commission
Source: Baltic Exchange (BHSI 28,000 dwt and BSI 58,000 dwt), data as at 25 February 2020

2019 was a volatile year for dry bulk shipping. Market freight rates for our minor bulk ship types started weaker than the previous two years with a more pronounced Chinese New Year dip, followed by a recovery to multi-year high rates in September before softening towards the year end. Overall, annual average Handysize and Supramax spot market rates declined 17% and 13% year on year to US$6,830 and US$9,450 net respectively. In contrast, our own TCE earnings reduced only 4% year on year.

Volatility was driven by a number of factors, most notably one-off infrastructure and weather-related disruptions to commodity exports, and the impact of IMO 2020 regulations and the higher than expected fleet growth.

2020 has started with seasonal weakness compounded by reduced Chinese demand and disrupted logistics caused by actions to contain the Coronavirus.

Minor Bulk Drives Demand

Clarksons Research estimates that total dry bulk tonne-mile demand grew 0.7% year on year in 2019 while minor bulk demand grew stronger at 2.1%.

Demand weakness in the first half was mainly due to severely disrupted iron ore and grain trades directly affecting larger bulk carriers but also impacting sentiment in the market for smaller vessel types. Australian ore exports suffered weather-related interruptions and Brazilian iron ore exports were curtailed by damage to and closure of mining infrastructure. Chinese soybean imports declined, impacted by the US-China trade war and African Swine Fever which significantly reduced Chinese pig stocks and in turn demand for soybean for animal feed. Flooding in the Mississippi River impeded grain exports from the United States.

The third quarter benefited from a degree of catch-up exports following earlier disruptions. Additionally, the US-China trade war and unfavourable US weather caused a shift in major grain trades away from the United States in favour of Brazil and Argentina, which contributed to a third quarter rather than fourth quarter market peak. Some shippers also advanced cargoes into the third quarter to avoid an operationally potentially troublesome fuel-switching period before the year-end IMO 2020 deadline.

Although Clarksons Research have recently made downward adjustments to their estimates, demand for minor bulk commodities overall remains healthy.

DEMAND DRIVERS

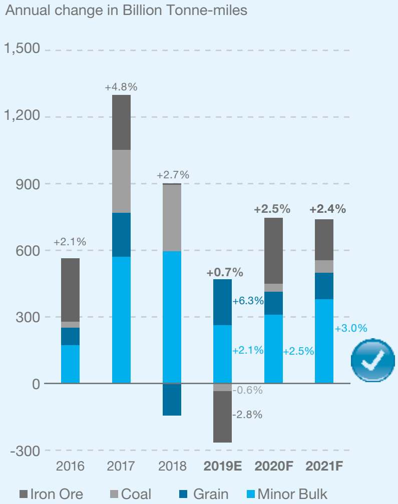
2019 Chinese Import Volumes

Iron Ore	⬆	0.5%
Coal	⬆	6.8%
Grain	⬇	1.9%
Minor Bulks*	⬆	15.4%

* Chinese imports of 6 minor bulks including logs, fertiliser, bauxite, nickel, copper concentrates & manganese ore
Source: China Customs, data as at January 2020

Annual Change in Global Dry Bulk Tonne-mile Demand

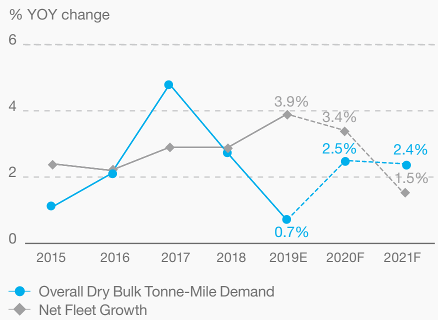
Annual change in Billion Tonne-miles



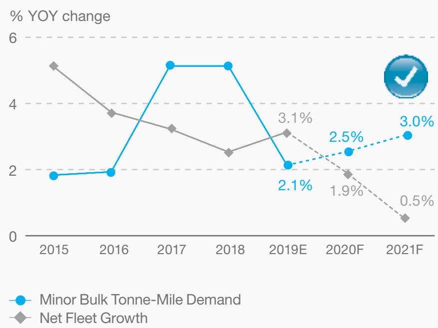
Source: Clarksons Research, data as at February 2020

Better Demand and Supply Balance in Our Segments

Overall Dry Bulk Demand & Supply



Minor Bulk Demand and Handysize/Supramax Supply



Source: Clarksons Research, supply data as at February 2020

SUPPLY DRIVERS

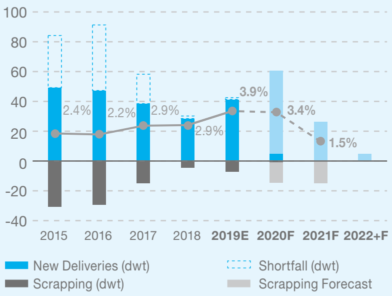
Higher Net Fleet Growth Than Expected in 2019

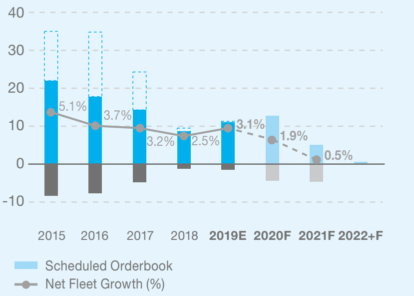
+3.9%

Overall dry bulk capacity 2019

+3.1%

Global Handy/Supra capacity 2019





Source: Clarksons Research, data as at February 2020

The global dry bulk fleet grew faster than expected at 3.9% net compared to 2.9% in 2018. Unusually, there was almost no shortfall in newbuilding deliveries compared to the scheduled orderbook, and deliveries were greater in the second half of the year. Combined with minimal scrapping of 0.9%, this caused net fleet growth to increase contributing to the market weakness in the final quarter.

Scrubber installations took many larger ships out of service for several weeks which helped to moderate the supply picture in the second half of the year and will continue to benefit the market in the first half of 2020. Average operating speeds reduced in the fourth quarter and are likely to slow further – which reduces supply – now that most ships are required to consume more expensive low-sulphur fuel.

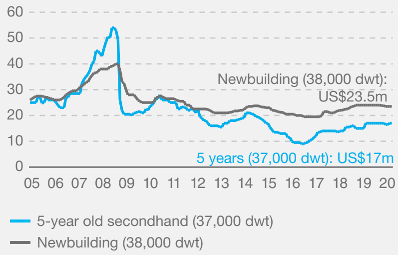
Still close to zero, scrapping cannot reduce much further and will potentially increase due to the growing number of old vessels and the increasing burden of environmental regulation.

The global fleet of Handysize and Supramax ships in which we specialise grew at 3.1%, pointing to a relatively healthier demand-supply balance compared to the large sizes despite minimal scrapping.

Ship Values Remain Stable

US$17.0m ⟷ 0%

Secondhand Handysize YOY



Source: Clarksons Research, data as at 21 February 2020

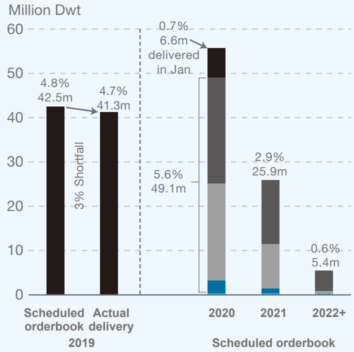
Vessel values were relatively stable in 2019. Clarksons Research currently values benchmark five year old Handysize at US$17.0 million and Supramax bulk carriers at US$16.5 million. Handysize and Supramax newbuilding prices are around US$23.5 and US$25.5 million respectively.

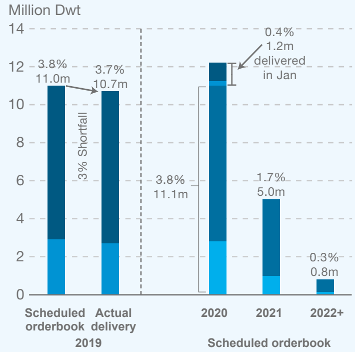
VALUES & OUTLOOK IMPACT NEW SHIP ORDERING

Supply Developments Favour Smaller Vessels

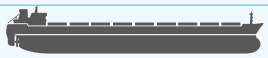
New ship ordering activity in 2019 remained concentrated in the larger Panamax and Capesize segments, while orders for Handysize and Supramax vessels remained more limited. The combined Handysize and Supramax orderbook now stands at 5.8% which is the lowest since the late 1990s and much smaller than the 11.0% combined orderbook for Capesize and Panamax.

New ship ordering is expected to remain restrained, discouraged by the continued gap between newbuilding and secondhand prices as well as uncertainty over upcoming environmental regulations (to meet IMO's ambitious GHG reduction targets) and their impact on future vessel designs and propulsion technologies.





Source: Clarksons Research, data as at 1 February 2020

			ORDERBOOK AS % OF EXISTING FLEET	AVERAGE AGE	OVER 20 YEARS OLD	2019 SCRAPPING AS % OF 1 JANUARY 2020 EXISTING FLEET
	■	Handysize (25,000–41,999 dwt)	4.6% ✓	11	11%	0.6%
	■	Supramax (formerly Handymax) (42,000–64,999 dwt)	6.3% ✓	10	8%	0.4%
	■	Panamax & Post-Panamax (65,000–119,999 dwt)	9.0%	10	9%	0.1%
	■	Capesize (incl. VLOC) (120,000+ dwt)	12.4%	9	5%	1.8%
		Total Dry Bulk > 10,000 dwt	9.1%	11	8%	0.9%

Our Performance

Our business generated an underlying profit of US$20.5 million (2018: underlying profit of US$72.0 million) in volatile and overall weaker minor bulk 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	1H19	2H19	2019	2018	Change
Handysize contribution	21.2	34.2	**55.4**	85.5	-35%
Supramax contribution	7.4	15.7	**23.1**	42.1	-45%
Post-Panamax contribution	2.1	2.0	**4.1**	5.5	-25%
Operating performance before overheads	30.7	51.9	**82.6**	133.1	-38%
Adjusted total G&A overheads	(30.5)	(30.7)	**(61.2)**	(59.8)	-2%
Tax and others	(0.8)	(0.1)	**(0.9)**	(1.3)	+31%
Underlying (loss)/profit	(0.6)	21.1	**20.5**	72.0	-72%
Vessel net book value	1,842.7	1,870.7	**1,870.7**	1,801.9	+4%

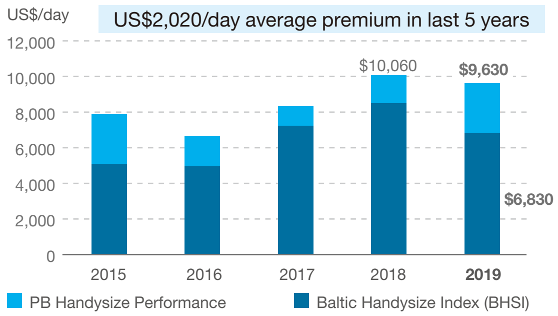
+/- Note: In our tabulated figures, positive changes represent an improving result and negative changes represent a worsening result.

Key Performance Indicators KPI

PERFORMANCE VS MARKET

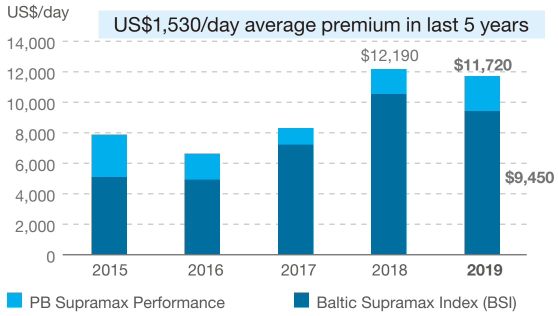
Handysize

41% outperformance compared to market



Supramax

24% outperformance compared to market

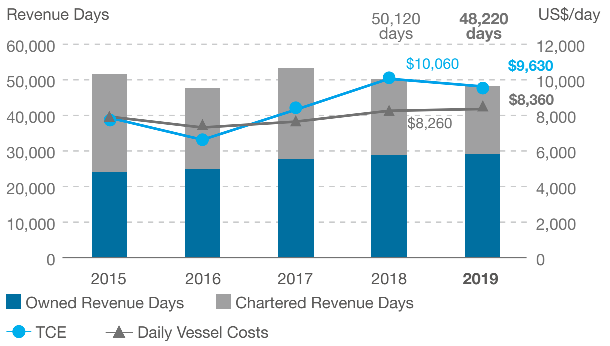


- Our outperformance in 2019 compared to spot market indices reflects the value of our fleet scale and cargo book, and our ability to optimise cargo combinations and match the right ships with the right cargoes to maximise our utilisation and vessel earnings.

PROFITABILITY

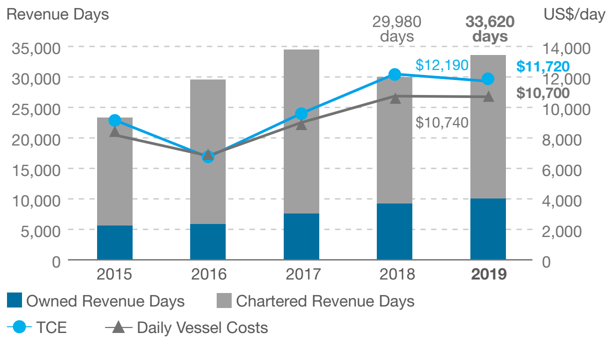
Handysize

US$55.4m contribution



Supramax

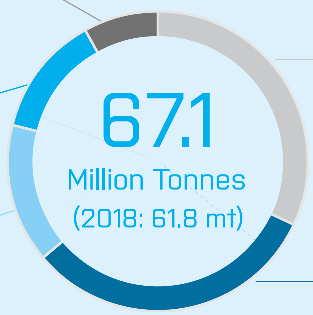
US$23.1m contribution



- We generated Handysize daily earnings of US$9,630 with daily costs of US$8,360 on 48,220 revenue days.
- We generated Supramax daily earnings of US$11,720 with daily costs of US$10,700 on 33,620 revenue days.
- Our Handysize and Supramax contributions reduced due to volatile and overall weaker minor bulk market conditions, despite our strong outperformance compared to spot market indices and our good cost control.

Our Cargo Volumes in 2019

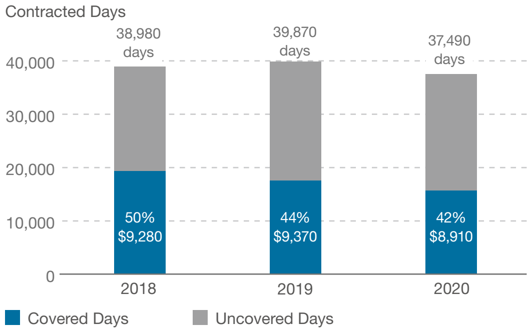
Minerals	**8%**
Salt	4%
Sand & Gypsum	3%
Soda Ash	1%
Energy	**13%**
Coal	7%
Petcoke	4%
Wood Pellets	2%
Metals	**15%**
Ores	7%
Concentrates	5%
Alumina	2%
Others	1%



Construction Materials	**32%**
Cement & Cement Clinkers	12%
Logs & Forest Products	11%
Steel & Scrap	9%
Agricultural Products & Related	**32%**
Grains & Agricultural Products	19%
Fertiliser	9%
Sugar	4%

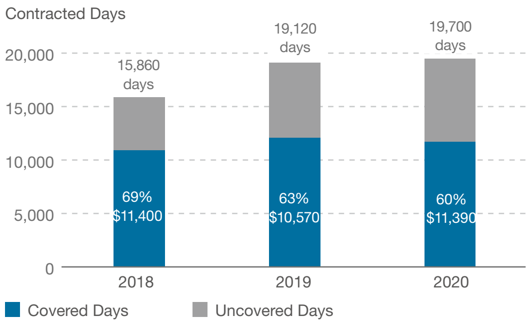
FUTURE EARNINGS AND CARGO COVER

Handysize



US$ per day, as at mid-February

Supramax

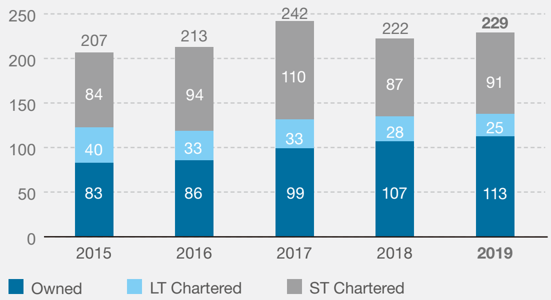


US$ per day, as at mid-February

- We have covered 42% and 60% of our 37,490 Handysize and 19,700 Supramax vessel days currently contracted for 2020 at US$8,910 and US$11,390 per day net respectively. (Cargo cover excludes vessel days related to inward-chartered vessels on variable, index-linked rates)
- While ship operators such as ourselves typically face significant exposure to the spot market, our contract cover provides a degree of earnings visibility.

PACIFIC BASIN FLEET DEVELOPMENT

Average No. of Handysize and Supramax Ships Operated During the Year



- As at 31 December 2019, we owned 81 Handysize and 33 Supramax ships.
- Including owned and chartered vessels, we operated an average of 134 Handysize and 95 Supramax ships in 2019 resulting in a 4% reduction and a 15% increase in our Handysize and Supramax vessel days respectively compared to the previous year. This mainly reflects redeliveries of long-term chartered Handysize ships and the expansion of our owned and chartered-in Supramax fleet.
- Our as yet undelivered sale and purchase transactions will increase our owned fleet of Handysize and Supramax vessels to 116 ships by the end of April 2020 and grow the proportion of our owned versus chartered ships, especially in Supramax.
- Excluded above are one owned and one chartered Post-Panamax vessels which are employed under long-term charters.

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Financial Statements Note 11
Net book value of our owned vessels

Daily Vessel Costs

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.

Owned Vessel Costs

Operating expenses – Our daily operating expenses ("Opex") increased by 6% for Handysize and Supramax mainly due to increased costs of crewing, repair and maintenance, ballast water treatment systems ("BWTS") operation and IMO 2020 preparation. Our Opex remained at very competitive levels as a result of efficient management, good cost control and scale benefits, including operational and procurement cost efficiencies.

Our blended Handysize and Supramax vessel operating expenses averaged US$4,080 per day (2018: US$3,850).

During the year, our fleet of owned vessels experienced on average 0.9 days (2018: 1.2 days) of unplanned technical off-hire per vessel.

	Handysize		Supramax	
	2019	**2018**	**2019**	**2018**
Vessel days	**29,950**	29,470	**11,140**	9,420
Vessel costs (US$)				
Opex	**4,100**	3,880	**4,010**	3,780
Depreciation	**2,860**	2,790	**3,580**	3,220
Finance costs	**690**	740	**990**	1,090
Total before G&A	**7,650**	7,410	**8,580**	8,090

Depreciation – Our depreciation costs (including capitalisation of dry-docking costs) were increased principally due to installation of BWTS and scrubbers.

Finance costs – Our owned vessels' daily P/L and cash finance costs were US$690 and US$660 respectively for Handysize and US$990 and US$950 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.

Daily cash cost – Our daily cash cost before G&A overheads for owned vessels was US$4,760 and US$4,960 for our Handysize fleet and Supramax fleet respectively (2018: US$4,560 and US$4,780).

Chartered Vessel Costs

Adoption of HKFRS 16 "Leases"

Following the adoption of the new accounting standard HKFRS 16 "Leases" on 1 January 2019, without restating comparative figures, all long-term charters with a term of over 12 months at the date of the adoption have been accounted for on balance sheet as right-of-use assets and lease liabilities. These long-term charter costs previously expensed in the income statement have been replaced by a combination of the depreciation of right-of-use assets, interest expenses on lease liabilities (the lease portion) and technical management service costs (the non-lease portion). Short-term charters with a term of 12 months or less are expensed in the income statement on a straight-line basis over the lease term, as before the adoption of HKFRS 16 "Leases".

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

Daily P/L cost – The daily P/L cost comprises the depreciation of right-of-use assets, interest expenses of lease liabilities, technical management service costs for leases over 12 months and charter costs for leases of 12 months or less. The daily P/L cost in 2018 has not been restated following the adoption of HKFRS 16 "Leases".

Daily cash cost – The daily cash cost before G&A overheads represents the actual charter-hire payments under the terms of the charter contracts. Our daily cash cost decreased to US$9,470 and US$11,760 for our Handysize fleet and Supramax fleet respectively (2018: US$9,880 and US$12,050) due to weaker market conditions.

	Handysize		Supramax	
	2019	**2018**	**2019**	**2018**
Long-term (>1 year)				
Vessel days	**6,950**	7,450	**2,290**	2,820
Average rate (US$)				
P/L basis*	**10,280**	8,600	**12,400**	11,530
Cash basis	**10,300**	9,840	**12,950**	12,260
Short-term and index-linked				
Vessel days	**12,000**	13,850	**21,240**	17,860
Average rate (US$)	**8,990**	9,890	**11,630**	12,010
Total chartered				
Vessel days	**18,950**	21,300	**23,530**	20,680
Average rate (US$)				
P/L basis	**9,470**	9,440	**11,710**	11,950
Cash basis	**9,470**	9,880	**11,760**	12,050

* The daily P/L cost of long-term charters is higher in 2019 as we no longer benefited from the write-back of onerous contract provisions that were included in 2018.

General and Administrative ("G&A") Overheads

While reduced on a per-vessel basis, our adjusted total G&A overheads increased to US$61.2 million (2018: US$59.8 million) due primarily to an increase in our staffing overheads. Spread across all our vessel days, these total G&A overheads translated into an improved daily cost of US$730 (2018: US$740) per ship, comprising US$940 and US$530 (2018: US$950 and US$540) per day for owned and chartered-in ships respectively.

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

Vessel Commitments

Vessel Capital Commitments

As at 31 December 2019, the Group had committed vessel acquisitions and vessel equipment contracts of US$59.8 million.

As at 31 December 2019, the Group had options to purchase 5 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.

Vessel Lease Commitments

The analysis below considers the future lease commitments for all chartered-in vessels.

As at 31 December 2019, our future vessel lease commitments stood at US$236.0 million (2018: US$317.1 million), comprising US$171.8 million for Handysize, US$55.7 million for Supramax and US$8.5 million for Post-Panamax.

Our Handysize lease committed days decreased 21% to 15,820 days (2018: 20,040 days) while our Supramax lease committed days decreased 40% to 4,560 days (2018: 7,620 days).

The table below shows the average daily charter rates for our chartered-in Handysize and Supramax vessels (excluding index-linked vessels) during their remaining lease terms by year. The cash costs reflect contracted charter-hire payments while the P/L costs reflect the charter costs as defined in HKFRS 16 "Leases".

Year	Handysize Long-term* (>1 year) Vessel days	Handysize Long-term* Average rate P/L basis	Handysize Long-term* Average rate Cash basis	Handysize Short-term Vessel days	Handysize Short-term Average rate	Handysize Total Vessel days	Handysize Total Average rate P/L basis	Handysize Total Average rate Cash basis	Supramax Long-term* (>1 year) Vessel days	Supramax Long-term* Average rate P/L basis	Supramax Long-term* Average rate Cash basis	Supramax Short-term Vessel days	Supramax Short-term Average rate	Supramax Total Vessel days	Supramax Total Average rate P/L basis	Supramax Total Average rate Cash basis
1H2020	2,380	10,170	10,460	520	9,880	2,900	10,120	10,360	920	12,070	13,130	1,630	11,550	2,550	11,740	12,120
2H2020	2,360	10,450	10,520	–	–	2,360	10,450	10,520	710	11,890	12,690	370	12,300	1,080	12,030	12,560
2020	4,740	10,310	10,490	520	9,880	5,260	10,270	10,430	1,630	11,990	12,940	2,000	11,690	3,630	11,830	12,250
2021	3,450	10,320	10,340	–	–	3,450	10,320	10,340	590	11,190	12,050	–	–	590	11,190	12,050
2022	2,880	9,970	10,170	–	–	2,880	9,970	10,170	340	10,980	12,200	–	–	340	10,980	12,200
2023	2,200	10,560	10,790	–	–	2,200	10,560	10,790	–	–	–	–	–	–	–	–
2024	1,660	10,630	11,120	–	–	1,660	10,630	11,120	–	–	–	–	–	–	–	–
2025+	370	11,290	11,510	–	–	370	11,290	11,510	–	–	–	–	–	–	–	–
Total	**15,300**			**520**		**15,820**			**2,560**			**2,000**		**4,560**		

* The daily P/L cost of long-term charters is lower than the cash cost following the adoption of HKFRS 16 "Leases".

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 lease commitments refer to leases with rates linked to the Baltic Handysize and Supramax indices (as applicable). 49 index-linked Supramax days are currently committed for 2020.

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 purchase and sale of vessels, and drawdown and repayment of borrowings.

As part of the ordinary activities of the Group, the Treasury function actively manages the cash and borrowings of the Group to ensure sufficient funds are available to meet our 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.

The information in this section is presented before the financial impact of HKFRS 16 "Leases".

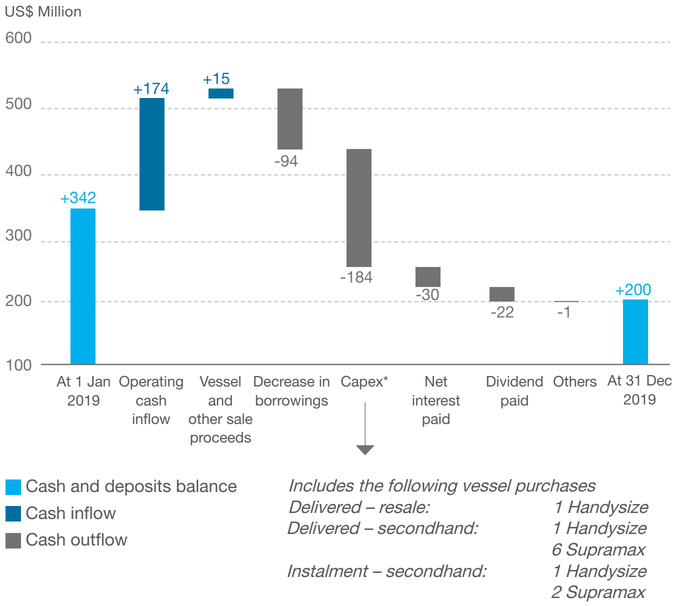
Key Developments in 2019

- Our operating cash inflow inclusive of all long and short-term charter-hire payments was US$173.9 million, as compared with US$72.2 million in the first half of 2019 and US$189.5 million in the full year 2018.
- In May we closed a new US$115.0 million syndicated 7-year reducing revolving credit facility at an interest cost of LIBOR plus 1.35%.
- In November we closed a new US$50.0 million unsecured 364 day revolving credit facility at an interest cost of LIBOR plus 0.75%.
- In December we issued new US$175.0 million 3.0% p.a. coupon, guaranteed convertible bonds maturing in December 2025.
- Our outstanding borrowings decreased by US$93.6 million in the period after we drew down net US$162.6 million under our new committed loan facilities together with the US$173.4 million from our new convertible bonds, while making net repayments of US$304.6 million of secured borrowings and revolving facilities and US$125.0 million against the convertible bonds due in 2021.
- During the period we incurred capital expenditure of US$184.0 million in cash, of which:
  (a) we paid a total of US$94.2 million for one Handysize newbuilding resale, one secondhand Handysize and six secondhand Supramaxes which were delivered into our fleet in 2019, and one secondhand Supramax delivered in early 2020, with a further Supramax and Handysize due to be delivered by the end of April 2020; and
  (b) we paid US$89.8 million for dry dockings, including the installation of ballast water treatment systems and scrubbers.
- In addition to the above cash payments for ships, we issued new shares equivalent to US$38.7 million to the ship sellers for four of the vessels that delivered in the period.

As at 31 December 2019:

- The Group's cash and deposits were US$200.2 million.
- Our available undrawn committed facilities were US$182.6 million.
- Our net borrowing were US$662.9 million which is 35% of the net book value of our owned vessels (net gearing); and
- We had six unmortgaged vessels (including one vessel delivered in early 2020 and two to be delivered by the end of April 2020) with an aggregate estimated market value of approximately US$106.0 million.

Sources and Uses of Group Cash in 2019



* excluding Capex of US$38.7 million funded by the issuance of new shares

Cash and Deposits

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

US$ Million	2019	2018	Change
Cash and deposits	**200.2**	341.8	-41%
Available undrawn committed facilities	**182.6**	–	+100%
Total available liquidity	**382.8**	341.8	+12%
Current portion of long-term borrowings	**(127.0)**	(223.7)	
Long-term borrowings	**(736.1)**	(737.4)	
Total borrowings	**(863.1)**	(961.1)	+10%
Net borrowings	**(662.9)**	(619.3)	-7%
Net borrowings to shareholders' equity	**52%**	50%	
Net borrowings to Net Book Value of owned vessels KPI	**35%**	34%	

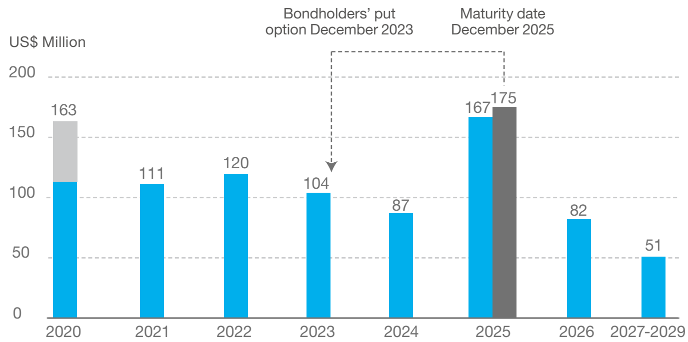
Treasury enhances Group income by investing in a mix of financial products, based on the perceived balance of risk, return and liquidity. Cash, deposits and investment products are placed with a range of leading banks, mainly in Hong Kong and Singapore.

The Group's cash and deposits at 31 December 2019 comprised US$197.8 million in United States Dollars and US$2.4 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 2.7% return on the Group's cash.

Borrowings and Undrawn Committed Facilities

Schedule of Reduction in Borrowings and Undrawn Committed Facilities



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 and undrawn committed facilities of the Group at 31 December 2019, including the liability component of the convertible bonds, amounted to US$1,045.8 million (2018: US$961.1 million) and are mainly denominated in United States Dollars.

- US$50.0 million unsecured 364 day revolving credit facility
- Borrowings and undrawn committed facilities (US$885.1 million)
- Convertible bonds (face value US$175.0 million, book value US$160.7 million, bondholders' put option December 2023)

Borrowings and Undrawn Committed Facilities – US$885.1 million (2018: US$840.9 million)

Borrowings and undrawn committed facilities increased during the year due to the closing of two new facilities of US$165.0 million in aggregate, offset by scheduled loan amortisation.

The decrease in outstanding borrowings is mainly due to the partial drawdowns under our committed loan facilities.

The Group monitors the loan-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 2019:

- The Group's borrowings were secured by 112 vessels with a total net book value of US$1,800.6 million and an assignment of earnings and insurances in respect of these vessels.
- The Group was in compliance with all its loan-to-asset value requirements.

P/L impact:

An increase in interest to US$33.2 million (2018: US$28.4 million) was mainly due to an increase in average borrowings to US$814.7 million (2018: US$701.3 million).

Certain borrowings are subject to floating interest rates but the Group manages these exposures by using interest rate swap contracts.

Convertible Bonds Liability Component – US$160.7 million (2018: US$120.2 million)

During the year, holders of our convertible bonds due in 2021 exercised their right to require the Group to redeem US$122.2 million of the convertible bonds at 100% of the principal amount on 3 July 2019. On the same day, the Group exercised its option to redeem all the remaining convertible bonds at 100% of the principal amount of US$2.8 million. Redemption and cancellation of the bonds took place on 2 August 2019. The entire redemption was funded by the Group's cash reserves.

In December 2019 the Group issued new US$175.0 million, 3.0% p.a. coupon, guaranteed convertible bonds maturing in December 2025. The new bonds are convertible into ordinary shares of the Company at a current conversion price of HK$2.4. The net proceeds (approximately US$173.4 million) are intended to be used primarily to fund the expansion and renewal of the Group's fleet of Handysize and Supramax vessels in the medium to longer term by investing in ships of excellent build quality and the best designs for its trades as well as for general corporate purposes.

Currently US$22.2 million has been used to replenish the cash used as the cash consideration for the purchase of two vessels pursuant to the four ship acquisition transaction as announced on 17 September 2019, US$27.2 million will be used as the cash consideration for the purchase of the other two vessels of the said transaction and US$16.8 million has been used to purchase a secondhand Supramax delivered to the Group in early 2020. Additionally, it is expected that approximately US$83.2 million will be used for further potential vessel acquisitions and the balance for general corporate purposes including but not limited to vessel operating expenses, vessel charter-hire, the service of the Group's financial obligations, office administrative expenses and vessel and non-vessel equipment expenditures. Accordingly, there is currently no change in the intended use of proceeds from the issue of the new convertible bonds.

The Group will continue to proactively identify and carefully consider from time to time secondhand ship acquisition opportunities, provided that such vessels meet the high specifications and quality standards required by the Group. Accordingly, the pace and quantity of the Group's fleet expansion and renewal is uncertain since it will be governed by the prevailing market conditions and the availability of suitable ships for sale, and the Group may adjust its strategy in the interest of its shareholders if necessary.

P/L impact:

The US$3.8 million (2018: US$6.5 million) interest expense of the convertible bonds outstanding during the period is calculated at an effective average interest rate of 5.3% (2018: 5.7%).

Finance Costs

US$ Million	Average interest rate P/L	Average interest rate Cash	Balance at 31 December 2019	Finance costs 2019	Finance costs 2018	Change
Borrowings (including realised interest rate swap contracts)	4.0%	4.0%	702.4	**33.2**	28.4	-17%
Convertible bonds (Note)	5.3%	3.2%	160.7	**3.8**	6.5	+42%
	KPI 4.1%	KPI 3.9%	863.1	**37.0**	34.9	-6%
Other finance charges				**0.7**	1.0	
Total finance costs				**37.7**	35.9	-5%
Interest coverage (calculated as EBITDA divided by total finance costs)				KPI **4.9X**	6.0X	

Note: The convertible bonds have a P/L cost of US$3.8 million and a cash cost of US$2.3 million.

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

The Group aims to achieve a balance between floating and fixed interest rates on its long-term borrowings. This is adjusted from time to time, depending on the interest rate cycle, using interest rate swap contracts where appropriate. During the year, all our interest rate swap contracts qualified for hedge accounting as cash flow hedges and US$0.5 million of interest rate swap contract income was realised. As at 31 December 2019, 74% (2018: 58%) of the Group's long-term borrowings were on fixed interest rates. We currently expect about 60% and 59% of the Group's existing long-term borrowings will be on fixed interest rates as at 31 December 2020 and 2021 respectively, assuming all revolving credit facilities are fully drawn.

With You for the Long Haul

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

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

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

With you for the long haul

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

***Our Mission** is to be the best in our field by continuously refining our business model, our service and our conduct in everything we do*

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 all our colleagues as corporate ambassadors
5. We take a sustainable business approach and promote high standards of safety and environmental stewardship
6. We are caring, good humoured and fair, treat everyone with dignity and respect, and encourage diversity of opinions and cultures

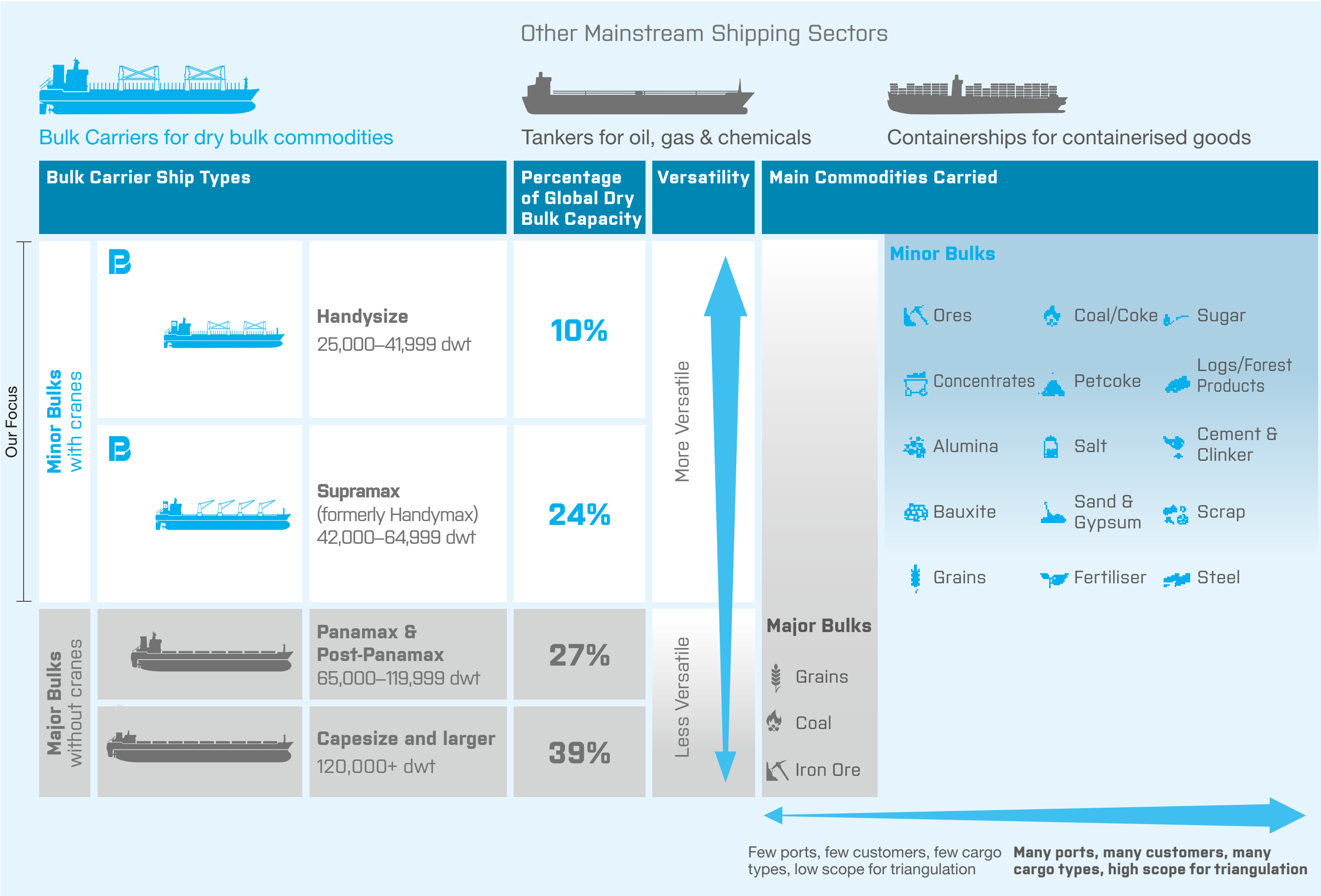
www.pacificbasin.com
About Us > Vision and Values

"What Our Customers Say About Us

- *Pacific Basin is currently our biggest carrier. You're top notch and the performance of your staff couldn't be better.*
- *You are outstanding. When a PB ship turns up, I'm pretty much guaranteed there will be no issues.*
- *You are always competitive and always willing to find solutions.*
- *It's fantastic that you have such a good understanding of our logs export industry and appreciate the importance of timing, health and safety, etc.*
- *We have a very seamless relationship. Your team is responsive and we get answers in real time. It's a great benefit having a PB office in our time zone.*
- *You are a good partner for us from all perspectives including pricing, flexibility, performance, etc.*
- *You showed much more flexibility than your competitors, and we appreciate your good cooperation.*
- *We have a very successful exchange of market news and developments and other information.*
- *I'm always asking Pacific Basin for rates and you help us by providing them. We normally fix and, when we do, all the post fixture service is amazing*
- *We are excited to partner with PB because of your sustainability and clean initiatives which we value in our partners*
- *Your team have been great to work with… they have a fantastic attitude, they get the job done, and they look after customers as well as PB's own objectives.*
- *You are very experienced and pragmatic. We export through multiple ports around New Zealand, and you know and understand the country and all these ports.* "

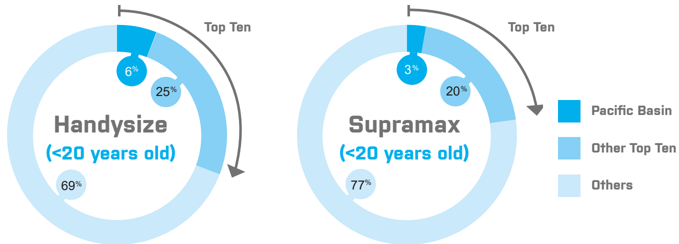
Understanding Our Core Market

The Dry Bulk Sector



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 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.

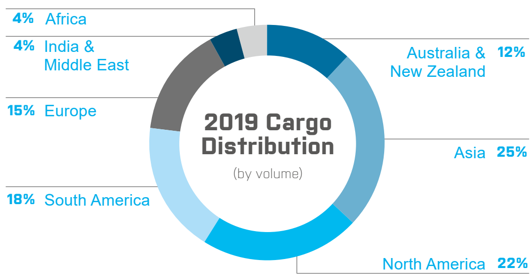
Our earnings reliability is further enhanced by the fact that global Handysize capacity has experienced only relatively modest growth in the past decade compared to the much larger expansion of the major bulk fleets.

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 33% of our volumes**

Opportunities and Challenges

Fragmented Market

The minor bulk 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.

Utilising Data for Better Decision-Making

Capturing and utilising data from internal and external sources is becoming increasingly important to stay competitive. Our digitisation programme gives us the extra operational and market intelligence to support better decision-making at all levels.

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 11
Dry Bulk Market Outlook
Possible market drivers in the medium term

Our Resources in Action

We attach great importance to cultivating resources and relationships (our stores of value or "Capitals") which propel us towards our vision and benefit our shareholders and customers

Our capitals – the resources and relationships we rely on

Physical Capital

Our Fleet – 200 Ships*

	Vessels in operation Owned[1,2]	Chartered	Total
Handysize	81	36	117
Supramax	34	47	81
Post-Panamax	1	1	2
Total	116	84	200

Human Capital

Optimal combination of people, competencies, capabilities and experience

3,900+ seafarers & 345 staff ashore

Our Global Office Network

12 offices, including 10 chartering/commercial offices positioning us close to our customers

Page 22 Understanding Our Core Market
Our Worldwide Network

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 intelligence 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 2020
[1] Including 1 vessel we committed to purchase in 2019 that delivered in January 2020
[2] Excluding an additional 2 vessels purchased and 1 sold that are scheduled to deliver by end April 2020

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.3

Investing in Our Fleet

p.26

- 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.14

Optimal scheduling and flexibility for customers

Enhanced technical and service reliability for customers Customers p.3

Enhanced health and safety, quality and cost control Workplace p.4-5

Investing in Our People

p.27

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

Deepening Our Relationships

p.28

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.4-5

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.14

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.29

Eliminating injury, navigation and pollution incidents through training

Evolving Management & Governance Practices

p.30

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.4-5
Governance p.33
Investors p.51

Maximising Efficiencies and Controlling Costs

p.31

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.14

Enhancing Corporate and Financial Profile

p.32

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.18
Investors p.51

Safeguarding the Environment

p.29

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.4-5

Business Review
Funding
Strategic Review
Governance
Financial Statements

Strategy Delivery and Risks

1. Investing in Our Fleet

2019

Objectives

Manage our business for a more volatile market in 2019, continue to conduct our business efficiently and safely, and assess attractive secondhand ship acquisition opportunities.

Strategy Delivery and Performance

In 2019, we took delivery of eight modern ships and sold two older, smaller ships. These transactions, and three further acquisitions and one sale to be delivered by end April 2020, will increase our owned fleet to 117 ships and grow the proportion of our owned versus chartered ships, and help to maintain our competitive owned vessel daily break-even levels. We have reduced our long-term chartered in fleet to about 11% of our total fleet, relying more on our growing fleet of owned ships supplemented by short-term and index-linked charters.

2020

Objectives

Manage our business for continued market volatility, and continue to conduct our business efficiently and safely.

Our strategy is to grow and renew our owned fleet with larger, high-quality secondhand acquisitions, focusing especially on adding Supramax ships and trading up our smaller, older Handysize ships to newer Handysizes with larger carrying capacity and longer life. We will continue to avoid contracting newbuildings in the medium term. We will continue preparations to comply with environmental and other regulations.

Risk/Impact[1]	Mitigating Measures
Market Risk (A) Adverse financial impacts include: ■ earnings volatility ■ cost volatility including fuel prices, interest rates and other operating expenses ■ exchange rate volatility in the currencies we use **Change from last year:** ↑	Earnings volatility is partially managed by securing contracts of affreightment of one year or longer. We remain focused on the Handysize and Supramax segments of the dry bulk sector which is where we have a strong competitive edge. Volatile fuel costs for our long-term cargo contracts are passed through to our customers through bunker price adjustment clauses or hedged with either bunker swap contracts or forward price agreements. Bunker swap contracts are also used 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 are fitted with scrubbers. The Group constantly reviews optimal vessel operating speed to maximise voyage contribution. Page 76 Financial Statements Note 16 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. Inadequate vessel maintenance 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 modern Japanese-built secondhand vessels; and ■ chartering vessels from quality shipowners. 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 2019 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

2019

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 eight modern ships into our owned fleet in 2019. We currently employ over 3,900 seafarers and 345 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 2019 in our equal best retention figures: 95% for our officers at sea, and 90% for our staff ashore.

CSR Report 2019 Page 24
Workplace & Safety
Diversity & Equal Opportunity

2020

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's 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 diverse manning sources for seafarers; ▪ regularly reviewing 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 2019 Page 19 Workplace & Safety Training & Development

3. Deepening Our Relationships

2019

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 2019, we carried 67 million tonnes (2018: 62 million tonnes) for over 500 customers, generating full-time employment for our 81,840 ship revenue days (2018: 80,100 days). 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.

2020

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.

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Financial Statements Note 17
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 gather feedback with a view to 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

2019

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 improved our Lost Time Injury Frequency ("LTIF") to 0.71, our lowest LTIF in 15 years, and our external Port State Control inspection deficiency rate was 0.74. These statistics are among the best in the industry and represent the value of our specific focus on staff training.

CSR Report 2019 Page 17
Workplace & Safety
Health & Safety Performance in 2019

2020

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 2019 Page 15 Workplace & Safety Health & Safety
Environment Risk Any deficiency in 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. We are members of the Getting To Zero Coalition committed to exploring how to decarbonise our industry. All our vessels comply with regulations set out by the International Maritime Organization (IMO) and coastal states, including Ballast Water Management (BWM) Convention, 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 2019 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 defence cover. Sufficiency of insurance cover is regularly evaluated and adjusted in line with prevailing asset values and in compliance with loan covenants and internal policies.

5. Evolving Management & Governance Practices

2019

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 among staff in 2019. Initiatives included refining counterparty due diligence policies, anti-bribery training for both shore staff and seafarers and implementing a company-wide Business Continuity Plan “BCP” to better prepare for severe business and systems disruption.

Page 54
News and Achievements
Our Awards in 2019

2020

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 a formalised BCP system in place and have arranged company-wide 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 including their 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 relevant 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). Regular anti-bribery trainings were organised to shore-based staff and seafarers. The Board and relevant employees receive regular governance training to ensure a high standard of corporate governance. Page 33 Corporate Governance
Investor Relations Risk Lack of transparency or adequacy 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 51 Investor Relations

6. Maximising Efficiencies & Controlling Costs

2019

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$4,080 in 2019 (including the cost of preparing bunker tanks for IMO 2020) without impacting maintenance or safety primarily through scale benefits and other efficiencies. Our total G&A overheads increased by 2% year on year due to increased staffing overheads ashore and at sea as our owned fleet expanded. However, our daily G&A cost has reduced slightly on a per-vessel basis.

Page 16
Daily Vessel Costs

2020

Objectives

Especially in the expectation of continued freight market volatility, continue careful cost 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 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

2019

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 2019, we part-funded vessel acquisitions by issuing shares, arranged new revolving credit facilities and issued new convertible bonds, each further enhancing our balance sheet and liquidity position and illustrating the valuable access we have to diverse sources of external funding at the most competitive cost in our industry.

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

2020

Objectives

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

Risk/Impact

Liquidity Risk Ⓐ

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

Change from last year: ➡

Mitigating Measures

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

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

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Financial Statements Note 28
Financial Liabilities Summary

Capital Management Risk Ⓐ

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

Change from last year: ➡

Page 28
Strategy Delivery and Risks
Deepening Our Relationship – Banking Relationships Risk

To achieve an optimal capital structure, 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 pay out a minimum of 50% of net profits excluding disposal gains for the full 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 1
Financial Summary

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 2019, 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 ten Directors (eight male, two female): the Chairman, two Executive Directors and seven 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, law and marine technology 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 2019, 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 23 Board members, and currently the Board comprises 10 members.

  During the last five years, the changes in the number of Executive Directors and Independent Non-executive Directors are as follow:

	At 1 Jan 2015	Movements		At 31 Dec 2019
Executive Directors	4	-2	+1	3
Independent Non-executive Directors	5	–	+2	7
	9	-2	+3	10

- **Board Nomination and Diversity**

  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 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, cultural and educational background, gender and age.

  The appointments of several new Directors since 2014 demonstrate such commitment by the Company.

  CSR Report 2019 Page 24
  Diversity & Equal Opportunity

  Dr. Kirsi Kyllikki Tikka was appointed as an Independent Non-executive Director in September 2019 bringing with her extensive experience in environmental regulations, sustainability, new technologies, new ship and engine designs as well as strategic, management and operational experience in the maritime industry, further enhancing the skill sets of the Board.

  Mr. Bradshaw's term shall expire at the conclusion of the 2020 AGM, upon which he will retire.

- **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, technical 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 that all existing INEDs bring strong independent oversight and continue to demonstrate independence. The seven 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.

  Dr. Tikka holds cross-directorship with Mr. Berglund since they both serve on the Board of the Company and as non-executive directors at Ardmore Shipping Corporation. However, given that Dr. Tikka occupies a non-executive role in both companies and Dr. Tikka and Mr. Berglund each hold less than 1% of the number of issued shares in both companies, the Board considers that such cross-directorship would not undermine the independence of Dr. Tikka with respect to her directorship at the Company.

- **INEDs' Period of Office**

  The Board selects INEDs based on their qualification and experience and hence 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 and the industry 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's 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 earlier. 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.

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.

All new directors receive an induction upon their appointments to the Board with the key objective of assisting them in understanding their duties and responsibilities for being a director, the Company's business, governance and Board and committee dynamics.

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 2019 were satisfactory and the Board operated effectively during the year.

The Board considers that its composition, size 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.

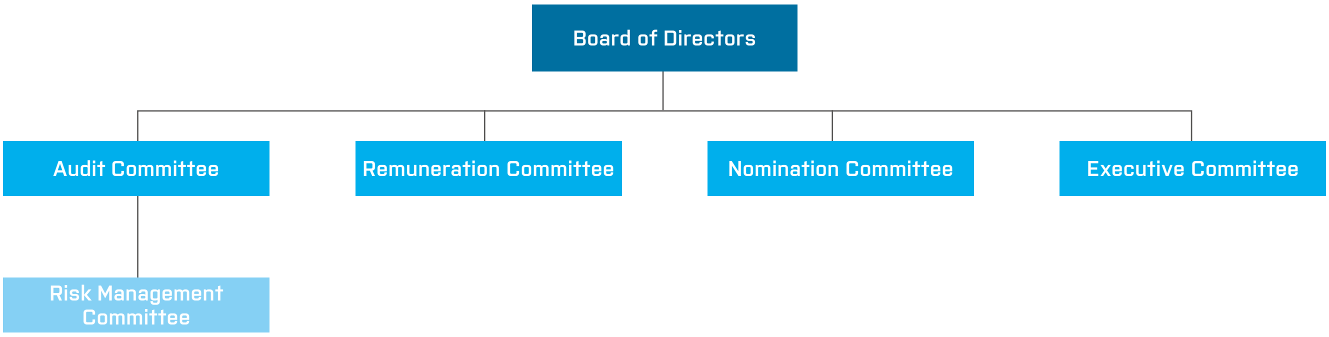
The Board also operates through an Executive Committee to streamline the decision-making process of the Company in certain circumstances. The terms of reference of these Board Committees are available on the Company's website.

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 2019

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 2019 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	Special General Meeting	Board	Audit[1] Committee	Remuneration Committee	Nomination Committee
Executive Directors						
David M. Turnbull (Chairman)	1	0	4/4			
Mats H. Berglund (Chief Executive Officer)	1	1	4/4			
Peter Schulz (Chief Financial Officer)	1	0	4/4			
Independent Non-executive Directors						
Patrick B. Paul	1	1	4/4	4/4	1/1	3/3
Robert C. Nicholson	0	0	4/4	4/4	1/1	3/3
Alasdair G. Morrison	1	0	4/4	4/4	1/1	3/3
Daniel R. Bradshaw	1	1	4/4	4/4	1/1	3/3
Irene Waage Basili	0	0	4/4	4/4	1/1	3/3
Stanley H. Ryan	0	0	4/4	4/4	1/1	3/3
Kirsi Kyllikki Tikka (since 2 September 2019)[2]	–	0	1/1	–	–	–
Total number of meetings held in 2019	**1**	**1**	**4**	**4**	**1**	**3**

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

[2] Dr. Tikka was not a member of any of the Board Committees in 2019

The Audit Committee

Membership

Chairman: Patrick B. Paul

Members: Robert C. Nicholson, Alasdair G. Morrison and Kirsi Kyllikki Tikka (from 1 January 2020)
Daniel R. Bradshaw, Irene Waage Basili, Stanley H. Ryan (all up to 31 December 2019)

Main Responsibilities

1. Review the financial statements and oversee the financial reporting process to ensure the balance, transparency and integrity of published financial information.
2. Review the effectiveness of the Group's financial controls, internal controls and risk management system.
3. Review the work of the Risk Management Committee.
4. Review the Group's process 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 function.

Work Done in 2019

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

- review and discussion of the external auditor's Audit Committee Report in respect of the 2018 full year audit and the 2019 interim review;
- review of the 2018 Annual Report and accounts and the 2019 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 2019 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 the procedures and risks of the inward charter of vessels and loading and discharge operations at ports;
- review of the adequacy of the Group's marine related and other insurance covers; and
- review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting, internal audit and financial reporting function.

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: Patrick B. Paul, Daniel R. Bradshaw, Irene Waage Basili and Stanley H. Ryan
Alasdair G. Morrison (up to 31 December 2019)

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 fair (and not excessive) compensation payments and appropriate arrangements, taking into account contractual entitlements of the Directors, 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 incentive 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 2019

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

- review of the revised directors' fee structure for INEDs for recommendation to the Board for approval;
- approval of the 2019 year-end bonuses, salary review for 2020 and restricted share awards for the Executive Directors and certain higher paid employees; and
- approval of the grant of restricted share awards to certain staff members.

The Nomination Committee

Membership

Chairman: Robert C. Nicholson

Members: Patrick B. Paul, Daniel R. Bradshaw, Irene Waage Basili and Stanley H. Ryan
Alasdair G. Morrison (up to 31 December 2019)

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 directorship.
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 2019

The Nomination Committee held three meetings during the year and has carried out the following:

- review of the revised terms of reference of the Nomination Committee and the Board Diversity Policy for recommendation to the Board for approval;
- review of the structure, size and composition of the Board;
- review of the Board succession plan and set up an INED recruitment sub-committee to identify suitable candidates to replace retiring INEDs; and
- review of the identified INED candidates for recommendation to the Board.

The Executive Committee

Membership

Chairman: Mats H. Berglund

Members: Chairman of the Board, 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 2019

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 whose consideration was partly settled in cash and partly by the issuance of new shares to ship sellers under general mandate;
- announcement of the issue of new shares to fulfil the grant of restricted awards to certain employees;
- closing revolving credit facilities of an aggregate of US$165 million;
- purchase of four secondhand Supramax vessels for cash;
- enter into a long-term contract of affreightment with an existing customer with an option to extend for another 5-year period, and the extension of an existing long-term contract of affreightment for about 7 years for our Supramax business;
- announcement of the appointment of Dr. Kirsi Kyllikki Tikka as an INED with effect from 2 September 2019;
- announcements relating to the Group's convertible bonds due 2021 ("2021 CB") of (i) the conversion price adjustment, (ii) the exercise period of the put option right, (iii) the redemption by the bondholders and the exercise of the redemption right of the issuer; and (iv) the withdrawal of the listing of the bonds after their redemption and cancellation;
- announcement of the launch of US$175 million 3% p.a. coupon convertible bonds due 2025 and convening of a special general meeting in connection thereto; and
- announcement of the voting results of the annual general meeting and special general meeting held in April and December 2019 respectively.

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Risk Management & Internal Controls

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

Framework

The risk management and internal control systems are to help the Group achieve its long-term vision and mission and business sustainability by identifying and evaluating the Group's risks and formulating appropriate mitigating controls to protect our business, stakeholders, assets and capital. Risk management and internal control systems are embedded in our business functions and we believe that they enhance 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 their effectiveness are 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 units.

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 market, 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 defence, 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 defence. As the third line of defence, 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 reinforced 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 the 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 management. The Board considers business context and risk implications when establishing strategies to ensure that they 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 the risk assessment, mitigation plans or controls enhancement are developed and implemented by individual business units. The result of this process is reported to the Board by the RMC annually.

- **Review and Revision**

  The Group continuously reviews its 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 organisation. Information systems, channels and reporting tools are established and regularly upgraded to support enterprise risk management communications of 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 internal audit plan.
6. Manage the annual risk assessment and testing of internal controls.

Work Done in 2019

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

- audit and review of internal controls based on the audit plan;
- performing annual risk assessment by way of an online questionnaire and review the input in collaboration with division heads;
- review of the Group's significant and emerging risks with division heads;
- report by way of deep dive review to the Audit Committee the management of the inward charter of vessels, loading and discharge operations at ports and marine insurance;
- enhancement of the Group's existing vendor evaluation procedures to include the assessment of environmental and social risk along our supply chain;
- formalisation of the Supplier Code of Conduct that sets out the behaviour and standards we expect from our suppliers;
- strengthening the measure for counterparty due diligence particularly in managing sanctions risk exposure;
- conducting anti-bribery online training for shore-based employees and seafarers to further bolster the Group's anti-corruption culture;
- formalisation of Social Media Policy setting out guidelines for our colleagues at sea and ashore on the appropriate usage of social media platforms;
- review and assessment of the impact of environmental regulations, including IMO 2020 Global Sulphur Limits and GHG emissions targets on our business;
- conducting business continuity drills to simulate a situation of business disruption in the event of a shutdown of essential IT systems;
- review and assessment of the impact of BREXIT on our business; and
- review and assessment of the impact on our business of on-going social unrest in Hong Kong.

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 the 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 the 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 at 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, which is a key element of a healthy risk management system.

We also conduct 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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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 the 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 2019, the Board, with confirmation from management, considers the risk management and internal control systems effective and adequate. No significant areas of concern were identified.

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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.

Auditor's Remuneration

Remuneration paid to the Group's external auditor, for services provided for the year ended 31 December 2019 is as follows:

		US$'000
Audit	Non-audit	Total
787	70	857

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 two general meetings during the reporting year.

The annual general meeting was held on 17 April 2019 with the following resolutions 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 2018;
- declaration of final dividend of HK 3.7 cents per share for the year ended 31 December 2018.
- re-election of Directors;
- authorising the Board to fix Directors' remuneration;
- re-appointment of Messrs. PricewaterhouseCoopers as auditor for the year ended 31 December 2019 and authorising the Board to fix their remuneration;
- granting a general mandate to issue shares; and
- granting a general mandate to buy back shares.

The special general meeting was held on 2 December 2019 at which an ordinary resolution was passed to approve the entering of the Subscription Agreement in respect of the 3% Guaranteed Convertible Bonds due 2025 by the Company and the issue of the Convertible Bonds and the Conversion Shares in accordance with the terms and conditions of the Subscription Agreement.

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

www.pacificbasin.com
Investors > News: Proxy Form
Media > FAQ: AGM and Shareholders' Questions

Public Float

At the date of this Annual Report, based on information that is publicly available to the Company and within the knowledge of the Directors, approximately 97.8% of the Company's total issued share capital is held by the public.

Shareholders' Rights

Each of the following procedures are subject to the Company's bye-laws, the Bermuda Companies Act 1981 and applicable legislation and regulation.

1. Procedures for Shareholders to make proposals at general meeting other than a proposal of a person for election as director

- Shareholder(s) holding (i) not less than one-twentieth of the total voting rights of all Shareholders having the right to vote at the general meeting; or (ii) not less than 100 Shareholders, can submit a written request stating the resolution intended to be moved at an annual general meeting ("AGM") of the Company; or a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at a particular general meeting.
- The written request/statements must be signed by the Shareholder(s) concerned and deposited at the Company's registered office* and its principal office* for the attention of the Company Secretary not less than six weeks before the AGM in the case of a requisition requiring notice of a resolution and not less than one week before the general meeting in the case of any other requisition.
- If the written request is in order, the Company Secretary will ask the Board (i) to include the resolution in the agenda for the AGM; or (ii) to circulate the statement for the general meeting, provided that the Shareholder(s) concerned have deposited a sum of money reasonably determined by the Board sufficient to meet the Company's expenses in giving effect thereto.

2. Procedures for Shareholders to propose a person for election as a director

- A Shareholder who is duly qualified to attend and vote at the general meeting convened to deal with appointment/election of director(s) can deposit a written notice at the Company's principal office* for the attention of the Company Secretary to propose a person (other than that Shareholder) for election as a director at that meeting.
- The written notice must be signed by the Shareholder concerned, stating the full name of the person proposed for election as a director, his/her biographical details as required by the Listing Rules, and that person depositing a signed written notice at the Company's principal office* for the attention of the Company Secretary indicating his/her willingness to be elected.
- The period for lodgment of such a written notice will commence on the day after the despatch of the notice of the general meeting and end no later than 7 days prior to the date of such general meeting. If the notice is received less than 15 business days prior to that general meeting, the Company may consider adjournment of the general meeting where appropriate.

3. Procedures for Shareholders to convene a special general meeting ("SGM")

- Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall have the right, by written requisition (stating the purpose of the general meeting and signed by the Shareholder(s) concerned) sent to the Company Secretary at the Company's registered office* and principal office* to require a SGM to be called by the Board to transact a specified business in such requisition; and such meeting shall be held within two months after the deposit of such requisition.
- If the requisition is in order, the Company Secretary will ask the Board to convene a SGM in accordance with applicable legal and regulatory requirements.

Enquires of the above may be addressed in writing to the Company Secretary at the principal office* or by e-mail to companysecretary@pacificbasin.com.

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Coporate Information
* Please refer to page 100 for the Company's registered office and principal office addresses

Planned Financial Calendar in 2020

27 February	2019 annual results announcement
10 March	2019 Annual Report
7 April	First quarter trading update
3-8 April	Book closure for determining entitlement to attend and vote at the AGM
8 April	Annual General Meeting
Applicable if 2019 final dividend is payable:	
16 April	Last day of dealings in shares with entitlement to 2019 final dividend
17 April	Ex-dividend date
20 April by 4:30 pm HK time	Deadline for lodging transfers for entitlement to 2019 final dividend
21 April	Book closure & 2019 final dividend record date
5 May	2019 final dividend payment date
30 July	2020 interim results announcement
Applicable if 2020 interim dividend is payable:	
11 August	Last day of dealings in shares with entitlement to 2020 interim dividend
12 August	Ex-dividend date
13 August by 4:30 pm HK time	Deadline for lodging transfers for entitlement to 2020 interim dividend
14 August	Book closure & 2020 interim dividend record date
26 August	2020 interim dividend payment date
14 October	Third quarter trading update

Our Directors

1 **David M. Turnbull** Chairman
5 **Robert C. Nicholson** Independent Non-executive Director
6 **Alasdair G. Morrison** Independent Non-executive Director
9 **Stanley Hutter Ryan** Independent Non-executive Director
3 **Peter Schulz** Chief Financial Officer

8 **Irene Waage Basili** Independent Non-executive Director
7 **Daniel R. Bradshaw** Independent Non-executive Director
10 **Kirsi Kyllikki Tikka** Independent Non-executive Director
2 **Mats H. Berglund** Chief Executive Officer
4 **Patrick B. Paul** Independent Non-executive Director

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

Executive Directors

1 David M. Turnbull (age 64)
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 previously London-AIM-listed Greka Drilling Limited 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 57)
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 47)
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 at the 2022 AGM

External appointments:
None

Committee membership:
Executive Committee

Independent Non-executive Directors

4 Patrick B. Paul (age 72)
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 64)
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 also held directorships in First Pacific subsidiaries, associates and affiliates including Philex Mining Corporation, Metro Pacific Investments Corporation and PXP Energy Corporation and was a commissioner of Indonesia-listed PT Indofood Sukses Makmur Tobk. He was also an independent non-executive director of Hong Kong-listed Lifestyle Properties Development Limited.

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 2022 AGM

External appointments:
None

Committee membership:
Chairman of Remuneration and Nomination Committees

Audit Committee

6 Alasdair G. Morrison (age 71)
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.

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

Chairman and director of Trans Maldivian Airways

Committee membership:
Audit Committee

Remuneration and Nomination Committee (both from January 2008 to 31 December 2019)

7 Daniel R. Bradshaw (age 73)
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 Wales 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

Retiring at the conclusion of the 2020 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:
Remuneration and Nomination Committees

Audit Committee (from April 2006 to 31 December 2019)

8 Irene Waage Basili (age 52)
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 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:
Remuneration and Nomination Committees

Audit Committee (from May 2014 to 31 December 2019)

9 Stanley H. Ryan (age 58)
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 at the 2022 AGM

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

Senior advisor of McKinsey & Company

Committee membership:
Remuneration and Nomination Committees

Audit Committee (from July 2016 to 31 December 2019)

10 Kirsi Kyllikki Tikka (age 63)
Independent Non-executive Director

Dr. Tikka served with American Bureau of Shipping ("ABS") for 18 years from 2001 to 2019, having started as vice president, engineering and then in a variety of specialist and leadership roles including as vice president, global technology, business development and special projects (2005-2011), vice president and chief engineer, global (2011-2012); president and chief operating officer, ABS Europe Division (2012-2016); executive vice president, global marine (2016-2018), and executive vice president and senior maritime advisor (2018-2019). Prior to joining ABS, Dr. Tikka was a professor of Naval Architecture at Webb Institute in New York (1996-2001) and she worked as a naval architect, operations planner and analyst at Wartsila Shipyards and Chevron Shipping.

Educations & qualifications:
University of California, Berkeley: PhD in Naval Architecture and Offshore Engineering

University of Technology, Helsinki: Master's degree in Solid Mechanics and Naval Architecture

Harvard Business School: Executive Training Program, Management Development

Term of office:
Appointed INED in September 2019 for three years, subject to re-election at the 2020 AGM

External appointments:
INED of New York-listed Ardmore Shipping Corporation

Committee membership:
Audit Committee (from 1 January 2020)

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 45 to 46 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 345 shore-based staff at 31 December 2019 (2018: 336) and over 3,900 seafarers during the year (2018: 3,800).

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 and certain higher paid employees 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 2019 and 2018

31 December 2019	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	–	391	50	2	443	259	702
Mats H. Berglund	–	1,088	260	2	1,350	598	1,948
Peter Schulz	–	517	190	2	709	340	1,049
	–	1,996	500	6	2,502	1,197	3,699
Independent Non-executive Directors							
Patrick B. Paul	113	–	–	–	113	–	113
Robert C. Nicholson	106	–	–	–	106	–	106
Alasdair G. Morrison	100	–	–	–	100	–	100
Daniel R. Bradshaw	100	–	–	–	100	–	100
Irene Waage Basili	100	–	–	–	100	–	100
Stanley H. Ryan	100	–	–	–	100	–	100
Kirsi Kyllikki Tikka [1]	27	–	–	–	27	–	27
	646	–	–	–	646	–	646
Total Directors' remuneration	646	1,996	500	6	3,148	1,197	4,345
Other Employees	–	135,732[2]	5,654	3,001	144,387	4,641	149,028
Total remuneration	646	137,728	6,154	3,007	147,535	5,838	153,373

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[3]	–	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

Note:

(1) Dr. Tikka was appointed as an Independent Non-executive Director on 2 September 2019.

(2) Salaries of Other Employees includes crew wages and other related costs of US$104.5 million (2018: US$97.8 million), which are classified as cost of services in the income statement.

(3) Mr. Schulz was appointed Chief Financial Officer on 21 August 2017 and further appointed as an Executive Director on 30 July 2018. The remuneration in 2018 represents his remuneration for the full year.

For the year 2019, the five individuals whose emoluments were the highest in the Group were two Executive Directors and three employees (2018: three Executive Directors and two employees). The emoluments of the highest paid individuals who are not Executive Directors are set out below and fell within the following bands.

	2019 US$'000	2018 US$'000
Salaries	1,008	693
Bonuses	353	374
Pension	199	174
Total Payable	1,560	1,241
Share-based compensation	731	445
Total payable and charged	2,291	1,686

Emolument bands	2019	2018
HK$5,500,001 to HK$6,000,000	1	–
HK$6,000,001 to HK$6,500,000	2	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$30,000. 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 their 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 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 2019.

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 32 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 2019 is set out on pages 1 to 17 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 2019 is set out in the "CSR Highlights" section of this Annual Report and a comprehensive CSR Report 2019 is available on our website.

Results

The results of the Group for the year are set out in the consolidated income statement on page 56.

Dividend

In view of the Group's performance and current financial position, the Board has recommended the payment of a final dividend of HK2.1 cents per share for the year ended 31 December 2019. As no interim dividend was declared during the year, this payout of HK2.1 cents per share represents 51% of the Group's profits for the year ended 31 December 2019, 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 2019 of HK2.1 cents per share will be considered at the 2020 AGM to be held on 8 April 2020.

Distributable Reserves

Distributable reserves of the Company at 31 December 2019, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to US$604.3 million.

Donations/Sponsorships

Charitable and other donations and sponsorships made by the Group during the year amounted to US$85,000.

Share Capital and Pre-emptive Rights

Movements in the share capital of the Company are set out in Note 24 to the financial statements.

During the reporting year, a total of 180,724,396 ordinary shares were issued as follow: (i) an aggregate of 101,014,125 shares were issued to Geraldine Marine Limited and Giant Line Inc., S.A. in January and February 2019 as partial consideration upon delivery of their two vessels to the Group pursuant to the vessel acquisition contracts entered into by the Company announced in May 2018; (ii) 25,592,000 shares were issued in March 2019 to fulfil the Company's 2019 restricted awards under the 2013 Share Award Scheme; and (iii) an aggregate of 54,118,271 shares were issued to Green Spanker Shipping S.A. and Asian Shipping S.A. and Meiho Kaiun Co., Ltd. in November 2019 as partial consideration upon delivery of their two vessels to the Group pursuant to the contracts entered into by the Company for the acquisition of four vessels as announced in September 2019. An aggregate of 51,793,762 shares are expected to be issued to Helmstar Shipping S.A. and Ever Bright Shpping S.A. and Keishin Kaiun Co., Ltd. in the first half of 2020 upon the delivery of their two 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 22(c) to the financial statements. This includes the issue of the new US$175 million 3% p.a. coupon guaranteed convertible bonds due 2025.

Purchase, Sale or Redemption of Securities

On 3 July 2019, the Group redeemed and cancelled an aggregate principal amount of US$122,216,000 of its US$125 million 3.25% p.a. coupon guaranteed convertible bonds due 2021 (the "Bonds"), together with accrued but unpaid interests of US$2,031,250 following the exercise of the put option right by bondholders. The remaining outstanding aggregate principal amount of the Bonds thereafter was reduced to US$2,784,000 (the "Remaining Bonds"), representing 2.23% of the total principal amount of the Bonds originally issued. The Group then exercised its option to redeem the entire Remaining Bonds at 100% of their principal amount, together with accrued but unpaid interest up to 2 August 2019, being the date fixed for such redemption.

Save as disclosed above and 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 471,389,151 shares as at 1 January 2020). There were 81,690,000 unvested restricted awards under the SAS which represents 1.73% of the issued share capital of the Company as at 27 February 2020.

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 2019 under the SAS are as follows:

'000 shares/units	Date of first award	Total awarded	Vested to date	Unvested at 31 Dec 2019	Unvested at 1 Jan 2019	Granted during the year [1]	Vested and/or lapsed [2]	Vesting in 2020	Vesting in 2021	Vesting in 2022
Directors										
David M. Turnbull	5-Aug-08	9,982	(5,934)	4,048	4,263	1,278	(1,493)	1,590	1,180	1,278
Mats H. Berglund	1-Jun-12	21,391	(12,000)	9,391	9,793	3,000	(3,402)	3,623	2,768	3,000
Peter Schulz	21-Aug-17	6,299	(2,294)	4,005	3,464	1,688	(1,147)	1,149	1,168	1,688
		37,672	(20,228)	17,444	17,520	5,966	(6,042)	6,362	5,116	5,966
Other Employees				64,246	59,410	26,240	(21,404)	22,851	19,746	21,649
				81,690	76,930	32,206	(27,446)	29,213	24,862	27,615

Notes:

(1) The closing price of the shares of the Company immediately before the grant of 32,206,000 shares on 1 March 2019 was HK$1.73.

(2) According to the vesting schedule, 1,842,000 shares were vested in January 2019 and 25,109,000 shares were vested in July 2019. In addition, an aggregate of 495,000 shares lapsed due to resignation of two employees.

Directors

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

	Date of Appointment	Term of Appointment
Executive Directors		
David M. Turnbull, Chairman	17 May 2006	3 years until 2020 AGM
Mats H. Berglund, CEO	01 June 2012	3 years until 2021 AGM
Peter Schulz, CFO	30 July 2018	3 years until 2022 AGM
Independent Non-executive Directors		
Patrick B. Paul	25 March 2004	3 years until 2021 AGM
Robert C. Nicholson	25 March 2004	3 years until 2022 AGM
Alasdair G. Morrison	01 January 2008	3 years until 2021 AGM
Daniel R. Bradshaw	07 April 2006	retiring at the conclusion of the 2020 AGM
Irene Waage Basili	01 May 2014	3 years until 2020 AGM
Stanley H. Ryan	05 July 2016	3 years until 2022 AGM
Kirsi Kyllikki Tikka	02 September 2019	3 years until September 2022, subject to re-election at the 2020 AGM

Notes:

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

In accordance with the Company's Bye-law 86(2), Dr. Kirsi Kyllikki Tikka who was appointed by the Board during the year shall retire at the 2020 AGM. In addition, Messrs. David M. Turnbull, Daniel R. Bradshaw and Irene Waage Basili shall retire at the 2020 AGM by rotation pursuant to the Company's Bye-laws 87(1) & (2). Apart from Mr. Bradshaw who is retiring at the conclusion of the 2020 AGM, all retiring directors, being eligible, offer themselves for re-election.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming 2020 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 2019, 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 Securities and Futures Ordinance (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 2019	31 Dec 2018
David M. Turnbull [1]	7,477,000	3,118,000[2]	Long	10,595,000	0.22%	0.26%
Mats H. Berglund [1]	19,391,000	0	Long	19,391,000	0.41%	0.38%
Peter Schulz [1]	6,299,000	129,000[3]	Long	6,428,000	0.14%	0.10%
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 48 of this Report.

(2) 3,118,000 shares are held by Mr. Turnbull in the capacity of a beneficiary of a trust.

(3) 129,000 shares are held by Mr. Schulz in the capacity of a 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 2019.

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 2019, 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 2019	31 Dec 2018
Citigroup Inc.[1]	Interest of corporation controlled/Approved lending agent	Long	260,704,469	5.53%	5.52%
		Short	2,176,493	0.05%	0.09%

Note:

(1) The long position in shares held by Citigroup Inc. is held in the capacities of Interest of corporation controlled (relating to 3,024,186 shares) and Approved lending agent (relating to 257,680,283 shares).

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, as at 31 December 2019, 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 2020 AGM.

Public Float

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

By Order of the Board

Mok Kit Ting, Kitty
Company Secretary
Hong Kong, 27 February 2020

Investor Relations

Creating Value for Shareholders

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

In 2019, we continued to make good use of various media for Investor Relations engagement. In addition to our corporate website, intranet and internal PB apps, we also provided a digital interactive online annual report and an infographic summary for our stakeholders on WeChat. Our social media presence has become another important channel for our stakeholders to learn about the Company's and industry's latest developments and we saw a near 50% increase of followers of our several social media channels.

During the year, we received twelve awards for investor relations and corporate governance including Best Investor Relations, Best IR team and Best financial reporting in our region and sector. 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/ar2019
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

Roadshows and Investor Day – Roadshows are conducted following results announcements and trading updates. In 2019, we met investors in 16 cities in North America, Europe and Asia-Pacific.

Investor Meetings – In 2019, we met 746 (2018: 1,088) 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.

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:

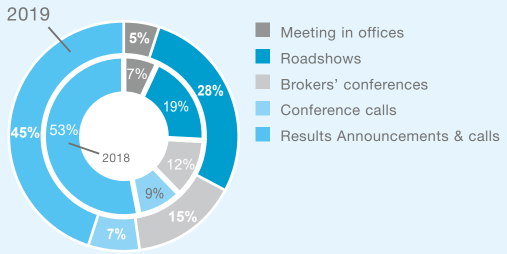
- Group profile
- Fleet profile
- Strategic and business models
- Service highlights for customers
- Board of Director's biographical data
- Board Committees' Terms of Reference
- Corporate Governance, Risk Management and CSR
- Financial reports and company news
- Financial information excel downloads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

Type of Investor Meetings



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

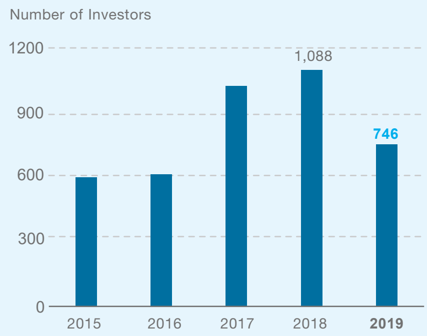
KPIs Measuring Investor Relations Performance KPI

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.

10 analysts covered Pacific Basin in 2019 (2018: 10)

50 research reports on Pacific Basin in 2019 (2018: 66)

Number of Investors We Met



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.

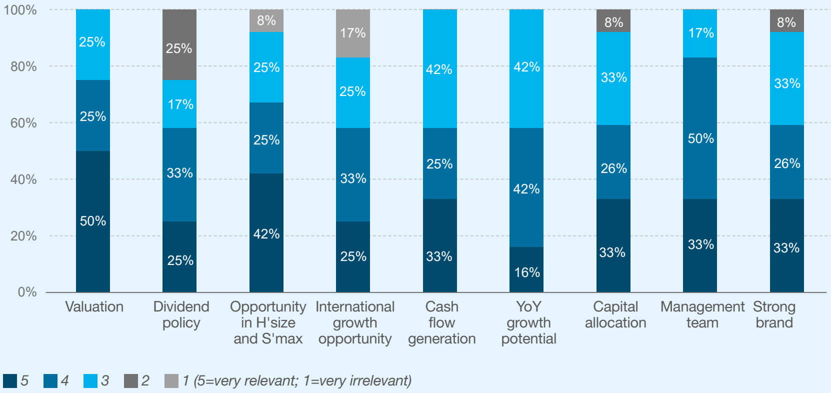
Our 2019 Investor Perception Study showed that 92% of respondents consider Pacific Basin management to be good at articulating strategy, and 85% of respondents agree that we effectively communicate management's plans to address the Company's strategic challenges. We also asked the investors for views on our longer term Company strategy for addressing IMO's decarbonisation targets as well as views on our disclosure in several recent announcements so that we can improve our future communications.

Key Investor Concerns in 2019

- 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
- Group's funding strategy

Feedback extracted from 2019 Investor Perception Study:

Most Compelling Reasons for Investing in Pacific Basin



92% of respondents consider Pacific Basin management good at articulating strategy

85% of respondents agree that we effectively communicate plans to address strategic challenges

Share and Convertible Bond Information

The Company's Shares and Convertible Bonds in issue at 31 December 2019:

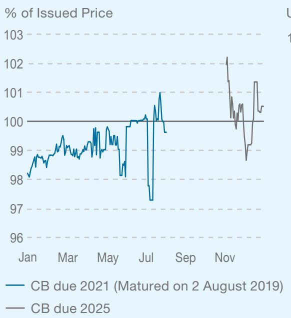
- 4,713,891,510 ordinary shares, each with a par value of US$0.01
- US$175 million of 3.0% coupon Convertible Bonds due 2025

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 2019, around 0.04% of our stock was held via the Connect channel.

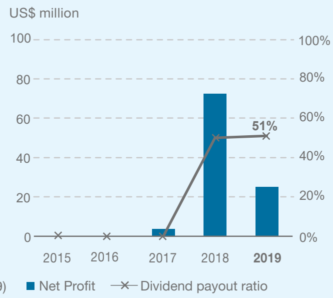
Page 99
Market Capitalisation

Our Share Price Performance vs Hang Seng Index in 2019

Convertible Bonds Price Performance in 2019



Net Profit and Dividend Payout Ratio

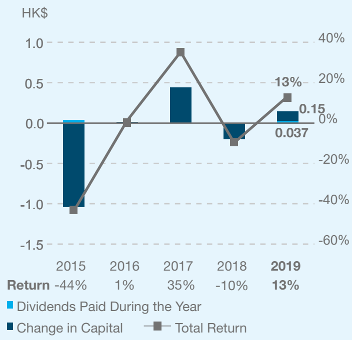


Shareholder Return and Dividend

We return value to our shareholders by way of both appreciation in share price and dividends. In 2019, our total shareholders' return was 13%.

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

Total Shareholders' Return

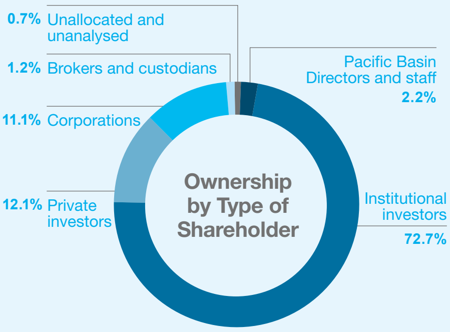


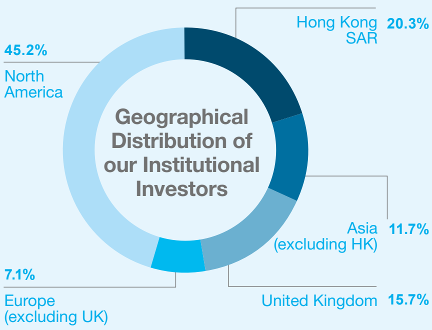
Our Shareholders

As at 31 December 2019, Nasdaq was able to analyse the ownership of about 99.6% of the Company's share capital. Institutional Investors still accounted for the largest portion of the Company's shareholder base, owning nearly 3.43 billion shares or 72.7% of our share capital.

We were able to identify 2,315 shareholders as at 31 December 2019. The actual number of investors interested in our shares is likely to be greater, as some shares are held through nominees, investment funds, custodians, etc, and each custodian or nominee or broker is considered as a single shareholder.

Shareholding	No. of Shareholders	% of Shareholders	Total Holding	% of ISC
<=500	161	6.95%	3,824	0.00%
501-1,000	35	1.51%	33,040	0.00%
1,001-100,000	596	25.75%	27,517,460	0.58%
100,001-500,000	888	38.36%	202,819,916	4.30%
>=500,001	635	27.43%	4,483,517,270	95.12%
Total	**2,315**	**100.00%**	**4,713,891,510**	**100.00%**





We Welcome Both Institutional Investors and Retail Investors

We listen carefully to the views and feedback we receive from all investors. About 72.7% of our shareholders are institutional investors, while 12.1% are private or retail investors who hold our shares through brokers and custodians.

A 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.

Our Bondholders

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

News and Achievements

2019

Jan

- Delivery of “Iwagi Island”
- Pacific Basin Bankers’ Day
- 2018 Global Transport Finance Annual Awards
  - Shipping Finance Debt Deal of the Year - Asia
- 2018 Jinganggu Awards
  - Best CSR Listed Company
- 2019 China Listed Co IR Innovation Forum & Outstanding IR Awards
  - Best Investor Relations Officer Award – Emily Lau

Feb

- Delivery of “Gharapuri Island”

Mar

- Delivery of “Grande Island”
- Customer events in London, Vancouver and Shanghai

Apr

- 2019 Annual General Meeting

May

- Pacific Basin closes new US$115,000,000 secured revolving credit facility
- Delivery of “Shark Island”
- Hong Kong Marine Department Awards
  - “Outstanding Performance Award” in Port State Control Inspections
- Seatrade Global Awards - London
  - Fuel Efficiency Award (Finalist)
- Tianjin Lingang Port Contribution Award
- HKIRA 5th Investor Relations Awards
  - Best IR Team – Emily Lau and Vivian Li
- Marine Money Deal of the Year Award 2018
  - US$325,000,000 7-year reducing revolving credit facility
- “Jamaica Bay” participated in the use of a land-based ship exhaust capture and treatment system in Los Angeles

Jun

- Pacific Basin joins Hang Seng Shenzhen Hong Kong Index and Hang Seng Shenzhen Hong Kong Infrastructure & Transportation Index
- Port of Vancouver’s EcoAction Program – 2018 Blue Circle Award
  - Recipients benefit from discounted harbour dues for implementing voluntary emission reduction and other environmental management technologies and practices
- Seatrade Maritime Awards Asia
  - Deal of the Year (for our US$325,000,000 7-year reducing revolving credit facility)
  - Fuel Efficiency category (Finalist)
  - Green Shipping category (Finalist)
  - Ship Manager category (Finalist)

Jul

- Redemption and cancellation of Convertible Bonds due 2021
- Pacific Basin recognised for voluntary speed and emissions reduction by Port of Los Angeles
- Delivery of “Albatross Island” and “Shelter Island”
- At 18 years of age, “Cape Nelson” achieves zero defects in AMSA port state control inspection in Australia

Aug

- Pacific Basin announces the appointment of Dr. Kirsi Kyllikki Tikka as an Independent Non-executive Director

Sep

- Pacific Basin commits to purchase four modern ships approximately 33% funded by new shares issued to ship sellers
- Pacific Basin becomes a constituent member of Hang Seng Corporate Sustainability Benchmark Index
- Global Best Annual Reports 2019 - e.com Report Watch
  - 2018 Annual Report is rated B+
- Pacific Basin receives 2019 All-Asia Executive Team awards
  - Honored Company
  - Best CEO - Second Place - Mats Berglund - Nominated by Buy Side
  - Best CFO - Second Place - Peter Schulz - Nominated by Buy Side
  - Best Investor Relations - Third Place - Nominated by Buy Side

Oct

- Lloyd’s List Asia Pacific Awards 2019
  - Excellence in Dry Bulk Shipping
- Hong Kong ESG Reporting Awards
  - Commendation in Best ESG Report (Mid-cap)
  - Commendation in Excellence in Environmental Disclosure
  - Commendation in Excellence in Social Disclosure

Nov

- Delivery of “Block Island” and “Saldanha Bay”
- At 19 years of age, “Champion Bay” achieves zero defects in an expanded inspection by Transport Canada at New Westminster
- Customer event in Auckland
- IR Magazine Awards – Greater China 2019
  - Best financial reporting (small to mid-cap)
  - Best use of multimedia for IR (Finalist)
  - Rising Star - Vivian Li (Finalist)
- IBJ Awards 2019 (International Bulk Journal)
  - People Development Award

Dec

- New issue of Convertible Bonds due 2025 raises US$175,000,000 (stock code: 40097)
- Special General Meeting 2019 approves new issue of convertible bonds
- Pacific Basin hosts 8th annual Pacific Basin Soccer Sixes

2020

Group Performance Review

This Group Performance Review comprises a presentation of our income statement adjusted to provide readers with a better understanding of the key dynamics of a shipping business, more consistent with the way we review our performance in our internal management reporting.

US$ Million	Note	**2019**	2018	Change*
Revenue		**1,585.9**	1,591.6	-0%
Bunker, port disbursement & other voyage costs		**(720.2)**	(710.5)	-1%
Time-charter equivalent ("TCE") earnings	1	**865.7**	881.1	-2%
Owned vessel costs				
Operating expenses	2	**(167.4)**	(149.7)	-12%
Depreciation	3	**(127.5)**	(114.5)	-11%
Net finance costs	4	**(32.2)**	(32.4)	+1%
Chartered vessel costs				
Non-capitalised charter costs	5	**(417.1)**	(451.4)	+8%
Capitalised charter costs	5	**(38.9)**	–	-100%
Operating performance before overheads		**82.6**	133.1	-38%
Adjusted total G&A overheads	6	**(61.2)**	(59.8)	-2%
Taxation and others		**(0.9)**	(1.3)	+31%
Underlying profit		**20.5**	72.0	-72%
Unrealised derivative income/(expenses)	7	**7.8**	(11.7)	
Disposal loss of vessels	8	**(5.1)**	(0.7)	
Write-back of provisions		**1.9**	–	
Write-back of onerous contract provisions		**–**	12.7	
Distribution from Muchalat investment		**–**	1.6	
Write-off of loan arrangement fees		**–**	(1.6)	
Profit attributable to shareholders		**25.1**	72.3	-65%
EBITDA	9	**230.7**	215.8	+7%
Net profit margin		**2%**	5%	-3%
Return on average equity employed		**2%**	6%	-4%

* 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; and net unrealised derivative income and expenses.

Notes

1. Total time-charter equivalent ("TCE") earnings decreased by 2% reflecting weaker market conditions during the year.
2. Total operating expenses of our owned vessels increased by 12% as our owned fleet expanded.
3. Depreciation of our owned vessels increased by 11% as our owned fleet expanded and additional costs were incurred for installation of ballast water treatment systems and scrubbers.
4. Net finance cost are substantially unchanged.
5. Non-capitalised charter costs comprise short-term charters with a term of 12 months or less and the non-lease portion of long-term charters with a term of over 12 months. Capitalised charter costs comprise depreciation of right-of-use assets and interest expenses on lease liabilities relating to the capitalised portion of long-term charters with a term of over 12 months. Overall charter costs reduced due to weaker market conditions during the year. Charter costs in 2018 included the release of onerous contract provisions.
6. Adjusted total G&A overheads comprise the total G&A overheads and the interest on lease liabilities of other PP&E. The increase was primarily due to an increase in staff related costs as our owned fleet expanded.
7. The unrealised derivative income from bunker swap contracts was a result of a significant increase in bunker fuel prices.
8. The loss relates to disposal of three of our smaller, older Handysize vessels, one of which will be delivered to her new owner in 2020.
9. EBITDA increased despite the weaker dry bulk freight market due to the positive effect of new accounting standard of HKFRS 16 "Leases" under which charter costs originally included in EBITDA were replaced by depreciation and interest expenses.

   EBITDA presented before the financial impact of HKFRS 16 "Leases" is US$184.9 million, which is comparable to EBITDA of previous years.

Pages 56 to 94 comprise the audited financial statements

Financial Statements

Consolidated Income Statement

	Note	For the year ended 31 December 2019 US$'000	2018 US$'000
Revenue	4, 15	**1,585,900**	1,591,564
Cost of services	5, 15	**(1,513,427)**	(1,507,705)
Gross profit		**72,473**	83,859
Indirect general and administrative overheads	5	**(6,040)**	(6,003)
Other income and gains	6	**1,867**	30,459
Other expenses	5	**(5,098)**	(2,416)
Finance income	7	**5,716**	3,513
Finance costs	7	**(42,681)**	(35,866)
Profit before taxation		**26,237**	73,546
Tax charges	8	**(1,113)**	(1,262)
Profit attributable to shareholders		**25,124**	72,284
Earnings per share for profit attributable to shareholders (in US cents)			
Basic earnings per share	10(a)	**0.55**	1.64
Diluted earnings per share	10(b)	**0.54**	1.61

Consolidated Statement of Comprehensive Income

	For the year ended 31 December 2019 US$'000	2018 US$'000
Profit attributable to shareholders	**25,124**	72,284
Other comprehensive income		
Items that may be reclassified to income statement		
Cash flow hedges		
– fair value losses	**(7,010)**	(5,744)
– transferred to income statement	**2,068**	4,346
Currency translation differences	**85**	(669)
Items that may not be reclassified to income statement		
Fair value losses on financial assets at fair value through other comprehensive income	**–**	(275)
Total comprehensive income attributable to shareholders	**20,267**	69,942

Consolidated Balance Sheet

	Note	As at 31 December 2019 US$'000	2018 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**1,875,352**	1,807,672
Right-of-use assets	14	**77,835**	–
Subleasing receivables	12	**1,915**	–
Goodwill	13	**25,256**	25,256
Derivative assets	16	**1,464**	1,745
Trade and other receivables	17	**25,487**	8,900
Restricted bank deposits	18	**51**	58
		2,007,360	1,843,631
Current assets			
Inventories	19	**90,381**	85,488
Current portion of subleasing receivables	12	**6,692**	–
Derivative assets	16	**2,495**	214
Assets held for sale	20	**4,400**	6,450
Trade and other receivables	17	**82,714**	88,679
Cash and deposits	18	**200,193**	341,744
		386,875	522,575
Total assets		**2,394,235**	2,366,206
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	24	**47,039**	45,205
Retained profits	25	**208,698**	202,262
Other reserves	25	**1,020,195**	983,742
Total equity		**1,275,932**	1,231,209
LIABILITIES			
Non-current liabilities			
Long-term borrowings	22	**736,101**	737,377
Lease liabilities	23	**53,770**	–
Derivative liabilities	16	**13,090**	9,912
Trade and other payables	21	**2,123**	5,537
		805,084	752,826
Current liabilities			
Current portion of long-term borrowings	22	**127,050**	223,716
Current portion of lease liabilities	23	**39,137**	–
Derivative liabilities	16	**1,937**	7,374
Trade and other payables	21	**143,949**	150,559
Taxation payable		**1,146**	522
		313,219	382,171
Total liabilities		**1,118,303**	1,134,997

Approved by the Board of Directors on 27 February 2020

Mats H. Berglund
Director

Peter Schulz
Director

Business Review | Funding | Strategic Review | Governance | Financial Statements

Consolidated Statement of Changes in Equity

	Note	For the year ended 31 December **2019** **US$'000**	 2018 US$'000
At 1 January		**1,231,209**	1,161,135
Change in accounting policy		**(4,371)**	(8,784)
Restated total equity at 1 January		**1,226,838**	1,152,351
Total comprehensive income attributable to shareholders		**20,267**	69,942
Transactions with owners in their capacity as owners			
Shares issued as Vessel Consideration Shares, net of issuing expenses	24(a)	**38,650**	18,076
Dividend paid	9	**(21,825)**	(14,315)
Derecognition of equity component upon redemption and cancellation of convertible bonds		**(5,678)**	–
Equity component of convertible bonds issued		**13,121**	–
Share-based compensation		**5,838**	5,265
Shares purchased by trustee of the SAS	24(b)	**(1,279)**	(110)
At 31 December		**1,275,932**	1,231,209

Consolidated Cash Flow Statement

	Note	2019 US$'000	2018 US$'000
		For the year ended 31 December	
Operating activities			
Cash generated from operations	26(a)	**217,514**	190,174
Hong Kong profits tax paid		**–**	(207)
Overseas taxation paid		**(487)**	(412)
Net cash generated from operating activities		**217,027**	189,555
Investing activities			
Purchase of property, plant and equipment		**(183,984)**	(127,924)
Disposal of property, plant and equipment		**9,184**	597
Disposal of assets held for sale		**6,276**	–
Receipt of subleasing receivables – principal element	12	**6,401**	–
Subleasing receivables interest received	7	**252**	–
Decrease in term deposits		**12,500**	5,096
Bank interest received	7	**5,464**	3,513
Decrease in restricted bank deposits		**7**	–
Distribution from Muchalat investment		**–**	1,582
Disposal of financial assets at fair value through other comprehensive income		**–**	294
Net cash used in investing activities		**(143,900)**	(116,842)
Financing activities			
Drawdown of bank loans and other borrowings	26(b)	**316,676**	634,074
Repayment of bank loans and other borrowings	26(b)	**(458,681)**	(558,410)
Proceeds from issuance of new convertible bonds, net of issuing expenses		**173,398**	–
Payment for redemption and cancellation of convertible bonds		**(125,000)**	–
Interest on borrowings and other finance charges paid		**(35,696)**	(31,260)
Repayment of lease liabilities – principal element	23	**(44,717)**	–
Interest on lease liabilities paid	7	**(5,022)**	–
Dividend paid	9	**(21,825)**	(14,315)
Payment for shares purchased by trustee of the SAS	24(b)	**(1,279)**	(110)
Net cash (used in)/generated from financing activities		**(202,146)**	29,979
Net (decrease)/increase in cash and cash equivalents		**(129,019)**	102,692
Exchange losses on cash and cash equivalents		**(32)**	(488)
Cash and cash equivalents at 1 January		**329,244**	227,040
Cash and cash equivalents at 31 December	18	**200,193**	329,244
Term deposits at 1 January	18	**12,500**	17,596
Decrease in term deposits		**(12,500)**	(5,096)
Cash and deposits at 31 December	18	**200,193**	341,744

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 27 February 2020.

Pages 6-17
Business Review
2019 Performance & Market Review

Page 100
Corporate Information
Registered Office Address

1.2 Presentation of the notes to the financial statements

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

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

Principal Accounting Policies

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

Critical Accounting Estimates and Judgements

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

Disclosure of 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 26
  - Credit and Counterparty Risk – Page 28
  - Liquidity Risk – Page 32
  - Capital Management Risk – Page 32
- Employee benefits in Remuneration Report – Pages 45-46

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 2019 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 standard is mandatory for the accounting period beginning on or after 1 January 2019 and is relevant to the Group's operation.

HKFRS 16	Leases

The new accounting policies and the impact of the adoption of this standard are disclosed in Notes 2.2(a) and 2.2(b) respectively. 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.

(a) Accounting policies under HKFRS 16 "Leases"

Set out below are the new accounting policies following the adoption of HKFRS 16 "Leases", which have been applied from the date of initial application.

At inception, we assess whether a contract is or contains a lease. This assessment involves the exercise of judgement about whether it depends on a specified asset.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, and lease payments made before the commencement date. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Right-of-use assets are subject to testing for impairment if there is an indicator of impairment, as for owned assets.

Lease liabilities

At the commencement date of the lease, lease liabilities are measured at the present value of lease payments to be made over the lease term. The lease term comprises the non-cancellable period with addition of periods covered by options to extend the lease if the Group is reasonably certain to exercise the extension option or reasonably certain not to exercise the termination option. This assessment is made on inception of the lease. The lease payments include fixed payments and variable payments depending on an index or a rate.

In calculating the present value of lease payments, the incremental borrowing rate at the lease commencement date is used. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced following the making of the lease payments. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the lease recognition exemption to the short-term leases and leases for which the underlying asset is of low value such as office equipment (e.g. printing and photocopying machines). Lease payments on short-term leases and leases of low-value assets expensed in the income statement on a straight-line basis over the lease term.

Subleasing

In case where the Group enters into arrangements to sublease an underlying asset to a third party, while retaining the primary obligation under the original lease. The Group acts as both the lessee and lessor of the same underlying asset.

If a leased vessel is subleased under terms transferring substantially all remaining risks and rewards under the head lease to the lessee in the sublease, the right-of-use asset is derecognised, and a lease receivable is recognised and classified as a finance lease. Gain/loss on the derecognised right-of-use asset, if any, is recognised in the income statement as other operating income/expenses.

During the term of the sublease, the Group recognises both finance income on the sublease and finance costs on the head lease.

Non-lease component

The Group has elected to separately account for the lease (i.e. bareboat charter) and non-lease components (i.e. technical management services) for leases of time charter contracts on vessels. Assessing the measurement of the non-lease component includes a significant accounting judgement. Consideration of the lease component and non-lease component is allocated with reference to the stand-alone market prices which are benchmarked against market data available from the industry reports.

Lessor accounting

Lessor accounting under HKFRS 16 "Leases" is substantially unchanged from the accounting under HKAS 17 Leases. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between two types of leases: operating and finance leases.

(b) Transition to HKFRS 16 "Leases"

This note explains the impact of the adoption of HKFRS 16 "Leases" on the Group's financial statement at the date of initial application (i.e. 1 January 2019).

The Group has adopted HKFRS 16 "Leases" using the modified retrospective approach from 1 January 2019 without restating comparative figures by recognising the cumulative effects as an adjustment to the opening balance of retained profits as at 1 January 2019.

(i) Practical expedients applied

In applying HKFRS 16 "Leases" for the first time, the Group has applied the following practical expedients permitted by the standard.

- For contracts entered into before the date of initial application, the Group did not reassess whether a contract is, or contains a lease at the date of initial application but relied on its assessment made applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease instead.
- A single discount rate is used to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar type of vessels). The incremental borrowing rate applied to the lease liabilities on 1 January 2019 were in the range of 3.9%-4.3%, depending on the maturity of the lease contracts.
- The Group relied on previous assessments on whether leases are onerous.
- The lease with a remaining lease term of 12 months or less as at 1 January 2019 were treated as short-term leases.
- The initial direct costs for the measurement of the right-of-use assets at the date of initial application were excluded.
- The Group used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2 Basis of preparation (continued)

2.2 Impact of new accounting policies (continued)

(b) Transition to HKFRS 16 "Leases" (continued)

(ii) Impact on the financial statements

The impact of the adoption of HKFRS 16 "Leases" to the financial statements for the year ended and as at 31 December 2019 is disclosed below which includes the full income statement and those affected line items on the balance sheet and cash flow statement.

Income Statement

US$'000	Before adoption of HKFRS 16 "Leases"	Effects of adopting HKFRS 16 "Leases"	As reported
Revenue	1,589,353	(3,453)	1,585,900
Cost of services	(1,526,300)	12,873	(1,513,427)
Gross profit	63,053	9,420	72,473
Indirect general and administrative overheads	(6,265)	225	(6,040)
Other income and gains	1,867	–	1,867
Other expenses	(5,098)	–	(5,098)
Finance income	5,464	252	5,716
Finance costs	(37,659)	(5,022)	(42,681)
Profit before taxation	21,362	4,875	26,237
Tax charges	(1,113)	–	(1,113)
Profit attributable to shareholders	20,249	4,875	25,124

Balance Sheet (extract)

US$'000	Before adoption of HKFRS 16 "Leases"	Effects of adopting HKFRS 16 "Leases"	As reported
Non-current assets			
Right-of-use assets	–	77,835	77,835
Subleasing receivables	–	1,915	1,915
Current assets			
Current portion of subleasing receivables	–	6,692	6,692
Trade and other receivables	82,768	(54)	82,714
Equity			
Retained profits	208,398	300	208,698
Other reserves	1,020,058	137	1,020,195
Non-current liabilities			
Lease liabilities	–	53,770	53,770
Trade and other payables	3,707	(1,584)	2,123
Current liabilities			
Current portion of lease liabilities	–	39,137	39,137
Trade and other payables	149,321	(5,372)	143,949

Cash Flow Statement (extract)

US$'000	Before adoption of HKFRS 16 "Leases"	Effects of adopting HKFRS 16 "Leases"	As reported
Operating activities	173,941	43,086	217,027
Investing activities	(150,553)	6,653	(143,900)
Financing activities	(152,407)	(49,739)	(202,146)
Net change in cash and deposits	(129,019)	–	(129,019)

(iii) Adjustments to the opening balances

The 2019 opening balance restatement effect is disclosed below.

Line items that were not affected by the changes have not been included.

Balance Sheet (extract)

US$'000	31 December 2018 (as previously reported)	Effects of adoption HKFRS 16 "Leases"	1 January 2019
Non-current assets			
Right-of-use assets	–	107,313	107,313
Subleasing receivables	–	8,607	8,607
Current assets			
Current portion of subleasing receivables	–	6,401	6,401
Trade and other receivables	88,679	(30)	88,649
Equity			
Retained profits	202,262	(4,575)	197,687
Other reserves	983,742	204	983,946
Non-current liabilities			
Lease liabilities	–	88,127	88,127
Trade and other payables	5,537	(1,123)	4,414
Current liabilities			
Current portion of lease liabilities	–	42,332	42,332
Trade and other payables	150,559	(2,674)	147,885

(iv) Transformation of 2018 operating lease commitments to lease liabilities

The lease liabilities as of 1 January 2019 amount to US$130,459,000 and can be reconciled with the operating lease commitments disclosed in the 2018 Annual Report Note 26(b)(i) as follows:

US$'000	
Total operating lease commitments as at 31 December 2018	328,050
Technical management service costs (non-lease component)	(106,982)
Short-term leases	(47,944)
Lease commitments regarding leases not yet commenced	(18,804)
Leases with a remaining term of 12 months or less as at 1 January 2019	(12,572)
Interest element	(10,734)
Leases of low-value assets	(523)
Exchange differences	(32)
Lease liabilities as at 1 January 2019	130,459

2.3 Accounting policies navigator

Accounting policies	Location
Assets held for sale	Note 20
Borrowings	Note 22
Cash and cash equivalents	Note 18
Consolidation	
Joint operation	Note 15
Subsidiaries	Note 2.4
Contingent liabilities and contingent assets	Note 31
Convertible bonds	Note 22(c)
Current and deferred income tax	Note 8
Derivative financial instruments and hedging activities: i) cash flow hedges, and ii) derivatives not qualifying for hedge accounting	Note 16
Dividends	Note 9
Employee benefits	Remuneration Report (p.46)
Financial assets at fair value through profit or loss	Note 16
Financial guarantee contracts	Note 30
Foreign currency translation	Note 2.5
Goodwill	Note 13
Impairment of i) investments and non-financial assets and ii) financial assets	Note 5
Inventories	Note 19
Leases	Note 2.2(a)
Operating leases where the Group is the lessor	Note 27(b)(ii)
Offsetting financial instruments	Note 16
Property, plant and equipment ("PP&E") including: i) vessels and vessel component cost, ii) vessels under construction, iii) borrowing costs, iv) other property, plant and equipment, v) subsequent expenditure, vi) depreciation, vii) residual values and useful lives, and viii) gains or losses on disposal	Note 11
Provisions	Note 2.6
Revenue recognition for freight and charter-hire and other revenue	Note 4
Segment reporting	Note 4
Share capital	Note 24
Trade receivables	Note 17
Trade payables	Note 21

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.

(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 11
(b)	Useful lives of vessels and vessel component costs	Note 11
(c)	Impairment of vessels and right-of-use assets	Note 11
(d)	Impairment of goodwill	Note 13

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 overtime based on daily rate. Revenue from a voyage charter is recognised over time, which is determined on a time proportion method of the voyage from loading to discharging.

(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	2019	2018
Vessel – related expenses		
Vessel charter costs (a)	**417,107**	467,527
Bunker consumed	**381,418**	382,706
Port disbursements and other voyage costs	**338,895**	337,609
Vessel depreciation		
– owned vessels	**127,477**	114,537
– right-of-use assets	**34,622**	–
Employee benefit expenses – crew wages & other related costs (c)	**104,529**	97,829
Vessel operating expenses	**53,499**	41,373
Lubricating oil consumed	**9,465**	10,523
Net (gains)/losses on bunker swap contracts	**(7,954)**	1,796
	1,459,058	1,453,900
General and administrative overheads (b)		
Employee benefit expenses including directors' emoluments (c)	**48,844**	48,389
Other PP&E depreciation		
– owned other PP&E	**1,857**	1,798
– right-of-use assets	**1,954**	–
Office lease expenses	**796**	3,136
Auditors' remuneration		
– audit	**787**	858
– non-audit	**70**	89
Net foreign exchange losses/(gains)	**330**	(43)
Other general and administrative expenses	**5,771**	5,581
	60,409	59,808
Other expenses		
Losses on disposal of PP&E	**3,392**	37
Provision/(write-back) for impairment losses		
– vessels	**1,513**	705
– other receivables	**–**	(7)
Losses on disposal of assets held for sale	**174**	–
Realised losses on forward freight agreements	**19**	58
Write-off of loan arrangement fees	**–**	1,623
	5,098	2,416
The sum of the above reconciles to the following headings in the income statement. (i) Cost of services, (ii) Indirect general and administrative overheads and (iii) Other expenses	**1,524,565**	1,516,124

(a) Vessel charter costs

Vessel charter costs comprise the cost of short-term charters with a term of 12 months or less and the non-lease portion of long-term charters with a term of over 12 months. Please refer to Note 2.2(a) for the accounting policies on short-term leases and the non-lease component of long-term leases.

The vessel charter costs included contingent lease payments amounting to US$3.4 million (2018: US$16.8 million). These relate to the vessels chartered-in on an index-linked basis.

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

US$'000	**2019**	2018
Direct G&A overheads included in cost of services	**54,369**	53,805
Indirect G&A overheads	**6,040**	6,003
Total G&A overheads	**60,409**	59,808

(c) Employee benefit expenses

Total employee benefit expenses amounted to US$153.4 million (2018: US$146.2 million). Please refer to Remuneration Report p.45 for details.

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 financial assets

The Group's trade receivables are financial assets that are subject to the expected credit loss assessment. To measure the expected credit loss, trade receivables are assessed on voyages by voyages basis. A provision for impairment is established when there is indication 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, default or delinquency in payments and macroeconomic factors affecting the ability of the debtors are considered. The carrying amount of trade receivables is reduced by the provision for impairment, and the amount of the loss is recognised in the income statement within "Cost of services". The trade receivables are written off where there is no reasonable expectation of recovery.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

6 Other income and gains

US$'000	2019	2018
Write-back of other payable	1,500	–
Write-back of disposal cost provisions	367	–
Utilisation and write-back of onerous contract provisions	–	28,846
Distribution from Muchalat investment	–	1,582
Gains on forward freight agreements	–	31
	1,867	30,459

7 Finance income and finance costs

US$'000	2019	2018
Finance income		
Bank interest income	(5,464)	(3,511)
Subleasing receivables interest income	(252)	–
Other interest income	–	(2)
	(5,716)	(3,513)
Finance costs		
Interest on borrowings		
Bank loans	31,684	26,343
Convertible bonds	3,796	6,534
Other borrowings	1,925	2,154
Interest on lease liabilities		
Vessels	4,243	–
Other PP&E	779	–
Net gains on interest rate swap contracts	(487)	(187)
Other finance charges	741	1,022
	42,681	35,866
Finance costs, net	36,965	32,353

8 Taxation

Shipping income from international trade is either not subject to or exempt from taxation according to the tax regulations prevailing in the countries in which the Group operates. Income from non-shipping activities is subject to tax at prevailing rates in the countries in which these businesses operate.

The amount of taxation charged to the income statement represents:

US$'000	2019	2018
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2018: 16.5%)	801	726
Overseas tax, provided at the rates of taxation prevailing in the countries	434	410
Adjustments in respect of prior year	(122)	126
Tax charges	1,113	1,262

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	2019	2018
Profit before taxation	26,237	73,546
Tax calculated at applicable tax rates	4,274	12,676
Income not subject to taxation	(149,126)	(152,929)
Expenses not deductible for taxation purposes	146,087	141,389
Adjustments in respect of prior year	(122)	126
Tax charges	1,113	1,262
Weighted average applicable tax rate	16.3%	17.2%

Accounting policy

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company, its subsidiaries and joint operation 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 and joint operation, 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.

9 Dividends

	2019			2018		
	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 (a)	**2.1**	**0.3**	**12,710**	3.7	0.5	21,825
Total dividends for the year	**2.1**	**0.3**	**12,710**	6.2	0.8	36,140
Dividends paid during the year (b)	**3.7**	**0.5**	**21,825**	2.5	0.3	14,315

(a) The proposed final dividend is subject to the approval of the shareholders at the Annual General Meeting on 8 April 2020. This proposed dividend is not reflected in the financial statements.

(b) Dividends paid during the year represent any final dividend of the previous year and any interim dividend of the reporting year.

Accounting policy

Dividend distributions to the Company's shareholders are recognised as liabilities in the financial statements in the period in which the dividends are approved by the 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.

10 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 2013 Share Award Scheme ("SAS") and unvested restricted shares (Note 24(b)).

		2019	2018
Profit attributable to shareholders	(US$'000)	**25,124**	72,284
Weighted average number of ordinary shares in issue	('000)	**4,566,145**	4,397,925
Basic earnings per share	(US cents)	**0.55**	1.64
Equivalent to	(HK cents)	**4.31**	12.88

(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 (Note 22(c)) and unvested restricted shares (Note 24(b)) where dilutive.

		2019	2018
Profit attributable to shareholders	(US$'000)	**25,124**	72,284
Weighted average number of ordinary shares in issue	('000)	**4,566,145**	4,397,925
Adjustment for calculation of diluted EPS relating to unvested restricted shares	('000)	**90,174**	84,222
Weighted average number of ordinary share for diluted EPS	('000)	**4,656,319**	4,482,147
Diluted earnings per share	(US cents)	**0.54**	1.61
Equivalent to	(HK cents)	**4.23**	12.64

11 Property, plant and equipment

US$'000	Vessels and vessel component costs	Leasehold improve-ments	Furniture, fixtures and equipment	Motor vehicles	Total
Cost					
At 1 January 2019	2,464,911	5,074	9,364	28	2,479,377
Additions	214,781	268	425	–	215,474
Disposals	(34,409)	–	–	–	(34,409)
Write offs	(24,928)	–	(308)	–	(25,236)
Transfer to assets held for sale (Note 20)	(17,824)	–	–	–	(17,824)
Exchange differences	–	23	9	1	33
At 31 December 2019	2,602,531	5,365	9,490	29	2,617,415
Accumulated depreciation and impairment					
At 1 January 2019	662,979	1,353	7,345	28	671,705
Charge for the year	127,477	851	1,006	–	129,334
Impairment charge (c)	1,513	–	–	–	1,513
Disposals	(21,833)	–	–	–	(21,833)
Write offs	(24,928)	–	(308)	–	(25,236)
Transfer to assets held for sale (Note 20)	(13,424)	–	–	–	(13,424)
Exchange differences	–	1	2	1	4
At 31 December 2019	731,784	2,205	8,045	29	742,063
Net book value					
At 31 December 2019	1,870,747	3,160	1,445	–	1,875,352

(a) As at 31 December 2019, the aggregate cost and accumulated depreciation of vessel component costs amounted to US$71,468,000 (2018: US$62,045,000) and US$33,281,000 (2018: US$31,606,000) respectively.

(b) Certain owned vessels with net book value of US$1,697,908,000 (2018: US$1,581,652,000) were pledged to banks as securities for bank loans granted to the Group (Note 22(a)).

Certain owned vessels with net book value of US$98,260,000 (2018: US$100,352,000) were effectively pledged as securities to other borrowings (Note 22(b)) as the rights to the vessels revert to the lessors in the event of default.

(c) The impairment charge of US$1,513,000 (2018: US$705,000) related to one (2018: one) Handysize vessel which was contracted in 2019 to be sold in 2020. The recoverable amount of the impaired asset was calculated as the fair value less costs to sell.

(d) As at 31 December 2019, excluding assets held for sale, the Group owned vessels with a net book value of US$1,870.7 million as follows:

	Number of vessels	Average net book value (US$ Million)	Total net book value (US$ Million)
Handysize	80	14.4	1,154.6
Supramax	33	20.5	676.8
Post-Panamax	1	39.3	39.3
	114		1,870.7

11 Property, plant and equipment (continued)

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 20)	(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 (c)	705	–	–	–	–	705
Disposals	–	(39)	(46)	(58)	–	(143)
Write offs	(18,638)	–	(439)	(2,216)	–	(21,293)
Transfer to assets held for sale (Note 20)	(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

Estimated useful lives					
for the year ended 2019 and 2018	Vessels: 25 years Vessel component costs: estimated period to the next drydocking	50 years	4 to 10 years or the remaining lease period if shorter	3 to 6 years	4 to 5 years

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 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 less 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.

11 Property, plant and equipment (continued)

Critical accounting estimates and judgements

Residual values of property, plant and equipment

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

- **Sensitivity analysis:**
  With all other variables held constant, if the residual value increases/decreases by 10% from management estimates, the depreciation expense would decrease/increase by US$2.4 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 of vessels increase/decrease by 3 years from management estimates, the depreciation expense would decrease by US$19.1 million or increase by US$34.8 million in the next year.

Impairment of owned vessels and right-of-use assets

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

The owned vessels and right-of-use assets are separated as two cash-generating units ("CGUs") (Handysize and Supramax) as the vessels within each of these CGUs are considered to be interchangeable.

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

For the value-in-use assessments, the applicable discount rates are 6.2% (2018: 7.3%).

- **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.

12 Subleasing receivables

Subleasing receivables relate to the arrangements entered by the Group to sublease an underlying asset to a third party, while retaining the primary obligation under the original lease. The Group acts as both the lessee and lessor of the same underlying asset.

Please refer to Note 2.2(a) for the accounting policy on subleasing.

US$'000	2019
At 1 January	15,008
Amounts received	(6,401)
At 31 December	8,607
Non-Current	1,915
Current	6,692
	8,607

The gross subleasing receivables, unearned future finance income and net subleasing receivables as at 31 December 2019 were as follows:

US$'000	2019
Gross subleasing receivables	
Within one year	6,924
In the second to fifth year	1,930
	8,854
Unearned future finance income	
Within one year	(232)
In the second to fifth year	(15)
	(247)
Net subleasing receivables	
Within one year	6,692
In the second to fifth year	1,915
	8,607

13 Goodwill

US$'000	2019	2018
At 1 January/31 December	**25,256**	25,256

Goodwill represents the excess of the Group's cost of acquisition over the fair value 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 estimates and 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-year outlook. Key assumptions were based on past performance, management's expectations on market development and general inflation. Cash flows beyond the fifth year are extrapolated assuming zero growth and no material change in the existing scope of business, business environment and market conditions. The discount rate applied to the cash flow projections is 6.2% (2018: 7.3%) 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.

14 Right-of-use assets

US$'000	Vessels	Other PP&E	Total
At 1 January 2019	**98,773**	**8,540**	**107,313**
Additions	**14,155**	**2,340**	**16,495**
Depreciation	**(34,622)**	**(1,954)**	**(36,576)**
Lease modification	**(9,555)**	**(19)**	**(9,574)**
Exchange differences	**–**	**177**	**177**
At 31 December 2019	**68,751**	**9,084**	**77,835**

Please refer to Note 2.2(a) for the accounting policy on right-of-use assets.

15 Interests in 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. The amounts of income and expenses recognised in respect of the Group's interest in the joint operation are as follows:

US$'000	2019	2018
Revenue	**955**	4,614
Cost of services	**(1,065)**	(3,389)
Finance income	**252**	–
Finance costs	**(159)**	–
	(17)	1,225

2018 income and expenses recognised represent the Group's interest before the adoption of HKFRS 16 "Leases".

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 balance sheet on an accrual basis and classified according to the nature of the item. The Group's share of expenses that it incurs and income that it earns from the joint operations are included in the income statement.

16 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

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).

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.

	2019		2018	
US$'000	Assets	Liabilities	Assets	Liabilities
Non-current				
Cash flow hedges				
Interest rate swap contracts (a)	**235**	**(1,990)**	1,055	(563)
Forward foreign exchange contracts (b)(i)	**–**	**(9,128)**	21	(7,948)
Derivatives that do not qualify for hedge accounting				
Bunker swap contracts (c)	**1,229**	**(1,967)**	669	(1,401)
Forward foreign exchange contracts (b)(ii)	**–**	**(5)**	–	–
	1,464	**(13,090)**	1,745	(9,912)
Current				
Cash flow hedges				
Interest rate swap contracts (a)	**–**	**(96)**	–	–
Derivatives that do not qualify for hedge accounting				
Bunker swap contracts (c)	**2,495**	**(1,841)**	214	(7,374)
	2,495	**(1,937)**	214	(7,374)
Total	**3,959**	**(15,027)**	1,959	(17,286)

(a) Interest rate swap contracts

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

Certain 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
2019			
June & September 2019	US$115 million on amortising basis	USD 3-month LIBOR swapped to a fixed rate of approximately 1.5% to 1.7% per annum	Contracts expire through May 2026
2019 and 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
December 2013 & June 2018	US$117 million on amortising basis	USD 3-month LIBOR swapped to a fixed rate of approximately 2.0% to 2.1% per annum	Contracts expire through 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

- **Sensitivity analysis:**

  With all other variables held constant, if the average interest rate on the net debt balance subject to floating interest rates (cash and deposits net of unhedged floating borrowings) held by the Group at the balance sheet date had been 50 basis point higher/lower, the Group's profit after tax would decrease/increase by approximately US$0.2 million (2018: US$0.4 million).

(b) Forward foreign exchange contracts

The functional currency of most of the Group's operating companies is United States Dollar as the majority of our transactions are denominated in this currency.

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

At 31 December 2019, the outstanding forward foreign exchange contracts held by the Group mainly consist of contracts with banks to buy approximately Danish Kroner ("DKK") 420.8 million (2018: DKK554.4 million) and simultaneously sell approximately US$75.0 million (2018: US$99.0 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.

(ii) Forward foreign exchange contracts that do not qualify for hedge accounting

At 31 December 2019, the Group had outstanding forward foreign exchange contracts with a bank to buy approximately US$2.0 million and simultaneously sell approximately AUD2.8 million for revenue that was denominated in Australian Dollars. These contracts will expire through June 2022.

(c) Bunker swap contracts

None of our bunker swap contracts qualify for hedge accounting

The Group enters into bunker swap contracts for fuel oil, marine gas oil and very low sulphur fuel oil to mainly manage the fluctuations in bunker prices in connection with the cargo contract commitments. We have also used bunker swap contracts to lock in the prevailing future fuel price spread between high and low sulphur fuel for a portion of the estimated fuel consumption on some Supramax vessels that have been 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 2019, the Group had outstanding bunker swap contracts as follows:

Contract Type	Fuel Type	Quantity (Metric tonnes)	Average deal price (US$)	Average market price (US$)	Expiry through
2019					
Buy	Fuel oil	103,570	281	276	December 2022
Buy	Marine gas oil	58,470	564	593	December 2021
Buy	Very low sulphur fuel oil	2,550	480	566	March 2020
Sell	Marine gas oil	49,500	571	558	December 2022
Sell	Very low sulphur fuel oil	56,142	457	493	December 2021
2018					
Buy	Fuel oil	135,228	352	297	December 2022
Buy	Marine gas oil	10,511	591	496	December 2021
Sell	Marine gas oil	27,480	566	546	December 2022

- **Sensitivity analysis:**

  With all other variables held constant, if the average forward rate of following fuel types 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$2.9 million (2018: increase/decrease by approximately US$4.0 million) for fuel oil; increase/decrease by approximately US$0.7 million (2018: decrease/increase by approximately US$1.0 million) for marine gas oil and decrease/increase by approximately US$2.6 million (2018: nil) for very low sulphur fuel oil.

(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 2019 and 2018, the Group had no outstanding forward freight agreements.

16 Derivative assets and liabilities (continued)

Accounting policy

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Derivatives are classified as current and non-current assets according to their respective settlement dates.

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement, and are subsequently remeasured at their fair values. Gains and losses arising from changes in the fair values are included in the other income or other expenses in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

In the cash flow statement, financial assets held for trading are presented within "operating activities" as part of changes in working capital.

Derivative financial instruments and hedging activities

The method of recognising the resulting gain or loss arising from changes in fair value for derivative financial instruments depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as cash flow hedges.

The Group documents at the inception of the transaction the relationship between the hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting the changes in fair values or cash flows of the hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months after the balance sheet date.

(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.

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, forward freight agreements and certain forward foreign exchange contracts 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.

17 Trade and other receivables

US$'000	2019	2018
Non-current		
Deposit on vessels acquisitions and vessel equipment contracts (a)	**25,487**	8,900
	25,487	8,900
Current		
Gross trade receivables	**49,669**	44,565
Less: provision for impairment	**–**	–
Net trade receivables (b)	**49,669**	44,565
Other receivables	**20,533**	22,253
Prepayments	**12,512**	21,861
	82,714	88,679

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Strategy Delivery and Risks
Credit and Counterparty Risk

Trade and other receivables are mainly denominated in United States Dollars and the carrying values approximate their fair values due to their short-term maturities.

(a) Deposit on vessel acquisitions and vessel equipment contracts

It represents the cash consideration paid for one Handysize and two Supramax vessels. One of the Supramax vessels was delivered in January 2020 and the remaining vessels are scheduled to deliver by the end of April 2020. The amount also comprises instalment paid for the installation of scrubbers and ballast water treatment systems.

(b) Net trade receivables

At 31 December 2019, the ageing of net trade receivables based on invoice date is as follows:

US$'000	2019	2018
< 30 days	**38,265**	35,057
31-60 days	**3,346**	3,609
61-90 days	**2,777**	1,899
> 90 days	**5,281**	4,000
	49,669	44,565

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

US$'000	2019	2018
At 1 January	**–**	2,368
Charge for the year	**–**	–
Write-off during the year	**–**	(2,368)
At 31 December	**–**	–

Accounting policy

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.

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 2019 and 2018, 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.

18 Cash and deposits

US$'000	2019	2018
Cash at bank and on hand	**27,152**	23,299
Bank deposits	**173,092**	318,503
Total cash and deposits	**200,244**	341,802
Average effective interest rate on bank deposits for the year	**2.7%**	2.3%
Average remaining maturity of bank deposits at year end	**42 days**	61 days
Cash and cash equivalents	**200,193**	329,244
Term deposits	**–**	12,500
Cash and deposits	**200,193**	341,744
Restricted bank deposits included in non-current assets	**51**	58
Total cash and deposits	**200,244**	341,802

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

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.

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

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Funding
Cash Flow and Cash

19 Inventories

US$'000	2019	2018
Bunkers	**77,756**	73,168
Lubricating oil	**12,625**	12,320
	90,381	85,488

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.

20 Assets held for sale

The assets held for sale comprised one (2018: one) Handysize vessel which was contracted in 2019 to be sold in 2020. Its carrying amount of US$4,400,000 (2018: US$6,450,000) represented the estimated fair value less costs to sell and reclassified from property, plant and equipment (Note 11) accordingly. It was pledged to a bank as security for the bank loan granted to the Group (Note 22(a)).

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.

21 Trade and other payables

US$'000	2019	2018
Non-current		
Receipts in advance	1,771	5,537
Accruals and other payables	352	–
	2,123	5,537
Current		
Trade payables (a)	61,408	54,530
Accruals and other payables	54,460	58,300
Receipts in advance (b)	28,081	37,729
	143,949	150,559

Trade and other payables are mainly denominated in United States Dollars and the carrying values approximate their fair values due to their short-term maturities.

(a) Trade payables

At 31 December 2019, the ageing of trade payables based on due date is as follows:

US$'000	2019	2018
< 30 days	56,963	49,930
31-60 days	451	1,125
61-90 days	275	157
> 90 days	3,719	3,318
	61,408	54,530

Accounting policy

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.

(b) Receipts in advance

Receipts in advance included amounts received in relation to cargo contracts to be completed of US$27.1 million (2018: US$32.7 million). Receipts in advance of US$32.7 million as at 31 December 2018 were fully recognised as revenue in 2019.

22 Long-term borrowings

US$'000	2019	2018
Non-current		
Bank loans (a)	548,169	703,114
Other borrowings (b)	27,227	34,263
Convertible bonds (c)	160,705	–
	736,101	737,377
Current		
Bank loans (a)	120,014	97,809
Other borrowings (b)	7,036	5,726
Convertible bonds (c)	–	120,181
	127,050	223,716
Total	863,151	961,093

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

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 16 for the definition of different fair value levels.

Please refer to Note 26(b) for reconciliation of long-term borrowings.

Accounting policy

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) Bank loans

The Group's bank loans comprised secured and unsecured bank loans. Certain bank loans as at 31 December 2019 were secured, inter alia, by the following:

(i) Mortgages over certain owned vessels (Note 11(b)) and the assets held for sale (Note 20), with aggregate net book value of US$1,702,308,000 (2018: US$1,588,102,000); and

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

These bank loans are repayable as follows:

US$'000	2019	2018
Within one year	120,014	97,809
In the second year	70,209	97,809
In the third to fifth year	183,107	286,275
After the fifth year	294,853	319,030
	668,183	800,923
Average effective interest rate for the year (after hedging)	4.0%	3.9%

(b) Other borrowings

The Group's other borrowings as at 31 December 2019 were in respect of seven (2018: seven) secured owned vessels with net book value of US$98,260,000 (2018: US$100,352,000) (Note 11(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 borrowings are repayable as follows:

US$'000	**2019**	2018
Within one year	**7,036**	5,726
In the second year	**6,883**	7,035
In the third to fifth year	**20,344**	23,614
After the fifth year	**–**	3,614
	34,263	39,989
Average effective interest rate for the year (after hedging)	**5.0%**	4.9%

(c) Convertible bonds

US$'000	**2019** Face value	**2019** Liability component	2018 Face value	2018 Liability component
3.00% coupon due 2025 (i)	**175,000**	**160,705**	–	–
3.25% coupon due 2021 (ii)	**–**	**–**	125,000	120,181
	175,000	**160,705**	125,000	120,181

The carrying value of convertible bonds approximate their fair values.

(i) Convertible bonds – 3.00% coupon convertible bonds due 2025

Key terms	
Issue size	US$175.0 million
Issue date	10 December 2019
Maturity date	10 December 2025 (approximately 6 years from issue)
Coupon – cash cost	3.00% p.a. payable semi-annually in arrears on 10 June and 10 December
Effective interest rate	4.68% charged to income statement
Redemption price	100%
Conversion price converting bonds into shares	HK$2.40
Conversion at bondholders' options	Anytime on or after 20 January 2020
Bondholder put date for redemption at 100% of the principal amount	On 10 December 2023 (approximately 4 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

Note: The conversion price is subject to an adjustment arising from any cash dividends paid by the Company according to a pre-determined adjustment factor. Such adjustment becomes effective on the first date on which the shares are traded ex-dividend if a dividend had been declared.

(ii) Convertible bonds – 3.25% coupon convertible bonds due 2021

On 3 July 2019, an aggregate principal amount of US$122,216,000 were redeemed and cancelled at 100% of their principal amount. On the same day, the Group exercised its Call Option Right to redeem and cancel all the remaining outstanding aggregate principal amount of the Bonds of US$2,784,000 ("Remaining Bonds") at 100% of their principal amount. Gain of US$156,000 was recognised in the income statement and an equity movement of US$8,094,000 credited to retained profits was recognised upon the derecognition of the respective liability and equity components.

Key terms	
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	HK$2.96 (with effect from 23 April 2019)
Conversion at bondholders' options	Anytime on or after 19 July 2015
Bondholder put date for redemption at 100% of the principal amount ("Put Option Right")	On 3 July 2019 (approximately 4.1 years from issue), certain bondholders exercised the Put Option Right to require the Group to redeem some of the bonds which were cancelled on the same date
Issuer call date for redemption at 100% of the principal amount ("Call Option Right")	On 3 July 2019, the Group exercised the Call Option Right to redeem all the Remaining Bonds, redemption and cancellation of which took place on 2 August 2019

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.

23 Lease liabilities

US$'000	2019
At 1 January	130,459
Additions	16,495
Repayment	(44,717)
Lease modification	(9,574)
Exchange differences	244
At 31 December	92,907
Non-current	53,770
Current	39,137
	92,907

The lease liabilities are repayable as follows:

US$'000	2019
Within one year	39,137
In the second year	21,084
In the third to fifth year	29,686
After the fifth year	3,000
	92,907

Please refer to Note 2.2(a) for accounting policy on lease liabilities.

24 Share capital

	2019 Number of shares	2019 US$'000	2018 Number of shares	2018 US$'000
Authorised	36,000,000,000	360,000	36,000,000,000	360,000
Issued and fully paid				
At 1 January	4,532,519,114	45,205	4,436,939,102	43,554
Shares issued as Vessel Consideration Shares (a)	155,132,396	1,551	69,746,012	697
Shares issued upon grant of restricted share awards (b)	25,592,000	256	21,150,000	212
Shares granted to employees in the form of restricted share awards (b)	6,614,000	1,406	6,948,000	1,190
Shares transferred back to trustee upon lapse of restricted share awards (b)	(495,000)	(100)	(1,887,000)	(338)
Shares purchased by trustee of the SAS (b)	(5,966,000)	(1,279)	(377,000)	(110)
At 31 December	4,713,396,510	47,039	4,532,519,114	45,205

The issued share capital of the Company as at 31 December 2019 was 4,713,891,510 shares (2018: 4,533,167,114 shares). The difference compared to the number of shares shown in the table above of 495,000 (2018: 648,000) represents shares held by the trustee in relation to restricted share awards, amounting to US$99,600 (2018: US$126,900) 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 share ("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; in 2019, an aggregate of 101,014,125 shares were issued upon the delivery of the remaining two vessels to the Group.

On 17 September 2019, the Group entered into contracts for the acquisition of another four vessels at a total purchase consideration of US$73.8 million funded by a combination of: (i) the issue of 105,912,033 shares at an issue price of HK$1.80 per share ("Vessel Consideration Shares") amounting to US$24.4 million to the sellers; and (ii) cash of US$49.4 million. In 2019, an aggregate of 54,118,271 shares were issued upon the delivery of two vessels to the Group.

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Report to the Directors
Share Capital and Pre-emptive Rights

The closing share prices on 14 May 2018 and 17 September 2019 were HK$2.10 per share and HK$1.77 per share respectively.

(b) Restricted share awards

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

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

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

000' shares	**2019**	2018
At 1 January	**76,930**	74,006
Granted	**32,206**	28,098
Vested	**(26,951)**	(23,287)
Lapsed	**(495)**	(1,887)
At 31 December	**81,690**	76,930

Out of the 81,690,000 unvested restricted share awards as at 31 December 2019 and according to the vesting schedule, 29,213,000 shares, 24,862,000 shares and 27,615,000 shares will be vested on 14 July 2020, 14 July 2021 and 14 July 2022 respectively.

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Report of the Directors
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$1.6 (2018: HK$1.7).

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

	2019		2018	
Sources of shares granted	**Number of granted shares awards**	**Related movement US$'000**	Number of granted shares awards	Related movement US$'000
Shares issued	**25,592,000**	**256**	21,150,000	212
Shares purchased by the trustee of the SAS on the Stock Exchange funded by the Company	**5,966,000**	**1,279**	377,000	110
Shares transferred from the trustee	**648,000**	**127**	6,571,000	1,080
	32,206,000	**1,662**	28,098,000	1,402

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 (excluding services from employee and other similar services that detailed on page 46), 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.

25 Reserves

	Other reserves									
US$'000	Share[(a)] premium	Merger[(b)] reserve	Convertible bonds reserve	Staff benefits reserve	Hedging reserve	Exchange reserve	Contributed[(c)] surplus	Subtotal	Retained profits	Total
At 1 January 2019	249,951	(56,606)	13,772	(6,791)	4,456	(978)	779,938	983,742	202,262	1,186,004
Change in accounting policy (Note 2.2(b)(iii))	–	–	–	–	204	–	–	204	(4,575)	(4,371)
Restated total equity at 1 January 2019	249,951	(56,606)	13,772	(6,791)	4,660	(978)	779,938	983,946	197,687	1,181,633
Comprehensive income										
Profit attributable to shareholders	–	–	–	–	–	–	–	–	25,124	25,124
Other comprehensive income										
Cash flow hedges										
– fair value losses	–	–	–	–	(7,010)	–	–	(7,010)	–	(7,010)
– transferred to income statement	–	–	–	–	2,068	–	–	2,068	–	2,068
Currency translation differences	–	–	–	–	–	85	–	85	–	85
Total comprehensive income	–	–	–	–	(4,942)	85	–	(4,857)	25,124	20,267
Transactions with owners in their capacity as owners										
Shares issued as Vessel Consideration Shares, net of issuing expenses (Note 24(a))	37,099	–	–	–	–	–	–	37,099	–	37,099
Dividend paid (Note 9)	–	–	–	–	–	–	–	–	(21,825)	(21,825)
Derecognition of equity component upon redemption and cancellation of convertible bonds	–	–	(13,772)	–	–	–	–	(13,772)	8,094	(5,678)
Equity component of convertible bonds issued	–	–	13,121	–	–	–	–	13,121	–	13,121
Share-based compensation (see Remuneration Report p.45)	–	–	–	5,838	–	–	–	5,838	–	5,838
Share awards granted (Note 24(b))	–	–	–	(1,024)	–	–	–	(1,024)	(382)	(1,406)
Shares issued upon grant of restricted share awards (Note 24(b))	5,355	–	–	(5,611)	–	–	–	(256)	–	(256)
Share awards lapsed (Note 24(b))	–	–	–	100	–	–	–	100	–	100
At 31 December 2019	292,405	(56,606)	13,121	(7,488)	(282)	(893)	779,938	1,020,195	208,698	1,228,893

(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.

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	–	–	–	–	–	(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
Comprehensive income											
Profit attributable to shareholders	–	–	–	–	–	–	–	–	–	72,284	72,284
Other comprehensive income											
Cash flow hedges											
– fair value losses	–	–	–	–	(5,744)	–	–	–	(5,744)	–	(5,744)
– transferred to income statement	–	–	–	–	4,346	–	–	–	4,346	–	4,346
Currency translation differences	–	–	–	–	–	–	(669)	–	(669)	–	(669)
Fair value losses on financial assets at fair value through other comprehensive income	–	–	–	–	–	(275)	–	–	(275)	–	(275)
Total comprehensive income	–	–	–	–	(1,398)	(275)	(669)	–	(2,342)	72,284	69,942
Transactions with owners in their capacity as owners											
Shares issued as Vessel Consideration Shares, net of issuing expenses (Note 24(a))	17,379	–	–	–	–	–	–	–	17,379	–	17,379
Dividend paid (Note 9)	–	–	–	–	–	–	–	–	–	(14,315)	(14,315)
Share-based compensation (see Remuneration Report p.45)	–	–	–	5,265	–	–	–	–	5,265	–	5,265
Share awards granted (Note 24(b))	–	–	–	(461)	–	–	–	–	(461)	(729)	(1,190)
Share awards lapsed (Note 24(b))	–	–	–	338	–	–	–	–	338	–	338
Shares issued upon grant of restricted share awards (Note 24(b))	5,347	–	–	(5,559)	–	–	–	–	(212)	–	(212)
Share awards fully vested	2,658	–	–	(2,658)	–	–	–	–	–	–	–
Derecognition of financial assets at fair value through other comprehensive income	–	–	–	–	–	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

26 Notes to the consolidated cash flow statement

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

US$'000	2019	2018
Profit before taxation	**26,237**	73,546
Assets and liabilities adjustments		
Depreciation on PP&E	**129,334**	116,335
Depreciation on right-of-use assets	**36,576**	–
Net unrealised (gains)/losses on derivative instruments not qualified as hedges	**(7,802)**	11,669
Losses on disposal of PP&E	**3,392**	37
Provision/(write-back) for impairment losses		
– vessels	**1,513**	705
– other receivables	**–**	(7)
Write-back of other payable	**(1,500)**	–
Write-back of disposal cost provisions	**(367)**	–
Losses on disposal of assets held for sale	**174**	–
Utilisation and write-back of onerous contract provisions	**–**	(28,846)
Write-off of loan arrangement fees	**–**	1,623
Distribution from Muchalat investment	**–**	(1,582)
Charter Hire Reduction	**24**	4,743
Capital and funding adjustments		
Share-based compensation	**5,838**	5,265
Results adjustments		
Finance costs, net	**36,965**	32,353
Net foreign exchange losses/(gains)	**330**	(43)
Profit before taxation before working capital changes	**230,714**	215,798
Increase in inventories	**(4,893)**	(13,715)
Increase in trade and other receivables	**(3,808)**	(14,029)
(Decrease)/increase in trade and other payables	**(4,499)**	2,120
Cash generated from operations	**217,514**	190,174

(b) Reconciliation of long-term borrowings

US$'000	2019	2018
At 1 January	**961,093**	880,968
Cash flows		
Drawdown of bank loans and other borrowings	**316,676**	634,074
Repayment of bank loans and other borrowings	**(458,681)**	(558,410)
Redemption and cancellation of convertible bonds	**(119,479)**	–
Issuance of convertible bonds, net of issuing expenses	**160,277**	–
Coupon payment of convertible bonds	**(4,070)**	(4,063)
Other non-cash movements		
Amortisation of loan arrangement fee	**2,238**	3,772
Accrued coupon payment of convertible bonds	**3,796**	6,534
Foreign exchange adjustments	**1,301**	(1,782)
At 31 December	**863,151**	961,093

(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 24(a).

(d) The total cash outflow for all leases is US$467.1 million (2018: US$462.6 million).

27 Commitments

(a) Capital commitments

US$'000	2019	2018
Contracted for but not recognised as liabilities – vessel acquisitions and vessel equipment contracts	**59,804**	70,247

Page 17
Vessel Capital Commitments

(b) Lease commitments

(i) The Group as the lessee – payments

According to the Group policy following the adoption of HKFRS 16 "Leases" in 2019, short-term leases and leases of low-value assets are not recognised in the balance sheet as right-of-use assets and lease liabilities. In addition, leases not yet commenced at the reporting date are also not recognised. Please refer to Note 2.2(a) for the accounting policies on short-term leases and leases of low-value assets.

The future aggregate minimum lease payments of these leases are as follows:

US$'000	Vessels	Land and buildings	Total
At 31 December 2019			
Within one year	**35,408**	**20**	**35,428**
In the second to fifth year	**32,580**	**4**	**32,584**
After the fifth year	**2,791**	**–**	**2,791**
	70,779	**24**	**70,803**
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

2018 operating lease commitments represent commitments for all leases. Please refer to Note 2.2 (b)(iv) for the transformation of 2018 operating lease commitments to lease liabilities as of 1 January 2019.

(ii) The Group as the lessor – receipts

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

US$'000	2019	2018
Within one year	**13,241**	32,408
In the second to fifth year	**26,298**	38,253
After the fifth year	**10,801**	16,560
	50,340	87,221

The Group leases vessels expiring within 1 year to 7 years (2018: within 1 year to 8 years) and the amount mainly represents the receipt from a Post-Panamax vessel amounting to US$43.7 million (2018: US$70.7 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 11 Property, plant and equipment. Revenue arising from assets leased out under operating leases is recognised overtime based on daily rate.

28 Financial liabilities summary

This note should be read in conjunction with the Liquidity Risk section on page 32. 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	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Long-term borrowings										
Bank loans	**150,149**	131,144	**94,275**	126,350	**236,089**	347,644	**308,809**	349,683	**789,322**	954,821
Other borrowings	**8,598**	7,784	**8,141**	8,825	**21,595**	26,730	**–**	3,638	**38,334**	46,977
Convertible bonds	**5,250**	129,063	**5,250**	–	**15,750**	–	**180,250**	–	**206,500**	129,063
Lease liabilities	**41,879**	–	**22,995**	–	**31,712**	–	**3,233**	–	**99,819**	–
Derivative financial instruments										
(i) Net-settled (a)										
Interest rate swap contracts	**577**	(544)	**865**	(221)	**828**	244	**(381)**	41	**1,889**	(480)
Bunker swap contracts	**1,841**	7,374	**1,483**	354	**484**	1,047	**–**	–	**3,808**	8,775
(ii) Gross-settled (b)										
Forward foreign exchange contracts										
– Cash flow hedges										
– outflow	**24,094**	24,839	**24,166**	25,093	**31,603**	55,768	**–**	–	**79,863**	105,700
– inflow	**(21,083)**	(21,238)	**(20,263)**	(21,671)	**(26,545)**	(48,487)	**–**	–	**(67,891)**	(91,396)
– Others										
– outflow	**791**	–	**1,117**	–	**1,117**	–	**–**	–	**3,025**	–
– inflow	**(796)**	–	**(1,123)**	–	**(1,123)**	–	**–**	–	**(3,042)**	–
Net outflow	**3,006**	3,601	**3,897**	3,422	**5,052**	7,281	**–**	–	**11,955**	14,304
Trade and other payables	**115,868**	112,830	**352**	–	**–**	–	**–**	–	**116,220**	112,830

(a) Net-settled derivative financial instruments represent derivative assets or 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 assets or liabilities.

(b) Gross-settled derivative financial instruments represent derivative assets or liabilities which are not settled by the above mentioned netting mechanism.

29 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 44 to 46.

30 Financial guarantees

As at 31 December 2019, the Company has given corporate guarantees with maximum exposures of US$876.3 million (2018: US$828.5 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.

31 Contingent liabilities and contingent assets

The Group has no material contingent liabilities and contingent assets as at 31 December 2019 and 2018.

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.

32 Principal subsidiaries

As at 31 December 2019, the Company has direct and indirect interests in the following wholly owned principal subsidiaries:

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Principal activities
Shares held directly			
PB Vessels Holding Limited	BVI	US$1,191,118,775	Investment holding
PB Management Holding Limited	BVI	US$12,313	Investment holding
PB Issuer (No.5) Limited	BVI	US$1	Convertible bonds issuer
Shares held indirectly			
Dry Bulk			
Albatross Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Astoria Bay Limited	HK/Int'l	HK$1	Vessel chartering
Baker River Limited	HK/Int'l	HK$1	Vessel chartering
Baltic Sea Limited	HK/Int'l	HK$1	Vessel owning and chartering
Barracuda Island Limited	HK	HK$1	Vessel owning
Barrow Shipping Limited	BVI/Int'l	US$1	Vessel owning and chartering
Bass Strait Limited	HK/Int'l	HK$1	Vessel owning and chartering
Bell Bay Shipping Limited	HK/Int'l	HK$1	Vessel owning and chartering
Bernard (BVI) Limited	BVI/Int'l	US$51,001	Vessel owning and chartering
Block Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Bonny Shipping Limited	BVI/Int'l	US$1	Vessel owning and chartering
Bright Cove Limited	HK/Int'l	HK$1	Vessel owning and chartering
Cape York Shipping Limited	BVI/Int'l	US$1	Vessel owning and chartering
Champion Bay Limited	BVI/Int'l	US$1	Vessel chartering
Cherry Point Limited	HK/Int'l	HK$1	Vessel owning and chartering
Chiloe Shipping Limited	BVI/Int'l	US$1	Vessel owning and chartering
Columbia River Shipping Limited	HK/Int'l	HK$1	Vessel owning and chartering
Cooper Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Corio Bay Limited	HK/Int'l	HK$1	Vessel owning and chartering
Cramond Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Delphic Shipping (BVI) Limited	BVI/Int'l	US$1	Vessel owning and chartering
Eaglehill Trading Limited 鷹峯貿易有限公司	HK/Int'l	HK$1	Vessel owning and chartering
Eastern Cape Limited	BVI/Int'l	US$1	Vessel owning and chartering
Elizabay Limited	BVI/Int'l	US$1	Vessel owning and chartering
Elizabeth Castle Limited	BVI/Int'l	US$1	Vessel chartering
Elizabeth River Limited	HK/Int'l	HK$1	Vessel chartering
Esperance Bay Limited	HK/Int'l	HK$1	Vessel owning and chartering
Everclear Shipping (BVI) Limited	BVI/Int'l	US$31,001	Vessel owning and chartering
Finest Solution Limited	HK/Int'l	HK$1	Vessel owning and chartering
Francesca Shipping (BVI) Limited	BVI/Int'l	US$30,001	Vessel owning and chartering
Future Sea Limited	HK/Int'l	HK$1	Vessel owning and chartering
Gharapuri Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Gold River Vessel Limited	HK/Int'l	HK$1	Vessel owning and chartering
Good Shape Limited	HK/Int'l	HK$1	Vessel owning and chartering
Goodwyn Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Grande Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Hainan Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Helen Shipping (BVI) Limited	BVI/Int'l	US$1	Vessel owning and chartering
Honey Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Illovo River Limited	HK/Int'l	HK$1	Vessel owning and chartering
Imabari Logger Limited	BVI/Int'l	US$1	Vessel owning and chartering
Impression Bay Limited	HK/Int'l	HK$1	Vessel owning and chartering
Ince Point Limited	HK/Int'l	HK$1	Vessel owning and chartering
Incheon Bay Limited	HK/Int'l	HK$1	Vessel owning and chartering
Indian Ocean Limited	HK/Int'l	HK$1	Vessel owning and chartering
Indigo Lake Limited	HK/Int'l	HK$1	Vessel owning and chartering
Ipanema Beach Limited	HK/Int'l	HK$1	Vessel owning and chartering
Isabela Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Iwagi Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Jamaica Bay Limited	BVI/Int'l	US$1	Vessel owning and chartering

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Principal activities
James Bay Limited	BVI/Int'l	US$1	Vessel owning and chartering
Jericho Beach Limited	BVI/Int'l	US$1	Vessel owning and chartering
Jervis Bay Shipping Limited	BVI/Int'l	US$1	Vessel owning and chartering
Jiangmen Trader Limited	BVI/Int'l	US$1	Vessel owning and chartering
Jules Point Limited	BVI/Int'l	US$1	Vessel owning and chartering
Jumeirah Beach Limited	HK/Int'l	HK$1	Vessel owning and chartering
Kaiti Hill Limited	HK/Int'l	HK$1	Vessel owning and chartering
Kanda Logger Limited	HK/Int'l	HK$1	Vessel owning and chartering
Key West Shipping Limited	HK/Int'l	HK$1	Vessel owning and chartering
Kodiak Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Kultus Cove Limited	HK/Int'l	HK$1	Vessel owning and chartering
Labrador Shipping (BVI) Limited	BVI/Int'l	US$38,001	Vessel owning and chartering
Lake Stevens Limited	HK/Int'l	HK$1	Vessel owning and chartering
Liberty Vessel Limited	BVI/Int'l	US$1	Vessel owning and chartering
Longview Logger Limited	HK/Int'l	HK$1	Vessel chartering
Luzon Strait Shipping (BVI) Limited	BVI/Int'l	US$1	Vessel owning and chartering
Marsden Point Limited	HK/Int'l	HK$1	Vessel owning and chartering
Matakana Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Mega Fame Limited	BVI/Int'l	US$1	Vessel owning and chartering
Mount Adams Limited	BVI/Int'l	US$1	Vessel owning and chartering
Mount Aso Limited	HK/Int'l	HK$1	Vessel owning and chartering
Mount Baker Shipping Limited	HK/Int'l	HK$1	Vessel owning and chartering
Mount Hikurangi Limited	HK/Int'l	HK$1	Vessel owning and chartering
Mount Rainier Limited	HK/Int'l	HK$1	Vessel owning and chartering
Mount Seymour Limited	HK/Int'l	HK$1	Vessel owning and chartering
Mount Taranaki Limited	HK/Int'l	HK$1	Vessel owning and chartering
Newman Shipping (BVI) Limited	BVI/Int'l	US$26,001	Vessel owning and chartering
Nobal Sky Limited	BVI/Int'l	US$1	Vessel chartering
Oak Bay Shipping Limited	HK/Int'l	HK$1	Vessel owning and chartering
Olive Bay Limited	HK/Int'l	HK$1	Vessel owning and chartering
Olympia Logger Limited	HK/Int'l	HK$1	Vessel owning and chartering
Orange River Shipping Limited	HK/Int'l	HK$1	Vessel chartering
Osaka Bay Limited	HK/Int'l	HK$1	Vessel owning and chartering
Otago Bay Limited	HK/Int'l	HK$1	Vessel owning and chartering
Otago Harbour Limited	HK/Int'l	HK$1	Vessel owning and chartering
Othello Shipping (BVI) Limited	BVI/Int'l	US$26,593	Vessel owning and chartering
Oyster Bay Limited	HK/Int'l	HK$1	Vessel owning and chartering
Pacific Basin Chartering Limited	BVI/Int'l	US$10	Vessels chartering
Pacific Basin Chartering (No. 1) Limited	HK/Int'l	HK$1	Vessel owning and chartering
Pacific Basin Chartering (No. 2) Limited	HK/Int'l	HK$1	Vessel owning and chartering
Pacific Basin Chartering (No. 3) Limited	HK/Int'l	HK$1	Vessel owning and chartering
Pacific Basin Chartering (No. 4) Limited	HK/Int'l	HK$1	Vessel owning and chartering
Pacific Basin Chartering (No. 6) Limited	HK/Int'l	HK$1	Vessel owning and chartering
Pacific Basin Chartering (No. 7) Limited	HK/Int'l	HK$1	Vessel owning and chartering
Pacific Basin Chartering (No. 8) Limited	HK/Int'l	HK$1	Vessel owning and chartering
Pacific Basin Chartering (No. 10) Limited	HK/Int'l	HK$1	Vessel owning and chartering
Paqueta Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Pearl Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Pelican Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Penguin Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Port Alberni Limited	HK/Int'l	HK$1	Vessel owning and chartering
Port Alfred Limited	HK/Int'l	HK$1	Vessel owning and chartering
Port Alice Limited	BVI/Int'l	US$1	Vessel owning and chartering
Port Angeles Limited	HK/Int'l	HK$1	Vessel owning and chartering
Port Botany Limited	BVI/Int'l	US$1	Vessel owning and chartering
Puget Sound Limited	HK/Int'l	HK$1	Vessel owning and chartering
Saldanha Bay Limited	HK/Int'l	HK$1	Vessel owning and chartering
Seal Island Limited	HK	HK$1	Vessel owning
Shakespeare Bay Limited	HK/Int'l	HK$1	Vessel owning and chartering

32 Principal subsidiaries (continued)

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Principal activities
Shark Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Sharp Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Shelter Island Limited	HK/Int'l	HK$1	Vessel owning and chartering
Swan River Limited	HK/Int'l	HK$1	Vessel owning and chartering
Tampa Bay Limited	HK/Int'l	HK$1	Vessel owning and chartering
Texel Island Limited	HK	HK$1	Vessel owning
Uhland Shipping (BVI) Limited	BVI/Int'l	US$1	Vessel owning and chartering
Verner Shipping (BVI) Limited	BVI/Int'l	US$1	Vessel owning and chartering
West Bay Shipping Limited	HK/Int'l	HK$1	Vessel owning and chartering
White Bay Limited	HK/Int'l	HK$1	Vessel owning and chartering
Zhoushan Shipping Limited	BVI/Int'l	US$1	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	Shipping consulting services
Pacific Basin Supramax Limited	HK	HK$10	Provision of ship management and ocean shipping services
Pacific Basin Handymax (UK) Limited[1]	England & W	GBP1	Ship management services
Pacific Basin Handysize Limited	BVI/HK	US$10	Provision of ship management and ocean shipping services
Pacific Basin Handysize (HK) Limited	HK	HK$10	Provision of ship management and ocean shipping services
Pacific Basin (UK) Limited[1]	England & W	GBP2	Shipping consulting services
Pacific Basin Shipping (Australia) Pty Ltd[1]	Australia	AUD1	Shipping consulting services
Pacific Basin Shipping (Brasil) Ltda	Federative Republic of Brazil	R$50,000	Ship agency and management services
Pacific Basin Shipping (Canada) Limited	BC, Canada	1 common share without par value	Shipping consulting services
Pacific Basin Shipping (Chile) Limitada	Chile, Santiago	Chilean pesos equivalent to US$6,000	Shipping consulting services
Pacific Basin Shipping (HK) Limited 太平洋航運(香港)有限公司	HK	HK$20	Ship agency and management services
Pacific Basin Shipping (New Zealand) Limited	New Zealand	100 shares without par value	Shipping consulting services
Pacific Basin Shipping (South Africa) (Pty) Ltd[1]	Republic of South Africa	120 shares without par value	Shipping consulting services
Pacific Basin Shipping (UK) Limited[1]	England & W	GBP2	Shipping consulting services
Pacific Basin Shipping (USA) Inc.	USA	US$1,000	Shipping consulting services
PB Maritime Personnel Inc.[1]	The Philippines	PHP$17,300,000	Crewing services
PBS Corporate Secretarial Limited	HK	HK$10	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)	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 US$14,833,000 (2018: US$5,945,000) and US$3,514,000 loss (2018: US$416,000 profit) 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", "England & W" represents "England and Wales", "HK" represents "Hong Kong" and "Int'l" represents "International".

33 Balance sheet and reserve movement of the company

(a) Balance Sheet of the Company

	Note	As at 31 December 2019 US$'000	2018 US$'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**1,324,461**	1,323,176
Current assets			
Prepayments and other receivables		**292**	143
Amounts due from subsidiaries		**404,864**	378,567
Cash and cash equivalents		**26**	107
		405,182	378,817
Total assets		**1,729,643**	1,701,993
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	24	**47,039**	45,205
Retained profits		**604,298**	619,698
Other reserves		**1,064,855**	1,023,098
Total equity		**1,716,192**	1,688,001
LIABILITIES			
Current liabilities			
Accruals and other payables		**296**	225
Amounts due to subsidiaries		**13,155**	13,767
Total liabilities		**13,451**	13,992

Approved by the Board of Directors on 27 February 2020.

Mats H. Berglund
Director

Peter Schulz
Director

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

(b) Reserve movement of the Company

	Other reserves					
US$'000	**Share premium**	**Staff benefits reserve**	**Contributed surplus**	**Subtotal**	**Retained profits**	**Total**
At 1 January 2019	**249,951**	**(6,791)**	**779,938**	**1,023,098**	**619,698**	**1,642,796**
Profit attributable to shareholders	–	–	–	–	**6,807**	**6,807**
Share issued as Vessel Consideration Shares, net of issuing expenses (Note 24(a))	**37,099**	–	–	**37,099**	–	**37,099**
Dividend paid (Note 9)	–	–	–	–	**(21,825)**	**(21,825)**
Share-based compensation (see Remuneration Report p.45)	–	**5,838**	–	**5,838**	–	**5,838**
Share awards granted (Note 24(b))	–	**(1,024)**	–	**(1,024)**	**(382)**	**(1,406)**
Share issued upon grant of restricted shares awards (Note 24(b))	**5,355**	**(5,611)**	–	**(256)**	–	**(256)**
Share awards lapsed (Note 24(b))	–	**100**	–	**100**	–	**100**
At 31 December 2019	**292,405**	**(7,488)**	**779,938**	**1,064,855**	**604,298**	**1,669,153**
At 1 January 2018	224,567	(3,716)	779,938	1,000,789	635,921	1,636,710
Loss attributable to shareholders	–	–	–	–	(1,179)	(1,179)
Share issued as Vessel Consideration Shares, net of issuing expenses (Note 24(a))	17,379	–	–	17,379	–	17,379
Shares issued for new share placement, net of issuing expenses	–	–	–	–	(14,315)	(14,315)
Share-based compensation (see Remuneration Report p.45)	–	5,265	–	5,265	–	5,265
Share awards granted (Note 24(b))	–	(461)	–	(461)	(729)	(1,190)
Share awards lapsed (Note 24(b))	–	338	–	338	–	338
Share issued upon grant of restricted shares awards (Note 24(b))	5,347	(5,559)	–	(212)	–	(212)
Share awards fully vested	2,658	(2,658)	–	–	–	–
At 31 December 2018	249,951	(6,791)	779,938	1,023,098	619,698	1,642,796

Profit attributable to shareholders of US$6,807,000 (2018: US$1,179,000 loss) 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 56 to 94, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- 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 2019, 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.

We identified one key audit matter in our audit being the carrying value of owned vessels and right-of-use assets.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Carrying value of owned vessels and right-of-use assets

Refer to notes 11 and 14 to the consolidated financial statements

As at 31 December 2019, the Group has a fleet of owned vessels and right-of-use assets, amounting to US$1,871 million and US$69 million respectively.

Right-of-use asset represents the Group's right (as a lessee) to use an underlying vessel for a lease term. Right-of-use assets were first recognised on 1 January 2019 upon the adoption of HKFRS 16 "Leases".

Management separates its fleet (including both owned vessels and right-of-use assets) 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 2019 is more than its market capitalisation. This is considered as an indicator of possible impairment. Management has therefore performed an impairment assessment of the Group's owned vessels and right-of-use assets.

The carrying values of the owned vessels and right-of-use assets are supported by value-in-use calculations which are based on future discounted cash flows of each CGU.

Management concluded that the owned vessels and right-of-use assets were not impaired based on the results of the assessment which involved significant judgements and assumptions, 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 service costs were compared to external market data;
- 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.

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 THE AUDIT COMMITTEE 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.

The Audit Committee is 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 the Audit Committee 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 the Audit Committee 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 the Audit Committee, 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
Certified Public Accountants
Hong Kong, 27 February 2020

Group Financial Summary

US$'000		2019	2018	2017	2016	2015
Results						
Revenue		**1,585,900**	1,591,564	1,488,019	1,087,371	1,260,291
EBITDA		**230,704**	215,848	133,822	22,826	93,208
Underlying profit/(loss)		**20,534**	71,968	2,163	(87,669)	(27,778)
Profit/(loss) attributable to shareholders		**25,124**	72,284	3,610	(86,547)	(18,540)
Balance Sheet						
Total assets		**2,394,235**	2,366,206	2,231,592	2,107,225	2,145,735
Total liabilities		**(1,118,303)**	(1,134,997)	(1,070,457)	(1,066,454)	(1,174,797)
Total equity		**1,275,932**	1,231,209	1,161,135	1,040,771	970,938
Total cash and deposits		**200,244**	341,802	244,694	269,204	358,428
Net borrowings		**662,907**	619,291	636,274	570,038	567,537
Cash Flows						
Operating		**217,027**	189,555	124,740	49,521	98,615
Investing		**(143,900)**	(116,842)	(123,560)	(98,643)	(54,852)
of which Purchase of PP&E		**(183,984)**	(127,924)	(219,857)	(181,340)	(146,408)
Financing		**(202,146)**	29,979	56,759	18,112	(100,420)
Net change in cash and cash equivalents excluding term deposits		**(129,019)**	102,692	57,939	(31,010)	(56,657)
Other Data						
Basic EPS	US cents	**0.55**	1.6	0.1	(3)	(1)
Dividends per share [1]	US cents	**0.3**	0.8	–	–	–
Eligible profit payout ratio		**51%**	50%	–	–	–
Operating cash flows per share	US cents	**4.8**	4.3	3.1	1.5	3.7
Equity per share	US cents	**27.1**	27.2	26.1	25.9	36.3
Dividends	US$'000	**12,710**	36,333	–	–	–
Closing price at year end	HK$	**1.64**	1.49	1.69	1.25	1.24
Market capitalisation at year end	US$'000	**993,000**	863,000	960,000	647,000	423,000

[1] The 2019 dividends represent the proposed final dividend of HK2.1 cents per share.

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Historical Financial Summary

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Solicitors
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Company Secretary
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Stock Code
Stock Exchange: 2343.HK
Bloomberg: 2343 HK
Reuters: 2343.HK

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

Total Shares in Issue
4,713,891,510 as at 31 December 2019

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Social Media Channels
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CSR Report 2019

Both reports are now available at
www.pacificbasin.com/ar2019

2019 Online Annual Report

Please send us your feedback via our online feedback form

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